

THE COSTS OF CONFLICT:
THE IMPACT ON CHINA OF A FUTURE WAR

Edited by
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October 2001

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ISBN 1-58487-072-9

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FOREWORD

There is a need for the United States to move the debate over the challenge China presents us beyond the dispositions of the attention grabbing advocates: the rationalizers who explain Chinese actions in benign terms with their own political or academic motives, or the denigrators, who are “The Chinese Are Coming” school—to wit: China is belligerent, a threat, in short, a monster. It is increasingly important for Americans to think carefully about the vast complexities of the U.S.-China relationship, and the calculations that go into forming courses of action. The Chinese have to consider some of the same realities we do when planning military actions and strategy. The key question is: will China’s so-called first priority of economic development and its resulting influence on domestic social stability curtail China’s continuing reliance on military force as a means of exerting its influence? In addition, will economic development enhance China’s comprehensive national power and thus contribute to some of China’s more unhealthy goals, such as dominating the South China Seas, seizing Taiwan by force, or grabbing the Senkaku Islands from Japan? Is the China-Taiwan economic dynamic strong enough to offset military adventurism? The rationalizers often say security and sovereignty will always trump economic determinism, others insist economic factors will change China—and thus decrease the chances of war, especially with China winning the 2008 Olympics. How this dilemma is managed by the United States, China, and Taiwan will affect the future of Asia, and perhaps the world. We have tried to present in this book factual and analytical essays which stress the need for squarely addressing these questions.

So, this volume should make a valuable contribution by addressing the issue of what would be at stake for China if Beijing were to pursue military solutions. The chapters that follow were originally presented at a conference at the U.S. Army War College (USAWC) held in December 2000. It is

the tenth annual conference on the People's Liberation Army (PLA) that I have organized under the auspices of the American Enterprise Institute and the Heritage Foundation. This is the third PLA conference volume to be published by the USAWC Strategic Studies Institute. I commend it to you.

Ambassador James R. Lilley
Senior Fellow
American Enterprise Institute

CHAPTER 1

INTRODUCTION

Andrew Scobell
Larry M. Wortzel

A widely held belief is that China will not use force against Taiwan. Frequently, one of two major assumptions is made to justify this assertion: first, Chinese leaders realize that the economic cost of such an operation would be unacceptable; second, China's leaders recognize that, for at least the next decade or so, any attempt to seize Taiwan would be doomed to failure. Both these assumptions are questionable and indeed downright dangerous.

The basis for the former proposition is the assumption that China has too much to lose economically to risk a conflict over Taiwan. Certainly, China's leaders have placed the highest priority on economic growth over the past 2 decades. China's economy has gradually been growing out of the centrally planned model, and more and more production and pricing are being determined by the market.¹ And China has become increasingly intertwined with the global economic system through trade and investment.² Moreover, economic ties increasingly bind the People's Republic of China (PRC) together with the larger Chinese diaspora, particularly with the territories of Hong Kong and Macao and with the island of Taiwan—what has become known as "Greater China" or the "China Circle."³ These burgeoning cross-strait economic links have continued to grow during the 1990s. This growing economic interdependence is examined in detail in the chapters by Ralph Clough and John Tkacik in this volume.

The latter assumption, that China must wait a decade before it is able to act against Taiwan, has recently been made by several military analysts, especially those who have focused on amphibious invasion scenarios. After

studying the array of forces available on both sides of the Taiwan Strait, these researchers conclude such an operation would not succeed in the foreseeable future.⁴ Unfortunately, by focusing on this extreme and, in our view, least likely scenario and remaining at the operational level, these analysts miss the strategic considerations that guide China's actions vis-à-vis Taiwan. As many researchers recognize, China, like most countries, tends to play to its strengths. And in Beijing's view, the chances of an amphibious assault succeeding are slight. Rather than concentrate on launching a seaborne invasion of Taiwan, it is far more likely to employ its extensive arsenal of ballistic missiles to bombard the island and/or its submarine fleet to enforce a blockade.⁵ Moreover, Beijing does not just have conventional military options. In addition to weapons of mass destruction (WMD) alternatives, China also can employ other elements of national power: informational, political, and even economic.⁶

The above discussion begs three questions. First, "Can China afford to attack Taiwan?" According to a Chinese economic analyst in Beijing, speaking to *New York Times* columnist Thomas Friedman in 1996, the clear answer is: "No—it would stop investment in China, stop growth, stop our last chance to catch up with the rest of the world."⁷ But inquiring minds will not be satisfied with a single round of question and answer. Indeed, the follow up question is: "Would China under certain circumstances use military force against Taiwan no matter what the economic consequences?" The answer, according to Friedman, is "absolutely."⁸ Many analysts, including the contributors to this volume, would concur with this judgment. The third key question, posed by David Finkelstein in his contribution to this volume, is: "What price is acceptable [to China]?" This is the hardest question to answer, although as Ellis Joffe concludes in his contribution it is likely that China's leaders are prepared to pay a high price for a war that in their minds would have a good chance of success (i.e., capture Taiwan). Thus, it would be extremely unwise to

dismiss China's insistence that unification with Taiwan is a key national security objective to be achieved by force, if necessary, as merely hot air. As Joffe observes, the depth of Chinese feeling toward the Taiwan issue should not be underestimated, particularly among military leaders. Taiwan is vital for the legitimacy of the regime in Beijing as well as an important strategic asset.

There are important factors that mitigate against the use of force. There is considerable internal unrest in China due to economic conditions. This unrest would increase if foreign investment dropped; if unrest increases, the People's Liberation Army (PLA) would be busy protecting the Communist Party; and China would have a difficult time reconstituting its combat capabilities. Nevertheless, in the face of even more daunting problems, such as in Korea in 1950, China has resorted to military force.

Other possible locations for the use of force by China in East Asia are where Beijing has territorial disputes with other states. China claims the Senkaku or Diaoyutai Islands in the East China Sea that are currently controlled by Japan. Beijing also believes it has sovereignty over vast swaths of maritime territory surrounding numerous reefs and atolls in the South China Seas that are claimed by various other countries in the region. China has only used indirect threats of force to make good on its claims on the East China Sea Islands, but it has employed military power to acquire the Paracel Islands from Vietnam in 1974, in the Spratly Islands against Vietnam in 1988, and in Mischief Reef against the Philippines in 1995. While China insists it wishes to solve the disputes in the South China Sea peacefully and is willing to cooperate and share the natural resources in this area, it has refused to renounce claims or abjure the use of force. Still, given the remoteness of the claims in the South China Sea and the limited force projection capabilities of China and its rival claimants, any warfare is likely to be sporadic and limited in nature. Analysts have commented on China's "creeping assertive-

ness" in the region and dubbed its strategy as constituting "slow intensity conflict."⁹

The obvious flashpoint of greatest concern is the Taiwan Strait, and it is a discussion of a Taiwan scenario that absorbs much of this volume. Finkelstein examines China's strategic thinking about a possible conflict in the Taiwan Strait. He contends that Chinese strategists now assume that a war with Taiwan automatically means a conflict with the United States. Since, in their view, U.S. power is growing and China's will remain limited for the foreseeable future, Beijing cannot be sanguine about its prospects in such a military confrontation. The prime concerns of Chinese analysts tend to be how to keep a conflict from escalating into an all-out war between China and the United States, and how to prevent a conflict from triggering a cold war between China and the United States. Neither a major hot war nor a prolonged cold war with Washington is in Beijing's interests. Finkelstein concludes that Chinese strategic thinkers are engaged in a careful cost-benefit analysis regarding a war in the Taiwan Strait.

Ralph Clough and John Tkacik both focus on the economic dimension of cross-strait relations. Clough emphasizes what he calls "conflicting tendencies": economic integration on the one hand and political impasse on the other. The extent of the integration is indicated by the fact that Taiwan currently has an estimated U.S.\$25 billion invested in China and a similar amount in contracted investments. Moreover, on any given day some 200,000 Taiwanese are living, working, or traveling on the mainland. Most of these individuals are engaged in industry, in managing factories producing such diverse products as shoes, motorcycles, and information technology (IT) hardware. Clough points out the growing interdependence between Taiwan (one of the top producers of computers and computer software), China, and the United States. This is because much of the actual manufacturing and assembly of Taiwanese companies' IT products are now done on the mainland and then shipped to

buyers in the United States. A conflict in the strait would disrupt this IT triangle and likely result in shortages of IT hardware in the United States.

In his chapter, Tkacik highlights Taiwan's growing dependence on the mainland and argues that the multitude of economic strings that ties the island to China will deter Taipei from pursuing independence. Taiwan is now estimated to do more than U.S.\$30 billion in two-way trade with China annually. Tkacik is concerned that Beijing is unconvinced of Taipei's desire to safeguard its economic well-being.

The impact of a China conflict on countries in the region is assessed in chapters by Taeho Kim and Carlyle Thayer. Kim examines the impact of a conflict on China's relations with Japan and South Korea and concludes that the costs would be high. A war would negatively affect trade with these two countries. Japan is China's second largest trading partner with an estimated U.S.\$85 billion bilateral trade in 2000. South Korea, meanwhile, is China's third largest trading partner with approximately U.S.\$33 billion in two-way trade last year. Moreover, in the security sphere, a war would likely push Japan to further upgrade its defense relationship with the United States and lead South Korea to draw closer to the United States militarily.

Thayer examines China's ties with Southeast Asia and Australia. Beijing has good relations with virtually all the countries in the region although there are some tensions, notably with Manila, particularly over conflicting maritime claims in the South China Sea. China's trade with the Association of Southeast Asian Nations (ASEAN) countries grew steadily during the 1990s to more than U.S.\$30 billion by 2000. ASEAN foreign direct investment in China had reached an estimated U.S.\$3.6 billion by the late 1990s. Thayer concludes that if China becomes embroiled in a war, these economic ties will likely be damaged and the countries of the region will very possibly engage in closer defense

cooperation. Australia also has growing economic ties with China but does not tend to see Beijing as much of a threat.

Joffe analyzes the attitudes of the PLA toward Taiwan. He notes that the PLA has become more professional over the past 2 decades, but this has had the effect of pushing soldiers into more prominent and significant policy roles. This is especially true on the issue of Taiwan. While the PLA is highly nationalistic, Chinese soldiers are not itching for war because most recognize that the cost of a conflict over Taiwan is likely to be quite high. Joffe concludes that, although Beijing is not confident of China's ability to deter U.S. intervention or decisively defeat the American military on the battlefield, Chinese military leaders seem quite confident of their country's ability to withstand sustained American attacks against China and outlast any initial U.S. enthusiasm for prosecuting a war in Asia.

Alexander Huang reviews the defense policy of the administration of Taiwan President Chen Shui-bian. Chen has long been interested in defense matters dating back to his days in the Legislative Yuan prior to becoming mayor of Taipei in the early 1990s. As part of his preparation for his successful 2000 presidential election campaign, he formulated a new defense concept dubbed "decisive campaign beyond boundaries." This strategy entails taking the fight to the enemy beyond the coastline of Taiwan. If China uses force against Taiwan or if there is a clear indication that China is preparing to do so imminently, then Taiwan will strike. The new security concept is controversial in Taiwan because of fears that it is unnecessarily provocative and will antagonize China.

James Mulvenon outlines the process of divestiture of the commercial ventures of the PLA and assesses its results. He argues that the initiative was less rapid and conflict-ridden than is often assumed. Mulvenon contends that the process of divestiture was underway well before Jiang Zemin's much publicized announcement of the initiative in mid-1998. He also asserts that there was a high

degree of civil-military consensus that the step was needed. The divestiture process has resulted in the majority of PLA for-profit enterprises being taken out of military hands, although a small but significant portion remains. He suggests that it would be foolish to assume that continued PLA involvement in economic activities would hinder the military response in a conflict situation.

Wendy Frieman examines China's ballistic missile capabilities and intentions in light of U.S. missile defense initiatives. She argues that China's possession of ballistic missiles lowers the costs to Beijing of resorting to military conflict. Beijing's response to American moves toward the development and deployment of theater missile defenses in the Asia-Pacific to protect its forces and allies and national missile defense to protect the U.S. homeland will be to increase its missile arsenals, suggests Frieman. The costs to China of building more short range ballistic missiles (SRBMs) and Intercontinental Ballistic Missiles (ICBMs) will be strictly monetary, Frieman asserts. The actual production costs she estimates at approximately the equivalent of U.S.\$ 100,000 for each of the former and approximately U.S.\$12.5 million for each of the latter. Such costs can easily be absorbed by Beijing. Of course, if, in the event of conflict, the missiles are actually used, then China will need to bear the costs of replacing them.

In sum, the authors in this volume tend to believe that China will incur a significant cost if it resorts to military conflict anywhere in the Asia-Pacific. The cost of conflict will not only be measured in PLA casualties and the loss of military hardware. It will also be measured in terms of the damage to China's economy, its relations with countries in the region, and Beijing's global reputation. One can only hope that the substantial costs that would be incurred will deter China from waging war or at the very least think twice before doing so.

ENDNOTES - CHAPTER 1

1. Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1993*, New York: Cambridge University Press, 1995.

2. See, for example, Nicholas R. Lardy, *China in the World Economy*, Washington, DC: International Institute for Economics, April 1994.

3. See, for example, Robert Ash and Y. Y. Kueh, "Economic Integration Within Greater China: Trade and Investment Flows Between China, Hong Kong, and Taiwan," *The China Quarterly*, No. 136, December 1993, pp. 711-745; and *The China Circle: Economics and Technology in the PRC, Taiwan, and Hong Kong*, Barry Naughton, ed., Washington, DC: Brookings Institution, 1997.

4. David A. Shalapak, David T. Orletsky, and Barry A. Wilson, *Dire Strait?: Military Aspects of the China-Taiwan Confrontation and Options for U.S. Policy*, Santa Monica, CA: RAND, 2000; Michael O'Hanlon, "Why China Cannot Conquer Taiwan," *International Security*, Vol. 25, No. 2, Fall 2000.

5. See Ellis Joffe's contribution to this volume. Indeed, these are the scenarios outlined by Chinese analysts to one of the authors. See, for example, Andrew Scobell, *U.S. Army and the Asia-Pacific*, Carlisle, PA: U.S. Army War College Strategic Studies Institute, April 2001, pp. 11-12. See also Harlan W. Jencks, "Wild Speculations on the Military Balance in the Taiwan Straits," in James R. Lilley and Chuck Downs, eds., *Crisis in the Taiwan Strait*, Washington, DC: National Defense University and American Enterprise Institute, 1997, pp. 131-166.

6. See, for example, Qiao Liang and Wang Xiangsui, *Chaoxian zhan* (unrestricted warfare), Beijing: Jiefangjun Wenyi Chubanshe, February, 1999.

7. Thomas L. Friedman, *The Lexus and the Olive Tree*, New York: Anchor Books, April 2000, p. 258.

8. *Ibid.*, p. 260.

9. Ian James Storey, "Creeping Assertiveness: China, the Philippines, and the South China Sea Dispute," *Contemporary Southeast Asia*, Vol. 21, No. 1, April 1999, pp. 95-118; Andrew Scobell, "Slow Intensity Conflict in the South China Sea," *FPRI E-Note*, Philadelphia, PA: Foreign Policy Research Institute, August 16, 2000.

CHAPTER 2

CHINESE PERCEPTIONS OF THE COSTS OF A CONFLICT

David M. Finkelstein

Introduction.

This year, the conference organizers have established an extremely ambitious agenda. The conference theme, "The Costs of a Conflict," should be approached with a high degree of caution because we are departing somewhat from our usual roles. Usually, as specialists and researchers, this group relies on databased empiricism to draw likely conclusions about our research topics. On this occasion, and clearly for good reason, given the importance of the subject, we have been asked to enter the murky world of speculation. As least I have been asked to dive into murky waters, because I have been asked to speak to an elusive topic: "Chinese Perceptions of the Costs of a Conflict."

To claim to have a clear understanding of this question would require a level of arrogance that even I have yet to achieve. So let me be up front. I have no bottom-line truths on this topic. No one can speak with authority on how the Chinese who matter perceive the potential costs of a conflict. Therefore, I have no unassailable insights to offer this group. Most of what I have to offer is highly subjective. It is speculative. It is based on a meager handful of articles published in the mainland press, informed by a limited number of conversations with interlocutors, and bounded by my own interpretation of Chinese history. With those caveats placed upon the table, let us proceed with the topic at hand.

Defining the Question.

It seems to me that there are two questions that need to be addressed. First, "Do the Chinese even think about the potential costs they may have to pay should Beijing feel it has to use military force to attempt to achieve unification with Taiwan?" Second, "If so, what do we know about what they think about the potential costs of a conflict?" Phrasing the questions in this manner requires some further refinement for the sake of bounding the discussion.

First, what we are talking about is the use of military force to actually achieve unification—not the use of the military element of national power to merely coerce Taiwan. What we are talking about is an actual conflict—a war—not a demonstration of force to deter Taipei from one course of action or another, or to "send signals" such as in 1995-96. Second, for the purposes of this discussion, we need not attempt to define the military scenario; i.e., how China might use military force. Third, neither do we need to speculate about how the conflict would end or to whose favor.

A Proposition From The Historical Record.

Let me start with a proposition. Even in the absence of hard data, I would be surprised if the larger community of security analysis (*xitong*) in Beijing and beyond, military and civilian, is *not* thinking very carefully about the potential costs and benefits of military conflict over Taiwan.

Stated in the affirmative, I am prepared to assert that there is likely a good deal of thinking going on about the potential risks and costs.

I say this even in the absence of hard evidence because the historical record suggests it. We are talking about a civilization and culture that has a legacy of strategic calculation that is more than two millennia in the running. This is, after all, the civilization that gave the world the oldest surviving, written treatise on war and statecraft. I

refer of course to *Sun Zi Bing Fa*. Every once in a while it is good to review what Master Sun had to say about war. What one finds is that almost the entire treatise is about the need for proper cost-benefit analyses at the strategic, operational, and tactical levels of warfare. Indeed, at the strategic level of warfare, Sun Zi cautions rulers and generals alike that whether one should engage in a war at all is the most serious calculation. In fact, the very first sentence of the very first chapter (Estimates) of *Sun Zi Bing Fa* talks to this:

War is a matter of vital importance to the State; the province of life or death; the road to survival or ruin. It is mandatory that it be thoroughly studied.¹

In the preface to his own book of commentaries on *Sun Zi Bing Fa* published in 1995, Major General Xie Guoliang of the People's Liberation Army (PLA) Academy of Military Science highlighted the seriousness of contemplating war when he offered that the first of all the principles one can learn from Sun Zi is, ". . . have adequate respect for war and be wary of waging one."²

Of course, we are talking about a book of uncertain origins that was purportedly written some 2,000 years ago. So the question, then, is this: Is it a stretch to postulate that *Sun Zi Bing Fa* and all of its emphasis on calculations have any relevance to current Chinese thinking on the issue at hand?

There was a time when I would have answered, "Yes, it is a stretch." However, having attended the "5th Annual International Symposium on Sun Zi's Art of War" held in Wuxian City in October 2000, I am now of a mind that the study of *Sun Zi Bing Fa* is alive and well among Chinese military strategists.

Without being sidetracked by the details of the conference, suffice it to say that over 100 PLA officers—from Majors to Lieutenant Generals, from Beijing and from at least three Military Regions outside of Beijing, from

military academics to officers of the Second Artillery (strategic rocket forces)—gathered for 3 1/2 days to engage in serious and very professional discussion about this ancient treatise. Much of the discussion was about the application and relevance of Sun Zi to modern strategic issues.³

Of course, the historical record suggesting a legacy of careful calculations about war by Chinese need not go back as far as Sun Zi. Closer to our own times we need look no further than what the Chinese call *Mao Zedong Junshi Sixiang*, or, “Mao Zedong Military Thought.”

This particular group needs no introduction to the very pragmatic approach to warfare taken by Mao. But I always like to point out that by the end of 1947, Mao was a rather conservative military planner, having learned many painful lessons throughout the 1920s, 1930s, and early 1940s. By “conservative” I do not mean “passive.” My use of the word “conservative” is meant to convey a sense of Mao’s use of careful calculations and cost-benefit analyses as part of the operational planning process.

Of the ten famous “principles of operations” Mao highlighted for his commanders at the Central Committee meeting at Yanjiakou in December 1947, the one that seems to have had the most durability since 1949 is Number 5:

Fight no battle unprepared, fight no battle you are not sure of winning; make every effort to be well prepared for each battle, make every effort to insure victory in the given set of conditions as between the enemy and ourselves.⁴

The point of this historical digression, then, is to make the point that, even if we had no data at all indicating that Chinese leaders and planners are thinking about the potential costs of a conflict over Taiwan, the historical record (not to mention just good common sense) would provide some reason to believe that Beijing will not enter into such a conflict without some careful analysis.

Of course, careful analysis is no guarantee of correct analysis. So the question remains to be asked: "Do we have any evidence that Chinese analysts and other concerned individuals are thinking about what is at stake should military force against Taiwan be required to achieve unification?" Do they think about the "downside" of such an endeavor?

Some Speculation from the Contemporary Record.

My own reading of the mainland press and journals as well as discussions with Chinese interlocutors leads me to believe that there are at least some Chinese security analysts that do understand what is at stake and that the costs to China, even if victorious militarily, could be quite high.

There are three indicators that lead me to believe this. The first indicator revolves about three recent and key analytic judgments by Chinese analysts that now appear to be accepted as mainstream thinking. The second indicator is a meager handful of articles published on the mainland. The third indicator is some informal conversations with Chinese security analysts.

Indicator #1: Three Recent and Key Chinese Analytic Judgments.

Chinese Analytic Judgment #1: War with Taiwan means conflict with the United States.

Although the United States Government continues to follow what some have termed a "policy of ambiguity" regarding its military intentions should Taiwan and China be at war, the Chinese have come to their own conclusion and working assumption.

Whether reading mainland journals or talking with interlocutors, it is very apparent that Chinese security planners and analysts, both military and civilian, now take as a working assumption that any conflict between the

People's Republic of China (PRC) and Taiwan will mean U.S. military intervention on the side of Taiwan.

This judgment, I would argue, is a relatively recent development. It is a result of what I like to call "The Great Peace and Development of 1999" that took place in the wake of NATO's intervention in Kosovo.⁵

Prior to what the Chinese refer to as the "U.S.-led" Kosovo operation, there were many Chinese security analysts who questioned whether the United States would intervene with military force in a hypothetical cross-strait military scenario. Some argued that U.S. vital national interests did not warrant a conflict with the mainland over Taiwan. Taiwan, they argued, is not the Persian Gulf—a reference to vital U.S. oil interests and the Gulf War (a Chinese view). Others argued that the United States still suffered from a "Somalia Syndrome" and does not have the national will to engage in a serious conflict with China over the island. The implicit assumption being that such a conflict will not be casualty-free for the United States. Still others argued that the nature of the U.S. political system, especially the "contradictions" between the executive and legislative branches, would make it difficult to mobilize the popular political will, or achieve a political consensus quick enough, to enter a cross-strait scenario even if Washington wanted to.

Kosovo and the ensuing security debate of 1999 overturned all of these arguments. One result of China's national security debate in 1999 was a general consensus that the analytic conclusions above were not valid. There was a general assessment that the United States—in order to maintain its "sole superpower status"—was clearly capable of using the military element of national power to intervene around the world in seemingly (to Chinese) irrational ways that did not necessarily have any pragmatic logic associated with them. When viewed through the lens of Chinese perceptions of U.S. policies that are perceived as directed against Beijing directly, or inimical to Beijing's

interests, a new consensus has emerged that China must assume U.S. intervention in a cross-strait scenario.⁶ This analytic judgment was likely reinforced in May 2001 when President Bush made his comments about the defense of Taiwan on national television.

Yan Xuetong, former senior analyst at the China Institute for Contemporary International Relations (CICIR), summed up this viewpoint in a November 2000 *Ta Kung Pao* interview. Asked whether the United States would intervene in the event of a cross-strait military conflict, Yan Xuetong pointed out extremely explicitly that:

if a crisis breaks out in the Taiwan Strait, it is certain that the United States will become militarily involved. There are no two ways about the United States becoming militarily involved in the Taiwan strait, and the possibility of them not getting involved does not exist; the only question is the degree of involvement.⁷

Chinese Analytic Judgment #2: The United States is not in decline. To the contrary, its "comprehensive national power" is increasing.

This is yet another example of a critically important Chinese analytic judgment that, apparently, has been adjusted relatively recently.

Previously, and as recently as the late 1990s, Chinese analysts were predicting the inevitable decline of the "comprehensive national power" of the United States. The idea that U.S. national power was doomed to slow but inevitable decline in all areas—political, social, economic, and military affairs—had been a staple of Chinese analysis since the mid-to-late 1980s. Indeed, in his excellent volume, *China Debates The Future Security Environment*, Michael Pillsbury underscored the near-sanctity of that analytic line by asserting (likely correctly at the time of writing) that, "No Chinese author can today openly argue that the United States will grow relatively stronger than other major powers . . ."⁸

This, apparently, is no longer the case. Chinese analysts are now inclined to argue that the comprehensive national power of the United States is not about to decrease *any time soon*. Indeed, many argue that U.S. national power has yet to peak and that it is getting greater. Moreover, the U.S. position as the dominant and “sole superpower” will be secure for at least 2 decades, if not longer.

Here are two examples for the sake of illustration. In his interview in *Ta Gong Pao*, Yan Xuetong argued that “. . . the overall U.S. economic situation is good, and the status of the United States as the sole superpower is on the rise.”⁹ Certainly in terms of economic potential, Chu Shulong, at the time a senior analyst at CICIR, agreed with his former colleague’s assessment, writing in August 1999 that “. . . the difference between China and the United States in economic capability may not be shrinking but growing.” Chu also made the same argument for the gap in military capabilities.¹⁰

This type of analysis is related to, and leads us to, a third Chinese analytic judgment that bears on the issue of thinking about the potential costs of a conflict.

Chinese Analytic Judgment #3: China must be realistic about its potential power, now and in the future.

I have a very high degree of confidence in the currency of the first “Chinese Analytic Judgment” above. I have a good degree of confidence in the currency of “Chinese Analytic Judgment #2.” I have the least confidence in the assertion that follows, but enough confidence in it to table it in a speculative monograph such as this one.

“Chinese Analytic Judgment #3” speaks to a growing realism on the part of some PRC analysts about the comprehensive national strength of China today and in the future. That realism dictates that Beijing should not fool itself into inflating its importance in the world, its current levels of development, or its future prospects when crafting grand strategy or making important security decisions.

Most of the evidence for this is, admittedly, anecdotal. However, one can find at least one remarkable journal article that may represent this school of thought. I refer, once again, to Chu's fascinating article in *Zhanlue Yu Guanli* published in August 1999, at the height of the great debate over China's national security. Some of the key statements in the analysis from his article, "China's National Interest, National Power, and National Strategy," are worth listing.¹¹

- ". . . we must have a clearheaded, realistic understanding of China's comprehensive national capability."

- "Today's China remains an economically, technologically, and militarily backward developing country."

- "In terms of the overall size of the economy, China is ranked seventh in the world, following the United States, Japan, Germany, France, Britain and Italy, and is absolutely not the number one or number two power in the world. It is obviously a great exaggeration of China's national power to describe China as the second largest or third largest economic power in the world . . . "

- "The gap in terms of China's military power is even larger. The U.S. or Russian strategic nuclear force is several hundred times larger than China's strategic nuclear force."

- "In terms of conventional armaments, China is not only immensely behind the United States, but also behind such middle-level military powers as Japan, India, and South Korea."

- "As far as a specific theater of war is concerned, the United States, Russia, or Japan can send more advanced aircraft and warships to a specific theater of war than China can."

- ". . . any future armed conflict against hegemonism will basically be in the form of naval and aerial warfare carried

out in coastal areas. Chinese armed forces will find it difficult to exploit their numerical advantage, while our opponent will be able to exploit its quality advantage of having naval and air forces equipped with large long-range precision weapons.”

- “. . . China is not yet a world power . . . China has a certain international status, but its international influence is mainly felt in Asia . . . China has difficulty exerting any substantive influence on Latin America, the Middle East, Europe, or Africa . . . ”

- “Chinese culture has some influence in Asia and is respected in the world, but will not become a worldwide culture.”

How much currency these brutally frank assessments have across the board in Beijing cannot be known. But they may reflect more than just the personal views of the author. This analysis may reflect the institutional assessment of CICIR itself that, according to *The Washington Post* (by inference) and other knowledgeable individuals, recently finished a major project comparing the comprehensive national power of several countries and projecting into the future.¹² The alleged results of that study is that China's “comprehensive national power” will continue to rank 6th or 7th out of a sample group of seven nations for at least the next 35 years.

If the three Chinese judgments above are in fact part of mainstream analysis (and this, of course, is open to question), then they inject some significant factors into any Chinese thinking that may be going on about the potential costs of a conflict over Taiwan. By way of review, these three judgments hold that:

1. Military conflict to achieve unification with Taiwan *will* certainly mean military confrontation with the United States.

2. The United States is *not* in decline but, to the contrary, holding its own and possibly enhancing its position as sole superpower.

3. China's own current national power is *not* as great as some Chinese officials believe, and China will likely *not* become a world-class international power for some time to come.

Indicator #2: Recent Articles of Specific Interest to the Question At Hand.

Articles from the mainland press that address the specific issues of potential costs of a Taiwan war are hard to come by. But there are a couple that are germane and may provide us some grist for speculation. The first is the article by Chu Shulong referenced above. The second is by Dr. Shi Yinhong, who, according to the PRC-affiliated Hong Kong periodical *Ta Kung Pao*, is the Director of the Institute of International Relations of the Nanjing Institute of International Relations; a university-level school of the PLA.

The article by Chu Shulong was written at the height of the great security debate of 1999, and it should be read in that context: written during a period of great analytic confusion, policy ferment, and emotionalism in the wake of the errant bombing of the PRC Embassy in Belgrade. But the message of the author seems intended to transcend those particular events and might be equally applicable to the question of war or peace over Taiwan. And the author's messages are as follows:

1. Throughout modern Chinese history, every time the government has acted rashly on emotion instead of cool-headed calculation, the results have been disastrous.

2. China must be coldly realistic about its own capabilities.

3. Unless China's survival is at stake, comprehensive national development is China's fundamental interest.

4. With development, all other issues, to include security issues and issues of unification can be solved.

To some extent, this article can be read as a warning to (unknown) others that Deng Xiaoping's views, strategies, and priorities should not be abandoned. This particular article is a "must read" for students of Chinese politics searching for an example of the existence of a school of *realpolitik* among Beijing's security analysts.

But the topic at hand is addressed even more directly in articles written by Shi Yinhong of the PLA's Nanjing Institute of International Relations. Let us briefly review some of his thinking. One article of interest appears in the April 30, 2000 issue of *Zhanlue Yu Guanli*.¹³ In this article, there are four arguments pertinent to this chapter.

1. The Risk of Escalation. Shi argues that if military force is the only way to achieve unification, then concrete political objectives must be formulated and a desired political end-state understood beforehand. Otherwise, he warns, "our attack will involuntarily slip onto the track of 'absolute war' that is purely governed by military logic, and eventually the total price we pay will be far greater than the total benefit." In other words, Shi is warning that a conflict with Taiwan could escalate beyond China's ability to handle given the assumption of U.S. involvement.¹⁴

2. The Degree of U.S. Intervention Will Be a Function of the Type of Chinese Attack. U.S. military intervention is a "given" for Shi. What is unknown is how deeply the U.S. military will be involved. But he offers "the largest scale and most violent military operation (by China) that hopes to achieve unification at one stroke will be the most likely operation to cause the most serious U.S. military intervention."

3. Adverse World Opinion and a Risk of Cold War. "In reality, what is of the greatest concern is perhaps the

possible international political consequences of China's all-out assault to achieve unification in one stroke (or even achieve radical military victory)." Under this scenario, Shi warns that even if the United States cannot prevail militarily, then Washington will be able to rally the opinion of the developed Western nations and engage in a "Cold War" against China.

4. A Cold War with the United States Is Not In China's Interests. Shi clearly argues that a long-term Cold War with the United States (and the West) will be self-defeating to China's larger national interests. It will "... force us to devote far too much resources and pay too much attention to military, political, and ideological and cultural matters to deal with the United States . . . and it will rob us of most of the economic and political development opportunities we otherwise would have . . . "

In the last section of this article, Shi posits the argument that "China's basic autonomy, security, and integrity and its prospects of becoming a world power are most important; the Taiwan issue is not the final, overwhelming issue." To say the least, this is not the typical analysis of the subject one is accustomed to reading in the mainland press; especially by authors affiliated with the PLA.

A third article in the October 1999 issue of *Zhanlue Yu Guanli* is also written by an author listed as affiliated with the PLA's Nanjing Institute of International Relations, and also surnamed Shi.¹⁵ This Shi is equally concerned about the costs of a conflict over Taiwan. Briefly, he raises the following issues:

- Handling the Taiwan issue by military means incorrectly has the potential to make the situation worse, not better. The military option requires careful study.
- The geography of the Taiwan Strait favors the defense, not the offense.
- The PLA has yet to develop "a large-scale three-dimensional force offensive capability on high-tech

terms, while the Taiwan armed forces have benefited from abundant fiscal resources and U.S. arms sales to roughly have a three-dimensional defensive capability...”

- “. . . since the separatist tendency in Taiwan has acquired impressive political might, an international climate highly favorable to reunification has always been lacking . . .”

- “If a large-scale military conflict breaks out over the Taiwan matter . . . and becomes particularly intense and protracted due to the diehard resistance of the Taiwan authorities and a large-scale U.S. military intervention, we probably would not have high expectations that most of the mainland Chinese people would forever actively support a military struggle that would have a huge cost and an uncertain outcome.”

- “And in consideration of the fact that we would be facing mostly other Chinese in such a struggle, that is even more so the case.”

It is important to underscore that none of the authors cited directly state that the use of the military element of national power to achieve unification should be abandoned.

What they are arguing for is a careful cost-benefit analysis: (1) be aware of China’s strengths and weaknesses, (2) be aware of the international forces (on Taiwan and beyond) that China will face, and (3) be aware of the potential costs that may accrue.

Shi Guhong brings this all together quite nicely in the following passage:

While the criteria for weighing the pros and cons are obviously very complex, including all of the factors mentioned above, we can say most simply that they hinge on: 1) Their effectiveness in containing or stopping Taiwan independence, 2) The price that would have to be paid in lives and economic, political, and

diplomatic costs, particularly the negative impact on China's reform, opening, and modernization.

Indicator #3: Conversations.

Conversations with interlocutors are the most tentative and subjective type of evidence to cite on the issue of Chinese perceptions of the potential costs attendant to a conflict over Taiwan, so I will not belabor them. Suffice it to say that over the past year (1999 to 2000), one is acutely aware that there is growing concern on the part of many Chinese analysts and military planners that in such a situation the United States might be inclined to escalate a conflict beyond what Chinese military planners would prefer to see. And what is it that they prefer to see as they contemplate the military option? It is a quick campaign localized around and over Taiwan. There appears to be growing concern that the United States might be inclined to launch pre-emptive strikes on Chinese mainland military and economic facilities early on in a cross-Strait war. We need not address the validity of these concerns, only register them. Evidently, these concerns have been heightened of late with the recent publication of a RAND study entitled, *Dire Strait? Military Aspects of the China-Taiwan Confrontation and Options for U.S. Policy*.¹⁶

"1999 is Not 1949": An Economy at Risk?

One of the common concerns that run through the above discourses, whether in published articles or discussions, is that some Chinese now assess that China *does* have much to lose if the military option must be exercised. Hence, the need for careful calculation and the avoidance of "rash decisions." And at bottom, it appears the most concern is not about international opinion per se. It is about the collateral damage that the Chinese economy (and other reform programs) could sustain as a result of a conflict. This, in turn, could defeat China's long-term national objectives of becoming a strong, modern, and wealthy nation.¹⁷

Economic damage, as perceived by Chinese, could come in two forms. First, a military escalation that places China's economic engine at physical risk (the exposed eastern seaboard). Second, as a result of a protracted "hot" or "Cold War" against Taiwan and the United States. On this count a protracted encounter might either force China to radically change its own domestic priorities from economic reform to defense, as well as drain its extant wealth. Or a protracted scenario might drag in the developed Western world and Japan and dramatically and adversely affect the nature of foreign investment and foreign assistance to long-term economic and other modernization programs. As one interlocutor put it, "1999 is not 1949. When you *have* nothing, there is nothing much to lose."

Conclusions.

So where does this leave us in attempting to address the assigned topic? First, the original caveats bear repeating. *This chapter is purely speculative.* I do not pretend to have any bottom line on this issue. Data points worthy of a high degree of confidence are nearly impossible to come by. The fact of the matter may be that what we can produce may not reflect the thinking of anyone in China who matters or have any currency beyond the thinking of a few individuals.

The best we can say is that there appear to be some Chinese analysts, to include some in the military, who are thinking about the potential costs of a military conflict over Taiwan. Let's review once again some key assessments and potential "costs."

- A military conflict over Taiwan *will* mean a conflict with the United States.
- A conflict over Taiwan could place at dire risk what some Chinese consider China's real primary national interests: reform and modernization.
- It could result in a prolonged "Cold War" with the United States and some Western nations.

- A military conflict could strengthen the resolve of Taiwan separatists, not cow them.
- A prolonged military conflict over Taiwan and the collateral price in lives and treasure might even cost the regime in Beijing the support of its own people for the endeavor.
- A military conflict over Taiwan could escalate into a major war due either to: (1) a failure on the part of Beijing to have a firm political end-state in mind and a military plan tailored to it, or (2) due to the unpredictability of the scale of U.S. military involvement.

As I mentioned earlier, careful analysis on the part of the Chinese (or anyone else) is no guarantee of correct analysis. *Moreover, even a correct Chinese analysis of the likely costs of a cross-strait war is not by itself necessarily a valid indicator of a decision not to engage in one.* The calculus for “what price is acceptable?” or the factors—known and especially unknown—that would drive a decision for war are likely much more important than what we think the Chinese perceive the costs will be.

In closing, I would just add the following. Difficult as it is to address the topics assigned this year, it is important that we do so. My own feelings, fears really, are that not enough people on either side of the Taiwan Strait or the Pacific are thinking seriously about the implications and costs of a conflict in the Taiwan Strait. This conference starts to address that concern. However, I would say that there is a paper missing from this conference on the costs of a conflict to the United States.

ENDNOTES - CHAPTER 2

1. Samuel B. Griffith, *Sun Tzu, The Art of War*, London: Oxford University Press, 1963, p. 63.

2. Xie Guoliang, *Sun Zi: The Art of War With Commentaries (Sun Zi Bing Fa Yu Pinglun)*, Beijing: Zhongguo Wenxue Chuban She, 1995, p. 9. In the past, Major General Xie has served as the Director of the

Strategy Research Institute of the PLA Academy of Military Science. Based on conversations with him in October 2000, he still actively writes, teaches, and advises at the AMS.

3. The proceedings of the 4th Sun Zi Conference, October 1998 (attended by Minister of National Defense General Chi Haotian) were published in November 1999 by the Academy of Military Science Publishing House as a bound volume of over 580 pages of edited presentations that mostly discuss the application of Sun Zi to contemporary strategic issues.

4. "The Present Situation and Our Tasks," December 25, 1947, *Selected Military Writings of Mao Tse-Tung*, Peking: Foreign Languages Press, 1967, pp. 345-352.

5. For more on the details of the debate, see David M. Finkelstein, "China Reconsiders Its National Security: 'The Great Peace & Development Debate' of 1999," CNA Corporation, Project Asia Regional Assessment, December 2000.

