

REPORT



China Threat Inflation and America's Nonsensical Plans

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Acknowledgements

AUTHOR

Dan Grazier is a senior defense policy fellow at the Center for Defense Information at POGO. As a United States Marine he served tours of duty in Iraq and Afghanistan during the War on Terror. He has written extensively and lectured on matters of military reform and *Manœuvre Warfare*. His work has appeared in the Marine Corps Gazette, Fires Bulletin, and Small Wars Journal. He is a 2000 graduate of Virginia Commonwealth University, a 2012 graduate of the Marine Corps Expeditionary Warfare School, and 2019 graduate of Norwich University with a Master of Arts in Military History.

EDITING AND FACT CHECKING

Danni Downing
Neil Gordon
Amaya Phillips

DESIGN

Renzo Velez



1100 13th Street NW, Suite 800
Washington, DC 20005
WWW.POGO.ORG

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Introduction

For years, politicians, military leaders, and industry-funded think tanks have raised the specter of the imminent military threat posed by China. A rising China does pose unique challenges for the United States, as what is now the most populous country asserts its place on the world stage. The United States has reigned supreme economically since eclipsing the United Kingdom in 1870, but China's rate of growth over the past four decades means its economy may surpass that of the United States within 10 years.¹ It is now the largest trading partner with most countries, the largest manufacturer, and the most critical node in the global supply chain.

China's size and economic growth have given the country strength, but have its leaders used their recently acquired wealth to build a military force capable of projecting military power away from their territorial waters?

Few people in official Washington seem to be asking this question. Instead, the starting point for most conversations is: *China is a military threat and the United States needs to spend vast fortunes to meet it.* But starting from this premise creates a dangerous situation. As U.S. and Chinese leaders attempt to jockey for position in the western Pacific region for influence and military advantage, chances of an accidental escalation increase. Both countries also risk destabilizing their economies with the reckless spending necessary to fund this new arms race, although the timing of just such a race is perfect for the defense industry. The U.S. is increasing military spending just at the moment the end of the War on Terror threatened drastic cuts.

Realistic assessments are needed today, rather than overwrought doomsday pronouncements. That is the only way to craft a rational policy to maintain peace and global economic stability.

China's Inherently Defensive Strategy

Political and military leaders around the world watched the coverage of the 1991 Gulf War. They watched as American high-tech weapons accurately struck targets from beyond the horizon, and mechanized ground forces used satellite navigation to carve a path across unmarked deserts to catch the Iraqi defenders off guard as they were overrun from an unexpected direction. The world's leaders learned that it would be foolish to attempt to fight the United States on equal terms.

As the noted military strategist David Kilcullen writes, the United States' potential military rivals have adapted to address the American advantage in traditional military power. "Our enemies have figured out how to render it irrelevant, have caught up or overtaken us in critical technologies, or have expanded their concept of war beyond the narrow boundaries within which our traditional approach can be brought to bear," he wrote in 2020.²

The Chinese are no exception in this regard. While their leaders have ramped up military spending in the past two decades, the investments being made are not suited for foreign adventurism but are instead designed to use relatively low-cost weapons to defend against massively expensive American weapons. The nation's primary military strategy is to keep foreign powers, and especially the United States, as far

away from its shores as possible in a policy the Chinese government calls “active defense,” what it labels the “essence of the [Communist Party of China]’s military strategic thought.”³

The centerpiece of this military strategy is the network of land-, air-, and sea-launched weapons meant to “dissuade, deter, or, if ordered, defeat third-party intervention during a largescale, theater campaign.”⁴ This defensive network is known as Anti-Access/Area Denial, or A2/AD. It consists of shore-based missiles capable of striking ground or naval targets out to 4,000 kilometers, and an anti-ship missile with a range of 1,500 kilometers that can be fired from mobile launchers on the ground or from aircraft.⁵ To defend against aircraft, the Chinese have fielded missile systems with a maximum range of 170 kilometers.⁶ The Chinese People’s Liberation Army Air Force and the Naval Air Force operate a mix of aircraft to complete this defensive system. Most of the aircraft are older, based on Soviet designs, but the fleet does include a small inventory of modern J-20 fighters which are roughly equivalent to the F-22 and F-35.⁷

The Chinese deploy these A2/AD weapons to create a defensive buffer extending outward from the Chinese coast. In many discussions about China’s intentions, the strategy is understood to create an exclusion zone inside the so-called “first island chain.”⁸ This defensive line extends from the southern tip of Japan through the Ryukyu Islands, past the western edge of the Philippine Islands, and then curls around the edge of the South China Sea. Taiwan, notably, sits inside this line.

