

TAIWAN STRAIT II:

THE RISK OF WAR

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TABLE OF CONTENTS

EXECUTIVE SUMMARY AND RECOMMENDATIONS	i
I. INTRODUCTION	1
II. CHINA’S MILITARY POSTURE AND CROSS-STRAIT CONTINGENCIES	3
A. FORCE READINESS AND DEPLOYMENTS	4
1. National Military Development.....	4
2. Taiwan in China’s Military Planning.....	7
B. TRENDS IN DEFENCE SPENDING.....	16
1. National Defence Spending.....	17
2. Taiwan in China’s Overall Military Spending	19
C. SOME KEY QUESTIONS: MILITARY PREPAREDNESS AS POLITICS	19
1. Psychological Warfare	20
2. Information Warfare	21
3. Covert and Other Operations	22
4. What Sort of Armed Hostilities Would China Launch?	22
III. TAIWAN'S MILITARY POSTURE	24
A. TAIWAN’S STRATEGY AND FORCE READINESS.....	25
B. TAIWAN’S DEFENCE SPENDING: THE BIG ANOMALY	27
IV. UNITED STATES MILITARY POSTURE IN THE TAIWAN STRAIT AND EAST ASIA	29
A. DEFENCE OF TAIWAN	30
1. Bolstering Taiwan’s Own Military Capacities	31
2. U.S. Deterrent Posture toward China in the Taiwan Strait	33
3. Is the U.S. Deterring China?	34
4. Employing U.S. ‘Information Dominance’	35
B. REGIONAL STRATEGIC CONSIDERATIONS.....	35
1. Korea.....	36
2. Rejuvenation of U.S. Defence Relations with Japan	37
3. Rejuvenation of U.S. Defence Relations with the Philippines	39
C. GEOPOLITICAL CONSIDERATIONS.....	41
V. HOW THE RISK OF WAR CAN BE REDUCED	42

TABLES

1. COMPOSITION OF CHINA'S NAVAL FLEETS	12
2. ARMS PURCHASES : SELECTED GOVERNMENTS.....	18
3. CHINA'S DEFENCE SPENDING: ANNOUNCED COMPONENT.....	19

4. WEAPON SYSTEMS HOLDINGS: SELECTED GOVERNMENTS	26
5. DEFENCE SPENDING: SELECTED GOVERNMENTS 1985, 2000	27
6. POSSIBLE MEASURES TO REDUCE MILITARY TENSION BY PHASE OF POLITICAL CONFLICT	42

APPENDICES

A. MAP OF TAIWAN AND ADJACENT AREAS.....	45
B. LIST OF ACRONYMS.....	46
C. ABOUT THE INTERNATIONAL CRISIS GROUP	48
D. ICG REPORTS AND BRIEFING PAPERS.....	49
E. ICG BOARD MEMBERS.....	55



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EXECUTIVE SUMMARY AND RECOMMENDATIONS

China's underlying position on its cross-Strait relations, however strong its current commitment to peaceful diplomacy, is that Taiwan must make sustained, visible progress toward a peaceful settlement or risk a resort to armed hostilities. It has also indicated that any move by Taiwan that might demonstrate its substantive rejection of this new demand could well be the last straw.

But while military measures have had a significantly higher profile since 1995, and there is real concern at the extent to which Taiwan's move away from the 'one China' principle has challenged Beijing, closer examination suggests that there is still some way to go before China would feel itself ready to launch a major military assault. China is operating very much at the psychological or political, rather than military, level of conflict.

An invasion of Taiwan by China cannot be rationally related to two of Beijing's most important objectives: reunification and sustained national economic development. If China did launch an invasion it might well, whatever its ballistic missile capability, lack the military capability to succeed, particularly if the U.S. intervened, and even in its best case scenario, would not be able to subjugate Taiwan without large scale loss of life. Such use of force could certainly be expected to lead to recognition of Taiwan, even an occupied Taiwan, as an

independent sovereign country by major powers such as the U.S. and the EU. The subsequent domestic repression in Taiwan over a protracted period under a China-installed regime would ensure a total breach between China and the developed world. Such a breach would bring a near total end to China's substantial exports to the developed world and produce massive unemployment in its coastal cities at a time when domestic political stability is under severe strains.

China also faces severe constraints for lower level military options. During the present decade, it will not be able to field a force large enough or capable enough to conduct an effective blockade if Taiwan chooses to resist. Nor could it count on being able to do so at any later time, except perhaps in the unlikely event that Russia or some other highly developed military power were willing to supply it with massive numbers of modern weapons systems and platforms. Indeed, on the basis of current trends, it is unlikely to be able to acquire air superiority needed to execute even a partial blockade. Its entire fleet of modern submarines, even if it rises to 40 boats or so in around seven years time, would probably not be able to execute the naval component of such an action, and the acquisition of major surface combatants is likely to continue on a replacement basis for older vessels rather than be directed at an increase in numbers.

For these reasons, if China should feel the need to escalate the 'war' with Taiwan, it will seek to exhaust a variety of non-lethal levers it has at its disposal before it will even consider combat hostilities seriously. These include information warfare, covert operations and unconventional provocations designed to create political divisions in Taiwan. These measures, though non-lethal, would carry a risk of escalation that cannot be dismissed.

The validity of these assessments about China operating at the political rather than military level of conflict is borne out to a considerable degree by Taiwan's own policies and military posture. In 1991, Taiwan formally dropped its policy of armed confrontation with China, and it has continued to lower its defence burden accordingly. Even though the military threat from China resurfaced prominently in 1995, Taiwan has not made the sort of massive new investment in defence capability and defence mobilisation that this might have suggested. It has been satisfied since 1995, as it was before, to use the robustness of its defence posture essentially for political purposes, to underpin its distancing from the 'one China' principle and as a means of winning international political support for an independence strategy, especially in the U.S. The national defence posture premised on a politico-military threat from China (rather than a threat of invasion) also supports building a new Taiwan identity and provides a basis for claims to *de jure* independence, without seriously disturbing the otherwise peaceful development of Taiwan's economy.

All that said, the risk of war in the Taiwan Strait must continue to be taken seriously. Neither principal is likely to embark consciously on a war but there is a significant possibility that the calibrations made in policies of threat of force or employment of non-lethal measures by Beijing, or in response by Taiwan or the U.S., may not be exact. A cycle of escalation and counter-escalation is quite conceivable, at each stage of which the political difficulties and costs of disengagement would be greater. There is need, therefore, for the parties themselves and the U.S. to undertake, both unilaterally and between each other, confidence building and transparency steps to lower the risk of

miscalculation and misunderstanding that could otherwise lead to serious military consequences.

Many of the elements needed for reducing military tensions in the Taiwan Strait and military confidence building are in place (such as mutual observance of a tacit military separation zone in the middle of the Strait). But there is considerable room for improvement, especially in some areas of military readiness (such as a reduction in China's missile deployments). Apart from removing these missiles, not much can actually be achieved in changing military deployments. The bigger issues are transparency and managing the perceptions of the military situation in the Strait. Both sides are too willing to use point scoring about military deployments, and this overshadows the visible progress in civil cooperation, especially the prospect for establishing comprehensive direct links and joint oil exploration in the middle of the Strait.

In this environment, the responses of the U.S. have carried both positive and negative consequences. Washington's determination to oppose Chinese intimidation and possible use of force is clearly the right policy. But there has to be some doubt whether its armed forces are the best instrument to which to give priority in conducting that policy. China is far more responsive to incentive-based policies, related to investment and technology transfer, than it is to threat-based sanctions or attempts at deterrence. One thing is certain: the information dominance of the U.S., based on its far superior and near real-time intelligence capabilities, gives it capacities for crisis management and leadership that neither Taiwan nor China can match. This strength of the U.S. needs to be brought into play more effectively in the interests of peace in the Taiwan Strait.

RECOMMENDATIONS

To China and Taiwan:

1. Pursue efforts to build confidence, and knowledge about each other's military capabilities and intentions, by such measures as:
 - (a) setting up a hot line or other crisis management communications system;

- (b) increasing transparency about the military situation in the Taiwan Strait by publishing annual benchmark studies documenting military activities, using consistent data reference points;
 - (c) publishing a detailed history of observance by both sides of the tacit military separation zone in the Taiwan Strait;
 - (d) expanding second-track initiatives in the military field, such as meetings of retired military personnel; and
 - (e) increasing transparency about the comprehensive security situation in the Taiwan Strait by publishing annual benchmark studies that document concrete cross-strait cooperation and interchanges in civil areas.
2. Constrain the tendency to use sensationalist or exaggerated accounts of the military situation as a basis for political point scoring.

To China:

3. Move away from the appearance of a hair-trigger military posture that is suggested by its missile deployments in Fujian, by reducing or at least freezing those deployments.
4. Curtail military exercises in the Taiwan Strait.
5. Respond to Taiwan's moves on partial demilitarisation of its smaller islands with some visible adjustment in military capability in the vicinity.
6. Substantially increase the level of transparency of military policy across the board, and in respect of the Taiwan Strait in particular.

To Taiwan:

7. Continue to explore and promote public support for demilitarisation of the islands in the Taiwan Strait.
8. Continue to exercise restraint in military spending and increase public awareness of this restraint, especially its positive impact on cross-Strait relations.

9. Visibly slow the pace of enhancement in U.S.-Taiwan military ties if China softens its military posture.

To the United States:

10. Increase transparency about the military situation in the Taiwan Strait by publishing annual benchmark studies documenting military activities, using consistent data and reference points.
11. Increase transparency about the military posture of China by publishing annual benchmark studies using consistent data and reference points that can dispel popular misperceptions of China's policies rather than fuel exaggerated perceptions.
12. Undertake annual reviews of confidence building measures in the Taiwan Strait, including consideration of possible trade-offs between U.S. deployments and Chinese military posture toward Taiwan.
13. Open up wide-ranging and regular military to military contacts with the PLA to gain direct access to Chinese military personnel on the issue of use of force in the Taiwan Strait.
14. Continue to be extremely cautious about approving arms sales to Taiwan, and visibly slow the pace of enhancement in U.S.-Taiwan military ties if China softens its military posture.

**Beijing/Taipei/Washington/Brussels,
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TAIWAN STRAIT II: THE RISK OF WAR

I. INTRODUCTION

Since 1995, China has been concentrating more of its military attention on the Taiwan Strait. It has deployed to the area hundreds of land-based short-range ballistic missiles that can reach Taiwan. In recent years, China's government has announced defence budgets showing double-digit growth, and it is generally increasing its military threat to Taiwan. But Taiwan is not responding with higher military spending itself. In July 2002, its government issued a White Paper on national defence that lays out plainly the sustained decline, for more than a decade, in defence budgets as a share of government spending. If the Taiwan government and electorate have tolerated a declining share of government spending for the armed forces for so long, even as China has intensified its threats, then how imminent can they think hostilities are?

The Taiwan government and electorate obviously think that appearances are not all that they seem and that prospects for containing rising military pressures in the Taiwan Strait are quite good. This is a correct view. China's leaders still see themselves as a great deal closer to the low-intensity end of the spectrum of armed conflict with Taiwan than to the high-intensity end.

The political context in which the parties view the military developments was spelled out in ICG's first report in this series, *Taiwan Strait I: What's Left of*

'One China'.¹ After a decade of rapid political change and economic growth, Taiwan's political parties and voters are trying to come to terms with the contradiction between the old idea of 'one China' and the idea of Taiwan as an already independent sovereign state, a position supported by both the major political parties. The domestic politics of national identity in Taiwan will ensure that the contest between it and China over the sovereignty issue will continue, even at the risk of provoking Beijing to further shows of military strength. But the report also concluded that public opinion in Taiwan is susceptible to strong leadership on this issue. China's strategy is to use all levers at its disposal (political, economic and military) to shape that domestic political debate in favour of a return by Taiwan to the 'one China' principle.

China's international political strategy is primarily to ensure that there is no retreat, especially by the major powers, from the position of refusing to recognise Taiwan as a sovereign state. Its missile launches in 1995 and 1996, after President Lee Teng-hui visited the U.S. in June 1995, was as much a signal of its position to the international community as it was a form of pressure on Taiwanese voters. But while the threat to use force had the desired effect of getting states to reiterate their commitment to the 'one China' principle, it had the decidedly negative impact of providing the

¹ ICG Asia Report N°. 53, 6 June 2003

foundation for a rejuvenation of the U.S.-Taiwan military alliance.

The continued reliance by China since 1996 on the military instrument of policy, even though this has been accompanied by more creative moves in the political and economic spheres, has contributed to rising tension with the U.S. This tension fuels the domestic debate in Taiwan, with supporters of more comprehensive assertion of independence pointing to the threats as proof of their cause while drawing considerable encouragement from the improving military relationship with the U.S. As the democratisation of Taiwan gathered pace in the last decade, and as China continued to rely visibly on military pressure, domestic opinion in the U.S. (especially the Congress, but also in successive Administrations) shifted significantly, becoming more supportive of Taiwan generally and determined that, 'one China' or not, Beijing should not be permitted to achieve unification by force.

Thus all three main actors face sharp dilemmas in finding the right balance between their political and military posturing around the Taiwan Strait:

- The political parties in Taiwan must promote Taiwan's identity as independent but cannot offend China to the point where it feels compelled to use force. Taiwan must maintain the appearance of self-reliant military defence to provide the necessary sense of security to its people, but it does not want an arms race that would seriously affect its economy and provoke China. Taiwan must also maintain the appearance of self-reliant military defence if it wants to continue to receive military support from the U.S. against China, but it cannot afford to look belligerent, because the U.S. wants Taiwan to act non-provocatively.
- China feels that it cannot afford to surrender its threat of force against Taiwan, but it also knows that over-reliance on this will undermine its goals of reunification and the continued flow of investment, technology and trade dollars from the developed countries. At the same time, China feels it cannot be too soft in its military preparedness because the long-term trends in Taiwan and in U.S. opinion toward China do not look very favourable.

- For its part, the U.S. is willing to use its military power to oppose China's military intimidation and to support Taiwan in its efforts to negotiate with China, but it knows that each time it supports Taiwan, there are independence supporters there who draw comfort. The U.S. also knows that each time it supports Taiwan militarily, there are those in Beijing who use it as evidence that China needs to step up its military preparedness further.

This is the political field on which the military forces of China, Taiwan and the U.S. are now being deployed. This report describes the capabilities currently ranged against each other across the Taiwan Strait and the options for use of force that they provide. It also describes the U.S. military posture in the Western Pacific as it relates to Taiwan contingencies.

Based on the capabilities available and the political cost of various military options, the report offers an assessment of the risk of war and how it can be reduced. The focus is on various techniques to build confidence and reduce risk, such as increased transparency, freezing of military deployments, advance notification of deployments, and observance of *de facto* separation zones or no-go areas.

II. CHINA'S MILITARY POSTURE AND CROSS-STRAIT CONTINGENCIES

Some observers have painted China's military priorities as almost entirely oriented toward Taiwan contingencies. For example, a U.S. Department of Defence report of July 2002 on cross-Strait military developments assessed that 'preparing for a potential conflict in the Taiwan Strait is the primary driver of China's military modernisation'.² This section addresses the extent to which Taiwan contingencies have been a driver of China's military modernisation. It finds that the above assessment is true but contains sufficient subtleties to be somewhat misleading. There are three questions that need to be addressed in understanding these subtleties.

First, to what extent can increases in military readiness of the Chinese military (PLA) be attributed to general modernisation and professionalisation, a process launched in 1978, and one that all great powers engage in, rather than to heightened readiness for Taiwan-related contingencies?

Secondly, even where force readiness is being improved in the vicinity of Taiwan, can these moves be attributed to a specific expectation in the Chinese civilian leadership that they will need to resort to hostilities over Taiwan? Or, in the absence of this expectation, can they be better attributed to the value the PLA military leadership places on using the highest-level threat scenario available as a means of focusing and directing military modernisation of a backward force?

Thirdly, can improved PLA readiness in the Taiwan Strait be attributed to a civil-military bargain (perhaps implicit), in which the leaders are using generous budget allocations and increased operational tempo as

a means of locking in PLA loyalty to civilian authority on decisions against use of force?³

The most important conclusion is that China has since 1995 displayed a clear preference for use of military coercion against Taiwan only in a very limited, modulated and non-lethal fashion. The following analysis demonstrates that when it comes to Taiwan, China is clearly closer to the low intensity end of the conflict spectrum than to the high intensity end. As the Pentagon report itself notes, 'in 1999, Beijing seriously considered upgrading the priority attached to military modernisation', but reaffirmed 'its stress on economic growth and development' while agreeing to provide 'significant additional resources and funding to support accelerated military modernisation'.⁴

The persistence of this policy choice by China's leaders was reflected in Jiang Zemin's report to the 16th Communist Party Congress in November 2002 ('keep economic development as the central task');⁵ and it was similarly reflected in the November 2002 White Paper on National Defence.⁶ Jiang reiterated the leadership view that it would not be until the middle of the century that China would be a 'strong' and 'prosperous' country. This formulation reflects leadership calculations that China should, for the foreseeable future at least, avoid a direct and large-scale military confrontation with the U.S. over Taiwan.

² United States Department of Defense Defense, Report to Congress Pursuant to the FY2000 National Defense Authorization Act, 'Annual Report on the Military Power of the People's Republic of China', 12 July 2002, p. 56. See www.defenselink.mil/news/Jul2002/d20020712chin.pdf

³ This consideration is given considerable credibility among military and civilian analysts in Taipei as the primary motivation for China's military build-up in the vicinity of Taiwan. ICG interviews, May 2002.

⁴ Department of Defense, 'Annual Report', op. cit., 2002, p. 9.

⁵ Embassy of the People's Republic of China in Australia, Full text of Jiang Zemin's Report at 16th Party Congress, www.chinaembassy.org.au/eng/37883.html.

⁶ 'China's National Defence in 2002', Full Text of White Paper issued by the PRC State Council Information Office, 9 December 2002. FBIS-CHI-2002-1209: 'Full Text of China's National Defence White Paper'.

A. FORCE READINESS AND DEPLOYMENTS

1. National Military Development

China's reform era leadership began to chart the course for a modernisation of its large and technologically backward armed forces in 1978, along with plans to modernise productive sectors of the economy, such as agriculture. The constraints on military modernisation have been severe. By the early 1980s, China's leaders were forced to abandon hopes of catching up with the U.S. as a military power through any strategy focused narrowly on re-equipping and retraining the existing forces. The country's military industry faced severe institutional deficiencies, especially in research and development of high technology materials and sub-systems that characterise the pre-eminence of United States, United Kingdom, French and Russian military equipment.⁷ China's leaders accepted the need to reduce the size of the forces substantially, and to rely on a steady growth in the national economic and technological base, coupled with a non-confrontational diplomacy, to secure the country's strategic interests. The pre-eminent interests they identified then were economic – rapid growth and national prosperity. They firmly believed that they could not provide the entire armed forces with modern equipment and high levels of training and support until the country had achieved broad-based economic, industrial and scientific advance.

This basic realisation about the weakness of the armed forces coincided with a reassessment in the mid-1980s by China's leaders of the international security environment. They concluded that the risk of large scale war had receded substantially and that the

global trend in the development of armed forces was for small-war strategies to replace major-war strategies, and consequently for more reliance to be placed on élite, rapid reaction forces at the expense of large and powerful, but relatively immobile forces.⁸ China's diplomatic strategy in this context was to avoid even local wars where possible.⁹

Some two decades later, these key strategic assessments remain valid for China's leaders. Most PLA forces remain obsolete, with weak logistic support and technological bases. China does not produce modern combat aircraft capable of competing with those of major foreign producers. It does produce the hulls of modern warships and submarines but not most of the modern combat and engineering systems (including such basic things as engines) to make them competitive with those produced abroad. Conventional military forces are very large but characterised by low technology – 2.27 million personnel, just over 58 army divisions, about 2,400 combat aircraft, 63 principal surface combatants, and 69 attack submarines.¹⁰ By comparison, the U.S. has a much smaller force in terms of personnel and ground force units, but much higher technological capability: 1.41 million personnel and ten army divisions, with about 6,000 combat aircraft and 129 principal surface combatants (including twelve aircraft carriers), and 54 attack submarines.¹¹ This U.S. advantage is even more pronounced with respect to Navy and Air Force, two elements that would be highly important in any Taiwan contingency.

The U.S. intelligence agencies, which are the organisations best placed to assess military capability, have consistently identified massive resource, technology and management deficiencies that prevent

⁷ John Frankenstein, 'The People's Republic of China: Arms Production, Industrial Strategy and Problems of History', in Herbert Wulf, (ed.), *Arms Industry Limited*, Stockholm International Peace Research Institute (New York, 1993), pp. 315–319. China's preferred suppliers for foreign military technology were the U.S. and its western allies. China's recourse to Russian military technology was the result of U.S. and Western sanctions imposed after the events in Tiananmen Square in 1989 and the détente between Beijing and Moscow that had taken shape through the mid-1980s.

⁸ Liao Xianwang, 'Increase National Strength, Coexist Peacefully', *Renmin ribao*, 28 December 1993, p. 6, translated in FBIS–CHI–94–003, 5 January 1994, p. 1: 'International Strategists Discuss Issues'.

