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CHINESE MILITARY MODERNIZATION, THE ECONOMY, AND SECURITY IN EAST ASIA

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A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Maritime Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

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This paper attempts to analyze the roots of current Chinese military modernization in the context of China's transformation to a market economy. The specific focus of the analysis is the relationship between the economy, the military and security in East Asia, specifically, how far can the economy drive modernization?, how will China's modern forces be employed?, and what are the security implications for US interests in the Pacific. To answer these questions, the paper looks at the Chinese leaderships developing grand strategy, changing military doctrine, and planned force structure modernization. The paper focuses on several factors which will limit continuous expansion of the Chinese economy, which in turn will constrain military spending and ambitions. Specific aspects of security in the South China Sea region are addressed.

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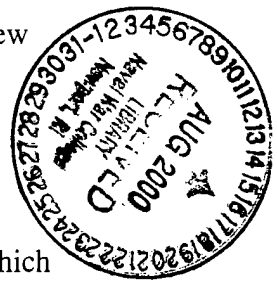
INTRODUCTION

Despite numerous political and diplomatic successes in the 1970s, including admission to the United Nations and a seat on the Security Council (1971), the first ever visit by an American President (1972), and official recognition by the United States (1978), China remained in many ways a backward nation. Hampered by years of unsuccessful Maoist policies, China had not progressed socially or economically much beyond the state in which it had been at the close of World War II. Isolated as it had been from western and most eastern markets, China was essentially an agrarian economy. Through association with the Soviet Union, China had acquired many of the trappings of a great power including the world's largest military and a nuclear arsenal, but there was no firm basis for further development which "left China as one of a group of second rate powers, and among them perhaps the least capable."[1]

The 1980s ushered in significant reforms the results of which are today being viewed with a mix of admiration and anxiety. Progressive programs by Mao's successor, Deng Xiaoping, have transformed China's economy, producing an average growth rate in excess of 10% through most of the nineties. This has, in turn, provided the funds required to update the Chinese military machine to the point where US policy planners have become preoccupied with this modernization. The questions presented by today's China include how far can the economy drive military modernization?, how will "today's China" use its new forces?, and what are the real implications for US interests in the Pacific?



To answer these questions we must look at the fundamental changes China has experienced since 1980, and how these shape China's role in East Asia. The picture which emerges is complex but points to a nation still in the throes of significant restructuring which

is unlikely to present a strategic threat to the US in the foreseeable future. On a regional basis however, China's relations with its neighbors and with the United States remain unclear. What is clear however, is that China will remain an ambiguous problem, one to which no simple solutions may be applied.

BACKGROUND

Since its inception in 1949, The People's Republic of China (PRC) has regarded itself as isolated and not without some justification. The policies of Mao toward China's neighbors (including Taiwan) did nothing build trust or understanding. A break with the Soviet Union over ideology deepened this de facto isolation. Internally, Mao succeeded in building the world's largest military. Many of his policies however, were diametrically opposed to the development of a capable military.

Mao's vision of a "people's war" was built around peasant armies, mostly volunteers, which eschewed professionalism and military rank structure as "bourgeois."[2] While this type of army was sufficient to impose Chinese dominance over Tibet in 1951 and support multiple border disputes against India, it was wholly outclassed against the well trained, professional troops of Vietnam in 1979. In this short conflict, the Chinese army lost significant materiel, suffered over 60,000 casualties, and equally important in Chinese eyes, a severe loss of face.

MILITARY MODERNIZATION

In 1978, Mao's successor, Deng Xiaoping articulated the "Four Modernizations" required for China's development. These were agricultural, industrial, science and technology, and military. Deng recognized that a strong economy was essential for China's survival and the first three fields for improvement would create the conditions necessary to complete modernization of the military.

While China could not yet invest financial resources to upgrade its military, sweeping doctrinal changes were instituted. Initially, a new strategy of "people's war under modern conditions" was adopted as a stop gap measure until the People's Liberation Army (PLA) could be equipped to fight a true modern war.[3] Because of changes in the world situation, in 1985, a fundamental change in Chinese military doctrine was announced. Discounting the possibility of a nuclear exchange between the superpowers, the most likely use of China's military forces in the foreseeable future would be small-scale, conventional wars in support of territorial and maritime disputes. This change defined the shape of the future PLA; mobile forces, capable of conducting coordinated operations and possessing the ability to operate away from home. This then was marked the beginning of China's bid to build a power projection force.

