

Chapter 5

China

The September 11 terrorist attacks in the United States had a large influence on the internal and external environments surrounding China. However, while displaying a positive stance of cooperation and collaboration with the United States on the antiterrorism issue, China remained silent about the retaliatory attacks, keeping its distance from the United States and Russia, and devoting its every effort to the top priorities of maintaining economic growth and ensuring the survival of the Communist Party.

In 2001, amid the downturn of the U.S. economy as a result of a slowdown of the global economy and the terrorist attacks, China achieved a high economic growth rate of more than 7 percent. Furthermore, China acceded to the World Trade Organization (WTO), and moved ahead with globalization of its economy. How Jiang Zemin's government will overcome the risks arising from the globalization and maintain the stability of the country will likely be called into question in the future.

While Chinese diplomacy on the one hand has yielded results, it has caused difficulties on the other. China strongly opposes the construction of a unipolar world, which the United States has been promoting, and has been strengthening relations with Russia and Central Asian countries in order to construct a multipolar world. As a result of the September 11 terrorist attacks, however, Russia and Central Asian countries have strengthened ties with the United States, putting Chinese diplomacy to a new test.

In terms of the military, the modernization of the People's Liberation Army (PLA) has been steadily progressing, and a strengthening of the armed forces has been implemented by a focus on science and technology and military training featuring new technology. Additionally, various reforms of the military have been carried out, such as the securing of human resources, reform of the budgetary system and consolidation of logistics. Furthermore, offensive capabilities against Taiwan have been improved through carrying out large-scale exercises.

In Taiwan, the Chen Shui-bian administration has taken on board the Bush administration's stance of support for Taiwan, and made achievements in the areas of diplomacy and security. Being a minority government, Chen's administration had difficulty in running the government until a majority-led coalition government was established in elections for the Legislative Yuan at the end of 2001.

1. Jiang Zemin Regime Facing Social Changes

(1) Aiming to Restore the Prestige of the Party

Having marked the 80th anniversary of its founding, the survival of the Communist Party of China (CPC) is being seriously called into question. The policies of reform and opening up that have been carried out during the past 20 years have greatly improved the standard of living and wealth of the people. On the other hand, with the abuse of special privileges by party cadres, fraud and corruption have become a serious problem, greatly lowering the level of people's trust in the CPC, and as a result, the prestige of the party has started to drop further. Furthermore, the recent rapid changes in society have been altering people's value system greatly. Despite such changes, however, there are some cadres who are unable to recognize the current situation.

Reflecting seriously on this situation, General Secretary Jiang Zemin adopted the "Three Representatives" (The Communist Party represents (1) "the development requirements of China's advanced social productive forces," (2) "the progressive course of China's advanced culture" and (3) the fundamental interests of the majority of the Chinese people"), in 2000 as a new party policy. By doing so, he has aimed to restore trust in the party, and ensure the survival of the CPC as the ruling party in the 21st century.

Party cadres are also fully aware of the graveness of corruption in the CPC. Consequently, they have mounted a fight against corruption through severe punishment for such action. They have been issuing warnings to party members at every opportunity and attempting to redress the political style of the party. Despite this, however, fraud and corruption by high-ranking party cadres was again observed in 2001. At the Sixth Plenum of the 15th Central Committee of the CPC held in September, two Central Committee alternate members were expelled from the party. One was former deputy secretary of the CPC Fujian Provincial Committee, Shi Zaobin, who was involved in a brib-

ery and smuggling incident. The other was former Gov. Li Jiating of Yunnan province, who was also punished for bribery and abuse of power.

A resolution was also adopted at this plenum to encourage and improve the building of “the CPC’s

Members of the Political Bureau Standing Committee attend celebrations commemorating the 80th anniversary of the founding of the Communist Party of China (July 1, 2001, Beijing) (China News Service-Kyodo)

political style (its style of activity and behavior).” It was pointed out that the fate of the party and the country was closely related to the political style of the party, and that the CPC has, in general, a good style, though certain problems require immediate attention. While pointing out the need to calmly evaluate the political style of the CPC, the danger of ignoring the importance of this issue was stressed, and of not maintaining vigilance and failing to make efforts to immediately resolve such problems. It issued strong warnings to all party members that based on the policy of the “Three Representatives,” the CPC should control itself strictly govern itself and further strengthen ties between the party and the people. Party cadres recognize the fact that the collapse of the Soviet Union and the drastic change of Eastern European countries were due to the decline of the Communist Party as the party in power, chiefly for the reason of party misdeeds. Taking these countries as examples, they realize that even in the case of the CPC, which has led China for many years, they could fall from power if they lose the support of the people.

On July 1, the 80th birthday of the CPC, Jiang Zemin gave a speech advocating the ceaseless strengthening of the CPC’s influence by taking as future party policy his proposal of the “Three Representatives.” He also spoke about the main criteria to admit a person into the party, stressing that they should bring highly skilled people from many fields into the CPC, and stated that they should allow party membership to

private businesspeople.

Conservative publications and other media have voiced their objections to Jiang's statement, claiming that to allow private businesspeople into the party would inevitably cause fundamental changes within the party and society. However, the CPC organ *Renmin Ribao* spoke highly of the speech by Jiang Zemin on July 1 as a "Marxist manifesto" and supported his ideas. Thorough and nationwide study was called for of this address, known as the "July 1st speech."

The July 1st speech presses for the strengthening of the leadership of the party. It seeks a goal of continuous economic development by bringing highly skilled people from all walks of life into the CPC. The structure of Chinese society has undergone change, and there is a danger that the party will be left behind by society if the CPC does not flexibly adapt to this change.

Moreover, with the 16th National Congress of the CPC planned for 2002, an important period of transition is under way between old and new party membership. The party leadership recognizes that, amid the changes in the international situation since the end of the Cold War, there is anxiety about the activities for the peaceful overthrow (peaceful evolution) of China, such as undesirable ideas making their way into China. Young cadres who have amassed experience in economics and management but are relatively immature in terms of party philosophy will find themselves in positions of leadership under such circumstances. Jiang Zemin's government sensed this danger, and has aimed for the stability and survival of the party philosophy by developing the "Three Representatives" for such young cadres.

There is no optimism as for whether the CPC can survive the 21st century through the thorough observance of the "Three Representatives." For instance, if private businesspeople were to be admitted into the party, the possibility that the CPC might be further transformed into a profit organization, or that the problem of corruption among party members might even worsen cannot be ruled out. The party itself may fail to represent "the fundamental interests of the majority of

the Chinese people.” There is not much time left for Jiang Zemin’s government to overcome such problems, and to carry out a changing of the guard. Furthermore, whether the conservatives who have called into question Jiang Zemin’s ideas have completely backed down is not yet clear, and the possibility cannot be dismissed that they might try in the future to return things to the way they were. The CPC is on the brink of an age of reform, and has become a political party that can no longer lead the Chinese people by ideology alone.

(2) The Continued Growth of the Chinese Economy

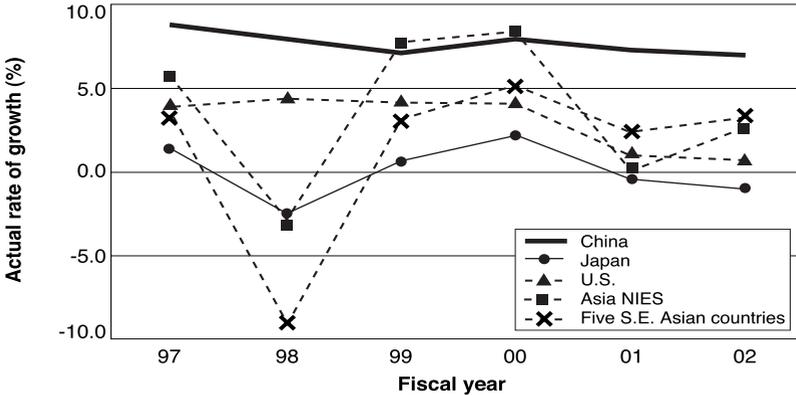
Despite the impact of the global economic slowdown and the terrorist attacks in the United States, the Chinese economy shifted extremely favorably in 2001, achieving a growth rate of more than 7 percent. This is viewed as the result of the rapid increase of investment in China due to favorable factors such as the expected accession to the WTO, which China had been waiting 15 years for, and the selection of Beijing as the host city for the 2008 Olympic Games.

However, there are also many unfavorable factors burdening the Chinese economy, including the problem of increasing unemployment and the widening income gap. Moreover, it is expected that economic and social turmoil accompanying structural reform and liberalization will occur as a result of accession to the WTO. In the future, it will be a question whether Jiang Zemin’s government is capable of overcoming these problems and maintaining stability while continuing economic development.

The year 2001 was the start of China’s 10th Five-Year Plan (2001-05). This plan expects an average annual economic growth rate of around 7 percent for the next five years, and by maintaining this growth, aims for a GDP of 12.5 trillion yuan (approximately \$1.5 trillion; a 40 percent increase over that for 2000) by 2005, and an increase of per capita GDP to 9,400 yuan (approximately \$1,100) by 2005.

In October 2001, the GDP from January to September 2001 announced by China’s National Bureau of Statistics was 6.72 trillion

Chart 5-1. Fluctuations in Real Economic Growth Rate of the United States and East Asian Region



Sources: Data from each year's edition of Asian Development Bank, *Asian Development Outlook 2001 Update*; International Monetary Fund, *World Economic Outlook*.

Notes: "Asia NIES" is the regional average of South Korea, Taiwan, Hong Kong and Singapore. "Five S.E. Asian countries" is the average of Indonesia, Malaysia, the Philippines, Thailand and Vietnam. The values for 2001 and 2002 are estimates.

yuan (approximately \$810 billion), a GDP growth rate of 7.6 percent. This is a slight drop from the 7.9 percent for the first half of the year announced in July. Amid the global economic slowdown and worries about the effects of the September 11 terrorist attacks, however, China has maintained a high growth rate that surpasses its stated target of 7 percent.

This growth rate is seen as a result of the rapid increase in investment from abroad, as well as the issue of long-term government bonds of more than 170 billion yuan (approximately \$20 billion) for expanding domestic demand. As of the end of July 2001, foreign capital corporations numbered roughly 378,000 in total, and foreign capital introduction exceeded \$700 billion on a total contract basis, reaching about \$370 billion on a performance basis. From January to July, the number of foreign capital corporations authorized by China totaled roughly 14,000, an increase of around 20 percent over the same period of the previous year. On a contractual basis, foreign capital introduction was \$40.2 billion, an increase of more than 50 percent over

the same period of the previous year. As for trade, the total amount of imports and exports was \$376.37 billion, an increase of 9 percent over the previous year. Exports increased 7 percent to \$194.98 billion, and imports increased 11.2 percent to \$181.39 billion, recording a trade surplus of \$13.59 billion. It appears that China's economy has been little influenced by the international situation compared to neighboring countries and regions.

However, at the same time, there are factors for concern that cannot be neglected. First is the increase in unemployment. As a result of the reform of state-owned enterprises (SOEs) by the government, the number of unemployed and laid-off workers is increasing in urban areas. Similarly, the surplus labor force in rural areas is also increasing. If an urban labor force of approximately 46 million people further increases, and the Chinese government continues to implement structural reform and reform of SOEs, the Chinese government estimates that roughly 20 million workers will be laid off during the 10th Five-Year Plan. The surplus labor force in the countryside will also increase, and it is expected to number more than 150 million people. The government is alarmed that the problem of employment will become more severe in the future, in accordance with the progress of reform as well as the population increase.

