

POWER PLAY

Frank J. Gaffney, Jr.

Last summer, the American people and their elected representatives suddenly awoke to a startling reality: Communist China is hungry for energy and working aggressively to secure assured access to it all over the world. And, for a brief moment, it looked as though the United States might become seized of the larger thrust of Chinese strategy, of which the PRC's energy agenda is but one part. The precipitating cause was the proposed purchase of Unocal by one of the PRC's state-owned energy giants, the China National Offshore Oil Corporation (CNOOC). In June 2005, the U.S. House of Representatives voted by a margin of 398 to 15 against the proposed deal, terming it a risk to national security. Two months later, CNOOC decided to drop its bid and Unocal was instead taken over by ChevronTexaco.

Unfortunately, the insights provided by this abortive transaction now seem as fleeting as the debate it inspired was super-charged. As a result, we are once again ignoring one of the most strategically ominous developments in the world today—and a possible source of conflict tomorrow.

There were three powerful reasons for objecting to China's play for Unocal, and these should inform our thinking about PRC behavior more generally. First, the proposed purchase would have abetted Communist China's effort to acquire *more* of the world's relatively finite energy resources. Second, it also would have



FRANK J. GAFFNEY, JR. is President of the Center for Security Policy, and lead author of *War Footing: Ten Steps America Must Take to Prevail in the War for the Free World* (Naval Institute Press, 2005), from which this article is adapted in part.

advanced the PRC's efforts to dominate the vital supply of rare earth minerals. Finally, the deal was emblematic of China's larger, and increasingly threatening, strategic plan—one with grave implications for U.S. economic and national security interests.

Beijing's big thirst

At the risk of stating the obvious, no nation can afford its people the quality of life, let alone the economic and security benefits, associated with being an advanced 21st Century society without assured and cost-effective access to energy. Today, for the United States and most of the rest of the world, that means having access to reliable sources of imported oil.

Beijing is engaged in an ambitious effort to acquire legal title to energy resources, not only in the Western Pacific but literally around the world.

Such assured access will be made more challenging by the expected growth in demand, particularly in developing countries like China. In its *International Energy Outlook 2005*,¹ the Energy Information Administration (EIA) of the U.S. Department of Energy stresses that “[w]orldwide energy consumption is projected to grow by 57 percent between 2002 and 2025.” Moreover, according to the EIA, the “strongest growth in energy consumption” will occur “among the emerging economies of the world, especially emerging Asia (including China and India), where robust economic growth drives the increase in energy use over the projection period.” Particularly noteworthy is the EIA's expectation that “China's oil use is projected to grow

by an average 7.5 percent per year from 2002 to 2010, before slowing to 2.9 percent per year for the remainder of the forecast.”

China is evidently mindful of the lessons of the 20th Century with respect to energy insecurity. Imperial Japan's thirst for imported oil was a principal catalyst for its war with the United States. Fortunately, the PRC is, for the moment at least, neither able nor willing to emulate the violent seizure by Japan some sixty-four years ago of petroleum and other natural resources in East Asia. We ignore at our peril, however, the fact that Beijing is engaged in an even more ambitious effort to acquire legal title to energy resources, not only in the Western Pacific—where much of Unocal's reserves of 650 million barrels of oil are to be found—but literally around the world.

Chinese deals are being struck from Siberia to Venezuela, from Indonesia to Sudan, from Iran to Canada, and from Azerbaijan to Cuba. While the precise nature varies from country to country, these agreements often involve PRC investments in exploration, pipelines and other infrastructure and extraction in exchange for assured supplies of oil, natural gas and/or coal. Not infrequently, large numbers of Chinese nationals are dispatched to work in and, in some cases at least, provide security for, Beijing's operations and interests in-country.

China, moreover, is underwriting these activities in a manner that bears no resemblance to free market capitalism. As one astute observer of Beijing's machinations has noted:

Unocal involved the provision of a soft loan from the Chinese government to the company. This is not like a commercial loan. The Chinese government protects

its state companies at home and supports them financially overseas. But these companies are essentially expected to be *an arm of national foreign policy* in their foreign investment, rather than to create value.² (*Emphasis added.*)

What is at work here is more than simply an effort to secure energy to meet Chinese needs. In a world in which such resources are certainly finite, and possibly contracting, these deals also have the effect of removing energy assets from a global market upon which the United States is increasingly dependent.

Beyond petroleum

The proposed Chinese takeover of Unocal also has shed light on a no-less-worrisome aspect of the PRC's strategy: securing a similar, dominant position with respect to the world's precious metals and other strategic minerals.