6. Examples would be U.S. development of theater missile defense, the pursuit of nuclear missile defense, the strengthened U.S.-Japan alliance, side-stepping the United Nations to intervene in Kosovo, the so-called "Clinton Doctrine" on humanitarian interventions, NATO expansion, and NATO's "New Strategic Concept," to name just a few. Moreover, Washington's continued arms sales to Taiwan, which are perceived in Beijing to be of a greater qualitative and quantitative nature, not to mention the lessons of the 1996 carrier battle group deployment.

7. Hsu Tao-chen, "Trends in Sino-U.S. Relations after the U.S. Presidential Election—Interview with Professor Yan Xuetong," *Ta Gong Pao*, November 22, 2000, *Foreign Broadcast Information Service (FBIS)*. Dr. Yan is currently at Tsinghua University and no longer at CICIR. My personal, and subjective assessment is that, on the specific question of the probability of U.S. involvement, Yan's views are a mainstream view.

8. Michael Pillsbury, *China Debates the Future Security Environment*, Washington, DC: National Defense University Press, 2000, p. xxvii.

9. Hsu Tao-chen, "Trends in Sino-U.S. Relations after the U.S. Presidential Election."

10. Chu Shulong, "China's National Interest, National Power, and National Strategy," *Zhanlue Yu Guanli*, August 1, 1999, *FBIS*.

11. Chu, *Ibid*.

12. John Pomfret, "U.S. Now a 'Threat' In China's Eyes," *The Washington Post*, November 15, 2000, p. A 01.

13. Shi Yinhong, "Several Grand Strategy Issues Concerning Taiwan Require To Face Up To," *Zhanlue Yu Guanli*, April 30, 2000, as carried by *FBIS*. All quotes in this section are taken from this article.

14. Of interest, as an example, Shi criticizes Mao's strategic decision during the Korean War to attempt campaigns beyond repelling the U.N. forces back over the 38th parallel. This type of criticism is in stark contradistinction to the usual PLA portrayal of their great victories and "correct strategic decisions" during the "War To Assist Korea and to Oppose U.S. Imperialism."

15. Shi Guhong, "Difficulties and Options: Thoughts on the Taiwan Matter," *Zhanlue Yu Guanli*, October 1, 1999, also carried by *FBIS*. It is unclear by only seeing the *FBIS* article whether the two authors, Shi Yinhong and Shi Guhong, are in fact two different individuals, whether they are the same man using a literary pseudonym in one instance, or a mistranslation by *FBIS*. All quotes in the following section are from this article.

16. 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*, Santa Monica, CA; Rand, 2000, summary, p. xxi: "The need for the U.S. to suppress the PLA's long-range air defenses could provide the most compelling rationale for at least limited U.S. attacks on military targets in China."

17. Shi Yinhong, in "Several Grand Strategy Issues Concerning Taiwan Require to Face Up To," writes:

China's basic autonomy, security, and integrity and its prospects of becoming a world power are most important, and the Taiwan issue is not the final, overwhelming issue. This value rating limits the price we should pay in terms of the country's other basic interests for the sake of prompt achievement of the unification of the two shores.

CHAPTER 3

CONFLICTING TENDENCIES: ECONOMIC INTEGRATION VERSUS POLITICAL IMPASSE

Ralph N. Clough

The governments on the two sides of the Taiwan Strait are caught up in a contradiction. Politically, they are at an impasse, with the People's Republic of China (PRC) pressing for political unification of Taiwan with the mainland and the government in Taiwan seeking greater freedom to function independently as a sovereign state in the world community. Economically, the PRC wants rapid modernization, in order to catch up with the West. The Chen Shui-bian administration in Taiwan also wants modernization, turning Taiwan into a "green, silicon island." Economic cooperation across the strait is making an important contribution to achieving the modernization goals of both sides, but they have been unable to resolve the political impasse.

Pressing too hard to achieve conflicting political goals could lead to a war that would set back for decades the achievement of economic goals. The achievement of economic goals requires growing cross-strait economic cooperation—each side needs the other.

Extensive economic integration does not necessarily prevent war. The example of England and Germany before World War I is frequently cited. In that case, conflicting political aspirations prevailed over economic cooperation. But economic integration can be an important factor reducing the risk of war.

Trends toward Integration.

The complementarity of the two economies provides a firm basis for integration. The China mainland offers cheaper labor and land and a huge market. Taiwan entrepreneurs provide capital, technology, and marketing and management skills. Affinities of history, culture, and language give Taiwan investors an advantage over other outside investors.

Taiwan entrepreneurs began on a small scale, moving to the mainland labor-intensive manufacturing that could no longer be profitable in Taiwan because of the rising cost of land and labor. An early example was umbrella manufacturing. Within a few years most umbrella factories had moved to the mainland; so many had settled in an area of Guangdong province that it became known as "Taiwan Umbrella City."

In 1990 I talked to a shoe manufacturer in Taipei who had set up a factory in Guangdong. He leased a building, packed up some used machinery and shipped it to his Guangdong factory. He did not hire local workers, but brought some down from Guizhou province because they would accept lower salaries. After operating successfully for a year, he wanted to expand his operation. He told his workers he needed more help and within a few days he had more down from Guizhou than he could use. I asked him whether he sold any of his shoes on the local market. He said, "No, they were too expensive. All were shipped to the United States."

Over the past 10 years, trends in Taiwan's investment have been toward larger companies, larger investments, and movement up the China coast and inland. Altogether, 45,000 Taiwanese entrepreneurs have contracted investments of \$45 billion, with \$25 billion actually delivered. People from Taiwan make two million visits a year to mainland China, and at any given time there are some 200,000 people from Taiwan on the mainland. The

main motivations for investing in the China mainland have been to exploit the China market and to use China as a base for increasing exports to the world market. Some examples:

- The Uni-President Group. This large food manufacturer had by 1996 invested \$300 million in 18 plants in China. Its goal was to become the largest supplier of food to Chinese throughout the world.

- The Ting Hsin Group is a rival of Uni-President in seeking to supply the world's Chinese population. Operating through a subsidiary registered in the Cayman Islands, Ting Hsin has been very successful in producing and distributing on the mainland its popular Master Kang brand instant noodles. As of 1996, it held nearly a quarter of the mainland instant noodle market.

- The Giant Manufacturing Company is Taiwan's largest bicycle manufacturer. In 1999 one-half of its worldwide production of 3.2 million bicycles were manufactured by its plant in Qunshan, Jiangsu province, the remainder by plants in Taiwan and Holland. Giant has been pressing the government in Taipei to ease restrictions on mainland investments so that it can further expand its China mainland production.

- The Kwang Yang Motor Company (KYMCO) is Taiwan's leading motorcycle manufacturer. In 1996 it had invested in four joint ventures on the mainland. At a meeting in Guangzhou in late 1996, KYMCO's president announced plans to surpass Honda by 2010 as the world's largest name-brand motorcycle manufacturer. It was expanding operations in mainland China as well as building new plants in Taiwan, Indonesia, India, Vietnam and the Philippines.

The Information Industry.

The most striking current example of economic integration between Taiwan and mainland China is in the information industry. Taiwan firms are the world's third

largest producers of information technology hardware, after the United States and Japan. But in 2000, nearly 40 percent of these products are being turned out by Taiwan firms' plants on the mainland. This year, the total value of information technology hardware turned out on the China mainland by Taiwan-owned plants and others will, for the first time, exceed the value of such products manufactured in Taiwan.

Taiwan's leading computer company, Acer, has committed itself to large-scale, long-term operations on the mainland. It has taken out a 50-year lease on 40 hectares of land in Guangdong province, where it has a plant producing motherboards and other computer components. It plans to build five more factories on this property, making it Acer's largest overseas production base, larger than its present base at Subic Day in the Philippines. Acer also has subsidiaries in Suzhou and Zhejiang.

Acer's 10,000 employees on the China mainland constitute almost one third of its global workforce. Sales of Acer computers on the mainland rank fifth, after the leading Chinese computer company, Legend, and several American companies. Acer aims to become the No. 2 supplier of computers in China's rapidly growing market.

Most of Taiwan's producers of information technology products have now invested in the China mainland, despite the existence of some restrictions on cross-strait investment. The government bans investment in single projects of over \$50 million or involving the transfer of advanced technology. For example, the government prohibits the manufacture of notebook computers on the mainland by Taiwan companies. Yet all five of Taiwan's leading producers of notebook computers have, or plan to have, plants on the mainland making components for notebook computers. The heads of these companies recently threatened to proceed with the manufacture of the entire product on the mainland, despite government restrictions. They say they have no choice, given the shortage of labor in

Taiwan and the fact that wages on the mainland are only one-fourth to one-third of those in Taiwan.

The most remarkable recent instance of cross-strait cooperation in the information industry is the \$1.6 billion computer chip plant being built in Shanghai in a joint venture involving Winston Wang, the son of Y. C. Wang, head of the Formosa Plastics Group in Taiwan, and Jiang Mian-heng, the son of Jiang Zemin. Jiang is the company's vice chairman, and Wang is the president and Chief Executive Officer. This plant is one of four that they plan to build on the Shanghai site. Wang has declared that no Taiwan money is going into the plant, and that he has no personal financial stake in it.

A triangular interdependence is developing rapidly among Taiwan, mainland China and the United States. Not only are Taiwan's information industry companies increasingly dependent on production on the China mainland, but increasing amounts of the final products are being bought by American companies. Compaq alone projects purchases from Taiwan companies in 2000 at \$9 billion. IBM, Dell, and Hewlett-Packard will buy \$4-\$5 billion each, and Intel over \$1 billion.

Other Recent Developments.

The expected entry of the PRC and Taiwan into the World Trade Organization has unleashed a rapid increase in investment by Taiwan firms on the China mainland. According to the Taiwan government's official figures, during the first 10 months of 2000, investment on the mainland has nearly doubled over the same period of 1999, to \$2 billion.

In other ways, Taiwan and mainland China are being further connected. The principal telecommunication firms of the PRC and Taiwan recently signed a memo of understanding for the construction of a third international undersea fiber-optic cable that will link the two sides of the

strait. Firms on both sides are preparing in a variety of innovative ways to create a vast network of cross-strait connections through the Internet.

Conclusions.

What does all this add up to?

1. The Chen Shui-bian government is deeply divided on whether to ease restrictions on cross-strait trade and investment.

2. Businessmen in Taiwan are placing heavy pressure on Chen to ease restrictions.

3. Entry into the WTO will compel the removal of some restrictions.

4. Many Taiwan entrepreneurs have been able to evade restrictions, as in the example of the Shanghai chip plant.

5. Thus, economic pressures will continue to promote integration, thereby increasing the cost of any disruptive military action.

CHAPTER 4

TAIWAN DEPENDENCE: THE STRATEGIC DIMENSION OF CROSS-STRAIT TRADE AND INVESTMENT

John Tkacik

Washington policymakers were terrified when Taiwan's Democratic Progressive Party (DPP) leader Chen Shui-bian announced in June 1999 that he was running for the country's presidency. The prospect of a DPP politician actually winning Taiwan's presidency and moving toward "Taiwan Independence"—a long-held dream of the DPP—was a nightmare that both Pentagon planners and State Department diplomats have often war-gamed in scenarios that inevitably provoke China into armed conflict.

Well, they needn't have lost any sleep over it. Since his March 18, 2000, election, Chen has stepped back from "independence." And no wonder—Taiwan, it seems, is too dependent on China to be independent. Despite their profound sympathies for a formal "non-Chinese" homeland, President Chen, most of his major financial backers, and a majority of his own political party are all too aware of the central fact of Taiwan's economic predicament: its entire export manufacturing sector relies on mainland Chinese labor and factories for growth. And it's not just Taiwan's "sunset industries" that are being forced offshore, but its cutting-edge computer and semiconductor industries as well. Into the 21st century, Taiwan's drift toward political "independence" will have halted, and Taiwan's increasing economic symbiosis with mainland China will bind the island ever more tightly to the mainland.

There is not enough room in this short chapter to offer a comprehensive study of Taiwan's economic interdependence with China. I will only attempt to give a flavor of the political, investment, trade, and labor factors at

play in the dynamics of cross-Strait relations. Nonetheless, the obvious conclusion is reassuring. For the foreseeable future, no one need worry that Taiwan will seek to change its "status quo." What China does is another story.

Turning Point.

The atmosphere in Taipei's *Academia Sinica* auditorium was electric the afternoon of March 10, 2000. There were just 7 days left before Taiwan's historic presidential election. Reporters, photojournalists, and TV cameramen jammed into the small auditorium to witness that was perhaps the psychological turning point of the presidential campaign. On the dais, a lanky and owlsh scholar stood up and moved next to former Taipei mayor Chen Shui-bian, the DPP candidate for Taiwan's presidency. The two men had just completed an hour's meeting in private and were now ready to face the cameras.

Nervously, *Academia Sinica* President Lee Yuan-tseh, Taiwan's most respected scholar and winner of the 1986 Nobel Prize for Chemistry, cleared his throat and spoke into the microphones in front of him. Calling candidate Chen a "proper national leader," Dr. Lee pledged to join President-elect Chen's National Policy Advisory Committee and work to help Chen govern Taiwan as the island's first non-Kuomintang (KMT or "Nationalist") party leader since the end of World War II. "I admire Chen for his determination to carry out all kinds of reforms and to eradicate the 'black gold' politics of corruption," Lee said. "I will help Chen to govern our country if he is elected, to promote Taiwan's development." The unprepossessing academic explained his support for the former Taipei mayor was spurred by the sight of "too many known members of organized crime groups stumping for other candidates." Flashbulbs snapped, motor-driven cameras whirred. Dr. Lee's endorsement had sealed Chen's victory.¹

Although former Taipei mayor Chen Shui-bian had maintained a persistent if slight edge in the polls over the

previous 3 months of the 2000 campaign, even this late in the game there were still lingering anxieties about his commitment to the pursuit of "Taiwan Independence," the defining plank of Chen's DPP. Although all the opinion polls leading up to the presidential election showed a small but increasing sentiment for outright "independence," they also showed the vast majority of Taiwanese, nervous about China's reaction, favored "maintaining the status quo indefinitely." Chen's own DPP polls told him this latter group made up the 20-to-25 percent of the undecided voters who would swing the election.

For over a year, Chen had been backing away gingerly from his party's militant stance of full-separation from China. While China and Taiwan are two separate and independent countries, Chen would explain to his constituents and fellow partisans (as well as to uneasy Americans) this requires no change in Taiwan's political status. Taiwan, after all had been sovereign and independent of mainland China since 1949, and the "Republic of China" has been a sovereign and independent nation since 1912. Chen promised to "maintain the status quo" throughout his term as the Republic of China's next president.

While Taiwan's voters were sympathetic, they still needed reassurance that electing Chen wouldn't be catastrophically provocative to China. Dr. Lee Yuan-tseh's words gave them some of that reassurance.

But as soothing as Dr. Lee's endorsement was, Chen was about to get a boost from even more convincing supporters—Taiwan's wealthiest and most dynamic ethnic-Taiwanese businessmen and women. As Chen turned to the audience, still basking in Dr. Lee's reflected glory, Chen revealed to reporters that "I have also received promises from Taiwan High-Speed Railway Corporation chairwoman Nita Ing, Chi Mei president Hsu Wen-lung, Evergreen chairman Chang Jung-fa, and current National

Security Advisor Chen Pi-chao, and in addition, Dr. Lee has suggested I invite Acer Computer's CEO, Stan Shih."

The message to Taiwan's fence-sitting voters was clear. If Taiwan's top tycoons could support Chen, then a vote for Chen was a vote for economic prosperity. And because all these business leaders had extensive investments on the other side of the Taiwan Strait, a vote for Chen was a vote for stable relations with China as well.

A thousand miles away in Beijing, however, Chen's support among Taiwan's top entrepreneurs was cause for panic. Chinese leaders from President Jiang Zemin and Premier Zhu Rongji on down were seized by the sudden realization that maybe this pro-independence politician could actually win! On March 15, with Taiwan's election just 3 days away, a clearly alarmed Premier Zhu called an unscheduled news conference with foreign reporters. "Let me advise all these people in Taiwan," he warned, his voice cracking with stress, "do not just act on impulse at this juncture which will decide the future course that China and Taiwan will follow. Otherwise, I'm afraid you won't get another opportunity to regret." Premier Zhu vowed that Chinese were ready to "shed blood" to prevent Taiwan breaking away.²

If China's leaders thought Premier Zhu's hard line would sway Taiwan's voters, they were wrong. In the end, Chen won the March 18, 2000, election with 39.6 percent of the vote in a hard-fought three-way race. Chen's campaign managers said privately that their polls showed Zhu's intemperate remarks actually added a percentage point to Chen's narrow win. And the following week, Chen invited his advisors, including Nita Ing, Chang Jung-fa, Stan Shih and Hsu Wen-lung to help him choose a new cabinet.

Beijing Pressures Pro-Chen Businesses.

The *Financial and Economic Times* is a small circulation weekly financial newspaper published in Beijing by the

China Securities Market Research and Planning Center, but on Tuesday, April 11, 2000, its circulation shot up as Taiwanese reporters scurried around town looking for copies. Under a front-page headline, "A Minority of Taiwan Businesspeople who Tout Taiwan Independence Stirs the Anger of the Mainland," were four large portraits of none other than Nita Ing, Chang Jung-fa, Stan Shih, and Hsu Wen-lung. The paper named these four ethnic-Taiwanese supporters of president-elect Chen Shui-bian (as well as three others: future Minister of Economic Affairs Lin Hsin-yi; E. Sun Bank chair Lin Jong-shong; and I-Mei Foods' Kao Chih-ming). The article complained that although these Taiwan businessmen and women had one thing in common—massive investments in China—they nevertheless had the temerity to support Chen Shui-bian and Taiwan independence.³

The first target of the newspaper's attack was Chi Mei Enterprises' Chairman Hsu Wen-lung. The paper pointed out that Hsu's operations in Taiwan ship over a million tons of raw petrochemicals to China each year, and account for over 40 percent of China's imports in many major petrochemical sectors. Chi Mei also has a 300,000 ton/year polystyrene plant in Zhenhai as well as a 125,000 ton/year joint venture acrylonitrile-butadiene-styrene (ABS) plant under construction.

Next on the list was Chang Jung-fa, chairman of Taiwan's Evergreen Group which operates one of the world's largest merchant fleets, scores of container ports, and several international freight forwarding businesses as well as EVA Airways. Evergreen has 14 offices in China and cooperates with all of China's major shipping lines to run cargo across the Taiwan Strait via third ports. (And it should be noted that, at the sufferance of the Chinese government, EVA Airways now ferries 15,600 passengers weekly between Taiwan and Macao, where most of them book onward flights directly into China.)

The *Financial and Economic Times* piece then recalled that Stan Chen-jung Shih's Acer Computers is already one of China's top computer sellers, has plans to invest in over 200 separate internet portals in China over the next 2 years, and more plans to invest another U.S.\$3 billion into the China market over the next 5 years.

The *Financial and Economic Times* article was a shot across the bow. No longer would Beijing "sit idly by" and "watch Taiwan businesses make money in China to support Taiwan Independence back home," it warned. That week, the planned opening of Evergreen's Shanghai office was delayed, and Chi Mei's shippers and factories along the China coast were all subject to the incessant inspections of battalions of Chinese bureaucrats, from tax collectors to safety inspectors to customs agents and policemen. In May a platoon of tax inspectors appeared at the doorstep of the Chi Mei plant near Nanjing, and, while they found no irregularities, they made it clear to the Taiwanese managers that the crackdown was tied to Hsu's support for Chen. According to a *Business Week* article,⁴ Chi Mei says authorities have threatened its mainland customers with special tax scrutiny. Although Chi Mei has sunk \$200 million into China, the company is now threatening to freeze future investments, and there are rumors that Hsu Wen-lung is pondering ways of pulling out of China altogether.

But Hsu Wen-lung is the exception. Most of Taiwan's entrepreneurs hope to remain in Beijing's good graces. Acer's Stan Shih, for example, was so worried about his appearance in the *Financial and Economic Times* that he flew immediately to Beijing where he hoped to meet some high in the party so he could explain himself, but in the end he spent just a day and gave a speech at a computer trade show.⁵ Shih told reporters that he had "never supported Taiwan Independence," while Chi Mei's representatives in China insisted that their boss, Hsu Wen-lung, "has nothing to do with the China offices"—as if that would exculpate Chi Mei's mainland operations from Mr. Hsu's political stance.

Hsu himself was unapologetic, but he remained quiet nonetheless.

Evergreen's Shanghai office eventually opened, but as late as November 23, 2000, the Chinese were still temporizing about extending EVA Airways' landing rights in Macao, rights that were due to expire at the end of that month.⁶ By Friday, November 24, however, Taiwan and Macao civil air negotiators finally signed an agreement which increased the number of weekly passenger seats between Taiwan and Macao by 8,000—half to Air Macao and the other half split between Taiwan's EVA Air and TransAsia Airways. Cargo will also be increased by 400 tons per week, with 200 tons going to Air Macau, and 100 tons each to EVA Airways and TransAsia Airways. While the Chinese clearly wanted the increased air traffic, they were also willing to hold out to the 11th hour and 59th minute to make their point that thenceforth EVA Air's operations in China would continue on condition of good behavior.

Taiwan Dependence on China.

The Chinese leadership's new hardline against ethnic-Taiwanese businesses in following the election of President Chen Shui-bian has heightened Taiwan's sense of vulnerability to Chinese economic pressures. President Chen's response has been moderate. In his May 20, 2000, inauguration address, he acknowledged that "Taiwan's industrial development must move toward a knowledge-based economy, high-tech industries need to be constantly innovative, while traditional industries need to undergo transformation and upgrading." Chen's fears for Taiwan's sunset sectors reflect his private concerns that most of the island's light-industrial firms will sooner or later have to move offshore—to China—in order to remain competitive, leaving Taiwan's advanced information economy to emerge as the engine of Taiwan's future growth. Accordingly, Taiwan is becoming the supplier of advanced-

technology components to the labor-intensive assembly lines in China.

Taiwan's economic planners are understandably concerned by this out-migration that is already "hollowing-out" Taiwan's manufacturing sector. This isn't to say they haven't tried to control the problem. President Chen's predecessor, Lee Teng-hui, instituted a "don't hurry, be patient" policy of discouraging Taiwan businesses from moving to the Chinese mainland.⁷ Earlier, in 1994, President Lee launched a "Southern Strategy" of encouraging Taiwan businesses to look at Southeast Asia as an alternative to China.⁸ But, with the exception of a large-scale move into Vietnam (where labor is truly cheap), new investments in China continued to increase at an annual rate of 13-30 percent. (See Table 1.)

Paradoxically, Chen Shui-bian's inauguration seemed to speed-up Taiwan's manufacturing exodus to China. Chen campaigned on a promise unilaterally to open up trading links with the mainland, and after his election he has ordered a series of policy initiatives to encourage cross-Strait trade, provided China doesn't levy a "one China" precondition. Although China hasn't obliged, Taiwan businesses view the new Chen Shui-bian regime as much more sympathetic to cross-Strait investments than his predecessor's, and Taiwan investment flows into China ballooned in the first 6 months of Chen's government.

On September 25, Taiwan's Ministry of Economic Affairs (MOEA) reported that it had approved U.S.\$1.612 billion in new Taiwan investments in China for the January-August period—representing an annual expansion of 146 percent.⁹ By October 25, another U.S.\$178 million in Taiwan investment applications were approved, 106 percent over 1999 levels.¹⁰

The final tally for the year 2000 confirmed the trend. The MOEA reported January 30, 2001, that increasing efforts by the Beijing government had been successful in drawing a record level of Taiwan investment in China. In 2000, MOEA

Year	New Approvals (Billions of U.S.\$)	New Investment (PRC) Figures	Growth Year-on-Year	Growth (PRC) Figures	Cumulative Investment	Cumulative Investment (PRC Figures)	Growth in Cumulative Investment	Growth in Cumulative Investment (PRC Figures)
1991		0.17	2.78			0.17		
1992	0.25	5.54	41.8		0.42	8.32	141.8	
1993*	3.17	9.97	1182.8	80	3.59	18.29	752.3	119.8
1994	0.96	5.4	-69.9	-45.8	4.55	23.69	26.8	29.5
1995	1.09	5.78	13.6	7	5.64	29.47	24	24.4
1996	1.23	5.14	12.5	-11.1	6.87	34.61	21.8	17.4
1997**	1.61	2.81	31.3	-45.3	8.49	37.42	32.5	8.1
1997***	2.72				11.21			
1998**	1.52	2.98	-5.9	6	12.73	40.4	13.6	8
1998***	0.52				13.24			
1999	1.25	3.37	-17.5	13.6	13.98	43.77	9.8	8.3
2000****	2.1		98		15.76		12.3	

* 1993 figures are artificially high due to an amnesty program that year which approved thousands of previously unapproved investment applications.

** Denotes new investment cases processed in 1997 and 1998.

*** Denotes previously unregistered/unapproved investments made in previous years but added to a 1997 amnesty program. Totals are included in growth figures but not used in growth rate calculations.

**** MOEA investment and growth figures released November 20, 2000.

Source: Taiwan Investment Commissions, Ministry of Economic Affairs and Mainland Affairs Council (cited by the American Institute in Taiwan).

Table 1. Taiwan Investment in the People's Republic of China.

processed a total of U.S.\$2.6714 billion worth of PRC investment projects applications submitted by Taiwan investors, a 108.1 percent increase over 1999 applications, and the highest annual level on record. MOEA report said that the influence of both Taiwan's and the PRC's entry into the World Trade Organization (WTO) likely means Taiwan investment in China would continue its heated pace through 2001, as well. Of these projects, electronic and electrical equipment projects accounted for 54 percent of the total. But the sector with the biggest increases in investments wasn't electronics but services. In 2000, Taiwan service sector investments totaled U.S.\$160 million, a six-fold increase from 1999; electrical/electronics investments were U.S.\$1.4 billion, an increase of 170 percent; plastics sector investments were U.S.\$180 million, up 86 percent, with 80 percent of the new investment applications for projects in Guangdong and Jiangsu.

Taiwan's newspapers noted Beijing sources estimate Taiwan businesses have invested a cumulative U.S.\$28 billion in China since 1986, while Taiwan's own Central Bank of China (CBC) seemed to think the figure was over U.S.\$50 billion—or maybe U.S.\$60 billion.¹¹ As late as November 11, 2000, one Taiwan Legislative Yuan member claimed the CBC told him Taiwan investments could be as high as U.S.\$100 billion if one includes all the money that Taiwan businesses borrow for their mainland operations without seeking Taiwan government approval.¹² By comparison, Taiwan's Commission on Economic Planning and Development (CEPD) reckons that Taiwanese businesses have invested a cumulative U.S.\$43.7 billion in Southeast Asia.¹³ In February 2001, Ms. Tan Ching-yu, a research fellow at Taiwan's "National Policy Foundation," a think-tank closely linked to the Kuomintang (KMT) party, asserted that "Taiwan's mainland investments hit a record U.S.\$2.7 billion in 2000 and grew 108 percent compared with the previous year." Tan also said "almost 70 percent of the investments were made in the second half of last year,"

that is, made after President Chen Shui-bian took office in May 2000.

This situation would be truly disturbing even if one weren't concerned about the national security implications of such close economic dependence on a politically hostile power. In early November, 2000, Taiwan's cabinet-level CEPD reviewed the alarmingly high growth of Taiwan industrial investment in China and recommended that laws be enacted which will limit investment to 2 percent of Taiwan's gross domestic product.¹⁴ And Taiwan is likely to continue its national security ban on making very high-tech computers, powerful motherboards, or high-speed modems in China.

Still, when all is said and done, and despite the increasing vulnerability of Taiwan's economy to pressures from China, there is no other choice for Taiwan businesses that hope to remain competitive. China has the labor, the land—and now, the market—while Taiwan has the capital, expertise, and entrepreneurship. Already, thousands of entire production lines have been closed in Taiwan—and reopened in China.

With Taiwan as dependent as it is on China, President Chen is not about to provoke Beijing with an independence challenge. Indeed, Chen held out the olive branch at his inauguration address by reassuring his Chinese counterparts that "we believe that the leaders on both sides possess enough wisdom and creativity to jointly deal with the question of a future 'one China'." Chen also made his so-called "Four No's" vow that

as long as the Chinese Communist Party's regime has no intention to use military force against Taiwan, I pledge that during my term in office, I will not declare independence, I will not change the national title, I will not push forth the inclusion of the so-called 'state-to-state' description in the Constitution, and I will not promote a referendum to change the status quo in regards to the question of independence or unification.¹⁵

How Dependent Is Taiwan?

The year 2000 was a benchmark era for Taiwan investment in China. Taiwan's investments in China moved from low and mid-tech into the high-tech sectors, and for the first time, investments in services showed that Taiwanese businesses have finally begun to view mainland China as a major export market in itself. Taiwan's bean-counters say the capital injection from Taiwanese enterprises in China reached U.S.\$14.8 billion by mid-2000. But figures compiled by Beijing showed that Taiwan investors have signed agreements to invest U.S.\$48 billion capital in the mainland, with actual capital input amounting to U.S.\$28 billion.

Much of the early Taiwan investment in China could be said to have been "overestimated" in an effort to "puff-up" their claims to preferential treatment in China. Taiwan's toy, textile, electrical appliance, and footwear factories in Fujian and Guangdong, for example, were often older production lines with obsolescent equipment that had been crated up in Taiwan and shipped across the Strait.

But not any more. For the year 2000, an astonishing 72.8 percent the total U.S.\$25.535 billion production value of China's information technology (IT) hardware sector was manufactured by Taiwan-owned production lines. A more ominous fact was that China's U.S.\$25 billion IT industry was bigger than Taiwan's home-grown U.S.\$23.209 billion industry (according to a November 6, 2000, report by the Taipei Market Intelligence Center, or "MIC," at Taiwan's government-run Institute for Information Industry).¹⁶

Taiwan-controlled IT production for the year 2000 will total U.S.\$48.076 billion—20.5 percent over 1999—with only U.S.\$23.209 billion worth of the products actually manufactured in Taiwan. U.S.\$18.577 billion worth—or 38.6 percent—of the total will have been assembled in mainland China, up sharply from 1999's level of 23 percent,

and even that number is expected to rise to 51 percent in 2001.

In October 2000, Quanta Computer announced it would invest U.S.\$26 million in a motherboard factory and computer case production line in Zhongshan, making it the last of Taiwan's notebook manufacturers to set up shop in China. As of late September, Taiwan's desktop personal computer (PC) manufacturers had moved 42 percent of their production lines to China, including:

- Mitac International (U.S.\$30 million in Shunde, Guangdong);
- Hsing Enterprise (Shenzhen, Guangdong);
- Acer Inc. (Zhongshan, Guangdong);
- Tatung (Wujiang, Jiangsu); and,
- First International Computer Inc. (Shenzhen).¹⁷

Taiwan's Ministry of Economic Affairs judges that up to 48 percent of desktop computers exported by Taiwan makers are now manufactured in mainland plants, 18 percent turned out by their plants in Taiwan, and the remaining 34 percent produced in other parts of the world. At the high-end of the PC spectrum is the notebook computer, and Taiwan can already claim a 60 percent share of the global notebook computer market. In 2000, Taiwanese-operated plants in mainland China assembled 6.5 percent of Taiwan's notebook output, double 1999's figure.

About 56 percent of Taiwan's motherboard makers also had production lines on the mainland, which in the first half of 2000 produced 45.8 percent of Taiwan's total motherboard shipments—a figure that rose to over 50 percent by the end of 2000. Motherboard makers in China include Hsing Enterprises (Shenzhen); Asustek Computer (Suzhou, Jiangsu); Gigabyte Technology (Dongguan, and Huangjiang, Jiangsu); Micro-Star (Shenzhen); and Elitegroup (Shenzhen). Of Taiwan's scanner

manufacturers, 88 percent had moved to the mainland by the end of 2000, including Silitek (Dongguan); Avision (Shanghai, Suzhou); Primax Electronics; Mustek (Dongguan); and Umax Data Systems (Suzhou). Of Taiwan's CD-ROM drive makers, 74 percent have moved to mainland China, including Chien-Hsin Electronics, Behavior Tech, Arima, Acer Communications and Multimedia, and Aopen. And 58 percent of Taiwan's computer monitor producers, including Lite-On Technology (Dongguan) and Compal Electronic (Kunshan, Jiangsu), have major production lines in China.¹⁸

Labor costs are a major factor in the migration of Taiwan's high-tech sector to China, with engineering and technical staff salaries running about one-third to one-fifth of Taiwan's levels, and assembly labor as cheap as one-tenth. Acer Display Technology, Taiwan's largest domestic notebook display manufacturer, announced October 20, 2000, that it would set up a new liquid crystal module (LCM) assembly line at Acer's 53.3-hectare complex in Suzhou, Jiangsu. The company said an exhaustive study showed that moving LCM assembly lines to China would reduce production costs 20 percent. Although Acer's move displaces over 800 assembly-line workers at Acer Display's Taiwan factory, many of its major Taiwan customers are setting up notebook assembly lines on the mainland, and the company has to service them.¹⁹

Taiwan's Lite-On Electronics announced on October 5, 2000, that it would relocate its entire Taiwan optoelectronic production line to its factory in Tianjin "due to high production cost in Taiwan." Lite-On's three production lines in Tianjin cover 750,000 square feet of floor space, have 2,000 workers, and generated about U.S.\$62.5 million income in 2000. The move saves Lite-On about U.S.\$1.6 million in production costs and will leave the Taiwan operation focused on research and development (R&D) and production of high value-added products.²⁰

But Taiwan's high-tech sector doesn't just see China as a source of cheap labor. It's a major market as well. VIA Technologies, Taiwan's largest chipset designer, reported in September that China's 12 major computer assemblers (including China's giant Legend Group) have ordered VIA chipsets and processors, and that VIA intends to take over 50 percent of the mainland Chinese market for chipsets and between 10 percent and 30 percent of China's CPU (central processing unit) market within the next few years. On October 30, VIA Tech announced it would invest U.S.\$16.08 million to establish its first branch in China, an R&D center in Beijing. VIA sees itself as becoming China's main supplier of chipsets by placing VIA-Cyrix III microprocessors as original equipment manufacturing (OEM) on the majority of motherboards sold in the mainland. VIA's China foray will, of course, put it into direct competition with Intel, which currently dominates China's CPU market, but VIA's strategy is to beat Intel in the China market. Taiwan's motherboard producers already use VIA chipsets on their China-bound OEM products marketed by Compaq and Dell.²¹

Stan Chen-jung Shih's "Acer Sertek" said September 25, 2000, that its PC sales in China will exceed Taiwan for the first time in 2000 making it China's number three PC brand after Legend and Founder Group. With China demand pegged at between seven and eight million units in 2001 and annual growth rate of between 20 percent and 30 percent, Acer Sertek sees the mainland as replacing Germany as the third largest PC market in 2001 and Japan as the world's second largest PC market by 2002. To meet the demand, Acer Group is planning PC manufacturing centers in Guangzhou and Suzhou and doubling its PC distribution and service beyond its existing 500 sales centers by first quarter 2001.²²

The February 9, 2001, edition of Hong Kong's *AsiaWeek* magazine profiled the controversial semiconductor joint venture in Shanghai run by Formosa Plastics Group (FPG) Chairman Wang Yung-ching's estranged son, Winston

Wen-yen Wong (Wang), noting that “for Beijing, it’s a dream venture. But for Taipei, it could be a nightmare.” The article said Wong’s U.S.\$1.63 billion, 240,000-square-meter computer-chip plant in Shanghai’s Pudong Zhangjiang High-Tech Park—“Shanghai Grace Semiconductor Manufacturing”—is part of China’s strategy to become a major player in the world of high tech. Taipei worries the “investment, and other projects that are already following, will accelerate Taiwan’s economic dependence on the mainland—and sap its political ability to resist reunification.” According to *AsiaWeek*, China has only two major semiconductor makers: a Motorola plant that produces chips for its own mobile phones, and a small NEC joint venture in Shanghai. *AsiaWeek* explained that “Wong these days seems primarily driven by his desire to get even with his father,” but is now “coy about the financial structure of the project, not least because he is under pressure from Taipei authorities not to go ahead with the venture.” The holding company, “Grace THW Group,” already has eight low-tech factories in China which claimed U.S.\$260 million in sales in 2000. Construction on Grace’s new eight-inch waferfab in Shanghai, the most advanced of its kind in China, should be in full production by 2002. And if the venture expands according to its high-tech contract, the Chinese government will provide an extra U.S.\$2.5 billion, with the total likely investment to hit U.S.\$6.4 billion.²³

AsiaWeek also reported that another giant Taiwan computer-chip factory, Semiconductor Manufacturing International (SMIC) owned by a consortium led by Richard Chang, is expected to begin pilot production this September. Together, *AsiaWeek* said, Wong and Chang are likely to have up to 12 production lines turning out eight-inch silicon wafers by the end of 2002, giving China one-fifth of Taiwan’s 50-plus production lines, making it a major computer-chip manufacturer. Moreover, SMIC plans experimental production of 12-inch wafers by mid-2002. *AsiaWeek* reported that “the Taiwan business community expects the

government to relax some investment restrictions later this month. Taipei may authorize six-inch and possibly eight-inch wafer operations on the mainland.”

2000 was a key year for Taiwan’s copper-wire investments in China. Nine of Taiwan’s top electric wire and cable producers expanded the output of their Chinese factories to meet the ever-rising demand for cable and wire in mainland China. Walsin Lihwa has invested U.S.\$120 million in 14 factories throughout China to make copper wire, power cable, fiber-optics, and steel wire. Pacific Electric Wire and Cable invested U.S.\$31 million in Shenzhen to make bare copper wire. Tai-I Electric Wire and Cable spent U.S.\$17 million in a copper wire line in Guangzhou, making that factory the largest factory of its kind in China. Ta Ya Electric invested U.S.\$11.8 million to set up a copper wire factory in Dongguan, Jung Shing Wire Co., Ltd. invested U.S.\$5.21 million to build two copper-wire factories in Dongguan supply the computer monitor industry.²⁴

The petrochemical sector has also been drawn to mainland China in 2000. Nan Ya Plastics, a subsidiary of Formosa Plastics Group (FPG), decided on August 27, 2000, to invest U.S.\$49 million to build a refinery in Huizhou, Guangdong. The FPG parent company is also seeking Taiwan government approval for a U.S.\$100 million polyvinyl chloride (PVC) refinery in Ningbo, Zhejiang, with a 300,000 metric ton annual output capacity, and plans additional ones in Nantong, Zhejiang, and in Xiamen, Fujian.²⁵ Taiwan media reports on September 3, however indicate FPG is planning to invest over U.S.\$13 billion in a vast 4,000-hectare petrochemical complex at the Ningbo site. While FPG has long been a pioneer in mainland investments, Taiwan’s Petrochemical Industry Association (PIA) which represents the island’s non-FPG-owned petrochemical manufacturers, have decided to move ahead with a U.S.\$700 million joint venture ethylene cracker with an annual capacity of 600,000 tons.

Despite the enthusiasm that FPG and the PIA petrochemical producers show for expansion into China, Taiwan's now-blackballed Chi Mei Petrochemical seems to have other ideas. After 6 months of harassment by Chinese watchdogs, and an unofficial boycott of Chi Mei's products, which in late October prompted Chi Mei to announce a downward adjustment in its November domestic sales prices of ABS and polystyrene. The company is said to be looking for ways out of China—perhaps for Vietnam or the Philippines.²⁶

These are just a few examples of the major Taiwan investment initiatives in China during the two mid-quarters of 2000. And they are, of course, just a snapshot of the migration of Taiwan's mid- and high-tech manufacturing to the mainland. But they also underscore the growing importance of China's market for high-tech products.