⁹ The strategy was expressed in the phrase 'adopt every diplomatic means to avoid the outbreak of war, ensure victory if war is inevitable, end the war on favourable terms after the predetermined goals have been achieved'. John Wilson Lewis and Xue Litai, *China's Strategic Seapower: The Politics of Force Modernization in the Nuclear Age* (Stanford, 1994), p. 216.

¹⁰ See IISS, *Military Balance 2002-2003*.

¹¹ *Ibid.*

a large scale modernisation of China's armed forces. In July 2002, the Pentagon reported to Congress that China 'lacks the technology and logistical support to project and sustain conventional forces much beyond its borders' and that 'comprehensive modernisation will take many years'.¹² The Defense Intelligence Agency (DIA) global threat briefing to Congress in February 2002 did not include China among the near-term military threats and assessed that it will continue to give economic development a higher priority than military modernisation.¹³ The Pentagon has for a number of years held such a view of China's defence modernisation. In 1995, the head of the DIA, Lieutenant-General James Clapper, told a Congressional Committee that China's defence modernisation 'is not necessarily threatening, some force modernisation is to be expected because China has a large, old military'.¹⁴ The U.S. Assistant Secretary of Defense for International Security Affairs, Joseph Nye, reminded journalists in February 1995 that the increases in China's military spending had been from a 'low base'.¹⁵ China's military capacities will continue to be severely hamstrung by the effects of low pay and poor living conditions in the armed forces and the numerous commercial opportunities presented to enterprising officers by PLA control of massive state resources.

There are other significant obstacles apart from resource, technology and management capacity inside China's defence industry and armed forces. One meaningful institutional barrier is the continued dominance of ground force officers in decision-making processes. This single service dominance, not evident in the U.S. defence establishment, allows the Ground Forces to impose their preferred priorities. Even though they have been cut substantially in the past twenty years, from 42 group armies in 1982 to 21 in 2002, and from

3.15 million personnel to 2.27 million personnel, the Ground Forces still account for some 75 per cent of PLA personnel. (This contrasts sharply with the U.S., where the army constitutes only 21 per cent of total personnel.)¹⁶ They retain a position of dominance in setting military priorities, including not just resource allocation decisions but also contingency planning and development of strategic and operational concepts. As a prominent U.S. analyst noted about the PLA: 'It is the army's conceit that ultimately it is they who will do the heavy lifting in defence of China's national interest'.¹⁷ As a result, both the Air Force and Navy have not yet been able to supplant the dominance of the Ground Forces in budget shares, a process that happened in the U.S. as early as the 1950s.¹⁸

In the case of the Air Force, for example, China has only about 100 'modern, fourth generation fighters',¹⁹ all purchased from Russia in the last eight years.²⁰ A 1995 Rand Corporation study concluded that the rate and scale of China's Air Force acquisitions over the next decade will be 'incremental and demonstrably insufficient to redefine the regional airpower balance'.²¹ The Air Force would not, according to the study, 'constitute a credible offensive threat against the United States or its Asian allies today' or over the coming decade. The study concluded that there is little hope

¹² Department of Defense, 'Annual Report', op. cit., 2002.

¹³ Prepared testimony of Vice Admiral Thomas R. Wilson, Director, Defense Intelligence Agency, on Global Threats and Challenges, Senate Select Committee on Intelligence, 6 February 2002. See www.fas.org/irp/congress/2002_hr/020602wilson.html.

¹⁴ United States Information Service (USIS) Asia-Pacific Wireless File, 'North Korea, Russia, Weapons are Top US Security Concerns', 17 January 1995.

¹⁵ USIS Asia-Pacific Wireless File, 'DOD Presents East Asia Strategy Report', 27 February 1995.

¹⁶ IISS, *The Military Balance 2002-2003*.

¹⁷ Michael McDevitt, 'Ruminations about How Little We Know about the PLA Navy', 10 October 2000, www.ndu.edu/inss/China_Center/paper14.htm. The subtitle of McDevitt's paper was "The PLA Navy: Why Should We Care if the PLA Doesn't?"

¹⁸ For a useful overview of the interplay of bureaucratic politics and force structure, see Eric Heginbotham, 'The Fall and Rise of Navies in East Asia: Military Organisation, Domestic Politics and Grand Strategy', in *International Security*, Vol. 27, No. 2 (2002), pp. 86-125.

¹⁹ Department of Defense, 'Annual Report', op. cit., 2002, p. 15. Some sources describe the Su-27 aircraft which makes up the bulk of these 100, as third generation.

²⁰ By 2005, the number of combat aircraft in service in the PLA will probably be about two-thirds of current levels, down to about 2300. Of these, almost three-quarters will be MiG-19 or MiG-21 variants – both aircraft which first flew in the 1950s.

²¹ Kenneth W. Allen, Glenn Krumel and Jonathan D. Pollack, 'China's Air Force Enters the 21st Century', Rand, Santa Monica CA, 1994, p. xiii.

over the next ten years for the Air Force to be 'more than a homeland defence force, with a very limited power projection capability'.²² It remains preoccupied with air defence of the major cities and does not have adequate command and control capabilities for close air support of ground forces.²³

It is ICG's view that the main elements of this Rand assessment of seven years ago will still apply for the coming decade: 'a homeland defence force, with a very limited power projection capability'.²⁴ Acquisitions over the next decade will remain incremental. By 2010, on current indications, China may have about 400 third or fourth generation fighters (Su-27 and Su-30).²⁵ As importantly, China will continue to import its advanced combat aircraft,²⁶ giving the supplier country a veto over China's ability to mount sustained combat operations in which re-supply of parts, including aircraft engines would be essential.

The Navy enjoyed a somewhat better rate of modernisation in the 1980s than the Air Force, but this probably reflected its very poor state in the 1970s when the decision to upgrade was made. In 1975, the number of major surface combatants in the fleet was only 16. In the six years between 1975 and 1981, the fleet of major surface combatants doubled in size to 32, but it has taken twenty years since then to see another doubling to its current level of 62. The last decade has seen serious setbacks to naval development as a result of

distorting influences from budgetary, doctrinal and bureaucratic pressures.

There has been only a small quantitative expansion in the Navy surface fleet since 1989 (from 56 to 62 major surface combatants). This net expansion rate since 1989 of one ship every two years contrasts strongly with larger quantitative increase between 1983 and 1989 of almost four ships per year. The rate of deliveries was much faster before the collapse of the USSR than since, suggesting that the rapid expansion of the surface fleet in the 1980s was related in large part to the Soviet threat. Since the collapse of the USSR, China has significantly slowed its naval expansion. The tempo of expansion of the surface fleet since 1989 is now one-eighth what it was in the 1980s.

Where more ships or modern submarines have been introduced (such as the *Luhai* anti-ship cruise missile destroyer, the *Luhu* guided missile destroyer, *Jiangwei* guided missile frigate or *Han* class nuclear-powered attack submarine), the numbers since 1989 have been small: one, two, eleven and one respectively over a twelve-year period. China also added two Russian *Sovremenny* class destroyers. According to the U.S. Department of Defense, China's acquisition of major surface combatants is likely to continue on a replacement basis for older vessels rather than be directed at an increase in size.²⁷ But even this assessment may be too optimistic, as a larger number of older ships will need to be retired in the next decade, and they may not all be replaced. Almost half the Navy's fleet of major surface combatants is made up of 26 older *Jianghu* I/II class frigates, first laid down in 1970.

The Pentagon believes that China has set aside indefinitely plans to acquire an aircraft carrier.²⁸ The inability of the Navy to secure funding for an indigenously built aircraft carrier suggests the upper limit on funding levels for this arm of the PLA.²⁹ Purchase cost may not be the main obstacle,

²² Ibid., p. 179.

²³ Ibid., pp. 124-125.

²⁴ An author of the Rand Study, Ken Allen, confirmed to ICG in November 2002 that the PLA Air Force still faced similar severe constraints. In a paper presented to the annual RAND/CAPS conference on the PLA in November 2002, Allen noted that it has not had significant combat experience since 1958, that it does not conduct large scale exercises involving high-intensity sortie generation, and its ability to generate the sortie intensity needed for a sustained campaign against Taiwan was open to doubt. See Ken Allen, 'PLAAF Mobile Offensive Air Campaigns', Paper presented to the CAPS-RAND Conference, 5-9 November 2002.

²⁵ This estimate is based on current public knowledge of China's planned purchases from Russia.

²⁶ Frank W. Moore, 'China's Military Capabilities', Center for the Study of Chinese Military Affairs, National Defense University, Washington DC, June 2000, www.ndu.edu/inss/China_Center/Chinaart2.htm.

²⁷ Department of Defense, 'Annual Report', op. cit., 2002, p. 19.

²⁸ Ibid., p. 20.

²⁹ China's capabilities to take the Spratly Islands from rival claimants (that is, dislodge them) is already formidable, and is unlikely to improve in relative terms over the next

but rather that the Navy's force structure is not ready to absorb and operate one.³⁰ There is also the possibility that the current PLA leadership has no commitment to the virtue of acquiring a carrier task force relative to urgent needs for other, more basic capabilities across the armed forces as a whole.

China's submarine fleet has shown rapid growth at different times since 1975, most especially in the years to 1981, when it doubled in size (from 51 to 99 boats). But this has dropped off significantly, and the size of the fleet has shrunk dramatically after the decommissioning of many of the original 51 boats in service in 1975. The current size of the submarine fleet is around 69 boats, and this will shrink further since the replacement rate of about three per year will not keep up with decommissioning. More capable submarines, such as four Russian *Kilo*-class submarines, and two Chinese built *Song*-class boats, have been added but this is only a modest capability, even for blockade.³¹

Israel's military cooperation with China has become a source of concern both to Taiwan and the U.S. The 1996 Cox Report on transfer of sensitive U.S. military technology to China concluded that Israel had offered significant cooperation in the development of military technology and had actually provided both weapons and technology, most notably to assist in developing its F-10 fighter and airborne early warning aircraft. Israel also provided missile technology. This cooperation has provided a boost to China's military technological capacities, rather than any quantum leap in its coercive capacity against Taiwan. On 7 May 2003, an Israeli newspaper, *Haaretz*, reported that Israel had agreed to a U.S. request to end this technology transfer, though Israeli sources were cited

two decades; the essential military problem now for the PLA is how to protect the islands and forces on them from attack, and that is unlikely to be solved even with the acquisition of one aircraft carrier.

³⁰ Australian Senate, Foreign Affairs, Defence and Trade References Committee, "Australia-China Relations", Parliament of the Commonwealth of Australia, Canberra, 1996, p. 244.

³¹ In 1939, Germany started the war with over 300 submarines then built and lost almost 1,000 in the course of the conflict. In the Battle of the Atlantic, in which Germany tried unsuccessfully to blockade Britain's trade, it used and lost several hundred submarines.

by the paper as saying that some military cooperation with China would continue.³²

China is making considerable strides in its defence modernisation, but it is at least a decade or more away from having the sort of military force that might alter its leadership's calculations about use of force against Taiwan. The military capabilities of Taiwan (not to mention China's other potential adversaries) have not been standing still. As a leading specialist on the PLA has noted, the rapid modernisation of the Taiwan Navy 'has been particularly alarming to the PLA High Command'.³³

2. Taiwan in China's Military Planning

China is preparing itself on a contingency basis for armed hostilities with Taiwan. Those options are discussed later in the report.³⁴ This section of the report looks at how the Taiwan contingency fits into China's national strategy and military planning.

China's assessments about its military capacities relative to the major Western powers, especially the U.S. and Japan, and about the global security environment have inevitably shaped its view of military options relative to Taiwan. As long as the U.S. remained committed to Taiwan's defence and U.S. forces were based on the territory of Japan, China could not simply re-take Taiwan through an all-out attack and invasion, even at a cost similar to that borne by it in the Korean War. But more important for China was the realisation that its ambitious goals for economic modernisation (to quadruple 1980 GDP by the year 2000) would best be achieved through a global and regional strategy of peace. This involved a new open door policy, which included the acceptance of foreign investment from Taiwan, Hong Kong, Japan and the U.S., and a hope for significant technology

³² Yossi Melman, 'Israel freezes defence exports to China, at request of U.S.', *Haaretz*, 7 May 2003.

³³ You Ji, *The Armed Forces of China* (New York, 1999), p. 188.

³⁴ A good overview of the possibilities is provided in a recent study by the U.S. Department of Defense, though this particular study is unnecessarily alarmist and misleading on several key points, as discussed later in the section on China's naval capabilities for Taiwan scenarios and in the section on the PLA readiness profile. See 'Annual Report', op. cit., 2002.

transfer in the process. This national development goal demanded a peaceful posture toward Taiwan and its major potential allies, the U.S. and Japan.

Under the influence of these factors, China allowed its military capabilities opposite Taiwan to decline considerably. It was not until the early 1990s that there was any sign of a possible resuscitation of China's capabilities for military action in this context. In 1990, China began negotiating with Russia on the purchase of advanced fighters, the first delivery of which occurred in 1992.³⁵ But the weight of evidence suggests that, regardless of the motivation of the PLA in specific earlier procurement decisions, it was not until mid-1995 that China's leaders took the decision to elevate the contingency of war with Taiwan to a higher national priority that could lead to a rebalancing of earlier plans for modernisation of the armed forces.

Even so, China's leaders see their military preparations in respect of Taiwan as, in strategic terms, purely defensive.³⁶ China is still pursuing a 'grand strategy'³⁷ of war avoidance. It has few

credible options for using its military force in war that conform to its political goal of reunification within the broader context of national economic prosperity. China's leaders do not believe that they can invade and conquer Taiwan and then expect Taiwan's people and the world to accept that result in a way that would allow a quick return to business as usual.

If China's leaders judged the threat of war with Taiwan to be a serious likelihood in the medium term, one would expect to see relatively high levels of force readiness for the more likely scenarios (especially high-intensity air and naval operations). This readiness would be reflected in regular military exercises in the immediate vicinity of Taiwan. One would expect to see forward basing of, especially, air, airborne, and amphibious forces, allowing a rapid move toward offensive actions. One might also expect to see relatively high levels of defence expenditure directed at Taiwan contingencies and fairly rapid acquisition and entry into service of major weapons systems. An offensive footing would also be suggested by keeping military units in the Taiwan theatre at full strength. One would also anticipate a higher priority generally for military spending, and possibly conscription, than for non-military aspects of economic and social development. One might also expect to see some social mobilisation. And one would expect heavy emphasis on new naval and air forces capable of overcoming Taiwan's defences, since obtaining air superiority and then control of the sea are almost unanimously regarded as preconditions for a successful invasion.³⁸

On the other hand, if China had adopted a defensive, deterrent military posture in respect of

³⁵ These Russian fighters were initially based at Wuhu, about 800 km. from Taipei. This basing, and the subsequent forward deployment from Wuhu during the 1996 Taiwan Strait crisis, suggest that the aircraft may have been purchased with Taiwan in mind. But the aircraft are now deployed throughout China and are not concentrated at Wuhu.

³⁶ A veteran U.S. China watcher summarised this proposition for ICG: 'China does not see itself as having any of the more threatening strategic impulses variously attributed to it by U.S. sources: no overt support of an offensive military doctrine; no messianic impulse; no lebensraum impulse; and there is no institutionalisation of reliance on force in international affairs by China, as there was in the USSR well beyond its borders. China does not see itself as denied an honoured place in world councils and it has no doctrine of manifest destiny or Monroe doctrine. But China sees its stand on Taiwan as a legitimate position flowing from the simple and "pure" Westphalian model of sovereignty of equal states'. ICG interview, Washington DC, May 2002.

³⁷ One of the most difficult problems in analysing the strategies of closed political systems like that in China or the USSR is that lack of information about the individual political choices of key leaders pushes analysts to rely on the declared military strategy of the government rather than an analysis of the actual policies of the government. Many analysts do not want to recognise any gap between what a government says it is doing and what it is actually doing. But more dangerously,

in studying authoritarian systems, analysts often see anything in print as evidence of government thinking. What can happen in such cases is that analysts conflate what military officers write about the declared military strategy with the 'grand strategy' (in politics) of the state. But even where the government has published a coherent military strategy, this is really only a military doctrine, not a political strategy and not the 'grand strategy' of the state.

³⁸ See for example, David A. Shlapak, David T. Orletsky and Barry A. Wilson, 'Dire Strait? Military Aspects of the China-Taiwan Confrontation and Options for U.S. Policy', Rand, Santa Monica CA, 2000, p. 11.

Taiwan, one might expect relatively low levels of force readiness, low military spending, low acquisition rates, limited forward-basing, and a lower priority accorded military development than other sectors of government activity.

The two poles of readiness provide a reliable sliding scale against which to measure not just the likelihood of armed hostilities and the time taken to prepare for them, but also the commitment of the national leadership to the value of armed hostilities for achieving its short to medium term goals. The following discussion relates the existing and projected force structure, deployment locations and readiness levels of four services of the PLA – Strategic Missile Forces, Air Force, Navy and Ground Forces. It then gives a brief overview of the general readiness profile of the PLA as a whole. This analysis provides strong evidence for the view that China is a great deal closer to the low-intensity end of the spectrum in terms of military preparedness for an attack on Taiwan than to the high-intensity end. One very important consideration that informs this judgement is that most increases in military readiness of the PLA near Taiwan can be attributed to the general modernisation and professionalisation that was launched in 1978, rather than to heightened readiness for Taiwan-related contingencies. Those that appear to be specifically related to Taiwan are relatively few, minor in scale, and in all cases but one (ballistic missile capability) lacking the power projection capacity for sustained combat operations against the main island.

Strategic Missile Forces and Nuclear Capability.

China's Strategic Missile Forces (SMF) control both strategic and theatre missiles,³⁹ of which the most likely to be used in a Taiwan Strait military conflict are SRBMs (short range ballistic missiles). It is this missile threat that has been raised by senior Taiwanese and U.S. officials as the most

destabilising aspect of China's current military posture against Taiwan.⁴⁰

China's nuclear weapons capability puts it in a class apart from Taiwan, which some years ago investigated and then abandoned (under U.S. pressure) the possibility that it might acquire nuclear weapons.⁴¹ In the March 1996 Taiwan Strait crisis, a senior Chinese military officer is reported to have implied to a U.S. visitor that China could target Los Angeles, a threat taken to mean possible use of inter-continental nuclear missiles. The Bush Administration appears to regard this threat seriously enough to have rebuked that senior officer, Xiong Guangkai, when he visited the U.S. in December 2002.⁴² As mentioned in ICG's companion report, *Taiwan Strait I: What's Left of 'One China'*, it was reported in March 2002 that a recent U.S. Nuclear Posture Review had identified the Taiwan Strait as an area that could provide a trigger for a contingency involving U.S. nuclear forces.⁴³ As that report notes, planning by the U.S. for such a contingency should not be considered unusual, but it should be said here more explicitly that the likelihood of China's resorting to nuclear weapons in a Taiwan Strait contingency is extremely remote. A compelling reason is that U.S.

⁴⁰ On 17 September 2002, President Chen likened the missile deployments to terrorism, and said that the missiles were like a gun at Taiwan's throat. Reuters, 17 September 2001. In 2001, U.S. Deputy Secretary of Defense Paul Wolfowitz said that China's missile deployments in Fujian aimed at Taiwan were evidence that China was not interested in a peaceful settlement of cross-Strait relations. *South China Morning Post*, 30 August 2001.

⁴¹ David Albright and Cory Gray, 'Taiwan: Nuclear Nightmare Averted', *Bulletin of the Atomic Scientists*, January/February 1998, Vol. 54, No. 1,

<http://www.bullatomsci.org/issues/1998/jf98/jf98albright.html>

⁴² Bill Gertz, 'Chinese General Told Chinese Threat against U.S. Unacceptable', *Washington Times*, 11 December 2002.

⁴³ See William M. Arkin, 'Secret Plan Outlines the Unthinkable', *Los Angeles Times*, 10 March 2002. Arkin is the leading public source analyst of U.S. nuclear policy and plans. *The Nuclear Posture Review* said that 'Due to the combination of China's still developing strategic objectives and its ongoing modernisation of its nuclear and non-nuclear forces, China is a country that could be involved in an immediate or potential contingency' (pp. 16-17). The *Review* specifically mentions the Taiwan Strait situation as one of the possible triggers for such an event.

³⁹ The SMF is an independent arm of the PLA. Its name in Chinese translates as the 'Second Artillery', a somewhat inappropriate name in contemporary circumstances.

nuclear forces are larger and far superior but another even more convincing reason is that China does not see itself as likely to engage in a war with Taiwan that would devastate its territory.

China may not be unhappy that some in Taiwan feel intimidated by its nuclear capacity, and by the fact that the several hundred short range missiles it deploys opposite Taiwan can be fitted with nuclear warheads, even if they are armed at present with conventional warheads. In propaganda terms, however, this threat is a two-edged sword, with many in Taiwan, including President Chen, and some commentators in the U.S. often describing the missile threat from China as if it were itself a terror weapon akin to weapons of mass destruction.

