

CHINA DOWNSIDES: BRIEFINGS, NOTES, AND POLICY IMPLICATIONS

LONG TERM STRATEGY GROUP

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October 2007

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EXECUTIVE SUMMARY

This report contains two briefings concerning "Chinese downside scenarios," followed by an outline of the implications of these scenarios for U.S. policy. The subject of Chinese downside contingencies involves consideration of the practically unthinkable consequences of an interruption of the People's Republic of China's (PRC's) much-vaunted rise. No one likes to contemplate massive disarray in a state as large and globally engaged as China. Nevertheless, in the face of the potential for a major setback, it is worth noting that the reversal itself or the responses of decision-makers in Beijing might create issues to which the U.S. Department of Defense would at least want to consider responding.

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BRIEFING I:

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Unavoidable Choices

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Domestic Challenges

- **Consequences of urbanization and one child policy:**
 - Changes in family structure and social welfare needs
 - Rural discontent
- **Corruption and legitimacy deficit:**
 - Environmental hazards
 - Nationalism
- **Religious resurgence:**
 - Evangelicals
 - Qi gong*
 - Ethnic tension (Uighurs, e.g.)

Well-known litany of domestic challenges, many of which are linked to external factors.

The PRC's political system has undergone dramatic, rapid changes in the past century, with China's economic growth over the last two-and-half decades yielding the latest breathtaking transformation. Now it is common to cast China as the most likely counterweight to, or peer competitor of, the US. But, as Chinese officials often remind Westerners, China faces a host of internal challenges that could interfere with its ability to project power. The list of challenges includes political corruption, insolvent banks, an ideology-starved populace, ethnic and religious tensions, rising demographic imbalances, a looming AIDS crisis, and risks associated with economic slowdown. A crisis related to any one of these issues could lead to a cascade effect, and the regime in Beijing is clearly worried about the possibility of major domestic unrest.

How Stable Is Party Rule?

- Contested legitimacy – **factional** politics
- Robust surveillance and censorship arms
 - Ratio of officials to population
 - Information-reporting problems
- Pattern of deferral until crisis
 - Trigger for dramatic, counterproductive action
 - E.g., Tiananmen, Falun Gong...EP-3?

One could overstate the degree of evolution in the Chinese political system since the days of Mao. The Chairman was clearly a charismatic figure and effectively centralized control in his person, but Chinese politics through the early decades of the PRC was nonetheless faction-ridden, as Lucian Pye has explained. Pye attributed the prominence of factions to fear, associated with corruption in a regime that lacked solid grounds of legitimacy. The fear that Pye diagnosed in the Mao period continues to lead to fragmented authority and competition among groups of allies who see the enterprise of politics as zero-sum. Some commentators describe the current regime as rule by committee, emphasizing the accession of a technocratic elite class. But the recent tumult over the Shanghai mayor's arrest is just one indicator among many that factional ties remain strong. No one would contest the charge that corruption is endemic, and this exacerbates concerns about the regime's legitimacy.

Some China watchers -- most recently Minxin Pei, for instance -- have suggested that Beijing has the situation in hand, noting the increasing sophistication of the regime's censorship and repression mechanisms. But history suggests that "having the situation in hand" by means of an extensive surveillance network cannot prevent a cascading crisis in the medium- to long-term. Moreover, the pattern of China's imperial past -- well known to all Chinese elites -- indicates that a revolution that would sweep out the current regime, when and if it comes, would be sudden.

Troubleshooting

- Party is clearly focused on survival, **BUT** in the event of a regime-threatening crisis, how the US would respond is problematic
 - Beijing already sees the US as seeking to weaken China
 - Even inaction* will seem like taking a side
- American nationals, assets; human rights concerns; refugees flooding region

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Triggers

1. Exogenous financial shock (conflagration in the Middle East, e.g.) leads to economic recession, aggravating social unrest
2. Hostile action by regional rival (e.g., Taiwanese declaration of independence or confrontation with Japan over Senkakus) unleashes militant, uncontrollable nationalism
3. Party schism over crisis response -- further liberalization or hardline crackdown?