The rest of Taiwan's U.S.\$25 billion to U.S.\$60 billion investment in China's low- to mid-tech industries has been there for at least 5 years, in some cases (as with shoes and light industrial goods) between 10 and 13 years. Taiwan's largest light industrial sector players—foodstuffs giant Uni-President, for example—are now familiar features in the Chinese landscape. Taiwan is now getting comfortable with them as well. On October 22, 2000, Taiwan's Mainland Affairs Council (MAC) and Ministry of Economic Affairs approved the first exception to the island's U.S.\$50 million ceiling on investment projects in China. But it was an exception that proved the rule. Taiwan's Uni-President Group actually applied to consolidate 18 of the Uni Group's re-invested firms in China into a large holding company based in Shanghai and capitalized at U.S.\$100 million which will handle materials management, fund management, and personnel training for the group's 20 other re-invested manufacturing firms in mainland China.²⁷

Patterns of Trade.

Taiwan's investments in China are the engine behind Taiwan's massive trade across the Strait. And China is the engine for Taiwan's export sector.

Taiwan's November 2000 trade with the People's Republic of China totaled U.S.\$2.25 billion in exports to the PRC (6.6 percent above November 1999) and U.S.\$560 million in imports from the PRC, according to the figures published in January by Taiwan's Ministry of Economic Affairs (MOEA). November's U.S.\$1.7 billion trade surplus with China brought last year's January-November total trade surplus to U.S.\$18.27 billion in Taiwan's favor, 20 percent above 1999's levels and a new high. Taiwan's total cross-Strait trade has tripled in less than 10 years, the MOEA report said, and Taiwan's trade surplus with China broke the U.S.\$10 billion mark in 1993, and was U.S.\$16.7 billion in 1999. MOEA statistics showed cumulative January-November 2000 trade with the PRC at U.S.\$29.776 billion, 27.2 percent above 1999 levels, accounting for 11.2 percent of all Taiwan's foreign trade. Taiwan exports during the period totaled U.S.\$24.027 billion (24.3 percent above 1999), and accounting for 17.6 percent of all Taiwan's exports. Imports from the PRC were U.S.\$5.749 billion, 40.5 percent above 1999 and 4.4 percent of all Taiwan's imports.

Taiwan's trade with China hit record levels in July 2000 for the 10th consecutive month of double-digit year-on-year growth. Exports to China surged a year-on-year 42 percent in July to U.S.\$2.5 billion while imports were U.S.\$566 million, up 55.4 percent from the same month in 1999. Taiwan's trade with China grew to U.S.\$18.38 billion in the first 7 months of the year, up 30.9 percent from the same 1999 period and accounted for 11.1 percent of Taiwan's total external trade.²⁸

Interestingly, although Taiwan's trade with China has doubled since 1994, the level of Taiwan's export dependence

on China has gone from 14.9 percent (of Taiwan's total exports) in 1993 to 17.8 percent in 2000. This statistic, however, masks the level of exports orders (and hence profits) received by Taiwan-owned factories in China directly to customers abroad without transiting Taiwan or relying on components imported from Taiwan. (See Table 2.)

What does the trade consist of? Mostly components shipped to Chinese factories for assembly into products for export beyond China. A report released by the Ministry of Economic Affairs on March 26, 2000, showed that over 26 percent of all Taiwan export orders received by Taiwan companies are shipped from Taiwan-run factories in China. The MOEA report indicated that this 26 percent figure includes export orders for items made in whole or in part in China. This means that, while a good chunk of these goods are re-assembled, sent back to Taiwan, and then exported from Taiwan as finished products, more than half appear to be shipped directly from China without showing up on Taiwan's export statistics. Still, the implications are dramatic—over one-fourth of all Taiwan exports, direct or indirect, in whole or in part, rely on China.²⁹

That's a huge figure. But it puts into perspective why China doesn't view Taiwan's foreign direct investment as a "golden goose." Instead, the Chinese leadership likely sees foreign investments in the export-processing sector as a job-creator. A report prepared by the U.S. Consulate General in Guangzhou in 1992 included a study of the footwear industry which cited the example of a pair of Nike tennis shoes said to cost about U.S.\$12.00 ex-factory. Of that figure, U.S.\$1.00 was for labor, about \$0.50 was for rent, electricity, taxes, U.S.\$6.00 was for imported components, and U.S.\$2.00 for Chinese sourced components. At the time, the consulate extrapolated that for every dollar of exported goods from a foreign venture, only about 30 percent stayed in China, while the rest went to other foreign countries which supplied the components and entrepreneurship.³⁰

Year	Month	Exports to China (U.S. \$ Billions)	Percentage of Total Taiwan Exports	Year-on-Year Growth	Imports from China (U.S. \$ Billions)	Percentage of Total Taiwan Imports	Year-on-Year Growth	Total Trade (U.S. \$ Billions)	Percentage of Total Taiwan Trade	Year-on-Year Growth	Total Trade
2000		26.34	17.76	19.57	6.13	4.37	35.5	32.46	11.26	26.07	288.34
	December	2.144	17.7	8.08	0.48	4.56	7.9	2.62	11.64	8.22	22.51
	November	2.25	17.7	6.6	0.56	4.69	20.68	2.81	11.41	9.17	24.63
	October	2.35	18.32	15.6	0.57	4.58	29.9	2.92	11.22	17.77	25.98
	September	2.39	18.46	43.7	0.63	4.45	47.7	2.91	11.76	45.24	24.72
	August	2.3	18.05	19.79	0.49	4.04	23.17	2.79	11.22	-1.45	24.65
	July	2.52	18.57	42	0.57	4.2	55.5	3.07	11.34	44.35	27.04
	June	2.30	18.53	32.2	0.56	4.8	48.78	2.85	11.91	36.13	23.86
	May	2.37	18.5	18.66	0.59	4.65	54.5	2.96	11.47	29.84	25.83
	April	2.16	17.67	30.36	0.55	4.56	84.74	2.71	11.10	38.27	24.41
	March	2.16	18.08	19.53	0.40	3.43	13.15	2.66	10.90	18.52	23.49
	February	1.38	15	33.8	0.32	3.57	-2.41	1.69	9.33	33.45	18.11
January	2.02	16.9	21.8	0.53	4.8	29.3	2.54	11.1	23.23	22.82	
1999		21.23	17.5	15.5	4.52	4.1	10	25.75	11.1	14.5	
	December	1.98	17.2	21.2	0.44	4.2	28.5	2.42	10.9	22.53	
	November	2.11	18.3	17.4	0.46	4.6	26.8	2.57	11.9	18.9	
	October	2.04	17.8	48.2	0.44	3.8	33	2.48	10.9	45.3	
	September	1.65	17.3	7.4	0.36	4.2	0.61	2.01	11.2	6.1	
	August	1.92	17.9	17.8	0.40	4	21.1	2.83	11.2	18.3	
	July	1.76	17.7	23.1	0.36	3.8	12.9	2.12	10.9	21.2	
	June	1.74	17.6	6.6	0.37	4.2	11.6	2.11	11.2	7.5	
	May	2	18.8	26.8	0.38	4.3	-1.7	2.28	12.3	21.2	
	April	1.66	17.5	0.1	0.3	3.7	-12	1.96	11	-2.1	
	March	1.81	17.5	1.7	0.35	3.7	-15.6	2.16	11	-1.5	
	February	1.04	13.6	-21	0.33	4	-12.2	1.37	9.1	-19.4	
January	1.65	16.9	44.3	0.33	4.4	34	1.99	10.8	42.2		
1998		18.4	17.5	-10.4	4.11	3.9	5	23.51	10.4	-8	
1997		20.54	16.8	7.2	3.91	3.4	28	24.45	10.3	10	
1996		19.15	16.5	7	3.06	3	-1	22.21	10.2	5.8	
1995		17.9	16	22.1	3.09	3	66.3	20.99	9.8	27.1	
1994		14.65	15.7	15.1	1.86	2.2	83	16.51	9.3	20.1	
1993		12.72	14.9	31.3	1.02	1.3	35.9	13.74	8.5	31.6	
1992		9.7	11.9	40	1.12	1.6	-0.6	10.82	7.1	34.2	
1991		6.93	9.1	66.1	1.13	1.8	47.1	8.05	6.8	63.1	

Source: China Economic News Service and Taiwan Ministry of Economic Affairs (MOEA).
Note: MOEA statistics count exports to China as 100 percent of customs reports of exports to "China, mainland" plus 70 percent of exports to Hong Kong.

Table 2. Taiwan-PRC Cross Strait Trade, 1991-1992.

Taiwan's reliance on China to fuel its export economy, therefore, seems far more important to Taiwan than to China, a fact that seems only recently to have dawned on Beijing. Beijing's policy heretofore has generally been to insulate the Taiwan economic and political spheres.

As the Beijing *Financial and Economic Times*' attack on Taiwan businessmen shows, the careful separation of trade and politics broke down after Taiwan president Chen Shui-bian's election. A few days before the *FET* story was published on April 9, Chinese officials were already reported in the Taiwan press to be "increasing pressure on the investment activities of Taiwanese companies which are thought to be backing the pro-independence policy of President-elect Chen Shui-bian of the DPP." These unnamed Beijing officials warned that they may consider excluding companies that back Taiwan independence from cross-strait economic activities. Taiwan's businessmen and women, small, big and world-class alike have too much invested—literally and figuratively—in mainland China to risk it by actively supporting Taiwan independence.

They—not just the four whose photos appeared on the front page of a Chinese newspaper—but hundreds of President Chen's supporters—certainly wield enough influence over Chen to restrain any precipitate and overt move to Taiwan independence—presuming he would want to in the first place. In short, although Chen's presidential term thus far has not been the most predictable, it's probably safe to say he would not want to precipitate the economic collapse that would result if China forced Taiwan companies to shut down their mainland operations.

Beware of Radical Labor.

If Taiwan's "new economy" firms see the mainland as an opportunity for growth and increased competitiveness, its "old economy" manufacturing businesses see it as the only way to survive. Taiwan traditionally has had a characteristically Asian labor market, with unemployment

hovering in the high two percentages, and yet the island's working wages are far higher than most Asian countries, due to a combination of a thriving economy and one of Asia's narrowest income gaps.

If there is a threat to the political status quo in the Taiwan Strait, however, it is that the income gap is widening. Chen's DPP has traditionally put its ethnic-Taiwanese platform before its populism, but now that independence is on the back-burner, the party has been focusing more on its social and environmental agenda—hence the Chen administration's controversial decision to abandon plans to build a nuclear power plant. DPP party literature calls Taiwan's income gap "alarming," noting that the richest 20 percent of the population earns 5.5 times as much as the poorest 20 percent.

Ironically, that disparity is probably narrower than its "communist" neighbor next door—but with thousands of jobs moving off the island and onto the mainland every month, it's not going to get any narrower. Unemployment was as high as 2.7 percent in May and was creeping up at 0.1 percentage point a month to 3.1 percent in October. On November 14, 2000, a coalition of Taiwan labor groups planned to fly to Hong Kong where they would demonstrate outside the Xinhua news service building to protest the exodus of Taiwan jobs across the Strait. The prospect of the independence platform resurfacing under a protectionist, pro-labor guise is certainly plausible.

Conclusion.

While there is a large Taiwan constituency for labor relief and efforts to halt the outflow of manufacturing jobs, there is nevertheless very little political sentiment on the island for a challenge to the status quo that calls Taiwan the "Republic of China." If present trends continue—and there's every indication they will—the outlook for the early part of the 21st century is for ever-increasing Taiwan dependence on China for its economic expansion. This, of course, means

Taiwan's political leadership will be very circumspect in dealing with the touchy topic of "independence."

Of course, there's no need to bring up the "independence" issue at all. Taiwan's formal position is that it's already independent and sovereign, and that's the status quo that has existed since 1949. Taiwan, therefore, has neither need nor desire to change this status quo. China, on the other hand, has declared that "if the Taiwan authorities refuse, *sine die*, the peaceful settlement of cross-Straits reunification through negotiations, then the Chinese government will only be forced to adopt all drastic measures possible, including the use of force, to safeguard China's sovereignty and territorial integrity and fulfill the great cause of reunification."³¹ Strong words. They serve as a warning that if anyone's likely to risk changing the status quo in the Taiwan Strait, it's the People's Republic of China, not Taiwan.

Unfortunately, there's little evidence one way or the other to indicate that the Chinese leadership is reassured by Taiwan's growing "dependence." One would think they'd be ecstatic; that they'd see the trend as pulling Taiwan ever closer into China's orbit. And one would think the reasonable strategy would be to let nature take its course.

But if the February 2000 "White Paper" is to be taken seriously, the Chinese leadership doesn't seem to see it this way. Instead, they focus on the largely hallucinated specter of "Taiwan Independence."

Beijing already has proved itself capable of strong-arming Taiwanese businesses in China into supporting one China. Indeed, the timid protestations from Taiwan firms that they are "neutral" or "don't support Taiwan Independence," or better still, "adhere to one China," reflects that Taiwan firms see political fealty to Beijing as a cost of doing business. But there's a limit to how much influence even these Taiwan firms have on Taiwan's political leadership, and, if further commercial migration to China means ballooning ranks of unemployed in Taiwan,

their leverage would evaporate. So, clearly, Beijing's leverage is limited to "keeping Taiwan from declaring independence"—but the leverage does not extend to being able to "force Taiwan into unification."

Without this leverage, Beijing may look elsewhere for influence over Taiwan. Surely, easing up on a military buildup that explicitly threatens Taiwan would be infinitely effective at speeding up Taiwan's "dependency" trend. But instead, Beijing seems to be pursuing a diametrically opposite tactic. Beijing is spending vast new sums on Russian-made *Sovremenny* destroyers, *SS-N-22* "Sunburn" supersonic missiles, *Sukhoi-30* jet fighters, and the full fearsome panoply of advanced weaponry that is now being deployed with the People's Liberation Army, Navy, and Air Force.

Needless to say, this is a policy direction that seems designed not so much to woo Taiwan into the gently enfolding arms of the motherland, as to placate China's military. Others in this volume will assess whether the Chinese leadership truly intends to use its new armaments against Taiwan—or anyone else. But one can't help but feel that, with all this new equipment, the Chinese PLA will find some way to use it.

ENDNOTES - CHAPTER 4

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CHAPTER 5

THE COSTS OF CHINA'S MILITARY CONFLICT: THE KOREAN AND JAPANESE DIMENSIONS

Taeho Kim*

Would China's nationalist ambitions and economic drive increase a chance for future conflicts in the Taiwan Strait as well as in the supposedly resource-rich disputed areas such as the South China Sea and the Senkaku/Diaoyu Islands? Or would Chinese leaders shelve such disputes—at least temporarily—as China's economic imperative requires a relatively long period of internal and external stability?

This crucial question, which has long puzzled China scholars and strategists worldwide, has taken on new relevance in light of profound and sustained regional uncertainty, China's overall strained relationships with the United States and with Japan throughout the 1990s, and the growing polarization of the broader "rise of China" debate in the media, policy, and academic circles. It thus stands to reason that East Asia's future security and economic trajectories are increasingly tied up with China's current and likely future external behavior.

The answer to the question, however, depends on a host of diverse yet uncertain factors, including domestic developments inside China, its interactions with Taiwan and other claimants, and its relations with other major powers, the so-called "*daguo guanxi*." The ongoing yet inconclusive debate about China's war-proneness,¹ though critical in discerning East Asia's future, is beyond the scope

* The views expressed here are the author's own and do not represent the positions of the KIDA, the Mershon Center, or any other organizations with which the author is affiliated.

of this chapter. Rather, it focuses on a subsidiary issue: What would be the costs of China-initiated conflicts in its relations with the Korean peninsula and with Japan?

More specifically, this chapter attempts to better understand the little-discussed consequences and implications of an armed conflict in the three disputed cases—i.e., the Taiwan Strait, the South China Sea and the Senkaku/Diaoyu Islands—on China's relations with the Republic of Korea (ROK or South Korea) and with Japan. It not only takes stock of the current and likely future evolution of China's relations with those important Northeast Asian neighbors, but also addresses the latter's possible calculus and options.

A long list of caveats, disclaimers, and explicit assumptions should precede an intellectual endeavor of this sort. Most prominent ones include: First, like any objective discussions on disputed territorial and other claims, this one does not support or take sides with the positions of any actual or potential claimants. Nor is it intended to offer possible solutions to the age-old disputes. Second, the timeframe for this chapter is 2001-2010—that is, the current status and likely trend-lines that are discernible as of this writing do not change significantly 10 years down the road. Third, as David Finkelstein's pace-setting chapter in this volume illuminates, this chapter only highlights broad diplomatic and security implications of a major armed conflict—if it ever happens—and does not exhaust its complex and interactive processes, including its military scenarios, its duration, and its degree of intensity. Fourth, in light of severe limitations on the publicly-available literature or data on the topic—both inside and outside China, the analysis that follows should be regarded as tentative and speculative.

Cross-Strait Conflict .

Any major flare-up in the Taiwan Strait is bound to be extremely costly, disastrous, and tragic in terms of not only

the "comprehensive national power" (*zonghe guoli*) of the parties directly involved but also overall stability and prosperity in the region and beyond. In such an eventuality, in particular, the Chinese cost to its relations with Japan and the ROK would be exceedingly high.

Foremost among the negative consequences would be economic. Not only has China's reform and open-door policy since the late 1970s required a cultivation of amicable relations with its Asian neighbors, but the dynamic Asian economy has held growing importance to China's domestic agenda of economic development. As is well known, Japan, South Korea, and Taiwan are not only economic powerhouses but also important sources of capital, technology, and management skills necessary for China's economic development.

Japan remains China's number-one trade partner (\$66.2 billion in 1999 and \$85.8 billion in 2000, respectively) as well as the largest provider of foreign direct investment (FDI), official development aid (ODA) and technological know-how.² These benefits that are necessary for China's longer-term economic development can be withheld or even cancelled outright, as Japan's linkage between the scheduled ODA and China's nuclear test in 1995 amply illustrates.

The economic cost to Sino-ROK relations would be very high as well, as South Korea is now China's third largest trade partner with \$25 billion in 1999 and \$33 billion in 2000, respectively.³ If China's trade volume with South Korea is added up with those with Japan, the United States, and Taiwan (which are China's number one, two, and four trade partners), the economic cost is insurmountable and would irrevocably disrupt its economic development. In such an eventuality, moreover, there are significant noneconomic costs China would have to bear in its relations with South Korea and Japan.

Like most other middle powers around the world, South Korea harbors regional ambitions, especially for a day when

it is unified with the North. Its security mind-set, however, is still predominantly peninsular. Notwithstanding the historic June 2000 inter-Korean summit meeting and a flurry of ensuing diplomatic activities, the ROK's primary security goal remains the same—i.e., to deter a North Korean military threat in an overwhelmingly land-based war and, if deterrence fails, to win a war in a swift and effective manner.⁴ South Korea's peninsular-based, parochial security mind-set, I would argue, has far-reaching implications for its perceptions of, and its possible responses to, the three conflicts under review.

South Korea maintains a certain degree of policy ambiguity on such sensitive issues as a potential armed conflict in the Taiwan Strait, to which it is not a direct party but which cuts across major dimensions of its foreign and security policy. They include the ROK-U.S. alliance, Sino-ROK relations, peninsular stability, and in the longer term the regional posture of a unified Korea. What triggers ROK responses or what are the sufficient conditions for South Korea to take definitive actions is an intriguing yet largely unanswerable question.

In a major armed conflict over the Taiwan Strait the foremost concern for South Korea would be the possible involvement of United States Forces Korea (USFK) in particular and its implications for East Asia's overall security environment. The possibility of close security ties between Beijing and Pyongyang cannot be ruled out, even if the former clearly understands the risks of a two-front war. The accompanying regional instability could in turn necessitate an adjustment in U.S. forward deployment in Asia, higher-level regional militarization, and a strengthened strategic configuration among the United States, Japan, and the ROK against an assertive China.

The South Korean elite, on the other hand, seems to be well aware that it alone carries little weight and few means to influence any contingency in the Taiwan Strait, except joining a diplomatic chorus for a peaceful resolution of the

conflict through dialogue. South Korea's official response to the 1995-96 Taiwan Strait crisis is a case in point, which was passive, restrained, and neutral.⁵ In a major armed conflict involving active U.S. participation, however, it also understands full well that a similar low-profile response could carry a great risk in alliance maintenance.

While South Korea will weigh carefully the grave yet uncertain consequences of its role between the United States and China over a major cross-Strait conflict, it is worthy of note that how best to balance alliance ties with the United States and security cooperation with China would highly likely become its primary security challenge in the foreseeable future. Viewed in this light, a China-provoked armed conflict in the Strait could become an impetus for further consolidating South Korea's "strategic prioritization" with the United States, akin to Japan's decision in the mid-1990s.

Parenthetically, unlike the majority of the American and Japanese public, South Koreans throughout the 1990s and beyond maintained a favorable view of China in general and of its role in Korean peninsular issues in particular, reflecting across-the-board improvement in Sino-ROK relations in the last decade. A major Strait conflict could lead South Korean public perception of China to become closer to that of its elite, which can be summed up as "somewhat negative" toward China and "fairly friendly" toward the United States.⁶

Of longer-term consequence is a sustained confrontation between the regional superpower and the global superpower, which could sharply exacerbate their potential and real differences over a host of peninsular and regional issues, including Korean unification. In particular, China's growing influence over and interdependence with South Korea amid its continuing rivalry with the United States could well make untenable the proposition that both countries can jointly cooperate in resolving a host of concrete policy issues and longer-term questions on the

peninsula. Prominent examples include a North Korean contingency, future status of USFK, the question of weapons of mass destruction (WMD) in North Korea, and the military capability and strategic orientation of a unified Korea.

To Tokyo, the cross-Strait conflict also cuts across several important contexts within which Japan's major domestic and foreign policy debates are conducted: the U.S.-Japan alliance, Japan-China relations, and Japan's steadily growing political profile and security role in the region.

As is well known, the future of China-Japan relations will have a profound impact on post-Cold War East Asia's economic and political order. Japan and China embody the world's second and, by purchasing power parity (PPP)-based calculations, third largest economies, respectively, and wield growing political clout in regional affairs. In terms of future regional stability, what is perhaps more significant is whether the two major regional powers will develop a relationship that is either strong and cooperative or weak and confrontational in the years ahead. Of equal importance is the diverse yet uncertain impact of this evolving relationship on the future of East Asian security, particularly in light of the absence of the unifying Soviet threat and a continued U.S. policy dilemma vis-à-vis Japan and China.⁷

Despite their huge and growing stakes in maintaining an amicable relationship, however, China-Japan relations will remain a difficult and often tense one. The persistence of their traditional rivalry and historical distrust over time suggests that these attitudes may have more to do with deeply ingrained cultural, historical, and perceptual factors than with the dictates of economic cooperation or a shared interest in regional stability that would be mutually beneficial.

As befits their traditional rivalry for regional influence and as the present-day two most powerful East Asian

states, Japan and China have a quite broad range of bilateral concerns with each other. Additionally, China's security concerns with Japan are linked up with what Chinese call U.S. regional "hegemonic" behavior—that is, the strengthened U.S.-Japan alliance, their joint development of the Theater Missile Defense (TMD) system, and, most seriously, continued U.S. weapon sales to Taiwan.⁸

Particularly worrisome to the Chinese leadership is any possible connection between the strengthened U.S.-Japan alliance and the Taiwan question, running the whole gamut of the controversies over the scope of regional contingencies in "areas surrounding Japan," TMD, and Taipei's overall relations with Washington and Tokyo. A Taiwan Strait conflict is also directly related to the ongoing debate on Japan's regional security role. At issue is a definitional shift in Japan's defense contribution from the "defense of the Far East" (Article Six of the U.S.-Japan Mutual Security Treaty) to the "areas surrounding Japan," as stipulated in the November 1995 National Defense Program Outline (NDPO) and reconfirmed in the April 1996 U.S.-Japan Joint Declaration on Security and the September 1997 Review of the Guideline for U.S.-Japan Defense Cooperation (the "new Guideline").

China has adamantly opposed the revised Guideline—for its possibility of U.S.-Japan collaboration in a Taiwan crisis and of Japanese militarism.⁹ A major armed confrontation over the Taiwan Strait involving United States forces could lead to a further redefinition of U.S.-Japanese security relations in the years ahead—a step the United States and Japan took in early 1998 to meet the requirements of the new Guideline. Implicit in the new Guideline is enhanced collaboration between U.S.-allied Japan and South Korea in a contingency, thus opening up the possibility that the ROK could be at least indirectly involved in a cross-Strait conflict.¹⁰

Finally, in a major flare-up involving both China and the United States, the ultimate question for Tokyo boils down to this: Does Japan have any real alternative other than to take sides with the United States? Japan's constitutional constraints, regional suspicions of Japan's active participation in regional military issues, as well as its domestic political considerations, will surely put a severe limit on Japan's direct military involvement. But the opposite is a nonstarter and could seriously impair the alliance with the United States—a prospect that Japan cannot afford, now or in the foreseeable future.¹¹

Conflict in the South China Sea.

Unlike the essentially two-party cross-Strait conflict, which posits an attack on Taiwan itself, a People's Republic of China (PRC)-initiated military crisis in the multilateral maritime dispute in the South China Sea could trigger broader—if less intense than the Taiwan case—consequences in the region and beyond. First, China's use of force against one or more disputed territories occupied by other claimants, not just low-profile armed displacement, would likely galvanize Association of Southeast Asian Nations (ASEAN) unity. Second, it would also precipitate the internationalization of the dispute and U.S. involvement, especially if it seriously obstructs freedom of navigation. Furthermore, any disruptions in navigation through the Sea Lines of Communication (SLOCs) would have a ripple effect throughout the regional (and Chinese) economies, which are an integral part of the world economy. These and other considerations, including lingering doubts over the PLA's long reach and sustainability, militate against the military resolution of the conflicting claims, even if a viable peaceful solution is not in sight either.¹²

The economic costs China has to bear will also be severe. In addition to its vast economic ties with China, Japan remains the number one creditor nation in Southeast Asia and is heavily dependent on shipborne trade and oil imports

that pass through the major SLOCs in the South China Sea. Japan's high stakes in free passage, like those of the United States, would most likely force Japan to take punitive economic sanctions against China to a degree that has not been seen before. In all likelihood, Japan's step-by-step and sequential reaction to Chinese provocation, in conjunction with the United States and other states involved, would be a heavy blow against China's national interests.

Moreover, China's armed provocation not only could unwittingly provide Japan with a cause for its expanded security role in the region with impunity, but it may also invoke a nightmarish tightening of the U.S.-Japan alliance vis-à-vis China—a Damocles' sword in Chinese eyes. It may eventually end the ongoing yet inconclusive domestic debate in Japan about its defense objectives and security role so that the containment of China will become a focus of its individual or joint efforts with the United States.

On the other hand, while South Korea would likely join a diplomatic united front with the United States, Japan, and other claimants for a peaceful and early resolution of the dispute—especially during the early phase of the conflict, it is hard to imagine a major conflict in the remote South China Sea having a direct bearing on its national security. For South Korea, its consequences would largely be an economic loss generated from disruptions in oil imports and seaborne trade, on which it almost totally depends. For these and other reasons, while South Korea can play no major role in the conflict's initial phase, it also understands full well the grave consequences of disruption in oil imports and seaborne trade. South Korea's economic security and its limited influence on the resolution of a South China Sea contingency strongly calls for multilateral collaboration with ASEAN, China, Japan, and the United States.

Its still peninsula-based security mind-set, however, could be seriously tested if and when a South China Sea conflict invokes the employment of U.S. forward-based military power in Asia which, like the cross-Strait case,

raises the possibility of a North Korean adventure. While the level of U.S. commitment is a critical variable affecting the involved countries' behavior, including South Korea's, a Sino-U.S. confrontation would doubtless make it extremely difficult for Seoul to remain neutral or to balance the allied relationship with Washington and the growing ties with Beijing.

Still, the South Korean public perception of the South China Sea—i.e., a strategically important yet geographically and psychologically distant place—remains an unknown variable. If such a detached mind-set continues to prevail in South Korea, its commitment to the resolution of a South China Sea conflict would be considerably lower than in the case of the Taiwan Strait. In nearly zero-sum terms, the overall costs China has to bear will be considerably less if allied unity is maintained at a less-than-optimal level.

Conflict over the Senkaku/Diaoyu Islands.¹³

Direct parties to any major armed conflict over the Senkakus/Diaoyus will be China and Japan, as Taiwan, the other claimant, is not in a position to take sides with either China or Japan. While the prospects for the use of force by either side seem low (and there has been no precedent), the possibility for a potential conflict could grow in the future, as the frequency and the area of the PLAN's operations have increased. In recent years, moreover, the activities of China's intelligence-gathering ships within and near the Japanese Exclusive Economic Zone (EEZ) have sharply increased from a mere four in 1997 to 16 in 1998 to 33 in 1999. As of September 10, 2000, 24 such sightings were reported.¹⁴ Additionally, the number of Chinese "warships" passing through the international waters in the East Sea (Sea of Japan), which is situated east of the Korean peninsula, has shot up from an average twice per year to seven cases involving 31 ships during the first half of 2000.¹⁵ For its part, Japan also has increasingly dispatched coastguard vessels to enforce the new fishery agreement

with China and to fight pirate attacks in the East China Sea.

As Japan is directly involved in the dispute, strategic and economic costs to the Sino-Japanese relationship could be as severe and consequential as those in the Taiwan Strait or in the South China Sea, if Japan chooses to take this course of action.

Recent developments inside and outside Japan, including the growing strength of “right-wing,” hard-line politicians, anti-piracy activities by its coastguard vessels, and its planned acquisition of indigenous military capabilities, point to the costly consequences of any future confrontation between Beijing and Tokyo.

In a minor confrontation between China and Japan over the Senkakus/Diaoyus, South Korea as a nonclaimant would mostly likely distance itself from the dispute. The United States, as a general rule, also does not support any individual claims on territorial disputes. Even in an unlikely event that the United States-Japan alliance is invoked, it is inconceivable that South Korea will be asked to play a substantial role in such a contingency.

South Korea, however, has long been watchful of developments over those tiny islands for a different reason—the future of the Senkakus/Diaoyus may offer a clue to Tokdo/Takeshima in the East Sea (Sea of Japan), which is claimed by both South Korea and Japan. South Korea is also concerned with observance of the EEZ, the median line, and the fishery and other bilateral maritime agreements negotiated and ratified separately among China, Japan, and itself during the latter half of the 1990s.¹⁶

Questions for Further Consideration.

In light of the devastatingly negative consequences of China’s use of force discussed in this and other chapters in the volume, it stands to reason that Chinese leaders would

most probably shy away from taking such an adventurous course of action for years to come. It is also obvious that China-initiated conflicts in any of the three cases under review would have a far-reaching negative effect on its relationships with Taiwan, ASEAN, Japan, and South Korea—let alone the one with the United States. Viewed in this light, fairly low-intensity, short-duration operations are by far safer and more reasonable courses of action if the current and future Chinese leadership ever attempts to do so.

As is the case with Japan and South Korea, regional perceptions of and reactions to China's diplomatic and military behavior will not be uniform. Each regional actor's relations with China are shaped by a wide array of factors, including geographical proximity, historical and cultural inheritance, territorial disputes, and economic relations. Moreover, their strategic calculus has often been significantly influenced by their respective security relations with the United States, which is also the single most important external factor restraining China's behavior.

If the purpose of analyzing the "Costs of Conflict" is to better understand their horrible consequences and to prevent such an eventuality from occurring, it is necessary to note how best to get the messages across among the parties involved, including China. First and foremost is the U.S. determination for a peaceful resolution of the disputes. Credible and demonstrated U.S. commitment, backed by its military presence and bilateral alliances, is a must in preventing unilateral acts of hostility from occurring. U.S. neutral stance on disputed territorial claims is appropriate; yet its principles on a peaceful settlement of disputes and on the freedom of navigation need further clarification—e.g., a set of shared norms and understandings rather than the specification of potential triggers.¹⁷

Finally, it is important to recall that a peaceful settlement of disputes is first and foremost the

responsibility of the direct parties to the disputes. While the United States role and commitment remains essential, other states should also bear the responsibility for a peaceful resolution of individual disputes in their respective areas of concern. U.S. allies, in particular, should be able to prepare for security and military support in a future contingency. A shared understanding of the conflict's horrendous costs throughout the region should not only reduce the chance for conflict but also guide the United States-Asia relationship in the new millenium.

ENDNOTES - CHAPTER 5

1. Over the years, Alastair Iain Johnston has made a significant contribution to the debate over the sources of China's external behavior, including its war-proneness. See his *Cultural Realism: Strategic Culture and Grand Strategy in Chinese History*, Princeton: Princeton University Press, 1995; "Cultural Realism and Strategy in Maoist China," in Peter J. Katzenstein, ed., *The Culture of National Security: Norms and Identity in World Politics*, New York: Columbia University Press, 1996, pp. 216-68; and "China's Militarized Interstate Dispute Behaviour 1949-1992: A First Cut at the Data," *China Quarterly*, No. 153, March 1998, pp. 1-30. Other major works include Michael D. Swaine and Ashley J. Tellis, *Interpreting China's Grand Strategy: Past, Present, and Future*, Santa Monica: RAND Corporation, 2000, especially pp. 21-95; Erica Strecker Downs and Phillip C. Saunders, "Legitimacy and the Limits of Nationalism: China and the Diaoyu Islands," *International Security*, Vol. 23, No. 3, Winter 1998/99, pp. 114-46; Mark Burles and Abram N. Shulsky, *Patterns in China's Use of Force: Evidence from History and Doctrinal Writings*, Santa Monica: RAND Corporation, 2000.

2. *Beijing Review*, April 3, 2000, p. 30; *Dong-a Ilbo*, Seoul, February 23, 2001, p. A10.

3. *Beijing Review*, April 3, 2000, p. 30; and PRC Customs data. The ROK Ministry of Foreign Affairs and Trade data for 1999 and 2000, respectively, were \$22.6 billion and \$31.4 billion, reflecting minor discrepancies over balance-of-trade calculations.

4. Notwithstanding a recent series of policy initiatives on the Korean peninsula since the landmark inter-Korean summit in June 2000, the ROK has repeatedly confirmed that the primary source for its

security concern remains North Korea. See *The ROK Defense White Paper 2000*, Seoul: The ROK Ministry of National Defense, 2001.

5. See, for example, *Chosun Ilbo*, Seoul, March 11, 1996, p. 3.

6. Public opinion surveys conducted after the Korean summit have shown a continuation of similar perceptions on the part of the South Korean public. According to *Joong Ang Ilbo*, the respondents believed that the country which would be most helpful in Korean unification is China (30 percent) followed by the United States (26.5 percent) and Japan (14.1 percent). For the country least supportive of Korean unification, the respondents selected Japan (39.3 percent), the United States (28.1 percent), and China (9.2 percent). In brief, throughout the 1990s and beyond, the South Korea public maintained a favorable view of China in its role on Korean peninsular issues. See *JoongAng Ilbo*, August 14, 2000, p. 10, at www.joins.com.

7. One of the principal foreign-policy challenges for the United States in the 1990s has been to provide China with tacit recognition for its rising status and importance and to assuage its deep-seated suspicion that the post-Cold War U.S.-Japan alliance is targeted at China, while at the same time offering security commitment and credibility to Japan by strengthening alliance relationship with the latter. See Banning Garrett and Bonnie Glaser, "Chinese Apprehensions about Revitalizing of the U.S.-Japan Alliance," *Asian Survey*, April 1997, pp. 383-402; Xiaoxiong Yi, "China's U.S. Policy Conundrum in the 1990s: Balancing Autonomy and Interdependency," *Asian Survey*, August 1994, pp. 675-91.

8. Recent examples include *Ershiyi shiji Zhongguo zhanlue da cehua: waijiao molue* (*China's Strategic Grand Plan in the 21st Century: Diplomatic Stratagem*), Xi Laiwang, ed., Beijing: Hongqi chubanshe, 1996, pp. 133-44; Lu Guangyue, "The Impact of Reinforcement of Japan-U.S. Military Alliance on the Asia-Pacific Security and World Peace," *International Strategic Studies*, Serial No. 53, 1999, pp. 21-24; Zhao Dawei, "*Riben junshi anquan zhanlue ji qi qianjing*" ("Japan's Military and Security Strategy and Its Prospects"), *Guoji Wenti Yanjiu* (*International Studies*), No. 2, 1999, pp. 49-54.

9. For the Chinese critique on U.S.-Japan security ties and especially the new Guideline, see "Cadres Voice Concern over U.S.-Japan Ties," *South China Morning Post*, September 6, 1997, p. 9; Liang Ming and Ding Zengyi, "How Can One Win the Trust of Others by Shifting His Troubles Onto Others," *Jiefangjun Bao*, May 18, 1998, p. 5, in *FBIS-CHI*, June 2, 1998; Robert Karniol, "Japan Promotes Regional Security with U.S. Accord," *Jane's Defence Weekly*, October 1, 1997, p.

15; "Hashimoto Warned on Scope of Security Plans," *South China Morning Post*, September 5, 1997, p. 10; Steven Lee Myers, "Risking China's Wrath, U.S. and Japan Bolster Military Ties," *New York Times*, September 24, 1997, p. A7.

10. This is a broad yet implicit understanding of the new Guideline that the United States, Japan, and the ROK may not openly acknowledge.

11. Michael H. Armacost, *Asian Alliances and American Politics*, Stanford: Asia/Pacific Research Center, Stanford University Discussion Papers, February 1999.

12. An excellent exposition on regional implications of a PRC-initiated conflict in the South China Sea is available. See *Security Implications of Conflict in the South China Sea*, Ralph A. Cossa, ed., Honolulu: Pacific Forum/CSIS, June 1996).

13. Like any other disputed territories, the place in question is called differently by the claimants. It is called *Senkaku* by Japanese, *Diaoyudao* by Chinese, and *Diaoyutai* by Taiwanese.

14. See Robert Karniol, "More 'Spy Boats' Enter Japan's EEZ," *Jane's Defence Weekly*, September 20, 2000; Mohan Malik, "Japan Wary of Assertive China," *Jane's Intelligence Review*, December 2000, pp. 22-25.

15. *Hankook Ilbo*, Seoul, June 5, 2000, p. 12. On May 24, 2000, a Chinese intelligence-gathering ship passed through the Tsugaru Strait that abuts Hokkaido for the first time.

16. See *FBIS-CHI*, May 30, 2000.

17. For a set of nuanced and well-reasoned U.S. policy prescriptions, see Cossa, *Security Implications of Conflict in the South China Sea*; Ronald N. Montaperto, James J. Przystup, and Gerald W. Faber, "'One China' and Relations Across the Taiwan Strait," *Strategic Forum*, No. 173, September 2000, pp. 1-4. For an excellent argument on the continuing validity of a web of U.S. bilateral alliances in Asia, see *America's Asian Alliances*, Robert D. Blackwill and Paul Dibb, eds., Cambridge: Harvard University Press, 2000).

CHAPTER 6

THE IMPACT OF A CONFLICT ON CHINA'S RELATIONS WITH SOUTHEAST ASIA AND AUSTRALIA

Carlyle A. Thayer*

Frankly, I think China wants to take over Asia.

Philippine President Joseph Estrada.¹

Introduction.

The purpose of this chapter is to assess the impact of a conflict on China's relations with the states of Southeast Asia and Australia. The most likely scenarios for conflict involve China and Taiwan, China and Southeast Asian claimants to territory in the South China Sea, and China and its land neighbors Vietnam, Burma, and Laos. These scenarios are discussed in the final section.