China is reported to have deployed all its 'known' SRBMs in the Nanjing Military Region on the mainland opposite Taiwan and Okinawa.⁴⁴ This concentration opposite Taiwan was, however, probably not premeditated at the time of the first deployment, but rather a short term military solution to the urgent political problem the Chinese leaders faced in 1995. China brought its first SRBM into service only in 1994.⁴⁵ The forward deployment of these missiles near Taiwan is a powerful indicator of how few military options China considers it has available for use against Taiwan.

According to the International Institute for Strategic Studies (IISS), the entire SRBM launcher inventory is 50, deployed in three brigades.⁴⁶ The number of missiles available for launch is much higher – about 350, according to the Pentagon, which estimates that each year about 50 new missiles are added. The Taiwan Ministry of National Defence expects China to have about 600 available for launch by 2005.⁴⁷ According to IISS, about half the currently deployed missiles are M-11, with a range of 120 to 300 km., and half are M-9, with a range of 600 km.⁴⁸ Both

missiles are normally configured with conventional or high explosive, not nuclear, warheads, but are nuclear capable.

The apparently large number of missiles available for launch should not blind the observer to the practicalities of their use and their capabilities. These depend above all on where the forces are located and how they are deployed for combat. In the Nanjing Military Region, the SMF Division⁴⁹ is headquartered at Huangshan, Anhui Province.⁵⁰ An SMF Division typically has three brigades, each specialising in one missile type. M-9 and M-11 missiles are usually transported by rail for field deployments and are launched from a truck-pulled erector-launcher, with a preparation time of 30 minutes.⁵¹ A brigade typically has sixteen transporter-erector launchers and a stockpile of about 100 missiles. For exercises, a show of force, or combat operations, the launchers disperse to prearranged sites in Fujian Province. In 2000, the PLA conducted exercises that involved the forward deployment of M-9 missiles from the Leping base of the 815th Brigade, but no launches.

The prearranged sites are known to Taiwan and U.S. intelligence sources. The main forward deployment site for the 815th Brigade is Yongan, in Fujian Province about 220 miles from Taiwan. A secondary site is Jiangshan, located about 240 miles southwest of Shanghai. There are two other forward short-range missile launch sites within range of Taiwan: at Xianyou and Nanping, about 125 and 230 miles distant respectively.⁵²

near Taiwan in July-August 1995 and March 1996. The M-11 appears to have entered service after 1999. See U.S. Department of Defense, 'Annual Report 1999', p. 10; and Bates Gill and James Mulvenon, 'The Chinese Strategic Rocket Forces: Transition to Credible Deterrence', Paper presented at a conference on China and Weapons of Mass Destruction: Implications for the United States, 5 November 1999, sponsored by the National Intelligence Council and Federal Research Division.

⁴⁹ There is an SMF Division in six of China's seven Military Regions.

⁵⁰ Its 815th brigade in Leping took part in the March 1996 missile launches that splashed down off the coast of Taiwan.

⁵¹ Nuclear Threat Initiative, www.nti.org/db/china/sac.htm.

⁵² Bill Gertz, 'China Increases Missile Threat', *Washington Times*, 28 August 2001.

⁴⁴ Department of Defense, 'Annual Report', op. cit., 2002, p. 50.

⁴⁵ Michael Swaine and Loren D. Runyon, "Ballistic Missile and Missile Defense in Asia", National Bureau of Asian Research, June 2002.

⁴⁶ IISS, *The Military Balance 2002-2003*.

⁴⁷ *Defence Report Republic of China 2002*, Section 1, Chapter Four.

⁴⁸ The M-9, operational since 1994, was tested approximately ten times during the missile splash-downs

Disagreement about the accuracy of the M9 and M-11 missiles prevents a firm conclusion about their likely mission and value to China in a Taiwan contingency. If the higher estimate for accuracy (a CEP⁵³ of 50 metres) is correct, military targets can be more successfully damaged. If the published accuracy is correct (a CEP of 300 metres), then the missiles are of little military value except as a terror weapon against civilian targets ('city busting'). One analysis suggests that 'to shut down a runway even temporarily using conventional munitions [warheads on the missiles], literally hundreds of ballistic missiles might be required – virtually the entire PRC inventory'.⁵⁴ It can therefore be concluded that the threat posed by all of China's SRBMs to Taiwan's military targets is quite limited, and that given their image as 'terror weapons' rather than hard-target kill weapons, China would face considerable political penalties in using them for little corresponding military gain.

There is no doubt that Taiwan is highly vulnerable to M-9 and M-11 missile attacks, but the determination of how Taiwan would be able to react to them may well be more of a psychological calculation about the will to resist than a calculation of military damage. As two prominent U.S. analysts put it, the 'ability of Taiwan to withstand such missile attacks will...depend very much on the steadfastness of Taiwan's leadership and populace'.⁵⁵ While this is true of war operations in general, it would especially be the case where the intended effect of military action (in this case missile attacks) was to sow panic among the population⁵⁶ rather than to destroy hard military

targets. Similar arguments can be made about artillery attacks on the small islands of Kinmen and Matsu.

Naval Forces. China's naval forces appear to have been deployed according to new priorities some time in the last few years that could reflect greater concern over Taiwan contingencies. Whereas the North Fleet, the one most remote to Taiwan, was until at least 1997 the most important and better equipped of the three fleets,⁵⁷ the balance of numbers and level of capability has shifted very visibly in favour of the East Fleet (headquartered in Ningpo city) and the South Fleet (headquartered in Zhanjiang). Both of these would be directly involved in any Taiwan military contingency. The South Fleet has a slight margin over the East Fleet in major surface combatants but that can be attributed to its responsibilities not only for Taiwan contingencies but also for operations in connection with the territorial and maritime disputes in the South China Sea. It is of some note that the East Fleet has received both the Russian *Sovremenny* destroyers and the four *Kilo* class submarines. Table 1 gives the current size of the three fleets as estimated by a Chinese source.

But China's entire fleet of major surface combatants is only marginally bigger than Japan's. Given the maritime interests of China along its entire coast, the history of war with Japan, and the unresolved maritime jurisdiction disputes with all its immediate neighbours (North Korea, South Korea, Japan, the Philippines and Vietnam), the size of its navy is not that impressive. According to a Japanese naval source, in war games based on a confrontation involving the Japanese Maritime Self Defence Force and the PLA Navy in the East China Sea, the Japanese forces win almost every time.

⁵³ The accuracy of a ballistic missile is expressed in terms of its Circular Error Probable (CEP). This measures the radius of a circle within which 50 per cent of the missiles fired will impact. Thus if a missile has a CEP of 100 metres, 50 per cent of those fired at a given target should impact within 100 metres of it and the remaining 50 per cent should impact more than 100 metres from it.

⁵⁴ Michael O'Hanlon, 'Can China Conquer Taiwan', *International Security*, vol. 25, no. 2. O'Hanlon is a senior fellow at the Brookings Institution.

⁵⁵ Michael Swaine and James Mulvenon, 'Taiwan's Foreign and Defense Policies: Features and Determinants', Rand, Santa Monica CA, 2001, p. 119.

⁵⁶ Swaine and Mulvenon, 'Taiwan's Foreign and Defense Policies', op. cit., p. 119.

⁵⁷ See Tai Ming Cheung, 'Growth of Chinese Naval Power: Priorities, Goals, Missions, and Regional Implications', Institute of Southeast Asian Studies, Singapore, 1990, p. 32; IISS, *The Military Balance 1997/98* (Oxford, 1997).

Table 1: Composition of China's Naval Fleets⁵⁸

	East	South	North
Destroyers	6	7	7
<i>Sovremenny</i>	2	0	0
<i>Luda</i>	4	6	5
<i>Luhai</i>	0	1	0
<i>Luhu</i>	0	0	2
Frigates	15	17	5
<i>Jiangwei I/II</i>	6	2	0
<i>Jianghu</i>	9	15	5
Attack Submarines	18	6+	15
<i>Kilo</i>	4	6	0
<i>Song</i>	2	0	0
<i>Ming</i>	12	0	13
<i>Romeo</i>	<i>unknown</i>	2	<i>Unknown</i>

While China can take naval actions against much smaller states, such as Vietnam or the Philippines, with every prospect of success, its Navy will be at least for the next decade sufficiently weak to constrain the government from initiating any major naval combat operations against Taiwan, Japan or the U.S. China's capacity to exert sustained low-level harassment is unquestioned, but only as long as the other countries are not prepared to risk escalation. For higher level operations such as blockade, as mentioned above and as one Rand study has suggested: 'China is arguably unable, at present or in the near term [to 2010], to establish even a partial blockade of Taiwan intended, for example, to seal off maritime commerce into a

specific port or ports'.⁵⁹ The slight increase in naval procurements since 1995 may reflect new concern about the Taiwan situation, but U.S. evidence on current ship-building and projected acquisitions does not bear this out. It is more likely to reflect a typically cyclical pattern in naval ship acquisition.

U.S. Department of Defense claims that China's submarine fleet 'will be... capable of controlling sea lanes...around Taiwan'⁶⁰ is, therefore, quite an exaggeration. Such a claim would appear to be contradicted by the Pentagon itself, which said in 1999 that the Chinese navy 'continues to lag behind other regional navies, including that of Taiwan, in most technological areas, especially air defence, surveillance and C4I'⁶¹ These latter two capabilities, surveillance and C4I are the most potent in anti-submarine warfare. To get some sense of comparison, the German navy in the Second World War could not control the sea lanes to Britain despite a massive submarine fleet.⁶² Two of the several reasons for Germany's failure were its lack of air superiority in the approaches to Britain's major ports and the ability of the Allies to direct attacks on German submarines based in part on intelligence (captured codes) and surveillance (a newly developed detection system operated by low-flying aircraft). Control of sea lanes usually depends as much on air superiority as on sea-based capabilities. China is unlikely to be able to acquire air superiority to the north, south and west of Taiwan without first having devastated it or neutralised it politically. In such circumstances, its entire fleet of modern submarines would probably be insufficient, even if it rises to 40 boats⁶³ or so in around seven years time.

The size and capability of China's amphibious forces (which would be needed in any assault on Taiwan or even its offshore islands) have remained both static

⁵⁸ See www.sinodefence.com/navy/strength/strength.asp. The totals do not match those held by the IISS.

⁵⁹ Swaine and Mulvenon, 'Taiwan's Foreign and Defense Policies', op. cit., p. 116.

⁶⁰ See U.S. Department of Defense, 'Annual Report', op. cit., 1999, p. 10 and 'Annual Report', op. cit., 2000, p. 25. A similar statement does not appear in the 2002 report.

⁶¹ C4I is an acronym for a system that ties together 'command, control, communications, computers, intelligence'.

⁶² See footnote 31 above.

⁶³ Moore, 'China's Military Capabilities', op. cit., p. 6, offers the estimate of 40 modern boats in 2010.

and small (10,000 in three brigades). As one observer remarked, China has a 'demonstrable lack of interest in the relatively easy acquisition of the ships necessary to execute this mission in the classic sense'.⁶⁴ Were an amphibious action to be mounted against Taiwan-controlled territory, this would more likely be against a small island adjacent to the mainland, where the PLA could count on ground-based artillery support. China does not now deploy or train ground forces on any significant scale for an invasion of the main island of Taiwan and would need a significant mobilisation of national resources and redeployment of forces to achieve such an aim. One development worthy of note in this regard is the redesignation as amphibious units of two army infantry divisions (one each in the Nanjing and Guangzhou Military Regions).⁶⁵ This could be in preparation for Taiwan contingencies, given that these two military regions would be those most likely to be involved, but the significance of the changes remains unclear.

While China's policy of pressure on Taiwan will dictate continued improvement in naval capabilities in the East and South Fleets, including through larger or more intensive exercises, any increase in the rate of modernisation of naval forces will still depend on competing budget priorities and overall strategic policy. Its desire for direct links across the Taiwan Strait will remain an important constraint on any destabilising naval build-up. As direct shipping links between Taiwan and the mainland increase, the disincentive for further military coercion across the strait will mount.

China's navy does not exercise in the immediate vicinity of the island of Taiwan, and for normal operations observes a tacit median line dividing the Strait. According to a senior Taiwan official, there has been an increase in 'hostile closings' by Chinese naval ships on Taiwanese ships, and the Taiwan government has also reported what it sees as an

increased presence of Chinese intelligence collection ships operating closer to Taiwan.⁶⁶ Beyond this general level of information, there are no public source documents that consistently document, analyse and report Chinese naval operations as they may relate to contingencies involving the main island of Taiwan. There is much more information available about naval operations in the vicinity of Taiwan-controlled islands adjacent to the mainland, and in the vicinity of the Taiwan-controlled island in the Spratly Group (Itu Aba). For example, between 18 and 31 March 1996, China conducted live-fire naval exercises in the area between the Taiwan-controlled islands of Matsu and Wuchu. China has the capacity to blockade at least some of these coastal islands with little notice and to invade and occupy some of them in perhaps a matter of days. The scale and scenario of some of China's recent exercises are not too far removed from the scale of the operations it would need to conduct in such a campaign. Nevertheless, these exercises are probably not rehearsals for such a scenario.

Air Forces. Although China has many times more combat aircraft than Taiwan, this does not necessarily equate to military superiority either in this narrow measure or in any comprehensive net balance. Taiwan's air defence systems, of which aircraft are only one element, might well prove able to withstand Chinese air attack. It is highly unlikely that China has contingency plans to use its Air Force against ground targets in Taiwan. There is no evidence of large-scale training or deployment in this regard. The modern combat aircraft China has bought from Russia are fighters, used primarily to obtain air superiority, either in offensive or defensive mode. The exercise areas and operational deployment patterns of its modern fighters have not demonstrated what could be termed a high-level threat profile against Taiwan. They have only been rare reports of PLA fighter aircraft crossing a notional median line in the Taiwan Strait. While the distances between the median line and the Taiwan coast are insignificant in combat terms, China's consistent observance of a no-go area in the Taiwan Strait provides some evidence of a determination so far to present a less than offensive posture.

⁶⁴ See Bernard D. Cole, 'The Naval Component of the Chinese Defense Budget', Remarks prepared for the U.S.-China Security Review Commission, 7 December 2001, <http://www.uscc.gov/tescol.htm>.

⁶⁵ Dennis J. Blasko, 'PLA Ground Forces after the 16th Party Congress', Paper presented to the CAPS-RAND Conference, 5-9 November 2002, p. 4.

⁶⁶ ICG interview, Taipei, April 2003.

Detailed information on PLA air readiness profiles in the Taiwan Strait is not readily available, and public perceptions are often clouded by press reporting that does not put the reported activities in sufficient context. In 1999, when political tensions were high, China increased its air activity in the Taiwan Strait. According to *The Washington Post* on 3 August 1999, a U.S. official informed it that China, which rarely sends planes over the Taiwan Strait, had flown more than 100 sorties with three different types of aircraft, including advanced Sukhoi-27s recently acquired from Russia.⁶⁷ This activity was summarised in less alarmist terms by a leading U.S. expert as follows:

- this equates to less than ten sorties per day over a three-week period;
- two PLAAF J-8 fighters crossed the centre line of the Strait on 25 July and two J-7 fighters crossed the centre line on 30 July. Shortly after the planes crossed the line, they corrected their routes and returned to the west side of the centre line;
- Sukhoi-27 fighters stationed at Suixi airbase in Guangdong Province have begun training activities in areas close to the centre line. (The Sukhoi-27s from Wuhu airbase in Anhui Province are probably also involved);
- there is no truth to reports that PLAAF Sukhoi-27s locked on with their fire control radars to two Taiwan Mirage 2000 fighters over the Taiwan Strait on 2 August; and
- about 340 international flights and 730 domestic flights fly over the Taiwan Strait daily.⁶⁸

An air sortie rate of ten per day would not be a significant threat to Taiwan. This heightened level of air force activity in 1999 was part of a process of political signalling that relied in part for its intimidating effect on triggering memories of the much larger scale military activity in March 1996.

China continues to develop the capacities of its one airborne corps (three divisions), which is part of the PLA Air Force and is based in the Guangzhou Military Region. But this force should probably be considered an air-mobile force, which has to be transported from airport to airport and disembarked on the ground, rather than a proper airborne force capable of a parachute drop into an area of operations.⁶⁹ The latest Pentagon report on the preparedness of the Chinese armed forces for Taiwan contingencies made only a passing reference to airborne forces, presumably because of the relatively low priority they have been accorded in external missions. The airborne forces still train for internal security missions as well. In recent years, Chinese sources have reported airborne training as concentrating on northeast and western China in the latter case, with Xinjiang and Tibet contingencies in mind. There has been some airborne training for Taiwan scenarios, but this appears to have constituted the smaller share.⁷⁰

Ground Forces. Ground Forces constitute 75 per cent of the PLA. Of China's 21 Group Armies, a high proportion (nine) are headquartered in the northeast, where the army has always located a large slice of the ground forces essentially for historical reasons (the Civil War, the Korean War and the border problems with the Soviet Union). Of these nine, four Group Armies are located in the provinces adjacent to Russia and North Korea, with another four in Hebei Province, which surrounds the Beijing municipality. The internal security function of PLA ground forces is quite plainly seen in this deployment pattern, with three times as many group armies headquartered in the northeast quadrant of the country within 1000 kilometres of Beijing and other key municipalities in the north, such as Tianjin, than adjacent to Taiwan. There is only one group army in each of the two provinces opposite Taiwan, and one in Shanghai. China has only one group army in each of the two provinces bordering Vietnam and Burma, and only one for the particularly vast military region which takes in two

⁶⁷ Cited in Kenneth W. Allen, 'Air Activity Over the Taiwan Strait', *Taiwan Security*, 16 August 1999, <http://www.taiwansecurity.org/IS/Kenneth-Allen-Air-Activity-Over-the-Taiwan-Strait.htm>.

⁶⁸ Ibid.

⁶⁹ East Asia Analytical Unit, 'Asia's Global Powers', p. 89. This assessment of airborne capability is based on the information presented in Allen, Krumel and Pollack, *China's Air Force Enters the 21st Century*, op. cit., pp. 168–169.

⁷⁰ ICG interview, Washington May 2002.

of its biggest but low population density provinces, Qinghai and Xinjiang, in the northwest.

China can deliver powerful ground force assaults against all its land neighbours, and against the small coastal islands of Kinmen and Matsu, which it could grab from Taiwan without much of a contest.⁷¹ But the 100-mile wide Taiwan Strait imposes an obstacle to the PLA Ground Forces that the land borders with Vietnam, as mountainous as they are in many places, do not. China could mount a large ground-force occupation of Taiwan only after suppression of its air and sea defences or its surrender.

General PLA Readiness Profile. Preparedness for Taiwan contingencies is clearly a high priority for the PLA. This mission has 'dictated the acquisition of significant but limited disruption and strike capabilities against Taiwan, as well as limited disruption and area denial capabilities against the U.S., to complicate U.S. efforts to deploy forces in the vicinity of Taiwan'.⁷² The author of that view observed, and most analysts would agree, that the 'deployment of significant numbers of conventionally armed short- and medium-range ballistic and cruise missiles' is China's 'most potent form of coercive capability' against Taiwan. China does have the 'ability to undertake intensive, short-duration air and naval attacks on Taiwan, as well as more prolonged air, naval and possibly ground attacks'.

But as that specialist also assessed, 'China's ability to prevail under either scenario would be highly dependent on Taiwan's political and military responses, and especially on actions taken by the U.S. and Japan'. ICG concludes that since both Taiwan and the U.S. are likely to respond with as much force as possible, China's calculation of its 'ability to prevail' would almost certainly not be positive.

From the above considerations, one should conclude that while it would be the PLA's mission to prevail in a war with Taiwan, this mission in the worst case scenario cannot and should not be equated either with China's grand strategy toward Taiwan or its national plans for military modernisation. A country's grand strategy has to take into account the full interplay of policy instruments available to it, and the likely outcome of the use of those instruments. As the U.S. Department of Defense itself correctly assesses, China could not guarantee success in an all-out military invasion of Taiwan and could only achieve its military goals in such an operation under three conditions:

- ❑ if it made a 'massive commitment of military and civilian assets over a long period of time';
- ❑ if there was no third-party intervention; and
- ❑ if China was prepared to accept 'certain damage' to its economy and diplomatic interests.⁷³

Even since 1995, after China raised the threat of military force against Taiwan to a new level, the three necessary conditions identified by the Pentagon for it to succeed in a major war have not been present, and they are unlikely to be for the foreseeable future. China is not making a massive commitment of military and civilian assets to war preparations (see the following section on defence spending); the U.S. has stood firm on and even enhanced its commitment to the security of Taiwan;⁷⁴ and China does not yet see the political situation in Taiwan as grave enough to accept high levels of damage to its economy and diplomatic interests.⁷⁵ China continues to make only modest capability improvements for its armed forces as a whole, and more specifically for Taiwan contingencies,⁷⁶ and does so at a pace that should not, of itself, be seen as intimidating. The deployment of SRBMs in Fujian Province and the occasional forward deployment of its small number of advanced fighter aircraft to exercise areas close to the Taiwan

⁷¹ One motivation often attributed to China for not having taken these islands before is that to do so would even further weaken the appearance of a territorial link between Taiwan and the mainland. Taiwan's rule of these islands that sit adjacent to the mainland give some physical form, as far as China is concerned, to the one China concept.

