



# INDIA-CHINA

## Indian, Chinese Defence Ministers Re-affirm Commitment on Negotiations and Cooperation

The Indian Minister of State for Defense Mr. Pallam Raju and the Chinese Defense Minister Liang Guanglie while meeting on the sidelines of the Shangri-La Dialogue in Singapore on 03 June 2011 reaffirmed their commitment towards more cooperation for better bilateral relations.<sup>1</sup> They also agreed on handling their differences and sensitive issues in a proper manner cherishing the achievements of mutual cooperation. The two leaders also reviewed the level of cooperation and exchanges between the armed forces of the two countries and said they will make efforts to push forward the relations between the two militaries. Both the leaders agreed that India and China are important regional countries and that they both play important roles in regional peace and stability.

### Comments

The Shangri-La Dialogue is a regional security summit organized by the London-based think tank

International Institute for Strategic Studies. Defence ministers and senior defence officials from Asia and beyond, including the United States, Japan, India and China participate in the event.

Defence relations between India and China have yet to materialize the potential of their mutual cooperation. To achieve that, regular, frequent and detailed exchanges are necessary which shall further promote mutual understanding and dispel misperception between the defence and militaries of both the sides. It is essential that the Chinese forces take their Indian counterparts into confidence on prickly issues like patrols, deployment and infrastructure in border areas so that misperceptions do not rise. At the same time it is essential to establish and honour mechanisms at various levels so as to prevent escalation of any incident. That is in the long term interest of both India and China and a must so as to materialise the region into a zone of peace and economic prowess.

### Endnote

1. <http://english.people.com.cn/90001/90776/7400424.html>

# DEFENCE

## China Inducts Indigenously Produced Shell for Infantry Rocket Launchers



**The WPF2004 rocket and a 40mm Type 69 rocket launcher used by the PLA**

The Chinese People's Liberation Army (PLA) infantry corps within the last five years has inducted an indigenously produced rocket shell for its 120 mm rocket launchers. This is the WPF2004 rocket projectile which can be used by the popular Russian RPG-7 rocket launcher. The WPF2004 shell weighs 3.2 kg and has an effective range of 200 metres. This was reported some time back by the online defence website China-Defense-Mashup.<sup>1</sup>

The newly developed WPF2004 is heavier than the RPG-7 (85 mm @ 2.3 kg) which again has a range of 500 meters. The WPF2004 can either be a fragmentation warhead or the much more costly thermobaric one. The prevailing market rate of the conventional fragmentation warhead is less than \$50 whereas a thermobaric warhead can cost

several hundred dollars, says the report. It further reveals that each PLA infantry section (approximately 11-member) has one RPG-7 gunner equipped with at least one 120 mm rocket projectile. Besides, the section also has seven 5.8 mm QBU95 assault rifles, one QBU95 light machine gun and one 5.8 mm QBU88 sniper rifle. An expert RPG gunner using WPF2004 can make a considerable impact in a lower level combat scenario, it opines.

### Comments

The WPF2004 is a section level weapon, i.e. to be used by the smallest fighting unit of the infantry battalion. The development of a heavier projectile with a lesser range may imply that the PLA envisages closing in with enemy infantry at lesser ranges and inflict greater damage due to larger calibre and throw weight of 3.2 kilos. However, it has its advantages and disadvantages: advantages are that greater damage and splinter effect can cause more casualties; disadvantage is that the PLA users shall have to come in closer to the enemy thus increasing their own vulnerability. Besides, logistics and carriage would also be more difficult because of the increased weight. However, the anti-tank capabilities of the WPF2004 need to be verified through parameters like muzzle velocity and composition of warhead.