In the aftermath of the informal summit of the Association of South East Asian Nations (ASEAN) in Singapore and the meeting of the ASEAN Plus Three (China, Japan, and South Korea) held in November 2000, it would appear that China is walking triumphantly on Southeast Asia's diplomatic stage.² China's relations with regional states are probably at an all time high.³ Since early 1999, for example, China has negotiated long-term

*The views expressed in this chapter are those of the author and do not necessarily reflect the official policy or position of the Asia-Pacific Center for Security Studies, Department of the Army, the Department of Defense, or the U.S. Government. The author would like to thank Herman Finley for exchanging ideas with him during the preparation of this paper.

cooperation agreements with all ten of Southeast Asia's states. China is presently negotiating a code of conduct for the South China Sea with ASEAN representatives. Sino-Australian relations equally may be characterized as very good despite Chinese misgivings about Australia's possible participation in ballistic missile defense research.

Historical evidence suggests that over the last 50 years Chinese leaders have been consistent in the use of force to secure their interests. A recent quantitative survey of militarized interstate dispute data for China indicates Chinese resort to force on no less than 118 cases between 1949-92.⁴ Further, as Feigenbaum has argued, "virtually all evidence suggests that three motivations . . . have driven China's post-1949 use of force: sovereignty claims over major territories; border disputes; and strategic considerations connected to the East Asian balance of power."⁵

The central assumption of this chapter is that conflict between China and Southeast Asia is less likely than conflict between China and Taiwan. Southeast Asia's dilemma in the face of this possibility was aptly summarized by a Singaporean official in the following words: "(i)f either one is damaged, Singapore [read Southeast Asia-ed.] will suffer a loss; if both are damaged, its loss will be doubled."⁶

Conflict between China and Taiwan could flare up at any moment. In July 1999, for example, China reacted to the statement by Taiwan's President that the two should deal with each other on a "state-to-state" level by conducting military exercises in Fujian province and by directing Chinese fighters to fly close to the "centerline" in the straits. This led one analyst to conclude, "(t)he risk of an accidental or deliberate military clash between China and Taiwan is higher than at any time since March 1996."⁷ Since then China has continued to conduct large-scale military exercises, including simulated amphibious landings, in an effort to keep up its pressure on Taiwan.⁸ Most recently,

Zhang Wannian, Vice Chairman of the Central Military Commission, declared: "(d)uring the period of the 10th five-year plan, it is certain that war will break out in the Taiwan strait."⁹

There are other factors operating which raise the probability of conflict between China and Taiwan. A recent study of "enduring rivalries" concluded "(r)esearch shows that roughly half of the militarized disputes in the international system take place among enduring rivalries."¹⁰ According to this study four sets of results appear relevant to the China-Taiwan relationship:

1. Disputes over territory are more difficult to resolve peacefully and more likely to result in military conflict.

2. Societies undergoing political transformation are more prone to engage in conflict.

3. Under conditions of perceptual uncertainty, enduring rivalries will be prolonged; outbreaks of conflict will be more likely.

4. Enduring rivalries experiencing military build-ups are more prone to outbreaks of conflict.

The China-Taiwan relationship was classified by Job, Laliberté, and Wallace as an "enduring rivalry." After examining two major factors—perceptual uncertainty and the military build-up—the authors concluded:

In two critical respects the contemporary PRC-ROC [People's Republic of China-Republic of China-ed.] rivalry exhibits symptoms common to situations that carry a higher risk of outbreak of conflict. Uncertainty prevails in that for both sides "holding tough" on Taiwan Strait issues is important for leaders seeking to sustain prestige with their domestic audiences. There remain ample opportunity for factional infighting in both capitals and thus for the pathologies caused by misperception within and between both the PRC and ROC. Added to this potentially volatile situation are the exigencies posed by the fact that the PRC publicly retains the option to use force in its dealings with the ROC. Both sides, in preparing

for this possibility, have acquired a panoply of high-tech weaponry, which recent history demonstrates has a self-fulfilling quality to it. That is, even in the hands of highly trained forces, the availability of such weapons promotes their intentional or inadvertent usage, with dangerous consequences.¹¹

Before discussing conflict scenarios and the costs of conflict on China's relations with Southeast Asia and Australia, this chapter first provides a brief overview of China's relations with Southeast Asia and Australia.

China and Southeast Asia.

Historically, China's relations with Southeast Asia have been bedeviled by Beijing's support for communist insurgents. An improvement in relations was only possible once China terminated its assistance.¹² During the late 1970s and 1980s China and Southeast Asia shared two major goals in common: economic growth and containing Soviet power. China-ASEAN relations grew particularly close during the decade 1979-89 when both parties shared the strategic objective of opposing Soviet-backed Vietnamese hegemony in Cambodia. Although the end of the Cold War diminished the salience of this factor in the relationship, China's economic growth and potential to emerge as a major regional power predisposed Southeast Asia's states to enhance their cooperation with China.

China's remarkable economic growth from the late 1970s resulted in a new activism in China's approach to Southeast Asia. This was welcomed in the region. According to one analyst, "economics is most assuredly the driving force of the relationship."¹³ Both sides—China and ASEAN—stand to benefit from growing trade and investment linkages. Taken as a group, Southeast Asia's states represent a formidable economic bloc. In 1995, for example, the total GDP (as measured by purchasing power parity) of nine ASEAN states (minus Cambodia) was estimated at about U.S.\$1,600 billion or about 60 percent of

Japan's GDP. That same year ASEAN's foreign trade totaled U.S.\$636.6 billion, about ten times that of India and 82 percent of Japan's. ASEAN was ranked the fourth largest trading unit in the world.¹⁴

China's relations with Southeast Asia improved in the 1980s and 1990s. Malaysian Prime Minister Mahathir visited Beijing in November 1985. That same year the Chinese Foreign Minister visited Indonesia and negotiated a resumption in direct trade. Premier Li Peng visited Thailand in November 1988. The Tiananmen massacre of June 1989 was an important turning point. ASEAN members either muted their criticism or refrained from criticizing China, considering the event an internal affair. China, isolated by western reaction, turned its attention south. In August 1990, China normalized relations with Indonesia and then established diplomatic relations with Singapore 2 months later. In July 1991, Chinese Foreign Minister Qian Qichen attended the opening session of the 24th ASEAN Ministerial Meeting as a guest of Malaysia, the host. Sino-Vietnamese relations were normalized in late 1991, and Vietnam Communist Party Secretary General Do Muoi visited Beijing in November 1995. China became a full dialogue partner in the ASEAN Post-Ministerial Conference in July 1996.¹⁵

For China, the 1990s were seen as a transitional period from the bipolarity of the Cold War to multipolarity. The end of the Cold War meant that the U.S.-Soviet Union-China strategic triangle dissolved. According to one writer, "(t)he Chinese leadership hopes that the emergence of regional powers and regional organizations in the developing world will help to bring about a multipolarity from the traditional one dominated by a small number of major powers."¹⁶ Some Chinese analysts consider ASEAN one of the poles in a multipolar system. China supported the creation of the ASEAN Regional Forum (ARF) in 1994. And in 1995, China supported Vietnam's membership in ASEAN, and the membership of Laos and Burma in 1997. The Cambodian domestic upheaval of 1997-98 witnessed a

change of Chinese policy from supporter of the Khmer Rouge to a backer of the Hun Sen government. During the Asian Financial Crisis of 1997-98, China earned much political capital by the support it gave Southeast Asia's beleaguered economies. China not only refrained from devaluing its currency, the *renminbi*, but it offered one billion U.S. dollars in assistance to Thailand and provided monetary support to Indonesia. At the December 1997 informal ASEAN Plus Three Summit, President Jiang Zemin pledged 46 billion U.S. dollars to the International Monetary Fund's program to support Southeast Asia's economic recovery.

Chinese concerns were aroused by anti-Chinese rioting in Indonesia in May 1998. This irritant in bilateral relations was immediately addressed by President Wahid upon coming to office. He made his first official overseas trip to China and gave assurances that Indonesia's ethnic Chinese community would be protected. He also sought to encourage the return of overseas Chinese investment that fled Indonesia following the turmoil associated with the downfall of President Suharto. In contrast, Indonesia's relations with the United States have become strained due to U.S. advocacy of human rights and accountability in cases where human rights have been grossly violated. Indonesian Minister of Defense, Mohammad Mahfud, no doubt exasperated by the position his country found itself in, has stated:

(i)f Indonesia, India, China and Japan unite to set up a joint defense pact, the U.S. would be limp. The U.S. can be arrogant but I'm considering cooperation with other countries . . . As a sovereign country, Indonesia should find other alternatives. We don't want to be continuously pressured by the U.S.¹⁷

Trade between China and ASEAN has expanded steadily. It increased from U.S.\$14.29 billion in 1994 to U.S.\$25.04 billion in 1997 to U.S.\$31.96 billion in the first 10 months of 2000, a 47.9 percent increase over the same period the previous year.¹⁸ China's exports to Southeast

Asia increased 20 percent during the first 10 months of 2000.¹⁹ But ASEAN's share of total Chinese trade has remained modest, 6.04 percent in 1994 and only 7.7 percent in 1997. Nonetheless, ASEAN ranks fifth among China's top ten trade partners, coming after the United States, Hong Kong, Japan, and the European Union, and before South Korea, Taiwan, Australia, Canada, and Russia.²⁰

Southeast Asia is also an important source of foreign investment for China (see Table 1). Investment from the region rose from U.S.\$1.21 billion in 1993 to U.S.\$3.62 billion in 1997. These figures probably understate the total, as they do not take into account overseas Chinese investment channeled through Hong Kong. Over three-fourths of ASEAN's officially recorded investment comes from Singapore, which is one of the largest investors in China. The Singapore government has a major commitment to developing a new industrial park in Suzhou city, for example.

But China also competes with Southeast Asia for investment, trade, loans, and aid. This is set within the wider pattern of "competition and interdependency among Japan, the East Asian NIEs [Newly Industrializing Economies-ed.], and the ASEAN states."²¹ A recent report commissioned by ASEAN revealed that in 2000, 61 percent of foreign direct investment flows into emerging Asian economies went to China and only 17 percent to ASEAN states. These figures point to a major reversal of trends a decade ago and diversion of investment away from ASEAN.²²

ASEAN members are particularly apprehensive about China's impending entry into the World Trade Organization (WTO). They fear that China's low-cost industries, such as textiles and toys, will displace ASEAN goods in overseas markets. Premier Zhu Rongji, attempted to assuage these fears during a visit to Singapore: "(t)here will be definite competition. But there will definitely be no threat . . . China's entry into WTO will definitely be

Country	1993	1994	1995	1996	1997
Burma	664	289	-	58	268
Indonesia	6,575	11,570	11,163	9,354	7,998
Laos	-	-	-	15	39
Malaysia	9,142	20,099	25,900	45,995	38,183
Philippines	12,250	14,040	10,578	5,551	15,563
Singapore	67,480	117,961	186,061	224,716	280,696
Thailand	23,437	23,487	28,824	32,818	19,400
Vietnam	1,161	1,849	2,830	145	154
ASEAN	120,709	189,295	265,356	318,652	362,301
ASEAN as a % of China's Total	3.10%	4.38%	5.51%	5.81%	5.63%

Source: Joseph Y.S. Cheng, "China's ASEAN Policy in the 1990's: Pushing for Regional Multipolarity," *Contemporary Southeast Asia*, Vol. 21, No. 2, August 1999, p. 195, based on State Statistical Bureau, compiler, *China Statistical Yearbook*, Beijing: China Statistical Publishing House, 1995-1998. Data on investments from Laos for 1993-95 and Brunei are not available. Cambodia joined ASEAN in April 1999.

Table 1. ASEAN's Investments in China, 1993-97
(in U.S. \$10,000)

beneficial to Asian countries. We would rather not join the WTO if we were a threat."²³ From early 1999 China has negotiated long-term cooperation framework agreements with all ten of Southeast Asia's states. China supports both the Asia-Europe Meeting (ASEM) and ASEAN Plus Three processes. Premier Zhu Rongji supported a free trade area between ASEAN and China and endorsed the proposal for an East Asian Forum as "a good idea," at the November 2000 ASEAN Plus Three meeting in Singapore.²⁴ Premier Zhu also expressed China's interest in developing the transportation infrastructure of the Mekong River basin

including navigation along the Lancang-Mekong river,²⁵ the Lao section of the Bangkok-Kunming highway, the Trans-Asian Highway, and the Trans-Asia Railway.

Taiwan and Southeast Asia.

Economic relations between Taiwan and Southeast Asia have grown noticeably since 1987. ASEAN states improved their unofficial relations with Taipei in response to Taiwan's increased trade and investment activities. In November 1993, at the Asia Pacific Economic Cooperation (APEC) Summit, Taiwan announced its "southward policy" towards Southeast Asia. The next year Premier Lien Chan paid vacation visits to Singapore and Malaysia; he was followed by President Lee Teng-hui who visited the Philippines, Indonesia, and Thailand. At the same time, Taiwan's Executive Yuan approved the "Operation Outline for Strengthening Economic and Trading Relations with Southeast Asia." This policy document contained four objectives: to expand trade and investment relations; to reduce trade dependence on mainland China by establishing production bases in Southeast Asia; to promote economic prosperity of the region; and to participate in the activities of international economic organizations in Southeast Asia.²⁶

Under its southward policy, Taiwan encouraged its business community to invest in Southeast Asia.²⁷ By mid-1995 Taiwanese cumulative investment in ASEAN reached U.S.\$25 billion. Taiwanese investment is concentrated in labor-intensive industries such as textiles, paper and printing, metals, minerals, and electronic appliances. Figures in Table 2 indicate that, starting in 1989, Malaysia overtook the Philippines and became the prime beneficiary of Taiwanese investment. In 1990 Taiwanese investment in the region increased noticeably, but in 1991-92 in the cases of the Philippines, Singapore, and, to a lesser extent, Thailand, declined. This fall off was due to a change in Taipei's investment policy that

authorized indirect investments in China. Taiwanese investments then diverted to the mainland as a consequence.

Year	Singapore	Philippines	Indonesia	Thailand	Malaysia	Vietnam
1988	6,433	36,212	1,923	11,886	1,708	na
1989	5,109	66,312	311	51,604	158,646	na
1990	47,611	123,607	61,817	149,397	184,885	na
1991	12,540	1,315	160,341	86,430	442,011	127,139
1992	8,790	1,219	39,930	83,293	155,727	20,167
1993	69,473	6,536	25,531	109,165	64,452	158,396
1994	100,732	9,600	20,571	57,323	101,127	108,378
1995	31,649	35,724	32,067	51,210	67,302	108,146
1996	164,978	74,252	82,612	71,413	93,534	100,479
1997	230,310	127,022	55,861	57,546	85,088	85,414
1998	158,176	38,777	19,541	131,186	19,736	110,078
1988-98	835,912	520,576	500,505	860,453	1,375,216	708,197

Source: Adapted from Samuel C. Y. Ku, "The Political Economy of Taiwan's Relations with Vietnam," *Contemporary Southeast Asia*, Vol. 21, No. 3, December 1999, p. 412. Ku relied on Ministry of Economic Affairs, *Statistics on Outward Investment, Technical Co-operation, Outward Technical Co-operation and Indirect Mainland Investment*, Taipei: Investment Commission, Ministry of Economic Affairs, 1998.

Table 2. Taiwan's Investments in Southeast Asia, 1988-98 (in thousand U.S. \$)

An evaluation of Taiwan's southward policy indicates mixed results. As Samuel Ku has demonstrated, there are three factors that account for this.²⁸ First, ASEAN states are dissatisfied with the level of economic resources provided by Taiwan. Second, Taiwanese assistance and influence has been offset by mainland China.²⁹ Third, the role of Taiwan's private entrepreneurs has been disappointing. Taiwan has also not met its political objective of raising

its representation in international organizations. Taiwan was not accorded dialogue status by ASEAN nor was Taiwan admitted into the ASEAN Regional Forum. In brief, ASEAN members have held firm to their one-China policy.

Taiwan-Malaysia relations are particularly strong. In terms of trade, Taiwan is Malaysia's fourth largest partner after Japan, Singapore, and the United States. In 1997 two-way trade amounted to U.S.\$7.3 billion. In March 1998 Vice President Lien Chan made a private visit to Malaysia, a month later he was followed by Premier Vincent Siew who offered to facilitate guarantees by Taiwan's private banks for bonds issued by Southeast Asian governments in response to the financial crisis. At this time Malaysia offered to serve as host for China-Taiwan talks on reunification. At the Asia-Pacific Economic Cooperation (APEC) Summit held in Kuala Lumpur in November, Taiwan offered to invest U.S.\$930 million in ASEAN countries. In November 2000, Taiwan and Malaysia held the 13th annual ministerial-level economic conference.³⁰

Chinese Defense Modernization and the South China Sea.

Chinese naval modernization has raised regional concerns and may have contributed to regional force modernization efforts.³¹ According to Derek da Cunha,

Southeast Asian observers [are] alarmed at the prospect of a more visible presence by the Chinese navy in the South China Sea . . . Individually, none of the ASEAN states has the military capability that could successfully oppose a determined Chinese advance into the South China Sea and they are unlikely to have such a capability in the foreseeable future. Consequently, there is a real but silent fear in Southeast Asia attached to the directions in the PLA's [People's Liberation Army-ed.] modernization programs and its operational doctrine.³²

The PLA "is inflexible toward territorial disputes in the South China Sea, and by extension, it is suspicious of

ASEAN's attitudes toward Taiwan."³³ But the "China threat" has not been the main driver of Southeast Asian force modernization efforts.³⁴

According to Jianxiang Bi,

(c)ollective security arrangements remain elusive in East and Southeast Asia, despite the threat that Chinese joint operations pose to security and prosperity. Regional powers have agreed to disagree on forms of security arrangements and priorities to be adopted.³⁵

ASEAN is not a military alliance or a collective security agreement. ASEAN members cooperate in such areas as: intelligence sharing, counter-insurgency, piracy, drug trafficking, smuggling, and illegal migration. They hold a number of bilateral military exercises. But ASEAN is not a unified bloc. China has military ties with Burma. Since the early 1990s there have been persistent reports of increased Chinese military contacts with Burma. In 1992 it was reported that China had supplied U.S.\$1.5 billion in military arms and equipment to Yangon (Rangoon) including fighter aircraft, patrol boats, artillery, tanks, anti-aircraft guns, missiles, and other weapons.³⁶ China is reportedly involved in constructing a base for the Burmese navy on Hianggyik Island and a radar station on Coco island. Analysts speculate that the Chinese People's Liberation Army has established signals intelligence facilities at both places. There is also speculation about whether the PLA Navy will deploy from bases in Burma into the Indian Ocean and Andaman Sea. In contrast, Singapore sends its soldiers to Taiwan for training exercises. Singapore is also a strong supporter of the U.S. military presence in the region and has provided access to U.S. warships at its Changi naval base. The United States has alliance relations with Thailand and the Philippines. The United States and the Philippines have negotiated a Visiting Forces Agreement and conducted small-scale joint exercises.

In February 1995 Philippines reconnaissance aircraft discovered that China had occupied and built what appeared to be quasi-military structures on Mischief Reef in the South China Sea. This marked the first occasion that China had confronted a member of ASEAN so openly in this area. Previous Chinese incursions into the South China Sea—January 1974, March 1988, and 1992—were directed at Vietnam.³⁷ Chinese actions provoked ASEAN members to adopt a unified stance at Sino-ASEAN discussions at the senior official level held in Hangzhou in March 1995. This unprecedented action prompted a more conciliatory Chinese response at the August 1995 meeting of the ARF in Brunei. There, China indicated for first time that it would base its claims on international law including the U.N. Convention on the Law of the Sea.

Flowing from the Mischief Reef incident, China and the Philippines negotiated a code of conduct. But the Philippines turned down Chinese offers of joint oil and gas exploration. In April 1997, at Sino-ASEAN senior officials discussions held in Huangshan, the Spratly islands were placed on the agenda for the first time. Prior to this meeting China had refused to discuss South China Sea issues in a multilateral setting. In July, shortly after this meeting, Filipino naval ships destroyed Chinese territorial markers in the Spratlys. This prompted a Chinese diplomatic protest. At the end of the year, at the informal summit between ASEAN and China, South Korea, and Japan, a joint statement was adopted that declared both sides would resolve differences and disputes “through peaceful means without resorting to the threat or use of force” and would exercise self-restraint in the South China Sea. This agreement, however, has not stopped a growing number of minor incidents from occurring, including Philippine ships ramming Chinese fishing vessels and the shooting to death of a civilian Chinese boat captain. Chinese actions since early 1995 have led exasperated Philippine officials to accuse China of a “talk and take” strategy.³⁸ Talks on a

South China Sea code of conduct remain stalled as of September 2001.

According to a Singapore analyst, "part of the current Southeast Asian defense modernization and expansion programs is a consequence of contingency planning related to the Spratlys."³⁹ Another observer has asserted,

(t)he PLA is worried about potential reactions of ASEAN to any Chinese joint operations. Territorial disputes in the South China Sea have intensified regional tensions. China may not seek to take over any country by attack, subversion, or economic domination, but territorial disputes and a gradually modernised PLA do threaten stability.⁴⁰

ASEAN states have therefore acquired advanced air and naval weapons and sought informal or formal security partnerships, and according to Bi, "(t)his weaponry and these security measures are implicitly, if not explicitly, targeted against China."⁴¹

After the discovery of Chinese construction activities on Mischief Reef, for example, the Philippines revived its plans for force modernization that included procurement of aircraft and ships to defend its territorial claims. Concern about Chinese assertiveness may have motivated Indonesia to negotiate an Agreement on Maintaining Security with Australia in 1995. The agreement bound its signatories to consult in the event of an "adverse challenge to security." Indonesian Foreign Minister Ali Alatas is on the record as stating that tensions in the South China Sea or conflict between China and Taiwan were examples of "adverse challenges" that could trigger the consultation process.⁴² Finally, Malaysia has moved to acquire diesel electric submarines.⁴³

Southeast Asia's states have not adopted a unified policy or strategy to deal with the rise of China as a regional power. They have shaped their responses on a bilateral basis and in a few instances collective action, such as the 1992 Manila Declaration on the South China Sea. ASEAN states

generally have refrained from statements which would make the "China threat" a self fulfilling prophecy. During the March 1996 crisis in the Taiwan Strait, for example, ASEAN states were generally muted in their response to China's missile launches. All ASEAN states adhere to the "one China policy" and view China-Taiwan tensions as an internal affair. ASEAN members "wish to avoid any provocations, confrontations, or even formal multilateral discussions that China could perceive as part of a policy of 'containment'."⁴⁴

In the face of China's military muscle flexing, Southeast Asia favors accommodation with China not confrontation. ASEAN strategy, such as it exists, is to encourage Chinese participation in multilateral organizations, such as the ARF. ASEAN defense cooperation is mainly confined to bilateral defense ties. These have been likened to a "spider's web." Quite simply, the lack of shared threat perceptions has kept ASEAN members from developing multilateral military ties.⁴⁵ According to Jianxiang Bi,

ASEAN members discuss only regional security issues; it is unlikely that they would be involved in Beijing-Taiwan conflicts. They might accept a powerful and unified China, even if they feared it. On humanitarian grounds, however, they may show moral support of the Taiwanese people, and this could deeply embarrass China in the international community . . . ASEAN deliberately avoids any direct confrontation with China, and lack of political will and military capability will minimise any chance that it would be involved in cross-Strait conflicts . . . Without a firm commitment by ASEAN, Japan, and the United States to deter or oppose it, regional reactions to an intervention by the PLA could be limited to short-term economic sanctions and political condemnation.⁴⁶

Analysts are not agreed, however, whether and at what point Chinese assertiveness will lead to a united ASEAN response. According to one writer,

(t)he PLA's emphasis on improving its capabilities to win regional wars by employing high-technology will only

exacerbate ASEAN's worries of a 'China threat' especially in the context of China's territorial disputes with ASEAN states and its rapidly-increasing energy needs.⁴⁷

Derek da Cunha argues that ASEAN will go even further,

A suddenly assertive China . . . could well provide a coalescence in threat perceptions by the ASEAN states, resulting in the shelving of bilateral disputes so as to deal with the larger security issue that affects the whole of Southeast Asia and indeed the wider Asia-Pacific. Thus, China, contingent on its future regional behavior, could well provide the spark for a significant strategic rationale to ASEAN, and a unified strategic policy for the grouping.⁴⁸

Da Cunha speculates that a Standing ASEAN Naval Force might be created to prevent Chinese interdiction of sea lines of communications. In short, Chinese military assertiveness that leads to interference or conflict with an ASEAN member state's sovereignty could result in the abandonment of Southeast Asian deference towards China and the adoption of a unified stance.⁴⁹

Australia.

China and Australia normalized relations in 1972. This signaled a major change in Australian perceptions from fear of China (1949-early 1970s) to a strategic assessment in which China was no longer viewed as a direct threat. Australia's strategic policy in the 1980s was predicated on the assumption that China would emerge as a major economic power in the region. According to Stuart Harris, the former permanent head of the Department of Foreign Affairs,

(t)he five specific objectives of Australia's policy towards China were: to shift Australia's approach from fear of China to one of friendly relations; to deal with China on its own merits and not just as part of the East-West confrontation; to see China as an opportunity rather than as a threat; to recognize China as a

potential great power; and to encourage China to participate as an equal and co-operative member of the international society.⁵⁰

Australia encouraged China's emphasis on domestic economic development. Throughout the 1980s Australia's strategic policy was based on the liberal premise that China's external policy would be more cooperative as it developed economic linkages with the economies of the Asia-Pacific. Chinese economic growth was viewed as mutually beneficial. Moreover, Chinese domestic stability was seen as being dependent on continued growth. But sustained high levels of economic growth posed the dilemma that more resources would be available for Chinese military expenditures.

Bilateral relations took a nose-dive in 1989 due to Australia's adverse reaction to the Tiananmen massacre. China reportedly considered the feasibility of punishing Australia for its highly critical reaction by retaliating economically, but dropped the idea due to the negative costs that China would incur.⁵¹ A major study of Australia's relations with China in the period from 1991-95 described it as the "most difficult and challenging" period because of China's rapid rise as a regional power in both economic and military terms.⁵² Australian concerns about China's military potential increased measurably in 1993 and 1994.⁵³ In 1995-96 Canberra held three principal concerns: Chinese assertiveness in the South China Sea, Chinese nuclear testing, and military exercises directed against Taiwan. The December 1995 Agreement on Maintaining Security with Indonesia "constituted an important change in Canberra's foreign policy" and largely signaled Australia's "concerns about China's emergence as a major regional power."⁵⁴ These concerns directly contributed not only to Prime Minister Paul Keating's pursuit of a security agreement with Indonesia but collaboration with Vietnam to keep these two countries from being pulled into China's orbit.⁵⁵

Australia also pressed military engagement with Southeast Asian states so much so that in the mid-1990s—it could be argued—Australia conducted more military exercises with ASEAN defense forces than the United States.⁵⁶ Finally, under the Coalition Government elected in March 1996, Australia changed its orientation from defense of Australia to developing capabilities to project power beyond Southeast Asia. In 1997 Australia even considered acquiring a cruise missile strike capability.

Australia's first foreign affairs *White Paper*, issued in 1997, drew attention to changing power relativities due to economic growth trends: "(t)en years ago only one East Asian economy (Japan) was larger than Australia. By 1995 this number, measured in \$US GDP terms, had risen to three (Japan, China and the Republic of Korea)."⁵⁷ The *White Paper* further argued, "China's economic growth, with attendant confidence and enhanced influence, will be the most important strategic development of the next 15 years. China is expected to be among the world's three or four largest economies within the next 15 years."⁵⁸

Five issues have served to fuel tensions between Beijing and Canberra: nuclear testing,⁵⁹ human rights, Tibet, illegal migrants, and the South China Sea. According to Harris, "(t)he most sustained source of tension has been over the Taiwan relationship. Both China and Taiwan are major markets for Australia"⁶⁰ According to the *White Paper*,

(r)egional security could also be disrupted if one of the many territorial disputes in the region were to flare up; if there were conflict across the Taiwan Straits; if there were serious internal instability in China or Indonesia; if countries of the region were to reverse their support for US strategic engagement or if that engagement were to come under threat because of domestic pressures in the United States.⁶¹

Colin Mackerras has argued that the growing bilateral economic relations are not only the core of the relationship but the primary reason why it was cordial at the end of the

twentieth century. By 1995, Australia had become China's tenth largest trading partner, while China had become Australia's sixth largest partner. In 1995 it was expected that after the reversion of Hong Kong to mainland control, the combined China market would be Australia's second largest.⁶²

Year	Total Exports	Total Imports	Balance in China's Favor
1994-95	2 963 666	3 648 776	685 109
1995-96	3 781 020	5 009 693	228 673
1996-97	3 584 393	4 203 342	618 949
1997-98	3 871 826	5 303 281	1 431 455
1998-99	3 947 314	6 106 343	2 159 029

Source: See endnote 63.

Table 3. Australia-China Commodity Trade, 1994-1999 (all figures in Australian dollars).

Bilateral trade is the most important aspect of economic relations (see Table 3 above).⁶³ According to Mackerras, "It was mainly the economic factor that drove [John] Howard to repair the relationship with China after the rather strained first few months of his prime ministership."⁶⁴ Indeed, it was the provision of Australian government loans that led to the rapid increase of Australia's exports to China in the mid-1990s.⁶⁵ Two-way trade has increased every year since 1994. Australia's imports from China have risen significantly every year as well. The trade balance is in China's favor, reversing previous trends in which the trade balance was in Australia's favor from 1980 until 1989. Australia's exports to China include: iron ore, wool, copper ore, oilseeds, and coal. Wool sales are important to Australia as China imports one-quarter of Australia's wool exports.

Australian natural resources are of great importance for the Chinese economy. One Chinese analyst has written that Australia's natural resources and technologies were

“indispensable raw materials for China’s iron and steel industry and textile industry [and were] needed in China’s economic construction.”⁶⁶

Chinese strategic interest in iron ore is illustrated by Chinese investment in Australia that greatly exceeds Australian investment in China (see Table 4). In particular, China has invested in the Mt. Channar Iron Ore Mine in Western Australia. Australia is presently promoting the sale of liquefied natural gas.

Year	Chinese Investment in Australia	Australian Investment in China	Balance in Australia's Favor
1995-96	1,397	551	846
1996-97	1,221	984	237
1997-98	2,345	1,241	1,104

Source: Australian Bureau of Statistics. The Statistical Bureau of China reported that Australia’s “actually used foreign direct and other” investment figures in China were as follows: U.S. \$194 million (1996); U.S. \$314 million (1998) and U.S. \$278 million (1998).

Table 4. China-Australian Investment, 1995-1998 (all figures in thousand Australian dollars).

In the early 1990s Australian investment in China increased six times in a 3-year period 1993-95. By 1995, total Australian investment funds in China reached U.S.\$3.52 billion (only U.S.\$780 was committed). In terms of the number of investment projects, Australian ranked ninth. Also, China and Australia have profited from the growth of tourism that has been facilitated by the growth of air linkages between the two countries. Chinese tourist numbers have risen from 54,000 in 1996 to 76,500 in 1998. Australian tourist numbers increased from 132,700 to 186,400 over the same period.

Australia’s reservations and concerns about the rise of China as a regional power in the 1990s did not hinder the development of bilateral relations. In March-April 1997, for

example, Prime Minister John Howard visited China with top priority assigned to developing economic cooperation. He stressed the complementarity of the two economies. In February 1998, China's Defense Minister Chi Haotian, visited Australia for the first time as part of the process of developing a regional defense dialogue. In May, three Chinese warships visited Sydney in the minister's wake. Australia's Defense Minister, John Moore, paid a reciprocal visit to China in May 1999. Finally, President Jiang Zemin visited Australia in September 1999.

Officially, Australia adheres to the one-China policy. Nonetheless, there is strong domestic support for a democratic Taiwan, particularly from among the local Chinese community. According to Harris, it is far from certain what Australia would do if Taiwan declared independence, and conflict broke out with China. "While the issue would be divisive domestically," he wrote, "the strong likelihood is that Australia would do little beyond making what it considered the right declaratory noise."⁶⁷ Chinese actions in the South China Sea represent another major issue that could affect bilateral relations. On this issue Australian policy will be heavily influenced by its relations with ASEAN.

Conflict Scenarios.

China's military doctrine of "local wars" posits that these conflicts will be brief and of high intensity and will be fought on Chinese territory; territory which is claimed by China; or areas close to Chinese territory such as Taiwan, the South China Sea, and the Diaoyu/Senkaku islands. As noted in the introduction, the central tenet of this chapter is that the most likely conflicts involving China are, first, a clash with Taiwan over national sovereignty issues⁶⁸ and, second, conflict between China and one or more of the claimants to territory in the South China Sea (primarily Vietnam and the Philippines). A less probable scenario involves conflict

between China and one of its Southeast Asian land neighbors—Vietnam, Laos, or Burma.

There are five likely conflict scenarios (see Figure 1): (1) between China-Taiwan in which the United States does not intervene; (2) between China-Taiwan in which the United States intervenes successfully; (3) between China-Taiwan in which the United States intervenes unsuccessfully; (4) between China and one of the regional claimants in the South China Sea; and (5) between China and one of its land border neighbors. In terms of a China-Taiwan conflict, Beijing has at least five major options short of invasion or local war: escalation of invasion exercises; information warfare attacks; harassment of Taiwan's commercial shipping; testing ballistic missiles near Taiwan; and seizure of one or more of Taiwan's offshore islands.⁶⁹ The recent historical record of China-Taiwan relations indicates that China is likely to alternate coercive diplomacy with political inducements.⁷⁰

This chapter does not propose to examine each scenario in detail because of the complexity and uncertainties involved. For example, each scenario branches out as various possible variations of the factors involved are



Figure 1. Five Likely Conflict Scenarios.

considered. Among the major factors are: the kind of provocation that leads to conflict (e.g. unilateral declaration of independence by Taiwan); whether the conflict is brief or protracted; the kinds of targets struck and the extent of civilian casualties and damage to the infrastructure; whether or not nuclear weapons are used; and reactions by the United States and other members of the international community.

For example, a unilateral declaration of independence by Taiwan would not be supported by the United States under existing policy. Taiwan could not look to Australia or Southeast Asia for political or other support. These countries would adhere to their one-China policy while deploring the use of force and calling for a quick end to armed hostilities. China would incur minimal political and economic costs if the conflict was of short duration. Protracted conflict could incur higher penalties depending on international reaction. Southeast Asian and Australian responses would be determined to a large extent by the reactions of the United States, Japan, and other states. Australia would be among the first to impose some form of economic sanctions on the belligerents to encourage a ceasefire, if agreed by the international community. The ASEAN position is less certain.

The failure of the United States to intervene in other scenarios involving conflict between China and Taiwan would serve to undermine its security posture in the Asia-Pacific. Quite simply, American security guarantees would lose their credibility. Australia would move to shore up its defense links with Southeast Asian states. Singapore, Malaysia, Indonesia, Thailand, and Vietnam are likely to hedge their bets by increasing the scope of multilateral military cooperation. If China prevailed in a scenario one-type conflict, Southeast Asian states most likely would continue their pattern of deference and accommodation towards Beijing. If a stalemate developed, ASEAN trade and investment would likely decline in both China and Taiwan until a cease-fire was obtained. But under

conditions of stalemate ASEAN states are not likely to alter their one-China policy, however.

China could incur varying costs depending on how each conflict scenario unfolds. At one extreme, conflict could result in political and economic sanctions and the coalescence of an anti-China military grouping of regional states under U.S. leadership. Such costs could be incurred by an unprovoked Chinese attack and unsuccessful invasion of Taiwan—with or without U.S. intervention (scenarios one and three). In brief, if Taiwan is able to successfully defend itself against an invasion launched by the mainland it would put paid to the one-China policy. If Taiwan sustained large numbers of civilian casualties and damage to its infrastructure this could lead to international sympathy. Domestic pressures in America, for example, could lead the United States to extend diplomatic recognition to Taiwan as a sovereign state. Undoubtedly this would lead to a break in China-U.S. relations. In these circumstances pressure would mount on U.S. allies, Japan, South Korea, and Australia,⁷¹ to follow America's lead. This in turn might prompt some members of ASEAN to follow suit and recognize the realities of two Chinas.

According to one analyst, the South China Sea would be an ideal arena for "local war" when China improves its logistics and mid-air refueling capabilities.⁷² These capabilities will allow China to seize and hold features in the Spratly Islands. At present Chinese forces can only attack and destroy targets in this area. The PLA's Air Force medium range bombers equipped with air-launched cruise missiles "would pose a problem for those ASEAN air forces without airborne early-warning and control aircraft and/or air defense systems capable of dealing with supersonic cruise missiles."⁷³ Even without resort to conflict, any increased presence of PLA naval ships in the South China Sea would exert a psychological effect on regional states. In the event of major conflict between China and one of the claimant states to territory in the South China Sea (scenario four), China could incur the additional cost of

political and economic sanctions by ASEAN states.⁷⁴ China's extensive political ties, embodied in long-term cooperation agreements, could be undone quickly. The ASEAN Plus Three consultative arrangements also would become moribund. Australia could be expected to back Southeast Asian states in cases where conflict has been initiated by China.

Short of an attempted invasion of Taiwan, China's resort to force in all five scenarios above would reinforce anxieties about Chinese military power already held by several Southeast Asian states. This grouping could conceivably coalesce into a de facto military grouping aligned to Australia and the United States. Derek da Cunha argues that one result could be the formation of a Standing ASEAN Naval Force to participate in safe-guarding of sea lines of communication (SLOCs).

Finally, it should be noted that conflict between China and Taiwan under any of the first three scenarios would result in a momentary fall of foreign investment and a disruption of trade from Southeast Asia and Australia. However, the major costs are likely to be borne not by China but by regional states. As noted above, "(i)f either one [China or Taiwan] is damaged, Singapore [read Southeast Asia-ed.] will suffer a loss; if both are damaged, its loss will be doubled."⁷⁵ In other words, in a conflict situation the ASEAN states would be affected by the disruption of or loss of trade and investment from Taiwan and China.

ENDNOTES - CHAPTER 6

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34. Carlyle A. Thayer, "Force Modernization Strategies and Trends," conference paper, Meridian International Center, Washington, DC, September 6-7, 2000, p. 6.

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70. Suisheng Zhao, "Military Coercion and Peaceful Offensive: Beijing's Strategy of National Reunification with Taiwan," *Pacific Affairs*, Vol. 72, No. 4, Winter 1999-2000, pp. 494-512; and Andrew Scobell, "Show of Force: Chinese Soldiers, Statesmen, and the 1995-1996 Taiwan Strait Crisis," *Political Science Quarterly*, Vol. 115, No. 2, Summer 2000, pp. 227-246.

71. According to former Australian Prime Minister Malcolm Fraser, "If American policy ever were to support an independent Taiwan, the outcome would be war between China and America. America would withdraw to the United States, to her own hemisphere. If we had supported her, we would be an exposed and isolated ex-ally. Any government that took any action that could lead to that outcome would be guilty of a grave dereliction of duty to the Australian people." Fraser's scenario does not take into account U.S. support for Taiwanese independence following unsuccessful Chinese aggression against the island. Malcolm Fraser, "All the way with the USA? Not necessarily," *The Age*, November 25, 2000, internet version.

72. da Cunha, p. 119.

73. Ibid. See also Felix K. Chang, "Beyond the Unipolar Moment: Beijing's Reach in the South China Sea," Vol. 40, No. 3, *Orbis*, Summer 1996, pp. 353-374. Chang argues that a combined Singapore-Malaysia force would be successful in a war-fighting scenario against a Chinese task force.

74. Clifforn J. Shultz, II, and William J. Ardrey, IV, "The Future Prospects of Sino-Vietnamese Relations: Are Trade and Commerce the Critical Factors for Sustainable Peace?" *Contemporary Southeast Asia*, Vol. 17, No. 2, September 1995, pp. 126-146.