- The trigger for a significant dislocation within China could be external. An expansion of the current conflict in the Middle East could lead to higher energy prices that spark a global financial contraction. China's economy would suffer a slowdown due to a rise in energy prices and the decline of the export market. Malcontents in both rural areas and cities who had refrained from expressing discontent with the regime while it appeared to be presiding over a boom would see an opening to protest. Thanks to the proliferation of cell phones and the Internet, dissidents across China's territory would be able to connect and coordinate in a way that was not possible at the time of Tiananmen.
- Again, this trigger underscores that the provocation for a situation that leads to instability need not be domestic (or solely domestic). The regime in Beijing has been playing a dangerous game with nationalism, stoking xenophobic flames when convenient and then warning that these fires may burn out of control. Witness the protests over Prime Minister Koizumi's visits to the Yasukuni shrine in the last years of his tenure. What if a neighboring power either deliberately or inadvertently aroused this sentiment by initiating a confrontation over a high-profile dispute – from Taiwanese independence to Japanese territorial claims or a standoff following an encounter at sea (which could, again, be either deliberate or accidental)?

Chinese Perspective on Triggers

- Western view of crisis (post-Westphalian international system): a mistake or accident; manage it to return to normal peace
- Chinese view (from unification at end of Warring States period): crisis is decisive moment in which one side wins or loses everything

China's view of history and its lessons differs from our post-Westphalian perspective. Since the Peace of Westphalia, Western Europe has disseminated an understanding of foreign relations that emphasizes the distinction between periods of peace and those of war, holding out peace as the norm in a relatively stable, rule-bound international system. The understanding of politics in Beijing reflects China's founding moment, at the end of the Warring States period, when Qinshihuang unified his empire. The West does not boast a successful precedent for empire-building, but in China the enterprise is thought to have succeeded. China's strategic canon contains lessons from this experience that have been passed down over two millennia and will likely persist as long as Chinese politics remain autocratic.

Sources of Chinese Strategy

- Strategic canon stresses indirect approach centered on deception and surprise
 - Intelligence used to surprise, decapitate, nip potential rebels at home
 - Logical approach for elite few struggling to maintain control over many
- Regime that is perennially embattled blurs lines between war and peace

A regime that is internally divided and constantly fighting domestic enemies is on the one hand paranoid but on the other confident. Techniques that might look escalatory or risky to a different regime are for the Chinese the business of everyday survival. In general, the experience of being continually at war at home might be expected to produce different calibrations with regard to both initiation and escalation. For instance, putting superior intelligence at the heart of strategy makes sense when dealing with relatively knowable, domestic foes, and confidence in an intelligence advantage is likely to engender confidence about being able to control conflict initiation (by means of a surprise strike on a lulled target, e.g.) and escalation. At the same time, China has a record of wars with relatively similar neighbors who were sometimes able to deceive the central regime and undermine it, so that China itself has often suffered internal acts of subversion. This creates an extreme suspicion or paranoia around the possibility of penetration by external enemies. The tendency to mirror-image exacerbates this fear, as Beijing would be inclined to suspect others of seeking the intelligence advantage that it is itself pursuing. The mix of confidence and paranoia in the Chinese strategic inheritance receives expression today in the alacrity with which Beijing accuses us and other external powers of interfering; economic interpenetration does nothing to alleviate these concerns.

Logic of Chinese Strategy in Action

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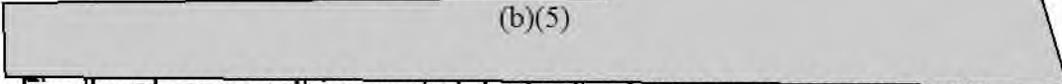


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- PRC may seek decisive action early in crisis by means of surprise attack
 - In region
 - In Pacific
 - In Western Hemisphere

If the mindset we attribute to the Chinese leadership does in fact drive their behavior, what might be the result in the event of a crisis that threatens the regime with partial or total loss of control? It is likely that the regime will not blame itself for its internal problems, but will blame foreigners, particularly the United States.

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Finally, when everything is at stake for the Chinese leadership, there may be a tendency now, as there has been in the past, to see an opportunity to make great gains by decisive external actions. Mao's perceptions of internal weakness did not prevent him from trying to change the Asian balance of power, first by encouraging Kim Il Song's invasion of the South and then by destroying American forces in Korea in 1950, for instance. Deng behaved similarly boldly at a time of internal and external ferment in 1979, invading Vietnam "to teach the Soviets a lesson."