Second is the widening income gap. The government expects that the gap between high-income and low-income earners will continue to widen with an accelerating rate. Heightening the government's concern is the fact that the income gap in the population is expanding in a variety of forms: (1) gaps due to differences in forms of ownership, (e.g. foreign affiliation), and differences in types of business or industry, (2) gaps due to regional differences between urban and rural areas, or between coastal and inland regions, and (3) gaps even within the same urban or rural area.

Third is the problem of farmers and farming communities. Particularly in recent years, the income rise of farmers has been sluggish. Close to 80 percent of the population live in agricultural areas, and

the condition of “making food with 900 million” has not changed. Additionally, sales of agricultural products are worsening, with prices dropping and the profits of township enterprises taking a downturn. At the 23rd Standing Committee of the 9th National People’s Congress in August 2001, a report was made on the difficulty of raising the income of farmers. It was pointed out that in some regions, the importance of agriculture was being ignored, and that the overall agriculture industry was weakening, with decreasing earnings. Since the stability of China is grounded in the stability of farmers and farming communities, continued economic growth will be difficult if they are not maintained. In addition, it is fully expected that the impact of accession into the WTO will reach farmers and farming communities, and depending on the government’s response, there is the potential for confusion.

As a result of China’s accession into the WTO, the possibility exists that, in the short term, industries lacking competitiveness will be hurt. In the long term, however, it is believed that China’s international competitiveness will increase, and that China’s economy will be further developed. As a result of accession, China will not only gain certain rights, it will also have to fulfill its obligations. China has made it clear that it will strictly observe the rules of the WTO. When faced with the many difficulties accompanying commercial failures due to losing out to international competition in the future, however, whether the CPC and the government can sufficiently respond to the people will be a test for China’s leadership.

2. China’s Diplomacy Focusing on Economy

(1) From Collision to Cooperation: the United States

Since George W. Bush assumed the presidency of the United States in 2001, China’s relations with the United States have remained in a difficult situation due to Taiwan issues and the midair collision between a U.S. reconnaissance aircraft and a Chinese jet fighter. As a

result of the September 11 attacks, however, China has taken a stance of cooperation in fighting terrorism, with the aim of improving its chilled relationship with the United States.

After the inauguration of the Bush administration, Vice Premier Qian Qichen visited the United States in March and attended the first China-U.S. Cabinet-level talks. This demonstrated the importance China attaches to relations with the United States. In particular, there were important matters for China in 2001 that called into question the political ability of Jiang Zemin's government, namely the Olympic bid and accession into the WTO, as well as the holding of the informal summit of the Asia-Pacific Economic Cooperation (APEC) forum in Shanghai. To ensure success in these issues, China needed the cooperation and support of the United States. Furthermore, there was a need to make clear China's point of view to the Bush administration regarding the issue of Taiwan, which China considers as its domestic issue. In particular, China aimed at blocking U.S. arms sales to Taiwan. However, due to the midair collision that later occurred between a U.S. reconnaissance aircraft and a Chinese jet fighter, they were unable to stop the sale of arms to Taiwan.

At the start of April, a U.S. EP-3E electronic reconnaissance aircraft flying over the South China Sea collided in midair with a Chinese jet fighter. The EP-3E made an emergency landing in China's Hainan province, but the Chinese jet fighter crashed and the whereabouts of the pilot remain unknown. China demanded an apology, claiming that "the United States should bear full responsibility for the incident." In response, the United States expressed regret for the missing pilot, and taking this as an apology, China released the crew of the EP-3E.

Immediately after, however, the United States demanded the prompt return of the EP-3E aircraft, categorically denying any responsibility for the accident. Furthermore, the United States refused China's demand to halt all reconnaissance activities, and as a result of this issue, China-U.S. relations took a turn for the worse. In addition, President

Bush took a hard-line stance toward China by approving the large-scale sale of arms to Taiwan, and making statements that the United States would defend Taiwan. China demonstrated its fierce backlash by disassembling the EP-3E, which the United

Leaders at the announcement of the APEC Summit Declaration (October 21, 2001, Shanghai)

States had asked to be returned as it was, saying there was a possibility of it being repaired. China also demanded a huge amount of compensation. Because of this incident, China-U.S. relations cooled rapidly, with the United States reviewing China-U.S. military contacts.

China-U.S. relations improved again in July after the EP-3E had been returned to the United States. This is indicated by the Bush administration's policy of not opposing Beijing's bid to hold the 2008 Summer Olympics and by the first China-U.S. summit by telephone at the start of July where Bush asked for the release of Chinese-American scholars held in custody in China. China responded by releasing two Chinese-Americans in mid-July, and expelled them from the country. At the end of July, Secretary of State Colin Powell visited China, which further improved China-U.S. relations. In talks with Tang Jiaxuan, minister of foreign affairs, Powell agreed to the resumption of talks in areas such as the economy, human rights, maritime safety and nonproliferation of weapons of mass destruction, which began at the start of August.

China-U.S. relations took a large step forward after the September 11 terrorist attacks. Immediately after the incident, China made a statement renouncing terrorist activities and offering to cooperate with the United States. On September 20, Tang Jiaxuan made an emergency visit to Washington, and held talks with Bush on how to respond to the terrorist attacks. He also met with Vice President Dick Cheney,

stating that China was prepared to join the fight against terrorism. However, he proposed the following conditions: (1) the fight against terrorism needed to have a clearly-defined goal; (2) they must avoid injuring innocent civilians; and (3) the United Nations Security Council (UNSC) should play a suitably important role. In talks with Powell, the United States and China reached common understanding on five points, including carrying out expert-level consultations on antiterrorism in the near future, and strengthening cooperation and deliberation concerning terrorism at the UNSC. On this understanding, China sent a group of counterterrorism experts to the United States, and they supported and cooperated with the United States through exchange of information related to terrorism.

The reason behind China's shift to a stance of cooperation with the United States in this way is probably due to an Islamic extremist movement aiming for independence in the Xinjiang Uyger Autonomous Region, an issue on which they are able to share awareness and cooperate with the United States on the problem of terrorism. Another point is that China also desired to significantly advance China-U.S. relations, which had cooled down since the EP-3E incident. It is also likely that China intended to ride the wave of antiterrorism sentiment and avoid being isolated in the international community. Moreover, it wished to ensure the success of the Shanghai APEC summit for which it was preparing, and demonstrate the leadership of Jiang Zemin at home and abroad. At the APEC summit in October 2001, China clearly demonstrated a cooperative stance with the United States. As the chair of the summit, China created the consensus of the participating leaders, and united them against terror through the adoption of the APEC Leaders Statement on Counter-Terrorism.

China's real concern, however, was the direction of the U.S. economy following the September 11 attacks. If the fight against terror were to drag on, the U.S. economy and the global economy would be adversely affected. China feared that the aftereffects would have a negative impact on its economy.

At the first summit talks between Jiang Zemin and Bush, held during the APEC summit meeting, Bush stated that China was not an enemy of the United States, adding that he regarded China as a friend. He went on to state that the United States had been working toward developing a constructive relationship of cooperation with China. Furthermore, at a joint news conference, Jiang stated that they had a common responsibility and interest in fighting terrorism. Indicating his desire to foster cooperative relations, Jiang was able to make a clean break from the difficult past relations with the United States. Nevertheless, other problems remain unresolved. Particularly, the Taiwan issue, the missile defense issue and human rights issues have been overshadowed by the September 11 attacks. The possibility remains, however, that these issues will surface again and re-ignite conflict in the future, and further complicate relations between the two.

(2) Partnership Put to the Test: Russia

For China, whose top priority is economic development, a stable security environment allowing it to concentrate on the economy is essential. In particular, maintaining good relations with Russia, with whom China shares a long border, and with other Central Asian countries is regarded as extremely important for that purpose; therefore, no efforts have been spared in this regard. The establishment in June 2001 of the Shanghai Cooperation Organization (SCO) and the signing of the China-Russian Treaty of Good-Neighborliness, Friendship and Cooperation in July represent such efforts.

However, the subsequent terrorist attacks nullified such endeavors, and China recognizes the necessity for a new response. This is because in the wake of the terrorist incident, Russia and other Central Asian countries strengthened ties with the United States. Seeing that the influence of the United States will extend into Central Asia in the future, China began to feel a sense of alarm.

In the middle of July, Jiang Zemin visited Russia, and together with President Vladimir Putin signed the China-Russian Treaty of Good-

Neighborliness, Friendship and Cooperation. The conclusion of the above treaty was not something hastily carried out according to the turn of events. Rather, this was clearly stipulated in the Beijing Declaration, the product of talks between Jiang Zemin and Putin in July 2000. As written proof of the partnership built over the years by China and Russia, the relationship of cooperation will likely be strengthened in a broad range of fields. In particular, it has helped to relieve security concerns troubling the two countries, and has created a framework in which they can concentrate on their respective economies, the most important issue for both.

The China-Russian Treaty of Good-Neighborliness, Friendship and Cooperation does not stipulate an alliance. It can instead be seen as a new framework for cooperation. At the time of the signing of the treaty, Jiang Zemin was urging for further strengthening of strategic cooperation between China and Russia, and cooperation in establishing a multipolar world order. The treaty can be viewed as a strengthening of ties to stem support for a unipolar world with the United States as the only superpower, by unifying China-Russian opposition to U.S. hegemonism and power politics.

This treaty was no doubt highly welcomed by the Chinese military, which is in the process of modernizing its forces. As Articles 7 and 16 stipulate cooperation between the two countries in military technology, scientific technology, energy, nuclear power, aerospace technology and information technology, the possibility exists that Russia will further advance the modernization of China's military in a broad range of fields through this treaty. On his visit to Russia, Jiang Zemin gave a speech at Moscow State University, saying China-Russian relations were a "new type of international relations, based on nonalliance, nonconfrontation and not targeting any third countries," and that the treaty was swimming with the current of the times. Signing the treaty, however, does not mean that China and Russia's distrust in each other has been dispelled. In Article 6 it is stipulated that "neither side shall harbor any territorial demands," and inclusion of regulated and pro-

Presidents participate in the meeting for the establishment of the Shanghai Cooperation Organization (June 15, 2001, Shanghai)(Kyodo)

hibited matters in Article 8 indicates that deep-seated distrust persists between the two countries. Preceding the conclusion of the China-Russian treaty in June 2001, China along with Russia and other Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) agreed to the establishment of the Shanghai Cooperation Organization (SCO). Furthermore, in addition to signing the Convention on Combating Terrorism, Separatism and Extremism, these countries agreed to cooperation in a broad range of fields such as economy and trade. At the time of establishing the SCO, Jiang Zemin was advocating a strengthening of cooperation between member states in a broad range of fields, including politics and economy, and the establishment of a new international political and economic order. The aim was to maintain regional security and stability as well as to pursue China's goal of a multipolar world through strengthening of political and economic ties with these countries.

However, the cooperation of countries in Eurasia, and especially China and Russia, did not bring with it effective measures against international terrorism. On September 14, shortly after the September 11 terrorist attacks, the first SCO Summit was held in Almaty, Kazakhstan. At the summit, the member countries of the SCO moved toward unity on the issue of terrorism through issuing a declaration renouncing terrorism. However, such a move does not systematically function against terrorism. Moreover, the China-Russian Treaty of Good-Neighborliness, Friendship and Cooperation, and the declaration did not strengthen cooperation at the time of the terrorist attacks.