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CHAPTER 7

TAIWAN AND THE CHINESE MILITARY¹

Ellis Joffe

No issue is more volatile in East Asia today than the triangular relationship between China, Taiwan, and the United States. Although war is neither imminent nor inevitable, given the desire of all three sides to avoid it, it cannot be ruled out, unless major changes occur in the positions of China or Taiwan. Even without war, this relationship will continue to be tense in the coming months.

The source of tensions lies in the irreconcilable positions of the three sides. China considers the reunification of Taiwan with the mainland under the "one-China" principle as non-negotiable, and has threatened to use force if Taiwan declares independence, or if it balks indefinitely at talks on reunification. The Taiwan government has made significant moves toward independence, and will continue to resist reunification under China's sovereignty. The United States is committed to the peaceful resolution of the issue, but has not ruled out military intervention if China attacks Taiwan.

China's Military and Taiwan Policymaking.

How the issue unfolds is impossible to predict. Although Taiwan's new president, Chen Shui-bian, has vowed not to declare independence, he has not accepted the "one-China" principle, which China views as a prerequisite to negotiations. Since the freezing of the status quo, in which Taiwan is independent in all but name, is unacceptable to China in the long run, the Chinese leaders will not give up the threat to use military force unless Taiwan accepts this principle. and since this is not likely, a peaceful resolution of the crisis is not in sight at present.

This alone is enough to bring China's military leaders to the center of deliberations on Taiwan as advisers and planners due to their expertise. However, their participation has obviously gone beyond that. They have become pivotal players in the formulation of China's Taiwan strategy. This is due to their new role on the Chinese political scene.²

This role stems from the vast changes that have transformed Chinese politics in the last decade. Driving this transformation has been a momentous leadership changeover from a revolutionary generation to a post-revolutionary one, which is different in stature, style, and sentiments. These differences have recast party-army relations in a fresh pattern that has greatly increased the political capacity of the military.

The most important difference lies in the stature of the paramount leader. Unlike his predecessors, Mao Zedong and Deng Xiaoping, Jiang Zemin does not have the one outstanding political asset that had enabled them to dominate the military: personal authority that had ensured the automatic support of the army chiefs in all circumstances.

Jiang, in contrast, cannot impose decisions on military leaders arbitrarily with respect to issues that are of vital interest to the armed forces. He has to work out their prior approval in order to ensure compliance, which, in sharp contrast to previous periods, is conditional. This enables them to influence policy outcomes as never before.

Another difference relates to the characteristics of China's new military commanders. They are more specialized than their predecessors, more committed to military values, and more connected by educational and service ties. In short, they are more professional.³ They are also more inclined to stay out of political involvement, which diverts the armed forces away from professional pursuits and can be dangerous.

But this has not prevented military involvement in policy areas that concern their interests. Paradoxically, professionalism has intensified, rather than reduced, such involvement. This is because the enhanced sense of expertise and exclusiveness nurtured by professionalism impels the military to assume a major policymaking role in areas for which they feel responsible and qualified.

Taiwan falls most prominently into this category. It is where new military politics intersect with professionalism. Politics has brought the military to the center of Taiwan policymaking; professionalism provides the rationale for their involvement. And this combination is reinforced by a resurgent Chinese nationalism of which the military are, in their own self-image, the nation's foremost guardians.

Even so, China's military leaders have not muscled their way into the policy process. Since the Taiwan issue became militarized after the Taiwan crisis of the mid-1990s, it has become clear that major decisions might lead to war with Taiwan and the United States. Consequently, such decisions can hardly be reached by the leadership without military participation. In fact, their participation is indispensable, in view of the fact that Jiang Zemin and his generation of colleagues have no military experience and no military qualifications. The question, then, is not whether the military are central in this process, but whether, as is widely reported, they dominate it with a hard line towards Taiwan.

Taiwan and Civil-Military Relations.

This is a murky area because it cuts to the inner workings of the Chinese leadership's policymaking process, which is shrouded in secrecy. From the little that is known about it—and about the crisis of 1995/1996—it can be surmised that under Jiang, the process is probably marked by divisions and debates but, in the end, rests on a consensus. PLA leaders define the parameters of China's

Taiwan policy, but do not dictate it. There are other players, no less important, in the decisionmaking process.

Foremost among them is Jiang. Although his personal stature does not seem to have improved much during his years as paramount leader, Jiang appears to have considerably bolstered his political position. This he has done by utilizing his institutional prerogatives—especially the powers of appointment and dismissal—and political exposure—especially well-publicized tours in China and abroad. Given the ethic of compliance with hierarchical authority imbedded both in China's political culture and in the tradition of the People's Liberation Army (PLA), the rise in Jiang's national standing has doubtless strengthened his hand in relation to the military leaders. While he still needs their consent behind major decisions, he can presumably get it if he does not defect peremptorily from the accepted consensus.

The military also have to contend with other leaders. Under Mao and Deng the policymaking process had been much more personal than formal, involved a small handful of personalities, and relied largely on long-standing personal contacts and informal consultations. Under Jiang, it is more diffuse, draws in a greater number of participants, and is more procedural and impersonal.

The military might also be at a disadvantage in the more institutionally-oriented policy milieu, because after the 1997 15th Party congress, they have no representative in the Standing Committee of the Politburo, the Party's supreme body. The leadership's decision not to appoint a representative to that body was in line with the distancing of the military from politics and from involvement in the routine running of the country, and should not be overstated as a limitation on their power. This is because the two top military chiefs sit on the Politburo, and, especially, because Jiang Zemin, as chairman of the Military Affairs Commission, hears the views of the most senior commanders and undoubtedly transmits them to the

Standing Committee in his capacity as its chairman. Still, this is not the same as having a military presence in this Committee.

The result is that, unless there is a military crisis that calls for military solutions, army commanders presumably do not carry more weight than other leaders when it comes to the broader implications of policy decisions. These leaders have no less a stake in the decisions, and, in the more open process, surely do not leave the playing field to the military.

In any case, whatever the balance of forces, there are no indications of serious conflict between civil and military leaders over the principles of Taiwan policy. This is because conflict has been averted by a convergence of views. Such convergence derives from several sources.

The first and most important is an emotional nationalism that posits reunification with Taiwan as the elemental embodiment of China's sovereignty, national honor, and prestige, and views its achievement as a non-negotiable condition for the restoration of China's rightful place in the international arena. While these sentiments are probably strongest in the military, in the light of their self-image and corporate in-breeding, they are expressed by all leading political figures.

Whether or not such expressions are genuine is irrelevant. What is relevant is that the entire Chinese leadership has committed itself publicly to reunification, and no leader, most notably Jiang Zemin, can afford to stray from this consensus. Mao or Deng could redefine the limits of consensus, Jiang cannot. They could postpone or sidestep the Taiwan issue, but for Jiang and his colleagues to waver on Taiwan could be politically lethal.

This is where the military define the issue. They are not driving the civilians into uncompromising nationalistic positions, because there is no need for that. But they are holding the line of national consensus against any signs of

backsliding. At any rate, in the current circumstances, backsliding is not realistic, not only because of Jiang's political calculations, but also because he has linked his historical legacy and the legitimacy of his leadership to the elimination of this painful reminder that, until Taiwan is reunified with China, their great victory in China's civil war will remain incomplete.

There is also a potent practical side to the military's commitment to reunification. Since the mid-1990s it has provided the underpinning for the increased purchase of modern weapons, and they will not give it up lightly.

Under Deng the PLA was starved of funds on the grounds that economic development took priority over weapons upgrading. This had been a prime reason for military involvement in money-making economic activities that damaged their professionalism. At the start of the 1990s, a combination of factors had brought about an increase in the military budget: the economic surge, Jiang's desire to find favor with the generals, and the lessons of the Gulf War.

However, the military still had to contend with arguments from civilians that economic progress came before military modernization, and the acquisition of new weapons progressed slowly. This process was accelerated only after the Taiwan crisis of 1995/1996, when the appearance of two American carrier groups near Taiwan moved the Chinese to defuse it.⁴ From this crisis, the Chinese leadership drew several conclusions.

The first was that Taiwan's leaders were determined to proceed towards independence, an unacceptable trend that they would most likely have to terminate by the eventual use of force. Second, for this purpose, they would have to acquire an adequate combat capability, the attainment of which was speeded up. Third, resort to force meant that the Chinese would have to deter American military intervention or, more likely, confront it. Finally, preparations for the

military resolution of the Taiwan issue would become the main mission of the PLA and the focus of its development.

The Chinese leadership's unity on Taiwan strategy has probably not precluded differences over tactics. Surface manifestations of such differences have been clear before the election of Chen Shui-bian in Taiwan and after the election. Statements from military leaders and their press have been much more extreme in tone and menacing in content than those emanating from party papers and leaders.

Still, it is difficult to determine whether these differences constitute a division of views or a division of labor. Given the basic consensus, it is more likely that the military have been assigned, or assumed, the "bad cop" role, threatening Taiwan with destruction, especially since they command the weapons to carry out such threats. In contrast, the civilians play the role of the "good cop," taking a softer stance in an effort to convince Taiwan leaders and people that it is in their interest to back away from policies that will bring down upon them the fate promised by the military.

It is also possible that divisions are real. However, it is difficult to see the purpose of the tough talk from the military, other than to intimidate the Taiwanese. If the aim is to pressure the civilian leaders, the question is, to what end? Given the unpreparedness of the armed forces for major action at this time, it is not likely that this is their immediate preference—unless Taiwan declares independence, in which case it would not be necessary to push their civilian counterparts.

If the bellicose statements from the military were made on their own initiative, this would point to their new autonomy under Jiang rather than to policy conflicts, since the common purpose is to bend the Taiwanese to China's will. Another possibility is that the bluster stems from bureaucratic rather than strategic objectives—to sustain a crisis atmosphere in order to support military demands for

new weapons. In any case, whatever differences there are appear to be tactical—how best to coerce Taiwan with words rather than force—and not over the principle of reunification.

There are probably differences within the military as well. These are likely to be primarily between two groups, which presumably parallel similar divisions among the civilians.⁵ On the one hand, hard-line officers who support a threatening verbal stance towards Taiwan, perhaps accompanied by shows of force, and even limited punitive action. And, on the other hand, officers who assume that China will ultimately have to resort to force, but favor postponing military action until the armed forces are better prepared. A third, more low-keyed, view among civilians believes that high-handed attempts to pressure Taiwan have been counterproductive. This view presumably has no substantial support in the military.

In any case, whatever views may be prevalent in the military, only the top commanders communicate with the civilians. Lower-ranking officers and analysts in military research organs do not deal in a free-wheeling fashion with civilian leaders. They transmit their opinions upwards through proper channels. Despite what is frequently reported, the leadership is not subject to pressures from all levels of the military. The Chinese army is a disciplined hierarchical organization, which is represented only by its most senior commanders. Although these commanders might present different assessments and recommendations in inner councils, there are no public signs of serious differences on how they view Taiwan.

The Chinese Military Views Taiwan.

The military's views on how to deal with the Taiwan problem are no less murky than civil-military relations, but not for lack of information. These views have been disseminated in military statements and publications, in articles inspired or planted in the Hong Kong press, and in

conversations with foreigners. The difficulty is that the publicized views do not tell the whole story, or even the true story. What China's military really think or propose to do remains an enigma. Nonetheless, it is important to look at what they say for public consumption, and then to assess their options.

Their public pronouncements are tough, straightforward, and confident. They have several obvious purposes. One is to put the military in the front rank of leaders who speak out on Taiwan. Another is to threaten and coerce the Taiwanese. A third is to deter the United States from military intervention. An additional one is to mislead both Taiwan and the United States about China's plans and capabilities. A fifth one is to boost the morale of the troops. These pronouncements highlight several themes.

The first is a thunderous threat that no compromise on reunification is possible. Statements in this vein appeared in a rising stream on the eve of the March election in Taiwan, and continued after it. They were marked by virulent language, and their message was simple: a declaration of independence by Taiwan meant war, and the PLA is poised to prevent the separation of Taiwan from the mainland by force.⁶

Elaborating on this theme, a Hong Kong paper quoted a Chinese military expert as saying that if Taiwan's new leaders did not accept the "one-China" principle, China would not hesitate to smash Taiwan and then rebuild it to safeguard its national sovereignty.⁷ To underline this, another Hong Kong paper revealed that after the election the Central Military Commission had ordered the redeployment of navy, air force, and missile units to areas facing Taiwan and had given them priority in the acquisition of new high-tech weapons.⁸

Justification for the military's commitment to reunification was provided by a Hong Kong journal, which published a document that had purportedly been issued by

the Central Military Commission, China's top military body.⁹ Although the authenticity of the document is in doubt, it reflects views that the Chinese military presumably want to propagate for public relations purposes, which suggests their involvement, if not complicity, in its publication.

The document portrays reunification as a historical mission that transcends political divisions and represents the will of all Chinese, including those in Taiwan. The Taiwan problem, it says, is a legacy of the civil war and is China's internal affair. Its resolution is essential to erasing the humiliation of colonialism and ensuring China's national dignity, because its enemies use Taiwan to block China's rise on the global scene.

A second theme sounds a note of pessimism about a peaceful settlement. It was most explicitly expressed by Chinese officers in private conversations with foreign observers.¹⁰ They were skeptical about the possibility of a solution after the election, and said that the PLA was preoccupied with the acceleration of preparations for military action, for which it had received special funds. They believed that the United States opposed reunification for the strategic objective of keeping China mired in the Taiwan problem. There is, of course, no way of knowing how widespread such views are, and whether they are genuine or merely meant to send a message.

A third theme underscores China's military superiority over Taiwan. Speaking at a conference in the United States, a senior Chinese military analyst noted that despite Taiwan's purchase of modern weapons in recent years, its armed forces suffer from serious deficiencies. One is the absence of integrated weapons systems. Another is the inability of its military industry to support a protracted war of attrition. A third is Taiwan's geography, which does not provide adequate space for maneuvering. A fourth is the concentration of its strategic and tactical targets, which increases their vulnerability to attack.

In contrast, he said, the PLA is better prepared psychologically and enjoys more popular support. It has combat experience and higher morale. The initiative and timing for action lies in its hands, once Taiwan declares independence. Moreover, once the Chinese government orders military action, the PLA will not desist from its objective: it will launch as many attacks as needed to take the island.¹¹

That it has the wherewithal to do this was emphasized in an article published in a Beijing journal by two military analysts. The PLA, they said, has accelerated its transition from a manpower-intensive into a science-and-technology-intensive force, which emphasized quality rather than quantity. Listing a wide range of improvements that have occurred in all branches of the armed forces, the writers highlighted the PLA's ability to integrate weapons systems and to carry out combined-forces operations.¹²

Taiwan's weaknesses were also pointed out in the document ascribed to the Central Military Commission. Taiwan's defense system and planning, it said, are not suited to withstanding a large-scale and extended invasion. Although the quality of its equipment is not bad, its quantity is limited. After a massive first strike, Taiwan's forces will not be able to put up effective resistance. The PLA will, therefore, be able to take control of Taiwan before U.S. intervention, and then concentrate its forces on fighting the United States.

Regarding this possibility, the document concedes that from a technological standpoint, the armed forces of the United States have no match in the world. However, this applies to the entire American military organization. In the event of war, only one-third of its forces can be deployed rapidly overseas.

Furthermore, the United States does not have the advantage over China that it does over small powers such as Iraq and Yugoslavia, because the Chinese will fight close to home, whereas U.S. forces will be exhausted by a far-off

expedition. If the war will consist of missile strikes, moreover, the Chinese enjoy an advantage in the number of short and medium range missiles.

An additional advantage stems from the lessons that the Chinese had gained from fighting American forces in Vietnam, where they had been mainly responsible for air defenses and had gained considerable experience. Since then, to be sure, there have been many changes, of which the most telling have been in personnel qualifications and equipment of the Chinese. This means that the United States will not be able to gain the air dominance that it had over Iraq and Yugoslavia.

In a missile exchange, the document claims, the strategic superiority of the United States will be nullified by the fact that both China's offensive and defensive operations will be launched from its own territory. Once the United States launches an attack, its front-line forces and bases will be vulnerable to Chinese missile strikes, which will confront them with difficulties in weapons and logistics.

The first aim of the Chinese is deterrence. According to the document, at an appropriate time the Chinese will disclose to the United States information on China's strategic weapons so that the Americans will be aware of the price they would have to pay for intervention.

A Chinese military publication was more blunt. The United States, it said, will not sacrifice 200 million Americans for 20 million Taiwanese. They will acknowledge this and withdraw.¹³ Another military journal, quoted in a Hong Kong paper, said that China had made preparations to fight a nuclear war with the United States.¹⁴

This possibility was downplayed by the supposed document of the Central Military Commission. It is against U.S. interests, it said, to fight a nuclear war for Taiwan, and even American anti-China politicians will have to respect public opinion. China is willing to sustain major losses to defend even one square inch of land, whereas anti-war

sentiment in the United States will oppose large numbers of casualties.

Unlike Iraq and Yugoslavia, China has nuclear weapons that are part of its strategic posture. The PLA, the document asserted, would gain complete control of Taiwan before the full deployment of U.S. troops, leaving retaliation as the only option for the United States. It would then have to try and bomb China into submission, as it did Iraq and Yugoslavia. This is wishful thinking.

The reason was explained in the article by the two Chinese military writers. Despite changes in the conditions of warfare, they said, "people's war" is not obsolete as demonstrated by the war over Kosovo. This was because the Yugoslavs had relied on the people in helping the armed forces in a variety of ways—such as camouflage, armaments production, and catching spies—to aid the armed forces. In the view of the writers, the will of the Yugoslav people on the one hand, and wavering popular support in the NATO countries on the other, were decisive factors in ending the bombing.¹⁵

In many publications the Chinese have also stressed the option of asymmetrical warfare—electronic and information—in which they will target the "nerve centers" of a technologically-superior United States.¹⁶

Given the high level of hyperbole in these statements, there is little doubt that their purpose is to exert political and psychological pressure rather than to signal impending military action. The Chinese clearly prefer to prevent the break away of Taiwan without use of force. If however, they feel compelled to take military action, their options will be determined by their aims.

China's Aims and Military Options.

No aspect of the Taiwan problem has riveted more attention, nor generated more divisions among observers, than war scenarios in the Taiwan Straits. And no aspect is

more difficult to assess. China's intentions and operational plans are a closely-guarded secret, and its possible actions can only be inferred from indirect indications and conjecture.

Conjecture has to be focused. There is little point in running through all possible scenarios, or assessing the overall capabilities of China's armed forces in relation to Taiwan and the United States, without posing a critical question beforehand: what would be China's objectives in attacking Taiwan? Since the PLA's plans are geared toward these objectives, speculation on China's possible options should first consider what these might be.

The starting point is the assumption that China will attack Taiwan only in the most extreme circumstances—first, if Taiwan's leaders formally declare independence and separate Taiwan irrevocably from China. Given the fundamental factors that drive China's leaders—nationalism, the linkage between Taiwan and legitimacy, the state of elite political relations, and the stand of the military—they will not be able to tolerate such an affront to China's national honor and such an infringement on its sovereignty.

They will also not be able to tolerate an indefinite rejection by Taiwan of China's demands for negotiations on the basis of the "one-China" principle, although since the Bush administration has come into office, the Chinese seem to have put these demands on the back burner. This is tantamount to de facto independence, since behind the screen of postponement Taiwan's leaders will continue to consolidate their international position.

In both cases—declaration or delay—China's ultimate recourse will be to military action, although in the first case China will be under some pressure to respond rapidly, whereas in the second, it will be able to put off action until its armed forces are upgraded, and they are in no hurry to take such action. Since Taiwan's new leaders are unlikely to

declare independence, the ball will continue to be in China's court.

If the Chinese decide to attack, the damage to China's economic development, international posture, and regional relations will be incalculable. For such consequences, they will settle for nothing less than total achievement of their objectives. And, in contrast to previous crises, these presumably will be unlimited.

In the past, China's aim in initiating limited military activities had been to signal a refusal to acquiesce in an unacceptable situation—a drift toward a “two-Chinas” policy in 1954 and 1958, and Taiwan's moves under Lee Teng-hui toward an independent international posture in 1995/1996. Its aim in initiating future action will be different: to bring about the unconditional surrender of Taiwan's leaders to China's demands, or to conquer the island and eliminate its leaders. Their military courses of action will be tailored to these ends.

But these ends also limit their options. A broad range of low-intensity operations—such as shows of force, military maneuvers, overflights, or capture of Taiwan's outlying islands—might have psychological effects on the population, but are not likely to coerce the leadership into submission. For this purpose, only three options seem feasible: blockade of Taiwan's sea lanes, missile attacks, and amphibious invasion.

In all these cases, the Chinese have to assume that the United States will intervene. From their vantage point, this assumption is underpinned by recent experience. The first is Washington's dispatch of two carrier groups to the vicinity of Taiwan in 1996, which ended China's menacing missile tests around the island and defused the crisis.¹⁷ The second is the “U.S.-led” NATO bombardment of Yugoslavia during the Kosovo crisis, which the Chinese view as fueled by America's quest to become the world's sole superpower that seeks to impose its will on other nations. Foremost

among these is China, whose rise to great power status the United States is determined to block.

Despite their assertions, if the Chinese decide to take military action against Taiwan, it will not be because they believe in their capability to deter U.S. intervention or to neutralize it. It will be because of their belief—also drawn from Kosovo—in their ability to withstand bombardment by the United States, which will be restrained by its allies and by public opinion at home and abroad. Even so, no leadership will lightly take action that subjects its population to such hardships.¹⁸

Given the probability of U.S. intervention, all of China's options contain a high degree of uncertainty.¹⁹ In the case of a blockade—whose forms could range from deterring ships by marking lanes for missile firing, through physically stopping them, to submarine attacks—the effects will certainly undermine Taiwan's economy, or even destroy it, if it is effectively enforced for a long period. What is uncertain is the ability of the PLA navy and air force to sustain a blockade against Taiwan's military, and even more, against the United States.

The second option—missile strikes—would devastate Taiwan's strategic centers and cause considerable suffering to the population. One uncertainty, however, is the form of American response. Another is the resolve of Taiwan's population to rally behind the leadership.

The last option—an amphibious invasion—will not be realistic for several years because of China's military deficiencies, Taiwan's defense posture, and U.S. power. The Chinese armed forces are training for such an invasion, and the leadership is focusing on acquiring modern weapons systems that are designed to build up sealift capabilities and upgrade air and naval support for an invasion. However, they are not doing this on a "quick fix" basis, and it will take a decade or so before the Chinese are reasonably ready to undertake such a vast operation.

Considering the limitations of all the options, the most likely seems to be missile strikes. This is, however, extremely risky. The Chinese leadership cannot afford to fail, and once it begins such strikes, it will have to continue until Taiwan surrenders. If the combination of Taiwan's determination and U.S. intervention preclude an early surrender, the Chinese will have to extend bombardment until they wreak terrible havoc on the population and destroy the island. Assuming they can pull this off militarily, the price will be horrific.

Pending major advances in their capabilities, the Chinese military are not likely to recommend large-scale operations. They will threaten to use force, and might carry out low-intensity actions to back up their threats, but they will stop short of starting a war which will be open-ended, and for which they are not ready. This is the logical conclusion. If, however, they feel intolerably provoked by the political moves of the Taiwan leadership, logic cannot be counted on to prevail.

ENDNOTES - CHAPTER 7

1. This chapter is used with author's permission from his paper, "Taiwan and the Chinese Military," *CAPS Papers No. 29*, Richard H. Yang, ed., Taiwan: Chinese Council of Advanced Policy Studies, July 2000.

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16. See Michael Pillsbury, "PLA Capabilities in the 21st Century: How Does China Assess Its Future Security Needs," in *The Chinese Armed Forces in the 21st Century*, Larry M. Wortzl. ed., Carlisle, PA: Strategic Studies Institute, U.S. Army War College, 1999; and James Mulvenon, "The PLA and Information Warfare," in footnote 1, pp. 175-186.

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18. See Ellis Joffe, "China's Military Assesses Kosovo," *International Herald Tribune*, July 23, 1999; cf. Michael Ignatieff, *Virtual War: Kosovo and Beyond*, New York: Henry Holt and Company, 2000.

19. On China's military capabilities and shortcomings, see *Annual Report on the Military Power of the People's Republic of China*, Secretary of Defense, Report to Congress FY2000.

CHAPTER 8

HOMELAND DEFENSE WITH TAIWANESE CHARACTERISTICS: PRESIDENT CHEN SHUI-BIAN'S NEW DEFENSE CONCEPT

Alexander Chieh-cheng Huang

We must develop our future military readiness in the directions of "precision deep strike, early warning capabilities, and information superiority," under the concept of "decisive campaign beyond boundaries."

President Chen Shui-bian¹

On June 16, 2000, President Chen Shui-bian in his speech at the 76th anniversary of the Chinese Military Academy in Kaohsiung, characterized his new national defense concept as "decisive campaign beyond boundaries" (*juezhan jingwai* or *jingwai juezhan*),² suggesting that the armed forces of the Republic of China (hereafter Taiwan military) would depart from their "pure defensive" position and pursue a proactive military posture. Chen's remarks immediately generated hard debates within and outside Taiwan's defense community, which worried that his pronouncement would create confusion and invite strong reactions from Beijing. In addition, some analysts believe that such a defense concept would raise the anxiety of foreign countries, especially the United States, over an increasingly provocative Taiwan.

This chapter examines President Chen's defense concept of "decisive campaign beyond boundaries," its origin, contents, and possible impact upon Taiwan's security and defense policies in the future. The author first reviews the evolution of the defense strategies of the Republic of China (hereafter ROC or Taiwan) at different stages in the past 5 decades and observes the emergence of a new defense

concept during recent years. Secondly, the author discusses how Chen Shui-bian and his advisors formulated the defense concept of the Democratic Progressive Party (DPP), its roots, substance, and feasibility. Lastly, the author examines the political and military implications of Chen's defense concept with some policy recommendations.

THE EVOLUTION OF TAIWAN'S DEFENSE POLICY

Since the Republic of China government retreated to Taiwan after it lost the civil war to the Chinese Communists in 1949, its defense policy has gone through several adjustments due to changes in the international environment, domestic politics, and, more importantly, the U.S.-Taiwan relationship. When Chen Shui-bian took office as Taiwan's president, he not only assumed the responsibility of national security, but also inherited the legacy of defense policies before him. In the following sections, the author will briefly review the evolution of defense policies under each president, from Chiang Kai'shek to Lee Teng-hui.

Chiang Kai'shek.

Throughout his life since restoring Kuomintang (Nationalist Party, KMT) rule in Taiwan, President Chiang Kai'shek never gave up his goal of "recovering the mainland by force" (*fangong dalu*). On the other side of the Taiwan Strait, the People's Republic of China (PRC) also upheld a policy of "liberating Taiwan by force" (*wuli jiefang*). During that period of political and military confrontation, Taiwan maintained a large number of forces and an offensive defense policy, believing the armed struggle would continue until a final resolution. The U.S.-ROC Mutual Defense Treaty, signed in 1953, provided a critical security guarantee for Taiwan, but it also prevented Chiang Kai'shek from carrying out military adventures against the PRC. From the early 1950s to about the mid-1960s, the Taiwan military only conducted several small-scale

military actions against the offshore islands held by Communist China near the Fujian coast without clear victory. When Washington improved its relations with Beijing and started the normalization process in the early 1970s, Taiwan's objective of recovering the mainland faded away rapidly.

Chiang Ching-kuo.

With the military option shattered, President Chiang Ching-kuo revised Taiwan's political strategy to "reunification with the three principles of the people" (*sanmin zhuyi tongyi zhongguo*). Parallel to Chiang Ching-kuo's presidency, the PRC also shifted its policy toward Taiwan to "peaceful unification" (*heping tongyi*). Military confrontation was replaced by a political offensive across the Taiwan Strait. During that period, however, Beijing maintained that it would not renounce the use of force to resolve the Taiwan issue. Under such a threat, Taiwan adopted a defense concept of "converging offense with defense" (*gongshou yiti*),³ emphasizing mobilization, readiness, and military modernization.⁴ Although Chiang Ching-kuo realized the diminishing possibility of a military solution to the unification issue, he did not rule out a possible military offensive against the mainland. Under this concept, Taiwan maintained that large ground forces are necessary for possible offensive actions.

Lee Teng-hui (1st term).

Following the footsteps of Chiang Ching-kuo, President Lee Teng-hui modified Taiwan's political strategy to "unification under freedom, democracy, equal prosperity" (*ziyou, minzhu, junfu tongyi zhongguo*). The end of the Cold War, the spread of democracy around the world, and Beijing's continued focus on economic development provided a relatively peaceful environment for Lee to initiate his constitutional reform and political liberalization. In 1991, he pronounced the end of "the period

of mobilization in suppressing communist rebellion," indirectly recognizing the legality of Beijing's rule over the mainland. Cross-strait relations were further stabilized when representatives of both sides held their first semi-official talks in Singapore in 1993, testifying that both Taipei and Beijing would prefer peaceful means in dealing with the unification issue. At the same time, under the pressure of the opposition DPP, Taiwan's defense policy was modified to "pure defense" (*shoushi fangyu*).⁵ In other words, Taiwan would not seek preemptive military actions against the mainland, but focused on homeland defense.

Lee Teng-hui (2nd term).

Unlike his first term in office, although Lee Teng-hui preserved the remote goal of China unification, he gradually revealed his reluctance to deal with an agenda set by the Beijing government, especially after the Taiwan Strait crisis in 1996, when the PRC lobbed missiles against Taiwan. Since then, Taiwan's political agenda shifted to "status quo with separated identity," while its defense strategy was changed to "resolute defense, effective deterrence" (*fangwei gushou, youxiao hezu*).⁶ Cross-strait military tension reached a new height in the wake of Lee's remarks about "special state-to-state relations" when he redefined the Beijing-Taipei relationship in July 1999. In addition to continued political quarrels, small-scale hostile military contacts began taking place across the middle line of the Taiwan Strait without real war. The tension brought Taiwan to change its defense guideline to "effective deterrence, resolute defense" (*youxiao hezu, fangwei gushou*),⁷ a more proactive position than before.

PRESIDENTIAL CAMPAIGN AS A TURNING POINT

The 2000 presidential campaign highlighted a change in perceptions of Taiwan defense requirements. By examining the defense strategies of the campaign platforms of all three

major presidential candidates, one could find a clear tendency that a new proactive national defense concept would replace Lee Teng-hui's "pure defense" strategy. KMT candidate Lian Chan advocated the concept of "active defense" (*jiji fangyu*); independent candidate James Soong⁸ preferred a strategic concept of "forward defense" (*qianjin fangyu*); and the DPP candidate Chen Shui-bian created the term "preemptive defense" (*xianzhi fangyu*), all of which are different from the defense strategy previously pronounced.

Lian Chan's Active Defense.

The KMT presidential candidate, then Vice President Lian Chan, revealed his defense policy platform in his opening keynote speech at an Armed Forces University conference on December 8, 1999:

Our current defense strategy is built upon the strategic concept of "resolute defense and effective deterrence." Resolute defense should not be interpreted as passively awaiting for enemy's attack; rather, it should be understood as conducting tactical offense based on our defensive strategy. In other words, Taiwan's defense strategy can be moved forward to that of "active defense, effective deterrence" (*jiji fangyu, youxiao hezu*).⁹

Lian's speech marked an ambiguous departure from Lee Teng-hui's strategic concept of "resolute defense" and caused some confusion. Defense analysts were not sure whether this change was the result of a thorough policy review by the defense ministry or of premature thinking by his campaign staff. Besides, Lian did not give any definition of his "active defense" nor elaborate how the concept differed from the PRC military strategy of "active defense." His remarks generated some debates in local newspapers and within the Defense Ministry.

Based on his "new" strategic concept set forth in the speech, Lian went on to suggest that Taiwan's national defense should focus on:

- Expanding the use of digital technology in the military build up;
- strengthening missile defense capability; and
- building up credible deterrence by enhancing naval and air power and developing long-range surface-to-surface missiles as its second strike capability.

His remarks immediately raised the eyebrows of the defense community in Taiwan, who questioned the offensive nature of such a strategy. However the missile part was deleted in the official press release of the Presidential Office later that day.¹⁰ Throughout the rest of the presidential campaign, Lian did not further elaborate his concept of “active defense” and the term has been gradually fading away as a result of Lian’s defeat in the presidential election.

James Soong—Forward Defense.

James Soong considers Lian’s defense concept of “active defense” as a move in right direction, but opposes the ideas of developing long-range missiles for Taiwan’s second strike capability, arguing that Taiwan does not possess key technologies for building missiles and it would invite international sanctions against Taipei. He believes:

When armed conflict breaks out, our first vital issue of concern is whether we have a preemptive capability to deter invasion. Taiwan enjoys very limited depth of defense, and military installations may not be able to survive the first strike. Therefore, we consider that a strong defense should be built on the strategic objective of “active deterrence and effective defense” (*jiji hezu, youxiao fangwei*) and the defense concept of “forward defense,”¹¹ consisting with 3Cs—Communication, Capability, and Credibility.¹²

Based on his perception of future military challenges, Soong proposes that Taiwan should push its defense line westward, close to the Chinese mainland, making China’s coastline major areas of operations to extend Taiwan’s

depth of defense. Soong further defines the guideline for his “forward defense”:

- establishing a 3-step decision process of 1) early warning system, 2) crisis management mechanism, and 3) decision for preemptive or retaliation attack against the mainland;
- developing precision and effective land attack cruise missiles (LACM) and unmanned aerial vehicles (UAV), targeting military installations, missile bases, airports, and ports within the areas of threat to delay or destroy the offensive capability of the PLA; and,
- increasing the survivability of Taiwan’s defense capability by acquiring or developing certain numbers of modern submarines that can mine the Chinese harbors or wage retaliatory assaults against mainland targets.¹³

Given Soong’s close relationship with the military establishment, it was widely believed that many active duty and retired generals and admirals have indirectly shaped Soong’s views on future military challenges in the Taiwan Strait and contributed to his defense policy. If that was true, the “proactive” defense concept mentioned above merits further study.

Chen Shui-bian—Preemptive Defense.

Chen Shui-bian has long been recognized as Taiwan’s “leading specialist in defense affairs” in the eyes of his colleagues in the Legislative Yuan. Not only because he was co-chairman of the defense committee but also because of his interests in the defense budget and organization. It was not a surprise that Chen was the first among three major presidential candidates who revealed his defense policy. The DPP presidential campaign platform argued:

In the aspect of military strategy, being an island state surrounded by oceans, Taiwan’s security threats come primarily from air and naval attacks beyond its boundary.

Accordingly, Taiwan should adjust its military strategy from “pure defense” to that of “offensive defense” (*gongshi fangyu*). Taiwan should also abandon the old concept of attrition warfare, which seeks decisive campaign at beach areas, and replace it with a military force that can paralyze enemy's warfighting capability and keeping the war away from Taiwan as far as possible. In the aspect of military preparation and readiness, based on the principle of conducting “decisive campaign beyond boundary,” Taiwan military should actively build up capability that can strike against source of threat; enhancing naval and air forces; develop joint operations and information warfare capabilities.¹⁴

Based on these perceptions, Chen formulated his defense concept as “preemptive defense,” which means maintaining a strong deterrence posture during peacetime through the development of information warfare and long range precision strike capabilities. But, in wartime, Taiwan should apply preemptive measures:

- to maintain information, naval and air superiority;
- to suppress and destroy the enemy's C4I system and its warfighting and logistic capabilities;
- to conduct antisubmarine and anti-blockade warfare; and
- to effectively control the scale of military conflict and keep war away from Taiwan's territory.¹⁵

For the purpose of attracting votes, policy platforms and campaign promises of any presidential candidate could be seen as more idealistic than reality and may have limited implications for policy direction once he is elected. Nonetheless, by examining the defense policies outlined by all three major presidential candidates, one can find some commonalities among them:

1. The logic behind their defense policies appears to be more offensive in nature than that in the Lee Teng-hui era.
2. They agreed that Taiwan should actively seek the initiative in military operations against the PRC.

3. In a war with the PRC, preemptive and/or retaliatory measures are not excluded in their policy options.

4. They all agreed that the areas of operations in cross-strait military conflict should be kept far away from Taiwan.

5. They all gave more emphasis on naval and air power, and information warfare in a future force build up.

These common perceptions do not, however, suggest some of these conceptual consensuses would be translated into policies no matter who was elected president. But they do reflect some general trends in defense thinking among political leaders in Taiwan. One of the keys in this strategic transformation attempt is whether the uniformed services share the same vision of such changes, and the degree of support that different candidates could get from the military.

CONCEPTUALIZING CHEN SHUI-BIAN'S DEFENSE CONCEPT

Chen's position on defense affairs was presented as part of the *DPP National Security White Paper*, a collective work of a small number of DPP leaders and many independent scholars. There has been no direct evidence showing how much the Paper reflects Chen's personal views on defense affairs. However, by examining his previous works, one can better understand the origins of Chen's defense thinking.

DPP and Chen Shui-bian on Defense Affairs.

Chen is one of the very few DPP members who has shown interest in defense policy. Indeed, the DPP as a whole has had very limited impact on Taiwan's defense affairs. It was because of the "closed system" of Taiwan's military community and decision process on the one hand; and on the other hand, the lack of professional military officers and civilian specialists who are willing to identify themselves with the DPP due to its pro-Taiwan independence stance.

The Military, Defense Policy, and the DPP. The pioneer within the DPP in studying defense affairs is Mr. Huang Huang-hsiung, a senior member of the Control Yuan.¹⁶ He is the author of Taiwan's first but unofficial Defense White Paper, published in 1989, 3 years before the Ministry of National Defense issued its first official Defense White Paper.¹⁷ Mr. Kang Ning-hsiang, another respected DPP defense specialist, has been a senior member and chairman of the Defense Committee of the Control Yuan. Mr. Kang made his name known by his knowledge of foreign military procurement procedures and by his investigation of several corruption cases.¹⁸ Huang and Kang are the only two senior members of the DPP who have long public records involving defense policies.

Chen, as a younger generation legislator, followed the footsteps of Huang Huang-hsiung in the pursuit of defense issues in the Legislative Yuan and was rapidly recognized as the country's leading legislator who challenged the military establishment on almost every possible occasion by verbal interrogation, street protest, and even physical confrontation. In 1992, He and his protégé, Ko Chen-heng, co-authored the second nonofficial Defense White Paper, presenting not only his extended interests in defense studies but also his dedication to defense reform and reorganization.¹⁹ Since Chen was elected the Mayor of Taipei in 1994, there was no significant DPP presence in defense affairs in the Legislative Yuan except Dr. Parris Chang, a professor of international relations from Pennsylvania State University. Representing the DPP's overseas constituency, Chang served as the Party's representative in Washington, and a strong critic of the KMT's defense policy. He was also the convener of the defense policy advisory group in Chen's presidential campaign.

Dr. Michael Ming-hsian Tsai made his name as a long-time supporter of the Taiwan independence movement in the United States. After returning to Taiwan and being elected as Legislator representing the City of Taichung,

Tsai has shown great interest in military affairs and became a co-chair of the Defense Committee of the Legislative Yuan. According to former premier and defense minister Tang Fei, Tsai has been very instrumental in fostering defense reform and in the passage of the defense reorganization bill in early 2000. It was reported that Tsai was one of the leading candidates for the position of deputy minister of defense in the Chen administration. Although he did not get the appointment, Tsai continues to show his great interest in defense affairs. In October 2000 he published Taiwan's first bilingual defense journal—*Taiwan Defense Affairs (Quarterly)*—making it much easier for Taiwan's domestic discussions of defense policy and military affairs to reach interested foreign readers.