While awaiting the economic conditions which would support force modernization, the PLA lost no time in building the doctrinal framework in which its new forces would work. A new defensive policy of active offshore defense was adopted. In theory, the PLA must be capable of defending forward to the "first island chain". This roughly corresponds to a line from the west coast of Japan, including Taiwan, the west coast of Borneo and south to the Greater Sunda Islands.[4] Defense to the "second island chain" (Kurils, Bonins, Marshalls, to the coast of Papua New Guinea) was proposed as a goal for the year 2020.[5] Also in preparation for modernization, the PLA began reducing manpower from 4 million to an estimated endstate of 2.5 million men by 2000.[6] Although China's official defense budget is discounted by western analysts (it is generally believed actual expenditures are 2-3 times greater), defense spending began to grow at double digit rates in the late eighties.

The Persian Gulf War proved a watershed for Chinese modernization efforts. In an unprecedented departure from tradition, the PLA conducted an extensive study of the war outside the normal restraints of ideology. As a result, the PLA announced in 1994, yet another new strategy, one of "local war under high technology conditions," which it determined would be the inevitable pattern of conflict into the next century. As one PLA officer explained, prior to the study, "A defeat for the PLA in any future wars would not only be due to its obsolete weapons and armed forces structure, but also to its obsolete ideas about military science."[7] Lessons learned included the decisive role of electronic warfare, the importance of air and naval power, and rapid response, as well as the value of reliable logistic support. Furthermore, the PLA leadership felt, probably correctly, that a significant demonstration of capability in this new warfare environment would be sufficient to deter a potential enemy.[8]

Planned and realized modernization of the PLA have been directed toward the ability to project Chinese power and, since the Gulf War, to do so with high technology weapons. Accordingly, the army has taken backseat to the navy (PLAN) and air force (PLAAF) for modernization funding. The active offshore defense precept necessitates building a navy capable of operating away from its homeport for extended periods, in the face of enemy sea power. Accordingly, the new Chinese navy has been freed of its Maoist role as a supporting arm for the PLA and is acquiring a blue water capability. The PLAAF in turn is acquiring weapon systems which will be able to provide air support to deployed naval forces and operate against the frontline air forces of prospective adversaries.

Plans for naval modernization include acquisition of additional Russian built Kilo class submarines and at least two Sovremenny class guided missile destroyers. Each of these

platforms is a significant enhancement over the PLAN's existing ability to project power or execute a war at sea strategy. Plans are also underway for a new class of indigenously produced nuclear attack submarine (SSN) as well as new destroyers and frigates. Although any acquisition has been postponed until later this decade, the PLAN remains interested in an aircraft carrier in some form.[9]

Air force modernization is just as ambitious. The first regiment of Su-27 Flanker aircraft become operational in 1997 giving the PLAAF its first operational, fourth generation fighter capability. Between outright purchase and license production, it is estimated that 200 Flanker aircraft will be procured by 2010.[10] These aircraft will be able to provide the PLAN with air cover throughout most of the South China Sea for the first time. PLAAF has also acquired in-flight refueling technology and airborne early warning (AEW) technologies and is negotiating for an air-launched cruise missile capability. The long term goal being to build a long range offensive air capability.

The ballistic missile program remains high on list of defense expenditures as it has since its inception in the fifties. As in the past, the major effort is directed at improving short and intermediate range missiles (SRBM/MRBM). These weapons fitted with either nuclear or conventional warheads provide a long-range strike capability that has been conspicuously absent in the PLAAF. These weapons can easily reach Taiwan as aptly demonstrated during exercises in 1995 and 1996. Installation of GPS technology may well make conventionally armed missiles much more than the weapons of terror they have proven to be in the past. It does not appear that China will alter its fundamentally defensive nuclear strategy, although modernization in terms of accuracy, survivability, and maintainability will surely take place.[11]

As a corollary to modernization, the PLA will need to modify its existing force structure. Down sizing has already been mentioned. Disposal of obsolete military equipment will assist the PLA as it builds a smaller more capable force. The PLAAF currently maintains 3000+ F-6 aircraft, Chinese built versions of the MiG19, many of which are unserviceable, all of which are 1950s technology. The PLAN possess many 1950-1960 era surface ships including its Luda class destroyers, which until recently had been its principal surface combatants, as well as 53 Soviet built Romeo and indigenously produced Ming class submarines, only a few of which are operationally maintained.[12]

