

## Session I

### China's Economy Today and the Challenges It Faces in Shifting to Capitalism

Kwan Chi Hung

Ever since China began focusing on domestic reforms and open door policies at the end of the 1970s, it has been achieving an annual average growth rate as high as 9.7%. This growth is not the result of China strictly adhering to the principles of socialism, but conversely because the country has abandoned such principles. It is no exaggeration to say that, as reflected by the growth of private companies and the progress made in privatizing state-owned companies, China has already reached a stage where “it is no longer socialist.”

The Chinese government officially describes China's economy today as being in “the primary stage of socialism.” Since both proletariat and bourgeoisie have been created at the same time, the economy comes closer to the early stage of capitalism; that is, “the stage of primitive capitalism.” There is no doubt that the country's goal is not an advanced stage of socialism, but a mature (or advanced) stage of capitalism.

In fact, the “overall moderately prosperous society” set by the Chinese government as the target of economic development is common to a mature form of capitalism in that it presupposes not only a market economy and private ownership, but also the rule of law instead of rule of men, democracy rather than dictatorship, and systems for correcting the disparities between rich and poor through a redistribution of income. Neglecting to build such institutions might cause China to fall into the trap of crony capitalism.

The 11<sup>th</sup> Five-Year Plan (2006-2010) emphasizes the effort to pursue the “harmonious society” based on the “scientific outlook of development” to attain the “overall moderately prosperous society.” In order to realize this objective, it is inevitable to build a system that guarantees equality and growth by accelerating the reform. Especially, as market economy grows, the role of the government has to be revised to fit the present and future situation.

## Session I

### Domestic Political Determinants of China's External Behavior

Yasuhiro Matsuda

If China's first national goal is economic development, will its external behavior become more cooperative in future? This paper tries to explore what Chinese domestic political determinants are influential and what characteristics those determinants have, in case of Chinese behavior towards its neighbors, which include Japan, Taiwan, and the United States. In some cases Chinese economic interests may invite Chinese hard-line external behavior.

First, Chinese domestic instability in regions of major minorities is a double-edged sword in terms of its external behavior. In disputed frontier areas, domestic instability tends to become a driver for cooperation, or even compromise on territorial issues with its neighbors. On the other hand, it does not necessarily mean that China can successfully solve the root cause of the problems in minorities regions. Rather, it means that China can efficiently suppress the independence movements in minorities regions through stabilizing relations with neighboring countries. The Tibet issue, especially, has a negative impact on relations with the United States.

The second, economic motivation is also a wild card in terms of China's external behavior. If China aims at economic development under a more stable international environment, it would seek more cooperation with its trade and investment partners. On the contrary, if China places a priority on securing energy resources, it can be extremely unilateral in dealing with the related countries, such as disputes in the South and the East China Seas. A country may make these kinds of contradictory and irrational decisions in different sectors in the government. China can make the same irrational decisions based on its economic interests.

The third, nationalism is the definite source of inflexibility in China's external behavior. Nationalism, coping with domestic social unrest, and decay of political reform, enhances its unilateralism. The Taiwan issue, "history issue," human rights, and the Tibet issue are always exacerbated by Chinese nationalism. China may even militarily confront the United States and Japan, over the Taiwan problem, no matter how irrational it is.

China's external behavior is influenced by complicated domestic political determinants. The single factor may become two different causes of behaviors, while multiple factors may drive single hard-line behavior toward other countries. In the long run, structural problems,

such as minority issues and social unrest cannot change too much. However, economic situations and political reform may change a great deal. This implies that when China faces an economic downturn, or political crisis in the future, its external behavior may turn hard-line. The strategic crossroads at which China stands branches off into several directions. This can be attributed to the widely varying unstable factors in China's domestic politics.

## Session II

### How Much Military Capability Does China Want to Develop? How Much Will It Succeed?: The Dragon at Sea

Bernard D. Cole

This paper addresses China's naval ambitions, to include forces, strategy, and possible future missions. Naval points in China's 2006 White Paper on National Defense will be used to project People's Liberation Army Navy (PLAN) strength in 2016. The discussion will focus on three scenarios of maritime dispute involving China; each is unlikely to be resolved before 2016, and each balances the PLAN against opposing naval power.

The 2006 White Paper on Defense illustrates Beijing's emphasis on modernizing the navy. Beijing is assigning the PLAN a primary strategic role and is determined to continue naval modernization; the emphasis on improving amphibious and surface combatant forces underlines China's concern with the Taiwan situation, while the importance of improving joint operational and long-range precision strike capabilities implies direct concern with possible U.S. intervention in that situation.

For the navy, then, China's 2006 White Paper is not mere posturing, but accurately describes naval modernization already underway. Its intentions are not short-term and will continue to guide PLAN developments at least for the next decade.

By 2006, China had deployed a navy with the ships, submarines, aircraft and systems ready to serve in pursuit of specific national security objectives. Modernization will almost certainly continue for the next decade, when Beijing will have a navy capable of achieving these national objectives. The Taiwan imbroglio may still head that list, but the PLAN a decade hence will likely be capable also of denying command of the East China and South China Seas to another power. The PLAN of 2016, would dominate East Asian navies, with the possible exception of the JMSDF, and would offer a very serious challenge to the U.S. Navy when it operates in those waters.