Rather, we should note that China and Russia immediately put top priority on relations with the United States. Jiang and Putin each held a telephone conversation with Bush, on September 12 and 13, respectively, but the fact that it was not until September 18 that they spoke to

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The Shanghai Five Process and Establishment of the SCO

The predecessor to the Shanghai Cooperation Organization (SCO) was a multilateral framework of cooperation called the “Shanghai Five.” This organization included Kazakhstan, China, Kyrgyzstan, Russia and Tajikistan, and spanned various fields of cooperation such as security, economy and culture. The Shanghai Five Process evolved from the signing in April 1996 of the “Agreement on Strengthening Mutual Military Confidence on Border Issues” in Shanghai by the leaders of the above five countries, after China-Soviet border negotiations for confidence building became multinational negotiations due to the break up of the Soviet Union. The “Agreement on Mutual Reduction of Military Forces in Border Areas” was signed at the Moscow Summit in April the following year. This stipulated the maximum levels of troops and weaponry allowed within 100 km of borders between member countries. Later, along with establishing a regular yearly summit, expansion of fields for cooperation was examined. The necessity to respond to separatism, extremism and terrorism, what China calls “the three evils,” was stipulated in a joint statement at the third summit held in Almaty (Kazakhstan) in July 1998.

Uzbekistan, which participated as an observer at the Dushanbe (Tajikistan) Summit in July 2000, was formally added, and the SCO was formed in 2001. In its declaration of establishment, the creation of a regional antiterrorism structure based in Bishkek (Kyrgyzstan), and the formulation of an SCO charter that would stipulate the concrete system and direction of cooperation was mentioned. This charter is expected to be presented at the St. Petersburg Summit in 2002. The SCO can be said to be a regional framework that supplements the partnership between China and Russia. As mentioned in this chapter, however, it failed to function effectively at the time of the September 11 terrorist attacks. This is also true of the resulting situation in Central Eurasia. The real test of the SCO as a regional security mechanism, including institutionalization, has yet to come.

each other is symbolic.

If the strategic partnership between China and Russia was indeed strong, consultation on the terrorism issue would have been seen at an early stage. As it turned out, it did not happen. Close coordination between Central Asian countries and China also did not take place, and instead Central Asian countries demonstrated their active cooperation with the United States through providing military bases. For China, the September 11 terrorist attacks have called into question China-Russian relations and the existence of the SCO. In particular, as a result of the terrorist attacks, Russia has been actively supporting the U.S. position toward the terrorist attacks and even its military campaign in Afghanistan, which China regards as the strengthening of U.S.-Russian ties. Central Asian countries, which belong to Russia's traditional sphere of influence, have likewise strengthened ties with the United States. China, therefore, has begun to consider the possibility that in the future the strategic position of Central Asia will become important, and that American influence will extend into the region. As a result of the September 11 terrorist attacks, China is being forced to rebuild relations with Russia and Central Asian countries so that there is no wavering of the strategic partnership between China and Russia.

(3) Maintenance of Stability: North and South Korea

Major developments in China-North Korean relations in 2001 were the visit to China of Kim Jong Il, general secretary of the Workers' Party of Korea (WPK) Central Committee and chairman of the National Defense Commission of the Democratic Peoples' Republic of Korea (DPRK), and Jiang Zemin's visit to North Korea. However, these visits did not result in any major changes in the situation on the Korean Peninsula. Chinese diplomacy centered around balancing the interest of North and South Korea. At the same time, China's involvement in the Korean Peninsula was small compared to previous years.

In relations with North Korea, Kim Jong Il, accompanied by other

important dignitaries, made a surprise visit to Shanghai (a four-day stop) early in the new year. During this visit, he toured places such as Shanghai General Motors Corp., and Shanghai Huahong NEC Electronic Corp. China views this as being related to Kim Jong Il's New Year's address, in which he stated that "North Korea must adopt a new way of thinking to boost its economy" (*Rodong Sinmun*, January 4, 2001). This does not indicate, however, that North Korea will open up in the same way as China.

Kim Jong Il emphasized the close relationship between China and the DPRK by sending a telegram of congratulations on the 80th anniversary of the founding of the CPC, and visiting the Chinese Embassy in Pyongyang. Jiang Zemin in return showed consideration for North Korea by reading aloud a congratulatory message to consolidate and develop China-DPRK relations on the 40th anniversary of the signing of the Treaty of Good-Neighborliness and Friendly Cooperation between the People's Republic of China and the DPRK.

In September, Jiang Zemin visited North Korea, and held talks with Kim Jong Il. Urging North Korea to take a path of development with Korean characteristics, he made clear China's stance of placing importance on the stability of the Korean Peninsula by stating that "maintaining and promoting peace and stability on the Korean Peninsula is extremely important," and during this visit, no agreement or joint statement between the two countries was seen. Instead, this visit was to reconfirm the traditional friendship between the two countries.

On the other hand, in relations both South Korea, the visit of Li Peng, chairman of the Standing Committee of the National People's Congress, to the Republic of Korea (ROK), and the visit of Prime Minister Lee Han Dong to China were realized, and diplomacy with South Korea developed in pace with that of North Korea. While political cooperation was also realized over such matters as the junior high school history textbook issue in Japan, China's main goal was strengthening economic ties with South Korea. In October 2001, the 21st Century Korea-China Leaders Society headed by Kang Young

Hun, former prime minister of the ROK, visited China, and met with Li Peng. Acknowledging the forward-looking developments on the Korean Peninsula, Li Peng stated that the Chinese government sincerely supports and welcomes the restoration of dialogue and cooperation between the ROK and DPRK, and hopes for reconciliation through dialogue and the eventual voluntary and peaceful reunification of the two Koreas. Li Peng's statement shows China's true feelings on the matter. Furthermore, he said that, as neighbors, China and South Korea could assist each other in economic development, indicating his hopes for the strengthening of economic cooperation.

For China, which is aiming for economic development, peace and stability on the South Korean Peninsula are essential. In particular, as long as South Korea maintains its policy of engagement with the DPRK (the Sunshine Policy), stability on the Korean Peninsula can be maintained, from which China can reap the necessary economic benefits from South Korea. Consequently, China also harbors strong hopes that stability will be maintained.

In October, Jiang Zemin met with South Korean President Kim Dae Jung, who was attending the APEC summit meeting. While making clear his support for an improvement of North-South relations, Jiang indicated his desire for advancement of North-South dialogue, mentioning that, during his visit to North Korea, he had urged Kim Jong Il to visit Seoul. Furthermore, at the news conference following the conclusion of the summit, Jiang expressed his welcome and support for the participation of North Korea in APEC as the matter would be "decided according to the opinion of the DPRK." This is also seen as China's expectation for North Korea to tackle the issue of economic reform as well as to promote dialogue by incorporating North Korea into a multilateral framework.

(4) Increasing Political Pressure: Japan

A variety of issues emerged in relations with Japan, such as the "issue of history" and the safeguard issue. Among these, the history

textbook issue and the issue of Prime Minister Koizumi's visit to Yasukuni Shrine were closely watched, and China strongly demanded that Japan "take appropriate action." China also continued to monitor with a strong sense of alarm the actions of the Self-Defense Forces (SDF) in support of the United States as a result of the September 11 terrorist attacks.

In 2001, relations with Japan stagnated for a long time as a result of the "issue of history" in Japan. In particular, as an "issue that would damage Japan-China relations," China stated that the history textbook edited by the New History Textbook Compilation Committee "denied and beautified the history of aggression," demanding that Japan halt the authorization and publication of this textbook. When the textbook was later authorized and approved, China further increased its criticism, saying that this textbook included "a serious mistake," and that Japan should rectify that mistake. The Japanese government replied that it was unable to amend the textbook, with which China expressed its strong dissatisfaction.

Moreover, China's greatest concern was the issue of Prime Minister Koizumi's visit to Yasukuni Shrine. In response to Koizumi indicating his intention to visit Yasukuni Shrine in a statement at the Diet, China urged Japan to proceed carefully on the matter, and gradually revealed its clear stance of opposing visits to the shrine in any form by Japanese government leaders. Furthermore, China used every opportunity to urge Japan to halt the visit by placing diplomatic pressure on Japan, indicating that if Koizumi were to make an informal visit to Yasukuni Shrine, it would make difficult his visit to China, which was being arranged for the second half of 2001.

On August 13, Prime Minister Koizumi made a visit to Yasukuni Shrine earlier than scheduled. In response to this, China issued a stern statement directed toward Japan, and a Chinese foreign ministry spokesman said, "We have taken note of the fact that Koizumi, under domestic and foreign pressure, finally gave up his former plan to visit the shrine August 15, which is a sensitive day, and delivered a state-

ment today reiterating that Japan admits its history of aggression and reiterating its attitude on introspecting its action.” As for early realization of Japan-China summit talks, China indicated that it would be difficult to hold the summit at the present, unless the

Japan-China summit (October 8, 2001, Beijing)

necessary environment and conditions were created.

When Koizumi visited China in October, Jiang Zemin stressed that “correctly treating historical issues is the political foundation for Sino-Japanese relations.” The Chinese Foreign Ministry also stated that the visit “was an indication of Japan’s remorse for its history of aggression against China,” and that “whether Japan handles the issue of history correctly bears on the political foundation of maintaining and developing Sino-Japanese relations.” This statement indicates that the issue of history remains a pillar of Chinese policy toward Japan. Furthermore, in talks with Koizumi, Premier Zhu Rongji issued a warning about the overseas deployment of the SDF, stating that “Japan’s military moves are of great concern to Asian peoples,” and that “Japan should be cautious in deploying its forces overseas.” The statement revealed China’s continuing distrust of Japan.

However, the visit of Koizumi to China succeeded in alleviating China’s concerns to some degree. In talks between President Jiang Zemin and Prime Minister Koizumi, Jiang indicated his intention to carry out various commemorative activities together with Japan in 2002, the 30th anniversary of the normalization of Japan-China relations. Furthermore, the Chinese Foreign Ministry was able to establish a foothold for restoring relations, by emphasizing that “this visit to China is a valuable opportunity to break from the current difficult situation in China-Japan relations.”

Meanwhile, Koizumi made a suggestion to Jiang about reducing Japan's official development assistance (ODA) to China in fiscal 2002 (April 2000-March 2003) onward. China's response to this proposal remains to be seen as of December 2001. The Japanese government has provided roughly ¥200 billion in ODA annually to China. However, China provides more than ¥48 billion in foreign aid to countries in Asia and Africa, and has been increasing military spending by double digits year after year. Some people in Japan argue that there is no need for Japan, which is in financial difficulty, to provide economic assistance to China, which continues to experience rapid economic growth. Thus, Japan has been reviewing how it should distribute ODA.

In October 2001, the Japanese Ministry of Foreign Affairs issued the "Chinese Economic Cooperation Plan," which stipulated new standards for ODA yen loans to China, and established a policy of reducing yen loans, which had been accounting for 90 percent of ODA to China. The calculation of the amount of assistance was changed from a multiyear method to a single-year method, and the focus of the assistance was moved to environmental protection, social development and welfare of inland regions, and other areas that benefited Japan's national interest. Furthermore, the plan has been called "assistance," however, the name will be changed to "cooperation." Although the size of the ODA has not yet been finalized, an estimation of a "significant reduction" was indicated, and reductions are seen as being inevitable as of the end of September.

Up until fiscal 1999 (April 1999-March 2000), Japan's economic assistance to China reached a total of approximately ¥2.68 trillion; nevertheless, China has hardly shown any gratitude. In addition, Japanese public opinion has come to look harshly on China, due to, namely, increased military spending and pressuring Japan with the "issue of history." China can no longer ignore this shift in Japanese public opinion. In response to such criticism, since 2000, China has been showing its gratitude for Japanese economic assistance, and making efforts through domestic public relations to speak highly of Japan's ODA.