ECONOMIC GROWTH

It is difficult to pass the day without hearing or reading about the accomplishments of the Chinese economy. China's orderly movement toward a market economy has been termed "the greatest economic reform and restructuring of this century."[13] For the past 15 years, China has averaged growth of 10% per year. It has been suggested that as long as the political situation remains stable, a growth rate 17% per year could be achieved through 2010, while others have postulated that China's economy could surpass Japan's by 2025, and that of the US by 2036.[14,15] Like most Asian countries, China has an exceptional savings rate, accounting for 37% of gross national product (GNP) in 1998, and it is anticipated that this rate will continue to remain above 30%.[16] Foreign direct investment in China averaged $40 billion per year between 1993 and 1997.[17] It is also expected that foreign investment will continue as will development of non-state sectors of the economy, supporting forecasts for continued growth. Significantly, a major portion of this investment comes from "offshore" Chinese communities in neighboring Malaysia, Singapore, and Taiwan.

Supporting the expansion of China's economy has been a high level of exports. Growth in exports is attributable to low demand in the domestic market and government policies, including tax rebates and liberalized licensing to encourage exporters. Exports accounted for 21% of China's gross domestic product (GDP) in 1997.[18] A positive balance of trade enjoyed by China for the past decade has enabled the government to accumulate large foreign capital reserves.

China was protected from the Asian currency crisis of 1997 because its markets had not yet liberalized to extent of the other nations of East Asia. Capital markets remain closely regulated, protecting the currency from speculative pressures. The yuan is only partially convertible, requiring government approval, thus keeping short term cash flows under control of the government. As a result, China's economy continued to expand or at least maintain its position while its neighbors were experiencing severe financial problems. What all this means is, as the economy grows, more funds can be made available for the military hardware upgrades that Beijing, has wanted but has deferred as the first three "Modernizations" were effected.

Despite the miracles of the last decade, the Chinese economy is not the powerhouse that it may appear, since growth itself consumes resources. Economic liberalization has presented the government with a number of social issues which heretofor did not exist. Income disparity, unemployment, and demand for social services each present unique challenges for the government which will create drains on the nation's new found wealth. Other problems facing the PRC are fuel for the economy; feeding and providing energy to the world's largest population.

China remains a low income country. Per capita GNP in 1996 was $671, below the World Bank's low income definition of $765.[19] To contain the spread of capitalism, selected cities have been designated as special economic zones. It is here that the boom economy has manifested itself, resulting in a severe unequal income distribution. The average annual income for a worker in Guangzhou City was $1,420 in 1996; while annual per capita income in rural Guangdong Province was $154.[20]

Unemployment has emerged as a major challenge for the Chinese economy with the privatization of state-run industries and general governmental down-sizing. Unemployment stands at 8%, or about 16 million, however, there are presently about 22 million "redundant" workers, those filling unproductive positions, who will become openly unemployed as privatization of state-run businesses progresses.[21] Equally problematic for the Beijing government is the fact that despite movement towards a market economy, China remains a socialist country and, ideologically, should have zero unemployment. Government subsidies to support the unemployed concept are increasing as are transfer payments to retirement funds and a new concept, "social security."

Today, the private sector contributes 60% to GDP, yet 65% of all tax revenues are collected from state-run enterprises. Tax collection from new private enterprises and to lesser extent from foreign firms remains inefficient. Until government accounting and auditing functions are fully operational, tax revenues will not reach their full potential, forcing continued borrowing. China's debt in 1997 was about $300 million, almost 8 times its 1990 level.[22]

China currently supports 22% of the world's population (about 1.2 billion in 1998) on about 7% of the arable land. Farmland however is being lost to erosion, salinization, and

other factors at a rate of 725,000 acres per year. It is estimated that by 2020, a deficit of grain production on the order of 286 million tons per year will exist.[23] What this all means is that China will become a net importer of basic foodstuffs and urban economies will need to absorb displaced agricultural workers (currently there are about 130 million surplus laborers in rural areas).[24]

Modern industrialized nations are gluttonous consumers of energy and as China continues to progress toward its goal of industrialization, energy production will become increasingly an issue. Over the last 10 years, Chinese energy consumption has increased by 50%, making China the largest consumer of energy outside of the United States. The greatest energy deficit is of course in oil, and while China remains East Asia's largest producer of oil, based on industry analyses, domestic production is unlikely to expand beyond today's 3.3 million barrels per day, while demand is expected to reach 6 million barrels per day by 2005.[25] China's coal industry remains viable but because of the transitional nature of the industrial base, reliance on coal has in many cases slowed economic development.