Beyond adopting a military strategy to defend what they consider their sphere of influence, the Chinese also want to protect extensive commercial interests. In the same way the U.S. Navy patrols the waters around the globe, the Chinese have built a fleet of navy and coast guard vessels to help maintain their freedom of navigation. “The Chinese state and society have come to depend on free access to and free use of the seas for their well-being and even their survival. That reliance has compelled Beijing to develop durable commercial and military means to nurture and protect the nautical sources of China’s wealth and power,” writes Toshi Yoshihara and James R. Holmes in their influential book about 21st century naval strategy, *Red Star Over the Pacific*.⁹

China’s leaders may very well want to defeat the United States in a strategic sense, in that they want to become the preeminent global power. But it is highly unlikely they will use military means to accomplish that goal. Indeed, they will almost certainly go to great lengths to avoid a direct military conflict, as they have as much to lose as anyone in such a scenario.

China’s economy relies heavily on foreign trade, especially with the United States. As noted geostrategist Peter Zeihan has written, without the United States, “China loses energy access, income from manufactures sales, the ability to import the raw materials to make those manufactures in the first place, and the ability to either import or grow its own food.”¹⁰ Since most export goods move by sea, any disruption to freedom of navigation will have a negative economic impact. China is much more likely to wage war on every level below direct military conflict.

The Chinese Navy's Actual Capabilities

China's ability to become a leading world power hinges on its ability to control its maritime destiny. The Chinese State Council Information Office articulated the country's guiding principle this way:

It is necessary for China to develop a modern maritime military force structure commensurate with its national security and development interests, safeguard its national sovereignty and maritime rights and interests, protect the security of strategic [sea lines of communication] and overseas interests, and participate in international maritime cooperation, so as to provide strategic support for building itself into a maritime power.¹¹

One of the data points used to bolster the China threat argument is the relative size of the two naval fleets, but not all fleets are created equal. In terms of the number of ships, the People's Liberation Army Navy (PLAN) is significantly larger than the U.S. Navy. It has a fleet of approximately 355 battle force ships, while the U.S. Navy has 292. Of these, only 248 were in active commission as of September 2022.¹² According to federal law, a battle force ship is any commissioned vessel or support ship capable of contributing to combat operations.¹³ The discrepancy between the Chinese fleet and the U.S. fleet is already striking, but it will likely only grow in the coming years, and that simple fact will undoubtedly continue to be exploited by defense hawks. The Chinese are expected to grow their naval fleet to 460 ships by 2030, with that growth concentrated in battle force ships.¹⁴

While the raw data may seem alarming, they hardly tell a complete story. What the U.S. fleet lacks in total numbers it more than makes up in tonnage. The relative weight of a fleet is significant because it indicates the sailing range and purpose of the fleet. Larger ships are needed for longer voyages, since they can carry more fuel and munitions. For instance, the U.S. Navy's global mission necessitates larger ships capable of spanning oceans and operating away from friendly shores and land-based defenses.

The Chinese fleet combined displaces approximately 1,854,000 tons, less than half of the total tonnage of the U.S. Navy.¹⁵ The difference is easy to see when comparing similar vessel types. The Chinese Type 052D destroyer, known as the *Luyang III*-class in the West, is equivalent to the American *Arleigh Burke*-class guided missile destroyer. The *Luyang III*-class ships displace 7,500 tons when fully loaded, while the most recent *Arleigh Burke*-class ships displace 9,496 tons.¹⁶

The larger American ships give the fleet a significant advantage in a number of areas, including the capacity to launch cruise missiles. U.S. surface ships have more than 9,000 vertical missile launch cells, compared to the 1,000 in the Chinese fleet.¹⁷

When it comes to submarines, the Chinese force is about the same size as the U.S. Navy's, but the two differ significantly in capability. The Chinese Navy has at least 66 submarines and is expected to add another 10 by 2030. The bulk of the Chinese submarine fleet is the 55 diesel-powered attack submarines. The rest of the force consists of seven nuclear-powered attack submarines and four ballistic missile submarines.¹⁸ The U.S. Navy has a total of 71 submarines, with 53 fast attack submarines, 14 ballistic missile submarines, and four guided missile boats.¹⁹ All of the U.S. Navy's submarines are nuclear powered, which gives them greater range and the ability to patrol longer. Additionally, Chinese submarines are relatively noisy in the water. That makes them easier to detect with the Sound