⁷² ICG interview, May 2002.

⁷³ Department of Defense, 'Annual Report', op. cit., 2002.

⁷⁴ See the companion ICG report, *What's Left of 'One China'?*, op.cit.

⁷⁵ Ibid.

⁷⁶ For a similar view, see Cole, 'The Naval Component of the Chinese Defense Budget', op. cit.

Strait are threatening and are intended to be seen as such. Beyond the use of these systems for demonstrations of political will toward Taiwan, and to intimidate it, the evidence points to a military posture in respect of Taiwan that remains unmobilised, largely untrained, spectacularly unbalanced (with ballistic missiles predominating in the strike role), and, therefore, not ready on short notice for any but the smallest scale of combat operations.

The significance of this judgement is not that China is unlikely to resort to lethal combat, but that if and when it does, unless it is prepared to make a massive mobilisation of civilian and military assets over a number of years, it will have to look for maximum psychological leverage from only small force elements. (The sort of war that China might fight is discussed later in this section.)

The steps taken by China in recent years to increase military pressure on Taiwan have not been substantial relative to the overall modernisation of its forces throughout the country. For all of its so-called 'military build-up', China is still pursuing a 'grand strategy' of war avoidance. It has few credible options for using its military force in war against Taiwan that conform to its political goal of reunification. It cannot seriously believe it can invade and conquer Taiwan without massive mobilisation and massive economic and political costs. It may have contingency plans for use of force against Taiwan, but it probably does not have a contingency plan for invasion and military occupation.

The above analysis throws some doubt on the Pentagon view that 'preparing for a potential conflict in the Taiwan Strait is the primary driver of China's military modernization'.⁷⁷ What that view does not reflect sufficiently is that the political conflict has already been in place for decades, China has already used military coercion against Taiwan (by way of threat), and even when resorting to military power, the current Chinese leadership has displayed a clear preference for its use in a very limited, modulated and non-lethal fashion.

The suggestion that use of force against Taiwan is the primary motivation of China's military modernisation slides too easily over a number of other fairly obvious facts. The beefing up of capacities opposite Taiwan only began in 1994 or 1995. From 1979 to 1995, the military modernisation policy coexisted with China's belief that the Taiwan Strait problem could be settled peacefully. Moreover, although the PLA has no other big threat issues, it does have seven large military regions to arm, equip and train. It has unsettled land borders with India with which it also conducts a mini-strategic nuclear rivalry, and numerous other security and strategic preoccupations apart from Taiwan, including Japan, maritime disputes, Tibet, Islamic unrest in Xinjiang, and its general strategic rivalry with the U.S. Most importantly, even though China shifted in 1999 to a policy of greater pressure on Taiwan in which it would rely more heavily on military pressure, and did resolve to provide 'significant additional resources and funding to support accelerated military modernisation', it reaffirmed its preference to continue to give highest priority to economic growth and development.⁷⁸

B. TRENDS IN DEFENCE SPENDING

Trends in defence spending can give some indication of the urgency with which governments view military problems. High levels of military spending at the expense of programs in areas of national welfare, health and education can arise from heightened preparations for war. If an analyst understands correctly all the administrative and political influences shaping the defence budget process, quite penetrating assessments of leadership priorities can be made. Accurate accounting of China's defence spending has become a highly politicised activity outside China, and this report does not attempt to go deeply into the methodological nightmare that is involved in assessing its military spending policies. But a clear view of this issue is essential for understanding the potential for a reduction in military tension in the Taiwan Strait and the potential for moves toward reducing the risk of war.

⁷⁷ Department of Defense, 'Annual Report', 2002, p. 56.

⁷⁸ *Ibid.*, p 9.

1. National Defence Spending

There is no public domain data series on China's defence spending that gives a complete and reliable picture of the trends, but a number of sources and data series do allow some fairly firm judgements. Many of these can be corroborated by observable activities, such as arms deliveries from foreign suppliers or entry into service of new systems. There is no doubt that as of 2002, decisions on military spending continued to reflect the mid-1980s commitment to steady and gradual modernisation. As estimated by the U.S. Defense Intelligence Agency (DIA) both in 2001 and again in 2002, total Chinese military spending has been growing at around the same rate as GDP,⁷⁹ estimated variously between 5 and 8 per cent per year. As the DIA has observed, 'part of this increase will be absorbed by rapidly rising personnel costs'.⁸⁰ A Rand study has estimated the growth rates between 1995 and 2000 at an annual average rate of 5.8 per cent.⁸¹ According to the IISS, the growth rate in total defence expenditure has been modest, just over 5 per cent in 1999 and 2000.⁸²

Claims circulating widely in Western media and some specialist literature that China has been enjoying double-digit growth in its defence spending for a decade are in one sense accurate but are wildly misleading.⁸³ Such claims are rarely

repeated and are not shared by many leading analysts, by the U.S. Department of Defense, or by some other governments in the region, who prefer to concentrate on what new capabilities the Chinese armed forces can demonstrate.

Of particular interest is that for a long time after 1995 there was no appreciable rise in China's interest in acquiring advanced foreign military equipment in response to the new military tensions over the Taiwan Strait. In the four years 1992-1995, it contracted for U.S.\$7 billion worth of foreign systems, but in four years 1996-1999, it contracted for only U.S.\$3.9 billion worth of foreign systems.⁸⁴ Moreover, China did not appear to have allowed the Taiwan contingency to press it to import foreign systems any more quickly. In fact, it has shown a much slower take up rate, in terms of delivered systems than other big arms importers. For example, in the eight years 1992 to 1999, while China ranked fourth in the developing world for contracted foreign arms deals, it ranked only eighth in terms of value of deliveries (US\$5.9 billion). Taiwan, which imported in value (U.S.\$20.6 billion) more than three times what China imported, was second.⁸⁵ And there was no appreciable increase in China's take up rate in terms of value before and after 1995: U.S.\$2.8 billion in the four years to the end of 1995 and U.S.\$3.1 billion in the

⁷⁹ See Prepared Testimony of Director DIA, 6 February 2002, and 7 February 2001.

⁸⁰ *Ibid.*, 7 February 2001.

⁸¹ See Testimony of Charles Wolf, U.S.-China Security Commission, 'China Budget Issues and the Role of the PLA in the Economy', 7 December 2001, p. 784.

⁸² IISS, *The Military Balance 2000-2001*.

⁸³ See for example, Associated Press, 7 March 2002, which makes this misleading claim. The claim could only be true if no account is taken for inflation (which peaked at 24.1 per cent in 1994, but reached levels of 14.7 and 17.1 per cent in 1993 and 1995) and if the reference point is the official defence budget presented each year to the National People's Congress (China's legislature), which is probably less than half the country's actual defence spending. The durability of the misleading claims about China's defence spending can be traced to several considerations. The first is the lack of transparency evident in China's practice of not including in the announced budget more than half of its total military expenditure. The absence of transparency gives the impression of secrecy and deliberate concealment. It therefore allows misperceptions to multiply and become wildly exaggerated. The announced budget covers all personnel and operating

costs, and only a smaller part of procurement and R&D costs. Most of the unannounced portion of defence spending may actually be provided in the announced budgets of other ministries, in the same way that part of U.S. military nuclear spending comes in the Department of Energy's budget. The Chinese ministries concerned include those responsible for shipbuilding, aeronautics, space and science and technology. To complicate matters, China has been attempting to move to a more reliable and transparent system of defence budgeting that allocates true procurement costs to the defence budget. This effort has really only been under way since 1998, and the degree to which it is impacting on the budget itself, and the apparent rapid escalation in the announced budget is impossible to tell. The U.S. intelligence estimates take the outputs of China's military activities (procurement, operations and personnel) from PLA activities and cost them all using a combination of provided budget data and estimates.

⁸⁴ Richard F. Grimmet, 'Conventional Arms Transfers to Developing Nations', 1992-1999, CRS Report RL30640, 18 August 2000.

⁸⁵ Shirley A. Kan et al, 'China's Foreign Conventional Arms Acquisitions: Background and Analysis', CRS Report RL30700, 10 October 2000.

four years after 1995. It is important not to place too much store on the actual figures since there is some margin of error, but it is possible to conclude that, to 1999, China did not respond to the demands of the Taiwan contingency by rushing to buy more weapon systems abroad, at least not in larger numbers. However, after 1999 that picture does appear to have changed significantly.

There were two clear spikes in China's interest in deliveries of the advanced systems it had purchased. The value of deliveries in 1996 and 2000 (both years following a Taiwan crisis) show marked increases over the preceding year, as indicated in Table 2. But Table 2 also suggests that over this five-year period, China's purchases of foreign sourced weaponry were not out of the ordinary on a comparative basis. In 2000, the picture is quite different, with more than a trebling. In 2001, China imported almost the same high amount as in 2000 though this data is not available in the same fixed prices used in Table 2.⁸⁶ This trebling is a cause for concern since if arms imports are sustained at that level for around ten years, China could significantly enhance its options for combat against Taiwan.

Table 2: Arms Purchases: Selected Governments⁸⁷

Arms Deliveries 1995-2000*						
	1995	1996	1997	1998	1999	2000
Taiwan	1,329	1,882	7,197	6,643	2,657	1,200
China	803	1,661	443	498	510	1,600
S. Korea	1,894	1,771	1,440	1,450	1,884	700
Thailand	830	498	333	354	1,224	400
Japan	2,547	2,602	2,379	2,214	1,904	N/a

* constant 2000 U.S.\$million

But new weapons imports are only a small part of the defence readiness picture. The most rapid growth in Chinese defence spending has in fact been in personnel and operating costs, categories for which the gross value of the announced budget is a more reliable (though still very general) guide. Table 3, based on data compiled by the Australian Defence Intelligence Organisation, shows that in values adjusted for inflation, the announced budget allocations indicate a doubling of outlays in the decade after 1990. But since the announced budget ended the decade at virtually the same percentage share of government spending as it started, it would appear that the operations and personnel costs of the PLA, as a budget priority for the Chinese government, have been largely static relative to other government priorities in percentage terms throughout the decade.

China's leadership has maintained its position on moderate growth in defence spending even in the face of a persistent campaign by veteran PLA leaders over a decade for more rapid growth. Some former military leaders have called for an increase in annual defence spending of somewhere between 30 and 50 per cent. They have even suggested that this would not be a burden and would still fall within the parameters of gradualism. Even the 2002 increase in announced spending of 17.6 per cent (in current prices not adjusted for inflation) was criticised by some as inadequate, not because of any external threat but because 'many barracks in cold areas don't have heating', and it is important to 'see the living standards for the officers and the men rise to a decent level'.⁸⁸ Foreigners who have visited PLA bases know how basic the conditions of troops in the field are (especially when compared with the relatively luxurious facilities available to senior officers on military bases in the major cities).

⁸⁶ See Richard F. Grimmett, 'Conventional Arms Transfers to Developing Nations, 1994-2001', Congressional Research Service, 6 August 2002, p. 60.

⁸⁷ IISS, *The Military Balance*, 2001-02 (London, 2001).

⁸⁸ Associated Press, 7 March 2002.

Table 3: China's Defence Spending: Announced Component⁸⁹

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current Price (RMB bn)	29.0	33.0	37.8	42.6	55.1	63.7	72.0	81.3	93.5	104.6	120.4
1995 Price (RMB bn)	53.4	57.1	61.4	58.9	62.8	63.7	67.6	75.7	88.0	102.6	117.5
Real Growth %	N/a	6.9	7.5	-4.1	6.7	1.3	6.1	12.0	16.3	16.6	14.5
Share Govt Spending %	8.4	8.7	8.6	8.1	9.5	9.4	9.6	9.1	6.6	8.0	8.6

2. Taiwan in China's Overall Military Spending

Just as one can draw useful conclusions from national defence spending about the priority that leaders attach to military preparedness relative to non-military development goals, the same can be said about the priority attached to specific areas of military capability, such as naval or missile forces, relative to others. If China was rapidly increasing its spending on naval, amphibious and air forces while allowing a

sharp decline in ground force expenditure, this could reflect a greater commitment to Taiwan contingencies. Substantial increases in expenditure on specific force elements will in most cases reflect a greater concern about the likelihood of combat involving those systems. Likewise, substantial increases in the share of national defence budgets going to a specific theatre can reflect a greater sense of urgency attributed by the leadership or the military high command to that theatre.

There are no comprehensive, reliable, public domain, time-series estimates of military spending for specific force elements in the PLA or for specific potential theatres, such as the Taiwan Strait. This is a major gap in the publicly available information. Based on the available evidence, especially the SRBM deployments to Fujian and the higher priority assigned to the East and South Sea Fleets after 1997, there might appear to have been a marked increase in resources being allocated to Taiwan contingencies. But when one weighs the likely dimension of this increase against the total cost of the PLA, increased

spending for the Taiwan Strait probably constitutes only a negligible slice of total allocations. The exercises opposite Taiwan in 1996 are reported to have cost almost 3 per cent of total PLA allocations for that year.⁹⁰ Since then, China's leaders have been asked by the PLA for much bigger expenditures to deal with Taiwan, but they appear to have responded very conservatively.⁹¹

C. SOME KEY QUESTIONS: MILITARY PREPAREDNESS AS POLITICS

The real significance of China's force upgrades since 1995, modest as they have been, has been to increase psychological and political pressure on Taiwan and its allies and to prepare better for lower level contingencies in which use of force is likely to be limited (and not necessarily applied with lethal intent). China is prepared to act with force with what it has, and it is preparing to do so with lethal intent – should it decide there is a need to bear the associated costs and risks. But it knows that it does not yet have to make that choice. This sub-section addresses a number of questions relating to China's willingness and ability to engage in 'modulation of pressure', from low intensity, non-lethal operations (exercises or shows of force) to high intensity combat operations.

⁹⁰ You, *The Armed Forces of China*, op. cit., p. 215.

⁹¹ It must be acknowledged that the above judgements are largely intuitive. If more comprehensive and definitive information were available of spending changes for Taiwan contingencies since 1995, it would be possible to make a more definitive assessment of what sort of war Chinese leaders believe they want to fight, how close to war they think they are, and how wedded they remain to their strategy of war avoidance.

⁸⁹ Defence Intelligence Organisation, 'Defence Economic Trends in the Asia Pacific', Canberra, 2001, p. 29.

1. Psychological Warfare

Above all, the confrontation across the Taiwan Strait is political. It is in part the continuation of a civil war, but that conflict (which actually began 80 years ago) is essentially over. There is no longer any contest between China and Taiwan over domestic political order, and there has been no significant combat since 1968. In fact, until the mid-1990s, China's policy toward Taiwan of peaceful reunification, adopted in 1979 and premised on eventual economic integration, was working pretty well. The counter-current that has emerged to frustrate China is that of Taiwan independence and national identity. These are the two 'enemy forces' that China must defeat and are certainly the Taiwan topics that the Standing Committee of China's Politburo has discussed most often since 1995. They are in essence political threats not susceptible to redress by military means except in limited ways.

Leading departments of the Central Committee of the Party (such as the Propaganda Department, the International Department, the United Front Department, the Political and Legal Commission) have undergone many renamings and reorganisations, but their decades of experience in political manipulation provide a powerful resource for the Chinese leadership. The Taiwan Affairs Leading Small Group, a committee of the Standing Committee of the Politburo, directs and controls political warfare against Taiwan. They are supported by the Taiwan Affairs office in the Party and State Council,⁹² the Party's Central Military Commission (CMC) and the Ministry of State Security (MSS). The PLA and MSS are represented in the Taiwan Affairs Leading Small Group, and though their voices may have been more powerful in recent years, they must operate within the broad strategic policy set by the CCP civilian leadership. It is to this apparatus of the CCP and the state that one must look first and foremost to account for China's Taiwan strategy, not to deployments of small numbers of weapon systems. It is to these policy departments as a group that the leadership turns for advice on next steps in its Taiwan strategy, and the PLA is just one member of this group.

In its campaign of psychological or political warfare, China targets several bodies of sentiment in Taiwan with different 'psychological weapons' according to different purposes. It uses the *economic necessity* weapon to convince Taiwan's leaders that their economic future cannot be secured without close relations with China. It uses the *economic appeal* weapon to win the loyalty of business leaders so that they will advocate to Taiwan's political leaders policies that promote closer ties with China and repudiate or mute ideas of independence or Taiwan national identity. It uses the *cultural appeal* weapon to soften the opposition in Taiwan to closer relations with the mainland and to weaken support for politicians advocating independence or Taiwan national identity. Then it uses the *fear* weapon, the possibility of military action, to play to the majority of the Taiwanese public who have consistently regarded avoidance of war with China as a leading social and political value. China's leaders will feel the need to rely more heavily on potentially lethal use of force only if these weapons begin to lose their effect or fail.

When China's position weakened dramatically in 1994 and 1995 as a result of Taiwan's abandonment of the 'one China' policy and the visit to the U.S. of President Lee, it reached hurriedly for a military option. This was the show of force using ballistic missile launches (1995 and 1996) and large exercises along its coast in the Taiwan Strait (1996). In part relying on the impact of that demonstration, including on the Taiwan stock market, China in the following years escalated psychological warfare rather than military pressure.

The discussion in this report has concluded that there have been only modest improvements in China's military capacity opposite Taiwan. When its position worsened again in 1999, with President Lee's statement on 'special state to state relations', China again reached for a military tool with high psychological impact and stepped up deployments of ballistic missiles (the 'terror weapon') opposite Taiwan. But it also reached for other tools in the political warfare arsenal, especially the 'economic necessity' weapon and the 'economic appeal' weapon, and these have both worked very well.

⁹² These two offices are identical, as are the Central Military Commission (CMC) of the Party and the CMC established under China's 1982 Constitution.

For its part, the General Staff in Taiwan pays considerable attention to psychological influences of China's policies (political and economic as well as military). Although hard military capabilities are important, the General Staff does not see them necessarily as the most potent – even if they are ultimately the most physically destructive.⁹³

2. Information Warfare

When China feels it needs to escalate the 'war' with Taiwan, it has at its disposal, as just discussed, a variety of options that it will seek to exhaust before it needs to consider armed hostilities. A relatively new asset in this armoury, though one with very visible roots in China's tradition of political warfare, is the military application of information warfare (IW). The Taiwan General Staff is paying considerable attention to China's capacities for this.⁹⁴ In most armed forces, including in the PLA, IW includes not just traditional psychological warfare, but also attacks on communications software and information software (programs and data sets) of the adversary as well as the hardware (transmitters, satellites, land-lines and the like). According to a variety of sources, the PLA is vigorously preparing for and is already capable of attacks on software of key systems in Taiwan. These sorts of preparations have very low public visibility and do not show up in large defence budget allocations.

A great advantage to China of certain forms of information warfare is that they are deniable. If conducted effectively, IW can be essentially anonymous, and successful IW assaults have plausible deniability.⁹⁵ When a computer system is hacked, the source can be disguised in such a way as to have no demonstrated link to the PLA or China's Ministry of State Security. Furthermore, these sorts of attacks do not require soldiers to carry them out, nor a

build-up in any geographically specific area.⁹⁶ The conduct of IW as a covert, guerrilla style operation fits well with the strategic tradition of the PLA for 'People's War' and with the limited capacities of the PLA for high-intensity combat operations against Taiwan. But IW also fits well with the low political feasibility of high-intensity combat operations, because it can be conducted in non-lethal forms. IW, therefore, can meet one common sense meaning of Jiang's principle of 'Chinese not killing Chinese'.⁹⁷ Use of aggressive IW against Taiwan would not arouse the same international hostility as a direct armed attack.

Little detail is known of the PLA's IW doctrine or capacity. Many analysts claim to have gleaned some ideas from the many open source documents available. However, as one of them notes,⁹⁸ we cannot infer from these easily available documents an accurate picture of the PLA's IW doctrine. Indeed, the effectiveness of any nation's IW strategies resides, at least in part, in their secrecy, making potential targets unsure of the nature of possible attacks. That the PLA should devote the resources to producing these open source documents should be seen as an indication of its commitment to IW. Indeed, the confusion their existence has created is quite possibly an attempt at IW itself,⁹⁹ and if so an indication of China's skill at it. The presumed ability of the PLA to interfere with the flow of data in Taiwan's military C4I systems or its critical civil communication and data systems has psychological effects on Taiwan's capacity for self-defence. Uncertainty about specific IW capacities gives China a new source of psychological pressure.

⁹³ ICG interviews, May 2002.

⁹⁴ This has been a subject of intense scrutiny by the U.S. intelligence community. ICG interview, May 2002.

⁹⁵ See James Mulvenon, in James Mulvenon and Richard H. Yang, 'The People's Liberation Army in the Information Age', Santa Monica: RAND, CF-145-CAPP/AF, 2000, p. 185.

⁹⁶ See Timothy L. Thomas, 'Like Adding Wings to the Tiger: Chinese Information War Theory and Practice', Foreign Military Studies Office, Fort Leavenworth, Kansas USA, p. 3 : <http://www.iwar.org.uk/iwar/resources/china/iw/chinaiw.htm>

⁹⁷ See the companion ICG report, *Taiwan Strait I: What's Left of 'One China'*, op.cit.