An ongoing and long-term drain on the Chinese economy will remain state-run industries, defense industries in conversion to production of consumer goods, and failed civilian enterprises. It has been reported that about one third of state industries operate at a loss, 9 out of 10 state owned defense industries have been termed "money pits", and 90% of the conversion industries are said to be unsuccessful.[26] As yet, there is no established mechanism to deal with bankruptcy and the capitalist concept of "creative destruction" has yet to be thoroughly appreciated.

As previously discussed, China was spared the economic and currency crisis experienced by other East Asian nations in 1997 because of the tight controls exercised by

the government over finances within the country. Many of the root causes of economic collapse among its neighbors however, exist in China and as liberalization continues, could well produce the same effects there. The Chinese economy as yet lacks the transparency of western economies which would allow more informed financial decisions on the part of investors and banking institutions. Government interference, such as protection for the yuan could still hurt the currency if the government was forced to make a sudden, significant valuation change. External pressures for such a devaluation (decreasing exports and fluctuations in the yen) exist today. Cronyism and other forms of corruption are commonplace. China's industrial base is plagued by over-capacity. In many industries, excess capacity is greater than 50%. State-run banks are holding bad loans amounting to about 22% of their portfolios, and the emerging securities markets are in the same questionable condition.[27]

ANALYSIS

Changes in the strategic thinking of China's leadership and the PLA's modernization efforts have been built around a base of sustained economic growth. As China realizes these aims, the nations of East Asia are presented with unsettling demonstrations of China's new power and applications of its "assertive maritime regional policy," particularly with respect to the islands and resources of the South China Sea.[28]

The Spratly Islands

The Spratly Islands are a group of over 300 islands, islet, and reefs in the South China Sea which are claimed by China, Taiwan, and Vietnam; The Philippines, Malaysia, and Brunei each holding smaller claims. Once described as "only worth their weight in guano,"

the Spratly group sits astride the sea lines of communication (SLOCS) through the South China Sea, as well as potential energy resources.[29]

Having ejected South Vietnamese forces from the Paracel Islands off the coast of Vietnam in 1974, China has been in open conflict with Vietnam over portions of the Spratly group in 1988 and again in 1992. While not yet violent, China has confronted other nations over the Spratly issue and has placed territorial markers and begun construction of permanent facilities on many of the islands.

In an effort to generate a "legitimate" claim to the Spratly Islands and a huge area of continental shelf, China instituted the "Law on the Territorial Waters and Contiguous Areas of the People's Republic of China" in 1992. This document claims, not only the Spratlys, but Taiwan and many other islands as the sovereign territory of the PRC. In essence, this document claims the South China Sea as Chinese territorial waters. As such, China would retain the right to restrict access to warships of other nations and close the SLOCS if they so desired. The strategic value of the area becomes apparent when you consider that over 1100 super tankers pass through the South China Sea annually enroute to Japan, Taiwan and the Republic of Korea.[30]

China also claims the Diaoyu Islands (as do Japan and Taiwan) located about 185 miles southeast of Okinawa in the East China Sea. This area was also addressed in the 1992 "Law". Considerable oil resources, up to 100 billion barrels by some estimates, are believed to exist here.[31] China and Japan have had confrontation over these islands in 1990 and 1996. As a seeming demonstration of their Chinese intentions, Japan has reported that PLAN vessels have fired on or boarded Japanese shipping in the East China Sea on 78 occasions between 1991 and 1993.[32]

China's claim to these islands and surrounding shelf areas is not new, but until fairly recently, the PLAN could not hope to enforce these claims, nor would other nations take Chinese intentions seriously. Now however, the game is changing. China possesses a limited capability to operate in relatively distant waters for extended periods of time, a capability that will only increase as modernization of the PLAN continues. The entire South China Sea area may soon fall under the PLAAF's umbrella and legal or not, China will be able to enforce its territorial claims, gaining access to strategic resources its continued growth demands.

