

# China



## China – Talking Points & Takeaways

**China's economy may be on fire, but it can't hold a candle to US power.** It will take decades – if ever – for China to catch up to the US economically. And it still lags far behind the United States in military might, political and diplomatic influence, and even most measures of economic stability.

**China's neighbors worry about China, and want to keep the US close by.** Japan, South Korea, and Taiwan are all conducting positive relations with China. But they also worry about China's growing power, and they see the US as an ace-in-the-hole ally that will balance Chinese power in Asia.

**China is expanding its military by leaps and bounds. But what is it leaping toward?** China has increased military spending, developed weapons to challenge the US in the Pacific, and sent its navy beyond Asian waters. It's unclear whether China will use this power for deterrence and defense, or if it will seek to assert itself more aggressively in the years to come.

**China buys US debt to manipulate its currency, the US buys Chinese products. We need to move away from this.** China's internal market is weak, so its economy is based on sending exports to America. China keeps its exports competitive by buying US debt, which artificially decreases the value of Chinese currency. This is a dangerous situation that gives China leverage in the US economy. The US needs to reduce its debt, convince China to change its currency policy, and try to figure out a way to develop China's internal market, so that China won't need to rely so heavily on exports and currency manipulation.

**US-China relations are grounded on common interests, few common values.** China is a major power, and solving major international problems will require Chinese help – like it or not. But China does not share our democratic values. The US must use those values as a carrot to entice developing nations to our political/economic model, lest they forsake political freedom for China's more repressive political/economic model.



## China: The Basics

**Size:** 3,705,406 square miles - slightly smaller than the US

**Population:** 1,338,612,968

**Major Ethnic Groups:** Han Chinese 91.5%, Zhuang, Manchu, Hui, Miao, Uyghur, Tujia, Mongol, Tibetan, Buyi, Dong, Yao, Korean and other nationalities 8.5%

**Major Religions:** Daoist, Buddhist, Christian 3-4%, Muslim 1-2%

**GDP Growth Rate:** 8.7% (2009 est.)

**Capital:** Beijing

**Freedom House Political Rights Score:** Not Free

## China: Key Players



**Hu Jintao** is currently the President of the People's Republic of China, holding titles of General Secretary of the Communist Party of China since 2002, President of the People's Republic of China since 2003 and Chairman of the Central Military Commission since 2004. Although he has not been willing to move much on internal political reforms, he has overseen economic and administrative reforms, and has been a proponent of China's "peaceful rise" strategy, by engaging diplomatically and economically with other countries in order to secure markets, stability, and economic growth. He is representative of China's "fourth generation" leadership, which consists of technocrats, not military revolutionaries.



**Wen Jiabao** is the Premier of the State Council of the People's Republic of China, meaning he serves as the country's head of government and leader of its cabinet. An engineer by training, Wen has developed a populist image as "the people's premier" for his attention to social problems and economic inequality. Like President Hu, he is representative of China's "fourth generation" leadership, which is characterized by technocratic expertise, not revolutionary fervor.



**Xi Jinping** is the top-ranking member of the Secretariat of the Communist Party of China and the country's Vice President. He is the son of a communist revolutionary who went on to become a vice premier, he rose through the Communist Party bureaucracy with a reputation for fighting corruption. He was tapped to lead, coordinate, and manage the 2008 Olympics in Beijing, which many viewed as Xi's international coming out party. He is expected to succeed Hu Jintao as China's President in two years' time.

## China is Building Up its Military

China has long claimed that it wants to have a “peaceful rise” to world power status. However, in recent years, China has been investing heavily in its military. While overall spending is vastly less than the United States’, the degree of change has been immense. Moreover, it is purchasing equipment that allows it to use force in nearby disputed countries, such as Taiwan, and to project power in its region and globally. Finally, China is investing heavily in “asymmetric” technologies such as cyber warfare that could cripple America in a fight. Its intentions are heavily disputed and remain unclear: some see this growth as benign, others as threatening US influence.



