"China's Military Modernization and Export Controls"

The Honorable Peter W. Rodman

Assistant Secretary of Defense for International Security Affairs

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Mr. Chairman, distinguished members of the Commission, I want to thank you for the opportunity to speak today about China's military modernization and its implications. This is an important issue for U.S. defense and security policy. It has implications not only for the military balance in the Taiwan Strait, but for the balance in the Asia-Pacific region as well. I commend the Commission for its interest in this important matter.

Context of Bilateral Relations

This hearing comes against the backdrop of an overall U.S.-China relationship that has been improving, especially since the low point of the April 2001 EP-3 incident over the South China Sea. President Bush is pleased that we have a constructive relationship with China. But China's rapid rise as a regional political and economic power with global aspirations is a defining element of today's strategic environment – one that has significant implications for the region and the world.

As the Defense Department's *2006 Quadrennial Defense Review (QDR) Report* notes, "U.S. policy remains focused on encouraging China to play a constructive, peaceful role in the Asia-Pacific region and to serve as a partner in addressing common security challenges, including terrorism, proliferation, narcotics and piracy." U.S. policy encourages China to conduct itself as a responsible international stakeholder—that is, to take on a greater share of responsibility for the health and success of the global system, a system which has greatly benefited China.

In recent years, we have seen some positive examples of cooperation. China has declared its objective of a nuclear weapons-free Korean Peninsula and has hosted the 6-Party Talks, although we would like to see China exert influence over North Korea. We have a useful dialogue on other strategic issues such as South Asia and the Middle East. We cooperate on counter-terrorism and negotiate seriously on trade issues relating to China's WTO commitments. This includes dealing with problem areas such as compliance with intellectual property rights standards. Deputy Secretary of State Zoellick has opened an important new Senior Dialogue in which many of these important issues are addressed.

We have also seen improvement in our military-to-military relationship. Secretary Rumsfeld's trip to Beijing in October 2005 resulted in an agreement to expand senior-level visits, naval ship visits, military academy exchanges and interactions among junior officers. This is a good thing. We look forward to a full agenda of interactions in the coming year, including:

- my visit to China in early April for the eighth round of Defense Consultative Talks;

- another visit by U.S. Pacific Commander Admiral Fallon to China in May;

- and a visit by China's top military leader, Vice Chairman of the Central Military Commission General Guo Boxiong, to the United States this summer.

Both the United States and China approach this relationship realistically, however. Both sides are aware of the potential for conflict, particularly in the Taiwan Strait. Indeed, although U.S.-China relations have improved since 1989 and even further since 2001, we have maintained our own prohibition on weapons transfers to China. In our defense exchanges – consistent with the guidelines established by the *National Defense Authorization Act for Fiscal Year 2000* – we do nothing in our contacts with China that could knowingly enhance the military capabilities of the Chinese People's Liberation Army (PLA).

As Secretary Rumsfeld noted during his trip to China last year, we see "mixed signals" from China about the relationship it is prepared to have with us. On the one hand we have the constructive political and economic interactions with the Chinese that I mentioned. At the same time, there is the vigorous military modernization that I will discuss in a moment, and the lack of transparency. In addition, China did not permit us to observe the Sino-Russian exercise "Peace Mission 2005", and declined U.S. participation in multilateral humanitarian exercises in Hong Kong to which we have long been a party. China also promoted the East Asia Summit last December and is a major sponsor of the Shanghai Cooperation Organization, both of which exclude the United States. What are we to conclude from that?

China's leaders face some important choices as China's power and influence grow. These choices span a range of issues: the relation between China's economic transition and political reform; rising nationalism; internal unrest; transfer of dangerous technologies to other countries; adopting international norms; and, in particular, its expanding military power. The Secretary of Defense spoke quite candidly about all of this during his visit to China. He spoke in this vein at the Central Party School and at the Academy of Military Sciences—two key institutions of the Chinese elite.