International Relations Theory

The dynamic established by an emerging China and other actors in East Asia (including the US) may be viewed in the context of numerous theories of international relations. Two of these, hegemonic instability and balance of power offer discomforting possibilities for the future, while a third suggests a peaceful alternative.

Hegemonic instability theory states that the "incongruity between a rising power's growing capabilities and its continued subordinate status in an international political system dominated by an erstwhile hegemon results in conflicts that are typically resolved by the fighting of major wars."[33] The protagonists in this case of course are the United States and PRC. While Avery Goldstein maintains that this intense rivalry has not materialized, it can be argued that it in fact began once the communist regime had consolidated its gains on the mainland.[34] In 1954, 1958 and most recently 1996, the US and PRC were involved in a confrontation over Chinese actions with respect to Taiwan. Thankfully, the war predicted by theory has not materialized. Chinese actions in the East and South China Seas could very well induce further confrontations.

Balance of power theory alerts us to the potential disruption caused by the rise of China, or rather, the "expectation that China's increasing capabilities will trigger reaction among those most concerned about the uses to which the power can be used."[35] Those most concerned of course are the government of Taiwan and China's neighbors to the south, principally the Association of Southeast Asian Nations(ASEAN). Chinese attitudes and intentions in the South China Sea have spurred military growth and in particular naval growth throughout Southeast Asia. Indonesia purchased the entire East German Navy in 1991 and Thailand purchased the region's first aircraft carrier in 1994.[36] Taiwan has maintained its fortress mentality since the Nationalist government first arrived on the island.

Interdependence theory states that nation's derive benefits from peaceful interaction with others, and conversely there is a significant cost to alienating economic partners. Any reduction in economic activity experienced as a result of adventurism in the South China Sea, would severely limit China's ability to attract foreign investment, especially from within the region where Singapore, Malaysia, and even Taiwan are significant players. Investment of course remains essential for China's continued climb toward great power status.

ASEAN States

ASEAN was established in 1967 to promote economic social and cultural interactions between its members. Membership includes Malaysia, Indonesia, Singapore, Thailand, the Philippines, and Brunei. With the exception of Thailand, all of these countries border the South China Sea, many have conflicting territorial claims with China, and all have something to lose in the event China is able to achieve great power status and supplant US hegemony in the region. All are engaged in strengthening their armed forces.

The ASEAN nations have every reason to view China with suspicion. They have all had experience with communist insurgencies which were suspected of being backed by China. Indonesia and Singapore only reestablished relations with China in 1990. While conceived principally as an economic organ, China's advances into the South China Sea prompted ASEAN to begin security consultations in 1992. China could pose an obvious threat to individual ASEAN nations, but because of the quality of their forces, including modern F-16, F/A-18 and Mirage aircraft, the combined forces of ASEAN would present China a difficult proposition, at least in the near term.

In actuality, most nations in ASEAN, although watchful of China, do not see the monster that many US analysts perceive. On the whole, the ASEAN states prefer to keep to a "middle of the road" stance vis-a-vis the PRC, however, they have observed China's duplicitous behavior in the South China Sea. After agreeing to peaceful dialogue, China has continued to place troops and structures in the Spratly Islands. This policy has variously been referred to as "creeping assertiveness," "creeping sovereignty," and "talk and take".[37]

Although seldom using the word threat in connection with China, these nations all favor a continued US presence in the region and view this as a delicate balancing act. Singapore has permitted access to US naval forces for several years, both Indonesia and Malaysia have recently permitted port visits and negotiations are underway for US visits to Brunei as well. Thailand and The Philippines have long standing security arrangements with theUS.

CONCLUSION

China will continue to focus on quality improvements to its armed forces within the limitations of its growing economy and, ideally, without stimulating an expanded regional

arms race. Some experts link this modernization to China's alleged ambition to become a world power by 2020, replacing the US as the dominant power in the Western Pacific before that.[38] If the current course of modernization continues, then in the early 21st century, the PLA will have attained what could be equated to 1990s state of the art.[39] As a further display of its broad aspirations, China has constructed a tracking station in the island nation of Kiribati capable of monitoring US ballistic missile shots on the Pacific Missile Test Range. They have also entered agreements with the government of Myanmar for the use of port facilities and have established a signals intelligence facility on Coco Island (Myanmar) at the entrance to the Indian Ocean.