In recent years, more DPP legislators, such as Lee Wen-chung and Chen Chung-hsin, have shown their interest in defense affairs²⁰ by convening public hearings and participating in various conferences on defense matters. Through such efforts, they gradually were able to engage defense officials as well as scholars in the community.

DPP and Key Defense Issues. In general terms, very few members of the DPP had shown interest in defense affairs. This was partly due to the fact that the military has long been an institution that resisted civilian participation and intervention. In addition, the Taiwan independence position of the DPP was considered disloyal to the Constitution by the military, which upholds the belief in China's eventual unity. In such an environment, the only way for the DPP to exercise influence over defense affairs was through the legislative process. In analyzing the DPP tactics of the past 10 years, one can find the following correlated steps:

- Build up a certain reputation in defense affairs. Legislator Huang Huang-hsiung chose to deal with the military establishment by publishing his own Defense White Paper in 1989. Chen Shui-bian followed the same

approach and published his in 1992.²¹ These efforts have made their names known to professional soldiers, defense policy circles, and the academic community.

- Push for strategic transformation. By advocating a defensive military strategy, the DPP forced the KMT government to openly admit that Taiwan's defense policy has been adjusted to "pure defense." Such a move brought about two significant implications. First, it showed that an offensive strategy aiming at recovering the mainland could not reflect the reality. Secondly, a change of defense policy would pave the way for defense budget cuts.²²

- Trim down defense budget and resources. Once "pure defense" became the official defense policy, the DPP pushed the government to cut the defense budget and divert resources to other expenditures, such as economic development and social welfare programs. The DPP also asked the defense ministry to shorten the time for political education, reducing political control over the military. By doing so, the DPP was able to gradually chop off the influence of the military establishment over domestic politics.²³

- Call for defense reorganization. The last step the DPP took was defense reorganization to reflect the defensive strategy. They argued that, under the new strategy, Taiwan does not need a force structure for offensive operations since retaking the mainland by force was no longer a national objective. By advocating a defense reform with "the convergence of military policy and military command systems," the DPP hoped to institutionalize civilian control over the military establishment.²⁴

Through these tactical maneuvers in the legislative process, the DPP has been successful in not only influencing defense policies, but also transforming its image from an anti-military establishment to that of defense reformer.

The Overall Concept of Chen's Defense Policy. It was clear that when pushing for force cuts and reduction of the

defense budget in the first half of the 1990s, the DPP and Chen were in large part aiming at weakening the KMT's party control over the military. Even most DPP members admit today that at that time they never thought that a DPP member could become the Commander-in-Chief of the armed forces before the turn of the century.

When Chen was nominated as a presidential candidate in 1999, he and the DPP organized a group of advisors and formulated a new Defense White Paper.²⁵ As part of a general national security campaign platform, Chen's defense policy covers a wide range of issues, including civilian control over the military, defense reorganization, active defense strategy, joint warfare, advanced technology, military personnel reform, and the mobilization system. The following section will keep the focus on Chen's views on military strategy and related issues.

Preventive Defense. Chen considers that one of the highest priorities for the president is to prevent war and preserve peace. He believes that Taiwan's security cannot be assured if both sides get into an arms race. Therefore, the DPP advocates a "proactive confidence building mechanism to promote mutual trust between the two states (liang guo)—Taiwan and China, in order to reduce tensions across the Taiwan Strait and to forge a peaceful and stable environment in the Asia-Pacific region for common development."²⁶ To formulate their preventive policies, Chen and his defense policy advisors borrowed many concepts from the practices of foreign countries such as increasing military transparency, publishing a Defense White Paper, establishing hot lines, and promoting personnel exchanges. All of these are idealistic concepts and are legitimate to be included in a campaign document; but translating them into effective policies would be extremely difficult through a unilateral effort by Taiwan.

Active Deterrence. The DPP conceives that Taiwan is under tremendous military threats from the PRC and understands that hostile military actions may not be

prevented even through confidence building and other measures. Therefore, in peacetime, Chen believes Taiwan should build up an effective deterrence capability, including 1) maintaining necessary defense forces; 2) improving force survivability; and 3) preserving a second-strike capability. If a military crisis escalates to the brink of a war, Chen believes Taiwan should take active measures, such as a show of force, military exercise, partial mobilization, and other actions to demonstrate the determination of Taiwan to deter military adventurism.²⁷

Decisive Strike. Should preventive efforts and deterrence both fail, Chen believes “attack is the best defense” and calls for decisive military actions against the enemy. In his mind, extending Taiwan’s defense depth forward into the enemy’s territory, suppressing and destroying the enemy’s command and control systems, and paralyzing the enemy’s capability to wage war against Taiwan are necessary and “legitimate” measures for national defense once Taiwan is perceived to be under attack. Keeping the war/area of operations in the enemy’s territory, or beyond Taiwan’s boundary is the highest principle in military operations.²⁸

Chen’s 3-in-1 defense policy of prevent-deter-strike is similar to the U.S. national military strategy of prevent-deter-defeat. Given Taiwan’s unique international status and limited military capability, however, the “offensive” nature in military actions called by Chen has been rather hard to understand for many observers in Taiwan as well as in international community.

Jue Zhan Jing Wai—The Confused Terminology.

Among Chen’s various defense concepts, the most debated terminology of “decisive campaign beyond boundary” surfaced for the first time when Chen’s campaign platform was published in late 1999.²⁹ But the term caught little attention in Taiwan even after Chen was elected president on March 18, 2000. In strict terms, “decisive

campaign beyond boundary" was not an official policy until President Chen pronounced it in his remarks at the Chinese Military Academy, which generated a whole host of debate across the defense community in seminars, talk shows and the printed press.

Boundary and Beyond. The term "*jing wai*" could be translated as areas beyond "boundary," "territory," "war zone," or "area of operations." In Chen's presidential campaign platform, the DPP did not clearly conceptualize the term, but loosely implied that it meant areas beyond the homeland. In geographical terms, "*jing wai*" could mean the entire Taiwan Strait, covering the areas from Taiwan's west coast to the east coast of the mainland. It could also mean the eastern half of the Taiwan Strait, an area between Taiwan's coastlines and the arbitrary middle line. In political terms, "*jing wai*" could mean the areas beyond Taiwan's jurisdiction, i.e., any place other than Taiwan, Penghu, Quemoy, and Matzu. By the ROC constitution, however, the mainland remains part of national territory; accordingly, "*jing wai*" carries no sensible meaning at all. In reality, Quemoy and Matzu are too far away from Taiwan and hard to defend. Then the question becomes whether the two offshore islands are viewed as part of "*jing wai*." Further, in the age of information warfare, how can one clearly define "boundary" or "territory"? The lack of clear definition and articulation of such a term by Chen and his advisors has created great confusion within the defense ministry and in a larger part the entire military establishment.

Decisive Campaign. Decisive campaign is understood as a large-scale military engagement between conflicting parties in a particular period of time and at a certain location by which its result would have significant impact on the final outcome of a war. When Chen pronounced the term "decisive campaign beyond boundary" in June 2000, neither himself nor his national defense advisors offered a definition of "decisive campaign." In the context of cross-strait conflict, it is hard to imagine how a decisive

campaign would take place, evolve, and come to an end. In the post-World War II history, rarely can we find a “decisive campaign” that could bring about an end of military conflict. Given the current balance of comprehensive national power and military strength across the Taiwan Strait, Taiwan would find it extremely hard to force a decisive campaign on China’s People’s Liberation Army (PLA). Moreover, China, by its sheer size and multi-layer force deployment, would enjoy more freedom of action in a military conflict against Taiwan. To change the overall strategic posture or discourage China’s will to continue the war through a decisive military campaign would be almost impossible. Even if Taiwan could acquire a strong capability to decisively defeat the PLA at some point, the conduct of such a campaign would require clear preparation and planning. A vague, loosely defined terminology may not be executable at the operational level.

The confusion and debates over the terminology that generated in the public surprised many defense watchers close to the DPP who had been directly involved in formulating the concept. According to them, the term “decisive campaign beyond boundary” was deliberately created by some of Chen’s advisors to challenge the existing defense concept of “decisive campaign at beach areas” (*tanan juezhan*), which was considered too passive and gave too much emphasis on the ground forces. They argued that the motivation behind the term “decisive campaign beyond boundary” was in fact very simple and easy to understand: keeping the war away from the homeland as far as possible. For some of Chen’s advisors, it has been rather unfortunate that the whole defense community and interested academics went into nasty debates over their laxly picked terminology.³⁰

THE CONCEPTUAL DEBATES OVER “DECISIVE CAMPAIGN BEYOND BOUNDARY”

If Chen had lost the presidential campaign, the term “decisive campaign beyond boundary” might have been buried or forgotten at least for the next 4 years. However, meaningful debates are warranted since Chen assumed the presidency, and publicly pronounced it at a military institution. So far, the term “decisive campaign beyond boundary” has not been officially adopted by the Taiwan military and has not appeared in any official document issued by the Ministry of National Defense. The debate within Taiwan’s defense community continues.

In the prolonged debate since Chen’s official announcement in June 2000, generally three groupings have emerged: 1) the (young) DPP advisors promoting Chen’s idea, 2) defense specialists opposing the concept, and 3) the active duty professional military, who are caught in between.

The Extended DPP Views.

Some young policy researchers and advisors within the DPP continued to argue that “decisive campaign beyond boundary” is a right approach in guiding defense policy. They argue that the concept should not be discarded but further developed and perfected. According to the publications by these young scholars, the concept of “decisive campaign beyond boundary” has some room for theoretical development and practical implications.

First Strike. Based on Chen’s campaign platform, Taiwan would not engage in armed conflict with the mainland until deterrence fails. In other words, once the PRC initiates a war or shows obvious signs that it is preparing to use force, Taiwan will have the right to conduct attacks against targets on the mainland. Since Chen’s official announcement of “decisive campaign beyond boundary,” several defense advisors within the DPP have

started a new round of assessment on the legality of “anticipatory self-defense” in international law, the relative blurred line between first strike and second strike,³¹ the feasibility of preemptive air strike against the mainland,³² and other theoretical studies. According to their perceptions, in the practice of international law it is not entirely illegal to strike first if the PRC’s hostility can be verified.

Defense Depth. The DPP defense advisors consider the short distance, about 70 to 100 nautical miles, of the Taiwan Strait cannot provide Taiwan sufficient depth of defense. They believe that “deep strike” (*zongshen daji*) and “source attack” (*yuantou gongji*) is the necessary and best way to conduct decisive operations. Based on such perceptions, Taiwan would be able to significantly increase its strategic depth by expanding the areas of operations far into the enemy’s territory.³³

Seizing Initiative. Seizing the initiative in military operations, in the eyes of DPP defense specialists, is the key to the security of Taiwan. They consider Taiwan cannot sit idly by, watching the PLA maneuver and assemble on the other side of the Taiwan Strait, and take no action. Therefore, the old thinking of passively “accepting the first blow” (*houfa zhiren*) and “annihilation of invading enemy at beach areas” (*jiandi yu tantou*) are the worst option. They believe that it is important for the Taiwan military to take the initiative strategically and tactically to ensure the possibility of success.

Operational Concept. DPP advisors argued that the “decisive campaign beyond boundary” idea was not intended to annihilate enemy forces on a large scale, but to 1) paralyze the enemy’s capability to conduct operations; 2) alter the enemy’s operational and logistical plans; or, 3) at least delay the enemy’s offensive to a certain degree.³⁴ In case of air operations, the DPP defense advisors suggest that the primary targets on the mainland are the air force bases and short range ballistic missile launching sites

within 250 nautical miles in range, and secondary targets within 500 nautical miles.³⁵

Political Gain. One of the new concepts developed within the DPP has been using Taiwan's strong military capability as the base to force and increase the country's international visibility and participation. They argue, with "certain long-range strike capability and appropriate naval forces," Taiwan would have a better chance to get itself invited to international and regional security dialogue. Offensive force build up is politically beneficial by adding Taiwan's weight in multilateral security forums and bargaining chips in future arms control.³⁶

The Opposition Views.

Since Chen's announcement of "decisive campaign beyond boundary," many prominent defense analysts in Taiwan have expressed strong opposition to such a concept, discrediting the concept as strategically unwise, operationally difficult, technically premature, and organizationally biased.³⁷

Strategic level.

- **Provocative to China.** The strongest critique of Chen's defense concept has been the wisdom and rationale behind the idea of keeping the battle space in the Chinese mainland. Many specialists consider such a concept may be a political statement aiming at boosting domestic morale and confidence, but it could unnecessarily antagonize Beijing when China has strong suspicions and reservations about the newly established DPP Administration.

- **Damaging International Relations.** Most of Taiwan analysts opposing Chen's defense concept argue that even if the President is thinking of offensive military options in a future conflict with China, it is extremely unwise to "talk" too much about Taiwan's offensive options. Given Taiwan's difficult international relations, a clear statement that reveals the intention of taking preemptive actions against

the mainland would be politically devastating for Taiwan because it will enrage Washington and neighbors in the Asia-Pacific region and in the end hurt Taiwan's foreign relations.

- **Complicating Foreign Military Assistance.** Taiwan's military development relies heavily on continuing foreign military assistance. The cold reality is that nations, especially the United States, would provide Taiwan advanced military systems only on the basis that Taiwan adopts a defensive military strategy. If Taiwan shows its intention of taking offensive military actions against China, many countries would take a more cautious policy and constrain their military sales and technology transfers to Taiwan.

- **Intentions Surpass Capability.** On the preemptive concept of "decisive campaign beyond boundary," most specialists in Taiwan consider it unrealistic simply because Taiwan does not have the capability to support such an idea. They argue that Taiwan's current order of battle, including tactical combat aircraft, short range antiship missiles, and limited command and control capabilities, could attack only limited Chinese targets, but is far from being able to conduct a decisive campaign on the Chinese mainland. They question Chen's unsophisticated knowledge of the real capacity of the Taiwan military.

- **When to Attack?** When introducing the concept of "decisive campaign beyond boundary," Chen failed to clarify whether it means preemptive or retaliatory military actions against China. Even if he implies that Taiwan will not fire the first shot, it would be extremely difficult to identify the "proper" timing for the Taiwan military to act. If DPP advisors consider that a hostile Chinese massive military assembly in the coastal areas warrants a rapid military response, the international community may react negatively and oppose a preemptive attack from Taiwan. Even if Chen's new defense concept means that Taiwan will take the first blow and then retaliate, no one could assure

that the surviving military forces after a Chinese preemptive attack are capable of conducting Chen's "decisive campaign beyond boundary."

- Exit strategy? Finally, if we assume that all the ideas such as first strike and other preemptive measures suggested by the DPP may be doable options in Chen's new defense concept, still, it does not provide a "guideline to end a war" (*zhongzhan zhidao*) for Taiwan's military. Given the sheer size of China, the PLA's ultra-nationalistic way of thinking, and its enormous war machine, it is hard to imagine that Beijing would easily bring the military campaign to an end without a clear outcome. The question then is how long can Taiwan survive an expected massive retaliation and sustain a war of attrition across the Taiwan Strait?

Operational level.

- Missile Defense. It is widely perceived that in the initial stage of a military conflict across the Taiwan Strait, the PRC will most likely start with an air attack on Taiwan with its short range ballistic missiles, but in the foreseeable future, Taiwan would not be able to acquire sufficient capability to defend itself from Chinese missiles. One can surely argue that the best missile defense is to wage preemptive assault against PRC's missile launchers; however, Taiwan's limited long-range offensive systems, lack of surveillance and reconnaissance capability, and China's increasingly mobile SRBM systems, all have made such options unattainable. In fact, Chinese missiles can destroy most of Taiwan's critical defense structures without engaging in a decisive campaign in the sea area and airspace of the Taiwan Strait.

- Air superiority. For the Taiwan Air Force, maintaining air superiority relies on active defense in the airspace over the Taiwan Strait. However, the challenge has been the fact that the PLA Air Force and Naval Air Force have several hundred combat aircraft stationed in about a dozen air force bases in the 250 nautical miles of range opposite to Taiwan.

In addition to the quantitative edge in aircraft, the continuously modernized PLA's anti-air missiles can now threaten Taiwan aircraft flying beyond the middle line of the Taiwan Strait. In the case of air war in the Strait, even if Taiwan can destroy most of the PLA combat aircraft based in the coastal provinces; China would still be able to transfer its second tier air force to the region and force the Taiwan Air Force into a war of attrition. However, Chen's concept of "decisive campaign beyond boundary" requires Taiwan's Air Force not only to defend Taiwan, but also to be able to conduct attacks against China's military assets well into the mainland airspace to compromise the PLA's warfighting capabilities. But the fact is that unless Taiwan builds up a meaningful long-range precision strike capability capable of attacking PLA air force bases 600 nautical miles opposite to Taiwan, it would be hard for Taiwan to seek a "decisive campaign" and maintain control of the air over the Taiwan Strait.

- Sea denial. In order to pursue a "decisive naval campaign" in the Taiwan Strait, ideally, the Taiwan Navy needs to be able to shape the tempo of operations and pressure the PLA Navy for an engagement at a chosen time and location. The conduct of meaningful sea denial operations requires the Taiwan Navy taking proactive actions and pushing the areas of operations away from the Taiwan coast to maintain navigation and some forms of safe passage in the Taiwan Strait. More importantly, the Taiwan Navy must be able to uphold its inner line superiority by preventing an assembly of the PLA Navy's East Sea Fleet and South Sea Fleet in the Taiwan Strait.³⁸ All of these operations would keep the Taiwan Navy operating beyond the middle line of the Taiwan Strait and within the range of China's coastal artillery, land-based surface-to-surface missiles, and air force. Whether the Taiwan Navy can carry out such multi-missions is difficult to assess, but failing to do that, it would be impossible for Taiwan to sustain its sea denial operations.

- Antisubmarine warfare. Theoretically, antisubmarine warfare (ASW) operations are better kept away from the Taiwan coast to reduce the possibility of the PLA Navy attacking ships sailing in the Strait and conducting mine-laying operations. In practice however, it has always been hard for the submarines to locate ships sailing on the high seas. Accordingly, the PLA Navy submarines are likely to be deployed near Taiwan's coastlines and harbor areas.³⁹ How can the concept of "decisive campaign beyond boundary" be practically applied in ASW operations remains a big question.

- Information warfare. In a world of information revolution, the old concept of geographical "boundary" makes little sense. When information warfare becomes a new but ambiguous form of conflict, "decisive campaign" may become a disconnected concept. In fact the "soft" nature of information warfare has made both winner and loser somewhat nonidentifiable. The DPP defense advisors developed the concept of "decisive campaign beyond boundary" based on conventional warfare thinking in which time and locations are critical. When information warfare becomes a viable option for both China and Taiwan as offensive measures against each other's command and control nodes and critical infrastructures, Chen's new defense concept would become almost irrelevant.

Other Critical Concerns. Many critics of Chen's defense policy have argued that before developing the concept of "decisive campaign beyond boundary," the DPP failed to consider several critical issues, such as:

- Technology Acquisition. If the current Taiwan force is not capable of implementing a preemptive strike against China, what would be the Chen government's defense technology policy and weapons systems development programs which will support the concept of "source attack" on the mainland? What are the critical military technologies necessary to support such missions? Would Taiwan be able to develop and acquire those technologies

without external assistance? Knowing Taiwan's intention, are foreign countries willing to provide those critical technologies to Taiwan?

- Weapons of Mass Destruction (WMD) Options? If Taiwan were contemplating preemptive and/or retaliatory attacks against the mainland, what are the forces available to carry out such missions? If Taiwan's existing conventional arms are not up to the mission, both in terms of firepower and delivery systems, is the DPP thinking of other options? Without sufficient deterrents in Taiwan's inventory, Chen's concept would naturally lead to a suspicion by the opposition and the international community that Taiwan may eventually go for a nuclear option. Can the ideas of developing medium- and long-range missiles and WMD, i.e. nuclear, biological, and chemical weapons, survive in Taiwan's political environment? Would the international community allow Taiwan to take such a course without harsh preventive measures and punitive sanctions?

- Policy Deliberation. Taiwan's former Chief of the General Staff, Hau Pei-tsun, questioned whether Chen's announcement of "decisive campaign beyond boundary" in June 2000 was a conclusion of well-deliberated consensus within the military. In fact, three days after Chen's remarks, Defense Minister Wu Shih-wen told the defense committee of the Legislative Yuan that the Ministry of National Defense had not yet "clearly thought through" the definition of President Chen's concept.⁴⁰ In addition, on July 4, 2000, then Premier Tang Fei admitted in a Legislative Yuan plenary session that he was not consulted in advance and personally has reservations regarding the use of such terms.⁴¹ According to extensive media inquiries in the wake of Chen's public pronouncement of his new defense concept, it was quite clear that almost the entire defense ministry and general staff were kept in the dark. If that were really the case, the DPP advisors owed the Taiwan military a sensible and comprehensive explanation.

The PRC Response. The Chinese government and the PLA did not fiercely respond to Chen's call for a new defense concept. *The People's Daily* considers Chen's announcement as part of his Taiwan independence agenda, but warns that Taiwan's existing military force is not capable of extending war into the Chinese mainland.⁴² In a workshop hosted by the Strategic Department of the Academy of Military Science, PLA officers from the National Defense University, the Navy Research Institute, and the Nanjing Political College agreed that Chen's new military concept is contradictory to Taiwan's existing defense concept, and is not well-received by the military establishment.⁴³

The Professional Soldiers.

Being caught between the new DPP defense policy makers promoting the concept of "decisive campaign beyond boundary," and realistic defense specialists opposing such an idea, the Taiwan military as a whole has experienced a difficult time since June 2000. Chief of the General Staff Tang Yau-ming chose to swallow all the critiques to protect the president. The challenge then, has been how to close the gaps between the intention of the commander-in-chief and the existing capability of the armed forces.

Although two former military chiefs, General Hau and General Tang, and many retired senior military officials openly expressed their strong reservations over Chen's new defense concept, the active duty officers at the MND and the Joint Staff had no choice but to justify the president's act. Although admitting that the MND had not yet conceptualized the new policy, Minister Wu insisted that the military would carry out any mission assigned by the president with or without such capability.⁴⁴ Wu suggested that the concept of "decisive campaign beyond boundary" could be understood as "resisting Chinese invasion in the areas 12 nautical miles beyond the island of Taiwan."⁴⁵ The Joint Staff went further to identify its position with the president. To answer the mounting confusion over Chen's

new defense concept, Chief of the General Staff Tang held a special press conference on July 7, 2000, and suggested the following interpretations:

- Making it clear that it was the Joint Staff that drafted Chen's June 16, 2000 speech; and the president did not make any change of the suggested text or wording.

- For the concept of "beyond boundary," the Taiwan military considers it as the areas of operations in the Taiwan Strait, but definitely not on the mainland.

- The concept of "decisive campaign beyond boundary" is not newly created, and in fact has long been the guidance for the Taiwan military. Keeping the war away from Taiwan Island has been a concept emphasized by all Chiefs of the General Staff since the early 1960s.

- The concept of "decisive campaign beyond boundary" is similar to that of "converging offense with defense" in the Chiang Ching-kuo era, and is also parallel to the concept of "resolute defense, effective deterrence" under the Lee Teng-hui presidency.

- The Taiwan military is more or less capable of keeping up with the goal of "resolute defense." Military construction is an integrated and long-term process and "decisive campaign beyond boundary" is one of our long-term objectives.⁴⁶

In addition, the defense ministry interpreted the president's new defense concept by borrowing a concept developed by Dr. Ta-wei Yu, defense minister during the 1958 Taiwan Strait Crisis. Dr. Yu has a famous four-step strategy for Taiwan defense:

- 1) resist enemy at mainland coast,
- 2) attack enemy in the strait,
- 3) destroy enemy at Taiwan coast, and
- 4) annihilate enemy at beach areas.⁴⁷

According to General Cheng Shih-yu, executive director of J-3, the Taiwan military is currently capable of carrying out the last two missions under the existing military guideline of "decisive campaign at beach areas." The military considers the first two steps are similar to Chen's concept of "decisive campaign beyond boundary," and thus the concept has been in existence for 40 years.⁴⁸

Indeed, the defense ministry worked hard to shield the president from being interrogated by the opposition and the press on the issue. Chen himself also somewhat modified his statement later when he visited the Army Headquarters, indicating that, should Air Force and the Navy fail to stop the Chinese invasion, the ground force will be the vital element for a decisive campaign to ensure national survival.⁴⁹ In reality, in *Defense White Paper 2000*, the first one under Chen's presidency, the MND does not include Chen's new defense concept and maintains its original position of "effective deterrence, resolute defense" as Taiwan's defense guideline. Moreover, some creative military officers have privately suggested a modification of Chen's concept to "military operations beyond boundary" (*jingwai zuozhan*) or "resisting invasion beyond boundary" (*judi jingwai*), which are much more mild than the DPP's use of terminology and closer to Taiwan's real intention as well as military capability.⁵⁰

REFLECTION AND CONCLUSION

To most Taiwan defense specialists questioning the concept of "decisive campaign beyond boundary," the DPP and its defense advisors are inexperienced, nonpragmatic, and lack understanding of military affairs and international *realpolitik*. However, close watchers of Taiwan politics may have observed that since Taiwan's last presidential election, there has been a growing voice within Taiwan advocating a military build-up with offensive characteristics. This may reflect a growing sense of

insecurity of the Taiwan people in the face of an emerging Chinese power.

Politically, Taiwan's continuing democratization has not yet led to an improvement in its international status. For the Taiwan people, Beijing's peaceful unification pledge is compromised by its own insistence on keeping the force option. The rapid growth of China's comprehensive national power is gradually changing the strategic balance across the Taiwan Strait. Militarily, the PRC missile threats are real, but there is no sufficient way to defend Taiwan from being harassed. As discussed earlier, technologies of ballistic and cruise missile defense are not yet matured and even if sophisticated missile defense systems were to be available, Taiwan would have difficulty acquiring such a system due to financial costs and Chinese objections. Consequently, it becomes easy to understand that increasing numbers of Taiwan people are contemplating offensive options to sustain an "effective deterrence" against the Chinese threat and the uneasy strategic balance in the Taiwan Strait that has been maintained for the past 50 years.

For the United States and other countries in the Asia-Pacific region, Taiwan's emerging offensive concept of homeland defense may be a source of instability in the Asia-Pacific region. It would ignite a new round of arms race, intensify China's military build up, poison the already difficult Washington-Beijing relationship, and eventually damage Taiwan's own security. To honor Taiwan's democratic effort, to prevent Taiwan from being an isolated fighter, to encourage dialogue across the Taiwan Strait, and to protect the common security and commercial interests in the region, it may be necessary for the United States and its allies to convince the Taipei government to maintain a defensive military strategy by offering sufficient security assurance and by keeping a dynamic military balance in the Taiwan Strait.

ENDNOTES - CHAPTER 8

1. Chen Shui-bian, "Declaring the Concept of 'Decisive Campaign Beyond Boundary': Excerpt of President Chen's Speech at the Chinese Military Academy" [*jingwai juezhan gainian de tichu: Chen zongtong lu guan yanjianggao jielu*], *Taiwan Defense Affairs Quarterly* [*guofang zhengce pinglun*], Taipei: Congressional office of Legislator Michael M. Tsai, No. 1, October 2000, p. 130.

2. *China Times* [*zhongguo shibao*] June 16, 2000, <http://ctnews.kimo.com.tw/2000/06/16/polity/ettoday/404899.html>.

3. Huang Huang-hsiung, *National Defense White Paper* [*guofang baipishu*], Taipei: Taiwan Research Foundation, 1989, pp. 91-92. Chen Shui-bian and Ko Chen-heng, *White Paper on the Black Box of Defense* [*guofang heihezi yu baipishu*], Taipei: Formosa Foundation, 1992, p. 251. Huang Huang-hsiung, *Strategy: Taiwan Marching Forward* [*zhanlue: Taiwan xiangqianxing*], Taipei: Qianwei Publisher, 1995, pp. 169-170.

4. Chi-heng Yang, "The Evolution and Adaption of Taiwan's Military Strategy," conference paper, International Conference on Future Vision of Taiwan's Defense Policy and Military Strategy, Taipei, January 18, 2001, p. 6.

5. The reason for such a change in defense policy is discussed in the following sections in the paper. See Ministry of National Defense, *National Defense Report—1994*, Taipei: Li Ming Publisher, 1994, p. 73.

6. Ministry of National Defense, *National Defense Report—1996*, Taipei: Li Ming Publisher, 1996, p. 54. Defense guideline for the offshore islands Quemoy and Matzu was "isolated defense" [*duli gushou*] which means the offshore islands have to be self-sufficient in time of war and should not expect reenforcement from forces based in Taiwan.

7. Ministry of National Defense, *National Defense Report—2000*, Taipei: Li Ming Publisher, 2000, p. 64. The change of defense guideline, emphasizing more on deterrence than on defense, was a response to Lian Chan's advocacy of "active defense" in December 1999. See following section for detailed analysis.

8. James Soong, former KMT Secretary-General, established his own political party—the People First Party (PFP) immediately after his thin margin defeat to President Chen Shui-bian. Most of the members of the PFP were previously KMT supporters.

9. The author was in the audience of that conference. See Presidential Office News Release, December 8, 1999; and Lian Chan, *Lian Chan's Policy Views [Lian Chan de zhuzhang]*, Taipei: The Commonwealth Publishing, 2000, p. 12.

10. In an interview with the person who drafted Lian's speech after the presidential election, the drafter admitted that the original language used regarding acquiring a second strike capability was quite moderate, however, senior campaign staff later insisted on more "active" and "precise" wording to make Lian's position distinct from the past.

11. James Soong and Chao-hsiung Chang, *Soong-Chang National Policy Guideline for the 21st Century [Soong-Chang kuashiji guojia zhengce gangling]*, Taipei: The Soong-Chang Presidential Campaign Headquarters, 2000, pp. 43-46.

12. The 3Cs concept was borrowed from the three elements of deterrence in John Baylis, Ken Booth, John Garnett, and Phil William, *Contemporary Strategy*, London: Croom Helm, 1987, pp. 70-75.

13. James Soong and Chao-hsiung Chang, pp. 46-47.

14. Chen Shui-bian, *New Century, New Future: Chen Shui-bian's Blueprint for the Nation—Volume 1: National Security [xinshiji xinchulu: Chen Shui-bian guojia lantu—diyice: guojia anquan]*, Taipei: Chen Shui-bian Presidential Campaign Headquarters, 1999, pp. 50-51.

15. *Ibid.*, pp. 74-75.

16. Huang Huang-hsiung, *Strategy: Taiwan Marching Forward [zhanlue: Taiwan xiangqianxing]*, Taipei: Qianwei Publisher, 1995, pp. 163-195. Huang served several terms as DPP member of the Legislative Yuan.

17. Huang Huang-hsiung, *National Defense White Paper [guofang baipishu]*, Taipei: Taiwan Research Foundation, 1989.

18. By law, members of the Control Yuan should exercise their power beyond party politics. Mr. Kang has stopped his party activities since becoming a member.

19. Chen Shui-bian and Ko Chen-heng, *White Paper on the Black Box of Defense [guofang heihezi yu baipishu]*, Taipei: Formosa Foundation, 1992.

20. Legislator Lee told the author in early 2001, that he is committed to stay in the defense committee as long as his tenure in the Legislative Yuan.

21. Huang Huang-hsiung, *Strategy*, pp. 167-168. Their white papers primarily follow the format of Japan's Defense White Paper and include assessment of security environment, defense policy, budget, and civil-military relations.

22. *Ibid.*, pp. 168-169.

23. *Ibid.*, pp. 171-178.

24. *Ibid.*, pp. 179-187.

25. Chen Sui-bian's *New Century, New Future* includes three parts: China policy white paper, defense white paper, and foreign policy white paper.

26. *Ibid.*, p. 64.

27. *Ibid.*, pp. 68-69.

28. *Ibid.*, pp. 74-76.

29. According to the author's interview with many defense watchers in Taipei, the term "decisive campaign beyond boundary" was first coined by Mr. Su Tzu-yun, a young DPP research fellow in his early 30s with a master degree in strategic studies from Tamkang University. The concept derived from that term was further developed by a group of advisors in Chen's presidential campaign.

30. The author's discussion with young staff of the DPP's policy committee.

31. Su Tzu-yun, "The Feasibility of Making First Strike and Taiwan's Rights of Anticipatory Self-Defense," [*woguo diyiji zhanlue kexingxing pinggu yu yuxian ziwei quan zhi zhuzhang*], unpublished conference paper in *Proceedings of Conference on Taiwan Defense Operations Concept and Air Force Planning 2011*, Air War College, National Defense University, November 4, 2000, pp. 3-2, 3-17. See also Su Tzu-yun, "The Defense Concept of the Democratic Progressive Party," [*minjindang de guofang linian*], *Defense Technology Monthly*, [*jianduan keji*], Taipei, January 2000, pp. 59-60.

32. Chang Kuo-cheng, "On the Execution of Air Operations Beyond Boundary" [*woguo kongjun zhixing judi jingwai zuozhan zhi yanxi*],

unpublished conference paper in *Proceedings of Conference on Taiwan Defense Operations Concept and Air Force Planning 2011*, Air War College, National Defense University, November 4, 2000. Mr. Chang is deputy director of DPP's China Affairs Department and was special assistant to Vice Minister of Defense Dr. Peter Pi-chao Chen.

33. Su Tzu-yun, "The Transformation of Taiwan's Defense Strategy and Defense Concept of the New Administration" [*Taiwan fangwei zhanlue de zhuanbian yu xinzhengfu de guofang linian*], *Taiwan Defense Affairs Quarterly* [*guofang zhengce pinglun*], Taipei: Congressional Office of Legislator Michael M. Tsai, Vol. 1, No.1, October 2000, p. 125.

34. *Ibid.*

35. Su Tzu-yun, "The Feasibility of Making First Strike and Taiwan's Rights of Anticipatory Self-Defense," pp. 3-21.

36. *Ibid.*, pp. 3-25.

37. See James Soong, "On Decisive Campaign Beyond Boundary," *Independent Evening News*, August 10, 2000, p. 4; Pei-tsun Hau, "Decisive Campaign Beyond Boundary Cannot Be Done,," July 5, 2000, <http://www.chinatimes.com.tw>; Jian Chung, "Decisive Campaign Beyond Boundary: Good Idea, Impossible to Realize," *China Times*, July 13, 2000, p. 15; Pinkov, "Decisive Campaign Beyond Boundary? Or Annihilate Enemy Beyond Island," *China Times*, July 8, 2000, p. 2; Chong-tao Wu, "The Confusion Over Decisive Campaign Beyond Boundary," July 5, 2000, <http://www.chinatimes.com.tw>; Shi-tong Ho, "Decisive Campaign Beyond Boundary is a Strategy for Strong Power, Not Small Power," op-ed section, *United Daily News*, July 5, 2000, p. 15; Hsiung-po Kao, "Are We Capable of Waging Preemptive Attack?" op-ed section, *United Daily News*, July 5, 2000, p. 15; Hsiao-huang Shu, "Decisive Campaign Beyond Boundary: Mixed Interpretations," *United Daily News*, July 9, 2000, p. 15.

38. Taiwan's naval officers, interviews by the author, August 17, 2000, in Taipei.

39. Taiwan's naval officers, interviews by the author, November 31, 2000, in Washington, DC.

40. *China Times*, June 19, 2000, <http://ctnews.kimo.com.tw/2000/06/19/realtime/70909.html>.

41. *United Daily News* [*lian he bao*], July 5, 2000, p. 3.

42. *People's Daily* [renmin ribao], July 13, 2000, <http://www.peopledaily.com.Cn/GB/channel11/14/20000713/142701.html>.
43. *Liberation Army Daily* [jiefang jun bao], August 3, 2000, http://www.pladaily.com.cn/pladaily/defence/20000803028011_huati.htm.
44. *China Times*, June 19, 2000, <http://ctnews.kimo.com.tw/2000/06/19/polity/pnn/410085.html>.
45. *Liberty Times* [ziyou shibao], June 20, 2000, <http://www.libertytimes.com.tw/today0620/today-p7.htm>.
46. *China Times*, July 8, 2000, p. 2.
47. Lee Yuan-ping, *Yu Tai-wei*, Taipei: Taiwan Daily Publisher, 1992, p. 236.
48. *The Youth Daily* [qingnian ribao], June 28, 2000, p. 3.
49. *Taiwan Times* [Taiwan Shibao], July 5, 2000, <http://www.ttimes.com.tw/2000/07/05/1/politics/200007040151.html>.
50. Author's private conversations with Taiwan military officers in July and August 2000.

CHAPTER 9

THE ARMS CONTROL AND BALLISTIC MISSILE DEFENSE COSTS OF A CHINESE CONFLICT

Wendy Frieman

INTRODUCTION

The theme chosen for this conference, the potential costs of conflict, offers participants the chance to be more precise than is usually the case when speculating about Chinese security policy. Although it is a comparatively easy task to project the costs of a given conflict for the United States, to do so from a Chinese perspective is a useful, if more challenging, exercise. It reveals the degree to which different countries, and different players within countries, disagree first, on what constitutes a cost, and second, on which costs would be bearable.

This chapter is an attempt to address one aspect of potential Chinese conflict. It is focused on the role of ballistic missiles in a local conflict and how that role would change in the context of theater or national missile defense deployments cum sales by the United States or allies in Asia.

The chapter begins with assumptions about what local conflict would mean for China, following which is an overview of China's ballistic missile inventory and how those weapons could be used in that conflict, and the degree to which the possession of these weapons affects China's calculation of the costs of conflict. The third section re-examines each of the previous questions raised in the context of potential U.S. or allied missile defense deployments, and addresses whether or not China's perception of the cost of conflict might change as a result of

U.S. deployments. The final section of the chapter offers tentative conclusions about how costs might be raised or lowered.

ASSUMPTIONS ABOUT LOCAL CONFLICT

Several key assumptions underpin this analysis. The first is that (absent an incursion by another power into the Chinese mainland) China would only become involved in a local conflict to protect freedom of action with respect to Taiwan or the disputed territories in the South China Sea (the Spratly or Paracel Islands) and the East China Sea (the Senkaku Islands). In either case, the distance between the Chinese mainland and the theater would be less than 1,000 miles. The second assumption is that between now and the date of such a conflict, China would not enter into military alliances with partners who would then also get involved in the conflict. The third assumption is that between now and the date of such a conflict, U.S. political and military arrangements will remain more or less as they are today. The fourth assumption is that China will remain united as a political entity, albeit one with a relatively weak central government, and will not abandon its commitment to China's reemergence as a significant regional and global actor. Finally, this analysis assumes that if the United States were to become involved, it would be in support of an Asian country (including Taiwan) in conflict with China.

THE ROLE OF BALLISTIC MISSILES

China's conventional weapons to support a local war are being modernized slowly, and the last decade has seen steady improvements in the capabilities of Chinese surface ships, submarines, and aircraft, as well as the C4 systems on which they depend. However, China's tactical ballistic missile inventory has been growing much more rapidly, both in size and in sophistication, and it is very likely that these missiles would play an important role in a local conflict. In addition, China is modernizing its strategic

missiles, which, even if they would not be deployed in a local conflict, would nevertheless be relevant.

Theater Ballistic Missiles.

China currently has the following theater missiles in service (characteristics are summarized in Table 1, and basing locations are shown in Figure 1).

MISSILE	TYPE	MAXIMUM RANGE	PAYLOAD	ESTIMATED CEP
CSS-2	IRBM	2800 km	2150 kg	3.0-3.5 km
CSS-5	MRBM	1800 km	600 kg	.3-.4 km
CSS-6	SRBM	600 km	950 kg	.3 km
CSS-7	SRBM	300 km	800 kg	Not available

Sources: Center for Defense Information, www.cdiss.org/china_thm; and Monterey Institute Center for Nonproliferation Studies, cns.miis.edu/iiop/cnsdata.