There is a lesson here, by the way: one can be quite candid with the Chinese and still enjoy constructive relations.

China's Military Expansion

Today, China's ability to project and sustain military power at a distance remains limited. However, as the 2006 QDR notes, "China has the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages."

In the near term, China's military build-up appears focused on Taiwan Strait contingencies. China's armed forces are rapidly developing capabilities designed to coerce or compel a settlement while simultaneously deterring, delaying, or denying possible outside intervention, including U.S. intervention. This is part of a broad strategy toward Taiwan designed to isolate the island and pressure its leaders to unify with the mainland on Beijing's terms.

The *2006 Annual Report to Congress on the Military Power of the People's Republic of China* will be published, we hope, in a few weeks. But I can tell you that nothing has changed with respect to an important point in the 2005 Report: China's military acquisitions suggest the PLA is also generating capabilities that go beyond a Taiwan scenario and are intended to address other potential regional contingencies, such as conflict over resources or territory.

The PLA's on-going transformation features new doctrine for modern warfare, reform of military institutions and personnel systems, improved exercise and training standards, and the acquisition of advanced foreign and domestic weapon systems. China's military expansion is already affecting regional military balances. Long-term trends in China's strategic nuclear forces modernization, land- and sea-based access denial capabilities, and precision strike systems have the potential to pose credible threats to other modern militaries operating in the region.

China's declared military budget has grown faster than its overall economy. While from 1994 to 2004 China's GDP grew at an average annual rate of 9.6 percent, its declared military budget grew at an average annual rate of 15.8 percent over the same period. These trends continue to this day, in spite of pressing domestic concerns, particularly the impoverished rural areas that China itself acknowledges are a problem. On March 5, 2006, China announced that its official defense budget for 2006 would increase some 14.7% over the previous year, to the level of approximately $35 billion.

It is widely acknowledged that China's declared military budget does not capture total expenditure on its armed forces. Many items – foreign acquisitions, industrial subsidies, local contributions, strategic forces – are not included. The Defense Department's best estimate is that actual expenditure is some 2-3 times the published amount, suggesting the 2006 figure could actually be upwards of $70-105 billion—making China the largest defense spender in Asia. (For purposes of comparison, Japan's draft defense budget submission for 2006 is $46.53 billion. At the high end of DoD estimates, China is outspending Japan on defense by a margin of more than two to one.) What concerns us as well is not just the amount and rate of increase, but the advanced offensive weapon systems these resources are buying *and* the lack of transparency which gives rise to the discrepancy in our respective numbers in the first place.

Where our QDR speaks openly and candidly about U.S. doctrine, assumptions, and plans, China's leaders have yet to explain the purposes of their military expansion. Nor have they provided basic information on the size or proficiency of their armed forces. The outside world has little knowledge of Chinese motivations and decision-making or of key capabilities supporting PLA modernization. This lack of transparency prompts others to ask, as Secretary Rumsfeld did in Singapore last June: Why this growing investment? Why these continuing large and expanding arms purchases? Why these continuing robust deployments? Absent greater openness, international reactions to China's military growth will understandably hedge against these unknowns.

I have great confidence in our military and civilian intelligence professionals. We know a good deal about China's military modernization – much of it detailed in our annual reports to Congress and other classified studies. But, there is also a great deal that we do not know.

The widespread use of denial and deception at the strategic, operational, and tactical levels makes gaining "ground truth" on Chinese security affairs a difficult undertaking. We have been surprised in the past and we should expect to be surprised in the future. The Summer 2004 appearance of the YUAN-class submarine exemplifies this, as we had no prior knowledge of its existence. We have also been surprised at the pace and scope of China's strategic forces modernization.

