

Strategic Analysis Paper

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China's Dire Straits: No Brothers in Arms – Part Two

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Key Points

- China's Chairman Xi faces enormous domestic economic challenges.
- He also faces a re-invigorated US, which is rapidly expanding its military capability.
- He simultaneously faces the expanded military capabilities of Japan, Taiwan and the Philippines, which is showing signs of inviting the US back onto its territory.
- Given that situation, Chairman Xi has few alternatives to turning to Russia and President Putin for military and political support.

Summary

[Part One](#) of this paper noted that China's growth plans have likely been placed in jeopardy by President Trump, who demands that it adopt a fair, equal and transactional relationship with the US. The current trade war is predicated on his demand that bilateral agreements regarding intellectual property and the right of US companies to have access to Chinese markets be entered into China's laws, a demand to which China cannot acquiesce. China's growth is predicated on the acquisition of technological knowledge, be that through its purchase, creating joint ventures or even [outright theft](#). (See [this report](#) for an assessment of the cost of China's intellectual property theft. Chinese industrial espionage is even more wide-spread and is documented in [this book](#). For an example of how even major Chinese companies work to illegally bypass the laws of other countries, see [this article](#) on Huawei's

alleged plan to circumvent a US ban.) Providing the US with such an enforceable guarantee would, therefore, protect US intellectual property and give it more even opportunity to compete with Chinese companies.

Analysis

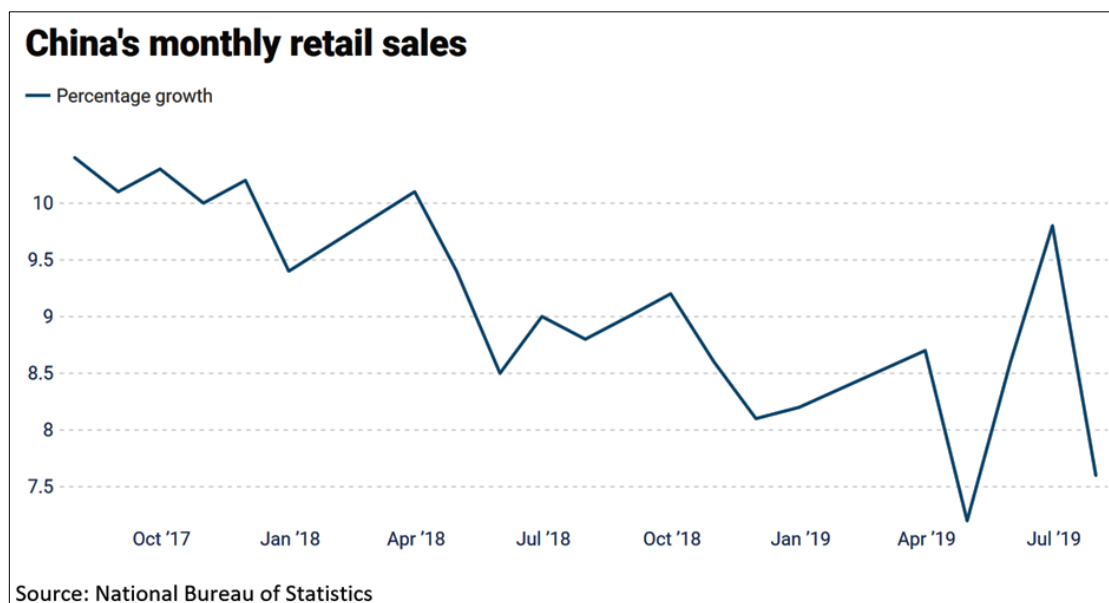
A major consequence of Beijing’s refusal to provide such a guarantee, however, has been the trade war that has engulfed both countries but which has had a particularly devastating effect on China’s economy. As one [report](#) notes:

Industrial production – a measure of the output of the industrial sectors in China’s economy, including manufacturing, mining and utilities – grew by 4.8 per cent in July from a year earlier. This was down from 6.3 per cent in June, which had improved from May’s 5.0 per cent growth rate.