Surveillance System, a series of underwater microphones deployed around the western Pacific to listen for submerged vehicles. According to a study by Mike Sweeney, a fellow at the Defense Priorities think tank, “it is likely no Chinese nuclear attack submarines can leave that area without detection.”²⁰

The Chinese Navy can get away with smaller, less capable ships and submarines since its fleet is designed to operate as part of a combined arms force close to the Chinese mainland. Should war ever come, the Chinese fleet will operate under the protection of the land-based missiles and aircraft that make up the A2/AD defensive network. This combination would make any attack against the Chinese costly, perhaps prohibitively so. Although today’s Chinese missiles are mobile and easy to conceal, most are limited to striking targets that are hundreds of kilometers away, rather than thousands. This combination is one best suited to defending territory that China considers under its sphere of influence, and it would be effective. For instance, in war games simulating a Chinese invasion of Taiwan conducted by the Center for Strategic and International Studies in 2022, intervening American forces lost more than 900 aircraft — about half of the current Air Force and Navy inventory — and a large part of the U.S. Navy’s surface fleet.²¹

But here’s the good news: This strategy isn’t one that’s effective on the offense. China’s navy becomes significantly less formidable should it ever venture away from its home waters.

China’s Military Shortcomings

China’s Navy would have a difficult time operating outside the waters adjacent to the mainland because it lacks the structure necessary to do so. Much has been made about Chinese aircraft carriers in recent years, but the carrier fleet remains in its infancy. “Even today the PLAN is taking an unhurried approach to developing carriers, having refitted a Soviet-built flat-top, improved the design after taking it to sea, and constructed an upgraded version at Chinese yards,” write Toshi Yoshihara and James R. Holmes.²² The Chinese government purchased an incomplete Soviet-era *Kuznetsov*-class aircraft carrier from Ukraine in 1998 and spent 14 years converting it into the *Liaoning*.²³ The *Shandong*, commissioned in 2019, is an updated copy of the first ship and built entirely in China.²⁴ The Chinese launched the Type 003 *Fujian* aircraft carrier in June 2022 to much fanfare. The *Fujian* is the first carrier designed and built entirely by the Chinese.²⁵

None of the Chinese aircraft carriers compare well to the latest western ships. All of them are smaller and conventionally powered, which limits their operating range. The first two ships use a ski ramp-style deck at the bow of the ship to launch aircraft; this is to provide extra elevation for aircraft as they take off under only the power of their own engines. The catapult launch systems on more modern aircraft carriers provide an extra mechanical boost from the ship to get aircraft to takeoff speed faster. The lack of catapults on the first two Chinese carriers imposes limits to the takeoff weight of the aircraft being launched, which means munitions and fuel payloads are reduced. That impacts their range and combat effectiveness.²⁶ The *Fujian* features more modern equipment, including an electromagnetic catapult to launch aircraft like the newest American carriers.

The new carrier’s design will allow larger aircraft carrying heavier loads to operate from it. The ship is also closer in size to American carriers. Some reports say the ship weighs in at 80,000 tons, but other

sources, including the Congressional Research Service, say the ship may be closer to 100,000 tons, which would make it the same size as a *Ford*-class ship.²⁷ But the *Fujian* still has a long way to go before it is fully operational or can even demonstrate its capabilities. The *South China Morning Post* reports that “military analysts say the process to get the warship ready for active service could take several years — from the fit-out to testing and sea trials.”²⁸

The Chinese have little experience operating aircraft carriers, so it remains to be seen how effective their small carrier force will be when it is ready to go to sea. The United States Navy now has a century of aircraft carrier experience. The first American aircraft carrier, the USS *Langley*, entered service in 1922.²⁹ China’s decision to build a carrier force seems a little curious since they believe aircraft carriers are inherently vulnerable, and they have devoted much effort to developing capabilities to disable or destroy American carriers. In November 2022, the Chinese made a big show of their new YJ-21, or “Eagle Strike 21,” hypersonic missile.³⁰ Anti-ship missiles of this kind have made many people question the future of the super aircraft carrier in recent years, to the point of even saying they are now obsolete.³¹