Regional Crisis Through Chinese Eyes

- A return to Warring States
- Forces of localism, religion and superstition controlled by foreigners to destroy empire
- War must be won quickly via decisive action to save the Mandate of Heaven
- China strikes at India or Islamic bases in Central Asia and possibly beyond

Following the Civil War, the Communists faced internal enemies – lingering Nationalists – with external links and waged a prolonged effort to eliminate the Nationalist threat; Beijing has in some ways been waging prolonged, low-level “counterinsurgency” against internal enemies in Xinjiang and Tibet for the last half century. In this scenario, there would be a perceived need to preempt because a) the low-level measures would appear to have failed; b) China’s strategic tradition emphasizes the efficacy of dramatic, preemptive measures; c) Beijing already feels beset by external powers, and the exposure of the internal enemies’ foreign supporters would seem to require an immediate forceful response.

Past examples might suggest that China would respond by instigating a border war, but past cases were mostly not responses to domestic insurgencies; moreover, today’s PLA might be better suited for a more ambitious strike; and, most important, the Chinese strategic tradition counsels seeking a devastating initial blow. China’s strategic tradition also dictates controlling escalation, which might be difficult in the midst of a domestic struggle absent a shocking first strike.

US Responses

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- Prepare for diplomatic revolution
 - Europe could be aligned with Beijing
 - Russia aligned with US?
 - India, Pakistan, Japan allied with US
- A “Cold War” with China involving proxies in India or Islamic world?

What might the US do? The fundamental choice would be whether to side with Beijing, and join it in a common war against hostile Islamic movements, including a more active military role for China in stabilizing the Middle East, or to make common cause with the non-Han Chinese enemies of Beijing, in order to weaken that regime. In either case, there would be a considerable amount of diplomatic realignment: if the US sides with Beijing, what objection could the US have if Europe does the same? If the US is hostile to Beijing, Delhi and Tokyo might join Washington, as might Moscow, but Europe might not. US support for the forces opposed to Beijing would create a new Cold War, with military competitions and wars involving proxy forces.

US Plans & Capabilities

- Condominium?
 - US defends Western hemisphere
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 - Europe, Japan, India neutral powers
- Cold War?
 - Militarized competition for energy resources
 - Europe sells high tech to China, expels US military
 - Japan, India, Turkey allied with US to keep PRC out of ME, Central Asia

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If there were a Cold War with China, and China and the US competed for influence and control in the Middle East, there would be competitive naval and other military deployments to the Middle East, competitive arms transfers to allies and proxies, and new military alliance relations and basing in the Middle East and its periphery. Europe might well become a primary source of military technology for China, increasing the intensity of the US-PRC arms race.

Scenario 2: National Uprising

- Corruption plus Christianity plus recession: then a diversionary expedition against Japan fails
- Hinterland rises against Beijing: nation-wide revolt begins against the “emperor”
- China faces Tiananmen X 100: CNN effects; thousands of foreign nationals at risk; PRC economy could be shattered

Rather than a regional uprising, there could be a national revolt against a corrupt, unresponsive and “failed” government in Beijing in the aftermath of a major foreign policy disaster suffered by Beijing. The classic imperial nightmare of an uprising of the provinces against the capital could occur.

International Responses

- US government could support Beijing with diplomatic, humanitarian, technical aid while US society opposes Beijing
- US society expresses sympathy for, aids democracy movement
- Taiwan could declare independence
- Japan supports Taiwan?

Even more so than in Scenario One, it is hard to see how the United States could be fully neutral in a war between a pro-democracy, anti-corruption movement and Beijing. Even if the US government bit its tongue, US society would not. The pre-occupation of the Beijing government with internal problems could have secondary consequences with which the US would also have to deal.

View from China

- China today thinks West is instigating Japan, helping democracy movement: internal crisis is therefore seen as a US attack

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On the assumption that China already perceives itself to be a victim of US interference, responding to a crisis by attacking the US presence in the region would make sense. It would enable the Beijing government to reverse its earlier humiliation, regain status at home, and establish China as dominant in the region. It would thus be consistent with China's strategic tradition of seeking to capitalize on moments of crisis.