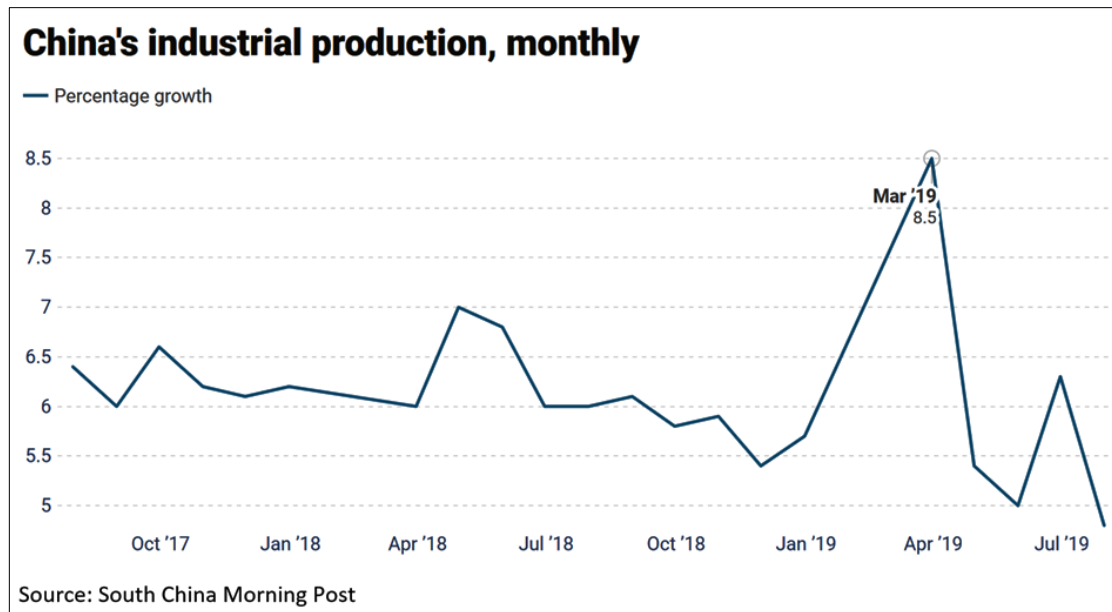
The report notes, further, that:

Retail sales, a key metric of consumption in the world’s most populous nation, grew by 7.6 per cent in July, down from 9.8 per cent growth in June, and well short of economists’ prediction of 8.6 per cent growth.