However, it must be said that the cost and efficiency parameters notwithstanding, the production and induction of WPF2004 is a technological achievement for the Chinese defence industry. The name suggests that WPF2004 initially rolled out of production in the year 2004. It is a

small but significant step towards indigenisation of its small arms ordnance. It's just a matter of time that the parameters of cost and efficiency improve with economies of scale, investment and technology. The current phase of a largely peaceful environment goes in China's favour where it can afford to induct the comparatively low yield WPF2004. Thereafter it would definitely find its buyers in the vast small arms market of the developing world.

### Endnote

1. <http://www.china-defense-mashup.com/new-wpf-2004-rockets-enhance-pla-infantry-squad-firepower.html>

## No Nationalization of Chinese Military: Senior PLA General

On the eve of 90th anniversary of the Communist Party of China (CPC), senior PLA General Li Jinai stressed that the PLA "is resolutely opposed to nationalisation of the military" and "shall unswervingly uphold the principle of the absolute leadership of the CPC over the military".<sup>1</sup> Li said that "domestic and foreign hostile forces" have a purpose in calling for the nationalisation of the Chinese military, in trying to divorce the PLA from the CPC's leadership so as to transform the CPC's position of authority thereby subverting the system of socialism with Chinese characteristics.

### Comments

Li is member of the Central Military Commission of the CPC and is Director of the PLA General Political Department. His remarks reiterate China's essential principle of "Party's Absolute Leadership over Military". The principle has its origin in CPC's experiences since its foundation. During the war of liberation, Mao had

made the famous argument that "power flows from the barrel of the gun". Since the foundation of the People's Republic of China, fundamental changes such as the collapse of Soviet Union and the Jasmine Revolution have led Chinese authorities to believe that "military is vital for governance". They feel since China still faces various kinds of security threats, particularly those with foreign support, and since CPC still represents the interests of the Chinese majority, CPC would adhere to the principle of "Party's absolute leadership over military" and majority of the Chinese people would support it.

### Endnote

1. [http://mil.gmw.cn/2011-06/20/content\\_2112336.htm](http://mil.gmw.cn/2011-06/20/content_2112336.htm)

## Usage and Opening Up of Chinese Airspace: Research Report

China published its first report on the civil-military usage of its airspace.<sup>1</sup> It is a research report of a key national aero-technology laboratory of China. While details of some of the released data are given in the following table, there are some other salient information too. One is that most of the airspace not being used efficiently is in the less populated western parts which include Tibet and Xinjiang in China's frontiers. Besides, airspace usage is far from uniform elsewhere and varies from region to region. Also according to the report, the PLA Air Force in recent years has yielded ground for the growth of the Chinese civil aviation. Policy formulation shall have to consider China's security and strategy, economic growth, ground realities of military and civil aviation and the overall national scenario, it says.

Besides, it was also declared recently that China would thoroughly open up its low-altitude airspace by 2015 for the benefit of "general aviation".<sup>2</sup>

|  |   |  |
|--|---|--|
| (a)  | Actual Civil-Military Navigable Airspace  | 9.98 million sq km   |
| (b)  | Regular Military Airspace   | 2.34 million sq km = 23.51%  |
| (c)  | Regular Civilian Airspace   | 3.19 million sq km = 32%   |
| (d)  | Temporary Air Routes  | 0.55 million sq km = 5.51%   |
| (e)  | No. of airports to be converted to civil-military dual use during 12 <sup>th</sup> Five Year Plan (2011-15) | 06   |
| (f)  | No. of airports realigned for dual use since 1990s  | 93   |
| <b>DURING THE 11<sup>TH</sup> FIVE YEAR PLAN (2006-2010)</b> |   |  |
| (g)  | No. of PLA AF training areas closed/readjusted  | 380  |
| (h)  | No. of air routes realigned   | 213  |
| (i)  | No. of regular routes opened for new cities   | 2000 (50% growth)  |
| (j)  | No. of temporary routes opened  | 65 (2.17 times growth)   |
| <b>DURING 2010</b>   |   |  |
| (k)  | No. of routes opened  | 47; covering 6821 km which is 5% of China's total air route distance |
| (l)  | No. of civilian flights   | 6.05 million (up 332% from 1.4 million)                              |