**Increasing the Defense Budget.** The Chinese military has received double-digit budget increases each year for well over a decade. In 2009, China spent about \$100 billion on its military, while the US spent about \$660 billion. Most of China’s military is in its ground forces army, which has 1.25 million members, compared to the U.S. which has 1.1 million members split between Army active duty, reserve, and national guard.

**Expanding Chinese Influence Globally:** China is not restricting its military activities to Asia. It is developing a blue water Navy, increasing its capacity for power projection, and is building an aircraft carrier. For years, China justified military expenditures in terms of defending its claim to sovereignty over Taiwan. However, its purchases suggest that it is actually looking for greater regional and even global power projection.

**Ally, Threat, or “Frenemy?”** China must participate to solve global problems, such as climate change, but it has been reluctant to own its responsibilities in line with its growing power. The positive side of that is that it has also been wary of power projection, in helpful or harmful fashion. However, China has been heavily involved in counter-piracy operations off the coast of Somalia, in keeping with its major investments in Africa. One U.S. goal must be to help China decide that it is in its interests to play a useful rather than a challenging role abroad.

## Its military is also gaining new technologies

**New Naval Vessels.** China is investing in modern surface ships, building an aircraft carrier, and developing advanced submarines that could pose a serious threat to US naval vessels in the event of a conflict in Asia. China is the 2nd largest shipbuilder in the world; it surpassed Japan in 2008.

**Aircraft.** China has about 2,300 operational combat aircraft, including air defense and multi-role fighters, ground attack aircraft, fighter-bombers, and bombers. 490 aircraft could conduct combat operations against Taiwan without refueling. China is also developing its ability to manufacture cutting edge 4<sup>th</sup> generation fighter aircraft (an F-16 is considered a 4<sup>th</sup> generation aircraft).

**Space and cyber warfare.** China has been working to develop cyber warfare capabilities, and the US has accused China of hacking into the US electric grid, US companies, and the federal government—including Congress. Space technologies – such as the ability to shoot down satellites – could be used to hamstring US military actions, which are heavily based on satellite communications.

**Anti-Ship Weaponry.** In March, the Commander of US Pacific Command warned US lawmakers that China is developing and testing an anti-ship ballistic missile designed specifically to target aircraft carriers – the only likely target for such technology would be the US, with its dominant Navy.

**Modernizing Nuclear Forces.** China has 100-200 nuclear warheads, and it is currently upgrading its delivery systems to make its nuclear force more flexible and mobile, which would enhance China’s ability to deter attacks on its homeland. China maintains a “no-first use” nuclear policy.

## Taiwan is a major dispute between the U.S. & China



**Disagreement Since WWII** Taiwan has been the most sensitive issue in US-China relations for decades. Modern Taiwan was founded following the Chinese civil war after WWII, when KMT nationalists were defeated by the Chinese Communists and fled to Taiwan. They built a modern country which became democratic in the 1980s-1990s. Most Taiwanese still have strong ties to China, but see themselves as separate - however, they have not voted on independence for fear it would trigger war with China.

**China believes** that Taiwan is a part of China that was lost to Japanese imperialism in 1895 and, though returned by Japan following WWII, illegally ruled separately since 1949. It must be reunified with the mainland.



**America's position** since the Nixon Administration opened to China is to recognize China's position, but maintain a strong unofficial relationship with Taiwan. Through the 1979 Taiwan Relations Act, the US pledged to defend Taiwan if it's attacked by China. Not defending Taiwan would thus make other allies question our commitment.

**The risk of war is real.** If the US and China were to end up in a military conflict, it would most likely be over Taiwan. China devotes a substantial portion of its military energy to maintain the ability to recapture Taiwan, and has missiles trained on it at all times. The US continues to furnish Taiwan with advanced military equipment.