The Chinese military overall lacks experience conducting major modern combat operations. The Chinese last fought a war in 1979, when the People’s Liberation Army briefly invaded northern Vietnam in support of China’s allies in Cambodia and to disrupt the alliance between the Vietnamese and the Soviet Union. The war lasted less than a month and only spanned a few dozen miles into Vietnam before the Chinese leaders ordered their forces to withdraw.³² The Chinese forces underperformed in that war in comparison to their Vietnamese adversaries, and estimates of Chinese losses vary between 7,000 and 25,000 troops killed.³³ Chinese military leaders are now two generations removed from actual combat experience, which calls into question their potential prowess. “Today, China’s military has an increasingly impressive high-tech arsenal, but its ability to use these weapons and equipment remains unclear,” wrote Timothy Heath in a 2018 article for the *RAND Blog*.³⁴

The Chinese State Isn’t 10 Feet Tall

Military strength comprises only one part of a country’s national power. While Chinese leaders have devoted vast resources to increasing their military potential over the past three decades and to making sure the world knows about their progress, they have been less forthcoming about the underlying weaknesses of Chinese society. Western leaders should understand the many economic, demographic, and ecological problems that will affect China’s ability to achieve its strategic goals.

When Chinese leaders decided to open their economy to foreign trade in 1979, they began what the World Bank described in 2017 as the “fastest sustained expansion by a major economy in history.”³⁵ The World Bank today reports that the Chinese economy has stagnated, saying that “high growth based on investment, low-cost manufacturing and exports has largely reached its limits and has led to economic, social, and environmental imbalances.”³⁶

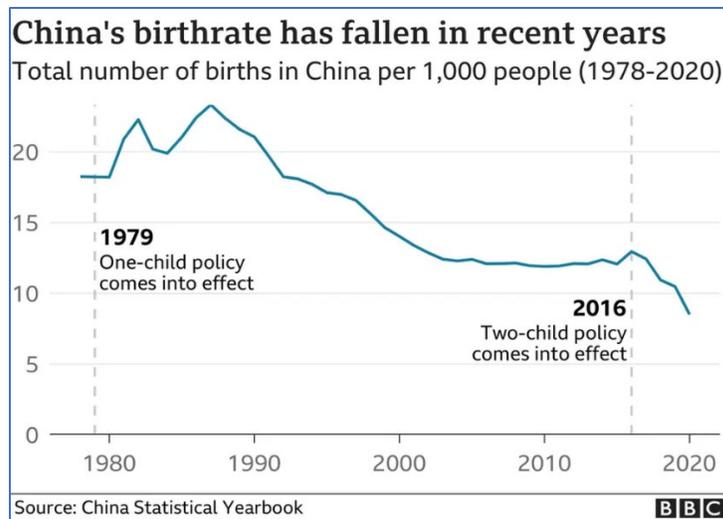
These imbalances are evident in so-called “ghost cities” across China. The uncompleted high-rise residential buildings around the country are not technically cities, but they do provide a physical indication of impending economic trouble. Nearly 5,000 empty buildings dot the Chinese landscape after the developers who began construction ran out of money to complete them.³⁷ A recent study has shown

there are as many as 65 million empty homes in China.³⁸ In many cases, people took out mortgages to purchase apartments in these buildings before construction had even begun, and they have had to pay the rent on their current homes while also making the mortgage payments for new homes that may never be finished. Beginning in the summer of 2022, protests erupted in more than 100 Chinese cities as hundreds of thousands of people making monthly payments on unfinished homes refused to continue paying their mortgages until the developers finished construction.³⁹

The overall housing crisis in China led the country's second-largest property developer, the Evergrande Group, to default on \$300 billion in debt in 2021.⁴⁰ Fears are growing that more developers will similarly default on their payments, which could negatively affect the entire Chinese financial system. Because these companies spread their debt around multiple banks — as many as 128 in the case of Evergrande — a cascade effect of bank failures could result from the over-speculation in the housing market.⁴¹