## Comments

In China unlike most other countries, PLA AF is in charge of airspace regulation. It functions under the National Air Traffic Committee of the State Council's Central Military Commission. Hence, the authority entirely vests with the military. The law governing China's aviation is the "Basic Aviation Rules of the People's Republic of China". China's civil aviation has been growing at the rate of 10% in recent years. The government's further plan to open its entire low altitude airspace (below 1000 metres) by 2015 is also to aid that trend. The low-altitude airspace hitherto used mainly by military helicopters and fighter/transport aircrafts would benefit aircrafts who maintain direct visual contact with ground (i.e. operate under Visual Flight Rules) like helicopters and light aircrafts. The sectors which are likely to benefit are corporate travel (between business hubs), tourism (to inaccessible locations), aviation sports and low

level recce/survey activities. According to a report in Hangzhou-based newspaper Dushi Kuaibao, one-sixth of the over 2,000 billionaires on the 2010 Forbes China Rich List intend to buy private aircrafts. The report also quoted Michael Walsh, the vice president of the world's leading private jet company Asia Jet, estimating China's private aircraft market scale will expand by 20 to 25 percent annually over the next 10 years with the overall market potential of China's civilian aviation industry being no less than RMB1 trillion (157 billion USD). However, what can also be surmised from the above table is that military aviation has also expanded along with growth in civilian aviation through China's dual use policy.

## Endnote

1. [http://economy.gmw.cn/2011-06/10/content\\_2076677.htm](http://economy.gmw.cn/2011-06/10/content_2076677.htm)
2. [http://www.chinadaily.com.cn/china/2010-11/15/content\\_11551204.htm](http://www.chinadaily.com.cn/china/2010-11/15/content_11551204.htm)

# INTELLIGENCE

## PLA General Discloses China's Counter-Espionage Failures

An unusually candid exposé was offered by a serving general rank officer of the Chinese People's Liberation Army on various counter-espionage failures which China has had to endure in recent years. The exposé was given by Maj Gen Jin Yinan who heads the Strategic Research Institute of the PLA's National Defence University. Maj Gen Jin was delivering a lecture to a group of executives from the Chinese insurance sector when he

disclosed details of such cases which were largely unknown. These included names of several high ranking Chinese Communist Party and government officials who have engaged in espionage against China in recent years. The recording of the lecture was rapidly picked up by the Chinese web-based media and later covered by South China Morning Post, US-based Chinese channels like NTDTV and eventually You Tube.<sup>1, 2</sup> Details of these high profile cases as disclosed by Maj Gen Jin are as follows: -

|     | Name, Designation Held  | Charge  | Year | Sentence           |
|-----|---|---|------|--------------------|
| (a) | Tong Daning, Director of Social Security Foundation   | Leaking information on Chinese currency's exchange rate to Taiwan causing Taiwan to profit USD 200 billion. | 2006 | Executed.          |
| (b) | Cai Xiaohong, Secretary General of China's Liaison Office in Hong Kong (son of former Justice Minister Cai Cheng)   | Providing classified information to the UK for a prolonged period.  | 2003 | 15 year term.      |
| (c) | Li Bin, Chinese Ambassador to South Korea, later China's Special Envoy on the Korean Peninsula  | Providing classified information to South Korea which compromised China's position in the Six Party Talks.  | 2006 | 7-8 years.         |
| (d) | Kang Rixin, General Manager of China National Nuclear Corporation, Member of the Party Central Committee and the Central Discipline Inspection Commission | Selling classified nuclear information to foreign companies.  | 2009 | Life imprisonment. |

|     |   |   |      |                    |
|-----|---|---|------|--------------------|
| (e) | Sr Col (equal to Brigadier) Xu Junping, Defence Ministry Foreign Affairs Office | Defected to the US with knowledge of personalities of top Chinese leaders and their decision making habits            | 2000 | Defected to the US |
| (f) | Lu Jianhua, Sociologist at Chinese Academy of Social Sciences                   | Providing information to foreign governments like the US, Japan and Taiwan. Possibly linked to the Ching Cheong case. | 2005 | 20 years.          |

