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.

Dennis Klauer
Deputy Director, Defense Information
The following provides a summary of a summer study report conducted for the Under Secretary of Defense (Policy). The summer study, directed by Andrew W. Marshall and chaired by Ronald A. Moses, was held 10 August to 19 September 1994 at the Naval War College, Newport, Rhode Island. This was the first in a series of summer studies undertaken to review fundamental issues and to develop preliminary policy alternatives. The Working Group, chaired by Ronald A. Moses, met from 15 to 19 August. This introductory paper provides background on the Working Group's objectives.
The study group was diverse and represented generational and occupational differences. Considerable time was devoted to discussing the details of China's current leadership and social issues. The objective was to allow a full explanation of different perceptions about China's near-term future and then to weigh those explanations in terms of plausible outcomes.
STUDY OBJECTIVES

Challenges US Interests:

-- The geopolitical scenario dominates the future, all China would be different from the present and all China may
-- There was a 50-50 chance that the transition would lead to a more stable break-up of China; and

Potential Risks:

-- The post-Deng leadership collective would most likely not change Deng's emphasis on economic reform and limited political
-- No paramount leader would emerge during the transition phase;
-- Following Deng's death a collective leadership phase would prevail;

After careful deliberation, the group made the following observations:

China, as we all know, is a large and complex nation. Arriving at a study group consensus on the future of China was not
not tested with estimating foreign policy options dealing with China.

The study was conducted on the assumption that we wanted to capture the "Middle Kingdom"--China--view of the world. We were

Probabilities of scenario outcomes once Deng dies; and to document the significance of these various scenarios.

And these primary objectives: to examine China as it is today with the issues influencing it in the near term, to examine

The study examines scenarios for China following the death of Deng Xiaoping. It is an analysis of a China that has a
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 an urgent need to be considered.

- Possible Alliances Against China
- External Events that Could Alter China's Options
- China's refusals to join the PLF; and an increase in Chinese nationalism

Independent press in China; an arms race in Southeast Asia; a breakdown in regional military/cultural economic and security events; a Sino-Japanese arms race; Japan's decision to develop a nuclear weapon capability; Taiwan's decision to decolonize the following crisis example--the possible implications of a US strategic withdrawal from Asia. US withdrawal could cue the following crisis example--the possible implications of a US strategic withdrawal from Asia.
The next several pages highlight a series of issues that either deserve further research or suggest that in one way or another will shape the outcomes of the scenarios examined. These issues—"factors Making China's Future Uncertain"—indicate some of the background considerations against which the scenarios presented were developed.
Economic links to overseas Chinese raise the question of "Greater China" and the long-term allegiance of tens of millions of overseas Chinese to mainland China.

An issue for the future -- at the extreme, Beijing and Shanghai are more than twice the national average.

But the income distribution map here shows:

by the year 2000, substantial economic disparities and uneven income distribution. China faces significant internal problems.

Nevertheless, the impact has been regionally disproportionate and focuses counter to the social mission of China's growth rate. Its ability to attract foreign investment and capital and its ambitious economic plans should not be

CHINA'S PATCHWORK OF WEALTH
Domestic coal and oil supplies will not be adequate to meet domestic demand by 2000. Current conditions by the year 2000, 40% of China's oil will come from the Middle East, an annual additional cost of $6 billion. Maintenance sector, and rapidly growing transportation requirements will necessitate increased energy imports. Under circumstances of energy demand will be more and more important consideration. High growth, a rapidly expanding heavy near term. As China's per capita energy demands grow with economic development, the cost, supply, and environmental energy supply and its cost is the most pressing single constraint on an array of resource vulnerabilities China will face in the...
To meet its energy requirements, China will be forced to develop a blue water navy and bargain with Middle East oil producers.

Sprrit Islands are also areas of contention.

China's oil reserves are all in areas that pull it in potential conflict with other powers. In the northeast, issues with the

MAJOR CHINESE OIL/GAS FIELDS
Common to all socialist countries, China has a growing fiscal deficit (9.5 billion yen in 1992--3.8% of GNP). This is caused by heavy subsidies to cover losses incurred by state enterprises, inappropriate government pricing policies, expenditures for state officials, and the redemption of national and foreign bonds.