This will not result from either Japan or the United States ignoring naval modernization, but will be affected by Japan's constrained defense budget and personnel pool, and by the continuing reduction in American naval numbers and increasingly widespread and marginal missions in Southwest Asia and in the Global War on Terrorism. By 2016, present trends indicate that the Chinese Navy will enable Beijing to exert strategic leverage in maritime East Asia.

## Session II

### China's Search for Military Power: Internal Control, Peripheral Denial and Limited Power Projection

M. Taylor Fravel

Over the past decade, and especially since 1999, China's armed forces have been engaged in a sustained modernization drive to create a professional and capable military. Although these trends are abundantly clear, determining how much military power another state such as China desires is perhaps an impossible task. In theory, most states would probably prefer unhindered capabilities, if they could be achieved at an acceptable cost. In practice, however, states face numerous constraints to the development of military power. Internally, states confront institutional, societal, financial, organizational and technological obstacles and trade-offs. More generally, national leaders must decide how to allocate scarce resources among competing domestic and foreign policy priorities. Externally, national leaders must consider the consequences of their state's development of military power and how others might react, as dramatic increases in war-fighting capabilities risk sparking hostility, arms races or even war with neighbor states and regional powers.

Looking towards the future, several approaches might be used to assess the amount of military power China seeks. One option is simply to focus on the "worst case," assuming that states will seek to develop as much military power as domestic resources and external constraints allow. Examination of threat perceptions provides another option. I adopt a third approach, one which is grounded in an examination of official Chinese texts on military strategy and doctrine. With these texts, I identify the strategic goals set by China's leaders for the development of military power as a tool of statecraft and then examine briefly the type of capabilities being developed to achieve these goals.

Although this approach takes China's intentions at "face value," it nevertheless offers several advantages for assessing the implications of China's ongoing military modernization effort. First, it allows analysts to assess the "fit" between national strategic goals and the military means available or necessary for achieving these objectives. In this way, progress towards modernization can be tracked and charted. Second, it provides a baseline with which to identify potential changes in the trajectory of a military modernization program, either through a change in goals or a shift in the means being developed to achieve declared strategic objectives.

In this essay, I argue that China seeks to develop three general types of military

capabilities. The first is internal control, which supports the PLA's primary mission of maintaining internal stability and the CCP's monopoly on political power. Along with China's paramilitary force, the People's Armed Police (PAP), the PLA maintains sufficient forces for internal control. The second is peripheral denial along its land border and coastal regions. I define denial the ability to hinder a potential adversary's use of "space, personnel or facilities." Denial not only supports internal control, but also the maintenance of territorial integrity, unification and the pursuit of maritime rights and interests. It plays a secondary role in maintaining a stable external security environment for China's rise. China has achieved far more progress towards denial along its land borders and has only started to develop such a capability in maritime areas along its coast. The third is limited force projection necessary for regional conflicts, especially Taiwan but also other disputes that might arise along China's periphery that could upset regional stability.

Before proceeding, two caveats must be mentioned. First, China's ability to enhance its military might depends on numerous factors, perhaps the most important of which is sustained economic growth. Such growth has increased dramatically the size of China's government expenditure, which in turn has funded large increases in military spending without confronting tough "guns-vs-butter" trade-offs. Although most analysts believe that rapid growth will continue for at least another decade, the pace of such growth cannot be taken for granted. Second, I focus only on conventional military capabilities, not China's nuclear forces. Overall, China appears to continue to seek and maintain minimum deterrence, a goal described in the most recent white paper on national defense as "self-defense" (*ziwei fangyu*). Current anxiety that surrounds China's continued rise stems largely from China's conventional military modernization effort and its impact on regional stability.

### Session III

#### What Does It Take for China to Be a “Responsible Stakeholder”?

Aaron L. Friedberg

High-ranking government officials rarely have the freedom to give speeches that reflect intellectual creativity. Even when they do, their words seldom alter the course of debate on important public policy issues. Former Undersecretary of State Robert Zoellick’s September 2005 address, “Whither China: From Membership to Responsibility?” is thus doubly unusual. Zoellick’s speech was conceptually innovative and it has helped to reshape discussion, in the United States and elsewhere, of how best to deal with a rising China.

After first briefly analyzing Zoellick’s remarks, I will comment on three sets of questions that they raise but do not, in my view, satisfactorily resolve:

First, what are the standards by which China’s progress towards “responsible stakeholder” status should be measured? Zoellick’s idea of encouraging China to become a “responsible stakeholder” is more than a mere slogan, but less than a full-developed strategy. There is, first of all, the question of signposts or measures of effectiveness. How will we know when China has, in fact, become a “responsible stakeholder”? How will we even know that it is moving closer to this goal, rather than drifting further away?

Second, what mix of policy instruments should the United States and other countries use to bring Beijing closer to this status? A fully developed strategy must have both a clear goal and a plan for achieving it. In international politics, where one government can seldom simply dictate to another, such plans usually involve the application of a mix of pressures and inducements aimed at modifying the behavior of the target state. At least in their public statements, U.S. officials have not made clear exactly how they hope to bring Beijing to accept their standards of “responsible” behavior.

Third, to what extent can China truly become a responsible stakeholder without reforming its domestic political institutions? At this stage of their country’s emergence as a major power, China’s rulers have strong reason to favor an open world economy and, albeit unevenly, they have generally acted in ways that tend to support it. In this sense, there is no reason to doubt that an authoritarian China can be a “responsible stakeholder” and, indeed, many would argue that it already is.