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Scenario 3: Regime Liberalizes, Loses Control

- Rising protests create crisis
- Charismatic reformist outsider brought in; CCP tries to control him, but he controls them
- Splits in Party, military on reforms
- Civil war between civilian and military hardliners and reformers

History provides us with examples of charismatic leaders who challenged the existing regime and were then brought inside by the regime but instead of submitting ended up capturing the regime. For example, leaders like Napoleon and Gorbachev were accepted for one set of reasons but wound up pursuing unexpected courses of action. In the PRC's case, the outcome will depend on the particular character of Chinese politics.

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It is important to realize that in this crisis, the regime may act in anticipation of what it thinks the US will do, not what the US actually is doing. Given the difficult choices that the US will face, it may well send out mixed signals, which will be interpreted by the Chinese leadership through its own strategic prism – a prism that highlights the logic of an initial surprise strike, often aided by deceptive measures. This may lead Beijing to behave in ways that the US does not anticipate.

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BRIEFING II: CHINA CATASTROPHE SCENARIOS

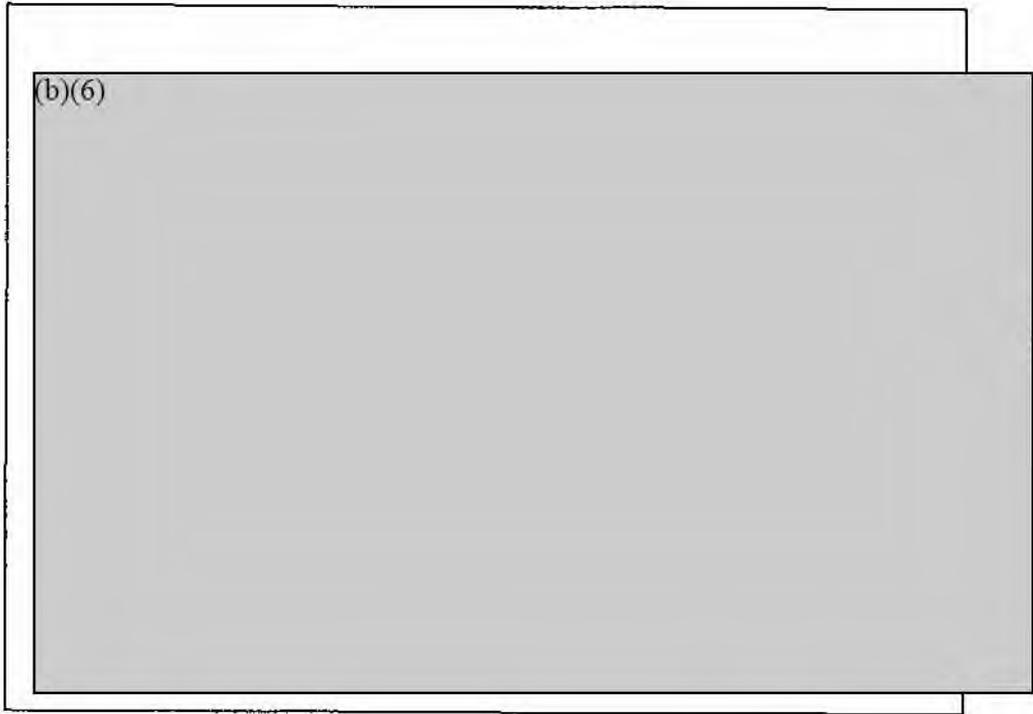
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What Is a *Da Luan* Scenario?

- U.S.'s p.o.v.: China becoming...superpower
- What if rise does not continue uninterrupted?
 - rapid growth, urbanization → social dislocation?
 - U.S. neutrality might not be an option
- Beijing's p.o.v.: regime vulnerable
 - Chinese history generates sensitivity
 - stability and prosperity: fragile grounds of rule

Plausibility: Internal and External Issues

- China's rise could unleash domestic forces that undermine it
 - corruption, maladministration
 - delegation of power, rival authorities
 - social unrest
- China's rise has been based on external conditions that could be reversed
 - favorable global trade conditions
 - U.S. support

Outline of Briefing

- PRC lenses on *da luan*
- Notional scenarios in China's eyes (selected)
 - Internal:
 - corruption & incompetence → infrastructure collapse
 - External, Internal:
 - oil spike (foreign betrayal)
 - Chinese economic collapse
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- Conclusions, lessons