China is also facing a potential ecological crisis. Mao Zedong, recognizing the relative water poverty of northern China, proposed the world's largest infrastructure program in 1952 to move water from the high-flowing rivers in the southern part of the country to the developing northern region.⁴² Called the South-to-North Water Diversion Project, the Chinese government is estimated to have spent anywhere from \$62 billion to nearly \$80 billion since construction started in 2002 to build a series of aqueducts and pumping stations to alter the country's hydrology.⁴³ Such a major infrastructure project may greatly benefit parts of the country without adequate water resources, but geographers and ecologists have been warning of potentially catastrophic consequences where the rivers have been diverted. The reduced flows in the diverted rivers will cause saltwater intrusion upstream from the sea, which would damage agricultural output in the river deltas.⁴⁴ The westernmost project of the three proposed routes crosses mountain ranges and a fault line, raising concerns of earthquakes and landslides caused by the altered topography.⁴⁵ The volume of the water to be diverted, an estimated 44.8 billion cubic meters annually, would disrupt the ecological flow, which is the minimum amount of water necessary to maintain the natural ecology of diverted rivers, and that could exacerbate pollution problems and damage fisheries downstream.⁴⁶

China also faces an impending demographic collapse. Based on fears of a population explosion and the food shortages that would result, the Chinese government instituted the infamous one-child rule in 1979. The law required families belonging to the Han ethnic majority to limit themselves to a single child, and it did succeed in limiting population growth.⁴⁷ It appears as though the policy worked a little too well. China now has a rapidly aging population. According to the United Nations, the median age in China is rising from 20.8 years in 1980, shortly after the policy went into effect, to 50.7 years in 2050. For comparison, the median age of Americans is expected to rise from 29.1 to 43.1 years over the same period.⁴⁸ Recognizing the looming population collapse, Chinese leaders ended the one-child rule in 2016, when they allowed families to have two children, but that did little to curb the decline. Using data from the 2020 census conducted by Chinese authorities, the BBC created a chart showing birth rates plummeting faster than ever since changing the policy.



A chart created by the BBC showing birth rates in China from 1978 to 2020.⁴⁹

In a further effort to stem the tide, Chinese leaders relaxed the rules again in 2021 to allow families to have three children. But after decades of official birth control, small families have become the social norm in China.⁵⁰ Chinese citizens are mostly scoffing at the new rules, worried about the high cost of living, long working hours, and the expenses of putting children into the right activities like sports and music lessons to increase their chances of getting into a university.⁵¹ Demographers expect the overall Chinese population to decline in absolute terms as early as 2023.⁵²

The consequences to the Chinese economy could be profound. The relatively smaller number of young workers will have to shoulder an increasing burden to care for a rapidly expanding elderly population.⁵³ An aging and shrinking population will naturally result in a shrinking economy as well.⁵⁴ As the Chinese economy shrinks, leaders will almost certainly have to adjust their current ambitious goals to have any hope of balancing their ledgers.

Economic considerations today, even before the impending population bomb, doubtlessly factor into foreign policy decisions. Were the Chinese to launch an invasion of Taiwan or provoke a military confrontation through some other means, global trade would undoubtedly be disrupted, which would severely impact the Chinese economy. China relies on imports to power and supply their factories, provide advanced machinery, and feed the population. The Chinese imported at least \$1.55 trillion worth of goods in 2022, with petroleum products, iron ore, and soybeans topping the list.⁵⁵ In August 2022, the top Chinese exports included telephones, integrated circuits, semiconductor devices, and electric batteries.⁵⁶ China's leaders understand they have much to lose should they be cut off from global markets. According to an article in *Nikkei*, the Chinese Ministry of State Security wrote a report in April 2022 warning that if Western sanctions were imposed in response to a Taiwan emergency, there could be a food crisis and a need to reverse the market economy reforms back to the state-controlled planned economy of the early years of the People's Republic.⁵⁷

The ripple effects of such an economic disruption would be felt around the rest of the world as well. U.S. tech firms rely heavily on goods manufactured in Taiwan: More than 90% of the advanced chips used in mobile phones and other similar technology are made there.⁵⁸ The waters adjacent to China serve as a

major artery for global shipping. Nearly 90% of the world's largest ships pass through the Taiwan Strait. If they were forced to find a new route, the price of everyday goods would rise due to the extra transport costs caused by the longer passages.⁵⁹

It is not clear who could possibly benefit from a military confrontation between China and the United States. Any such war may very well topple the teetering Chinese society and plunge the entire globe into an economic depression. So, who stands to benefit from the constant discussions about a looming China menace?