## Taiwan's elections improved China-Taiwan relations and have reduced the likelihood of conflict for now



**New Leadership In Taiwan.** Ma Ying-jeou was elected President of Taiwan in 2008. He ran on a platform of improved relations with China, beating a rival party that wanted to vote on independence - and possibly provoke war. Once in office, he began delivering with the resumption of direct flights between China and Taiwan, shipment of mail between the two countries, and a commitment to high-level talks with counterparts on mainland China every 6 months.

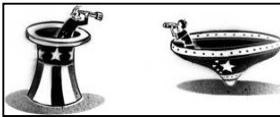
**China-Taiwan Free Trade Deal.** China and Taiwan began negotiating a landmark free trade deal in 2009, and were on the brink of finalizing the deal as of June 2010. The Economic Cooperation Framework Agreement (ECFA) would cut tariffs on hundreds of items, which should pave the way toward closer business and economic relations.



**Chinese Missiles & US Arms Sales – Hedging Continues.** In spite of improved relations between China and Taiwan, it still remains a point of contention between the US and China. China deploys more than 1,000 missiles across the strait from Taiwan, a posture unchanged after President Ma came to power in Taiwan. In 2010, the Obama administration proposed an arms sale to Taiwan worth \$6.4 billion.

## However, the US and China's military relationship has worsened

The US military and China's military – the People's Liberation Army (PLA) – maintained relatively close relations during the 1980s, when the US and China cooperated with an eye toward balancing the Soviet Union. However, the end of the Cold War and the Chinese crackdown in Tiananmen Square in 1989 inaugurated an era of on-again-off-again military-to-military relations.



**Military-to-Military Ties: Reducing Uncertainty & Likelihood of Conflict.** Military-to-military relations are designed to prevent miscalculations and misunderstandings, while creating and identifying opportunities for cooperation. Even during the Cold War, the US has maintained some military dialogue with the USSR. As China develops its military capabilities – especially its cyber and space technology, and its anti-ship weapons – the need for the US military and the Chinese military to improve relations and avoid potential conflict will increase.

### **The Gap Between China's Political and Military Leaders.**

Although Chinese President Hu Jintao joined President Barack Obama in calling for deeper military ties, China's military leaders seem much more reluctant than its political and economic leaders to deepen ties with the US. Joint engagement is at a low point.

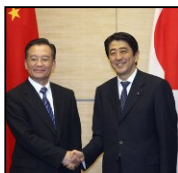
## China is also engaging diplomatically with the world

China has reached out to its neighbors and the world in unprecedented levels since the 1990s. China's stated objective is to promote its "peaceful rise" strategy by expanding as a world power while promoting stability and economic growth. Since the Chinese government's legitimacy with its people rests not on democratic rights, but on delivering economic growth, China's diplomatic strategy is designed to prevent destabilizing conflict and to keep its economic engine running. China is also engaging with regional institutions such as the Shanghai Cooperation Org., that the US does not belong to, and has no say in.



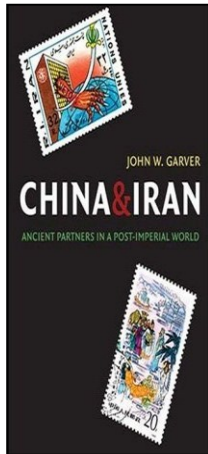
**China has increased economic ties with nations of South East Asia.** The Association of Southeast Asian Nations (ASEAN) is an economic organization of 10 nations in southeast Asia. China has deepened ties to ASEAN through the ASEAN +3 dialogues (the three being China, Japan, and South Korea), proposing a China-ASEAN Free Trade Agreement

**Better Relations with Japan and India improve world peace.** High-level visits with the Japanese have increased, helping improve relations between these two economic giants with a long history of distrust. In India, where China has fought wars, President Hu made an official visit in 2006, the first in a decade.