PRC Lenses: Historical and Political

- Chinese imperial history offers a lens for interpreting corruption, mismanagement...
 - cycle: rapacity + decay → local unrest
 - foreign intervention
 - potential **cascade** effect
- Rooted in China's political culture...
 - Taoism, Confucianism on harmony, order
 - legitimacy of single-party system?
 - corruption, infighting
 - setbacks

Strategic Code: Literary and Military Classics

- Literary classics -- ruses and plots
 - palace politics
 - need superior information
- Military classics -- need to reverse trends, prevent cascade
 - use surprise, deception
 - economy of force, timing
 - exploit similarly fragile enemy

Chinese Views of Lessons of Recent Past

- Pre-PRC: “Penetrated Politics”
- PRC History
 - 1950, end of civil war and Korea
 - 1958, Straits crisis
 - 1962, post-Great Leap Forward and India
 - 1960s, Cultural Revolution, aid to N Vietnam
 - 1969, Cultural Revolution and Sino-Soviet confrontation
 - 1979, Deng accession and “teaching a lesson” to Vietnam, USSR
- CNP

Scenario I -- Dam Crisis: Background

- With growth, expansion of CCP & bureaucracy, increasing corruption
 - 65% of 2001 embezzlement cases involved multiple officials
 - environmental and infrastructure problems
- Rivalries among elites
- PLA in politics, stabilization role



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CCP Response

- Immediate:
 - mistrust of foreign relief forces
 - banditry, refugee population require martial law
 - Party empowers local PLA commanders to oversee refugees, logistics, reconstruction
- Follow-on:
 - leadership in Beijing blames predecessors
 - local PLA commanders keep power
 - Beijing may privately appeal to U.S., E.U., whose “help” hurts

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Scenario I: Lessons

- PRC, U.S. would have different views of the source and scope of crisis
- Potential for U.S. reaction to be counterproductive; questions for planners about protecting U.S. interests
- Post-crisis PRC could be more troublesome for the U.S.

Scenario II -- Internal & External Trigger: Overview

- Crisis could be provoked by oil price hike & global recession, failure of PRC's anticipated order to materialize ... internal effects of economic contraction
- Nationalist behavior in region could provoke sudden action by PLA that would surprise U.S.
- Current U.S. options may not be sufficient

Scenario II -- Oil Spike & Economic Downturn: Background

- Oil supply crunch; prices rise; global trade contracts
- Increasing unemployment in PRC
- Dictators in Africa, ME prove greedy
- Russia also behaves opportunistically, energy partner of PRC, others

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U.S. vs. PRC Lenses

- U.S. view:
 - Cause - dynamics internal to ME, global economy
 - Solution - partnerships with other consumers
 - Result - recovery in due course
- PRC view:
 - Cause - treachery of satellite/client states
 - Solution - **sudden action** to reassert hierarchy
 - Result - coercion, military force

Internal Trigger: PRC Financial Exhaustion

- PRC financial reserves on verge of running out
 - externally, used to buy oil
 - internally, used to buy off local unrest
- Transfers to periphery have empowered local elites, weakening central authority
- Civil strife anticipated as money runs out

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Scenario II: Lessons

- From PRC's p.o.v., a global recession would lead to a convergence of external and internal challenges
- U.S. likely to underestimate degree to which Beijing would feel challenged
- U.S. might not be prepared for dramatic PRC remedial action

Scenario III -- External Trigger: Overview

- External trigger, (anticipated) U.S. policy shift, drives Chinese action
- U.S. moves intended as diplomatic tactics would be read as subversive
- Chinese action to reverse trend

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U.S. vs. PRC Lenses

- **U.S. view of U.S.-PRC relations:**
 - Cause - PRC's failure to behave as a stakeholder
 - Solution - deliberation about sanctions, other responses
 - Result - improved PRC global citizenship
- **PRC view of U.S.-PRC relations:**
 - Cause - U.S. effort to undermine PRC's rise
 - Solution - decisive action to change dynamic
 - Result - U.S. taught a lesson

U.S. Reaction and Chinese Assessment

- U.S. rhetoric escalates, stimulating PRC paranoia
 - PRC has violated WTO, is currency manipulator
 - suspension of mil-mil, arms embargo
 - discussions of Taiwan status quo
- PRC strategy to reverse neg. dynamic
 - intention of limited action, psychological effects
 - likely targets: cyber/virtual, space, maritime