As it turns out, the purchase of Unocal would have constituted a "twofer" for Communist China. Not only would Beijing have gained control of the U.S. company's oil reserves, the PRC would also have become owners of America's only indigenous source of rare earth minerals known as lanthanides, including neodymium—the Unocal-owned Molycorp mine in Mountain Pass, California.

By now, the significance of such a purchase should be obvious. After all, back in 1999, the Select Committee on U.S. National Security and Military/Commercial Concerns with the People's Republic of China (colloquially known as the Cox Commission after its chairman, then-Representative Chris Cox) had noted that the "main aim for the civilian economy [in China] is to support the building of modern military weapons and to support the aims of the Peo-

ple's Liberation Army (PLA)."³ The Cox Commission, moreover, determined that, in pursuit of that agenda, China considered "rare-earth metals" and "special-function materials" to be high-value "exotic materials" that are "the key areas of military concern."⁴

Since then, in a series of exposés, *Insight* magazine has called attention to the significance of China's two-fold strategy in this area: acquiring high-technology that exploits the unique attributes of rare earth minerals and cornering the market on such minerals.

An October 2002 *Insight* piece described how China stole one of the most promising military exploitations of metals derived from rare earth minerals—a product developed at considerable expense for the U.S. Navy, called Terfenol-D. According to the magazine, the Chinese company that is now marketing a comparable product has claimed that, when used in underwater sonar, this material "brought up the best quality ever with the detection range that can reach as far as 10,000 [kilometers, or 6,200 miles] and when applied to aircraft, this smart material makes a smart wing, which can be controlled much faster with enhanced reliability."⁵

China is also securing a similar, dominant position with respect to the world's precious metals and other strategic minerals.

Another relevant tech-theft episode was documented in March 2003. Chinese "princelings"—relatives of senior civilian and military leaders—reportedly purchased an American manufacturer of rare earth magnets, Magnequench, and thus obtained critical technology

now being used to produce “neodymium-iron-boron magnets for servos used in U.S. guided missiles and smart bombs.”⁶

These episodes, and others, highlight a consistent pattern. Over the past decade, as the importance of rare earth minerals has become more and more apparent, China has moved to dominate and control the supply of such materials. As one *Insight* investigation concluded: “The PRC acquisition of the rare-earth-magnet technology was part of a long-term campaign initiated by Deng Xiaoping, who ruled the PRC from 1978 until his death in 1997. In 1992, Deng acknowledged the value of the PRC rare-earth reserves in the Baotou region, saying, ‘There is oil in the Middle East; there is rare earth in China.’”⁷

China has lately been making similar efforts to take dominant positions in other strategic metals. According to one analyst:

A pre-emptive attack on North American properties has begun. China has tendered an offer to purchase Noranda Copper The [Chinese] have approached Silver Standard for equity ownership. They have also approached Australia and Brazil to secure supplies of minerals. Their tactics have become more clever, with humanitarian goals as well as strong-arm methods in the bidding process. This is a huge sequence of events which strongly indicates [an] intention by China to secure their supply chain.⁸

A glimpse into China’s grand strategy

Communist China’s play for assets like Unocal’s oil reserves and rare earth minerals was no more an isolated incident than it was, as the Chinese insisted, a “purely com-

mercial transaction.” Rather, it falls into a pattern of PRC activity around the globe that is clearly deliberate, well-thought-out and ominous in its implications.

This activity is guided by a long-term strategy. It seeks PRC domination of strategic energy resources, materials and minerals and technologies, and involves buying up—or otherwise putting out of business—what is left of this country’s productive and competitive industrial capacity. The purpose is to create a civilian economy that will, consistent with Deng Xiaoping’s famous “16 Character” dictum, serve China’s military needs.

Thus, in tandem with the energy acquisition efforts outlined above, the PLA’s needs also are rapidly being advanced by the combined efforts of the most comprehensive espionage and technology theft program in the history of the world—involving untold numbers of overseas Chinese businessmen, students, tourists and others, as well as professional collectors. At the same time, China’s requirements for an increasingly formidable, long-range and offensively oriented military are being satisfied thanks to the willingness of the Russian government and, to varying degrees, European, Israeli and even American companies to supply advanced arms technology and dual-use equipment, software and know-how.

Beijing is also pursuing a variety of asymmetric warfare techniques collectively known as *shashoujian*, the “Assassin’s Mace.” Much is still unknown about this strategy. But evidently, it is intended to permit China to decisively defeat the U.S. military through means such as a ballistic missile-delivered attack involving one or more electro-magnetic pulse (EMP) weapons.

China's plans extend as well to securing influence in and, if possible, control over strategic choke points and regions. Targets include not only the Far East and Western Pacific, but Africa, the Middle East, Siberia, South and Central Asia and Latin America.