**But expanding ties in Central Asia may harm U.S. goals:** China has sought to improve relations with Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan through the Shanghai Cooperation Organization (SCO), which has taken steps to increase trade, promote energy cooperation, conduct joint military exercises, and resolve border disputes. These autocracies, banded together, may prove an anti-US block in the future.

## Some of China's outreach is benign for the US, but some undermines our objectives



China is providing a vast amount of direct investment and foreign aid to developing countries. Some of this fuels the natural resources it needs for its economic growth, such as oil and steel. However, its funds come with no strings attached, undermining U.S. efforts to tie aid and trade to human rights and good governance. It also funds countries we are trying to isolate or sanction, such as Sudan (despite the Darfur genocide) and Iran.

**Investment in Africa.** China has more inward investment in Africa than all of the Organization for Economic Co-operation and Development (OECD) countries combined (these are mostly Western countries), and provides more loans to Africa than the World Bank. This gives China strategic leverage over the US and the West, as well as greater access to Africa's raw materials. In Latin America, China is also using a variety of diplomatic and economic tools to open markets for trade and promote stronger political ties.

**Iran** is a major market and a key source of energy resources that China depends on. China provides Iran with major arms systems including small arms, ballistic and cruise missiles, as well as sensitive technology potentially of use in Iran's nuclear program. Its trade ties have made it difficult for Western sanctions on Iran to be meaningful.

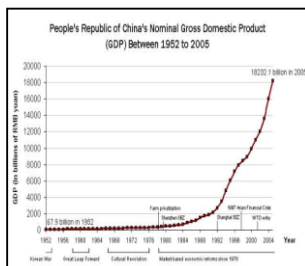
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## China's economy is the source of its strength

Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2009 stood as the second-largest economy in the world after the US. China's Gross Domestic Product (GDP) as derived from PPP is about half of America's: \$6.99 trillion for China, versus \$13.84 trillion for the US.

**Consistent Growth.** China's economy has grown between 7% and 15% every year since 1991.

**Playing by some of the rules.** China is acting through status quo institutions – like the World Trade Organization (WTO) – but some actions, such as manipulating its currency, violates the rules of such organizations. It remains to be seen whether China seeks to become part of, or slowly overturn, the international order founded by the US and its allies after World War II.



**Weathering the Financial Downturn.** To weather the global financial crisis, China froze reforms of its currency and pursued a domestic stimulus package of more than half a trillion dollars. Since China hasn't liberalized its financial markets, the financial crisis did not hit China as hard as it did the US and Europe. In fact, the crisis has made China even more critical to the world economy, as the world is even more heavily dependent on pockets of GDP growth, and its ability to withstand the crisis has won admirers. All of this helped China post an 8.7% economic growth in 2009.

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## China's economy: opportunities & challenges for US

China's economy presents significant opportunities for the US. China's low-cost exports to the United States (\$330 billion in 2007) have saved US consumers billions of dollars, while the emerging Chinese market is a major destination for US direct investment, topping \$28 billion in 2007, a 20.9% increase from 2006. However, China's economic growth also presents a number of challenges for the United States.



**Currency & Trade Deficit.** By artificially depreciating its currency, China makes its own exports more competitive, which makes US exports less so. This has exacerbated a US trade deficit with China that is significantly larger than that of any other US trading partner. The deficit rose from \$30 billion in 1994 to \$256 billion in 2007.

**Jobs.** The US has not experienced a net job loss, but the growth of manufacturing in China and other developing nations has displaced the jobs of hundreds of thousands of US workers. Much of the return on these products actually comes back to the US: the iPod, manufactured in China, brings cents per unit to China and dollars per unit to the U.S. -- but such gains require the US to build its advantage in innovation, service, and high-tech jobs.

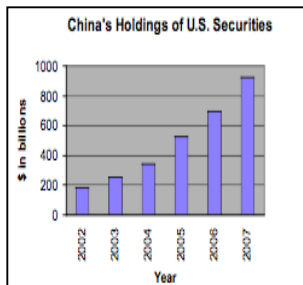
**An Unfair Playing Field.** Compared to the West, China places limits on foreign ownership of businesses in China, while its repressive government puts restrictions on foreign businesses.