Let me offer a few other examples that illustrate the scope and scale of PLA expansion as we see it. China is pursuing a patient, long-term, comprehensive modernization program emphasizing preparations to fight and win short-duration, high-intensity conflicts along its periphery. The PLA is no longer a Third-World military force; in certain areas it is becoming a First-World force. As part of this modernization, we see:

- *Five modern submarine acquisition programs:* The SONG-class diesel-electric submarine is in serial production, the Type-093 SHANG-class nuclear attack submarine and Type-094 nuclear ballistic missile submarine are nearing completion of their development, and the new YUAN-class submarine mentioned earlier suggests a strong, active domestic program. In addition, China is taking delivery of a second traunche of more advanced Russian KILO-class diesel-electric submarines.

- *At least ten varieties of ballistic missiles deployed or in development*: China is pursuing significant upgrades and qualitative modernization of older versions of its intercontinental-range ballistic missiles (ICBMs). Newer versions such as the DF-31 and DF-31A ICBM systems and the JL-2 submarine-launched ballistic missile bring greater range, mobility, accuracy, and survivability to China's deterrent forces. These longer-range systems will reach many areas of the world beyond the Pacific, including virtually the entire continental United States. China today has well over 700 short-range ballistic missiles deployed opposite Taiwan, with numbers increasing at a rate of about 100 missiles a year.

- China has at least two *land-attack cruise missile programs* in development that provide improved range, accuracy, and survivability beyond that available in the short-range ballistic missile force. The PLA also has or is acquiring at least 12 different types of advanced *anti-ship cruise missiles*, including the supersonic Russian-made SS-N-22/SUNBURN and SS-N-27B/SIZZLER, which can be fired by the new KILO submarines.

- China is improving its capacity for *expeditionary warfare* with additional air and amphibious lift acquisitions, improvements in army aviation, and the fielding of new amphibious armor within its ground forces units based along China's coast with Taiwan.

- The PLA is also leveraging *information technology* expertise available in China's booming economy to make significant strides in cyber-warfare capabilities. Chinese capabilities in this area have evolved from focusing on defending their own networks from attack to including offensive operations against adversary networks. Augmented by employees in the civil and public sector organized into information warfare reserve or militia units, PLA exercises now apparently feature both offensive and defensive computer network operations.

- Finally, but not exhaustively, we are seeing China emerging as a growing *international space power*. The successful recovery of the Shenzhou-6 manned space mission last October demonstrates the extraordinary advances China is making. At the same time that China is looking to exploit its growing access to space, evidence suggests it is developing the capacity to deny access to others with at least one ground-based laser anti-satellite research and development program underway.

The Role of Foreign Technology in China's Military Expansion

While Beijing is investing heavily in its indigenous weapons development, its military modernization is also aided by foreign technology. It is well known that China has turned to Russia for high-end platforms (e.g., advanced fighter aircraft, submarines, torpedoes, and surface ships) and military-technical cooperation that can assist China in developing its most advanced systems.

China also appears to look to Russia and other foreign sources for advanced technology, including: dual-use technology; systems, sub-systems, and components to improve existing weapons; and to aid in domestic industrial production capacity for newer systems in the future.

The issue, of course, is not only how this cooperation can advance China's own military capabilities. Given China's track record on the transfer of conventional arms and other sensitive technologies, these advances could lead to improvements in the systems that Chinese companies market abroad, including to problem states such as Iran, Venezuela, Sudan, Zimbabwe, and Burma, – all major recipients of Chinese arms and security assistance in recent years.

That is why the issue of the European Union's arms embargo against China is of such concern. The U.S. Government has strongly opposed efforts to lift the EU embargo on China and will continue to do so.

In the midst of our debate with the Europeans on this issue last year, China proceeded with its Anti-Secession Law in March 2005 and, upon the death of former Premier Zhao Ziyang, reaffirmed the correctness of its resort to force during the 1989 Tiananmen crisis. Lifting the embargo would have appeared to condone such actions. To lift the embargo would be a political act which we believe would inevitably loosen both implicit and explicit restraints on European military-technical cooperation with China. It would also have second-order effects such as the transfer of U.S. doctrine and training "software" and experience to China through its military relations with EU countries. We are not reassured by the proposed Code of Conduct and "toolbox" that we are told would substitute for the embargo. A strong Code of Conduct should support and enhance – not replace – a strong arms embargo.

