DEPARTMENT OF DEFENSE MEMORANDUM

SUBJECT: 1994 Summer Study "China In the Near Term"

The information contained within this study does not reflect the official policy or position of the Department of Defense or the U.S. Government.

Please note that the Defense Department was not tasked with estimating foreign policy options dealing with China and a study group consensus on the future of China was not sought.

[Signature]
Dennis Klauer
Deputy Director, Defense Information
INDICATORS OF MOVEMENT TOWARD THESE ALTERNATIVE FUTURES

Especially those that might directly affect U.S. interests. They were also asked to identify
assess to devote particular attention to the potential for negative developments,

near term and to examine the impact of this evolution on the region. The group was

The working group’s objective was to consider ways in which China might evolve over the

questions of importance to the defense planning process.

eight in a series of Summer Studies undertaken to review fundamental issues and

through 10 August 1994 at the Naval War College, Newport, Rhode Island. This was the

James G. Roche with the working group chaired by Ronald A. Moses, and

Secretary of Defense (Policy). The Summer Study director was Andrew W. Marshall and

The following provides a summary of a Summer Study Report conducted for the Under

Preface
China is the major uncertainty in Asia's future. Different expectations about China's near-term future and then to weigh those evaluations in terms of plausible outcomes. Discussing the details of China's current leadership and social issues. The objective was to allow a full exploration of considerable time was devoted to studying group participants.
The group made the following observations:

1. China, as we all know, is large and complex nation. Arriving at a study group consensus on the future of China was not souther.

2. The study was conducted on the assumption that we would capture the "Middle Kingdom" view of the world. We were not interested with examining foreign policy options dealing with China.

3. The study examined scenarios for China following the death of Deng Xiaoping. It is an analysis of a China that has a_ study objectives.
PLA is likely to do less well, and (2) that Chinese leaders all have a strong nationalist pride.

collective leadership because the PLA had more flexibility for exercising influence. Under rapid reform or democratization, the

Two main points: (1) we assumed the People's Liberation Army (PLA) preference in a leadership transition was for

genrated. By seconding those whom many emulated, it was better to understand the dynamics of leadership behavior more

was doomed to fail and would become a pathway to collapse. After considerable debate about individual Chinese leaders, we

The study group did not exclude the possibility that one person might strive for ultimate power, but we believed that this option

rule. At a minimum, only a combination of group leadership can hold the system together.

after Deng have influence in the bureaucratic, military, or economic arenas, but they lack the broad support necessary to

leaders compensate to implement his policies and ensure that leaders could not use their own power base to challenge him. Leaders compensate currently based on decades of experience with revolutionary leaders. Deng combined administrative control and personal

These conditions are perhaps the prerequisites of one strong leader in the year of two following Deng's death. Loyalties to Deng are

large and costly public sector.

labor organization and interest articulation; a narrow Communist party form of rule; and the costs of stale entrenches and a

historical tendency to decentralized governance; the lack of a "civil society"; intermediary institutions for political action,

China, simply because of its size and location, presents a significant challenge to nations with a stake in Asia. It is now

Why China deserves serious consideration

ASSUMPTIONS
Japan recognizes the potential threat of China. Japan's policies and its strategies for regional alliances excluding China are in

Possible Alliances Against China

...
Uncertain"-implying some of the background considerations against which the scenarios presented were developed. Way of another will shape the outcomes of the scenarios examined. These issues-"factors Making China's Future

The next several pages highlight a series of issues that either deserve further research or suggest trends in China that in one
Not enough text is visible to answer accurately.
Domestic coal and oil supplies will not be adequate to meet domestic demand by 2000. Under current conditions, by the year 2000, 40% of China's oil will come from the Middle East, with an annual additional cost of $6 billion. Domestic coal and oil supplies will not be adequate to meet domestic demand by 2000. Under current conditions, by the year 2000, 40% of China's oil will come from the Middle East, with an annual additional cost of $6 billion. China's growing energy crisis is the most pressing single constraint of an array of resource vulnerabilities China will face in the near term. As China's per capita energy demands grow with economic development, the cost, supply, and environmental consequences of energy demand will be a more and more important consideration. 