PRC Action

- PRC targets US capabilities in WestPac
- Covertly disrupt comms to Guam -- fishing vessel "accident"



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Lessons and Conclusions

- Each scenario involves conflict (internal or external); whom do we help? with whom do we work?
- Analysis: U.S. and PRC perceptions of *da luan* contingencies & decision-making frameworks differ
 - “accidents” for U.S. might be hostile actions for Chinese
 - U.S. seeks de-escalation, cooperative action
 - Chinese, fearing worst, seek decisive action
- U.S.-China perception gap could complicate our understanding of PRC's diagnosis of and response to a *da luan* situation
- U.S. may not currently possess adequate knowledge of Chinese worldview to respond promptly, constructively, efficaciously

Research Questions

- In these scenarios, what is U.S. objective?
- Regional, global base/force structures?
- What role for allied military organizations?
- PRC, regional scenario planning? (*Jiang Zemin wenxue* post-Gulf War)
 - CMC? Central Party School? MRs? Services?
 - Japan?
- Potential for overlapping scenarios?
 - coinciding, mutually reinforcing, cascading?
 - significance of protracted period of difficulty?
- What are fault-lines in Chinese society? Competing ideologies?
- Aside from reactions explored in scenarios, other “Chinese” ways to respond? Research strategies?

EXTRA SLIDES

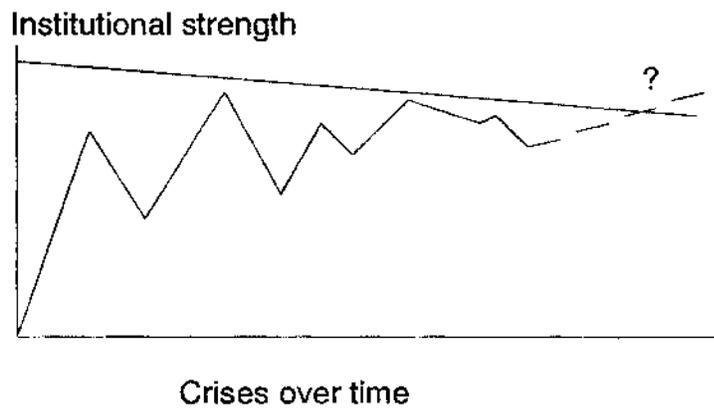
Chinese Assessment: Evidence from History

E.g., PRC assessment prior to intervening in Korea, 1950:

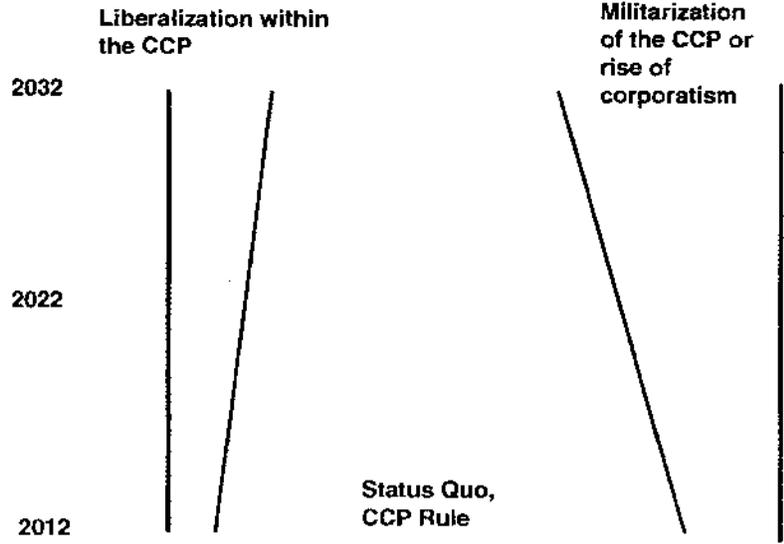
“By comparing and contrasting China’s military strength with that of the U.S./U.N. forces, the field commanders appeared confident that the enemy was beatable.”

- deficient political will
- deficient skill at close arms combat
- deficient tactical flexibility: U.S. forces “always confine themselves to the bounds of military codes and regulations”
- deficient élan – casualty and hardship aversion
- logistical challenges

PRC Evolution and Resilience



Probability of Regime Evolution



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