⁹⁸ Toshi Yoshihara, Chinese Information Warfare, Strategic Studies Institute, U.S. Army War College, November 2001. available at <http://www.iwar.org.uk/iwar/resources/china/iw/chininfo.pdf>, pp. 18-23.

⁹⁹ See Yoshihara, op cit, p. 21.

3. Covert and Other Operations

China has a number of options involving covert or other operations with the potential to dramatically alter the political balance in Taiwan, and it has a history of using them in other situations.

It is highly likely that the Ministry of State Security has in place a program for inserting a 'fifth column' of Chinese citizens from the mainland, Hong Kong and overseas into Taiwan to be activated as agents in the event of a political crisis. China conducted such a program in Hong Kong for more than a decade prior to its resumption of sovereignty in 1997. The program had mixed success, with many of the 'emigrants' seeing the move as economic opportunity rather than patriotic commitment.¹⁰⁰ Such a program has always been one of Taiwan's main fears about links with the mainland, and security remains even today the chief argument in its policy councils against opening the borders with China through comprehensive direct links. There are far fewer Chinese mainland immigrants from recent decades in Taiwan than there were in Hong Kong prior to 1997, and there is no program of legal migration from China to Taiwan as there was for Hong Kong. Nevertheless, the likelihood that a fifth column program is in place is high.

The related point is that China is very actively and visibly pursuing a 'fellow traveller' policy with reunificationists in Taiwan. Its officials routinely court and encourage them to conduct pro-unification activities, possibly offering financial support in some form. The Chair of the Mainland Affairs Council, Tsai Ing-wen, recently offered a public criticism of Taiwanese who side with China and actively promote a view on cross-Strait relations different from that of the Taiwan government. She said: 'The authority of the government might be threatened by business interests or interference from political parties, and this is the most difficult part when dealing with cross-Strait affairs.'¹⁰¹

¹⁰⁰ See Yin Qian, *Dynamics vs. Tradition in Chinese Foreign Policy Motivation: Beijing's Fifth Column Policy in Hong Kong* (Happaage, NY, 1999).

¹⁰¹ Lin Miao-Jung, 'MAC Chairwoman Questions Loyalty of Private Groups', *Taipei Times*, 12 January 2003.

'Civilian operations' organised by the PLA or Ministry of State Security offer China another unconventional but non-lethal form of pressure on Taiwan. One possible precedent comes from 1978. During the negotiations with Japan on a peace and friendship treaty, the first since the war, China sent a fleet of about 100 fishing boats, some armed, to the waters around the disputed Senkaku Islands.¹⁰² They carried placards calling the islands Chinese territory. Although altercations occurred with Japanese government vessels, no shots were fired. The vessels had come from different ports, obviously with approval from the highest level of the Chinese government. China publicly described the incident as worth investigating and the Defence Minister, Geng Biao, asserted that 'we should not argue the island problem and we should resolve that problem in the future'.¹⁰³ China also asserted that it 'intended to prevent conflicts caused by Chinese fishing boats around the Senkaku Islands'.¹⁰⁴ While sending a large number of 'patriots' to Taiwan by civilian means of transport, such as fishing boats, to 'occupy' it and to 'reclaim' it for China, or to otherwise remonstrate with the Taiwan government, may not be a highly probable option, it is yet another non-military tool that China has available before it need reach for lethal force.

4. What Sort of Armed Hostilities Would China Launch?

It has been made clear throughout this section that China's options for armed hostilities against Taiwan will remain quite limited unless and until the country moves to a war footing and is prepared to bear the political and economic costs of high-

¹⁰² The Senkaku Islands, called the Diaoyu Islands by China, consist of five uninhabited islets, the largest being about 3.6 square kilometres in area (about three kilometres long and just over one kilometre wide); and three rocky outcrops ranging in size from 0.05 sq. km. to 0.25 sq. km. The islands lie fairly close together about 140 km. northeast of Taiwan and about the same distance from the closest of the Ryukyu Islands.

¹⁰³ Daniel Tretiak, 'The Sino-Japanese Treaty of 1978: The Senkaku Incident Prelude', *Asian Survey*, vol. 18, no. 12, December 1978, pp. 1242-1243, citing Agence France-Presse, 15 April 1978.

¹⁰⁴ Tretiak, 'Sino-Japanese Treaty', op. cit., p. 1245, citing *Mainichi Daily News*, 23 March 1978.

intensity war with the U.S. Without a massive military build-up, China's options do not include naval blockade, interdiction of shipping to and from the main island of Taiwan, or a full frontal assault to conquer and occupy it.

Much is said about China's possible use of an 'announced blockade' of Taiwan, relying not on military enforcement but simply prohibitive transport insurance rate increases to bring Taiwan to its economic knees. This is hypothetically possible, but several important considerations suggest that it is unlikely. First, the U.S. has long declared freedom of navigation to be one of its vital strategic interests and would respond to any 'announced blockade' by China both in word and by deed, demonstrating intent and capability to protect international shipping from any interruption. Secondly, if China were to threaten a blockade of Taiwan, even without enforcing it, this would bring about a rapid strategic polarisation in which many countries but especially Japan would be distinctly hostile. Thirdly, China has substantial maritime trade interests itself that would be threatened by any effort to interfere with international shipping.

China's options for armed hostilities are essentially limited to an attack on one or several of the small islands controlled by Taiwan and lying close to the mainland coast (Kinmen or Matsu), or remote from the main island of Taiwan (Penghu Islands). China's strategy would be for a quick war/confrontation over ten to fourteen days with the intent of cowing Taiwan into submission.¹⁰⁵ Any such strategy would have to involve the hope of pre-empting or at least complicating a military response by presenting the U.S. with the choice of escalation to reverse a military gain. If China's objective in respect of Taiwan were merely to force a new negotiation, this would reduce the military capabilities that it would have to have in place and the scale of operations that might be needed.¹⁰⁶

If there is a decision for combat operations, one problem for China will be how to respond to possible escalation by Taiwan or the US.¹⁰⁷ It is likely that China would be prepared to fight symmetrically in terms of levels of escalation, even if it has to use unconventional or asymmetric responses in types of force. China has had a long time to prepare its military plans – they are probably both detailed and comprehensive.¹⁰⁸ – and a U.S. attack on a mainland target would raise the prospect of a retaliatory attack on a U.S. homeland target or its equivalent outside the U.S.

As discussed above, China is well placed to undertake low level and short duration military operations designed largely for psychological impact in Taiwan, but it is not well-placed to resort to sustained, high intensity attacks in a way that can be meaningfully linked to the political goal of future reunification. In fact, short of obtaining political control of the government of Taiwan through the mere threat of massive devastation, China has no high-intensity military options that conform to the political goal of future reunification. Any such attack would turn opinion in Taiwan, not to mention in all major Western capitals, decisively against China. At the same time, some lower level of military attack on Taiwan or its forces – not for reunification, but to punish it in some way – should not be ruled out.

Because a low-level attack – or the use of significant non-military coercive measures – cannot be excluded, the risk of war across the Taiwan Strait has to be taken seriously. Neither Beijing nor Taipei is likely to embark consciously on a full-scale conflict, but there is a significant possibility that the calibrations made in policies of threat of force or employment of non-lethal measures by Beijing, or in response by Taiwan or the U.S., may not be exact. There is no guarantee that a lower level attack will be met with a lower level response. A cycle of escalation and counter-escalation is quite conceivable, with at each stage the political difficulties and costs of disengagement becoming greater. There is need, therefore, for the parties themselves and the U.S. to undertake, both

¹⁰⁵ ICG interview with former U.S. senior official with continuing high level access to Chinese leaders, May 2002. This view is supported by even the most cursory reading of Chinese open source material.

¹⁰⁶ ICG interview, Washington, May 2002.

¹⁰⁷ ICG interview, Washington, May 2002.

¹⁰⁸ ICG interview, Washington, May 2002.

unilaterally and between each other, confidence building and transparency steps to lower the risk of miscalculation and misunderstanding that could otherwise lead to serious military consequences. This theme is taken up in the concluding section.

III. TAIWAN'S MILITARY POSTURE

Taiwan has maintained a robust military posture for decades, even between 1979 and 1995 when China allowed its military capabilities opposite Taiwan to decline significantly. There have been other drivers of Taiwan's military planning apart from fear of military attack from China, and these need to be recognised. Some are relatively normal for most governments and relate to possession of coercive power for a variety of international contingencies and national goals. For example, Taiwan has territorial disputes with Japan, Vietnam and the Philippines, and unresolved maritime jurisdiction disputes with Japan and the Philippines. Until 1987, it maintained a state of martial law that underpinned its authoritarian regime perhaps as much as it provided security against attack by China. Until 1991, Taiwan maintained pretensions to rule the whole of China. And right to the present, it has maintained a claim over all islands in the Spratly group that are occupied by the armed forces of several neighbouring countries (apart from China). Taiwan kept military units on one of the islands until 1999.

But beginning in 1991, Taiwan formally dropped its posture of armed confrontation with China and continued to lower its defence burden accordingly. And even though the military threat from China resurfaced significantly in 1995, Taiwan has not made the sort of massive new investment in defence capability and defence mobilisation that this might have suggested. Since 1995, it has been as happy as it was in the four to five years before to use the robustness of its defence posture essentially for political purposes, to underpin its distancing from the 'one China' principle and as a means of winning international political support for an independence strategy, especially in the U.S. A national defence posture premised on a serious military threat from China also supports building a new Taiwan identity and helps the government in its efforts internationally to portray the island territory as quite separate from China. Taiwan positions its national security policy not just as potential victim of China, but also as a loyal ally-in-waiting hoping for a call back to assist the U.S. in its global and regional efforts to maintain

American and allied interests. It paints China's threat to Taiwan as part of Beijing's efforts to 'pierce into the containment posture led by the United States'.¹⁰⁹

In fact, there is considerable confusion in Taiwan about the balance between various elements of national political strategy, the international environment, and how these relate to national military preparedness. As the government's own 2002 White paper on Defence put it: 'menaces to our national security include domestic, destabilising factors. Some of our people, for example, are confusing foes with friends, or are divided on the issue of national identity, undermining the unity of the people against external threats'. This confusion on Taiwan's core political stance has been exacerbated by a degree of upheaval and lack of consistency in its decision-making processes for national security policy.¹¹⁰ An important factor for change in the near future will, therefore, be the 'democratisation' of defence policy making and its rationalisation under genuine civilian authority. As one Taiwan newspaper recently editorialised:

Taiwan lacks a tradition of civil research into military affairs and national security, when the ruling party and civilian leadership want to establish national defence policy, it is extremely difficult to choose someone familiar with this aspect of military affairs. Accordingly, over the last 50 years, Taiwan's military policy has been formulated by the military on its own accord without direction from the civilian ruling class.¹¹¹

Since President Chen and the DPP came to power after almost 80 years of KMT dominance of the armed forces, it should be no surprise that significant suspicion exists between the new ruling party and the

armed forces leadership. It is not difficult to support the view of another of Taiwan's newspapers that 'Taiwan's national security and defence institutions first need to integrate their political and military strategies'.¹¹² This is one of the main implicit messages of the 2002 White Paper. For its part, the U.S. has committed itself to support of defence reforms in Taiwan: democratising civil-military relations, implementing a rational arms procurement planning system, and promoting joint operations. A system of genuine civilian oversight of strategic policy and military activity needs to be put in place.

A. TAIWAN'S STRATEGY AND FORCE READINESS

The stated position of Taiwan's governing DPP party is to oppose confrontation with China: 'Taiwan must take a safe, cautious, gradual and well-examined approach'.¹¹³ The DPP also commits itself to working toward mutually beneficial relations. Its policy is – at least on questions of process – still ambivalent or cautious and links any moves toward legalisation of the reality of sovereign independence with the need to preserve the security of Taiwan's 23 million people and thus not to provoke military action by China. But the DPP platform does not compromise on what it sees as the reality of sovereign independence: 'Taiwan's sovereignty is non-negotiable. National sovereignty is absolute and indivisible and not to be disposed of in negotiations'.¹¹⁴ The 1999 Resolution referred to

¹¹² 'Nuclear free but not Unilaterally', Editorial, *Taipei Times*, 4 April 2002.

<http://www.taiwansecurity.org/TT/2002/TT-040402-1.htm>.

¹¹³ On 8 May 1999, at a National Congress, the DPP sought to tone down its China policy by passing a 'Resolution Regarding Taiwan's Future'. See DPP Policies, www.dpp.org.tw. 'the DPP's priority on cross strait relations with China is the safeguarding of the sovereignty and rights of Taiwan's twenty million people, acting in the best interests of the island's security, and furthermore, undertaking Taiwan's responsibility in preserving stability in the East Asia-Pacific region'. The DPP formally incorporated the changes into the party platform by way of resolution and held them up as evidence of the 'willingness of the DPP to adjust and change its positions in accordance with the current trends and popular sentiment'.

¹¹⁴ Political Platform of the Democratic Progressive Party [1999 Elections]. See www.dpp.tw.org.

¹⁰⁹ Taiwan 2002 Defence White Paper, op.cit.

¹¹⁰ For a comprehensive review of these processes, see Michael, D. Swaine, 'Taiwan's National Security, Defense Policy, and Weapons Procurement Processes', Rand, Santa Monica CA, 1999.

¹¹¹ 'Taiwan Military at Crossroads', Editorial, *Taiwan News*, 13 January 2002, <http://taiwansecurity.org/News/2002/TN-011302.htm>.

above treats China as a foreign country that is threatening Taiwan. The platform going into the March 2000 elections committed the DPP to drawing up a new constitution, ending the 'KMT's legal fiction' that Taiwan is part of China, and holding a national referendum on the necessary steps to establish in a legal sense 'a sovereign Taiwan Republic'.¹¹⁵

President Chen made a significant, if somewhat ambivalent compromise after his election. In his inauguration speech in May 2000, he took a more conciliatory and pragmatic stance than the DPP resolution on relations with China seemed to allow. He said that in his term of office,¹¹⁶ 'as long as the CCP regime has no intention to use military forces against Taiwan', he would not: declare independence, change the name of the country, push for inclusion of the 'special state to state' description in the Constitution, nor promote a referendum to change the status quo in regard to the question of 'independence or unification'.¹¹⁷ The meaning of all of this for Taiwan's security strategy has been laid out by the government in its 2002 Defence White paper in three 'fundamental concepts of national defence':

- preventing war on the basis of a sustainable defence capability;
- maintaining stability in the Taiwan Strait through dialogue, transparency and mutual understanding; and
- defending the national soil: 'uphold the truce' but have no fear of war; avoid provocation; conduct 'effective deterrence, resolute defence'.¹¹⁸

¹¹⁵ Ibid.

¹¹⁶ Normally four years.

¹¹⁷ Text of the speech can be found at <http://www.taiwan.com.au/Polieco/Government/Chen/Speech/0520a.html>. See also Cheng-Feng Shih, 'Taiwan's Foreign Policy toward China: An Assessment of the Chen Shui-bian Administration's Attitudes toward China', 2001, <http://mail.tku.edu.tw/cfshih/01810c.htm>. President Chen's and the DPP's positions are discussed at length in ICG's companion report, *Taiwan Strait I: What's Left of 'One China'?*, *op.cit.*

¹¹⁸ Taiwan 2002 Defence White Paper, Part 2, Chapter 4.

The first and third of these elements are probably in place: in strictly military terms, Taiwan would, if it applied all its existing combat capability, make China pay a high price for a major offensive against its territory. Most analysts believe that Taiwan's defence forces can for the short to medium term frustrate a range of conventional Chinese military operations. According to the U.S. Department of Defense: 'By 2005, Taipei will possess a qualitative edge over Beijing in terms of significant weapons and equipment'.¹¹⁹ Taiwan has clear advantages in some areas (modern fighter aircraft and ground-based air defence assets); while China has a clear edge over Taiwan in other areas (such as offensive ballistic missile capability). For reference purposes, Table 4 provides a very rough indication of comparative orders of battle.

Table 4: Weapon Systems Holdings: Selected Governments¹²⁰

Orders of Battle 2002		
	Taiwan	China
Major Surface Combatants	32	63
Missile Patrol Craft	59	93
Modern Attack Submarines	2	32
Older Attack Submarines	-	35
Modern FGA & Fighters	431	130
Older FGA & Fighters	22	~1400
Offensive SRBM	-	~335

But Taiwan's potential capacity to defeat a range of conventional attacks by China will continue to depend on U.S.-supplied equipment.¹²¹

¹¹⁹ U.S. Department of Defense Report to Congress Pursuant to the FY1999 Appropriations Bill, 1 February 1999. Similar assessments, though not the same language, can be found in Department of Defense, 'Annual Report', *op.cit.*

¹²⁰ IISS, *The Military Balance, 2002-03*.

For the medium term, Taiwan's national security strategy (as implemented by the Ministry for National Defence (MND)) will be oriented toward the high intensity end of the conflict spectrum, while China will be operating much closer to the other end, emphasising political and psychological warfare and only low level military measures, if any at all. The MND in fact lists military threats as one of only five 'gruesome threats' that China presents. The others are political, economic, psychological and diplomatic. This assessment in the White Paper reflects the rejection by the Taiwan government of the more alarmist interpretations of China's military capacities relative to Taiwan in the medium term, as expressed in terms of missile deployments, growth in numbers of ships or increases in PLA operational readiness. At one level of policy, it is important for Taiwan's armed forces to be ready to counter Chinese military capabilities almost on a warship for warship basis (or more correctly anti-ship system for each PLA warship). But Taiwan's General Staff does not see a conventional,¹²² head-on military confrontation as either likely or the most significant military threat posed by China.¹²³ They are wise to have this view, since China is highly unlikely to pursue such a course.¹²⁴

This awareness that the MND is not really operating in four of the five threat areas is widely shared at the highest levels of the Taiwan government and it helps to explain the aggressiveness with which Taiwan pursues diplomatic and political strategies around the world and its relative passivity in the face of the military threat. It is in this context, though, that the second of the three fundamental concepts of national defence mentioned above is particularly interesting. The idea of 'maintaining stability in the Taiwan Strait' conforms directly to the DPP policy of constructive relations with China but in a sense runs

¹²¹ As discussed below, the main policy goal of the current U.S. Administration in improving its military relationship with Taiwan is to maintain a 'deterrence balance' between China and Taiwan.

¹²² Use of the term 'conventional' here does not mean to imply the opposite of nuclear operations, but rather the opposite of irregular operations (more in the realm of psychological warfare or information warfare).

¹²³ ICG interview, Taipei, May 2002.

¹²⁴ Interviews by ICG analyst over several years, and in Beijing, May 2002.

counter to the goal of national sovereignty and *de jure* independence. Nevertheless, it is this concept of security dialogue and transparency in national defence policy that offers the best prospects for progress in moves toward demilitarisation of the cross-Strait relationship, as discussed in Section V below.

B. TAIWAN'S DEFENCE SPENDING: THE BIG ANOMALY

Taiwan has devoted significant resources to military spending, as indicated in Table 5 below, but it has not spent significantly more than Singapore, which has faced no credible threat from its larger neighbours (Malaysia and Indonesia) for two decades. Taiwan has historically spent about the same percentage of GDP on defence as Pakistan, which does face a credible threat from its much larger and more powerful neighbour. But a country the size of Taiwan anticipating a major war with a far more powerful neighbour, and preparing its armed forces for it, might be expected to spend rather more on defence than 5 to 6 per cent of GDP.

Table 5: Defence Spending: Selected Governments 1985, 2000¹²⁵

As % Share GDP		
	1985	2000
Taiwan	7.0	5.6
China	7.9	5.3
Singapore	6.7	4.9
N. Korea	23.0	13.9
S. Korea	5.1	2.8
India	3.0	3.1
Pakistan	6.9	5.8

For 2002, Taiwan's defence spending (of NT\$261 billion) as a share of GDP was only 2.5 per cent¹²⁶ and on a straight exchange rate comparison not

¹²⁵ IISS, *The Military Balance*, 2001-02, Oxford University Press, London, 2001.

¹²⁶ Taiwan 2002 Defence White Paper, Part 3, Chapter 2.

much different from Australia's. The relatively low defence burden that Taiwan believes it must bear is also reflected in the share of government expenditure going to defence. As the official yearbook of Taiwan for 2001 notes: 'The defence budget for the ROC military has generally been reduced each year over the past decade'. The defence budget for 2001 was 16.9 per cent of the total national budget,¹²⁷ and has been down progressively each year since 1991, when it was 31.8 per cent. In 2002, despite an increase in the defence budget, its size as a share of government expenditure was 16.5 per cent.¹²⁸

Thus, there has been no appreciable response in gross defence effort by Taiwan to the 1995 change in China's strategy. In fact, the reverse has occurred. Defence has fallen in priority relative to other key sectors of national expenditure. On a comparative basis, Taiwan's defence burden is not much different from Thailand's, whose spending through the 1990s ranged from 28 per cent of government outlays at the start of the decade to 13 to 14 per cent at the end.¹²⁹

A seemingly contrary indicator is that in 1997-1999, Taiwan spent dramatically higher amounts on foreign arms purchases, as Table 2 above indicates. Those higher levels of procurement of new weapon systems from abroad could be seen as an unambiguous sign of concern in the government and armed forces about the need for urgent and expensive measures to counter a possible military threat from China. The fall-off by the year 2000 and after¹³⁰ to historically normal levels of expenditure on foreign arms purchases, however, may reflect a realisation that large volumes of new weapon systems (and conventional military

readiness) are not the main answer to the broad strategic problem that China presents. Taiwan budgeted only about U.S.\$500 million (NT\$17.6 billion) for foreign arms purchases in 2002, and it has come under pressure from the U.S. through 2002 and 2003 to increase arms purchases to enhance its preparedness for combat operations.¹³¹

¹²⁷ Government Information Office, 'The Republic of China Yearbook: Taiwan 2001', May 2001, Taipei. <http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/>.