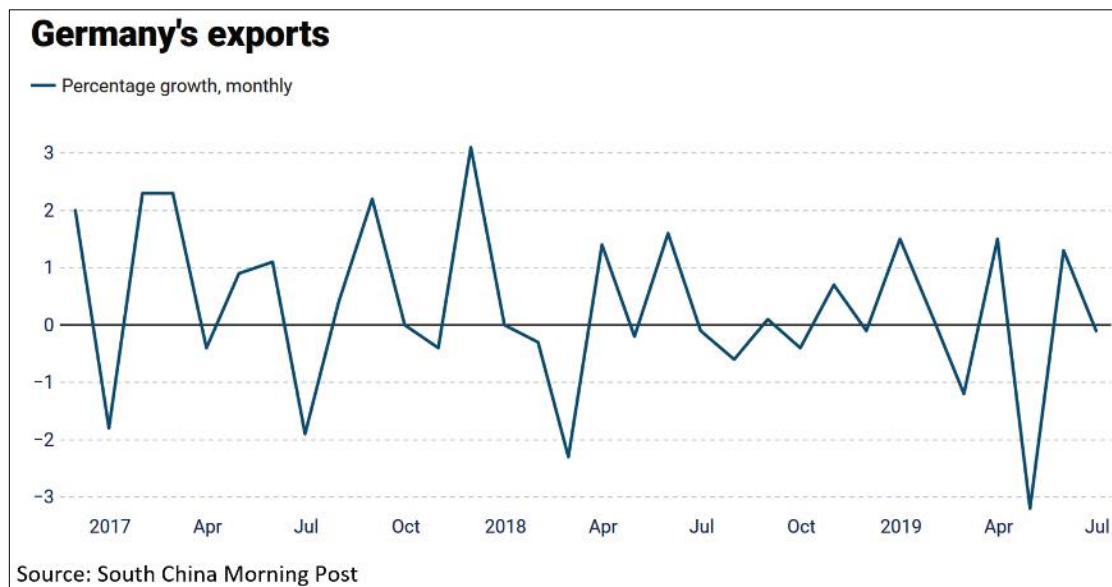
China’s monthly retail sales have decreased, as the graph below demonstrates. It is to be borne in mind that President Trump is introducing a two-tranche tariff structure on Chinese goods, with ten per cent levied as of 1 September and a second tranche of 15 per cent to come into effect on 1 December. While his decision to postpone that levy to December was initially seen to be a sign of [weakness](#), or was [reported](#) as such, it is now known that the implementation of that additional tariff will be staggered, with US\$130 billion (\$194 billion) of the tariffs being imposed in September and the remaining US\$155 billion (\$232 billion) on 15 December.



China's overall industrial production has also decreased, as the chart below shows.



The greater danger for China is that it is at risk of losing its status as the world's factory. Technology suppliers are [moving away](#) from China and logistical chains disrupted as the US seeks to [decouple](#) its economy from China's. Europe will not compensate for reduced exports to the US, since Germany's economy is [slowing](#), moving closer to a [recession](#) and likely to drag the [Eurozone economy](#) downwards as well. The European Union, moreover, [perceives](#) China as 'an economic competitor in pursuit of technological leadership, and a systemic rival promoting alternative models of governance'.



China's economy is, to put it bluntly, in deep trouble. As Professor Xiang Songzuo of Renmin University School of Finance and former Chief Economist of China Agriculture Bank, noted in his 16 December 2018 speech, "[A Great Shift Unseen Over the Last Forty Years](#)" (and which remains censored in China):

China's economy has been going downward this year, as everyone knows. The year 2018 is an extraordinary year for us, with so many things taking place. But the main thing is the economic slowdown. How bad are things? The number that China's National Bureau of Statistics gives is 6.5 per cent, but just yesterday, a research group of an important institution released an internal report. Can you take a guess on the GDP growth rate that they came up with using the NBS data? They used two measurements. Going by the first estimate, China's GDP growth this year was about 1.67 per cent. And according to the other calculation, the growth rate was negative.

That speech must be examined in conjunction with the essay titled "[Imminent Fears, Immediate Hopes](#)", by Professor Xu Zhangrun, a Professor of Jurisprudence and Constitutional Law at Tsinghua University, in Beijing. In his essay, which he wrote for the Unirule Institute of Economics, Professor Xu decries China's present political path. Xiang's speech and Xu's essay give an indication of China's current political and economic malaise – and the growing dissatisfaction in China with Chairman Xi's return to Maoist authoritarianism.

The Chinese Communist Party's rule of China is based on a social contract with the Chinese people that states, more or less, that the Party will guarantee that citizens grow more prosperous; in turn, the citizens will not question the Party's right to rule. If the Party cannot adhere to that contract, despite growing nationalism in China, it remains to be seen how it will counter, for instance, the open dissatisfaction with that rule being expressed in Hong Kong and the steady spread of that dissatisfaction to, for instance, [Macau](#). If a [global recession](#) were to eventuate, moreover, China's exports, which account for around [20 per cent of its GDP](#), will be particularly affected. China would be affected, in any case, by the [US recession](#) that is predicted to occur by the end of 2021.

In sum, a grim economic situation for Chairman Xi appears to show signs of only growing worse.