Table 1. Theater Missiles Characteristics.

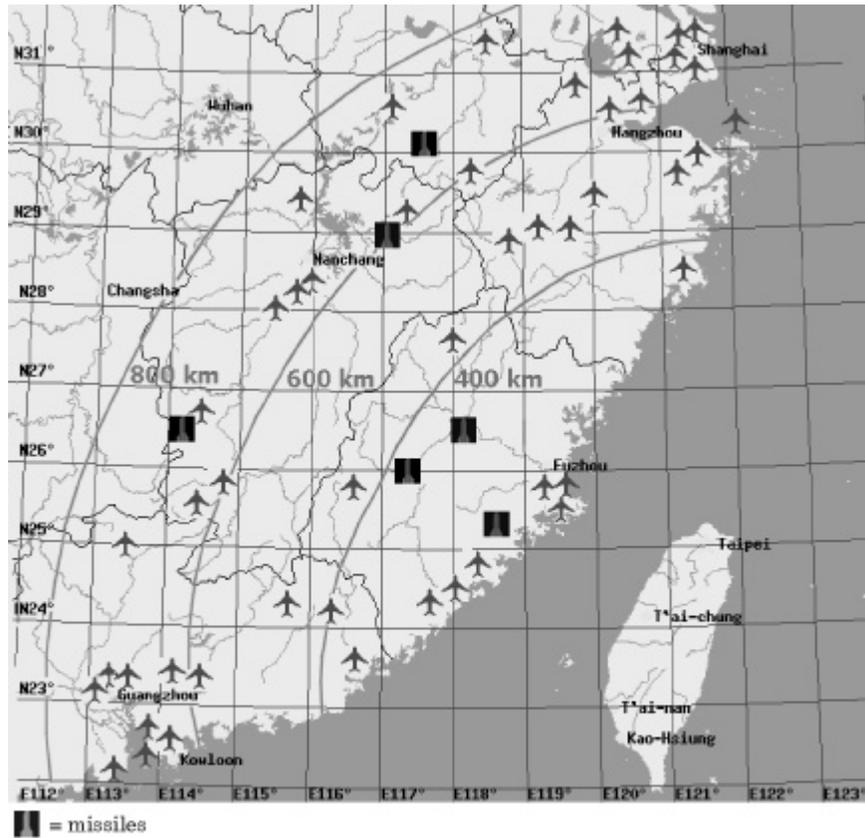
1. DF-11 (CSS-7, also known as the M-11). This is a 300 km range missile with a circular error probable (CEP) of 150-200 meters. It has inertial guidance and solid propellant, and requires a 30-minute launch preparation time. It can carry a single nuclear warhead (350kt) or a single or cluster conventional warhead. China has deployed a total of approximately 40 DF-11s at two bases: one at Yong'an, 220 miles from Taiwan, and one at the Xianyou missile complex, about 135 miles from Taiwan. Each base is equipped with tunnels to store the missiles; each will support a brigade-size force with 16 truck launchers and 97 CSS-7 mobile missiles.¹ The manufacturer of the weapon, the Sanjiang Space Corporation, is currently modifying this missile. The new system, referred to as CSS-7 Mod 2, or the M-11 follow-on, is about two meters longer than the Mod 1, and is believed to have a longer range, a larger warhead,

and greater accuracy than the earlier DF-11. According to International Institute for Strategic Studies (IISS) figures, China has deployed 40 DF-11s.

2. The DF-15 (CSS-6 or M-9) is a solid-fueled, single-stage mobile missile whose operational preparation time is 30 minutes. It is 9.1 meters long and has a range of 200-600 km, a CEP of about 280m, and the ability to carry a 500kg payload (a single nuclear warhead of 50-350 kt or a conventional warhead). It uses an inertial guidance system on the warhead section. The DF-15 utilizes a Chinese-developed eight-wheeled cross-country Transporter Erector Launcher [TEL]. A total of 200 missiles are based in three locations: Leping, Nanping, and Yong'an. Leping, in Jiangxi Province, nearly 600 kilometers from Taipei, is also the headquarters of the 815th ballistic missile brigade. The DF-15 missiles are stored at Leping, which has direct railway links with Yong'an and Nanping. Three to four hours would be required to transport missiles from Leping to Yong'an via railway.

3. The DF-21 (CSS-5) is a two-stage medium range ballistic missile (MRBM) with a range of 1800 km and a CEP of 300-400m. China has approximately 50 in service. Originally intended only for delivery of nuclear warheads, it has been modified to carry a single conventional warhead (600kg) as well. It requires 10-15 minutes of launch preparation time. It is based at Liangxiwang, Tonghua, Jianshui, and Chuxiong.

4. The DF-3A (CSS-2) has a range of 2800 km and a CEP of 2.5-4 km. It is scheduled to be replaced by the DF-21 within 2 years. It carries a payload of 2150 kg (single nuclear warhead of 1-5 MT) and requires 120-150 minutes launch preparation time. It can be launched from either permanent pads or portable launch stands. An estimated 90-120 DF-3s were deployed in the 1980s. They are based at Liangxiwang and Dalong.



Source: Federation of American Scientists,
www.fas.org/nuke/guide/china/facility/theater.htm.

Figure 1. Basing Locations for Theater Missiles in Service.

Strategic Ballistic Missiles.

China's land-based strategic forces have been the subject of many well-researched papers and articles, and it is not necessary to repeat here the knowledge that is publicly available on the internet and other sources. The critical point for this analysis is that China has a survivable nuclear deterrent. China's strategic nuclear systems include the DF-4 (CSS-3), the DF 5/5A (CSS-4), the DF-31, and the DF-41. These last two are still under development. The key characteristics of these weapons are summarized in Table 2. There is general agreement on several points: First, China is making the conversion from fixed missile sites to mobile platforms and from liquid fueled to solid fueled missiles.² Second, China is pursuing multiple independent reentry vehicle (MIRV) technology, with evidence of increased activity since 1983, and will likely achieve the capability to MIRV its strategic missiles.³ Third, by any comparative standard, China's existing strategic force is still small, consisting of no more than several dozen missiles.⁴

MISSILE	MAXIMUM RANGE	PAYLOAD	CEP
CSS-3	4750 km	2150 kg	3-3.5 km
CSS-4	13000+ km	3200 kg	.5-3 km
DF-31	8000 km	700 kg	.5 km
DF-41	12000 km	800 kg	.7-.8 km

Sources: Center for Defense Information, www.cdiss.org/china_htm; and Monterey Institute Center for Nonproliferation Studies, cns.miis.edu/iiop/cnsdata.

Table 2. Strategic Nuclear Missiles Characteristics.

Most observers also agree that China could easily increase the size and capabilities of the strategic missile force. However, much disagreement exists over what the

motivation would be, how quickly this might happen, under what circumstances, and how large a force China wants.

The increase between 1997 and 2000 in Chinese theater missile inventories as reported by the IISS is as follows.⁵

SYSTEM	1997 INVENTORY	1998 INVENTORY	1999 INVENTORY	2000 INVENTORY
CSS-2	38	38	38	30
CSS-5	8	8	8	50
CSS-6	4	4	150	200
CSS-7				40

Table 3. Increase in Chinese Theater Missile Inventories.

Numbers for the CSS-2 have been declining because this system is apparently being replaced. If these figures are ignored, the table shows an average annual increase of 70 missiles. If current trends continue without further acceleration, by 2007, China will have an additional 490 missiles for a total of 780 missiles.

Use of Ballistic Missiles in a Local Conflict.

The precise way in which China would use these missiles in a local conflict would be determined by specific circumstances. Theater missiles could be used for a wide range of missions. The only historical evidence to date is China's 1996 firing of ballistic missiles across the Taiwan Strait, which constituted an act of coercion more than an operational military move. In an actual conflict, China could designate and inflict damage on a number of important target sets:

- enemy airfields
- enemy ports
- enemy air defense bases

- enemy surface to surface missile bases
- enemy C4 systems
- enemy population centers.

If the United States were to intervene in a local conflict, Chinese theater ballistic missiles could inflict damage on U.S. aircraft carriers or other naval vessels, as well as on U.S. airfields in Japan.

The amount of damage the People's Liberation Army (PLA) could currently inflict is open to question because of the fact that the CEP of many of these systems is larger than the targets against which they would be used. Whether the target is an Asian adversary, or U.S. forces deployed in support of that adversary, the key to success in destroying military assets with conventional weapons is a low CEP. Existing weapons, with their large CEPs, are primarily useful as weapons of coercion because their inherent inaccuracy is likely to preclude militarily relevant targeting. If the adversary is Taiwan, a high CEP missile is an extremely effective show of force given the high population density—even if the missile does not hit its target, there will be a lot of collateral damage. If the target is U.S. forces at sea, high CEP weapons are considerably less effective. China is currently working on improvements to existing systems that would dramatically reduce the CEP to 25-40m.⁶ These efforts will have significant payoffs if they are successful. If China were to achieve a low CEP, the threat to a regional adversary would increase substantially, because China could be confident of a successful pre-emptive strike against key military targets. Moreover, the resulting threat to U.S. forces would greatly complicate U.S. military planning and the deployment of U.S. troops to the region. In addition, a lower CEP decreases the weight of the warhead, which would allow for an increase in the potential range of the missile.

The role of China's strategic missiles in a local conflict would be much more indirect. The fact that China has a

nuclear deterrent by definition affects the degree to which other Asian countries would be willing to engage in a direct military confrontation with China. It also, of course, poses constraints on the degree to which the United States is willing to become involved, and on the nature and timing of that involvement. The existence of the Chinese nuclear deterrent is a strategic "fact of life" that would be implicitly considered in every decision about how and where to deploy U.S. forces in an Asian conflict.

Given the rapid growth of China's ballistic missile inventory in recent years, it is safe to assume that the military leadership believes that the possession of these weapons will lower, and not raise, the cost of a regional conflict. This assumption is likely to hold true if China uses the missiles for coercive purposes. In fact, from China's perspective, coercion is an extremely low cost option, because it is likely to meet with only a limited response from the United States. The mere possession of the weapons therefore offers to China the possibility of resolving a situation without overt military activity and loss of life.

Counterbalancing this scenario is a more dangerous possibility: namely that coercion will not be effective, and China will actually have to use the missiles against specific targets. If this happens, the costs could be very high, astronomical in fact, from both a military and a political perspective.

COSTS AND BENEFITS OF CONFLICT IN THE CONTEXT OF MISSILE DEFENSE

Given the attention now devoted to missile defense for U.S. forces, U.S. allies, and the U.S. homeland, it is worth asking whether or not the existence of these defenses would in any way increase the cost of conflict for China under the conditions set forth above. This analysis examines primarily the military consequences of theater and national missile defense.

First, it is necessary to review the types of missile defense systems that could be deployed, the area they could cover, the number of weapons to be used, and the likely deployment dates.

Two theater missile defense systems are referred to as "lower tier." The first is Navy Area Defense, a vertical launch platform deployed on cruisers and destroyers (such as the AEGIS) that can be used for both offensive and defensive missile launches. The purpose of these weapons is to defend at short range; they are aimed at enemy short range ballistic missiles (SRBMs), cruise missiles, and aircraft. The U.S. Navy intends to deploy this system on 40 ships. The second is the Patriot missile. The original Patriots were deployed during the Gulf War to destroy SCUD short-range ballistic missiles. Since the Gulf War they have undergone considerable modification to improve their effectiveness, and they are now referred to as PAC-2. Further modifications will result in a PAC-3 missile that will defend not only against SRBMS but also against cruise missiles and aircraft. The PAC-3 is scheduled for deployment in 2001 (although several observers believe it will not be ready until later).⁷

Two missile defense systems are referred to as "upper tier." These weapons are intended to defend against medium range threats and to provide coverage over a larger area. One upper-tier weapon is the U.S. Army Theater High Altitude Defense System (THAAD), a land based missile that is intended to hit incoming missiles either inside or outside the atmosphere. It is scheduled to be ready for deployment in 2007. The Navy Theater Wide (NTW) system, which might be ready by 2006, uses a booster to launch a projectile that would kill an enemy missile before it enters the atmosphere. It cannot be used for short-range threats such as cruise missiles or SRBMs (which don't leave the atmosphere).

Finally, there are numerous options under consideration for U.S. national missile defense. These must be considered

because, if China's strategic nuclear deterrent is relevant to a regional conflict, so are developments that might undermine the viability of that deterrent. The details of U.S. national missile defense programs have been spelled out in many other documents, so only a brief description is provided here. The current program is a combination of ground-based interceptors and an "exoatmospheric kill vehicle" intended to stop an incoming missile before it enters the atmosphere. These weapons are supported by sensors and radars of various types. Current plans for deployment in Alaska will provide protection from up to five single warhead ICBMs equipped with simple penetration aids. An expanded force of up to 100 interceptors could be ready by 2007; this system could protect against an attack of 25 single warhead intercontinental ballistic missiles (ICBMs).

An alternative to the exoatmospheric vehicle is a interceptor that would hit the enemy missile in the boost phase. The earliest date a boost phase weapon could be deployed is 2008. Four technical options for boost phase intercept are currently being pursued: the airborne laser, interceptors launched from unmanned aerial vehicles, a space based laser weapon, and a sea based boost phase weapon. The airborne laser, if successful, could potentially be useful in the Asian theater.

In order to determine how the existence of these weapons would affect a regional conflict, it is critical to understand who can acquire them and how they will be deployed. The relevant Asian players are Japan, which could be drawn into a regional conflict because of alliance commitments, and Taiwan. It is unlikely that any of the Association of South East Asian Nations (ASEAN) countries with which China is likely to come into conflict over disputed South China Sea territories will acquire and deploy theater missile defense. U.S. deployments of theater missile defense (TMD) are relevant both because the United States has troops permanently stationed in Asia, and

because additional U.S. forces could be deployed in the event of a conflict.

Taiwan already has PAC-2 and would like PAC-3, as well as AEGIS equipped destroyers (Navy Area Defense). Taiwan has requested THAAD, but the United States has not agreed to sell the weapon when it becomes available. Taiwan also has an indigenously produced Patriot missile equivalent called the Sky Bow.

Japan has deployed PAC-2 and can acquire PAC-3 when the system comes on line. The Japanese are cooperating with the United States on Navy Theater Wide defense, but have not yet made a firm decision about purchasing the first version of NTW (referred to as Block I) when it is available in 2006. Japan has not indicated interest in purchasing or deploying THAAD since the early 1990s and appears unlikely to do so.

The United States has deployed one Patriot battery in Korea. Although the United States has not stated with certainty who will be eligible to buy future TMD systems, a 1999 Department of Defense (DoD) analysis provided a "notional" TMD Asian architecture.⁸ This information, together with other unclassified sources, make it possible to make some assumptions based on the range of the weapons they are intended to defend against. It is likely that THAAD will be used by U.S. forces in Korea and possibly Japan as well. Navy Area Wide and Navy Theater Wide weapon systems will be deployed on ships that are part of the Seventh Fleet. Table 3 thus provides a summary of potential and plausible TMD deployments in Asia.

If it is true, as previously suggested, that the possession of ballistic missiles lowers the cost of China's decision to use coercive measures, then it would logically follow that the presence of anti-missile systems would raise the cost proportionately. This logic only holds, however, to the extent that missile defense systems will be either difficult or expensive to overcome. China appears to have made a calculation that these systems can be overcome, and is

poised to respond in a relatively low cost manner. The easiest way to neutralize the existence of U.S., Japanese, Korean, or Taiwanese weapons is to expand offensive forces until they can overwhelm foreign defenses. In order for this approach to be effective, China would have to make two commitments. First, it would be necessary to achieve substantial gains in CEP, as previously discussed. It is well established that Chinese scientists and engineers are working on improved guidance, and there is every reason to believe that they will be successful in achieving a CEP of 25-40m with commercially available technology. It is true that improvements in accuracy might take several more years, but it is also true that it will take a few more years for the United States to deploy effective TMD. Thus, the two timelines are likely to converge.

SYSTEM/ DEPLOYMENT DATE	TAIWAN	JSDF	USFJ	KDF	USFK	US NAVY PACIFIC
Patriot (PAC-3)/'01	X	X	X	X	X	
Navy Area Defense/ '03	X		X			X
THAAD/'07	X		X	X	X	
Navy Theater Wide/'06	X	?	X			X

Table 4. Potential and Plausible TMD Deployments in Asia.

Second, it will be necessary for China to commit to a substantial increase in the theater missile inventory. Initially, it might not be possible to offset every TMD system in Asia, but it is reasonable to expect that China will attempt to make sure it can overwhelm any TMD weapon that could plausibly be deployed in Taiwan between now and 2007. The financial cost of this endeavor will depend on the exact number of TMD systems that will actually come on line. There are no official documents that indicate the total number of TMD weapons that will be available within the

next 10 years for deployment in Asia or sale to Asian allies.⁹ Nevertheless, based on the 1999 report referred to above, as well as other DoD planning and acquisition documents, it is fair to make certain assumptions about missile defense available to Taiwan. These calculations are based purely on what systems will actually be built, and not on any political considerations that might affect their sale or deployment. It is plausible that by 2007, before THAAD is operational, there could be a total of 330 combined upper and lower tier ship based missiles, in addition to 48 Patriot missiles defending Taiwan.¹⁰ To offset each of these and reserve some forces for other Asian contingencies, China would realistically need 1000 more missiles than it has today, or an additional 166 missiles a year for the next 6 years.¹¹ Chinese defense contractors have demonstrated the ability to ramp up production, given the average increase of 70 theater missiles a year for the past 4 years. There would certainly be a monetary cost, but it would not be beyond China's means. Mark Stokes has estimated that the cost to China, per theater ballistic missile, is approximately \$500,000.¹² This means an additional expenditure to China of \$83 million a year for the next 6 years. Expanded inventories pose no other easily identifiable costs, since they would not violate any treaty commitments, and they would not, in and of themselves, trigger any economic or political sanctions.

The same basic argument holds true for U.S. national missile defense. China's possession of a nuclear deterrent provides numerous military options that it would not otherwise have, in addition to significant prestige and political power. Although in theory, boost phase intercept defense systems would not cover Chinese ICBMs, it is very likely that China will take no chances and will make sure that the ICBM inventory is large enough to defeat any plausible U.S. national missile defense. Here again, the monetary cost involved is minimal compared with the cost of U.S. defenses. Over the next 10 years, the United States could conceivably deploy as many as 250 anti-missile

weapons. One Chinese analyst therefore speculated that China would need approximately 250 additional ICBMs (beyond the 24 missiles China is believed to currently have) over the next 10 years to be certain of defeating any U.S. nuclear missile defense (NMD), and further speculated that each missile would cost China 100 million Chinese RMB, or approximately U.S.\$12.5 million. This would amount to an expenditure of 25 billion RMB, or U.S.\$3.12 billion, approximately 25 percent of the current announced Chinese defense budget, or less than 2.5 percent per year for the next 10 years. To be sure, this would entail certain opportunity costs, and it might entail political costs if significant progress is made on a Fissile Material Cutoff Treaty. But even given those potential costs, it is difficult to see how China could fail to increase its ICBM inventory to compensate for U.S. national missile defense systems. The risks that China's nuclear deterrent could be undermined are probably, from China's perspective, medium to high, whereas the costs of eliminating that risk are, by any objective standard, extremely low.¹³

Whether a further expansion of Chinese theater and strategic missile inventories would constitute an "arms race" is an interesting, but perhaps an academic, question. It is true that historically arms races have been the result of an "offense-defense" cycle rather than the other way around. However, there are no analogous situations from history that can be used to draw inferences about this particular action-reaction cycle. Even if it were possible to make predictions with any confidence, the threat of an arms race does not seem very compelling to any of the participants. The fact that the original deployment of Chinese missiles might have started an arms race, and the fact that U.S. missile defense deployments might be accelerating that race seem equally irrelevant to both sides.

Because the American missile defense "train" appears to have left the station, and because it does not seem reasonable to expect that the Chinese will believe U.S. assertions that missile defense systems will have no effect

on China's defense posture, the only exogenous event that could break this cycle is a regime imposed limit on missile deployment. Unfortunately, international arms control and nonproliferation experts have had a difficult time designing and implementing effective regimes to deal with ballistic missiles. The Missile Technology Control Regime (MTCR) is not a formal treaty, but rather an understanding among certain countries that produce ballistic missiles about how to limit missile and missile related exports. There are very few items that members are precluded from exporting, but a large number of items over which members agree to exercise restraint. Although China has made a number of bilateral pledges with respect to the MTCR, each one of these commitments is qualified or limited in some way, and none constitutes a formal treaty. Even if China were a legal member of the MTCR, however, its provisions would not ensure any constraints on Chinese options in a local conflict. For P-5 countries, the MTCR governs transfers of missiles and missile technologies, but not inventories. China is not dependent on missile sales from abroad, and China's recent acceleration in missile production would not in any way constitute a violation or an infringement of MTCR terms, even if China were a formal member, which it is not. Moreover, it is not likely that the scope of the MTCR will expand to cover domestic inventories. Russian Prime Minister Putin hosted a missile control meeting in March 2000 for G-8 countries, but the focus of this meeting was to find ways to make MTCR transfer provisions less discriminatory, and not to expand the arrangement to cover national holdings, which would likely meet strong opposition by all P-5 members.

Many U.S. officials and scholars view with alarm China's increasing theater and strategic missile inventories. Whether these concerns are legitimate from a security perspective, it is too soon to tell. But it is worth remembering that however troubling these missiles might be to the United States, Taiwan, Japan, and perhaps other Asian countries who do not want to say so publicly, there is

no international regime of any kind anywhere now, or on the horizon, that will put a brake on future Chinese development in this area. It is safe to say, moreover, that there is not even an international "norm" or consensus that China's missiles are inherently destabilizing.

COSTS VERSUS CONSEQUENCES

A minimum of two plausible motivations or intentions lie behind plans for U.S. theater and national missile defense, and it is worth enumerating them because they are often assumed to be one and the same, whereas each has a different chance of realization. The missile defense effort, in fact, appears to be a convergence of the views of at least two different groups of advocates for the system. The first set of advocates are motivated by the desire to protect U.S. troops, U.S. allies, U.S. friends (and, in the case of NMD, the United States homeland) from missiles from so-called states of concern. This is the official position of the United States government. Advocates from this group admit that China's defense posture will be affected, but insist that China is not the object of U.S. NMD and TMD programs. The second group of advocates wants to ensure American protection from Chinese strategic or theater ballistic missiles, which they see as a genuine security threat to the United States. As one analyst expressed it: ". . . The development and deployment of a robust, highly-capable American ballistic missile defense (BMD) program must go forward with all deliberate speed. Washington should stop denying that there is a link between China's nuclear modernization, conventional missile buildup, and proliferation practices and the requirement for BMD. These issues are related."¹⁴

Whether the first military objective can be met appears to be a highly debatable point. This first objective, protection of U.S. troops, friends, allies, and homeland, is a monumental task, and recent NMD system tests do not suggest that it will be accomplished anytime soon. The second objective, neutralizing an emerging China threat, is

equally difficult although for different reasons. In the case of Taiwan, for example, American TMD systems would provide relatively little actual defense, and would function almost exclusively as a political gesture. Based on the information in the public domain, it is very hard to see a scenario in which U.S. missile defense deployments will cause China to stop, or even slow down, its military modernization program, and many have argued that the impact will be exactly the reverse.

Implied in the arguments of those who see Chinese missiles as a direct threat to the United States is the notion that the Chinese will change their minds if Washington would only stand up to them. This is consistent with the idea that the United States needs to “respond” to Chinese missile deployments and overall defense modernization. In the words of one critic,

The (Clinton) White House hardly says a word about China's ongoing ballistic missile buildup; its irresponsible proliferation practices, or its robust strategic modernization program. I, personally, am at a loss for why this silence persists. Chinese national security policies and practices are critical to peace and stability in Asia and American interests. The PRC's actions are having a direct effect on American deliberations about missile defenses—plain and simple. We must make this clear to Beijing.¹⁵

The assumption is that once China understands the linkage between cause and effect, China will remove all their missiles from Fujian province and refrain from further increases in the inventory, or at least that they will start to behave more reasonably and slow down the rate of deployment. It is very likely, however, that the Chinese understand perfectly well that it is their missiles that have promoted an interest in TMD for Taiwan. In fact, they understand it only too well, and reject the U.S. response as inappropriate interference in a domestic issue. They have probably already assessed in advance the price they will have to pay, and have decided that the game is worth the candle.

An alternative approach proposed informally by an American academic toward the end of 2000 is a compromise whereby if China agrees to remove its theater missiles (or at least some of them) from Fujian Province, the United States would re-think its plans to sell TMD to Taiwan. The assumption is that the promise of U.S. restraint would constitute a meaningful incentive. However, it is hard to imagine China agreeing to such a request. A U.S. offer to stop doing what China believed to be illegitimate to begin with hardly constitutes a meaningful incentive. Not to mention the fact that the idea would be politically unthinkable in Washington.

Yet another scenario is a compromise in which the United States would agree to limits on TMD and NMD deployments in return for Chinese limits on nuclear and missile modernization, accompanied by transparency measures. According to a newspaper report of the meeting at which this proposal was discussed, the Chinese

would have to convince American planners that any nuclear buildup would go only so far and would be keyed to the size of the American shield, allowing China to keep something resembling the minimal capacity for a counterattack that it has had in the past but not fundamentally altering the balance. The immediate goal would not necessarily be a treaty. Rather, the two countries could begin by seeking a more private and informal "strategic understanding" about the expected size of the shield, as well as the number and kinds of offensive weapons China planned to develop."¹⁶

China's leadership would have a very difficult time agreeing to this proposition in a public way. Agreement would appear to legitimize the U.S. ability to pose limits on Chinese power and sovereign rights. For the scenario to work, China would, ironically, have to make a nontransparent commitment to be more open! And it is likely that conservative politicians and bureaucrats in Washington would oppose such a compromise, for exactly the same reason. The United States would be put in the position of accepting Chinese imposed

limits on what many in Washington perceive to be a critical defense program.

Many others, of course, take a harder line, and suggest that the United States must ensure that there are consequences to China for deployment of these missiles. The underlying assumption is that the United States can find and impose a consequence accompanied by a cost so unpalatable that China will rethink its security policy and its options for dealing with Taiwan. Consequences are not the same as costs. To date, no one has identified any real costs for China other than the deployment of a very modest TMD system, which China could choose to overcome. The result would most likely *not* be more acceptable Chinese behavior, and it might actually be a further military buildup. An effective U.S. response would require the United States to make a convincing case to the rest of the world that China's missile buildup is doing demonstrable harm. It would require developing an international consensus on the need for limits on Chinese military, as well as a consensus on what the limits should be, followed by international support for enforcing those limits.

Given all these contradictions, a question worth considering is why the Chinese themselves are so bent out of shape about U.S. missile defense plans. At face value, Chinese arguments about the potential harm that could be done to China by missile defense are way out of proportion to the actual cost to China of overcoming U.S. defenses, which are (by Chinese admission) down at the nuisance level. Perhaps the answer is that China lacks the capacity to deal with any more nuisances right now, and resents the United States adding to its list of emerging power problems.

ENDNOTES - CHAPTER 9

1. Most of the information about Chinese theater missile characteristics is drawn from the Federation of American Scientists home page (<http://www.fas.org/nuke/guide/china/facility/theater.htm>); the Monterey Institute of International Studies Center for Nonproliferation Studies database (<http://cns.miis.edu/cns/>

projects/eanp/pubs/chinanuc/bmsl.htm); the Center for Defense Information database (http://www.cdiss.org/china_t.htm); and Mark Stokes, "Weapons of Precise Destruction: PLA Space and Theater Missile Development," in *China and Weapons of Mass Destruction: Implications for the United States*, A Conference Report, Federal Research Division, Library of Congress, Washington, DC, April 2000, pp. 183-229.

2. Bates Gill and James Mulvenon, "The Chinese Strategic Rocket Forces: Transition to Credible Deterrence," in *China and Weapons of Mass Destruction: Implications for the United States*, A Conference Report, Federal Research Division, Library of Congress, Washington, DC, April 2000, pp. 11-51.

3. U.S. Department of Defense, *The Security Situation in the Taiwan Strait*, Report to the Congress Pursuant to the FY99 Appropriations Bill, February 26, 1999. The text can be found at the FAS website (http://fas.org/news/taiwan/1999/twstrait_02261999.htm).

4. *The Military Balance 2000-2001*, London: International Institute for Strategic Studies, p. 194.

5. *Ibid.*; *The Military Balance 1999-2000*, p. 186; *The Military Balance 1998-1999*, p. 178; *The Military Balance 1997-1998*, p. 176.

6. Efforts to increase accuracy, with an emphasis on GPS technology, are described in Mark Stokes, *Chinese Strategic Modernization: Implications for the United States*, Carlisle: Strategic Studies Institute, U.S. Army War College, September 1999, pp. 91-92.

7. Information on U.S. theater missile defense systems is drawn from the Stimson Center report on Theater Missile Defense in the Asia Pacific Region, pp. 1-14 (<http://www.stimson.org/pubs/tmd/tmdreport.pdf>); Michael O'Hanlon, "US Missile Defense Programs," Conference Paper, prepared for "East Asian Regional Security Futures: Theater Missile Defense Implications" held at The United Nations University, Tokyo, Japan, June 24-5, 2000 (<http://www.nautilus.org/nukepolicy/TMD-Conference/ohanlonpaper.txt>); the Union of Concerned Scientists website (<http://www.ucsusa.org/arms/fact.NMDTMDoverview.html>); *Army: The Magazine of the Association of the United States Army, 2000-01 Green Book*, Vol. 50, No. 10, October 2000, pp. 272-273; *Weapon Systems, United States Army 2000*, Washington, DC: U.S. Government Printing Office, pp. 209, 225; and Michael Green, "Asian Reaction to U.S. Missile Defense," *NBR Analysis*, Vol. 11, No. 3 (<http://www.nbr.org/publications/analysis/vol11no3/Essay.html>).

8. *Report on Theater Missile Defense Architecture Options in the Asia-Pacific Region*, U.S. Department of Defense, June 16, 1999; text can be found at the FAS website (http://www.fas.org/spp/starwars/program/news99/b05041999_bt211-99.htm).

9. In fact, there are no reliable numbers for total theater missile system production or likely deployments. Programs have been running over budget, and numbers have been regularly scaled back.

10. The logic for these calculations is as follows: The total number of Patriots the Army plans to buy was reported in *Inside the Army* on November 27, 2000 (p. 11), to be 824 missiles, down from the original number of 2,200. This means that the Army will buy approximately 574 missiles over the next 7 years. If half of those go to Asia, and roughly one-third of those go to Taiwan, which is a high estimate, and roughly half of those are ready for deployment by 2007, the total comes to 48 missiles. The U.S. DoD article on theater missile defense architecture referred to earlier suggests that Taiwan would only get 8 percent of all available Patriots. The U.S. Navy plans to be able to outfit approximately 80 ships with a combination of lower- and upper-tier TMD. However, only about a quarter of the available cells will be outfitted with TMD missiles, since the Navy plans to retain a number of other types of missiles on its cruisers. One-quarter of the available cells would accommodate a total, worldwide of 2,000 missiles. If half of those go to ships in the Asian region, and one-third of those are in the waters near Taiwan, that gives a total of 330 missiles. Again, this is a high estimate, because it gives Taiwan 33 percent of the weapons available in all of Asia. These are, admittedly, the roughest of calculations. However, it is necessary to make certain assumptions given the reluctance of the U.S. DoD to provide estimates of numbers of TMD weapons to be produced and deployed.

11. This means that even if every TMD missile deployed by the United States in Asia (not just Taiwan) destroyed a Chinese missile, the People's Republic of China (PRC) would still have a force of 290 theater ballistic missile (the current inventory).

12. Mark Stokes, "Weapons of Precise Destruction: PLA Space and Theater Missile Development," in *China and Weapons of Mass Destruction: Implications for the United States*, A Conference Report, Washington, DC: Federal Research Division, Library of Congress, April 2000, p. 194.

13. At the conference where this paper was delivered, two questions were raised about China's ability to defeat U.S. missile defense systems simply by overwhelming them with larger numbers of incoming

missiles. The first was the possibility that the United States could detonate an exoatmospheric electromagnetic pulse (EMP) burst which would destroy Chinese missile guidance. Although it is possible, it would mean a U.S. decision to use nuclear weapons and would run the risk of escalating a local conflict into something much larger. The second one was that China would have difficulty targeting U.S. ships. In fact, as soon as a ship's radars are turned on, China would be able to track and target them. Failing that, the first U.S. salvo will itself make the ship's location perfectly clear to the Chinese.

14. Peter Brookes, "Theater Missile Defense: How Will It Recast Security and Diplomacy in East Asia?" Presentation at The Heritage Foundation, July 26, 2000.

15. *Ibid.*

16. Erick Eckholm, "Experts Try To Make Missile Shield Plan Palatable To China" *New York Times*, January 28, 2001, p. 1.

CHAPTER 10

“EATING IMPERIAL GRAIN”?: THE ONGOING DIVESTITURE OF THE CHINESE MILITARY-BUSINESS COMPLEX, 1998-2000¹

James Mulvenon

Introduction.

On July 22, 1998, at an enlarged session of the Central Military Commission (CMC), CMC Chairman Jiang Zemin gave a speech in which he called for the dissolution of the military-business complex, asserting:

To make concerted efforts to properly develop the army in an all-around manner, the central authorities decided: The army and the armed police [*wu jing*] should earnestly screen and rectify [*qingli*] various commercial companies operated by their subordinate units, and shall not carry out any commercial activities in the future . . . Military and armed police units should resolutely implement the central authorities' resolution and fulfill as soon as possible the requirements that their subordinate units shall not carry out any commercial activities in the future.²

Jiang then sought to consolidate the decree by publicly releasing the announcement through the party's extensive propaganda apparatus. That night, Jiang's speech at the meeting was broadcast on the CCTV Evening News, which has the highest rating in China and is closely watched by other Chinese media for cues about important stories. Observers took special note of the fact that the Chinese leader was shown flanked by the top brass of the People's Liberation Army (PLA), implying at least tacit consent to the decision by the military. The next day, the Party's official newspaper, People's Daily, ran a banner headline, declaring "PLA Four General Departments Convened in

Beijing to Carry Out the Decision of the Anti-Smuggling Meeting," with the subtitle "Chairman Jiang Talked Seriously About Divestiture."³ The announcement was then publicly seconded in subsequent days by key members of the military and civilian leadership, including the de facto head of the PLA, General Zhang Wannian, Chief of the General Staff General Fu Quanyou (July 23),⁴ General Logistics Department (GLD) Director Wang Ke (July 24),⁵ General Political Department (GPD) Director General Yu Yongbo (July 25),⁶ and General Armament Department (GAD) Director General Cao Gangchuan (July 26),⁷ as well as Politburo Standing Committee member Hu Jintao.⁸ From the media barrage, it appeared that the decision might actually have the political momentum to dislodge the Chinese military from its difficult Catch-22.

While the divestiture announcement was immediately picked up by Western and Chinese media and portrayed as a dramatic reversal of policy, the reality of the situation was much more complicated. Divestiture was not a sudden decision at all. Jiang Zemin reportedly first floated the idea of military "eating imperial grain" (*chi huangliang*, i.e., be funded solely by the government) in 1990, but it was judged to be impractical. In the absence of divestiture, the PLA underwent over 8 years of rectification and consolidation campaigns in the military enterprise system, and divestiture should, in many ways, be seen as the logical culmination of that effort. Moreover, the July 1998 meeting was not even the first divestiture announcement. A decision to divest had actually been made over a year earlier in May 1997, though the major transfers were not set to begin until 3 years later in May 2000. One important prefatory move, the withdrawal of the preferential tax rates enjoyed by PLA enterprises (local companies previously paid 33 percent while PLA enterprises paid only 9 percent), had been implemented in early 1998, and the PLA had reportedly drawn up a plan for divestiture at least 6 months in advance of the July 1998 announcement.⁹

Thus, Jiang's order represented only an acceleration of the divestiture timetable. The complete reasons are not entirely known, but there are at least two competing stories. One rumor claims that divestiture was initiated by an angry Jiang Zemin upon receiving an account of the excessively corrupt activities of six PLA and People's Armed Police (PAP) companies, the most egregious of which involved oil smuggling that was bankrupting the country's two geographical oil monopolies.¹⁰ Indeed, there were widespread reports of rampant smuggling by the military during the Asian economic turmoil in early 1998, allegedly depriving the government of hundreds of billions of *renminbi* of customs revenue and worsening deflation.¹¹

A second version of the story actually begins with Zhu Rongji.¹² According to cited U.S. intelligence sources, Zhu Rongji angered the PLA at the July 17, 1998, meeting of the anti-smuggling work conference by accusing the General Political Department's Tiancheng Group of rampant corruption.¹³ In particular, he singled out a case in which the company had avoided paying RMB50 million in import and sales taxes after purchasing a shipment of partially processed iron ore from Australia. "Every time our customs officials tried to snare these bastards, some powerful military person appeared to speak on their behalf," Zhu allegedly charged at the closed-door meeting. As anger and resentment spread through the PLA leadership, Jiang Zemin allegedly appeared at the conference 4 days later to lend his support to Zhu, confirming that "some units and individuals" in the PLA were involved in smuggling. According to this account, Jiang thereupon announced the divestiture order.

These accounts of the decision to divest the PLA of its enterprises raise a fundamental analytical question: how did the PLA and the Chinese Communist Party (CCP) work their way out of what could only be described as the fiscal and political Catch-22 of military commercialism? Contrary to the conflictual civil-military scenario put forward by many observers in the Hong Kong media, the evidence

instead suggests that the divestiture in principle was largely supported by a corruption-weary military leadership. They generally agreed with the political, military, and economic rationales for divestiture. On the political front, divestiture was aimed at curtailing corruption within the ranks. The civilian leadership argued that as long as the military operated in the commercial economy, it was subject to “negative influences.” Jiang Zemin reportedly spoke of preventing the military from “changing color” and of keeping the military “pure.” At a military level, divestiture was designed to return the PLA to its primary professional mission: preparing for war. Finally, from an economic perspective, there was recognition that the military was not terribly adept at running commercial operations.

A key condition for military acquiescence to divestiture, however, was an assurance from the civilians that the PLA would receive a sufficiently generous compensation package for handing over its businesses. Indeed, sources in Beijing confirm that the faultlines in the divestiture process could be drawn between supporters, including the senior military leadership and the combat units, and those who have resisted the ban, especially members of the logistics and enterprise management structure, military region (MR) commands, and military district commands that stood to lose their primary source of legal and illegal income.¹⁴

The heart of the bargain between the PLA and the civilian leadership therefore centered on financial compensation—in this case two separate financial deals. The first was the one-time transfer of the PLA’s divested enterprises. Reportedly, the financial burden for these enterprises, including their weighty social welfare costs and debts, was to be placed upon local and provincial governments rather than the central government, though no money was to change hands. This devolution of responsibility from the center to the localities was seen by many as yet another attempt by Zhu Rongji to restore some measure of macro-level economic authority in China by

forcing the lower levels of the system to assume greater financial responsibility for the economic units in their area.