¹²⁸ Taiwan 2002 Defence White Paper, Part 3, Chapter 2.

¹²⁹ Defence Intelligence Organisation, 'Defence Economic Trends in the Asia Pacific 2000', Canberra, 2001. See www.defence.gov.au/dio. For Pakistan, the figures were significantly higher – 45 per cent at the start of the decade down to 40 per cent at the end.

¹³⁰ The initially proposed defence budget for 2001 was NT\$320 billion, but this was cut back to NT\$271 billion. IISS, *The Military Balance*, 2001-02.

¹³¹ This has been reported in several places. See for example, Chris Cockel, 'US Frustrated by ROC's Military Dithering', *China Post*, 25 January 2003.

IV. UNITED STATES MILITARY POSTURE IN THE TAIWAN STRAIT AND EAST ASIA

ICG's first report in this series, noted that the U.S. military posture in the region had become the object of increasing concern to the Chinese leadership. But it also noted that when the U.S. normalised relations in 1979 and broke its political and military alliance with Taiwan, it was on the explicit premise that China would resolve its dispute with Taiwan only by peaceful means.¹³² The U.S. regarded China's remilitarisation of its conflict with Taiwan in 1995 and 1996 both as a breach of this commitment and a threat to regional security. To signal its concerns over the military intimidation in March 1996, it deployed two aircraft carriers and associated ships to waters near Taiwan.

The eight years since 1995 have seen a gradual intensification of military preparations by the U.S. for the contingency of military hostilities of some sort associated with Taiwan – even though such a contingency is still viewed in Washington as a low probability. This view was expressed most clearly by a senior official in February 2003, when he said that the differences between China and Taiwan are 'fundamentally political, not social, economic or military. However, Taiwan must be prepared for military contingencies as a last resort'.¹³³

The U.S. continues to respond to China's concerns about its enhanced military posture in the Taiwan Strait with the proposition that it would not have

made these moves if China had not threatened Taiwan with military force as it did in 1995 and 1996, and as it has continued to do since. This U.S. position is, however, a little disingenuous, not so much in respect of the Taiwan Strait conflict, but more in the sense that China's threats against Taiwan do not alone explain changes in the U.S. military posture in East Asia and the Western Pacific. Since the U.S. is a global superpower, its strategic interests in one conflict and the associated military posture are often shaped by considerations that extend beyond the parameters of that single set of issues. It is not always possible to disaggregate U.S. reactions to a specific situation, such as that involving Taiwan, from broader regional or even global geopolitics and military strategy.

ICG's first Taiwan Strait report noted how important such bigger considerations consistently have been in the case of the Taiwan conflict because the interests of other great powers, especially China and Japan, have been so closely involved. That report noted the link in 1950 between the war in Korea and U.S. military strategy and deployments in respect of Taiwan. When it found itself fighting China on the Korean Peninsula, the U.S. considered, and then rejected, use of nuclear weapons. In 1954, it signed the Mutual Defense Treaty with Taiwan. In the 1960s, U.S. strategy in Asia was premised on the likelihood of war with 'Red China', and U.S. forward deployed forces and bases in Taiwan were part of the planning. The U.S. fought in Vietnam against forces supplied and supported by China. Taiwan (the Republic of China) was a U.S. ally in that war and eventually had small military detachments in Vietnam, though these were non-combatant because of U.S. concerns that Taiwan combat forces might provoke China.¹³⁴ The shift in policy on recognition of Taiwan in 1979 was part of the U.S. strategy of co-opting China as a de facto ally to counter the global strategic threat from the USSR. The eventual collapse of the USSR meant that the U.S. did not any longer need to be as sensitive to China's strategic interests as it had been in the 1980s. China's retreat on political

¹³² *Taiwan Strait I. What's Left of 'One China'?*, *op.cit.* The 1972 China-U.S. Communique contains an assertion from the U.S. side that with the prospect of peaceful settlement in mind, the U.S. 'affirms the ultimate objective of the withdrawal of all U.S. forces and military installations from Taiwan. In the meantime, it will progressively reduce its forces and military installations on Taiwan as the tension in the area reduces'. In a December 1978 statement on normalisation, the U.S. made plain its expectation that the Taiwan question will be settled peacefully by the Chinese themselves.

¹³³ Randall Schriver, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Remarks to U.S.-Taiwan Business Council Defense Industry Conference, 14 February 2003, <http://www.state.gov/p/eap/rls/rm/2003/17796.htm>.

¹³⁴ See U.S. Department of the Army, *Allied Participation in Vietnam*, 1985, Chapter V, <http://www.army.mil/cmh/pg/books/Vietnam/allied/ch05.htm>.

reform, culminating in the Tiananmen Square repression, and the subsequent democratisation in Taiwan, then redefined the ideological basis of the U.S.-China relationship over Taiwan.

Through the 1990s, this link between the Taiwan Strait and U.S. regional strategy, as well as the U.S. global position as the pre-eminent power, was as prominent as ever, if not more so. The U.S. became increasingly concerned through the decade about the possibility that China might threaten specific vital strategic interests, such as freedom of navigation in the South China Sea, or even challenge its regional pre-eminence. One of its main concerns was China's position with respect to the global proliferation of missile systems and chemical precursors. Beginning in 1992, there was also serious concern about the broader strategic situation in North East Asia, especially the prospect of nuclear proliferation and missile development in North Korea (discussed below).¹³⁵ While this concern abated for several years in the second half of the decade, it was reignited by late 2002.

This section of the report, therefore, addresses the U.S. strategic and military posture around the Taiwan Strait under three main headings: defence of Taiwan; regional strategic aspects (Korea, Japan and the South China Sea); and geopolitical considerations (China as a great power challenger).

A. DEFENCE OF TAIWAN

The main elements of U.S. strategy for the defence of Taiwan were outlined in broad terms in ICG's first Taiwan Strait report.¹³⁶ President Bush has said that his Administration would do 'whatever it takes' to defend Taiwan,¹³⁷ a statement that has been reiterated subsequently by senior officials, such as Deputy Secretary of Defense, Paul

Wolfowitz,¹³⁸ and is the most unambiguous commitment ever by a U.S. President to a strict interpretation of the 1979 Taiwan Relations Act (TRA).¹³⁹ That law has formed the foundation of U.S. approaches to its defence relationship with Taiwan in subsequent years, but has been interpreted by some administrations less starkly than its drafters intended. Section 2(b)6 commits the U.S. to maintain its own capacity 'to resist any resort to force or other forms of coercion that would jeopardise the security, or the social or economic system, of the people of Taiwan'. Section 2(b)4 considers 'any effort to determine the future of Taiwan by other than peaceful means, including boycotts or embargoes, a threat to the peace and security of the Western Pacific'. Section 2(b)5 commits the U.S. to 'provide Taiwan with arms of a defensive character'.

After a summit meeting with President Jiang on 28 October 2002, President Bush made plain that the U.S. 'one China' policy was premised on a peaceful outcome of the Taiwan dispute. In a speech in Beijing in late November 2002, the U.S. Ambassador indicated that the U.S. position also included the notion that 'we want Taiwan to have the confidence to negotiate' with China.¹⁴⁰ This was a thinly veiled way of saying that the U.S. would bolster Taiwan's defence capability as well as maintain its own deterrent posture toward China as an additional boost to Taiwan's confidence.¹⁴¹

¹³⁵ For a useful contemporary account of these concerns, see Dunbar Lockwood, 'The Status of U.S., Russian, and Chinese Nuclear Forces in Northeast Asia', Arms Control Association, 30 June 1994

(<http://www.nautilus.org/pub/ftp/napsnet/papers/lockwood0694.txt>).

¹³⁶ *Taiwan Strait I: What's Left of 'One China'?*, op.cit.

¹³⁷ Interview with ABC News (TV), 25 April 2001.

¹³⁸ The first occasion was to a closed-door meeting of the U.S.-Taiwan Business Council in St Petersburg Florida on 11 March 2002. See Bill Gertz, 'White House Backs Strong Defense of Taiwan', *Washington Times*, 11 April 2002. The second occasion was in a speech in Singapore to the inaugural meeting of Asia-Pacific defence ministers on 1 June 2002. See

www.usconsulate.org.hk/uscn/others/2002/060101.htm.

¹³⁹ Text is available at

<http://usinfo.state.gov/regional/ea/uschina/taiwanact.htm>.

¹⁴⁰ Associated Press, 26 November 2002.

¹⁴¹ ICG's companion report, *Taiwan Strait I: What's Left of 'One China'?*, op.cit., noted that the Bush Administration came to office with the view that U.S. military deployments and readiness in the Western Pacific had been deficient in the face of China's moves to upgrade its navy and air force and in the face of China's missile deployments opposite Taiwan: there was a perceived need for the U.S. to assert right of passage in the Taiwan Strait and to strike a new military balance. As also noted, China

1. Bolstering Taiwan's Own Military Capacities

For most of the time since 1979, U.S. support for Taiwan's military capacities was confined largely to the provision of weapons systems and other military equipment. But when the Bush Administration came to power in 2001, it took the view that a military relationship based largely on arms sales was not doing much either for Taiwan's military defence and deterrence of China, or for overall U.S. interests if American forces eventually had to fight. It is possible, therefore, to distinguish two phases in U.S. military support of Taiwan after 1979: an 'arms sales' phase (1979 to 2000); and a phase of restoration of a normal alliance (2001-2003).

An 'Arms Sales' Alliance: 1979-2000. In 1979, the U.S. broke off almost all military-to-military relationships with Taiwan. The main vehicle for the security relationship became an annual determination of whether the U.S. should sell particular weapons systems and in what quantities. This was always shaped by U.S. domestic political conflicts about how to reconcile, on the one hand, commitments to China that provided for only unofficial relations and an eventual end to arms sales, with the obligations imposed by the TRA. The type and volume of weapons the U.S. sold to Taiwan, accompanied by some low levels of U.S.-based training and other forms of cooperation, especially in communications and intelligence, helped Taiwan maintain a relatively robust military posture.

But as noted earlier in respect of both China and Taiwan, arms purchases represent only a part of the picture of military readiness. In spite of reasonably high levels of arms purchases in recent years (especially 1997 and 1998), two decades of international isolation had a substantial negative effect on the readiness levels of Taiwan's armed

forces. It is in this context that one should interpret China's ritual protests about U.S. arms sales. As long as the military relationship was restricted largely to arms sales, and those mostly of a defensive nature and involving mostly older systems, China had relatively little to be concerned about. The claim that the arms sales were a threat to peace was merely propaganda. China is, however, rather more gravely concerned about the moves in the last two years to redress deficiencies in the operational readiness of Taiwan's armed forces through a wide range of additional measures meant to restore a functioning, multi-dimensional alliance.

Restoration of a Normal Alliance: 2001-2003.

When the present Bush Administration took office, there was a strong view that the U.S. should end what one report called an 'outdated, dangerous, and frankly embarrassing' approach to the military relationship.¹⁴² That April 2001 report by a Republican Senate staffer suggested that 'U.S. policy was totally inadequate to the task' of helping Taiwan address deficiencies in its defence posture. Its recommendations, while not original, look now like a blue-print for subsequent U.S. policy in bolstering Taiwan's military capabilities. The report recommended strict adherence to Section 3(b) of the TRA through provision of best available military systems; lifting petty and humiliating restrictions on visiting Taiwan military officials and on U.S. military officers' travel to Taiwan; establishing communications links between the two military establishments; establishing operational training programs with Taiwan's armed forces, including joint exercises; enhanced intelligence sharing; meaningful cooperation in electronic warfare; and changing the arms sale process.¹⁴³

The Bush Administration has taken a qualitatively new approach to enhancing U.S. security relations with Taiwan, making several important adjustments in its defence relationship that would, once implemented, go a long way to restoring it to a *de facto* military alliance, little different in scope and purpose from what existed until 1979. These

reportedly offered at the October 2002 Summit to exercise restraint on missile deployments if the U.S. would do the same on arms sales to Taiwan. While the possibility of such an agreement does not appear to have been explored seriously at the time, the U.S. should consider probing how willing Beijing may be to actually remove the threat its missile deployment represents: see further the discussion in section V below.

¹⁴² Senate Committee on Foreign Relations, 'U.S. Defense Policy Toward Taiwan: In Need of an Overhaul', Staff Report, 107th Congress, First Session, April 2001, p. 1.

¹⁴³ *Ibid.*, pp. 1, 10-11.

moves, discussed in ICG's first Taiwan Strait report,¹⁴⁴ have involved:

- allowing a working visit to the U.S. by Taiwan's defence minister for the first time since 1979;
- introducing new arrangements for military exchanges with Taiwan;
- changing the timing and manner in which the U.S. approved arms sales to Taiwan;
- expanding the scope of arms sales to Taiwan;
- dedicating itself to pursuing combat interoperability; and
- committing itself to support substantial reform in Taiwan's administration of defence policy and development of joint force operational capability.

The U.S. is looking for Taiwan to overhaul its defence administration, management and procurement policies. The U.S. policy shopping list in this respect has been laid out in several places but a recent speech by a senior official captured it well. Noting that the full benefits of implementing these reforms were still 'years away', he called on Taiwan to work towards:

- better inter-service coordination;
- a joint perspective on military operations;
- capability to deter modern air and naval forces;
- development of missile defence;
- development of modern ASW capability;
- modernisation of command and control systems;
- appointment or election of effective military and civilian leaders with vision;
- an effective national security structure;
- better military responsiveness to civilian control; and
- a rational procurement system.¹⁴⁵

But one weakness of the new U.S. position is that its goals have undefined end points. There is no clear picture of just how much of the defence burden Taiwan itself should bear, only a conviction that it needs to do much more. Assistant Secretary of State for East Asia James Kelly observed during his confirmation hearings that he did not believe the two sides of the Taiwan Strait can achieve a balance of military power 'because the quantitative difference in strength is too great'.¹⁴⁶ The U.S. goal in selling arms to Taiwan and helping it upgrade its own defences is not to make its military strength correspond to China's on every level. U.S. but to maintain a 'deterrence balance' across the Taiwan Strait, 'enabling Taiwan to possess superiority in certain key areas' and ensuring that China 'would pay a heavy price for any military attack against Taiwan'.¹⁴⁷

Taiwan has responded very positively, seeing the new U.S. support as a great benefit in both practical operational terms and in symbolic terms, as a proof of U.S. commitment to its military defence of Taiwan. But the ambitious scale of the reforms and their cost have led to new differences between the two governments. The U.S. may be seeking military upgrading on a scale that the Taiwan government and its parliament may not be able or want to meet, especially since the DPP does not enjoy a majority in the legislature. Differences have quite naturally arisen over priorities within the defence reform program itself; about whether U.S. weapons sold to Taiwan are defensive in nature (and therefore meet the terms of the TRA) or whether they are offensive; and whether Taiwan is spending enough money on defence. The perennial debate about burden sharing, so familiar in other U.S. bilateral military relationships, has already raised its head. Some Republican Party critics in Washington have asked why, if Taiwan is not prepared to defend itself (with appropriate levels of defence spending), the U.S. should bother.

¹⁴⁵ Randall Schriver, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Remarks to U.S.-Taiwan Business Council Defense Industry Conference, 14 February 2003, <http://www.state.gov/p/eap/rls/rm/2003/17796.htm>.

¹⁴⁶ Cited in Arthur S. Ding, 'Don't Simplify Arms Sales Issues', *Taipei Times*, 9 April 2001. See

<http://taiwansecurity.org/TT/2001/TT-040901.htm>.

¹⁴⁷ Ibid.

¹⁴⁴ *Taiwan Strait I: What's Left of 'One China'?*, op. cit.

The qualitatively new military relationship between Taiwan and the U.S. means that some of the old controversies about arms sales have been quickly subsumed into a much larger ones about U.S. strategic positioning in East Asia. For example, the U.S. Department of Defense now has legislative authority from Congress (not that it formally needed it) to station its personnel in Taiwan to support the reform programs as well as training activities of a type that were suspended in 1979. For China and some in the U.S., this represents a step into a new order of commitment and risk that makes the issue of arms sales pale in comparison. By contrast, Taiwan's level of arms purchases from the U.S., though seemingly high in terms of recent new commitments, is not on an annual basis high enough to be of especially great concern to China, in spite of its ritual denunciations.

2. U.S. Deterrent Posture toward China in the Taiwan Strait

Beyond the military relationship with Taiwan, the U.S. has taken a number of concrete measures in terms of planning and exercises in areas close to China that are specifically related to its determination to oppose Chinese intimidation, to deter use of force against Taiwan, and to prepare U.S. forces for the contingency of politico-military or combat operations. While this has not so far seen dramatic increases in forces permanently deployed to the region, the U.S. has steadily improved its infrastructure and operational readiness. This can be seen clearly in carrier battle group exercises in the South China Sea (on one occasion at least involving two carriers); in carrier transits of the Taiwan Strait; in the extension in the second half of the 1990s of U.S.-Japan mutual support arrangements for Korea and China-related contingencies (discussed below); and in rejuvenation of the military alliance with the Philippines (also discussed below). In 2002, a senior commander said that the U.S. posture was aimed at deterring China, which could hurt Taiwan but not capture it 'as long as my forces have the orders, which they have, to be ready to support Taiwan if ordered to'. He said that U.S. forces could make it 'very unattractive for China

to conduct military aggression'.¹⁴⁸ The U.S. believes that its Pacific-based forces are strong enough to resist and contain a Chinese military attack on Taiwan.

The exact detail of U.S. operational military readiness in East Asia, as elsewhere, is one of Washington's better kept secrets,¹⁴⁹ a situation that the Department of Defense has told Congress it wants to maintain in respect of Taiwan.¹⁵⁰ ICG does not have access to detailed information on the operations of U.S. forces in the vicinity of Taiwan. Nevertheless, a good picture of improvements in U.S. military readiness in response to China's military intimidation of Taiwan can be obtained from general statements on the public record about deployments in the Western Pacific.

Many senior U.S. sources have commented on the strategic significance of military access to Japan or the Philippines in U.S. planning for Taiwan contingencies, or in less explicit terms of 'regional security' and the possible threat from 'major regional powers' or the 'emergence of a great regional power'. These are terms often used to mute language in public when the topic is unambiguously China. For example, in 1997 Secretary of Defense Cohen observed that the U.S. wanted to 'shape the security environment'. To do that, he said, it intended 'to be forward deployed' and 'to maintain a robust presence in key regions of

¹⁴⁸ 'U.S. Security policy in Asia and the Pacific: The View from Pacific Command', joint hearing before the Subcommittee on East Asia and the Pacific and the Subcommittee on the Middle East and South Asia, Committee on International Relations, House of Representatives, 107th Congress, Second session, 27 February 2002, pp. 27, 28.

¹⁴⁹ A former director of the CIA told a conference at Harvard University in 1994 that despite his best efforts, the CIA was not given access to collated information on U.S. military operational deployments against the USSR, even though he felt that was essential to understand the motivations of and patterns in Soviet operational activity.

¹⁵⁰ In September 2002, Deputy Secretary of Defense Paul Wolfowitz wrote to Congress expressing this sentiment in response to provisions in draft legislation that called for reporting by the Pentagon on how it was responding to China's threats against Taiwan. See Shirley A. Kan, 'Taiwan: Major U.S. Arms Sales since 1990', Congressional Research Service, updated 18 April 2003. p. 16.

the world', because it needed forces 'that can halt and defeat military aggression by major regional powers' and respond to 'greater dangers over the horizon, including the emergence of a great regional power'.¹⁵¹ In March 1998, Commander of the Pacific Command, Admiral Joseph Prueher, told the House of Representatives Armed Services Committee that the U.S. 'must continue to deal with China from a position of strength', noting later in his statement that 'U.S. forward-deployed forces in Asia remain the linchpin of regional security and stability' and that the Philippines, as a treaty partner, 'occupies a geographically important position in the region'.¹⁵² He also noted that 'maintaining freedom of navigation is critical to regional security and economic development' and that 'some Asia-Pacific nations assert excessive maritime claims that challenge this freedom'.

3. Is the U.S. Deterring China?

China will not cease to treat cross-Strait relations as a sovereignty issue, and 'salami slices' by Taiwan to change its international status stiffen resolve in Beijing to act, ultimately with military force if necessary. In responding to the Taiwan challenge, China has its own timetable, and is working through a variety of measures, of which coercive diplomacy is only one. Chinese sources interviewed over many years have made plain their view that Chinese leaders are not afraid to risk war over Taiwan, and the leaders themselves have expressed such a view time and again in all sorts of ways.