**Sovereign Wealth Fund.** By creating a sovereign wealth fund – an investment fund run by the Chinese government – China has greater ability to turn economic power into political leverage.

**Pushing up oil prices.** China's rising demand for energy has put upward pressure on oil prices, while its use of coal is wreaking environmental havoc in Asia and around the world.

## China owns a lot of US debt - meaning we are mutually dependent

The US government spends more than it takes in from tax revenue. To make up for this spending gap, it sells its debt in the form of US Treasury securities. About half of this debt is bought by foreign investors, who see U.S. bonds as safe investments. As of May 2009, China's Treasury securities holdings were \$802 billion, accounting for 24.3% of total foreign ownership of US Treasury securities. In other words, China holds about 12% of all U.S. debt, and is the largest foreign holder of US Treasuries.



**Does China's ownership of US debt give China leverage over the US? Maybe.** If China pulled its money out of US Treasuries, it would hurt the US dollar. But it would also drive up the cost of Chinese imports into the US and damage China's trade relationship with the US. Since China's economy is tied to exporting goods to the massive US market, China would be hurting itself. Moreover, China would need to invest that money in something else - and good investments for that amount of money are hard to find.

However, a conflict over Taiwan could prompt such action. In fact, a Chinese General recently suggested that China sell US Treasuries to punish the US over weapon sales to Taiwan. Chinese leaders might swallow a hit to their trade relationship with the US in order to obtain something of greater value - but we are interdependent. Hurting the U.S. also hurts China.

## But China's currency manipulation is a problem

### China artificially depresses the value of its currency. What's this mean and how does this work?

China's economy is export-driven. Low currency values boost exports. That's why China wants to keep its currency low. To keep its currency low, China buys US Treasuries. This artificially lowers the value of China's currency – the renminbi, or yuan – compared to the dollar.

**How does this hurt the US?** Lower currency values boost exports, higher currency values shrink exports. So when China drives up the value of the dollar compared to the yuan, it hurts America's ability to export. However, it does bring in cheaper goods from China, helping U.S. consumers.

**Is China trying to hurt the US? Not exactly.** Like all powerful countries, China wants to increase its own power relative to other countries; this includes the US. However, China also faces domestic pressures. In the long-run, China would like to develop its internal market and rely less on exports; to do this, it would have to let its currency appreciate and buy fewer US Treasuries. However, moving away from exports and toward developing its own market poses big risks. It could prompt major economic instability, which would yield political instability. Fearful of this fact, China is likely to move very slowly in the near and medium term, as evidenced by its modest currency reform in June.

**What can the US do? Good question!** If the US stopped running deficits, there would be no debt for China to buy. Punitive actions would include tariffs on Chinese goods or seeking action against China through the World Trade Organization or International Monetary Fund. However, given the weakness of its domestic market, China might not be able stop manipulating its currency (to keep exports up) as quickly as we'd like; even if they want to. Our best policy is to help China develop its internal market to sell to its own consumers. But US policy makers have yet to develop a strategy to tackle the overall issue.

## China's economic growth is raising millions out of poverty, but human rights abuses continue

### GOOD NEWS



**Major gains against poverty.** China's rapid economic growth since 1990 has halved the number of people living in extreme poverty to under a fifth of people in developing Asia. Across China, over 400 million people have been lifted out of extreme poverty since the 1980s. By pouring resources into public education, China annually produces 75,000 people with higher degrees in engineering or science. This is creating a burgeoning middle class.

### BAD NEWS



**Income inequality** is rapidly rising. The gap between rich and poor is rising more rapidly in urban areas.

**Human Rights Abuses.** The state frequently jails or tortures peaceful activists. For example, Amnesty International notes that prisoners of conscience, such as Tibetan scholars, are at high risk of torture in China. Furthermore, China often disbars lawyers who take on "sensitive" rights cases, which calls China's commitment to rule of law into question.