It is becoming difficult for China to continue using “the issue of history” as a card against Japan by stating that “the issue of history is the political foundation for Sino-Japanese relations.” Because of the overemphasis of “the issue of history” by Jiang Zemin during his visit to Japan in 1998, the effectiveness of this card has gradually diminished, as can be seen in the strong displeasure in Japanese public opinion. For China, the importance of relations with Japan lies in economics rather than politics. Japan is China’s largest trading partner, and for Japan too, China has been the largest supplier of imported goods after the United States since August 2001, making them important trading partners. Japan’s cooperation is also necessary for the development of the western areas of China and regional cooperation, namely the cooperative framework between the Association of Southeast Asian Nations (ASEAN) and Japan, China and South Korea (ASEAN Plus Three). Stable relations between Japan and China are essential for the cooperation. The two visits to China by Prime Minister Koizumi, including participation in APEC, therefore, were extremely significant for that purpose.

(5) Economy-Based Relations: ASEAN

In 2001, China actively conducted bilateral and multilateral diplomacy with ASEAN countries. China has conventionally carried out diplomacy with ASEAN not as a single multilateral entity, but rather as bilateral relations with each of its member countries. While maintaining such bilateral relations, China has actively participated in multilateral frameworks since the 1997 ASEAN Plus Three summit. The ASEAN Plus Three, which focuses on economic cooperation, agreed to cooperate in a wide range of fields, including security issues, through the “Joint Statement on East Asia Cooperation” announced in November 1999. Since then, ASEAN Plus Three summits have been held yearly, during which bilateral summit talks between Japan, China and South Korea are held. Since May 2000, Cabinet-level talks between economic, foreign and finance ministers have also

Table 5-1. Main Events in China's Diplomacy with ASEAN (2001)

Feb.	Chinese Defense Minister Chi Haotian makes formal visit to Laos, Vietnam and Cambodia. Makes stop in Thailand for talks with Thai minister of defense.
Apr.	Vice President Hu Jintao visits Vietnam to participate in 9th Congress of Communist Party of Vietnam.
Apr.	Fu Quanyou, chief of PLA General Staff, visits Myanmar.
May	Li Peng, chairman of Standing Committee of National People's Congress, makes formal visit to Cambodia and Brunei. Premier Zhu Rongji makes formal visit to Thailand.
July	Minister of Foreign Affairs Tang Jiaxuan participates in ASEAN Regional Forum (ARF) Foreign Ministers' Meeting, ASEAN+3 Foreign Ministers' Meeting, ASEAN Post Ministerial Conference and ASEAN-China framework of cooperation (ASEAN+1) talks in Hanoi.
Aug.	China, Laos, Myanmar and Thailand hold talks on control of narcotics.
Aug.	Prime Minister Thaksin of Thailand makes formal visit to China and issues China-Thailand Joint Communiqué.
Sept.	President Nathan of Singapore visits China.
Sept.	Li Peng, chairman of Standing Committee of National People's Congress, visits Vietnam.
Oct.	President Arroyo of Philippines visits China.
Nov.	Premier Zhu Rongji participates in ASEAN+3 Summit and ASEAN+1 Summit in Brunei.
Dec.	Nong Duc Manh, general secretary of Central Committee of Communist Party of Vietnam visits China.

Source: Compiled from news reports in China.

been held one after another.

Such developments on the part of China are seen as focusing on the establishment of the ASEAN Free Trade Area (AFTA) that will be put into effect in 2002. At the Brunei ASEAN Plus Three Summit held in November 2001, Zhu Rongji made five proposals to further strengthen his idea put forth at the previous year's ASEAN Plus Three Summit that "the ASEAN Plus Three mechanism should be developed into the main channel of East Asian regional cooperation so as to push for the step-by-step development of a regional financial, trade and investment cooperation framework, and greater integration of the regional economy." At the China-ASEAN (ASEAN Plus One) Summit also, which was held along with the ASEAN Plus Three Summit, Zhu Rongji gave a speech titled "Working Together to Create a New Phase of China-ASEAN Economic Cooperation," and urged that they "must set a goal of creating an ASEAN-China free trade area (FTA)" while pressing for the early start of negotiations on the creation of an FTA.

At the preceding ASEAN Post-Ministerial Conferences held in Hanoi in July 2001, Tang Jiaxuan made the following proposals as a frame-

work of cooperation between China and ASEAN. The proposals called for: (1) the enhancement of partnership; (2) positive engagement in and promotion of cooperation for construction of a “Treaty of Amity and Cooperation in Southeast Asia” and a “Treaty on the Southeast Asia Nuclear Weapon-Free Zone”; (3) mutual cooperation in the five fields of agriculture, human resources development, development of the Mekong River Basin, information and communications, and mutual investment; and (4) the strengthening of various kinds of cooperation in the ASEAN Plus Three framework.

While China takes such a cooperative path with ASEAN, some ASEAN countries are concerned with China’s move on territorial rights in the South China Sea. While China has welcomed the development of deliberations concerning a “Code of Conduct” with ASEAN countries, the negotiations on the issue of sovereignty have proceeded with difficulty thus showing China is sidestepping the issue. In relations with the Philippines, in particular, developments that are a cause for concern have emerged, such as the incident where warning shots were fired by the Philippine Navy at Chinese fishing boats. At the end of October, however, President Gloria Arroyo of the Philippines visited China and held talks with Jiang Zemin, with the two sides agreeing not to let the existing South China Sea issue affect the overall situation of their bilateral relationship. They also agreed to make efforts to promote the South China Sea “Code of Conduct” policy-making process.

Meanwhile, efforts have been made to avoid disputes with Vietnam. In a joint statement made at the start of December 2001 during the visit to China of Nong Duc Manh, general secretary of the Central Committee of the Communist Party of Vietnam, China and Vietnam confirmed their common goal of peaceful resolution regarding the Spratly and Paracel Islands, where the issue of territorial rights remains. They also agreed not to resort to actions that would escalate into disputes, such as the threat or use of military force.

Despite such efforts, however, China has been increasing activity in the South China Sea, particularly in the Spratly Islands and adjacent

sea areas. On February 11, 2001, Taiwan's *United Daily News* published a Vietnamese report of more than 300 instances of sovereignty infringement by China in the Spratly Islands region in the year 2000, including illegal fishing and oil exploration. In addition to similar activities observed in 2001, a new communications facility was built on Mischief Reef. More than 10 Chinese naval patrol vessels were spotted in the area surrounding the Spratly Islands in June. Furthermore, the September 26, 2001, edition of *Jane's Defence Weekly* reported that China is building 20 to 24 new-model patrol vessels and increasing its patrol and defense capabilities in the South China Sea. At the end of August, the State Oceanic Administration issued instructions to all levels of maritime administrative agencies in the coastal areas concerning management and protection of uninhabited islands and their surrounding areas, and trying to strengthen its management thereof. These activities indicate China's strong interest in securing its maritime interests.

3. Steady Progress in Military Modernization

(1) Return of Control to the CPC

The PLA maintains strict thought control against the various adverse effects that are recognized as deriving from the open-door policies, such as the liberalization trend and the decline in loyalty. In 2001 also, the PLA remained on guard against "approaches by hostile forces inside and outside the country," and worked to inculcate ideas such as: "Westernization" (liberalization); "splitting" (separation from the CPC leadership); and "nationalization" (rejection of directions from a political party), "nonpartinization" (the military is subordinate to the state and not to a political party), as well as "nonpoliticization" (to upgrade the class of the military from the proletariat to the bourgeois class) of the PLA. The PLA also announced for the first time its recognition of the "long-term existence" of moves toward the "nonpartinization" and "nonpoliticization" of the PLA this year. This

was a fresh demonstration of the ruling circle's sense of crisis about future CPC-PLA relations.

The PLA had been taking measures to restore military cadres' loyalty to the CPC, including adding the condition, "to be loyal to the CPC," into the basic requirements for military cadres upon amendment of the Military Service Regulations Pertaining to PLA Officers in Active Service (stipulations on appointment, promotion and retirement of military cadres) at the end of December 2000. In addition to this, the traditional principles of the CPC-PLA relations that "the Communist Party commands the gun" and the "Chinese Army upholds the absolute leadership of the CPC" were further emphasized as the "soul" of the PLA around the Founding Day of the CPC on July 1, 2001, and National Founding Day on October 1.

No direct reports were made criticizing or exposing any activities by the Falun Gong practitioners who allegedly exist also within the PLA. Nevertheless, the military displayed criticism of the Falun Gong as a heretical religion, citing the example of the torch suicide attempt by Falun Gong members. In July, the PLA also held an exhibition to illustrate the malignancy of the Falun Gong at the Military Museum of Chinese People's Revolution. A large number of officers and soldiers were prompted to visit the museum. These measures suggest that the PLA retains a certain sense of alarm about the Falun Gong.

(2) Military Modernization: Focusing on Science and Technology

China has continued its efforts to modernize the PLA. The General Staff Headquarters indicated the training objectives for the new fiscal year February 1, 2001. The objectives attached weight to the thorough implementation of the "strengthening of the armed forces by relying on science and technology," and "military training featuring new technology," with the aim to improve the combat strength of the PLA. At the same time, they required the PLA to conduct more scientific, efficient and effective military training. This would be done through promotion of the so-called "three tasks," consisting of "base training"

(giving each troop more practical combat training at training bases), “simulated training” (actively utilizing equipment, software and electronic materials for simulated training) and “network training” (running an operational training system using the Internet), as well as through the “New 3 Attacks and 3 Defenses” (attacks by stealth aircraft, cruise missiles and helicopter gunships, as well as defense by precision strikes, sophisticated reconnaissance/surveillance and electronic jamming).

Furthermore, the General Staff Headquarters launched operations for revising the current military training outline (revised at the end of 1995) that indicates the contents, focuses and qualitative standards of the military training in order to gain compliance with the promoted “strengthening of the armed forces by relying on science and technology,” and “military training featuring new technology.” In August, it announced that the new military training and evaluation outline would enter into force in January 2002. The current revision is distinctive in that it indicates not only standards of training contents or the like, but also the ability rating standards for evaluating the training achievements. Although the details of the new outline are unknown, it seems to be aimed at the steady upgrading and standardizing of combat capabilities by introducing a system to verify training accomplishment levels.

Under such circumstances, a book titled “Jiang Zemin’s Remarks on Science and Technology” was published in February 2001. The book underscores the fact that the current “strengthening of the armed forces by relying on science and technology,” and “military training featuring new technology” reflect the science and technology oriented stance that Jiang Zemin advocates. The intention of the book seems to be to justify the rationale behind those policies and display Jiang Zemin’s leadership and influence over the PLA. Reports have it that President Jiang Zemin also gave two assignments to the PLA in the beginning of 2001: “mechanization” and “informationization.” Informationization here refers to the introduction of information technology (IT) and the “revolution in military affairs” (RMA) in the in-

formation field. The announcement drew attention and revealed an attitude of prompting the PLA to seriously address the RMA, something that is now taking place on a global scale.

The PLA has increased its interest in the importance of “information warfare” in modern combat since around 1996. In particular, from July 2000 to the present, a debate developed in the *People’s Liberation Army Daily* over whether to place importance on traditional warfare with “fire power” or on “information warfare.” This demonstrated the military’s high degree of interest in this issue. The argument has yet to see a conclusion; for the time being, however, the PLA is expected to heed the words of Jiang Zemin and promote “mechanization” focusing on fire power and the “informationization,” with due consideration given to the RMA. The actual accomplishment of these measures is likely to be difficult, however, because the PLA is in the process of “mechanization” and seems to have only just started on the “informationization.” The funds for concurrently promoting both measures must also be secured in some way.