Population and Oil Consumption
To meet its energy requirements, China will be forced to develop a blue water navy and bargain with Middle Eastern oil producers. Nations like Iran, SPIRITLY Islands are also areas of contention. Russian Far East and Korea are important. The region's Hydro is in a volatile area with Kazakhstan and the coastal areas and the CHINA's oil reserves are all in areas that put it in potential conflict with other powers. In the northeast, issues with the MAJOR CHINESE OIL/GAS FIELDS.
officials, and the redemption of national and foreign bonds.

by heavy subsidies to cover losses incurred by state enterprises, inappropriate government pricing policies, and so on. This is caused

Common to all socialists countries, China has a growing fiscal deficit (9.5 billion yuan in 1992-3.8% of GDP, 3.8%).

International institutions and economists. The lack of information centers impedes industrial planning.

China's economic policies. The problem is highlighted in the chart on China's GDP showing widely varying estimates by

The misreporting of economic statistics by local governments and enterprises in China has become a major problem in assessing

Lack of data and statistical controls.

ALTERNATIVE ESTIMATES OF CHINA'S GROSS DOMESTIC PRODUCT (1991)
Chinese defense spending has been significant since 1987, but the open source data on the internet and use of defense resources is another significant uncertainty.

Comparative Western Analyses of Chinese Defense Budget.
null
The Succession Issue

China's long-term relations. The issue of Taiwan-China relations is always central to America's relations with China. North Korea is already a factor. The question of how long North Korea will maintain its policy will make a big impact. The issue of whether the leadership changes in the near term will require decisions by the leadership during the near term.
Moscow sees China as a regional rival with a large population. Where interests meet, in Central Asia, China and Russia are in the future.

Independence: State enterprises that must be made efficient and border disputes create a potential for confrontation. They could seek nuclear power plants near Hong Kong. The Three Gorges Project has social and environmental implications. Collateral damage to large areas of China could also create regime instability. There have already been problems at the nuclear power plant near Hong Kong...
Scenarios for China's Future

Post-Down Leadership Scenarios

The Group believed that there was a 50/50 chance that China would disintegrate under a post-Down dictatorship and internal conflict. Power in general will gravitate away from the center.

Western powers hope for the least likely according to the study Group estimates. The liberal reform scenario, the one that The Islander thought was closest to the present situation, is only 20% likely. The liberal reform scenario, the one that the study Group focused on like (A, D, E) sub-scenarios under the disarmament case.

The study Group focused on three (A, D, E) sub-scenarios under the disarmament case:
The Linear Future scenario evolves because:
- the PLA and the security apparatus support the collective leadership.
- key leaders do not go all out for a predominant leadership because they value regime survival.
- economic growth and social stability are considered the primary policy objective.

SCENARIO I: LINEAR FUTURE
In addition to transitioning leadership problems, China has new challenges (business, student, professional) that operate outside the current institutional capacity. Demonstration effects of institutional capacity is not a substitute to cumulative impact. The Chinese leadership seeks to emulate the Singapore/Japan/Korea pattern of modernization. China has not as Asian nations. While the Chinese leadership seeks to emulate the Singapore/Japan/Korea pattern of modernization, China has not -- No, because China has not managed the issues of inflation, income equality, and social unrest as well as the other.

Does China fit the Asian Model of Economic Development?

Scenario 1: Linear Future
Some state enterprises closed
Foreign Direct Investment continues, but slows
Major project difficulties (Three Gorges)
No rapid privatization of state enterprises
Mixed planned/market economy

Economic Trends:

Crackdowns on economic protests
Increased economic inequality and corruption

Social Trends:

SCENARIO 1: LINEAR FUTURE
Security agreements - Continued avoidance of formal regional - More assertive as power increases - Improved power projection capability

Bottom Line: LINGAR FUTURE

Hong Kong
- Crackdown - Possible crackdown on democrats - Tough on

Korea
- DRPK recognition of - Support U.S. military action - Oppose preemptive - Avoid sanctions