On the surface, Chinese attempts to build a high tech military appear successful. They remain however, fraught with problems. Domestic aircraft and shipbuilding industries do not yet have the requisite skill and experience levels to provide reliable output. Although possessing domestically designed and produced nuclear submarines, these have been plagued by reliability and design problems since commissioning and operate only in coastal waters for short periods of time. The F-10 fighter program, conceived in the early eighties, is only now reaching fruition with production expected soon, but at an estimated $20 million per copy, it is unclear how many the PLAAF will be able to acquire despite a requirement for several hundred.[40] A ground attack aircraft, the FBC-1, has had a similarly long development record and although displayed to the public, no orders have been placed for production. Both of these products will be technically inferior to the Su-27 acquired from Russia. Once heavily dependent on Soviet support for its weapons systems, the Chinese military-industrial community was nearly paralyzed when Moscow and Beijing severed relations in the early

1960s. Unfortunately for the Chinese, it has been the disappointing performance of these same defense industries that has necessitated a renewed reliance on foreign products.

The weapons systems China is purchasing from Russia will take time to fully integrate within the PLAN. Transfer of upgraded Kilo class submarines, significantly different from those units already in PLAN service have necessitated a broadened training program and subsequent delays in achieving operational capability.[41] One of two earlier Kilos has been out of service for over a year due to maintenance problems. It has taken over three years for the first regiment of Su-27s to become operational and the PLAAF remains heavily reliant on Russian assistance to maintain the aircraft.[42]

The Chinese leadership was embarrassed by its inability to react to the appearance of two US carrier battle groups in the Taiwan Straits in 1996. The PLAN was subsequently directed to acquire the capabilities to prevent such actions in a future confrontation.[43] Acquisition of Sovremenny class destroyers with SS-N-22 "Sunburn" anti-ship missiles could prove a significant step toward denying the Taiwan Straits to US forces, but several more of these highly capable ships are required to pose a credible threat to US seapower in the region.

China does not present a true strategic threat to the United States in the way that the former Soviet Union did. Their intercontinental reach (currently only 13 missiles) remains a limited counter-value force, although it does represent a strong political threat.

Regarding Taiwan, the Chinese government is aware of the cost in today's world of forcing a military settlement of the sovereignty issue. Even if successful, it would be expensive in terms of national treasure and manpower and result in destruction of much of the economic and industrial infrastructure on Taiwan which is of such value to the mainland.

In the event the PRC deems it worth the cost, they do not now possess the capability to force the island of Taiwan. Presently, the PLAN has lift to support about one division in an amphibious assault, clearly not enough against the prepared defense and superior weapons of the Republic of China.

From the Chinese point of view, the United States is declining power with ambitions to dominate the Asia-Pacific region, in fact, the whole world.[44] Historically, US activities in Asia have been designed to isolate and strangle China. Washington's desire to bring China into the western fold through its policy of enlargement angers the PRC, and has been blasted as "cultural imperialism."[45] China intends to exploit the perceived US decline and establish itself as a new regional hegemon, initially to the first island chain and later, as far as its economy permits.

Two courses of action are open to the United States and other regional actors for dealing with China, containment and engagement. Pursuing a policy of containment would require cutting China off economically and diplomatically to prevent it from achieving superpower status. This option would be counterproductive to regional stability, and may in fact force the conflict predicted by hegemonic instability theory. Because of the assured destabilizing effect, it is doubtful that friendly nations within the region would support this course of action. A policy of engagement, seeking to develop interdependency arrangements between China and other regional actors is the preferred option. This course of action would clearly be supported within the region, in fact, ASEAN hopes to engage China in a series of economic and political linkages to foster such interdependence. By maintaining a dialogue with China and defense links with external powers (US, UK, Australia, New Zealand) they seek to pursue a policy of "engagement with insurance."[46]

While modernization of China's military is clearly a trend to be monitored, China is not positioned to replace the United States as the dominant power in the region in the foreseeable future. John Schulz has postulated that China will be unable to project and sustain offshore military operations for at least 30 years and during the interim will be limited to skirmishes of short duration.[47] Echoing these sentiments, Goldstein warns " Overestimating China's strength may well create a self-fulfilling prophecy."[17]

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