(3) Signs of Change in the Active Defense Strategy

Since China’s military strategy is merely “active defense,” military actions are only for the sake of defeating intruding enemies. The purpose of the strategy is to fight a defensive battle on the homeland against any foreign invaders and ultimately drive them outside the national border. Therefore, the battleground would be inside China.

However, since long-range precision guided munitions have come to be used frequently in recent modern warfare, mere interception of intruding enemies has become insufficient. Instead, pre-emptive attacks on the origins of offensive operation bases have become an essential element to be considered upon discovering signs of an invasion. Therefore, some people have come to advocate review of the conventional strategy recently, even within China. The advocated idea is the “counterattack operation outside of the strategic exterior line.” On the condition that the enemy has attacked, this allows China to

attack even the enemy's command center, military bases and logistic support facilities outside of China in the subsequent counterattack.

Another idea is "offensive air defense." Under this idea, China "must deal a pre-emptive blow to the enemy when the enemy's intent to start a battle is extremely clear and no other means are available to block the occurrence of the event." The idea of "offensive air defense" is a step further from the idea of "counterattack operation outside of the strategic exterior line" in that it does not require the enemy to attack first and recognizes the eligibility of pre-emptive attacks if necessary. The question of whether either the "counterattack operation outside of the strategic exterior line" or the "offensive air defense" will become established as the standard strategy of the PLA in the future is worthy of attention.

(4) Continuing Reforms

The acquisition of competent human resources has recently become a particularly important theme for the Chinese military in its efforts to "strengthen the armed forces by relying on science and technology," and "give military training featuring new technology." This is typified by the phrase, "human resources are fundamental to a strong military." Science and technology cannot be introduced in the modernization of the military unless the military comprehends science and technology, and secures personnel that have a detailed knowledge of such fields. Reforms are accordingly being made to secure and develop human resources. Since the cadre system was revised to the current system in 1988, the PLA has admitted high-school graduates to military academies and colleges equivalent to cadet schools and later appointed them as cadres. It has also directly appointed college graduates as cadres when specific human resources were required. Furthermore, the PLA introduced a system in 1999 to prompt military cadres to enter public universities to earn postgraduate or doctoral degrees.

In addition to the above systems, the PLA implemented a trial system in 2000 to grant scholarships to high-school graduates due to

enter universities, and to appoint them as military cadres after their graduation. It was taken partly as a measure to address the “strengthening of the armed forces by relying on science and technology,” and “military training featuring new technology” that is being promoted in recent years. The scholarship system was officially launched in 2001, with applications invited for 1,378 scholarship openings nationwide. Furthermore, the State Council and the Central Military Commission amended the Regulation on Recruitment Affairs, a law on conscription, in September 2001. Upon this amendment, a new provision was introduced to allow university students in school to return to school after the termination of their term of duty if conscripted into the army while in school. Traditionally, they had been temporarily exempted from conscription. The aim of the current amendment is to raise the enrollment rate of university students by guaranteeing their return to school, it is assumed. Added to this is the creation of an environment for securing competent human resources who can deal with the “strengthening of the armed forces by relying on science and technology” and “military training featuring new technology,” even at the conscripted soldier level.

A problem also exists, however, with the securing of highly educated human resources who can play a core role in the modernization of the PLA. This is that these highly educated people, who are expected to have good knowledge of domestic and foreign situations, are likely to be more easily influenced by the ideas of the “Westernization” and “splitting” of China, as well as the “nonpartinization,” “nonpoliticization” and “nationalization” of the PLA. The PLA holds a sense of alarm about the ideological soundness of competent human resources, and stresses that people produced by military academies and colleges (1) must be Marxists; (2) must faithfully practice China’s distinctive socialist construction; (3) support the principle that the Communist Party commands the gun; (4) can endure any trials of political struggle; (5) can endure trials of cultural erosion by corrupt thoughts; (6) can endure trials of military struggle; and (7) can follow

««Column»»

Upgrade of Unit Numbers of the People's Liberation Army

In the People's Liberation Army, regardless of the branch of the military or type of unit, companies or any units larger than a company are identified by a five-digit number such as 81259 or 39320. By looking at the first two digits, it can be known to what military region or branch of the armed services a unit belongs. However, from October 2000, the army started to use new numbers completely different from the original ones. This upgrade of the unit numbers is seen as a result of the large-scale organizational and unit reforms along with the significant personnel reduction that was implemented in 1985 and 1997. Furthermore, this may also be taken as a measure aimed to earmark a new departure for the new century and enhance the whole military's morale by changing the unit numbers at the turn of the century. The changing of the unit numbers is likely to have been completed by the end of 2000.

Table 5-3. Examples of unit numbers

	Old Number	New Number		Old Number	New Number
Headquarters	57XXX	61XXX	Guangzhou Military Region	34XXX	75XXX
	58XXX	62XXX		53XXX	76XXX
	59XXX	63XXX		54XXX	
Shenyang Military Region	81XXX	65XXX	Chengdu Military Region	35XXX	77XXX
	82XXX			56XXX	78XXX
Beijing Military Region	51XXX	66XXX	Navy	37XXX	91XXX
	52XXX			38XXX	92XXX
Lanzhou Military Region	36XXX	68XXX	Air Force	39XXX	93XXX
	84XXX	69XXX		86XXX	94XXX
	54XXX	71XXX		87XXX	95XXX
Jinan Military Region	55XXX	72XXX	Second Artillery	80XXX	96XXX
Nanjing Military Region	32XXX	73XXX	Unknown		98XXX
	83XXX				

Sources: Estimated based on the data from *PLA Daily* (October 24 and December 8, 2000, and April 10 and June 1, 2001) and other references.

Notes: In contrast to the irregularity in the old unit numbers, regularity is seen in the new system. Regarding 98XXX, it is not known to which military region or branch the unit belongs.

the commands of the Central Committee of the CPC and the Central Military Commission at any times under any circumstances.

Reform of the defense budget system is also under way. China's defense budget had been criticized for lack of transparency, because its details had not been revealed. Even though, reform of the defense budget system was announced in 2001, the lack of information on the details of the conventional system makes it difficult to judge the significance of the current reform. According to the explanation given by the director of the Finance Department of the General Logistics Department, however, it is as follows. First of all, five purposes exist for the reform: (1) to achieve transparency in the breakdown of expenditure; (2) to increase the efficiency of use; (3) to reduce losses and wasted expenditure; (4) to circumvent overlapped constructions; and (5) to strengthen supervision. Next, the content of the reform is to divide the budget into three items: "categorized budget," "zero-base budget" and "comprehensive budget." "Categorized budget" sectionalizes the budget into a maintenance budget used for training and utility expenses, and a construction budget used for building facilities. "Zero-base budget" plans the budget for each item from zero without following the usual budget sum. "Categorized budget" incorporates all funds, including nonbudgetary income into defense spending. This measure conversely suggests that these three categories did not exist in the past, the maintenance spending and construction spending had not been clearly divided, the budget had been planned by following the usual sum irrelevant to the changes in needs, and nonbudgetary income had not been incorporated into current expenditure.

Reform has also been carried out to introduce "civil power" in the field of logistics support. In January 2000, the "three services logistics posture" was launched to integrate the logistics support operations of the land, air and naval forces. This was done to cut costs and manpower, as well as to improve supply efficiency. Furthermore, in October of the same year, the PLA announced the second reform measure for the logistics support system. The measure was to separate

from the military the operations that can be entrusted to the private sector by introducing what is known as “civil power” in the field of logistics support.

This reform measure is to be implemented in three phases, until around 2010. According to the reform plan, the PLA will entrust maintenance and management of the lodgings and buildings as well as commercial services, such as food services, to the private sector in the first phase. Then, in the second phase, it will entrust procurement and storage of supplies, maintenance and repair of equipment, human resources development and military transportation. The PLA seems to have entered the first phase. According to a report, 48 percent of all dining facilities (157 dining facilities) provided for the troops stationed in Beijing and 41 percent of all military welfare service centers there (places providing daily necessities for military personnel) (50 centers) have been entrusted to private companies so far. In the third and final phase, the PLA will establish a system where private vehicles, vessels and aircraft can be requisitioned, and private medical aid crew and equipment maintenance/repair crew can be mobilized in emergencies. However, the requisition and mobilization in an emergency to be realized in this third phase is different in nature from mere entrustment of operations from the military to the private sector based on prior contracts, as is the case in the first and second phases. Therefore, laws required for such requisition and mobilization in an emergency would have to be established in the future. At the present time, many people in China point out the importance of a defense mobilization system in times of emergency and stress the need to improve the system and regulations concerning the defense mobilization system. Accordingly, a “defense mobilization law” or the like could be enacted in the near future in line with the progress of the recently launched second reform measure for logistics support.

(5) Exercise “Liberation No.1”

A large number of diverse training programs and exercises were

again conducted throughout the PLA in 2001. Recently, more and more training and exercises of the Chinese military have become oriented to the use of force against Taiwan. The most notable of all was the joint “tri-service” amphibious exercise code-named “Liberation No. 1,” which began in early June. According to a news report, the exercise took place on Dongshan Island on the shore opposite Taiwan. About 100,000 troops participated. Exercises of this nature seem to have been conducted regularly on the island. A similar exercise conducted in 1996 had a political purpose as well as the expected military one. Viewing the first direct election of the president of Taiwan as part of Taiwan’s independence movement, China was trying to put the brakes on the election. The 2001 exercise also seems to have been conducted not only to verify the results of military modernization, but also to apply pressure against the medical visit to Japan in April by former President Lee Teng-hui, whom China considers to support independence, and in protest to President Chen Shui-bian’s transit visit to the United States while en route to Latin America in May and June.

The latest large-scale exercise was different from those in the past in respect to (1) the exercise code name, (2) clear indication of the potential enemies and (3) its long duration. The “liberation” in the exercise code name was clearly adopted to hint at the use of military force against Taiwan. The “No. 1,” indicating that it was the first “Liberation” exercise, or that it was conducted in “2001” (taking “1” as the last digit), also suggests the possibility for more such exercises in the future. In this way, China seems to be attempting to apply increasing pressure against Taiwan independence.

Citing information from an official Chinese Web site, China’s Xinhua news agency clearly indicated in its Internet news that the purposes of the recent exercise were to “attack and occupy the Taiwan offshore areas” and to “fight off aircraft carriers.” When carrying out an exercise of this type in the past, China had never clearly indicated who the potential enemies were, although it may have revealed a list of the exercise themes (e.g. landing, long-range maneuvering and air de-

fense). This time, however, the state media publicized the fact that the potential enemies were Taiwan and possibly U.S. aircraft carriers. Again, it seems to be a measure to show Taiwan and the United States that China is seriously considering the use of force against Taiwan and readily takes into account that the U.S. forces will come to the aid of Taiwan in such a case.

At first expected to last about two weeks, the exercise continued until the end of August. This must be the first time the Chinese military conducted an exercise that lasted so long. The objectives of such a long exercise are assumed to be as follows: to counteract the optimistic views held in Taiwan and elsewhere that China will not resort to force until after the 2008 Olympic Games, due to its successful bid to host the Games, and to apply pressure against Taiwan's active diplomacy and U.S. military support to Taiwan. Another conceivable intention may have been to fake the impression that China could be preparing for a real invasion instead of merely conducting an exercise, by the continued implementation of the exercise.