Spratlys
- Islands in - Seizure of - Clash with

Taiwan
- Possible war - Force independence - Oppose

1999

1998

1997

1996

1995

Deng
Military budget transparency

Increasing civilian control over security policy

Minimum deterrence

Nuclear doctrine

Constraints on capabilities

Greater willingness to accept arms control

Capabilities:

Doctrine: High-tech local wars

Military:

Non-provocative international environment

Downplaying of military force

More faith in multilateralism

Economic dominoes dominate foreign policy

Foreign policy:

Development and innovation

Political reform essential for economic political reform essential for legitimacy

Domestic:

Leadership mindset
Economic Trends:
- Inflation cools down
- State enterprise reform
- New economic strategy introduced
- Sustainable high growth

Uncertainties
- New social security framework cushions
- Localized localized
- Significant social dislocation and stress, but

Social Trends:

SCENARIO II: LIBERAL REFORM
LIBERAL REFORM

Bottom Line:
- less threatening, more cooperative on regional security
- can fight; will try to avoid fighting
- improved power projection

Deng dies | 1995
---------|------
Spratlys (before Vietnam in ASEAN) | 1996
Taiwan elections | 1997
Join regional security institutions | 1998
Hong Kong reverts to China | 1999

Taiwan
- negotiate
if Taiwan declares independence
- no war with U.S.

Spratlys
- Jointly developed
- downplay sovereignty claims

Korea
- not oppose sanctions
- more active support for denuclearization

Hong Kong
- accept democratic outcomes in Hong Kong
End of military region command structures
Provinces withhold taxes
Formation of provincial coalitions

Indicators
Splitting military control
Alienation of provinces

Trigger for internal break-up
Domestic rights overridden foreign policy
Strong regional identities
Zero sum views of power/resources
Mutual distrust - succession gridlock

Domestic Leadership Mindset:
Likely major constitutional changes in government
Likely emergence of aggressive nationalist strongman

Major Implications or Disintegration Scenarios

(Phase I) Scenario III: Disintegration
Disintegration - SUB-SCENARIOS
Anti-American Line (including Japan)
- Irodenist claims
- Greater China nationalism
- Han Chauvinism

Foreign Policy
- Politics zero sum
- No tolerance for elite dissent
- Acquiescence of PLA and security apparatus
- Non-Communist leader emerges with mass support

Domestic

Leadership Mindset:

NATIONALIST STRONGMAN (A)

SUB-SCENARIO III:
Economic growth serves military power
Economic mercantilist

Economic Trends:
- Patriotic campaigns
- Suppress dissent

Social Trends:
- Increase in ground forces
- Warfighting capability
- Attempt to develop nuclear
- Air-mobile rapid reaction forces
- Amphibious forces
- Blue water navy
- Large increase in military expenditures

Capabilities:

Beyond the Gates
Doctrine: Protected local wars
Military

Sub-Scenario III: Nationalist Stronman
Als the representation of this document in a plain text format is not feasible due to the complexity and nature of the diagram, here is a textual summary:

**Other Issues**
- Pakistan
- Active support with Russia
- Adjust borders with Kazakhstan
- Conflict with Mongolia
- Finlandized

**Hong Kong**
- Hardline
- Repression

**Korea**
- Insult
- Korean PEN opposes U.S.
- Resolved crisis not assist DPRK

**Sputniks**
- On land
- Attack

**Bottom Line:**
- Aggressive, non-cooperative China

**Taiwan**
- By Taiwan
- U.S. to stand
- Pressure on
- Force
- Spouting with China
- High likelihood of China reform
- Dependence changing index of Taiwan de-
- High likelihood

**ASEAN**
- Before
- Vietnam
- Sputniks
- Phase 1
- Dies

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**Timeline:**
- 1995
- 1996
- 1997
- 1998
- 1999

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**Strongman**

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Weak power projection capability
- Poor force coordination
- Central budgets decline

Capabilities:
Regional breakaway

Doctrine:
Border defense, control
Military:
Conflict avoidance

Regional ties to foreign areas

Foreign Policy:
Regional autonomy preferred to civil war
- Local identities/allegiances
- Domestic

Leadership Mindset:

(SUB-SCENARIO: REGIONALISM)
Regional economic ties strengthen
Regional currency appears - high inflation
Deepening fiscal crisis in central government

Economic Trends:

Camps and secret societies expand influence
Sense of social chaos

Social Trends:

Sub-scenario: Regionalism (D)
Regionalism

Policy
- Hands off
- Soft Policy
Hong Kong

Korea

No Involvement

Development
push Joint
provinces
Southern
force
No use of
Sprayys

Independence
Taiwan
Prevent
Unable to
Taiwan

1995

1996

1997

1998

1999

China
Reverses to
Hong Kong

Taiwan
Elections

Vietnam

ASEAN

Fragmented foreign policy
Provincial Vetoes over foreign economic

Bottom Line:
Regionalism
local weapons purchasing -
control of nuclear weapons uncertain -
capabilities: local rivals, repel foreign invaders
doctrine: local territorial control, protection from
military:
paralysis:
foreign policy:
 Attempts to capture military loyalty
personal attacks, fear of reprisals
domestic:
leadership mindset:

SUB-SCENARIO: TOTAL COLLAPSE (E)
Peasant riots in inland provinces
Drop in foreign investment
Project
Corruption and mismanagement of Three Gorges
Economic instability
Economic Trends:
Refugee and migrant worker riots
Sense of chaos and unpredictability surfaces
Social Trends:
SUB-SCENARIO III: TOTAL COLLAPSE (E)
Japan
U.S. and
concern to
security
other issues
Hong Kong
questioned
into China
absorption
Korea
no oil
collapses
paralysis
paralysis
Spratlys

1999
1998
1997
1996
1995

Taiwan
It.
avay with
and gets
independence
Taiwan

Weapons proliferation
Refugee Flow

Bottom Line: TOTAL COLLAPSE
nationalsim and collapse
- ranging from liberal democracy to hyper
range of outcomes, the most probable paths
the disintegration scenario can lead to a

- in regional and global peace and stability.
less threatening. China has a growing stake
and militarily more powerful China that is
the liberal scenario presents an economically

- to the U.S.:
less willing to compromise on issues of interest
and militarily stronger, more assertive China
the linear scenario presents an economically

- challenge:
Each of the three scenarios presents a different
China never dealt with before.
Under all scenarios, we will be dealing with a

Observations
Toward the end of the first week, the two study group chairmen, with perhaps one or two helpers, will start to prepare briefings which will later be checked by their groups. In the meantime a short study will be formed which will run Saturday morning, all day Monday, and Tuesday morning of the second week. This keeps the people in the two study groups occupied when they are not listening to and reviewing their chairman's presentations. No briefing of the short study will be required, although a record of discussions and a short report of findings will be prepared by the short study co-chairmen. Membership in the short study will be a mix of those serving on the two study groups, with perhaps the addition of a few others.

Two special studies, with restricted membership, will also take place. One special study will update the Russian scenarios developed last year, and the second will focus on the process of building scenarios of future security environments.

We are confident that you will find the summer study interesting and rewarding. I look forward to meeting with you.

Sincerely,

A. W. Marshall
SHORT STUDY GROUPS

I. Russia Scenarios Update

Members
Enders Wimbush, Chairman
Peter Reddaway
Tom Mahnken

II. Asymmetric Strategies

Chuck Miller, Chairman

Sub-Group A
Ken Watman, Chmn
Jasper Welch (Sat)
Arthur Waldron
John Garver
Mike Vickers
Bob Field
Tom Clark

Sub-Group B
Chris Bowie, Chmn
George Kraus
Iain Johnston
David Zweig (Sat)
Lonnie Keene
Jim FitzSimonds
Tom Linn

Sub-Group C
Carl Builder, Chmn
Mike Martus
Yu-Ping Liu
Tom Christensen
Art Corbett
Steve Cullen

III. Alternative World Scenarios

Peter Schwartz, Chairman

Members
Mike Brown
Pat Crecine
David Epstein
Aaron Friedberg (Sat)
Andrew Marshall
Chip Pickett
Mike Pillsbury
Jim Roche
Steve Rosen
Abe Shulsky
Lionel Tiger
Keith Bickel