Unfortunately for Chairman Xi, the bad news does not end there. The US, under President Trump, appears to have recognised the disadvantaged military situation under which it has had to compete with China and is now taking the necessary steps to nullify any advantage on which China might have banked. The withdrawal this year of the US from the [Intermediate-Range Nuclear Forces Treaty](#) (INF Treaty) that it signed with the Soviet Union is one example of those steps. According to the terms of that treaty, the US and the Soviet Union would destroy their land-based cruise missiles that had a range of 500 to one thousand kilometres (i.e. short-range cruise missiles) and one thousand to 5,500 kilometres (intermediate-range cruise missiles). The treaty also allowed for onsite verification to ensure that those missiles had been destroyed and not replaced. The US withdrew from the treaty because, it alleged, Russia (the Soviet Union's successor state that inherited its treaties) had violated the terms of the treaty by working on the intermediate-range *Novator* 9M729 (NATO designation SSC-8) cruise missile.

China, which was not bound by those strictures because it was not a signatory to that treaty or even considered a threat when it came into effect, built missiles with ranges that fell

within the limits denoted by the INF Treaty. As a consequence, any US move to carry a potential fight closer to the Chinese mainland was jeopardised by China's ability to attack its forces while they were still too far out at sea to be able to launch an attack of their own. It is in this context that China's [Dong Feng DF-21D](#) intermediate-range missile, the so-called "carrier killer", and the DF-26 intermediate-range missile, nicknamed the "Guam Express" because of its ability to eliminate US bases in the Pacific, such as Andersen Air Force Base on Guam, came into their own. The DF-21D missiles, with their [range](#) of over two thousand kilometres, could strike US aircraft carriers long before they could carry their aircraft within their operating ranges to be able to carry out strikes of their own. That left the US forces at a decided disadvantage and at an elevated risk of defeat.

The US, having withdrawn from the INF Treaty on 2 August, lost no time in conducting a test of a land-launched cruise missile on 18 August. That test elicited an unsurprising reaction from China, which [stated](#) that the test:

... fully shows the true intention of the US withdrawal, which is to make the treaty no longer binding on itself so that it can go all out to develop cutting-edge missiles and unilaterally seek military strength. This US move will surely trigger a new round of arms race and lead to escalated military confrontation, which will negatively affect international and regional security.

China is correct to worry about the test. It was sufficiently worried, in fact, to team up with its new go-to friend, Russia, to [call on the United Nations Security Council](#) to address the US withdrawal from the INF Treaty, citing 'threats to international peace and security' and the 'statements by US officials on their plans to develop and deploy medium-range missiles'. The missile that the US tested is a very different one in terms of capability from those that were built when the INF Treaty was signed thirty years ago. This missile, as one [source](#) observes:

... can be retargeted mid-flight, can loiter, have a far more advanced navigation and terminal targeting system, and can hit moving targets, such as ships. That's not to say that all of these features would be necessary for a new nuclear [Ground-Launched Cruise Missile], but it would certainly improve such a system's flexibility and it could allow for lower-yield warheads to be used against certain targets.

Subsequent to the test, the Pentagon tersely [stated](#) that the 'test missile exited its ground mobile launcher and accurately impacted its target after more than 500 kilometres of flight. Data collected and lessons learned from this test will inform the Department of Defence's development of future intermediate-range capabilities.' The reference to "future intermediate-range capabilities" seems to imply that the Defence Department plans to extend the numbers and types of intermediate-range missiles in its arsenal. While that announcement would give China pause for thought, US Defence Secretary Mark Esper's [statement](#) that he 'wants to deploy an intermediate range conventional missile in the Pacific region within months' should cause Beijing concern. Mr Esper said very bluntly that the test was aimed at sending a message to China, rather than Russia, [noting](#), 'We want to make sure that we, as we need to, have the capability to deter Chinese bad behaviour by having our own capability to be able to strike at intermediate ranges.'