On the other hand, two U.S. navy aircraft carrier battle groups were reported to have conducted a brief one-day exercise in the South China Sea during the Chinese exercise, on August 17. The U.S. military explained that it conducted the exercise by taking the opportunity afforded by the USS *Carl Vinson* heading for duty in the Middle East and the USS *Constellation* returning from the Middle East to the United States passing each other in the South China Sea. While any relation to the Chinese military exercise was strongly denied, the United States also dispatched two aircraft carriers to check China upon the Chinese military exercise in 1996. The recent exercise had in particular assumed attacks on what are likely to be U.S. aircraft carriers. Thus, the U.S. military is thought to have again intended to apply counter-pressure, this time against the "Liberation No. 1" exercise while using the timing of the changeover of duties between the two aircraft carrier battle groups as an excuse.

In addition to the above exercise, a maritime opposing-forces exer-

cise by the air force's fighter unit and a masthead bombing training exercise by a naval aviation unit were also reported in 2001. The PLA has aircraft units in all of the land, navy and air forces, but the naval air force mainly takes charge of operations on the sea (the J-8II that collided with the U.S. EP-3E in the southeast of Hainan province belonged to the naval air force), and there were hardly any reports of the air force's aviation units advancing over the sea.

The reported maritime opposing-forces exercise by the air force's fighter unit is notable in that it suggested the full-scale participation of the air force in the air battle assumed over the Taiwan Strait. Meanwhile, the masthead bombing training by a naval aviation unit had set the targets to be bombed as an "enemy air station and beach encampment," which would seem to assume a surprise bombing of Taiwan proper.

In sum, the direction of PLA training and exercises contains a publicity aspect, conducted with a view to applying pressure against Taiwan independence on domestic and international levels. Also present is the aspect of political containment. Nevertheless, the PLA is steadily trying to improve its offensive capabilities against Taiwan. Continued attention must be paid to the future direction of its training and exercises.

(6) Increased Military Exchanges

China has been developing active military exchanges in recent years, and 2001 was of no exception. Events of particular note in 2001 were the successive visits of key military personnel to Turkey and the dispatch of naval vessels to India and Europe. The PLA sent an air force commander, Gen. Liu Shunyao, to Turkey in March 2001, followed by the commandant of the PLA National Defense University, Gen. Xing Shizhong, in April, and the deputy chief of the general staff, Gen. Qian Shugen, in May. China had hardly ever sent three generals to a single country in the same year.

China had been using a Macanese company to try to purchase the former Soviet aircraft carrier *Varyag*, as an entertainment facility. The

carrier was built by the Ukraine and the Macanese company succeeded in purchasing it from the country in an auction. However, the *Varyag* had to pass through the Bosphorus to enter the Mediterranean Sea from the Black Sea, and the Turkish marine transport authority in charge of controlling the Bosphorus had been told to oppose the passage because of: (1) it is dangerous for a large vessel that cannot navigate by itself to pass through the Bosphorus; and (2) an aircraft carrier cannot pass the Bosphorus based on the Montreux Convention. Therefore, the purpose for China's concentrated dispatches of three generals to Turkey could have been related to the issue of the *Varyag* passing through the Bosphorus. By possessing an aircraft carrier, China could acquire air superiority in the South China Sea, and use it as a symbol of a major power. Consequently, China is said to have been considering for the past several years either building one or purchasing one from another country. China's desire to acquire the *Varyag* seemed strong, since it was a full-fledged aircraft carrier whose construction had been stopped near completion, unlike obsolete former Soviet Union carriers such as the *Minsk* and *Kiev*, which China had purchased in the past. It could possibly be put to use after some repair or serve as a reference for building a carrier in China.

According to the media, the Turkish government agreed to the passage of the *Varyag* through the Bosphorus on August 17, and the carrier actually made the passage November 1. The carrier is likely to be transported to China from the Black Sea through the Mediterranean Sea, the Red Sea, the Indian Ocean and finally the Pacific Ocean. Attention will be focused on whether the *Varyag* will be used as an entertainment facility or be re-outfitted upon reaching China.

Meanwhile, China dispatched a total of four naval vessel units (one of them consisted of a single vessel) overseas in 2001. First, from May through June, the Chinese Navy's North China Sea fleet, composed of a guided-missile destroyer and a supply ship, visited Pakistan and India. This was the third visit to Pakistan and the second to India by a fleet of the Chinese Navy. As fighting vessels, however, it

was the second visit to Pakistan and the first visit to India. China-India relations, particularly in the military field, are not so good, considering that India seems to view China as a threat and that China sees the Bush administration as attempting to besiege China by strengthening U.S.-India ties. However, underlying the friendly visit by the fighting vessels seems to be China's intention to break the U.S. plan of besiegement through confidence building with India. In August, a guided-missile destroyer and a supply ship of the East China Sea Fleet made an extended voyage from Shanghai to Germany, the United States, France and Italy. This was the first visit to European countries by naval vessels. Then, in September, the South China Sea fleet sent a guided-missile frigate and a replenishment oiler from Zhanjiang to Australia and New Zealand. Furthermore, in November, another such frigate departed alone from Zhanjiang to visit Vietnam.

It was the first time for the Chinese Navy to dispatch four naval vessels overseas within one year. It was also the first time for each and all of the three fleets to be dispatched for a long-range cruise within the same fiscal year. Combined with the past records of overseas visits around the world, these dispatches drew attention as an indication that the Chinese Navy has been gradually improving its deployment capabilities to the high seas.

(7) Creation of the "Army Surface-to-Surface Missile Brigade"

The modernization of military equipment, mainly in the navy and air force, also took place in 2001. In the air force, fourteen Su-27 fighters were completed under licensed production. Ten of these were delivered to the air force, with another 20 likely to be scheduled for assembly in 2001. In addition to licensed production, reports also have it that eight fighters that were transported from Irkutsk at the end of 2000 were newly deployed at Zhongqing Air Force Base in the Chengdu Military Region. Furthermore, it is believed, 10 Su-30 fighters were delivered to China by the end of December 2000 and another nine were delivered in March or April 2001. All of these were deployed at

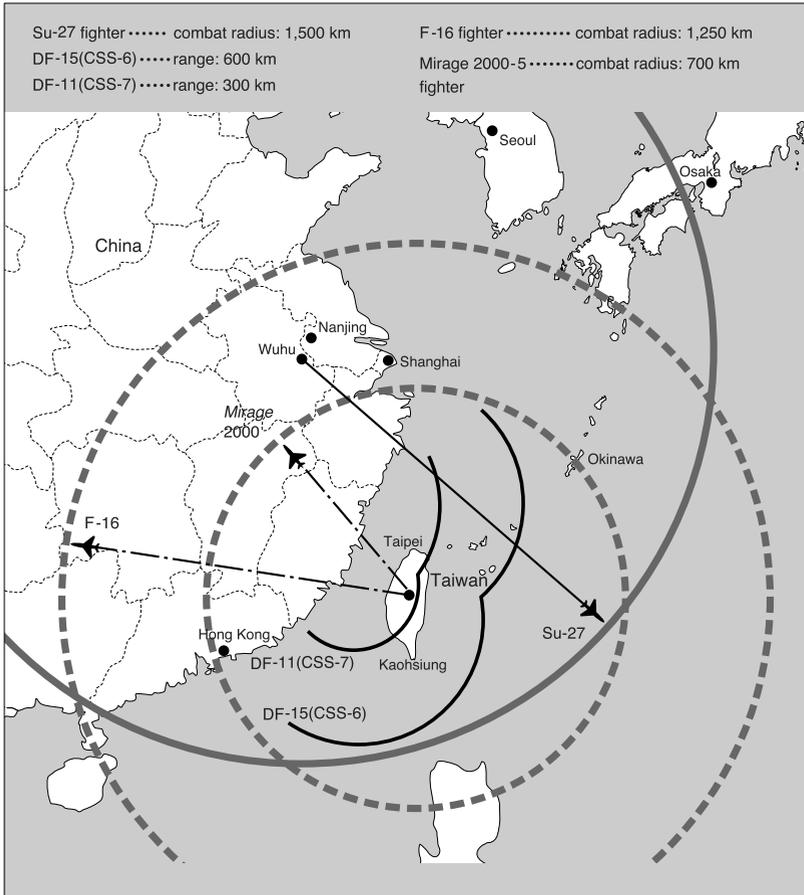
Wuhu Air Base in the Nanjing Military Region. The third batch of 10 such fighters is likely to have been delivered for deployment at Shuiqi Air Base in the Guangzhou Military Region. China is said to have purchased 38 Su-30 fighters in total. There are also reports that China is going to produce another 250 such fighters under license. In addition, production is said to have started for the initial version of the FC-1 fighter (the Super-7, an improved type of J-7), which is being developed jointly with Pakistan. As expected, the six J-10 fighters (based on the technology of the Lavi fighter that Israel decided not to develop) that were believed to be under development, have also been completed.

In the navy, the second *Sovremenny*-class guided-missile destroyer, brought from Russia and named *Fuzhou*, is likely to have been deployed in the East Sea Fleet, as was the case with the first one, which was called *Hangzhou*. In addition, a contract is said to have been concluded with the Ukraine on licensed production of gas-turbine engines used on vessels. The plan is probably to fit such engines as the main engines on the latest *Luhai*- and *Luhu*-class guided-missile destroyers that are expected to be built in increasing numbers, or on vessels that are expected to be newly developed in the future.

Regarding equipment, it is likely that the PLA is striving to improve firepower and mobility, as well as to modernize air-defense weapons. As for the improvement of firepower and mobility, the PLA has been equipped with new Type-98 tanks (125 mm smoothbore gun), YW304 self-propelled mortars (82 mm mortar) and WZ551 mortars (120 mm mortar). Regarding air-defense weapons, it is likely that weapons such as the 25 mm 4-twin or 35 mm twin self-propelled antiaircraft guns, self-propelled surface-to-air missiles (HQ-7 missiles) and SA-15 self-propelled surface-to-air missiles introduced from Russia have been deployed in the PLA's air-defense units. Although details about other weapons are not available, it seems that progress has also been made in the development of the *Hongniao* (red bird) air-to-surface cruise missile, which has a range of 3,000 km.

Furthermore, it is said that a Chinese government delegation to Rus-

Chart 5-2. Major Fighters and Missiles of China and Taiwan



Source: Compiled on the basis of the data drawn from the *World Aircraft Annual*, 2001.
 Note: DF-11, DF-15 are mobile.

sia led by Gen. Zhang Wannian, vice chairman of the Central Military Commission, visited Russia in February 2001. Its purpose was to attend the eighth session of the committee on military technology cooperation between the two governments. Judging from the policy of long-term cooperation laid down for the next six years, Russia is likely to continue to transfer various kinds of military technologies and arms to China.

As for strategic weapons, there is no information about the test launch of the new *Dongfeng* (DF) -31 (CSS-9) missile that was implemented in 2000. A lot of information exists, however, on the reinforced deployment of short-range ballistic missiles such as the DF-15 (CSS-6) and DF-11 (CSS-7) missiles in Fujian province across the Taiwan Strait. According to this information, such missiles numbered 50 or less in 1998 but have been increased to 150 in 1999 and 350 in 2000. DF-15 and DF-11 missiles are estimated to have a range of 600 km and 300 km, respectively, and were actually launched toward the area of sea around the main island of Taiwan during the Taiwan Strait crisis in March 1996. Originally, such missiles were deployed in the “Second Artillery Corps” units, which are strategic missile units, but it has become clear that starting from 2001 an “Army Surface-to-Surface Missile Ballistic Brigade” equipped with short-range ballistic missiles was regimented in the Nanjing Military Region. The increasing number of short-range ballistic missiles deployed in recent years is due in part to China’s enhanced production capability. The ongoing deployment in the newly formed missile brigades could also be one of the reasons. Furthermore, the possibility exists that in the future, this kind of short-range ballistic missile will be gradually transferred from the second artillery corps to the army’s “Surface-to-Surface Ballistic Missile Brigade.”