The second negotiation focused on the annual budget increases to make up for lost enterprise revenues, with the goal of consolidating Jiang's earlier decree to the military to "eat imperial grain" rather than rely on business for revenue. Before the divestiture was completed, Hong Kong sources reported that the PLA would receive between RMB15-30 billion per year, with the exact time frame subject to negotiation.¹⁵ Two months later, one of the same authors reported that the PLA would receive RMB50 billion as compensation for its lost enterprises.¹⁶ *The Wall Street Journal* quoted U.S. diplomats as saying the government offered about \$1.2 billion, but the military demanded \$24 billion. Sources at the GLD claimed in December 1998 that the PLA would receive between RMB4-5 billion in additional annual compensation, complementing continued double-digit budget increases.¹⁷

For local units, however, the prospects of a lucrative budget deal must have been bittersweet, since it required them to buy into what might be called "the trickle-down theory of PLA economics." Whereas units previously had relatively direct control over enterprise finances, they now had to place their faith in the notion that the budget funds would trickle down through the system from Beijing to their level. Previous experience with the Chinese military bureaucracy did not inspire confidence that this would come to pass. To ameliorate these concerns, the military leadership took steps in the fall of 1998 to improve the standard of living for the rank and file. The principal measure was an increase in the salaries of servicemen by an average of an additional 10-25 percent, depending on rank and location.¹⁸ One lieutenant general in Beijing reportedly received a raise of RMB400 per month, while two senior colonels claimed increases of 20 percent from 1700RMB to 2040RMB.¹⁹ Overall, the average soldier in the PLA was reportedly expected to receive an additional RMB100 per month.²⁰

Phase One: Organization and Strategy.

Organization of the divestiture effort actually preceded Jiang's July 22 speech. On July 20, 1998, Jiang chaired a meeting of the Politburo and reportedly asserted that "the military cannot run businesses any more or the tool of the proletariat dictatorship would be lost and the red color of the socialist land would change." General Zhang Wannian, Vice-Chairman of the CMC, convened a meeting on July 21 to set up a military leadership small group, and in that meeting a set of two milestones were reportedly established: by the end of 1999, all businesses would sever their links with the military and starting from 1999, the military would rely entirely on the government budget.

Immediately after Jiang's July 22 speech, the four General Departments convened a meeting to implement the decision, discussing the issue from July 23-26.²¹ The four directors and political commissar Li Jinai attended the meeting, which established a special task force to oversee divestiture. The four general departments eventually selected 30 cadres to staff the office of the military's leading small group. The participants also drafted a preliminary plan, and began to lay out policies for dealing with issues such as displaced workers, debts and credits, and real estate.

At the same time, a top-level, civilian-led leading group was reportedly established, with Jiang Zemin's chosen successor, Hu Jintao, as the head, and other party, government, and military leaders, including Zhang Wannian, and Luo Gan, as members.²² Hu's appointment served an important prelude to his official appointment as vice-chairman of the Central Military Commission at the end of October 1999.²³ Despite Hong Kong media stories to the contrary, there do not appear to have been any major cleavages in the top civilian leadership over divestiture.²⁴ One well-informed observer relates that Jiang and Zhu were closely united on the issue, with Jiang providing the political clout and Zhu providing economic instructions to

his subordinates at the State Economic and Trade Commission (SETC) as to the specifics of the separation.²⁵ Over the next few weeks, corresponding leadership small groups at lower levels of the system, including military units and State Economic and Trade Commission branches, were also established.

During the summer, the divestiture process was delayed significantly by the massive flooding, in which the military played a heroic role. By October 6-7, the situation had sufficiently stabilized for Central Committee, State Council and Central Military Commission to convene the "Divestiture of Military, People's Armed Police, and Law Enforcement Organs Work Meeting," aimed at producing a detailed plan for the separation of enterprises from units.²⁶ At that meeting, a new temporary organization was created, known as the "National Office for the Handover of Enterprises Under the Army, People's Armed Police, and Law Enforcement Organs."²⁷ The office of this leading group was staffed primarily by personnel from the State Economic and Trade Commission. The following 18 organizations were also involved: the four General Departments, the People's Armed Police Headquarters, officials from the Politics and Law Departments of the State Development and Planning Commission, the Commission on Science, Technology and Industry for National Defense (COSTIND), the Ministry of Public Security, the Ministry of Inspection, the Ministry of Civil Affairs, the Ministry of the Treasury, the Ministry of Personnel, the Ministry of Labor and Social Security, the Ministry of Foreign Trade and Economics, the People's Bank, the General Tax Bureau, the Industrial and Commercial Bureau, and the Ministry of State Security. The Handover Office was tasked with the promulgation of detailed regulations governing the handover and takeover of military enterprises, the organization and coordination of divestiture, and oversight over lower-level offices. The national office was also given responsibility for the divestiture of ministry-level enterprises.²⁸ Similar offices were also set up by the State Economic and Trade

Commissions of provinces and autonomous regions to take charge of the takeover of enterprises based within their geographic purview.

On October 9, after a series of work conferences, the four General Departments of the PLA again convened another meeting, entitled the "Divestiture of Military and People's Armed Police Work Conference."²⁹ Also in attendance were representatives of the CMC General Office, military region headquarters, and military district headquarters. At this meeting, detailed plans regarding the handover of military firms were prepared. The guiding principle of this effort, as defined by the Central Committee was: "turning over enterprises first, consolidating them later."³⁰ Accordingly, the work teams were sent to the units to get a proper accounting of the units' legal and illegal commercial activities. Information on illegal activities was used to prepare cases for the military's discipline inspection commission, while data on the legal enterprises were used to give the military leadership a clear picture of the extent and financial viability of the military-business complex. Specifically, the work teams sought to assess the number of enterprises that required transfer, the number of enterprise employees involved in the process, and the asset/debt values of the enterprises. This first phase was completed by mid-October 1998. One official government assessment of the asset value of enterprises owned by the military was roughly RMB50 billion (U.S.\$6.02 billion).³¹

Phase Two: Formal Registration and Asset Valuation.

The second phase of the divestiture, begun in late October 1998, involved the formal registration and assessment of assets of the enterprises, followed by the expected official transfer of these enterprises to Handover Offices at the state, provincial, autonomous district, and municipality level.³² The 16-character slogan for this phase was "comprehensive combing, good planning, discretionary

treatment, and step-by-step implementation.”³³ In general, stable enterprises were to be transferred to the governments, while profitable companies were to be placed underneath the SETC offices. In addition, a considerable number of banking, security, and trading companies that were poorly managed and operated, together with those industrial enterprises that have suffered serious losses were expected to be reorganized or closed down altogether.³⁴

More specifically, divestiture affected each of the six parts of the PLA's business empire in different ways. The original divestiture order explicitly targeted commercial enterprises (*jingying xing qiye*), mandating that all of these businesses should be either handed over to civilian authorities or closed down. For the other five parts of the system, the leading groups have been forced to adopt a series of gradual policies:

- Units meeting logistics needs (*baozhang xing qiye* providing *houqin fuwu*), including repair shops, munitions factories, and uniform factories, were partially divested, with some businesses handed over to civilian authorities and others retained by the military. The guiding rationale asserts that the military does not need to make all of these things itself, and should be able to outsource some of this production.

- Farms (*nongchang*), covering several million *mu* of land, have been completely retained.

- Fee-for-service businesses (*youchang fuwu*), such as hospitals and research facilities (*keyan danwei*), were retained because the facilities have excess capacity and highly advanced equipment not generally found in the civilian sector. In the case of hospitals, the military alone cannot provide enough patients to make efficient use of these resources. By serving the public, they can raise their level of expertise and earn a relatively insignificant amount of money for the military at the same time.

- Welfare businesses (*fuli xing qiye*), including factories set up to provide employment to military dependents (also known as *jiasu gongchang*), were partially divested, with some closed and others, particularly those in remote areas where relatives have no other options for employment, retained.

- Cover operations (*yanhu qiye*), including enterprises providing cover for intelligence gathering, national security, foreign affairs, and united front operations, were partially divested.

The center [the top-level leading group] decreed that all military enterprises should be dealt with in one of three ways. The first option was "handover" (*yi jiao*) to civilian authorities. This applied to commercial operations and hotels, though not to guesthouses (*zhaodaisuo*). Most enterprises were to be handed over to local authorities. Some were handed over to the central government, specifically to the State Economic and Trade Commission (*Jingmaowei*). Local authorities were not to provide any compensation, which was supposed to come from the central government in the form of a lump sum. Military employees of these enterprises could choose to return to the military or to stay with the enterprise. Not surprisingly, lower ranking military employees tended to stay with the enterprise, while higher ranking employees tended to return to the perquisites of the military. The second option was closure (*chexiao*) of the enterprise. There were many reasons for closure, including commercial nonviability, heavy debts, or the location of the enterprise within the perimeter of a military installation, which meant that the business could not be handed over to the civilian authorities without creating a security problem. The third and final option was retention (*baoliu*), which was generally applied to those enterprises meeting specific military needs (*baozhang xing qiye*).

Not surprisingly, the divestiture encountered some resistance among military units reluctant to part with their

enterprises during this second phase. Some departments reportedly attempted to fold their enterprises under subordinate institutions that were not being screened by the central authorities.³⁵ Others tried to shield their profitable enterprises while willingly sacrificing their bankrupt enterprises. In cases where the enterprise was using the label of "military enterprise" (*jundui qiye*) as a convenient cover for tax reductions and privileged access to transport or raw materials, individuals or units tried to have the enterprises re-classified as nonmilitary enterprises. A significant number of enterprises were reportedly transferred to the control of relatives of military officers or defrocked military officers, meaning that these enterprises retained their unofficial links to their former units. Some of this backsliding was considered so serious that the office of the military leading small group in the first half of December 1998 was forced to dispatch four work groups of 30 members each to inspect the larger units.

Even some of the divestiture transfers themselves involved elements of illegality. One of the military's highest profile enterprises, the five-star Palace Hotel in Beijing, attracted interest from numerous civilian companies.³⁶ Eventually, the General Staff Department sold their joint venture stake in the hotel to a state enterprise, China Everbright Group, Ltd., which was looking to expand its hotel assets. According to the PRC Joint Venture Law, however, the remaining co-owners, Hong Kong's Peninsula Group (which managed the hotel) and Japanese construction company, Kumagai Gumi, should have enjoyed the right of first refusal of the army's shares. Instead, Peninsula got to approve the transfer only after it was arranged. Ironically, therefore, a process designed to reduce the incidence of illegality among the armed forces was itself provoking illegal behavior. Moreover, the deal may even be detrimental to Peninsula Group. In 1997, China Everbright set up its own hotel management firm, and might take over from Peninsula when the latter's management contract comes up for re-extension in 2002.

The emerging details of the second phase also aroused resentment among the central, provincial, and municipal bureaucrats, who were being “forced” to take over the PLA’s many large and bankrupt enterprises.³⁷ The transfer of these enterprises to government offices was seen by many as another component of Zhu Rongji’s strategy to re-centralize macro-level decisionmaking authority and extract more resources from the provinces, many of which were perceived to have benefited disproportionately from reform at the expense of central coffers. For the local governments, however, these enterprises were simply another burden. The factories were particularly unattractive to the civilian governments, who would be saddled with the fiscal costs of free social services (education, housing, health care, etc.) for thousands of unemployed or underemployed workers. Furthermore, local officials would assume responsibility for finding new jobs for these workers, adding to their already weighty burden in this area. Some of the problems were addressed at a critical “transfer work meeting” convened on November 29.

December 15, 1998: Official Handover.

By December 15, 1998, the government officially announced the end of the second phase. Reportedly, 2,937 firms belonging to the PLA and People’s Armed Police were transferred to local governments, and 3,928 enterprises were closed.³⁸ The big loser was the GLD, which saw more than 82 percent of its enterprises transferred or closed. A partial list of the enterprises can be found in Table 1.

Province	Units Divested	Workers	Output Value	Profits	Asset Values	Debt Values
Hebei ³⁹	122				1.47b	1.07b
Guangdong ⁴⁰	390	6700			2.0b	
Jiangsu ⁴¹	64				1.4b	830m
Beijing ⁴²	68	2300			1.4b	
Shenyang ⁴³	47	762	534m			
Hainan ⁴⁴	29					
Shanghai ⁴⁵	9	600		30m	300m	
Tianjin ⁴⁶	67					
Jiangxi ⁴⁷	8	687			45.7m	
Lanzhou ⁴⁸	68					

Table 1. Partial List of Divested PLA and PAP Enterprises.

One-third of the companies and their subsidiaries were retained by divestiture offices at the central level, while the remaining two-thirds were transferred to divestiture offices at the local level. Profitable regional military conglomerates, such as the Jinling Pharmaceuticals Group in the Nanjing MR, were placed directly under the direction of the regional commission.⁴⁹ By contrast, the 10 mid-sized firms and 40 small-sized firms of the Strategic Rocket Forces, whose businesses had not been terribly profitable, were given to their local governments.⁵⁰ The commercial elements of China's most profitable military conglomerates, such as Xinxing, Songliao, and Sanjiu (999), were not handed over to local governments for reorganization, but were instead placed directly under the control of the State Economic and Trade Commission in Beijing.⁵¹ Eventually, it was thought that these large companies would be independent, state-owned conglomerates. As an example, the experiences of Xinxing in this process are representative of the fate of these big firms.⁵² Because Xinxing contained enterprises engaged in both military and non-production, its handover was very complicated. In the end, 56 numbered

factories, which produced machines, logistics materials, clothes, and hats for the PLA, were kept under military control, but the trade group was transferred to the SETC. The ten specialized firms owned by Xinxing were reduced to seven after divestiture, with Xinxing Foundry retained by the military and two other firms transferred to chemical groups. At the same time, three new firms, including the General Logistics Construction Company that built the Military Museum, the new CMC Building, and the Beijing 301 Hospital, were added to Xinxing, restoring the number of firms to ten.

All of the large-size firms were subject to a broad set of rules. The central government would still control the nomination of the leadership of large-size firms, groups, and major enterprises of important industries. In terms of accounting and budget, the Ministry of Treasury would manage the financial affairs of those firms managed by the central government. All firms were required to participate in local social insurance schemes according to geographic divisions.

The remaining 8,000-10,000 enterprises, most of which were the smaller, subsistence-oriented enterprises at the local unit level, remained in the military.⁵³ The reforms were also “suspended” in some sectors, especially civil aviation, railway and posts and telecommunications, because of the “special nature” of these industries.⁵⁴ For example, the Air Force’s China United Airlines was permitted to continue operating.⁵⁵ Other notable exceptions included the 56 numbered factories previously under the control of the GLD’s Xinxing Group, which remained under the administrative control of the General Logistic Department’s pared-down Factory Management Department (formerly the larger Production Management Department); and Poly Group, which was divided between the General Equipment Department (arms trading elements like Poly-Technologies) and COSTIND.

Phase Three: The Real Bargaining Begins.

A Handover Office Work Meeting was held December 28, 1998, at the Jingfeng Hotel in Beijing.⁵⁶ The meeting, chaired by Handover Office Director Sheng Huaren, was attended by the CEOs of the 148 large-size PLA and PAP enterprises handed over to the SETC Handover Office. According to Sheng, these 148 enterprises and groups included 903 factories and subsidiaries, all of which had also been relinquished to the national office, and other military enterprises, which had been given to local handover offices. While these moves were significant in their scale and scope, the Central Committee's guidance cited above also suggested that the opening two phases of the divestiture were only the beginning of a much longer, and more protracted process of allocating and restructuring thousands of troubled enterprises. According to Qin Chaozheng, the director of the Economic and Trade Commission of the Hebei Provincial Government:

It will be an arduous task to turn these enterprises over to proper units for their management and to standardize their operation. More than half of these enterprises are poor in management. It is necessary to further improve their management mechanisms and turn them into legal and competitive entities that are suitable to the market economy and that are able to conduct management independently.⁵⁷

The first task for the third phase of the divestiture process, which began after the December 15 transfers, involves going through the accounts of all PLA enterprises, which must be squared before these enterprises are allowed to become fully civilianized or merged with civilian firms. It is expected that this process will take at least 2-3 years, depending on the number of major corruption cases that are generated. The asset evaluation was to be performed by accounting agencies designated by the SETC.⁵⁸ Some initial results of the third phase have already been publicized. Among many examples, the PLA's 9791 Cement Factory was turned over to local authorities in Tongchuan City on

March 30, 1999, and renamed the "Shaanxi Provincial Lishan Cement Plant."⁵⁹ In March 1999, it was also announced that 150 large enterprises formerly owned by the military and the armed police were being transformed into state-owned corporate groups.⁶⁰ Xinxing, for example, remains as an independent, nonmilitary entity, controlling one of the General Logistics Department's largest construction units. The top-level management of the large enterprises is being selected and appointed by the central government, especially the Ministry of Finance, which was placed in charge of supervising the assets of these enterprises. By contrast, nearly all of the smaller enterprises have been handed over to local authorities. Regardless of size, however, all enterprises are being required to transfer their credit liabilities, as well as participate in the medicare insurance programs on behalf of their employees. Those that failed to offset their debts would be overhauled, shut down or acquired by other, viable companies.

Exempted from Divestiture: PLA Telecoms.

Military commercial telecommunications ventures were one sector singled out for special exemptions. Interviews in Beijing strongly suggest that PLA telecoms in general was given a "get-out-of-jail-free" card from the central leadership, because the resulting information technology acquisition was seen as an essential contributor to the command, control, communications, and intelligence (C4I) revolution currently underway in the PLA. To manage the post-divestiture operations, the PLA created two communications groups. Reportedly, the first is dedicated exclusively to internal military traffic at high levels of security. The second leases capacity of existing networks to civilian operators. In the latter case, the PLA was considered to be de-linked if they did not directly enroll individual subscribers (i.e., deal directly with "the public"), yet they could lease to operators who did enroll customers (i.e., cable companies). While radio paging was abandoned

(e.g., China International Trust and Investment Corporation [CITIC] Pacific bought the Bayi radio paging business in Guangzhou) and many companies had to break their high-profile links with foreign companies, the China Electronic Systems Engineering Company (CESEC) in particular was not only allowed to stay in business but in some cases expand its operations.

One illustrative case of the new ambiguous status of PLA telecommunications involves a fiber optic network previously managed by the Guangzhou Military Region. At the end of 1998, the network's managing unit, the Office of Technology Support for Economic Construction (OTSEC), was nominally transferred over to the Guangdong provincial government as part of the divestiture process. By all accounts, the transfer appears to be a legal ruse to allow the PLA to continue to be engaged in commercial telecom activities. The office remains essentially military and it still oversees much of the military telecom network in the Guangzhou MR, as well as the optical fiber network. The OTSEC is still actively negotiating with a large number of Chinese and foreign companies to lease surplus PLA telecoms networks and to build an updated high speed data and voice transmission network. In February 2000, Hong Kong-based CITIC Pacific purchased the fiber network itself from the PLA to be the cornerstone of its new network rollout. It is said that CITIC spent over 2 billion RMB buying the unused fiber from the military. An \$80 million purchase of optical equipment from Lucent will expand the capacity of the existing 16,000km of fiber and extend it to over 32,000km nationwide. Despite the sale of the network to civilians, however, interviews indicate that the PLA continues to retain controlling ownership of the lines through civilian fronts.

Perhaps the most salient example of the uncertain legal and regulatory status of continuing PLA telecommunications ventures involves the "Great Wall" Code Division Multiple Access (CDMA) cellular project owned by the General Staff Department Communications Department's

commercial arm, CESEC. In accordance with divestiture, CESEC sold its 20 percent share in the Nanjing-based satellite joint venture holding company with KPN Royal Dutch Telecom, but retained initial control of the four trial CDMA networks in Beijing, Tianjin, Xi'an, and Shanghai.

In 1999, CESEC's civilian partner in the deals, China Telecom, was ordered out of the projects, so that the networks could be prepared for handover to China Unicom, the weak number two telecom player which was betting on CDMA to help it gain a respectable market share against the larger Global System for Mobile Communications (GSM) networks run by China Telecom. As quickly as this arrangement was offered, however, the central authorities reversed themselves, and announced that the PLA would be retaining ownership of the networks. There are many competing reasons why the transfer fell through. China Telecom did not want Unicom to get Great Wall's CDMA networks, since the combined CDMA assets of the two players posed a greater threat to the dominant market share enjoyed by China Telecom's GSM networks. Unicom did not want to be bothered with Great Wall's overhead, which included significant debt, personnel, housing, pension, and other social welfare costs. Moreover, the Great Wall system is a narrow-band second-generation CDMA standard, and Unicom wanted to move to the broadband third-generation standard.

Before resuming its CDMA business, however, CESEC had to solve a big problem. Divestiture explicitly prohibited the PLA from dealing directly with customers, so they needed a new partner that could serve as an "interface." Eventually, CESEC appeared to partner with ChinaSat, the satellite communications company spun off from China Telecom. Since Great Wall was the name of the now defunct joint venture between CESEC and China Telecom, the Great Wall joint venture was formally superseded by a company called China Century Mobile Communications Company, whose investors reportedly include CESEC, ChinaSat, the Beijing Municipal Government, Datang

Group, and Beijing Zhongguancun Technology Development Ltd. The latter company, which plans to invest U.S.\$6 million in Century Mobile once it is approved by the central government, is itself owned in part by two of China's best known companies, Founder Group and Legend Group Holdings, the country's biggest computer maker. Additional technical support (and perhaps a small share of equity investment) will likely be provided by the Chinese Academy of Telecommunications Technology, a research institute under the Ministry of Information Industry. CESEC's role in Century Mobile is also multi-faceted, undercutting earlier reports that ChinaSat would be the de facto operator of the networks with CESEC as a passive investor. Instead, it appears that CESEC has retained its primary role as the designer, builder and integrator of communications networks. As stated by one official from Shenzhou Great Wall Communications Development Center, the PLA company overseeing the trial CDMA network in Beijing: "Other companies will invest in the network, and we will build it."⁶¹

The first public hint of these new developments appeared in late December 1999, when Samsung and a company named Hebei Century Mobile Communications began construction of a new CDMA network serving 11 cities in Hebei province. In a press release only circulated in Korea, Samsung heralded the opening of the Hebei 133 CDMA mobile telephone network. The Korean company reportedly supplied U.S.\$31 million of mobile systems equipment, including 11 mobile switching centers (capable of servicing 200,000 subscribers) and 165 base stations, and expected more than U.S.\$200 million in follow-up orders. By February 2000, this network reportedly had attracted 15,000 subscribers.⁶²

The Great Wall/Century Mobile case is a striking illustration of the continuing role of the PLA in commercial telecoms operations, and certainly suggests that telecommunications was exempted from divestiture. At the very least, it suggests that the civilian leadership is willing

to turn a blind eye to the activities, because of their side benefits for the military's own communications system. Divestiture, therefore, was not a blanket condemnation of the military's participation in business, but instead was a process capable of making logical exceptions, especially when it threatened to throw the baby out with the bathwater. At the same time, the PLA telecommunications networks continue to operate in a hazy, inchoate gray area, with neither central approval nor rebuke. At a July 18, 2000, cabinet meeting, for instance, State Council "Document No. 40" was reportedly issued, ordering the military once again to turn the Great Wall networks over to China Unicom as well as the 10MHz of frequency in the 800MHz band that the military was using for its CDMA systems. For more than a month, the military allegedly resisted the command, hoping to retain some or all of the networks and frequencies for its own secure communications. As of September 2001 it is still not clear whether the transfer has been completed.

Divestiture Problems: Resource Allocation and Discipline.

As the divestiture entered 1999, some serious bureaucratic and political conflicts began to surface. Overall, they can be divided into two categories: resource allocation and discipline. Each of these disputes has important implications for our assessment of the final success or failure of the divestiture process.

In terms of resource allocation, early trends suggested that the PLA's compensation, especially in the area of the official budget, was going to be far less than the military expected. In March 1999, Minister of Finance Xiang Huaicheng announced the military budget for the new fiscal year in his annual work report:

In line with the CCP Central Committee request, central finances will provide appropriate subsidies to the army, armed police force, and political and law organs after their severance of

ties with enterprises. In this connection, this year's defense expense will be 104.65 billion yuan, up 12.7 percent from the previous year because of the provision of subsidies to the army and of regular increases.⁶³

Outside observers immediately noticed the meagerness of the figure, both in relative and absolute terms. At a relative level, the 12.7 percent increase was not significantly higher than the 12 percent increase of the previous year, calling into question the notion that the fiscal priority of the PLA had been augmented. Even in absolute terms, the increase of RMB13.65 billion between 1998 and 1999 was not that much larger than the RMB10.43 billion increase between 1997 and 1998, and reportedly included only a RMB3 billion compensation for the loss of business income. Where was the additional RMB15-50 billion reported in the Hong Kong media? Why did the military receive only RMB3 billion extra when even the official China Daily newspaper pegged the estimated annual profits and taxes of the enterprises at RMB5 billion (U.S.\$602 million)?⁶⁴

There are several plausible explanations for this budgeting outcome. The first, and most difficult to prove, is that that PLA was sufficiently compensated with off-budget funds that are not calculated into the official budget. Given the Byzantine nature of the Chinese budgeting process, we may never have a definite estimate of any off-budget compensation. The second explanation is that the PLA did not have as much as leverage in the divestiture process as it or outsiders thought, allowing the civilian leadership to get the military out of business "on the cheap." The third possibility, supported by a loud chorus of PLA grumbling and complaining, is that the military was "duped" by the civilian leadership, the latter of whom had implicitly promised a higher level of compensation. Indeed, there is some evidence to suggest that the RMB3 billion of compensation is based on the conservative profit estimate of RMB3.5 billion (on total revenue of RMB150 billion) that the PLA gave to Zhu Rongji before the divestiture

announcement in July. This low estimate was very much in line with previous PLA estimates by the General Logistics Department, which consistently undervalued the profit of the military enterprise system in order to lessen the central tax burden of the commercial units. If the above story is true, then the major source of the PLA's animus may be that it was hoisted by its own petard. At the time of writing, however, it is difficult to judge which of these three explanations is correct, but the fact remains that vocal elements within the PLA appear to be significantly dissatisfied with the compensation package, above and beyond the usual bureaucratic rapaciousness for ever greater resources.

Apart from budgets, additional resource allocation disputes have arisen over distribution of enterprise assets in the post-divestiture environment. According to one well-informed observer, there have been some serious differences over levels of asset compensation because of the escalating costs of debts and liabilities incurred by enterprises.⁶⁵ Many firms were poorly managed with incomplete accounting records and borrowed from multiple creditors. The firms' relationships with banks needed to be clarified, and licenses needed to be re-registered. Another problem involved personnel. When military officers and workers were transferred to the localities, their healthcare and insurance had to be transferred as well, creating unwanted social welfare burdens for the new owners.

In other cases, there is intra-military bargaining over the fate of individual assets. One of the most public examples of this was the dispute between the Beijing Military Region and the General Armaments Department over the fate of the Huabei Hotel in central Beijing.⁶⁶ Under the rules of the handover, military units at the bureaucratic rank of military region, which also covers the new GAD, are allowed to keep only one three-star hotel. Before divestiture, the Beijing Military Region controlled two three-star hotels, including the Huabei, which it agreed to hand over to the SETC Handover Office. Since the GAD is a

new organization and therefore had no hotels, it reportedly coveted the Beijing command's extra hotel. Thus far, however, the military region headquarters has declined to transfer the hotel to the General Armaments Department, igniting an unresolved bureaucratic struggle within the top military and civilian leaderships.

The second major set of problems resulting from divestiture involved discipline issues, mainly corruption and profiteering. While the data in this area remain anecdotal, there is some evidence to suggest that the civilian leadership has aggressively pursued discipline investigations involving corruption in PLA enterprises, much to the chagrin of PLA officers who feel that the effort is gratuitous and harmful to the public reputation of the military.⁶⁷ Susan Lawrence of the *Far Eastern Economic Review* reports from well-placed Chinese sources that the SETC Receiving Office has a list of 23 company executives at the rank of major-general or above who have fled the country since the divestiture was announced.⁶⁸ Seven of these officers are from the Guangzhou Military Region, which handed over more than 300 enterprises, and another five are from PLA headquarters. Among the latter is Lu Bin, former head of the General Political Department's Tiancheng Group, who was arrested overseas and extradited in January 1999. Other arrestees include a senior colonel who was the head of one of the PLA's top hotels, the Huatian, which is located in Changsha. As the various receiving offices continue to process the assets and books of some of the shadier PLA enterprises, one can only expect the numbers of disciplinary investigations to increase.

Conclusion.

In a sense, divestiture brings the PLA full circle. The pattern of the campaign, ranging from the transfers of its high-profile commercial enterprises to the retention of its lower-level farms and industrial units, suggests that the

military has essentially returned to the pre-1978 “self-sustaining” economy. Thus, the widespread conclusion that the PLA has been “banned” from business is far too simplistic. The military will continue to operate a wide variety of small-scale enterprises and agricultural units, with the goal of supplementing the incomes and standards of living for active-duty personnel and their dependents at the unit level. Profit and international trade, however, will no longer be critical features of the system. Moreover, the military leadership hopes that the divestiture of profitable companies will greatly reduce the incidence of corruption and profiteering in the ranks, and thereby refocus the PLA on its important professionalization tasks.

At this point, of course, it is too soon to judge the long-term impact of this divestiture on the PLA. While participation in business had spawned endemic levels of corruption, an honest assessment would also admit that the military-business complex made positive contributions by subsidizing an underfunded military, improving the material life of the rank-and-file, and creating jobs for cadre relatives. Despite these benefits, however, the military and civilian leadership in the end decided that the disadvantages of commercialism outweighed the advantages, particularly with the prospect of professional tasks like the liberation of Taiwan and potential military conflict with the United States on the horizon.

What will the short- to medium-term future hold for the divestiture process? Most likely, the next few years will witness repeated “mop-up” campaigns on the part of the central leadership and significant resistance and foot-dragging on the part of local military officials, repeating the pattern of earlier rectifications. An audit in early 1999 revealed that the military had kept back some 15 percent of its businesses, necessitating the extension of some deadlines until August 1999. As late as May 2000, a top-level meeting on divestiture all but admitted that the military continues to shield some assets from the process, stating that the withdrawal of the military from business

activities had only been “*basically* completed” (emphasis added).⁶⁹ Nonetheless, it is critical not to downplay the importance of what has already occurred. There is significant evidence to suggest that the divestiture has ended the legal participation of the PLA in commercial activity, perhaps closing one of most unique and interesting chapters of the post-Mao revolution.

ENDNOTES - CHAPTER 10

1. This chapter is used with the author's permission from his book, *Soldiers of Fortune: The Rise and Fall of the Chinese Military-Business Complex, 1978-1998*, Armok, NY: M. E. Sharpe, November 2000.

2. “Jiang Orders PLA-Owned Firms to Close,” *Xinhua Domestic Service*, 22 July 1998, in *Foreign Broadcast Information Service-China* (hereafter *FBIS-CHI*)-98-204, July 23, 1998.

3. See *People's Daily*, July 23, 1998, p. 1.

4. “Fu Quanyou on Supporting Jiang's Anti-Smuggling Drive,” *Xinhua Domestic Service*, July 23 1998, in *FBIS-CHI*-98-206, July 25, 1998.

5. Cao Haili, “The Chinese Army Has Sailed Out of the Business Sea,” *Caijing*, January 1999, pp. 1-16.

6. “Yu Yongbo Calls on Army to Cease Business Operations,” *Xinhua Domestic Service*, July 26, 1998, in *FBIS-CHI*-98-208, July 27, 1998.

7. “General Armament Department to Fight Smuggling,” *Xinhua Domestic Service*, July 26, 1998, in *FBIS-CHI*-98-209, July 28, 1998.

8. Wu Hengquan, Liu Zhenying, and Wang Jinfu, “Hu Jintao Speaks on Banning PLA Businesses,” *Xinhua Domestic Service*, July 28, 1998, in *FBIS-CHI*-98-209, July 28, 1998.

9. Cao Haili, p. 3.

10. Personal communication with Tai Ming Cheung, November 12, 1998.

11. Cao Haili, p. 2.

12. This account is taken from Susan Lawrence's excellent article, "Bitter Harvest," which can be found in *Far Eastern Economic Review*, April 29, 1999, pp. 22-26.

13. *Ibid.*

14. Personal communication with Tai Ming Cheung.

15. The RMB15 billion number comes from Kuang Tung-chou, "Premier Promises to Increase Military Funding to Make Up For 'Losses' After Armed Forces Close Down All Its Businesses," *Sing tao jih pao*, July 24, 1998, p. A5, in *FBIS-CHI-98-205*, July 24, 1998. For the RMB30 billion figure, see Willy Wo-Lap Lam, "PLA Chief Accepts HK47 Billion Payout," *South China Morning Post*, October 9, 1998.

16. Willy Lo-Lap Lam, "PLA to Get HK28 Billion for Businesses," *South China Morning Post*, August 3, 1998.

17. The author would like to thank Dennis Blasko for this information.

18. "Military Reportedly Raises Pay to Avoid Discontent," *Ming pao*, January 23, 1999, p. 15, in *FBIS-CHI-99-023*, January 23, 1999.

19. Interviews in Beijing, February 1999.

20. Kuang Tung-chou, "Beijing To Comprehensively Raise Servicemen's Remuneration," *Sing tao jih pao*, November 25, 1998, p. B14, in *FBIS-CHI-98-349*, December 15, 1998.

21. The account of this meeting can be found in Cao Haili, p. 5.

22. "Military Meets Resistance in Enforcing Ban on Business," *Ming pao*, September 9, 1998, p. A16, in *FBIS-CHI-98-253*, September 10, 1998.

23. "Hu Jintao Appointed CMC Vice-Chairman," *Xinhua*, October 31, 1999.

24. Willy Wo-Lap Lam, "Problems Between CCP, Army," *South China Morning Post*, October 20, 1999, p. 19.

25. Personal communication with Tai Ming Cheung, September 9, 1999.

26. Cao Haili, p. 5.

27. Han Zhenjun, "Military Business Said 'Disconnected' By 15 December," *Xinhua Domestic Service*, December 28, 1998, in *FBIS-CHI-98-362*, December 28, 1998.

28. "Work of Disengaging Armed Forces and Armed Police From Their Enterprises to Be Completed in Mid-December—Over Ten High Officials Absconded With Money," *Ming pao*, December 7, 1998, p. A12, in *FBIS-CHI-98-353*, December 19, 1998.

29. Cao Haili, p. 5.

30. Yang Xinhe, "Hebei Takes Over Military Enterprises," *Xinhua Hong Kong Service*, December 12, 1998, in *FBIS-CHI-98-350*, December 16, 1998.

31. "Separation of Army From Business Done," *China Daily*, March 21, 1999, p. 1.

32. Cao Haili, p. 5.

33. "Work of Disengaging Armed Forces," p. A12.

34. "Military Meets Resistance," p. A16.

35. Lam, "PLA Cashes In."

36. This account is taken from Matt Forney, "A Chinese Puzzle: Unwinding Army Enterprises: Who Gets Them, And What to Pay?" *Wall Street Journal*, December 15, 1998; and Matt Forney, "Chinese Army's Exit from Businesses Leaves Partners Guessing at Next Move," *Wall Street Journal*, May 21, 1999, p. A9.

37. "Military Meets Resistance," p. A16.

38. "March Out of Business Sea: PLA and Armed Police Carrying Out the Decision of Divestiture," *Shidai chao*, March 2000.

39. Yang Xinhe, "Hebei Takes Over Military Enterprises," *Xinhua Hong Kong Service*, 12 December 1998, in *FBIS-CHI-98-350*, 16 December 1998.

40. "Guangdong Military Hands Over Enterprises," *Zhongguo xinwen she*, November 30, 1998, in *FBIS-CHI-98-337*, December 3, 1998. A different source relates that 368 of these firms, located in Guangzhou, Shenzhen, Zhuhai, Shantou, Huizhou, and Shaoguan, belonged to the Guangzhou Military Region, the South Sea Fleet, the Guangzhou MR Air Force, the Guangdong Military District, and the

Guangzhou People's Armed Police Headquarters. The other 22 enterprises located in Guangdong were owned by the Beijing, Jinan, Lanzhou, and Chengdu Military Regions, as well as firms owned by the Navy's Guangzhou Maritime Academy. See *Cao Haili*, p. 6.

41. Jiangsu units also dissolved 194 enterprises, with RMB360 million in assets. Jin Weixin, "The Jiangsu Forces in the Nanjing Military Region Turn Over All Army-Run Enterprises, Stressing Politics, Considering the Overall Order, and Acting in Line With High Standards and Strict Requirements," *Nanjing Xinhua Ribao*, February 10, 1999, pp. 1,3, in *FBIS-CHI-1999-0222*, February 10, 1999. See also "Jiangsu Troops Hand Over Enterprises to Localities," *Xinhua Domestic Service*, November 27, 1998, in *FBIS-CHI-98-337*, December 3, 1998.

42. *Cao Haili*, p. 13.

43. "Shenyang 'Theater of Operations' Transfers Enterprises," *Beijing Central People's Radio Network*, November 25, 1998, in *FBIS-CHI-98-337*, December 3, 1998.

44. Bu Yuntong, "Hainan Armed Forces Hand Over Enterprises," *Xinhua Domestic Service*, November 29, 1998, in *FBIS-CHI-98-337*, December, 1998.

45. This number refers only to the divestiture of Yunfeng Industries. See "PLA Garrison Turns Major Business Over to Shanghai," *Xinhua*, November 21, 98.

46. "Tianjin Hands Over All Military-Run Businesses," *Xinhua*, December 8, 1998, in *FBIS-CHI-98-342*, December 8, 1998.

47. Liu Yi, "Jiangxi Military Hands Over Commercial Firms," *Xinhua Domestic Service*, November 26, 1998, in *FBIS-CHI-980337*, December 3, 1998.

48. This number refers only to Lanzhou MR AF enterprises. See *Lanzhou wanbao*, January 20, 1999.

49. Jin Weixin, "The Jiangsu Forces in the Nanjing Military Region Turn Over All Army-Run Enterprises, Stressing Politics, Considering the Overall Order, and Acting in Line With High Standards and Strict Requirements," *Nanjing Xinhua Ribao*, February 10, 1999, pp. 1, 3, in *FBIS-CHI-1999-0222*, February 10, 1999.

50. *Cao Haili*, p. 9.

51. First rumors of Songliao's transfer began to appear in late July. See Christine Chan and Foo Choy Peng, "Jiang Demand Threatens PLA Business Empire," *South China Morning Post*, July 24, 1998.

52. This account is taken from Cao Haili, p. 9.

53. Personal communication with Tai Ming Cheung, January 24, 1999.

54. "Separation of Army From Business Done," p. 1.

55. China United Airlines survived divestiture because many remote towns protested that the shutdown on the airline would cut them off from the rest of the country.

56. The account of this meeting is taken from Cao Haili, p. 6.

57. "Hebei Takes Over Military Enterprises," *Xinhua*, December 12, 1998.

58. Cao Haili, p. 6.

59. *Shaanxi Daily*, April 12, 1999.

60. "Separation of Army From Business Done," p. 1.

61. Conversation with knowledgeable journalist in Beijing.

62. Matt Pottinger, "China's Military Building Mobile Phone Empire," *Reuters*, February 15, 2000.

63. PRC Finance Minister Xiang Huaicheng, "Report on the Execution of the Central and Local Budgets for 1998 and on the Draft Central and Local Budgets for 1999," *Xinhua Domestic Service*, March 18, 1999, in *FBIS-CHI-1999-0320*, March 18, 1999.

64. "Separation of Army From Business Done," p. 1.

65. Personal communication with Tai Ming Cheung, September 9, 1999.

66. Susan Lawrence, "Bitter Harvest," *FEER*, April 29, 1999, p. 24.

67. *Ibid.*

68. *Ibid.*

69. Wang Yantian and Yin Hongzhu, "CCP Central Committee, State Council, Central Military Commission Hold TV, Telephone Meeting on Work of Withdrawing Military, Armed Police, and Political and Legal Organs from Business Activities," *Xinhua Domestic Service*, May 25, 2000.

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