Mr Esper went on to say that while the US would 'likely take some time to develop the more advanced land-based missile capabilities ... we would like to deploy a capability sooner rather than later.' Added to that, some Pentagon estimates suggest that a cruise missile with a range of around 1,000 kilometres could be flight-tested this month (September 2019) and be ready for deployment in eighteen months. If the US possessed that capability, it would mitigate to a large extent the potential destructive capability of China's missile forces, eighty per cent of which fall within the intermediate range.

A retired People's Liberation Army colonel, Yue Gang, [opines](#) that:

What Washington has done to the INF is a devastating blow to one of the last pillars of the international arms control regime and it will disrupt the delicate balance of military power between the US, China and Russia in the post-Cold War era and inevitably lead to another round of the arms race.

While that argument has a degree of validity to it, Colonel Yue appears to be careful not to suggest that the simple expedient of China entering into a similar treaty with the US regarding intermediate-range missiles could negate Washington's moves in that direction.

The US has, furthermore, begun looking for sites in Asia to situate its missiles. While Australia has announced that it [will not host US missiles](#), that [does not appear to be definitive](#). The US, moreover, could situate those missiles on its bases in Guam and potentially in Okinawa, Japan, and the Philippines, if the military commanders there had their way. US missiles, which have a strike range of almost one thousand kilometres, could also be launched from its surface and submersible vessels with less fear of retaliation.

Chairman Xi's troubles do not end with the US. Japan, which has viewed China's recent incursions into its airspace and maritime territory with some trepidation, has begun to bolster its own defences. It has, over the last few years, expanded and hardened its air force and coast guard bases at Okinawa, which already has the largest US air base in the Indo-Pacific and hosts tens of thousands of US troops. Tokyo has also created an Amphibious Rapid Deployment Brigade of around 2,100 personnel, which is trained to defend and re-take invaded Japanese islands, and [established military bases](#) on the more remote islands that stretch as far as Taiwan. Called the "south-western wall", those bases will house troops and missiles that can defend Japanese territory, air space and maritime approaches. Japan's Ground Self-Defence Force created two new bases on Miyako and Amami Oshima Islands in March to accommodate up to eight hundred troops, surface-to-air and anti-ship missiles and electronic intelligence-gathering facilities. A smaller base was built on Yonaguni Island in 2016 and another is planned for Ishigaki Island by 2021.

President Trump has further added to Chairman Xi's worries by approving the [sale of F-16](#) fighter aircraft to Taiwan in a deal worth US\$8 billion (\$11.9 billion). The [sale](#) of 66 of the F-16V variant of the fighter jet, the most advanced version, is in addition to the US [decision to sell](#) Abrams main battle tanks and anti-aircraft missiles to Taiwan, which has been estimated to cost over US\$2.23 billion (\$3.3 billion).

In the Philippines, despite his public criticism of the US, President Rodrigo Duterte has allowed the construction of a US military facility at a Philippine Air Force base in the province of Pampanga, north of Manila, under the terms of the Enhanced Defence Co-operation Agreement. Several other US military facilities are also being built, leading to speculation that the US has been [surreptitiously invited](#) back into the Philippines. In any case, Manila's defence establishment looks on Beijing with an elevated [degree of suspicion](#) and holds a more favourable view of Washington – at least for now.

China's island chains, it would appear, are being hardened and strengthened by regional and extra-regional competitors and antagonists.

Given this situation, Chairman Xi has few alternatives to turning to another US rival, President Vladimir Putin of Russia, for political and military support. He has done exactly that. In a show of force, the two countries recently conducted joint air patrols and China took part in Russia's *Vostok* military exercises earlier this year.

As the final part of this paper will show, however, that relationship is predicated entirely upon mutual necessity, with the US being the common antagonist. That factor aside, there is little that these two countries have in common. The Sino-Russian relationship, therefore, has a greater chance of failing than it does of succeeding.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.