(8) Continuing Activities in Waters around Japan

The activities of Chinese marine research vessels in Japan’s exclusive economic zone (EEZ) without prior approval by the Japanese government and intelligence-collecting activities by Chinese naval vessels, which had become more frequent in recent years, have not been observed since September 5, 2000. This is partly due to protests from the Japanese and the commencement of consultation meetings between Japan and China on research activities (September 15, 2000). In February 2001, a framework of advance consultation was established between the diplomatic authorities of Japan and China on ma-

Table 5-2. Cases of Violating Advance Consultation in 2001

Name of Vessel	Date	Place	Content of Violation
<i>Hailan -49</i>	May 27	300 km northwest of Amami-oshima	Duration and area of sea
<i>Fendou -4</i>	July 9	96 km north of the Senkaku Islands	No consultation in advance
<i>Kexue -1</i>	July 13	60 km east-southeast of Miyako-shima	Area of sea
<i>Fendou -4</i>	July 18	33 km north of Kuba-shima (Senkaku Islands)	No consultation in advance
<i>Xiangyanghong -9</i>	Aug. 13	37 km north-northeast of Kuba-shima (Senkaku Islands)	Area of sea

Sources: Compiled based on reports by *Asahi* newspaper (August 10, 2001) and *Sankei* newspaper (August 14, 2001).

rine research activities conducted by marine research vessels in the East China Sea excluding territorial waters. The two sides also reached an agreement on notifying each other in advance of things such as (1) the organization to conduct the research and the name of the vessel, (2) the objective and content of the research, and (3) the duration of and area of sea for the research. As a result, China has since then kept to this framework and consulted with Japan in advance in regard to its research activities. Japan has also confirmed a number of cases, however, where China seems to have evidently committed violations, such as activities conducted in sea areas other than those notified in advance (See Table 5-2). Completely ignoring the agreement on the framework of prior consultation, these self-righteous activities by China are demonstrating that China has no intention of recognizing the EEZ demarcation line (median line between Japan and China) asserted by Japan in the East China Sea. Consequently, not only is it necessary for Japan to intensify its monitoring so that its own marine interests will not be infringed on, and to make strong protests so that the agreement on the framework will be complied with, but it is indispensable for Japan to make efforts to reach an early agreement on demarcating the exclusive economic zone between Japan and China, and the borderline of the continental shelf according to the median line asserted by Japan.

On the other hand, no activities have been detected by Chinese naval vessels in Japan's EEZ since July 2000. However, in addition to the four tank landing ships and two patrol crafts that conducted activi-

ties in waters 470 km northwest of the main island of Okinawa (outside Japan's EEZ) in February 2001, *Haibing-723*, ice-breaker/intelligence gathering ship entered the waters off Minamidaitou Island in the Pacific (mainly in Japan's exclusive economic zone) and conducted

The Chinese naval vessel *Haibing-723* passes through the Osumi Strait (July 10, 2001)

activities thought to be marine observation in July and November.

It was the first time that activities by Chinese tank landing ships in this area of sea were confirmed. China is thought to have conducted training activities for marine transport to remote areas. The deployment of tank landing ships in the high seas may also be regarded as an activity aimed at power projection to the main island of Taiwan and the Spratly Islands. By deploying tank landing ships in the high seas in addition to warships, China can be said to be repeatedly projecting its military capability vis-à-vis remote places and sea areas.

It seems to have been the first confirmed occasion of activity by such intelligence gathering ships in the waters near Minamidaitou Island, which may be regarded as a reflection of the signals that the Chinese Navy has expanded the scope of its activities. This activity is thought to have been conducted for the purpose of collecting various kinds of data useful for naval operations, such as seawater temperature and salt concentration. As there were cases of the *Haibing-723* conducting intelligence collection by circling Japan during May and June 2000, it is considered possible that China will increase its intelligence gathering and marine observation activities in various areas of the sea in the future. Also thought possible is that along with increasing intelligence collection activities, major fighting ships, including submarines, will be deployed in these areas.

4. Trends of Taiwan in China-Taiwan Relations

(1) Relations with China: Seeking for Resumption of Dialogue

Since China unilaterally broke off dialogue with Taiwan in a backlash against President Lee Teng-hui's remark of "a special state-to-state relationship" (two-state theory) in July 1999, no dialogue has been resumed. After the suspension of the dialogue, there has been no sign of resumption of the dialogue or military intimidation from China.

From the beginning of 2001 onward, however, the two sides moved quietly in the direction of resuming dialogue. President Chen Shui-bian stated in his New Year's speech: "Under the Constitution of the Republic of China (ROC), 'one China' should not be an issue" ("one China in the ROC Constitution" theory) and tried to dispel suggestions of Taiwan's independence. Chen Shui-bian also stated that "China and Taiwan can, by seeking cross-strait trade, economic and cultural integration, build cross-strait mutual trust on a gradual basis so as to seek permanent peace and build a new mechanism for political assimilation between the two sides" (integration theory). By further employing the slogan of "active opening and effective management," he suggested a stance to ease the "no haste, be patient" policy that sets an upper limit to restrict investment in China.

Meanwhile, the Taiwanese authorities implemented "the small three links" (direct postal services, travel and trade for specified areas), effective from the new year in the area of the Kinmen Islands and Matsu Islands along the coast of Fujian province. "The small three links" only legalized direct travel to and a small amount of trade with the other side of the strait. This had been prohibited until that point. Without excessive management, and without cooperation from China, it was a unilaterally implemented policy to allow one-sided travel from Taiwan to the mainland. In addition, the Taiwanese authorities are examining the possibility of implementing "the small three links" on the Penghu Islands near the main island of Taiwan. To allow Chinese

journalists to be stationed in Taiwan and squarely address the existence of China, the Taiwanese authorities are also showing an active posture to expand its exchanges with China, including the suggestion of full-scale amendment of the “Statute Governing the Relations between the People of the Taiwan Area and the Mainland Area,” a law that regulates exchanges and contacts between China and Taiwan.

The governing Democratic Progress Party (DPP) convened the second meeting of its 9th National Congress on October 20, 2001. This was to continue its efforts to water down its tendencies toward Taiwan independence by amending the party platform to invalidate the “Taiwan independence clause” without abolishing it. Chen Shui-bian emphasized the fact that his ancestors were from Fujian province and expressed his personal hope to make a voyage to China to trace his ancestral roots, demonstrating his affinity with China. These policies and statements by Taiwan are obviously “well-intentioned signals” to China.

In response to these “well-intentioned signals” sent from Taiwan, China is insisting that Taiwan should accept the “one China” principle unilaterally advocated by China as a precondition for resuming dialogue. In the short term, therefore, there is a remote possibility of its resumption. Nevertheless, China has shown a somewhat flexible posture, too. For instance, although China ignored Taiwan’s call on the “small three links,” it did not refuse to allow ships and passengers to enter its port in the implementation phase. Furthermore, China has been improving its laws concerning trade with Taiwan by announcing the “The Rules Governing Trade across the Taiwan Strait” on December 29, 2000, prior to the “small three links.” China also relaxed its stern posture toward Taiwan to some extent by issuing visas to responsible persons of Taiwanese authorities’ branch offices in Hong Kong. They were people for whom travel to and stay in Hong Kong for more than one year had not been approved since the controversy started surrounding Lee Teng-hui’s “two-state theory.” Immediately after, on January 22, Vice Premier Qian Qichen stated: “Even for those who advocated ‘Taiwan’s independence’ in the past and for those who

once participated in and followed it, we would like to examine and promote the development of relations between the two sides so long as they give up their separatist position,” thereby urging the DPP to change its policy. Furthermore, Association for Relations Across the Taiwan Strait (ARATS) Chairman Wang Daohan, head of the organization on the Chinese side for exchanges with Taiwan, is reported to have once demonstrated his intention to pay an unofficial visit to Taiwan.

In addition to its traditional “one China” policy, China has used the phrase “1992 consensus” since the spring of 2001, to give a flexible expression to its “one China” policy. The “1992 consensus” was a verbal consensus reached on the telephone in 1992 between ARATS on the Chinese side and the Straits Exchange Foundation (SEF) on the Taiwanese side to hold indirect contacts between the officials from China and Taiwan. As this was not a consensus backed up by a written document, its interpretation varies between China and Taiwan. It is even called a “consensus without consensus.” While China’s interpretation is that “both sides of the Taiwan Strait adhere to the one China principle,” according to Taiwan’s version, “each side freely makes a verbal expression of the definition of one China.” Since the “1992 consensus” is not completely identical with the “one China” principle that China has unilaterally advocated, however, the use of the phrase “1992 consensus” instead of “one China” may also be regarded as a sign that both sides are seeking for a reason to resume dialogue.

In contrast to this “word game,” unofficial high working level contacts between China and Taiwan, and visits to Beijing by Taiwan’s Cabinet members have been realized through meetings of international organizations focusing on economic and cultural issues. Besides APEC, there are even cases such as the visit to Taipei by Xing Kuishan, director of the Taiwan Affairs Department of the Liaison Office of the Central People’s Government in the Hong Kong Special Administrative Region, who also unofficially met Vice Chairman of the Mainland Affairs Council Chen Ming-Tong, as well as the participation by the officials of Taiwan’s Mainland Affairs Council in an inspection tour

to China as “advisers.”

On the other hand, however, China is continuing to isolate Chen Shui-bian and his DPP. In August 2000, China went out of its way to change the Taiwan-oriented definition of “one China” to cater to the Kuomintang after Chen Shui-bian took up the post of president with the Kuomintang handing over power. The Taiwan-oriented definition of “one China” means that “there is only one China in the world, the mainland and Taiwan are both parts of China, and China’s sovereignty and territorial integrity are not to be separated.” Although it used to be expressed as “Taiwan is a part of China,” it was replaced with “China and Taiwan are both parts of China” so as to be consistent with the expression advocated by the Kuomintang that treats both sides as equal. It was merely a remark made by Qian Qichen, however, and the definition used for a third country remains unchanged. The change in China’s Taiwan-oriented definition of “one China,” therefore, is just another part of its united front work against Taiwan.

As China put forward a policy of warmly welcoming those who adhere to the “one China” principle, the leading politicians of Taiwan’s opposition parties visited Beijing and Hong Kong to hold talks with Chinese officials, becoming critical of the DPP, in a similar manner to China, for not eliminating the so-called Taiwan independence clause. In particular, a serious problem to Taiwan’s security is that retired high-ranking military officials began to visit China and hold talks with high level Chinese officials. Many among the military’s high-ranking officials are Kuomintang members of non-Taiwanese origin who are opposed to Taiwan independence and share nationalism with China. Consequently, there are military officials who have grievances against the Chen Shui-bian administration for its orientation toward Taiwan independence. In the spring of 2001, China began to assert it would not have any contact with those who do not accept the “1992 consensus.” Nothing has changed though in its hardline position that the condition for resuming the dialogue is that Taiwan accepts the “one China” policy.