Beijing clearly appreciates the strategic value of influence operations in the United States, too. It is securing such influence in many ways, including through the purchase of vast quantities of U.S. government debt instruments. The American economy can be profoundly affected by Chinese decisions to buy or sell billions of dollars' worth of Treasury bills, a fact well appreciated by policymakers in Washington—and in Beijing.

Similarly, U.S. producers of jet airplanes and other export products and American vendors of the ever-increasing array of Chinese-manufactured consumer goods can be relied upon to oppose policies that could cause Beijing to retaliate. Thus, unfair Chinese trade and labor practices tend to get a pass, even as they contribute to the decimation of what is left of our manufacturing base.

Powering all this, of course, is the immense wealth China is accumulating by dint of its many years of trade surpluses. It is an irony not lost on the Communist Chinese that they have done Lenin's putative dictum one better: We are paying for the rope they will use to hang us.

Answering the Chinese challenge

Fortunately, there are concrete things that the United States can yet do that may prevent China's hegemonic rise at the expense of American interests.

Encouraging change

Today, the PRC is in ferment. There is widespread unhappiness with the Chinese regime. The government-controlled press has acknowledged that there have been many thousands of demonstrations or other forms of public dissent against the regime (or its surrogates) in cities, towns, and villages all across China—and especially in rural areas. We can safely assume that there have actually been many more that have not been reported.

The purpose of China's efforts is to create a civilian economy that will, consistent with Deng Xiaoping's famous "16 Character" dictum, serve China's military needs.

These trends could lead to the weakening or toppling of a Chinese government that is hostile to us. Toward this end, the United States should try to identify, encourage, and strengthen pro-freedom and democratic groups within China. That may mean, as it did during the Cold War, publicly recognizing those who have had the courage to resist the regime and who have been punished for it—dissidents, political activists, journalists, scientists, and so forth. Their story needs to be told throughout the Free World, as a powerful reminder of what is at stake in this war. By telling it often and publicly in the West, we can help save their lives.

The U.S. must also find ways of engaging in subtle but effective "strategic communications" with dissidents and their potential supporters. That will require expanded U.S. government-supported radio and television broadcasts and much more

intensive use of the Internet to communicate with the Chinese people. For this reason, among many others, we must keep control of the Internet out of the hands of the Communist Chinese and their ilk—something the UN is currently trying to arrange. We must also develop ways of penalizing U.S. companies that help China to shut down this remarkable instrument for the free flow of information and ideas.

The United States must also maintain its support for an independent Taiwan, which provides the best model for the sort of change that would make a real difference for the Chinese people, and for the rest of us.

Because China's energy quest is driven at its core by military considerations, the U.S. response must, by necessity, also possess a military dimension.

Deterring Beijing

Because China's energy quest is driven at its core by military considerations, the U.S. response must, by necessity, also possess a military dimension—specifically, a more formidable forward presence in East Asia. Components of such a posture should include the stationing of more military assets (ships, fighter aircraft, bombers, logistical units, et cetera) in, or rotating them through, Guam, Japan, Singapore, and other friendly nations. The U.S. must also put China on notice that the inevitable result of its continuing aggressive behavior and military build-up will be to drive other states in the region to acquire their own nuclear-deterrent capability. (This outcome will be all the more

certain to occur—and sooner rather than later—if the United States does not take steps to restore confidence in its own nuclear deterrent.)

Equally important is encouraging Taiwan to provide more fully for its own defense, notably by increasing its spending as a percentage of GNP and initiating immediately the long-overdue modernization of its armed forces (including the purchase of weapon systems offered by President Bush in 2001). The U.S. can assist this transformation by increasing bilateral military-to-military ties with Taiwan and fostering three-way defense relationships and exercises with two of the Free World's most important outposts in the region—Japan and Taiwan. The U.S. military also should develop and exercise contingency plans for implementing President Bush's commitment to defend Taiwan, including the deployment of sea-based missile defenses.

To assist this effort, the Bush administration must encourage other democratic regional powers, notably South Korea and India, to join us in our commitment to prevent a successful attack on Taiwan. Australia, which has said it would not come to Taiwan's aid, should be encouraged—as part of a larger effort on the part of the Free World—to revisit that decision.

Simultaneously, we must build on the efforts made to date by the Bush administration in developing our mutual interest in countering the growth of Chinese power in Asia with the nation of India. This has been a particular priority for President Bush from the day he took office. Yet, although some progress has been made, both the United States and India have acted at times in ways that raise questions about the strength of their commitment to this strate-

gic relationship—the United States due to its dealings with Pakistan and China, and India due to its dealings with China and Iran. At the same time, care needs to be exercised about compromising U.S. security interests, for example, through dismantling sensible American proliferation safeguards or weakening this country's export control arrangements in pursuit of improved relations.