China Threat Inflation

Threat inflation has been the go-to tool for defense spending hawks for decades. Veteran Pentagon watchers Chuck Spinney and Pierre Sprey analyzed the budget data since the end of the Korean War and found that spending levels reliably grew year to year above the level they would have if the Pentagon's budget had grown at a steady 5% annual growth rate. When budget levels did fall below that 5% line, some imminent foreign threat emerged to propel spending back above the spending growth line.⁶⁰ The missile gap hysteria in the 1960s came on the immediate heels of President Dwight D. Eisenhower's efforts to place restrictions on the military industrial complex.⁶¹ The post-Vietnam budget dip prompted a new round of reports about resurgent Soviet military power, including a detailed white paper from President Ronald Reagan's secretary of defense, Caspar Weinberger.⁶² After the Cold War, President Bill Clinton's NATO expansion satiated the defense industry until 9/11 sent defense spending to new records.⁶³

Following the end of more than 15 years of war in central Asia and the Middle East, it would be reasonable to expect defense spending to decrease. Post-9/11 Pentagon budgets did contract somewhat after peaking in 2011, but after falling a bit each year until 2015, defense spending in the United States has now skyrocketed to new heights.⁶⁴ The budget increases coincide with a dramatic increase in press mentions about China's rise. In 2021, the Project On Government Oversight found that press report mentions of "Chinese military" in 2020 increased by 57% over the year before.⁶⁵

Based on the overall economic impact alone of a military confrontation with China, it is difficult to imagine any American political leader being eager for a shooting war. But it is quite easy to imagine why some people would want to gear up for such a war. Many people working either for or on behalf of the defense industry stand to make a great deal of money from the kind of military buildup they propose. In 2021, revenue for the top 100 defense contractors rose nearly 8% from the year before, even as active military operations wound down and the rest of the economy struggled during the pandemic.⁶⁶ The military's top officers are another beneficiary, as they can cash in on their status in retirement by appearing on television and securing sinecures with defense firms.⁶⁷ And the people appearing on cable news talking about the threat posed by China and advocating for more Pentagon dollars often work for DC think tanks, but rarely do they disclose that their employers receive a sizable portion of their funding from the defense contractors who stand to financially benefit from their public advocacy. A 2020 report by the Center for International Policy found that the top 50 think tanks received more than \$1 billion from the U.S. government and the defense industry in the previous six years.⁶⁸

It's also easy to imagine why Chinese leaders may want to foster profligate military spending in the United States.

Perhaps the U.S. and its allies are playing right into the Chinese plan. If the goal of China's leaders is to defeat the United States using all means other than direct military confrontation, then instigating an economic collapse would be an effective strategic move on their part. Prompting an arms race in which the U.S. spends more than three dollars for every dollar China spends on defense could be a form of economic warfare on the part of China.⁶⁹

As noted above, the Chinese have been somewhat leisurely in their efforts to build aircraft carriers, the hallmark of a modern "blue water," global, navy. Yet the mere threat of Chinese aircraft carriers has been enough to give U.S. naval leaders all the ammunition they need to continue to request more funds for their own carrier fleets. Responding to a report about the progress being made on China's latest aircraft carrier in 2020, Admiral Chris Grady, the commander of U.S. Fleet Forces, said, "Good on 'em. It makes the argument that carriers are important."⁷⁰

China's development of aircraft appears to be having a similar effect. In spite of, or perhaps because of, the disappointment with the F-35 program, chatter about sixth-generation aircraft has picked up in recent years. The commander of the Air Force's Air Combat Command announced in September 2022 that development of China's next generation fighter aircraft was "on track."⁷¹ He argued that the United States needs to stop debating the relevance of a new aircraft and field our next generation aircraft program before the Chinese have a chance to field theirs. Air Force Secretary Frank Kendall told the House Armed Services Committee in April 2022 that the aircraft in this new aircraft program is expected to cost multiple hundreds of millions of dollars — each.⁷²

The Chinese clearly don't have to actually demonstrate their ability to deliver a functional weapon to spin up the money flow in the U.S. Goading the United States into spending trillions of dollars for another new weapon program may very well be the Chinese strategy.

Conclusion

If any or all of the impending problems China faces were to come to a head, the biggest challenge the United States and the rest of the world might face is how to manage China's decline. It is not beyond the realm of possibility that Chinese leaders may attempt to stave off their political demise by creating a distraction like a military campaign to capture Taiwan. But China has at least as much to lose from a shooting war as the United States, if not more.

The next part of this series will discuss an alternate proposal for a truly defense-oriented military strategy against China, based in the reality of the situation in the western Pacific.

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1100 13th Street NW, Suite 800
Washington, DC 20005

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