### Comments

This unusual revelation by a serving PLA general may be to lament the falling standards of moral and ethical values in China and to demonstrate the legal consequences to the wrongdoers. It also shows the frustration of a section of the PLA at the “leniency” shown by the Party and government towards this aspect. The PLA segment represented by Maj Gen Jin might have wished that cases like these should be dealt with more stringent and exemplary penalties which the Party/government did not due to perceived loss of national prestige. Top Chinese leaders like President Hu Jintao have exhorted the need to build a value-based society

and eradicate corruption from China. The revelations and some very notable defections by Chinese officials to other countries also indicate that the human interface is one of China’s vulnerabilities which is not much publicized. It also shows that not all are satisfied within China and administrative control may not be as tight as believed to be in a country which has a history of centralized planning and strong authoritarian grip.

### Endnotes

1. <http://topics.scmp.com/news/china-news-watch/article/General-lets-spy-secrets-slip>
2. <http://www.youtube.com/watch?v=2SA4WMO3jJs>

# FOREIGN AFFAIRS

## China Might Use Financial Leverage to Block U.S. Arms Sale to Taiwan

China's official newspaper, the People's Daily, in an opinion piece dated 08 Aug 2011 has advocated "punishing the US with its financial weapon" if the US sells the advanced versions of F-16 C/D fighter aircrafts to Taiwan (@ Republic of China) which China claims part of its territory.<sup>1</sup> The author of the article, Ding Gang, has boldly suggested that China should use its leverage as the largest buyer of US gilt to prevent sale of such sophisticated US arms to Taiwan.

Knowing full well that if China stops or drastically reduces buying U.S. Treasury bonds, China would have to bear concomitant losses, the author conjectures on ways to reduce that loss and change China's "passive situation to an active one". One such way is how China can build a direct link between the U.S. Treasury bond purchase and U.S. domestic politics. At the same time China would have to adopt measures to gradually adjust the structure of China's foreign exchange reserves says the author, a course which China has already taken by trying to diversify its forex holdings to currencies other than the US Dollar.

Going deeper the author says China can directly link the amount of U.S. treasury holdings with U.S. arms sales to Taiwan and require international credit rating agencies to downgrade U.S. treasuries which would force the United States to raise

interest rates. China can also launch limited trade sanctions against those US states whose Congress members have vigorously advocated arms sales to Taiwan. Such a measure would have a direct impact on the employment situation in those states, opines the author. China would have no option but to "beat them until they feel the pain" or else China-U.S. relations will continue along a roller coaster pattern since they are constrained by such pro-Taiwan American lawmakers, the author advocates.

### Comments

Although prospects of such a China-US currency war are somewhat distant, it is not impossible. While the US has to decide what it wants to do with its Taiwan Relations Act in the face of China's consistently modernizing military and hardened posturing, several Chinese voices have already made it known that China is ultimately preparing for that final showdown. While the centrepiece in this whole conundrum is the will and fate of Taiwan, it is also true that the conduct of China and the US would definitely have wider ramifications for East Asia, South-east Asia and South Asia.

### Endnote

1. [http://www.chinadaily.com.cn/opinion/2011-08/08/content\\_13069554.htm](http://www.chinadaily.com.cn/opinion/2011-08/08/content_13069554.htm)

# MULTILATERAL

## ASEAN, China to Enter Bilateral Currency Swap Agreement

A bilateral currency swap agreement is being actively considered by the ASEAN member countries and China, which according to the reports, would facilitate the direct use of the Chinese Renminbi and ASEAN currencies for the regional trade.<sup>1</sup> It is believed that the agreement is likely to be signed anytime soon. Evidently, this is a step to lessen the dependence on the US currency on matters concerning ASEAN-China bilateral trade.

