

China's Defense Industrial Modernization and Arms Sales

~~(C)~~ China has a huge military industrial base, second only to the Soviet Union in capacity. The largest sector, ordnance production, has about 200 primary plants. There are 17 major shipyards and 27 key aerospace plants. Additionally, hundreds of other plants controlled by the defense industrial ministries constitute a component supplier infrastructure. As a result, China is self-sufficient in the production of a virtually complete range of basic weaponry. Despite this impressive industrial base, the country generally lacks the capability to produce the most sophisticated military hardware.

(U) In 1978, out of a background of inefficiency, overcapacity, idle plants and workers, technological inferiority, and poor management, the leadership decided to reform the defense industry as a key part of a broad national modernization program. Beijing wishes to:

- o (U) Streamline the weapons development process;
- o (U) Accelerate the acquisition and absorption of domestic and foreign technology;
- o (U) Reduce weapon development time;
- o (U) Promote foreign sales;
- o (U) Integrate defense and civilian industries.

~~(C)~~ To help fund modernization and to preclude heavy procurement of outdated weapons, the state is holding defense spending at a level necessary to maintain only the most essential aspects of deterrence. The modernization program is therefore necessarily selective and gradual.

- o (U) While the announced defense budget, in current prices, has shown modest growth since 1981, defense

spending as a percent of the total budget has exhibited a declining trend for many years. Under China's Seventh Five-Year Plan (1986-1990), annual defense spending is programmed to remain constant and to continue to fall as a share of the state budget. Although the funding of defense ministries and their subordinate industries is separate from the defense budget itself, their resources are also tightly constrained in the overall national budget.

- o ~~(C/NF)~~ Beijing wants to end the large subsidies to arms factories, which often support waste. Mechanisms are gradually being introduced to allow for enterprises to assume sole responsibility for its profits and losses.
- o (U) Part of China's broad economic strategy involves diversion of under-utilized industrial resources from military to civilian production. Closer integration of military and civilian production assets involves selective transfer of military technology to civilian use, the diversion of the defense industry's product base to include more non-military goods, and the outright transfer of defense factories to civilian use.

~~(C)~~ Beijing has devoted considerable effort in the past decade to identifying and obtaining technologies it needs for modernization. With few exceptions, China's needs span the entire spectrum of Western technology. Current economic policies and better relations with Western nations have improved both access to, and utilization of, advanced technology. Despite this emphasis, a number of factors exist which may hinder its efforts to obtain and absorb new technology.

- o ~~(C)~~ Cost is the greatest barrier.
- o ~~(C)~~ Restricted access to advanced technology has been a barrier in the past, but restrictions have faded in recent years under revised COCOM regulations defining China as "friendly but not allied."
- o ~~(C)~~ China suffers from barriers inherent in its own economic system. The largest of these is the poor dissemination within the country of technology already acquired.