Moving toward energy independence

The prospect of a Sino-American confrontation over energy has added greater urgency to an initiative that former CIA Director R. James Woolsey, former National Security Advisor Robert McFarlane and a number of other national security practitioners, including this author, are advancing. It is a plan for energy security called the “Set America Free” blueprint (details can be viewed at <http://www.setamericafree.org>), and it offers practical steps that can be taken immediately to begin reducing our nation's need for imported oil.

Unless such steps are taken, it would appear that we will inevitably find ourselves on a collision course with Communist China, particularly if world-wide demand for oil approaches anything like the nearly 60 percent growth that is projected to occur over the next two decades. As a practical matter, such a Sino-American conflict in fact may be unavoidable *even if* we have substantially weaned our economy from its present dependence on foreign energy. It certainly behooves us in the meantime, however, to preserve, wherever possible, for our own use domestic and offshore oil reserves owned by American companies and others to which we have reliable access.

Using our economic leverage

For too long, the United States has failed to appreciate the *strategic purpose* behind China's economic and financial transactions. The congressionally mandated U.S.-China Economic and Security Review Commission is an invaluable resource and “second opinion” on China for decision makers and the public alike on this topic. Since its creation in 2000, it has been examining, documenting, and reporting on various ominous aspects of the PRC's military and economic agenda. The Commission now should be asked to assess the *cumulative* effect of China's unfair trade practices, investments, technology thefts, and diversions, as well as its acquisitions of long-range, offensive military capabilities and dominant positions in strategic choke points around the world and in key industries.

Simultaneously, the Commission should be empowered to develop policy options for responding appropriately in those areas. These might include:

- Urging U.S. investors to divest immediately their equity holdings of any publicly traded Chinese companies doing business in genocide-ridden Sudan and terrorist-sponsoring Iran. (This applies also to American holders of stocks of companies willing to partner with the brutal and dangerous North Korean regime);
- Encouraging businesses in the United States to diversify their international investments and overseas commercial partnerships with Indian and Southeast Asian entrepreneurs, rather than deal largely—still less, *exclusively*—with China;

- More closely monitoring China's activities in Central and South America, and crafting strategies to publicize and challenge China's predatory trade practices, strategic/political partnerships (particularly with respect to oil and gas contracts with terrorist-sponsoring states), and weapons-proliferation practices in these regions; and
- Making the Congress more activist in shaping U.S.-China policy, particularly in the areas of trade, acquisitions in our country, the defense of Taiwan, meaningful sanctions for proliferation abuses, and championing human liberties and the free flow of information.

Averting energy conflict

The United States hardly needs a new enemy at this point. It would be a mistake, however, to think that we can neutralize what is clearly an emerging adversary by choosing to ignore its ominous activities and their implications. We will not avoid a military conflict with Communist China simply by hoping that it will not occur—or, worse yet, by thinking that we can appease the PRC, in the energy sphere or any other.

The best chance for avoiding the impending conflict lies in using the sorts of strategies outlined above. In particular, we must help the Chinese people eliminate the danger their government poses both to them and to us by dispatching the regime that has brutalized and misruled China for nearly five decades, and which will pose a growing danger to the Free World in the years ahead.

Even under a new government, China's demand for energy will assuredly continue to grow. But a less dangerous government in Beijing can

be expected to adopt more market-oriented approaches to resource competition. And this, in turn, will buy us precious time to reduce our current, dangerous dependence on foreign sources of energy.



1. Energy Information Administration, U.S. Department of Energy, *International Energy Outlook 2005*, July 2005 (<http://www.eia.doe.gov/oiaf/ieo/index.html>).
2. Maria Kielmas, "China's Foreign Energy Asset Acquisitions: From Shopping Spree to Fire Sale?" *The China and Eurasia Forum Quarterly* 3, no. 3 (2005), 29.
3. *Report of the United States House of Representatives Select Committee on U.S. National Security and Military/Commercial Concerns with the People's Republic of China* (Washington, DC: Government Printing Office, 1999), 5.
4. *Ibid.*, 12.
5. Scott L. Wheeler, "PRC Espionage Leads to 'Terf' War," *Insight on the News*, October 16, 2002.
6. Scott L. Wheeler, "How Beijing Gets U.S. Defense Plans," *Insight on the News*, March 18, 2003.
7. *Ibid.*
8. Jim Willie CB, "Effects of Chinese Acquisitions," *Hat Trick Letter*, January 20, 2005 (<http://www.financialsense.com/fsu/editorials/willie/2005/0120.html>).