### Comments

The possibility of signing such an agreement between China and ASEAN is under discussion for quite some time and a comprehensive deal is likely to be signed by late 2011 or early 2012. Three ASEAN countries already have such agreements in place with China. They are Malaysia (February 2009), Indonesia (January 2010) and Singapore (July 2010). Other member countries of ASEAN have already agreed to ink such an agreement with China. Besides, South Korea too has a currency swap agreement in place with China since

December 2008. Clearly, such a step is aimed at avoiding dependence on the dwindling US currency, something which China has been advocating for the last few months. China's point is not without substance as the US economy and its currency are indeed under wide criticism. This is evident in the light of recent S&P ratings of US, where S&P downgraded the US economy from AAA to AA+.

According to the media reports, at the China-ASEAN session of the ASEAN Economic Ministerial meeting held on August 12, 2011, the two sides also agreed to expedite the cooperation framework and utilize the positive momentum of strong trade between the two sides in 2010 and the first semester of 2011. "The two sides agreed to finish the cooperation framework as soon as possible", says a statement. Total exports and imports between ASEAN and China reached US\$230 billion in 2010, and have increase 25 percent in the first half of this year, thereby making China ASEAN's largest trading country.

### Endnote

1. <http://www.thejakartapost.com/news/2011/08/13/asean-china-use-bilateral-currency-swap.html>

# DOMESTIC AFFAIRS

## China's "Three Public Expenses": Central Agencies Lead while Locals Bodies Lag in Disclosure

A report in the popular Chinese magazine Southern Weekly says that acting on the directives of the Chinese Ministry of Finance, 95 of the 98 Chinese central government agencies have disclosed their "Three Public Expenses" by 31 Aug 2011. Among the 31 Chinese provinces, centrally administered municipalities and autonomous regions, only three have submitted their disclosure statements. These are the Beijing and Shanghai Central Municipalities and the Shaanxi Province.<sup>1</sup>

### Comments

The "Three Public Expenses" of China are "public duty/interest" expenditures on account of: -

- (a) Foreign travel of government officials;
- (b) Purchase & maintenance of vehicles; and
- (c) Hospitality & entertainment expenses.

"Three Public Expenses" is a hot topic in Chinese society and governance because of its relevance to corruption in Chinese public life. The Chinese Ministry of Finance had ordered most government

bodies, central and regional, to submit their "Three Public Expenses" statements with the National People's Congress for review; 2011 is the first year of such disclosure. Of the 98 central Chinese bodies, three have been exempted since their work relate to State Secrets. These three central agencies are the Chinese Ministry of Foreign Affairs, the Hong Kong & Macao Affairs Office of the State Council, and, the Overseas Chinese Affairs Office of the State Council. While exemption of the first is understandable, the exemption of the latter two is pointer to the importance of Hong Kong and Macao and the possible role of Overseas Chinese in the operations of the Chinese state.

The China Central Television (CCTV) reportedly said in a recent "News 1+1" programme that in 2009 China's Three Public Expenses totalled to RMB 1.9 trillion (USD 299.02 billion). Ever since, thousands of blogs are flowing with animated Chinese comments on various related aspects like China's public expenditure, low salaries, recession etc. However, none of the major Chinese media sites contain anything related to that figure.

### Endnote

1. <http://www.infzm.com/content/62453>

### *Edited by:*

*Bijoy Das, Research Associate, China & South/East Asia Cluster,  
Institute for Defence Studies and Analyses, New Delhi.*

### *Contributors to the current issue:*

*Brig Mandip Singh, Senior Fellow, IDSA.*

*Bijoy Das, Research Associate, IDSA.*

*Rahul Mishra, Research Assistant, IDSA.*

*Lou Chunhao, Visiting Fellow, IDSA.*