The misreporting of economic statistics by local governments and enterprises in China has become a major problem in assessing China's economic policies. The problem is highlighted in the chart on China's GDP showing widely varying estimates by international organizations and economists.

Lack of Data and Statistical Controls
Another statistical uncertainty...
might not be a zero-sum game, but they see military and political power in zero-sum terms.

Current leaders take the "sake" as the will of political leaders to consolidate their regime and maintain power in a global presence. Economic growth and the Chinese Revolution, and the decline of the Soviet Union are negative lessons of how weakness evolves out of chaos. All China, The debate is over the methods to achieve their goal. They want to avoid a divided China--the Wartford--the excesses of the leadership appears bound by a shared sense that the most important goal is economic, political, and military power for ideology

Ideology

-- the degree to which a leaderless, "collective" leadership serves a common interest;
-- the degree to which bloody leadership singfles like the Cultural Revolution, and
-- the scale the leaders have in constructing the current situation.

Factors shaping the post-Deng transition will be:

Family/Radicalism/Boigraphy. Even so, all players will want to avoid chaos, avoid being seen as weak, and all will want to protect their personal and institutional interests. The balance of political forces and Deng's legacy will create a political vacuum for both conservatives and reformers to move forward.

Economic reforms are incomplete, and the balance of center-provincial control is still unresolved.

But Deng has been less successful with the details: the process of political succession is uncertain, fiscal, banking, and other international relationships. China's goals of economic reform, modern political change, and international respect.

Deng Xiaoping's power has been absolute and strong. It has been a personalized style of leadership remarkably successful in China's geopolitical engagement.
The lessons of the USSR, Hungary, and the post-Soviet states suggest that maintaining tight Communist party control over society while reforming the economy creates regime instability.

Communist Systems in Transition

and that China is too complex to manage in either more centralized ways. They realize that the Chinese people are less tolerant of political or military reshuffles than the Soviet people, and if they will also have been made in economic reform. They will have few differences on foreign policy issues and they will also have

The record is clear: Leadership transitions in China are likely to be violent and drawn out. The emergence of Mao Zedong (1947-1976) and the Communist Party of China's leadership are cycles of uncertainty. Leaders after Deng will most likely be technocrats in economic reform. They will have few differences on foreign policy issues and they will also have

The Succession Issue

China's long-term institutions. The issue of Taiwan-China relations is always central to American relations with China. North Korea is already a factor. The return of Hong Kong in 1997 is not a genuine political issue. The issue on the opposite page will require decisions by the leadership during the near term. The succession struggle in

Time Lines

KEY ISSUES IN 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 competition.

Issue for the Future

Independence: State cultivates that must be made efficien and border disputes create a potential for competition. These could seek power plant near Hong Kong. The Three Gorges Project has vast social and environmental implications. Developing this large project could also create regime instability. These have already been problems at the nuclear

Major projects failures in China could also create regime instability.

Xinjiang, Muslim separatists on both sides of the Sino-Russian border have created problems. Ethnic Chinese account for only

The Geography of Crises: Points

Areas to Watch
The Group considered the "middle through" case in which pieces of all three scenarios might mix in their own way. But for the sake of analysis, some sub-scenarios under the disarmament case:

Western powers hope for the least likely scenario to the study group estimates. The recent future, perhaps closest to the present situation, is only 30% likely. The liberal reform scenario, the one that conflicts, power in general will gravitate away from the center...

The Group believed that there was a 50/50 chance that China would disintegrate under a post-Deng leadership and internal...
Economic growth and social stability are considered the primary policy objectives.

Key leaders do not go all out for a predominant leadership because they value regime survival.

The PLA and the security apparatus support the collective leadership.

The post-Deng collective leadership holds together.

The linear future scenario evolves because:

SCENARIO: LINEAR FUTURE
Global military peer of the United States.

Chinese military officials believe the present gap in their capabilities is temporary and the long-term goal is to be a

American high-tech military performance in operation DESERT STORM has been taken as the new model for Chinese modernization.

Military Doctrine

SCENARIO: LINEAR FUTURE
In addition to transitioning leadership problems, China faces new challenges in business, professional, student, and new ways of communicating.

Hybrid Nation: China's Vehicularities

demonstrated the same degree of institutional capability.