On the one hand, this could be seen merely as rhetorical posturing meant to drive home China's seriousness about the political problem of Taiwan. China would certainly face severe constraints and high costs if it went down the path of war. On the other hand, the statements about not being afraid to

risk war may need to be taken as an earnest of the leadership's determination to pay almost any price to prevent a final breach with Taiwan. In the last analysis, whether China's leaders would make such a calculation were events to take such a serious turn can only be answered at the time according to the balance of national interests. Constraints on such a course will remain very powerful.

Since China has a range of coercive options against Taiwan that do not involve resort to combat operations in which lives are lost,¹⁵³ however, and since U.S. military support for Taiwan does not really provide any counter to these options, there is no particular need for China to feel deterred by U.S. military measures from pursuing them. At least some in the Chinese leadership probably no longer see the U.S. as playing any useful role in preventing Taiwan from making the final break with China.¹⁵⁴ Some see the U.S. as opposed to China's efforts to bring Taiwan to the negotiating table, and believe that China now just needs to 'cope with' U.S. policy.¹⁵⁵

There is a danger that senior U.S. officials are confusing their quite correct assessment of the relative power of the two countries with the mistaken belief that the U.S. 'can dictate China's choices'¹⁵⁶ on its responses to Taiwan. One very strong line of thought is that the 'whole other dynamic on the economic side' of U.S. China

¹⁵¹ William S. Cohen, Remarks as prepared for delivery to the Brookings Institution Board of Trustees, Washington DC, 12 May 1997.
<http://usinfo.state.gov/regional/ea/easec/cohensec.htm>
accessed 12 November 2002.

¹⁵² Joseph W. Prueher, Statement before the Armed Services Committee United States House of Representatives Posture Hearing, 4 March 1998.
<http://russia.shaps.hawaii.edu/security/98-3-4prueher.html>,
accessed 12 November 2002.

¹⁵³ See James H. Anderson, 'Tensions Across the Taiwan Strait: China's Military Options against Taiwan Short of War', Heritage Foundation Background, No. 1328, 28 September 1999. Anderson lists five options, four of which are non-lethal: escalate invasion exercises; mount information warfare attacks; harass Taiwan's commercial shipping; and test ballistic missiles near Taiwan. But there are other non-military coercive options, such as applying pressure to the personal interests in China of wealthy Taiwanese with close links to the governing party. See earlier section in this report on 'Gradation and Escalation in China's Taiwan Strategy'.

¹⁵⁴ ICG interview, May 2002.

¹⁵⁵ This view of the U.S. was corroborated by an ICG interview in Beijing, May 2002.

¹⁵⁶ This turn of phrase was used by a senior Administration official in an interview with ICG in May 2002, but other U.S. officials interviewed by ICG echoed the same line.

relations gives the Administration more significant room for manoeuvre than it in fact has.¹⁵⁷

4. Employing U.S. 'Information Dominance'

The most profound influence of U.S. military capability on the prospects of China-Taiwan military conflict is likely to be U.S. 'information dominance' – the ability of the U.S. intelligence community to know within one or two days, perhaps even a few hours, of any significant actions by China to move its forces to a combat footing for operations against Taiwan. It will be this aspect of U.S. military power that will most shape China's operational strategy if it decides on actual armed hostilities, and gives Washington the best hope of working toward the prevention of hostilities in the Taiwan Strait. To this end, though, the priorities, practices and assumptions of the U.S. intelligence community will need to be finely tuned.

If China did use force against Taiwan, it would hope to pre-empt and complicate any U.S. military response by presenting the U.S. quickly with the need to choose escalation if it wished to reverse a Chinese military gain. If China's objective in respect of Taiwan was to force a new negotiation, this would reduce the military capabilities that China would have to have in place and the scale of operations that would be needed. The U.S., accordingly, would need to be alert not only to the remote possibility of massive mobilisation for large scale war, but also for some low level military action by China (such as seizing one of the coastal islands) that might be launched with little or no warning. While objectively this also may be a low risk at present, it is a substantially higher risk than all-out war mobilisation and a much harder operation to detect in its planning or early implementation stages.

Thus, U.S. reporting on the Taiwan Strait should pay rather less attention to the gross capabilities of the PLA when fully mobilised than to its specific operational capabilities for low level military gambits in and around Taiwan-controlled territory. Such knowledge placed regularly and widely into the public domain could play a powerful role in

shaping perceptions within China of how difficult it would be for a gambit to escape detection. Such public domain knowledge might also have a calming effect on anti-China feeling in Taiwan – were it to demonstrate that China really has few pre-emptive options that would go undetected. The current Pentagon approach, all too evident in certain sections of its 2002 report to Congress, to exaggerate and obfuscate on PLA capabilities or operational activity, only aids those in Taiwan who promote or are willing to accept confrontation with China as necessary or inevitable in pursuit of their radical political objectives. It certainly assists those in China who are hoping for confusion in the event they decide on further use of force against Taiwan. They would be only too pleased to see Pentagon analysts obsessed with an unreal big threat to Taiwan, when the more likely military threat is at the low intensity or covert operations end of the spectrum.

B. REGIONAL STRATEGIC CONSIDERATIONS

The adoption by the U.S. of a more robust military posture after 1995 to deter China in Taiwan-related contingencies has had important implications for its interests and posture elsewhere in East Asia. On the one hand, the emergence of other threats to U.S. interests in East Asia before 1995, such as nuclear weapons development by North Korea and naval confrontations among rival claimants in the South China Sea, including China, had raised the U.S. military readiness posture in the Western Pacific even before China launched its missiles in 1995 and 1996 to intimidate Taiwan. This had led on at least one occasion to a confrontation between U.S. and Chinese naval and air forces in the Yellow Sea, in which PLA aircraft harassed a U.S. submarine, forcing the associated aircraft carrier to launch aircraft in response. While that incident eventually had the positive effect of producing a joint agreement on avoiding incidents at sea, it is more than likely that the enhanced U.S. military posture in the region, including contingency planning in 1993 and 1994 to attack the North Korean nuclear facility (discussed below), and improvements in U.S.-Japan military coordination for Korean contingencies, contributed to the Chinese decisions

¹⁵⁷ ICG interview, Washington, May 2002.

to lay down the military markers it did in respect of Taiwan. The feedback effect between U.S. strategic posture for Taiwan and other regional crises engaging vital U.S. interests, such as the stability of its alliance with Japan, has intensified after 1995 and will remain a key influence on the prospects for military confrontation over Taiwan. Some brief comment on these regional issues is important to outline both their connections with the Taiwan Strait over the decade and their continuing relationship to the Taiwan confrontation.

1. Korea

As the U.S. struggled to deal with the Korean nuclear crisis in 1993-1994,¹⁵⁸ one option it considered, as part of an evolving doctrine of counter-proliferation,¹⁵⁹ was an attack to destroy North Korea's nuclear facility. A military crisis involving the U.S., North and South Korea, Japan and China quickly developed, with the U.S. enhancing its readiness and deploying additional forces to the region as a precaution.¹⁶⁰ The plans for

a military counter-proliferation strike were put aside when in October 1994 the U.S. signed the Agreed Framework with North and South Korea under which Pyongyang agreed to freeze and ultimately dismantle its nuclear program.

That nuclear crisis, along with other regional concerns, prompted the U.S. to reassess its regional security strategy. In February 1995, a major review by the Pentagon of its strategy in East Asia identified several sources of concern, including the Korean peninsula and China's military modernisation.¹⁶¹ The U.S. decision in 1995 to keep forces in South Korea and to maintain a vigorous forward military presence in the Western Pacific became the subject of intense debate in China for two to three years, before the Chinese leaders silenced it by taking the firm line that the U.S. military presence in the region, especially if it contained the Korean Peninsula problems and kept Japan from a robust international military posture, was in China's own interests, at least in the medium term.

By mid-2003, U.S. strategic concerns about the military problems presented by North Korea and the regional security situation had for the most part intensified, not abated. Against the background of the 11 September 2001 terrorist attacks in New York and Washington, and the resulting shift in U.S. policy to pursue counter-proliferation objectives more aggressively on a global scale, the U.S. made plain that it had lost confidence in North Korea's commitment to the Agreed Framework. North Korea responded by arguing that the U.S. was itself in breach of its commitments, declaring it had nuclear weapons, threatening to produce more fissile material, withdrawing from the Nuclear Non-Proliferation Treaty and returning to

¹⁵⁸ In 1992, inspectors of the International Atomic Energy Agency reported that North Korea might have diverted controlled nuclear material for weapons-related activities. In 1993, North Korea withdrew from the Nuclear Non-Proliferation Treaty. In January 1994, the CIA advised President Clinton that North Korea might have developed one or two nuclear weapons.

¹⁵⁹ In a speech at the National Academy of Sciences on 9 December 1993, the Defense Secretary Les Aspin 'unveiled the Pentagon's Defense Counter-proliferation Initiative. The plan was predicated on the assumption that export controls and diplomatic suasion will not stop the proliferation of weapons of mass destruction (WMD). Counter-proliferation emphasises the development and procurement of hardware, sensors, defences, and new offensive weapons to deal with undesirable proliferation. Military strikes with improved non-nuclear penetrating munitions would be undertaken pre-emptively to disable WMD programs'. See Federation of American Scientists, *Arms Sales Monitor*, No. 24, 15 March 1994, <http://www.fas.org/asmp/library/asm/asm24.html>.

¹⁶⁰ In March 1994, the U.S. agreed to deploy Patriot missiles to South Korea in response to the threat posed by North Korea's ballistic missiles. In April 1994, U.S. units participated in a command post exercise in South Korea to develop capacities for the reception, staging, onward movement and integration of units from the U.S. in an emergency deployment in defence of South Korea. This exercise subsequently became an annual event. North

Korea threatened to go to war if sanctions were imposed by the international community. China has a mutual security treaty with North Korea, and would have regarded a U.S. military strike against North Korea as a serious threat to its own security.

¹⁶¹ See the speech by the Assistant Secretary of Defense for International Security Affairs, Joe Nye, at Pacific Forum CSIS/Japanese Institute of International Affairs Conference, San Francisco, 29 March 1995, <http://www.defenselink.mil/speeches/1995/s19950329-nye.html>.

occasional shows of bellicosity and heightened military readiness.

China has become concerned at these new developments on its periphery at a time when U.S. forces have made a strategic lodgement on its western border in Central Asia for the first time ever and the U.S.-Taiwan military relationship is being restored.¹⁶² U.S. strategic policies, beginning with participation in the NATO war against Yugoslav forces in Kosovo in 1999 and leading to the US-led invasion of Iraq in 2003, re-opened the debate in China about the fundamental differences between U.S. and Chinese strategic interests. But China stuck to its line, already evident in 1994, of opposing nuclearisation of the Korean Peninsula. It agreed to broker direct talks between Pyongyang and Washington, which began, albeit not very fruitfully, in Beijing in April 2003.

China has nothing to gain from war on the Korean Peninsula, and the pay-offs in supporting a peaceful outcome of the nuclear crisis are substantial. But there must be no mistake: China's cooperative behaviour in terms of U.S. objectives in securing a non-nuclear Korean Peninsula do not in any way suggest that it may negotiate away its claims to sovereignty over Taiwan. In fact, it will be counting on its cooperative behaviour on Korea as additional leverage to persuade the U.S. that it is a valuable geopolitical ally on key issues rather than a strategic competitor. China would expect the U.S. to continue to see only negatives for wider U.S. regional interests in any support of *de jure* Taiwan independence.

2. Rejuvenation of U.S. Defence Relations with Japan

In April 1996, just one month after the Chinese military pressure on Taiwan, the U.S. and Japan signed significant new agreements on military cooperation. Intensive negotiations on enhanced security cooperation had been under way since 1994 in the wake of U.S. disaffection with Japan's response to requests for support during the Korean

nuclear crisis. The U.S. was seeking to clarify Tokyo's position on use of military facilities in Japan in case of a regional emergency, and Japan was seeking to satisfy its heightened interest in more effective participation in regional security affairs. On 15 April 1996, just before President Clinton's visit to Tokyo from 16 to 18 April, the two countries signed the 'Japanese-U.S. Agreement on Mutual Supplies of Materials and Labour', a cross-servicing agreement which relates to peacekeeping or humanitarian missions and does not explicitly cover military emergencies not involving an attack on Japan. During his visit, President Clinton and Prime Minister Hashimoto signed a 'Japanese-U.S. Security Assurance Joint Declaration' and a strategy document entitled 'Facing the Challenges of the 21st Century'. Between them, these three documents repositioned the bilateral alliance as a cornerstone of regional security, and reasserted the application of the treaty to include events in the Far East (especially meaning at that time the Korean Peninsula) as well as direct military threats to Japan.

In many respects, these agreements can be seen as little more than a clarification or reaffirmation of existing arrangements after nearly a decade of fairly bitter disputes over a range of economic issues, after new pressures on U.S. bases in Okinawa, and after obvious differences on how to handle the Korean nuclear crisis of 1994. Events during March 1996 demonstrated the need for a new agreement to consult during a regional crisis, since there had been no consultation on the U.S. decision to deploy a Japan-based carrier in connection with the crisis.¹⁶³ The Foreign Ministry had been conscious for several months before March 1996 of the need to iron out any differences on use of Japanese forces or facilities in support of U.S. military operations in a possible Taiwan crisis.¹⁶⁴

Japan made considerable efforts to reassure China that the new arrangements were not directed at it. For example, Hashimoto told visiting Foreign Minister Qian Qichen on 1 April 1996 (in advance of the

¹⁶² See Greg Austin, 'The China Periphery: the New U.S. Challenge and Beijing's Response', European Institute for Asian Studies, Briefing Paper, December 2002.

¹⁶³ Eugene Moosa, Reuters, 12 March 1996: 'Japan: China Puts New Light on U.S. Bases in Japan'.

¹⁶⁴ Takahiko Ueda, 'China Watchers See Either Hegemonic Hopeful or Benign Giant', *The Japan Times*, 4 January 1996.

Clinton visit) that the talks with the U.S. would not harm ties between Japan and China.¹⁶⁵ Qian had called on Japan to ensure that the planned redefinition of the U.S.-Japan alliance would not affect China.¹⁶⁶ The same day, Japan's Vice Foreign Minister, Sadayuki Hayashi, told reporters that the security treaty was not designed to target China but to maintain stability in East Asia.¹⁶⁷

China was not convinced by such assurances, especially since Japanese delegations to China had been complaining about its pressure on Taiwan, the perceived high levels of China's military spending, and the lack of transparency in China's defence policy.¹⁶⁸ On 22 April, a senior PLA officer, Deputy Chief of the General Staff Xiong Guangkai, told members of a Liberal Democratic Party delegation visiting China that the U.S.-Japan security treaty would cause problems if it went beyond bilateral cooperation.¹⁶⁹ Sharper exchanges took place in the lead-up to publication in June 1997 of the interim review on new guidelines for U.S.-Japan security cooperation foreshadowed in the April 1996 agreements. The main point of contention was the adoption of new terminology – 'areas surrounding Japan' – instead of 'Far East', as in the 1978 guidelines and the 1960 U.S.-Japan treaty.¹⁷⁰ Foreign Minister Ikeda suggested that the new term did not change the meaning of the 'Far East' even if, as he acknowledged, the two concepts were a 'little different'. The new emphasis was on the 'situations

themselves rather than on the areas in which they occur'.¹⁷¹

Japanese officials remained firm in all discussions with Chinese officials that as long as China did not use force against Taiwan, China could have no complaints about the guidelines. Japanese officials, including the Prime Minister, sought to address China's primary immediate concern by strongly denying any support for Taiwan's bid to join the UN or for greater official diplomatic recognition. Immediately after the new guidelines were published, Japan briefed China (and South Korea) on their content. Ikeda responded to Chinese complaints about their outmoded nature by suggesting that China should be more active in invigorating the ASEAN Regional Forum to assuage its concerns.¹⁷² Hashimoto had sought to reassure Chinese leaders in Beijing in September by invoking the transparency of the Japanese policy process on the question of military support of the U.S. and highlighting the lack of specificity of the sort of contingencies they covered.¹⁷³

China again was not convinced. Assessing his visit to Japan in November 1997, Prime Minister Li Peng observed dryly that 'it would have been more satisfactory if Prime Minister Hashimoto had added that Japan-U.S. security cooperation does not include Taiwan'.¹⁷⁴ China's leaders point to a series of statements in August 1997 by leading officials, including the chief cabinet secretary, Kajiyama, and Foreign Minister Ikeda, in support of the view that the term 'surrounding areas' or the ambit of the U.S.-Japan treaty unambiguously include a threat to regional peace over Taiwan.¹⁷⁵ President Jiang Zemin commented that the remarks of the chief cabinet

¹⁶⁵ Kyodo, 1 April 1996, carried in BBC SWB and Reuters, 2 April 1996: 'Japan: Chinese Foreign Minister Warns against New Problems from Japanese-US Summit'.

¹⁶⁶ Kyodo, 1 April 1996, carried in BBC SWB and Reuters, 2 April 1996: 'Japan: Official Says Security Alliance with USA Does not Target China'.

¹⁶⁷ Kyodo, 1 April 1996, carried in BBC SWB and Reuters, 2 April 1996: 'Japan: Official Says Security Alliance with USA Does not Target China'.

¹⁶⁸ Kyodo, 21 April 1996, carried in BBC SWB and Reuters, 24 April 1996: 'China: Japanese Team Arrives to Reassure Beijing Declaration with USA not Anti-China'.

¹⁶⁹ Jiji Press Newswire, carried in Reuters, 22 April 1996: 'China: PLA Worried about Japan-US Security Alliance'.

¹⁷⁰ The term 'Far East' was never defined by precise geographical coordinates or other means, though it was always conceived as being geographically determined.

¹⁷¹ *Bungei Shunju*, September 1997, pp. 370-377, (FBIS-EAS-97-234, 22 August 1997).

¹⁷² *Ibid.*

¹⁷³ See for example press conference with Hashimoto, HHK General Television, 6 September 1997, (FBIS-EAS-97-251, 8 September 1997).

¹⁷⁴ Interview with NHK, 13 November 1997, Xinhua, 13 November 1997, FBIS-CHI-97-318, 14 November 1997.

¹⁷⁵ See Wen Wei Po, 2 August 1997, p. A2, (FBIS-CHI-97-234, 22 August 1997); *Far Eastern Economic Review*, 4 September 1997, p. 32.

secretary that the guidelines covered the Taiwan Strait 'are indelibly imprinted on my mind'.¹⁷⁶

When the guidelines were passed by the Diet in May 1999, they referred to 'situations in areas surrounding Japan' and were limited to help in search and rescue operations, undertaking minesweeping and providing greater logistic support, including the use of Japanese hospitals, ports and airfields and the provision of fuel and equipment. In addition Japanese ships could be dispatched for the first time to evacuate endangered Japanese overseas.¹⁷⁷ The provisions of the legislation specified that the situations in areas surrounding Japan are ones 'that could lead to the nation being the direct target of armed attacks if no action is taken'. Japan has tried to avoid specifying under what circumstances it would provide rear-area support for U.S. forces. The implication of this shift in terminology, however, is most probably that the guidelines now cover any threat to Japan's security, one of which would be hostilities between China and Taiwan or perhaps even a threat by China to use force against Taiwan. The formula in the legislation would appear to cover the possibility of Japanese support to U.S. forces engaged in combat to 'contain' a China-Taiwan military confrontation.

Developments in Japan's security policies after 1999 show a hardening of attitudes on Korean nuclear issues, on the need to prepare for a Taiwan Strait military contingency, and on the need for Japan to abandon its passive military posture.

3. Rejuvenation of U.S. Defence Relations with the Philippines

A similar pattern of rejuvenation was also evident after 1996 in the U.S.-Philippines alliance. The Philippines is Taiwan's immediate neighbour, and it faces China across the South China Sea. The Philippines and Taiwan sit at either end of the Luzon Strait, the main maritime transit route (apart from the Taiwan Strait itself) out of the northern reaches of the South China Sea. The two are so close in military operational terms that in 1941 Japan was able to launch its air attack on the

Philippines from land bases in Taiwan. Today, U.S. fighters could reach the centre line of the Taiwan Strait from bases in northern Luzon (about 450 nm) without refuelling.¹⁷⁸ And U.S. combat aircraft could operate against the southern coast of China from airfields in the Philippines without refuelling. The distance from Manila to Hong Kong is only 547 nm, and a number of Chinese South Fleet bases are closer to Philippines airfields than that. Thus a cooperative relationship with the Philippines that gives the U.S. wide-ranging military access provides operational flexibility for Taiwan-related military contingencies to the north and south of the island without need to base forces in Taiwan.

Until 1995, the U.S.-Philippines military relationship was essentially moribund. After the U.S. withdrawal under pressure from its bases there in 1992, the two countries were unable to fashion a 'new and mutually acceptable defence relationship'.¹⁷⁹ But the split in 1992 was not final, and the U.S. did not completely abandon the Philippines, even signing in the same year a new Visiting Forces Agreement (VFA) to allow occasional but continued access to facilities.¹⁸⁰ In 1994, the two sides sought to conclude an Acquisition and Cross-Servicing Agreement (ACSA) that would provide logistic support for U.S. forces.¹⁸¹ The 1951 Mutual Defense Treaty remained in force, and the Mutual Defense Board set up under its auspices continued to meet.¹⁸² But these were the

¹⁷⁸ The U.S. does not currently station any combat forces in the Philippines on a permanent basis.