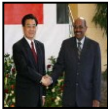
## To feed its economic machine, China is also propping up some of the world's worst regimes



**North Korea.** China is North Korea's top ally. It is also North Korea's biggest trading partner and main source of food, fuel, and arms. China has an interest in preventing regime collapse because it would face a massive influx of refugees. Accordingly, China has opposed harsh sanctions, but took a tougher stance after North Korea tested a nuclear device in 2009.



**Iran.** China buys over 400,000 barrels of oil from Iran per day, amounting to 14% of its oil imports. In 2009, China announced a \$40 billion investment in building refineries in Iran. This undercuts the power of sanctions against Iran. Now that Russia supports sanctions, China could be the only country blocking a united front against Iran's nuclear ambitions.



**Sudan.** China is accused of providing unconditional support to the regime in Sudan, which is responsible for the genocide in Darfur – a conflict that has claimed 400,000 lives and displaced over 2.5 million. Although China allowed the UN to send a peacekeeping force, it worked to weaken the resolution's terms. China is constructing a multibillion dollar oil pipeline through Sudan, which will extend China's influence for at least 20 years.



**Burma.** China will soon be Burma's biggest natural gas buyer, and expects to extract more gold, coal, and copper that it needs to fuel its rapid development. Burmese generals have cracked down on democracy advocates and refused to allow international aid after the Cyclone Nargis in 2008, which led to the deaths of 140,000 Burmese.

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## US-China relations are grounded on extensive common interests, few common values

**Common Interests.** As the two largest economies in the world – with mutual dependence between our economies – the US and China have a common interest in a stable and prosperous global economy. Other common security problems – combating terrorism, stopping nuclear proliferation, halting climate change and environmental degradation, addressing the world's over-reliance on fossil fuels – can only be solved by the US working with China and other critical nations.



**But we lack common values.** China's rulers do not share America's values of democracy, human rights, religious freedom, & freedom of speech. And while the US has little leverage to force China to adhere by such values, it does have the ability to attract allies through its values.

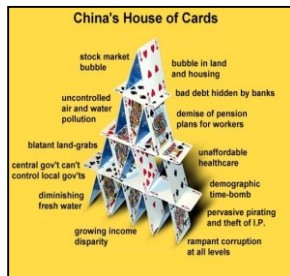
**Developing countries wonder if the China model can let them develop without providing human rights.** The US and China offer the world competing models of prosperity: democratic-capitalism for the US, and autocratic command economy in China. Many autocratic developing nations are looking to China to see if they can grow economically without providing freedom to their people. The battle between American and Chinese models in developing nations will be a core feature of foreign affairs in the 21<sup>st</sup> century.

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## China also has major domestic challenges to face

**China's economy may be on fire, but it can't hold a candle to US power.** It will take decades – if ever – for China to catch up to the US economically. And it still lags far behind the United States in military might, political and diplomatic influence, and even most measures of economic stability.

**China's neighbors worry about China, and see the US as trustworthy balancer.** Japan, South Korea, and Taiwan are all conducting positive relations with China. But they also worry about China's growing power, and they see the US as an ace-in-the-hole ally that will provide economic and military balance to Chinese power in Asia.



**Because of its One Child policy, China's population is aging rapidly.** By 2040, China could have at least 400 million elderly. This will put a major financial burden on the Chinese, and could hinder its economic growth. Moreover, frequent abortion of female fetuses means that its young men outnumber its women - a recipe for unrest.

**Internal unrest.** China already faces some 90,000 annual protests. And recent labor strikes suggest that China will have to deal with internal political grievances.

**Inflation.** Many analysts argue that China's rapid growth is fueling inflation, which would prompt instability & drive up prices in China.

**Human Rights.** China's well known human rights violations continue to plague China's reputation and attractiveness.

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