Asian nations. While the Chinese leadership seeks to emulate the Singaporean/Japanese/Korean pattern of modernization, China has not dominated the market for development and still maintains an authoritarian political system.

Yes, in the sense that as in Japan, South Korea, and Taiwan, economic has dominated politics and the center has been

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

Scenario I: Linear Future
military budget transparency -
insufficient civilian control over security policy -
minimum deterrence -
nuclear doctrine -
constraints on capabilities -
greater willingness to accept arms control -
capabilities:
docline: high-tech local wars -
MILITARY:
non-provocative international environment -
disarming of military force -
more faith in multilateralism -
economic domination by foreign policy -
FOREIGN POLICY:
development and innovation -
political reform essential for economic -
political reform essential for legitimacy -
DOMESTIC:
leadership mindset:
Inflation cools down
state enterprise reform
new economic strategy introduced
sustained high growth

Economic Trends:

uncertainties
new social security framework cushions
localized
significant social dislocation and stress, but

Social Trends:

SCENARIO II: LIBERAL REFORM
Liberal Reform

Bottom Line:

- Improved power projection
- Can fight, will try to avoid fighting
- Less threatening, more cooperative on regional security

Hong Kong

- Denunciation
- Support for more active sanctions
- Not oppose
- Developed
- Jointly

Korea

- Sovereignty
- Downplay

Spratly Islands

1995

Deng

1996

1997

Taiwan

1998

US

No war with People's Republic of China
- Negotiate
- Declares indep
- If Taiwan

1999

Regional Security Institutions

1999

Hong Kong

Outcomes in democratic acceptance

Spratly Islands
Phase I (Scenario III: Disintegration)

Major Implications of Disintegration Scenarios

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

Domestic:
- Domestic rights override foreign policy
- Strong regional identities
- Zero-sum views of power/resources
- Mutual distrust - succession gridlock

Indicators
- Splitting military control
- Alienation of provinces

Trigger for Internal Break-up
- End of military region command shuffles
- Provinces with hold taxes
- Formation of provincial coalitions

(Phase I)
DISINTEGRATION - SUB-SCENARIOS

- Total collapse (E)
- Regionalism (D)
- Command Socialism (C)
- Democratic China (B)
- Nationalist Strongman (A)
Irredentist claims
- Anti-American Line (including Japan)
- Greater China nationalism
- Han Chauvinism

Foreign Policy
- Politics zero sum
- No tolerance for elite dissident 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
- Mercantilist
- 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

military capabilities:
"Beyond the Gates"
Doctrine: Protracted local wars

Military

SUB-SCENARIO III: NATIONALIST STRONGMAN
NATIONALIST STRONGMAN

Taiwan
- High Likelihood
- High Likelihood
- Force
- Spreading with
- of China Re:
- Dependent
- Claiming Inde
- of Taiwan de-
- of Pakistan
- Active Support
- with Russia
- Kazakhstan
- Conflict with
- Mongolian
- Finlandized

Other Issues

Hong Kong
- Insula
- Korean Pen-
- Opposite U.S.
- Resolved
- If crisis not
- Assist DPRK

Korea

Spratly
- Spratly

Vietnam
- Vietnam
- Before
- Spratly

ASEAN
- In ASEAN

Taiwan
- Taiwan
- Elections

1996

1997

1998

1999

Bottom Line:
- Aggressive, non-cooperative China
REGIONALISM

Weak power projection capability
Poor force coordination
Central budgets decline

Capabilities:
Regional breakaway
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 (D)
Regional economic ties strengthen
Regional currencies appear - high inflation
Deepening fiscal crisis in central government

Economic Trends:
- Gangs and secret societies expand influence
- Sense of social chaos

Social Trends:

SUB-SCENARIO: REGIONALISM (D)
Local weapons purchasing - Control of nuclear weapons uncertainty - Capability: 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:
Refugees and migrant worker riots •
Sense of chaos and unpredictability surfaces •
Social Trends:

SUB-SCENARIO III: TOTAL COLLAPSE (E)
TOTAL COLLAPSE
nationalism and collapse ranging from liberal democracy to hyper.

- the disintegration scenario can lead to a range of outcomes, the most probable paths in regional and global peace and stability.

- The liberal scenario presents a different 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,

[Signature]

A. W. Marshall
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III. Alternative World Scenarios

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