¹⁷⁹ Richard D. Fisher, 'Rebuilding the U.S.-Philippine Alliance', Heritage Foundation Background Paper No. 1255. Washington, DC: Heritage Foundation; available at <http://new.heritage.org/Research/AsiaandthePacific/BG1255.cfm>. Accessed 27 November 2002.

¹⁸⁰ Doug Bandow, 'Instability in the Philippines: A Case Study in Disengagement', Cato Institute Foreign Policy Briefing No. 64. Washington, DC: Cato Institute, 2001, p. 2.

¹⁸¹ Daniel B. Schirmer, 'U.S. Bases by Another Name: ACSA in the Philippines', Brooklyn, NY/Durham, NC, 1995: Philippine Bases Network/Friends of the Filipino People; available at <http://www.hartford-hwp.com/archives/54a/004.html>. Accessed 27 November 2002.

¹⁸² The text of the 1951 Mutual Defense Treaty Between the United States and the Republic of the Philippines is available via the Avalon project at Yale Law School: <http://elsinore.cis.yale.edu/lawweb/avalon/diplomacy/philippines/phil001.htm>. Accessed 27 November 2002.

¹⁷⁶ Nobumichi Izumi, 'Jiang Wants China-Japan Economic Plan', *Nikkei Weekly*, 15 December 1997, p. 21.

¹⁷⁷ *Nikkei Weekly*, 31 May 1999.

minimum repairs that the U.S. could make to its previously strong bilateral defence relationship, not really an effort to restore access on the same scale as before. By 1994, the general sentiment in the U.S. toward the Philippines as an economic and political partner had weakened significantly. As a U.S. Ambassador in Manila later acknowledged, the military assistance program began to approach zero as a result of the ejection of the U.S. from the bases.¹⁸³

After the Chinese military pressure on Taiwan in 1995 and 1996, the U.S. showed renewed interest in military access, and the Philippines responded positively because of new Chinese pressure on Philippines claims in the Spratly islands that began in late 1994. In June 1997, the U.S.-Philippines Mutual Defense Board discussed the need to make progress on an Acquisition and Cross Servicing Agreement (ACSA), similar to the one that the U.S. and Japan agreed in April 1996 after the Taiwan missile tests. The draft agreement with the Philippines would provide for U.S. naval access to any of the country's 22 commercial ports. The spokesperson of the Armed Forces of the Philippines was quoted saying that this agreement would enhance the 'tentacles of power' of the U.S. in the Asia Pacific, and 'provide a balance of power', lest 'China will rule it over us'.¹⁸⁴ In February 1998, a new Visiting Forces Agreement¹⁸⁵ was signed and in 1999 ratified, marking what U.S. Defense Secretary Cohen described as a 'new phase in our security relationship'.¹⁸⁶ In the ten months after ratification, U.S. naval visits occurred at the

rate of about one per month, and in March 2000, the U.S. expressed its intention to increase this rate.¹⁸⁷ A senior U.S. official observed in March 2001: 'neither side seeks a return to past levels of military interaction; the VFA gives us the framework to develop an effective program of activities that best meets the requirements of current tasks in the Philippines and in the region'.

The new strategic value of the Philippines in respect of the Taiwan confrontation does not depend on any reconstruction of the permanent U.S. military presence. A 2001 study by Rand recommended frequent rotational deployments to 'allow for infrastructure improvements and keep facilities warm to enable the rapid start of operations in a crisis'.¹⁸⁸ This study noted the importance of having temporary basing options that excluded the need for U.S. forces to be positioned in Taiwan itself. As a newspaper published under the auspices of the U.S. Secretary of Defense reported in May 2001, 'military training in the Philippines is so frequent that U.S. forces have a virtual permanent presence without putting down roots'.¹⁸⁹

Since the terrorist attacks in New York and Washington on 11 September 2001, which resulted in the U.S. support of special forces operations in the southern Philippines, the bilateral security relationship has deepened even further. But it is important to note that even prior to 11 September 2001, the relationship had been largely restored, and the focus of that restoration from the U.S. point of view had been military power projection capacities for China-related contingencies in the South China Sea, including Taiwan.

¹⁸³ Francis Ricciardone, 'Foreign Correspondents Association of the Philippines (FOCAP) Press Meeting with Ambassador Francis Ricciardone', 15 July 2002, Manila, p. 8; available at <http://usembassy.state.gov/posts/rpl/wwwhfoc1.html>. Accessed 4 November 2002.

¹⁸⁴ *Manila Business World*, 16 June 1997, FBIS-EAS-97-167: 'Philippines: Air Force Favours Letting U.S. Military Use Facilities'.

¹⁸⁵ A VFA agreement had been reached in 1992 in connection with the closing of the U.S. bases, but disputes within the Philippines about its legality and U.S. reservations about the jurisdiction of the Philippines over visiting service personnel led in 1996 to the suspension of U.S. ship visits. A new agreement was negotiated and signed in 1998.

¹⁸⁶ Doug Bandow, 'Instability in the Philippines: A Case Study in Disengagement', Cato Institute, Foreign Policy Briefing, No. 64, 21 March 2001, p. 2.

¹⁸⁷ Admiral Dennis Blair, Testimony to the Senate Armed Services Committee, 7 March 2000.

¹⁸⁸ Zalmay Khalilzad et al. 'The United States and Asia: Toward a New U.S. Strategy and Force Posture', Rand, Santa Monica, 2001, p. 72.

¹⁸⁹ *Stars and Stripes*, 27 May 2001, ww2.pstripes.osd.mil/01/may01/ed052701n.html.

C. GEOPOLITICAL CONSIDERATIONS

Over the last decade, there has been an escalating contest of ideas in Beijing, Washington and Tokyo about the future balance of power in East Asia, and how China's threats against Taiwan affect that balance. With both China and the U.S. seeing the resolution of Taiwan's status as reflecting seriously on their credibility as great powers, U.S. planning for Taiwan-related contingencies is not just about that status, but has become part of a bigger balance of power contest with global ramifications. In February 2002, the Director of the CIA, George Tenet, told a Congressional committee that China's cooperation with the U.S. in the war against terrorism changed none of the fundamentals of their long-term strategic competition. That cooperation, he said, would not deflect China's bid to emerge as a power likely to challenge U.S. strategic pre-eminence in Asia; and China's cooperation did not reduce the need for the U.S. to prepare for the contingency of military confrontation.¹⁹⁰ Other statements by senior U.S. officials explicitly discuss the need to contain China's rising power.

If one adds to the concern about a 'rising China' the imperatives of the new U.S. national security strategy announced in September 2002 to 'defend the peace by fighting terrorists and tyrants', then opposing Chinese intimidation of the values of liberty in Taiwan might be considered within U.S. sights on several counts.¹⁹¹ The suggestion in that document that 'In time, they [China's leaders] will find that social and political freedom is the only source of national greatness', is reasonable enough. But until they do accept liberal pluralism, language

like the following seems to place them at odds with the main thrust of the U.S. strategy: 'We seek ... to create a balance of power that favours human freedom: conditions in which all nations and all societies can choose for themselves the rewards and challenges of political and economic liberty'; and 'The United States will stand beside any nation determined to build a better future by seeking the rewards of liberty for its people'.¹⁹²

Rhetorically at least, the U.S. could not have more plainly and directly challenged China, in terms both of the latter's continued domestic repression and of its military intimidation of Taiwan: 'America will encourage the advancement of democracy and economic openness in both nations [Russia and China], because these are the best foundations for domestic stability and international order. We will strongly resist aggression from other great powers – even as we welcome their peaceful pursuit of prosperity, trade, and cultural advancement'.¹⁹³

However, the U.S. leadership also recognises that China has something to offer in great power cooperation to preserve the peace in general, and more specifically in the war on terrorism and in helping the U.S. meet its counter-proliferation objectives. Which tendency becomes dominant, or whether they co-exist uneasily for a considerable period, will depend on circumstances and personalities. Nevertheless, though the evolving U.S.-China relationship involves much more than the status of Taiwan, political developments in the cross-Strait relationship remain the primary credible trigger for any substantial deterioration, including direct military clashes.

¹⁹⁰ Tenet told the Senate Select Committee on Intelligence on 6 February 2002 that 'China is developing an increasingly competitive economy and building a modern military force with the ultimate objective of asserting itself as a great power in East Asia. And although Beijing joined the coalition against terrorism, it remains deeply sceptical of U.S. intentions in South Asia. It fears we are gaining influence at China's expense, and views our encouragement of a Japanese military role in counter-terrorism as support for Japanese rearmament – something the Chinese oppose'.

¹⁹¹ 'The National Security Strategy of the United States', September 2002, <http://www.whitehouse.gov/nsc/nssall.html>.

¹⁹² Ibid.

¹⁹³ Ibid.

V. HOW THE RISK OF WAR CAN BE REDUCED

Close examination of the link between China's political goals and its military posture in the Taiwan Strait shows something of a disconnect. Rising dissatisfaction and impatience on the political front has not yet been matched by the sort of changes in military posture that would suggest armed hostilities are imminent or even likely within several years. China and Taiwan have made only limited military responses since 1995 to the heightened political confrontation. The regional balance of power – political, economic and military – is still overwhelmingly in favour of Taiwan's continuing security: in large part as a result of enhanced commitment by the U.S. to opposing China's military intimidation.

The main significance to be attached to the new military measures by both sides in the Taiwan Strait since 1995 is political. The military dimension of policy has been elevated to a much higher profile in political point scoring, even as both sides remain much closer to the low-intensity end of the conflict

spectrum than to the high intensity end. The irony is that the politico-military postures of both have been addressed much more to worst case events than to building a greater sense of security for circumstances short of that worst case.

The noise that the two sides are making about the military situation is in danger of overshadowing the visible progress in other areas, especially moves toward establishing comprehensive direct transport links and cooperative economic activities such as joint oil exploration in the Taiwan Strait itself. There is ample scope for more vigorous promotion of the culture of cooperation in cross-Strait relations. There are clear signs in the policy of both China and Taiwan that they recognise this, but too often they revert to the easy political point-scoring that comes from misrepresenting the military situation. The two sides need to move deliberately toward a bilateral confidence building architecture.

This goal should be pursued regardless of the state of political confrontation, even though this is obviously harder if tensions remain high. The sorts of measures that might be contemplated are represented in Table 6, according to three levels of military tension and political conflict:

Table 6. Possible Measures to Reduce Military Tension by Phase of Political Conflict

Continued or intensifying military confrontation	Continued political conflict with commitment to military détente	No political hostility, plus a 'no war' commitment
Military separation zones	Reduce forces regularly deployed in Taiwan Strait area	Joint customs or EEZ ¹⁹⁴ patrols
Prior notice of military exercises	Agreement to limit the size of military exercises	Agreement to end military exercises near Taiwan Strait
Limit procurement of new systems offensive systems	Limit deployments of newest systems	Cut defence spending
Hot line arrangement	Military exchanges	Joint training

¹⁹⁴ Exclusive Economic Zone (EEZ).

Under the first scenario – if the hostile political environment continues or intensifies – the risk of war in the Taiwan Strait in the medium term will remain significant. In this circumstance, since both sides see themselves as genuinely committed to a peaceful outcome, there will be a need to prevent miscalculation arising from misunderstanding about the other's military moves. Each side needs to have a very clear view about the location, movements and capacities of the other's military forces. Establishing a basic framework of transparency about military posture in the Taiwan Strait would appear to be essential. It does not yet exist in a formal structured sense, though much of the required detail is known. But there is no comprehensive data on exercises. In the absence of a formal system for advance notification of military exercises or military deployments, the security of Taiwan and China's interest in peace in the Taiwan Strait would be well-served if one of the two sides, or both, or an external party were to publish a regular annual overview of military operations in the vicinity of Taiwan.

Similarly, an annual report dedicated to the share of China's defence effort going to the Taiwan Strait would be particularly useful to defuse exaggerated claims about the threat posed to Taiwan by increases in China's defence spending or new equipment acquisitions. A crisis management system (a 'hot line') also needs to be established. And a greater public comparison should be made between high-intensity civil cooperation across the Strait and the low-intensity military confrontation that flows from both sides' mostly defensive postures.

But the initiation of such measures seems unlikely as long as the U.S. continues to expand its military collaboration with Taiwan, and the Taiwan government seeks domestic political gain and international leverage by playing up China's military threat. At the very least, continued observance by both sides of a tacit no-go zone for major force deployments beyond a median line in the Taiwan Strait should continue to be observed.

It is of some note that Taiwan has been prepared to act unilaterally, if somewhat tentatively, in the area of

reducing its military profile, mostly under cost pressures but also in part as a sign of good will. This is reflected in several measures, such as the announcement on 20 June 2002, that Taiwan would reduce troops on two frontline islets off the coast of China early in 2003.¹⁹⁵ Any suggestion that the government might lower the overall national defence posture in the Taiwan Strait through such moves, especially on the vulnerable front-line islands of Kinmen and Matsu, is highly sensitive in domestic politics.¹⁹⁶ Nevertheless, full demilitarisation of the two islands is probably inevitable over a five to ten year time frame since they are pretty much indefensible without massive military mobilisation by Taiwan.

Under the second scenario – if China can be pushed in the direction of establishing a less hostile environment by containing its conflict with Taiwan to non-military domains – there are additional confidence building measures that can be pursued. Many of the elements needed for a relatively elaborate architecture are in place:

- ❑ both sides have mostly defensive military strategies;
- ❑ neither side is aggressively building up significant weapons holdings in the theatre;
- ❑ exercise tempo remains low-level;
- ❑ an effective demilitarised zone exists in the middle of the Strait;
- ❑ second track security contacts between China and Taiwan are occurring;¹⁹⁷

¹⁹⁵ Agence France-Presse, 20 June 2002. Tatan and Erhtan would be open to tourists after Taiwan withdraws its troops, numbering less than 500. Military authorities had agreed to transfer their jurisdiction over the two islets to Kinmen county government in January 2003.

¹⁹⁶ ICG interview with presidential adviser, October 2002.

¹⁹⁷ In the framework of CSCAP and the ASEAN Regional Forum, as with the Indonesian sponsored workshops on the South-China Sea, not to mention a number of other NGO-sponsored meetings, substantive discussions between officials and scholars from China and Taiwan do occur from time to time. There is also a regular stream of contacts

- ❑ a reasonable degree of military transparency exists about the theatre situation;
- ❑ extensive civil exchanges occur across the borders; and
- ❑ there are plans to lift most restrictions on civil exchanges.

At the same time, managing perceptions of military deployments and confidence building measures will be very important, because in fact only a limited number of measures can be undertaken. Since Taiwan has no strategic depth, it is not in a position to make significant reductions in its forces in front-line areas, beyond demilitarisation of the small islands. On the other hand, China, though possessing significant strategic depth, will want to maintain relatively strong forces along its entire coast. Its maritime interests (offshore oil, shipping and fisheries) continue to grow, and U.S. and Japanese forces are likely to maintain a watchful eye on Chinese forces for quite some years to come regardless of the Taiwan Strait situation.

These considerations reinforce the need for both sides to make much more of the tacit confidence building measures that have been in place (such as not crossing the median line of the Strait), and to move on the one area of military deployment that has aroused much political fire in the past two years, China's SRBM missile deployments. In fact, China's military gain from these missile deployments is so marginal in respect of Taiwan that the Chinese government at the highest level should simply order their removal without any explicit demand for a matching step in U.S.-Taiwan military relations. That matching gain would probably come anyway as a matter of course.

President Jiang Zemin reportedly offered at his summit meeting with President Bush on 28 October 2002 to freeze (or in some accounts, reduce or even remove entirely) the missiles deployed opposite Taiwan, if the U.S. would reduce (or in some

versions cease) its arms sales to Taipei.¹⁹⁸ It would be worthwhile for the U.S. to probe this approach a little more seriously than it appears¹⁹⁹ to have done so far. Even if an explicit agreement is thought to be beyond reach, should China move to lower the threat to Taiwan by reducing or removing its deployed missiles, as just suggested, it would be appropriate for the U.S. to make some corresponding adjustment in its arms supply policy. There would be less justification for providing defensive arms under the TRA, and the U.S. would also be seen to be doing something to honour its original post-recognition commitment in 1982 to 'reduce gradually its sales of arms to Taiwan'.²⁰⁰

Under a third scenario – where the risk of war can be eliminated completely by the two sides agreeing not to take hostile positions against each other, and by China agreeing to abandon all forms of coercion against Taiwan – there would still be residual military tensions that would need to be contained and managed before they could be eventually eliminated.²⁰¹ This could involve an explicit agreement to end military exercises in the Taiwan Strait and might even extend to joint China-Taiwan patrols for customs management or enforcement of exclusive economic zones (EEZ). Activities like joint military training could even be contemplated in such circumstances. But that would require a distinctly different mindset in the leadership groups of both China and Taiwan than that which is presently in evidence.

Beijing/Taipei/Washington/Brussels, 6 June 2003

between scholars and researchers of the two sides who specialise in security. Chinese 'civilian' security specialists who are close to the leadership travel frequently to Taiwan for talks with their Taiwanese counterparts.

¹⁹⁸ As noted above, and in ICG's companion report, *Taiwan Strait I: What's Left of 'One China'?*, op.cit. For competing analysis and commentary see, e.g., Editorial, 'Be Wary of Chinese Gestures', *Taipei Times*, 23 November 2002; Minxin Pei, 'New Arms for Taiwan? What Folly, Pentagon', *The Straits Times*, 14 May 2003.

¹⁹⁹ Charles Snyder, 'US Likely to Snub China's Missile Offer', *Taipei Times*, 20 December 2002.

²⁰⁰ The relevant commitments, assurances, and legislative provisions are discussed in *Taiwan Strait I: What's Left of 'One China'?*, op.cit., section V.A.

²⁰¹ As the end of the Cold War demonstrated, even the collapse of the Berlin Wall and the decision in the 1989 Gorbachev-Bush summit in Malta to abandon confrontation were followed by mutual suspicions and the need to manage reduction of military tensions.

APPENDIX A:
MAP OF TAIWAN AND ADJACENT AREAS



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APPENDIX B:

LIST OF ACRONYMS

ADB	Asian Development Bank
APEC	Asia Pacific Economic Cooperation
ARATS	Association for Relations across the Taiwan Strait
ASEAN	Association of Southeast Asian Nations
ASEM	Asia Europe Meeting
C4I	Command Control, Communications Intelligence
CCP	Communist Party of China
CIA	Central Intelligence Agency
CSCAP	Council on Security and Cooperation in the Asia Pacific
DPP	Democratic Progressive Party
EEZ	Exclusive Economic Zone
EU	European Union
GDP	Gross Domestic Product
GNU	Guidelines on National Unification
IAEA	International Atomic Energy Agency
IISS	International Institute for Strategic Studies
IMF	International Monetary Fund
IOC	International Olympic Committee
IW	Information Warfare
KMT	Kuomintang (Nationalist Party)
MAC	Mainland Affairs Council
MND	Ministry for National Defence (Taiwan)
MSS	Ministry of State Security (China)
NATO	North Atlantic Treaty Organisation
NP	New Party
NPT	Nuclear Non-Proliferation Treaty
NPC	National People's Congress
NTU	National Taiwan University
NUC	National Unification Council (Taiwan)
PFP	People First Party
PLA	Chinese People's Liberation Army
PRC	People's Republic of China
ROC	Republic of China
ROCOT	Republic of China on Taiwan
SAR	Special Administrative Region

SCO	Shanghai Cooperation Organization
SEATO	South East Asia Treaty Organisation
SEF	Straits Exchange Foundations
SNTV	Single Non-transferable Vote
TAIP	Taiwan Independence Party
TRA	Taiwan Relations Act
TSU	Taiwan Solidarity Union
USSR	Union of Soviet Socialist Republics
WFTA	World Federation of Taiwanese Associations
WHO	World Health Organization
WHA	World Health Assembly
WTO	World Trade Organization
WUFI	World United Formosans for Independence

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 90 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.crisisweb.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York, Moscow and Paris and a media liaison office in London. The organisation currently operates

twelve field offices (in Amman, Belgrade, Bogota, Islamabad, Jakarta, Nairobi, Osh, Pristina, Sarajevo, Sierra Leone, Skopje and Tbilisi) with analysts working in over 30 crisis-affected countries and territories across four continents.

In *Africa*, those countries include Burundi, Rwanda, the Democratic Republic of Congo, Sierra Leone-Liberia-Guinea, Somalia, Sudan and Zimbabwe; in *Asia*, Indonesia, Myanmar, Kyrgyzstan, Tajikistan, Uzbekistan, Pakistan, Afghanistan and Kashmir; in *Europe*, Albania, Bosnia, Georgia, Kosovo, Macedonia, Montenegro and Serbia; in the *Middle East*, the whole region from North Africa to Iran; and in *Latin America*, Colombia.

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June 2003

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