We and our European friends agreed last year that we were debating the arms embargo in a policy vacuum, that is, in the absence of a deeper common understanding of Asia, China's role in it, and what the U.S. and the EU can do to shape China's emergence in a constructive way. The United States and the EU now have a Strategic Dialogue on East Asia, the second session of which took place here in Washington on November 3, 2005. We are working our way toward a common strategic assessment of the requirements of security in the region, framing the context of the transatlantic discussion of China policy. This is a positive development.

Looking to the Future

The 2006 QDR, as I have said, addresses the long-term implications of China's rise for regional military balances. In the QDR we state that we expect continued high rates of Chinese investment in asymmetric capabilities, including electronic and cyber warfare, counter-space, ballistic and cruise missiles, air defense, strategic systems, land and sea-based systems, and unmanned aerial vehicles—many of the capabilities I previously described.

The Defense Department's capabilities-based approach to planning focuses more on how a future adversary *may* challenge us than on who those adversaries are or where we may face them, which may be unknowable; therefore we plan against a range of capabilities rather than against any single actor. Nevertheless, as the QDR notes, China is among a handful of countries we see as being at a strategic crossroads. The choices that it makes will affect the future strategic position and freedom of action of the United States, its allies and partners. The uncertainty that accompanies China's rise means there is much work to be done in terms of understanding China's strategic intentions and capabilities.

As we look to the future, we will require greater insight into China's security and military strategies and its approach to the use of force. A greater understanding of how the introduction of advanced weapons systems can affect China's evolving doctrine would improve our understanding of future operational capabilities:

- For example, China's strategic forces modernization – both qualitative and quantitative – is likely to give rise to capabilities and options that China does not currently have, potentially leading to a shift away from China's historical nuclear policy of "no first use." Indeed, comments from a PLA major general last summer suggest that a debate over this longstanding declaratory policy might already be underway in China.

- Likewise, China's advances in naval capabilities for both surface and sub-surface warfare could give rise to more potent power projection capabilities to protect China's expanding overseas interests, especially in energy and other critical resources. More insight into these capabilities would help us understand how various regional balances could be affected.

- China acknowledges space as an increasingly important dimension of the modern battlefield, and is investing heavily in this area. Accordingly, we need to focus on China's emerging space programs, particularly those that can have military application, and its apparent pursuit of anti-satellite and other counter-space systems.

- Finally, China's investment in science and technology will inevitably enhance the capabilities of its national defense industries. As the YUAN-class submarine case demonstrates, advances in China's domestic S&T base can shape future military capabilities and create the potential for technology surprise.

Conclusion

Mr. Chairman, members of the Commission, my testimony this morning has focused on the potential future developments of the Chinese military. Some of these advances could pose challenges for the United States and other major powers over the long term. Others are relevant to a Taiwan contingency – which is a problem in the here and now.

In the 1995-1996 Taiwan Strait missile crises, President Clinton sent two aircraft carrier battle groups into the region. Today, we would calculate the operational challenges in light of new military capabilities and technologies China has acquired, just as we have always adjusted to new realities. But, while the precise response may not be the same, our ability and our will to meet our security commitments remain firm. This shows both that PLA modernization affects our strategic calculus for Taiwan Strait security and that a prudent hedging policy is essential. U.S. policy opposes unilateral changes in the Taiwan Strait status quo by either party. The PLA military build-up changes that status quo and requires us to adapt to the new situation, as we are doing.

This is not a problem only for the United States, however. China's rise has implications for the region, and globally. The concerns raised here are shared by many other countries.

But nothing is foreordained. We hope—by our dialogue with China, and by prudent policies of our own and in collaboration with theirs—to shape the future in a constructive direction. That is President Bush's commitment, and I believe it reflects a broad, bipartisan national commitment as well. Thank you.