In particular, during the informal summit meeting of APEC in Shanghai in October, China did not send an official invitation to the Taiwanese authorities. Right before the opening of the meeting, it refused to receive former Vice President Li Yuan-zu, who had been appointed as an envoy on behalf of President Chen Shui-bian. Chen Shui-bian is considered to have had the intention to enhance Taiwan's international standing by Li Yuan-zu attending the APEC meeting, only to fail. The fact that China and Taiwan failed to appropriately deal with the issue of the Shanghai APEC had a negative impact on China-Taiwan relations. In particular, the scene in which Minister of Foreign Affairs Tang Jiaxuan, presiding over the meeting, rejected the remarks by members of Taiwan's Cabinet who attended the meeting as a "waste of time" was repeatedly broadcast on Taiwan television and aroused strong repulsion among the people of Taiwan.

Such efforts to isolate Chen Shui-bian and the DPP resulted in the formation of solidarity within the opposition alliance, as the Chen Shui-bian administration suffered setbacks in its internal affairs, namely the controversy over the construction of the fourth nuclear power plant. The first barrier to the Chen Shui-bian administration making a breakthrough in its relations with China became whether it could form a majority in the Legislative Yuan and stabilize the political situation. Unless it has a majority, China will not treat the Chen Shui-bian administration as a counterpart with which a direct deal can be made and will continue its efforts to support the opposition alliance, as it has done in the past.

(2) Expanding Economic Exchanges with China

In order to take initiatives in internal and diplomatic affairs, Chen Shui-bian and the DPP tried to win in the election for the Legislative Yuan at the end of 2001, and aimed to form a majority coalition government. Regarding the issue of the suspension of construction of the fourth nuclear power plant, which had been a major cause of political instability, the Council of Grand Justices (equivalent to the Supreme

Court) handed down the constitutional interpretation January 15 that the Executive Yuan's approach had been "flawed." Following consultations between the governing and opposition parties, and between the Executive Yuan and the Legislative Yuan, it was decided to recommence construction of the plant. Thus, a solution was found to the biggest issue in internal affairs that had discouraged investment by local and overseas investors, and brought about serious confrontation between the governing and opposition parties, and the worst political situation of the Chen Shui-bian administration.

The Taiwanese economy is experiencing its worst slump since the oil crisis, however. Although Taiwan had traditionally maintained annual economic growth of more than 5 percent, its GDP rapidly declined to minus 2.1 percent (accumulated figure from January to November) in 2001 and the unemployment rate rose to 4.57 percent (2001 average). Taiwan's current economic condition is said to be the worst among the Asian newly industrialized economies (NIEs). Moreover, influenced by the terrorist attacks in the United States, stock prices fell drastically with the TAIEX temporarily falling below 4,000 points to its lowest level in eight years. Especially serious was the radical decline in exports of high-tech products from the Science-based Industrial Park in Hsinchu, which had up to then been driving the Taiwanese economy.

Meanwhile, economic exchanges between China and Taiwan have been developing smoothly, despite the prohibition on direct transport across the Taiwan Strait. According to Chinese statistics for fiscal 2000, Taiwan's investment in China rose 16.5 percent (approximately \$4 billion) on a contract basis and fell 9.4 percent (approximately \$2.4 billion) on a settlement basis compared to the previous fiscal year. The total amount of trade between China and Taiwan rose 30.1 percent (approximately \$30.5 billion).

The fact that nearly all such economic activities were conducted via places such as Hong Kong is posing a major impediment to Taiwanese firms. Calls are increasing day by day among the business com-

munity in Taiwan for Taiwanese authorities to lift the ban on the “three links” (direct trade, postal services and travel between China and Taiwan). The one-digit approval rating for “one country, two systems” throughout the 1990s rose to 16.1 percent, the highest level recorded, according to an opinion poll conducted by the Taiwanese authorities. The reason behind this change is considered to be economic pressure from China.

Against the background of an economic recession in Taiwan and the booming economy in China, the Economic Development and Advisory Conference (EDAC), a bipartisan presidential advisory council, was convened in August 2000. Regarding investment in China, the EDAC urged the administration to shift from the “no haste, be patient” policy formulated by the Lee Teng-hui administration to the “active opening and effective management” policy. Although easy wording for China to accept is selected, “active opening and effective management” is a policy that, while abolishing the upper limit of the investment amount, adds cautious examination of each case, an approach never taken before. With regard to the “three links,” the Taiwanese authorities have postponed its implementation on the precondition that the hostile situation be terminated, although they are considering the possibility of negotiating with China about the implementation by using the mechanism of the WTO. A consensus has also been reached regarding measures to allow Chinese capital to be invested in Taiwan and Chinese tourists to visit Taiwan on the condition that national security is not affected. Furthermore, the Mainland Affairs Council decided on the policy of treating Chinese goods processed in the Kaohsiung Offshore Transshipment Zone that used to be treated as “Made in China” as “Made in Taiwan.” As goods “Made in Taiwan” sell at a higher price than those “Made in China,” it will become easier for part of the manufacturing process to be retained in Taiwan. It was an epoch-making decision in promoting an increase of the amount of traffic between China and Taiwan in the future. A series of policy changeovers demonstrates that the policy course outlined in

Chen Shui-bian's New Year's speech has been confirmed by the EDAC. Chen Shui-bian, thus, is gradually restoring confidence in his management of internal affairs as well.

It is difficult to expect the dialogue between China and Taiwan to be resumed under current circumstances, as there is too large a gap in the political assertions of the two sides. With the simultaneous accession of China and Taiwan to the WTO in November 2001 as a start, however, the momentum for making economic exchanges through the WTO is picking up in both countries. China has not given up its position that it is willing to negotiate with Taiwan on the "three links" if Taiwan first accepts the "one China" principle. It also has no intention of solving problems in its economic relations with Taiwan through the WTO mechanism. Nonetheless, it is possible for China and Taiwan to negotiate the issue of the "three links" through utilization of the WTO mechanism. With the full membership that Taiwan enjoys, it is quite feasible to solve purely economic disputes between China and Taiwan under the WTO mechanism. Issues of focus in the future remain whether Taiwan will set out to "internationalize" the economic issue between China and Taiwan by playing the "WTO card" or whether China will make compromises and reopen bilateral channels of negotiation.

(3) Emergence of the Coalition Government

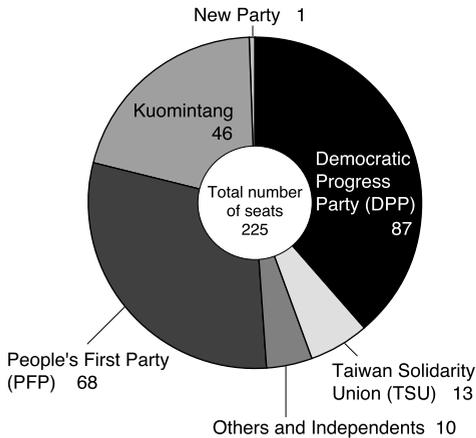
The focal point for Taiwan in 2001 that may affect future relations with China was whether there would be a coalition government led by the DPP that could stabilize the political situation. In August 2001, as a result of the difficulties facing the Chen Shu-bian administration and the effort made by the Kuomintang to eliminate Lee Teng-hui's influence, the political group close to Lee Teng-hui formed a new party called the Taiwan Solidarity Union (TSU) that aims to "mobilize those who feature stability and middle course." The TSU's objective was to stabilize the political situation by forming a coalition with the DPP. Lee Teng-hui was stripped of his party membership by the Kuomintang for explicitly supporting the TSU though he was a mem-

ber of the Kuomintang at the time. However, this in turn led to the impression that the Kuomintang was trying to negate the policies set by Lee Teng-hui. Taking full advantage of its status as the ruling party, the election proceeded at the DPP's pace. Further, Chen Shui-bian clearly stated right before election day that he would establish a cross-party "National Stability Alliance" while at the same time Lee Teng-hui also made it clear that he would establish a bipartisan group "Taiwan Advocates." Lee Teng-hui and Chen Shui-bian thus succeeded in building an image of combining the DPP, TSU and some groups within the Kuomintang to form a stable majority-led coalition government after the election, thereby gaining an upper hand in the election.

In the election for the Legislative Yuan held December 1, 2001, the DPP and its ally the TSU won 87 and 13 of the 225 legislative seats, respectively, which was a major leap forward. The Kuomintang and the "New Party" suffered crushing defeats, winning 68 seats and 1 seat, respectively. The People's First Party (PFP) succeeded in doubling its number of seats to 46. As the DPP has become comparatively the largest party and none of the parties command a majority, it has become easier for the DPP to take the lead in forming a coalition government. If the foundation of the Chen Shui-bian administration can be strengthened by the formation of a majority coalition government, it would also help economic management, which is facing grave difficulties, leading to re-election in 2004. Even if a minority-led coalition is formed by the DPP and TSU alone, there is no doubt that political management will be stabler than ever before.

As a result of the success achieved by the DPP and TSU, the focal point has changed from the formation of a coalition to whether the DPP will accept the "1992 consensus" shared by the "New Party," the Kuomintang and the PFP. Chen Shui-bian, with his new "middle-of-the-road line," had once shown flexibility by advocating the "one China in the ROC Constitution" theory and not completely denying the existence of the "1992 consensus." In the final phase of the election, however, he changed his position, stating that the ROC will no longer

Chart 5-3. Seats Won by Taiwan's Major Political Parties in the Election for the Legislative Yuan



Source: Based on news reports in Taiwan.

exist if the “1992 consensus” is accepted, clearly indicating the difference from the opposition party coalition that was conciliatory toward China. Rather than aiming at a coalition with the opposition parties, Chen Shui-bian elected to approach Lee Teng-hui who aimed at a DPP-led coalition by inducing the split within the Kuomintang. The reason why Chen Shui-bian changed his position

by refusing to accept the “1992 consensus” was the skepticism on the part of Lee Teng-hui and the TSU about the acceptance of the “1992 consensus,” and their support for the “two-state theory.”

The possibility is high that, in the future, the government will be managed in such a way that political groups or parties like the Taiwan Advocates and TSU or other new political forces evolving from such parties will take the initiative in the policy agenda, and Chen Shui-bian will use such “external pressure” to push the DPP to execute the policy, since in many cases the minority in a coalition holds the casting vote. The TSU respects Lee Teng-hui as its spiritual leader and has taken onboard some of his policies. For instance, regarding investment in mainland China, it took a position close to Lee Teng-hui’s “no haste, be patient” policy. China policy easing implemented by the government may also slow down in the future, depending on the outcome of policy coordination within the coalition. This is because the National Security Bureau in Taiwan was highly suspicious that China

was aiming at the promotion of unification by economic means. Taiwan has a strong sense of alarm about China's economic opening.

China may interpret the election results as "peaceful unification becoming desperate" and will probably intensify its military struggle against Taiwan in the long term. Being also pragmatic, however, China will make adjustments in its united front work and take a stab at unofficial contacts with Taiwanese authorities or the DPP in the short term while continuing to provide support to opposition parties. Otherwise, it would become impossible even to collect reliable intelligence about Taiwan. Moreover, Lee Teng-hui has so far never advocated Taiwan independence and the TSU, too, has done nothing else than to advocate a moderate opinion of the primary role to be played by Taiwan. For this reason, there is little possibility that the new coalition government will take a provocative policy toward China. In this sense, the shift from the DPP-led single-party government to the formation of a coalition government may be regarded as a factor of stabilization in relations between China and Taiwan. It is also considered that the formation of a majority-led coalition government will make it no longer possible for China to cause discord in the short term. China clearly stated right after the election for the Legislative Yuan that "there is no change in our Taiwan policy." However, international opinion is growing that China should squarely address the reality that the opposition parties taking a position close to China suffered a crushing defeat while the political parties keeping a distance from China succeeded, and respect the Taiwanese people's will to resume dialogue.

(4) Significant Improvement in the Security Environment

Taiwan has made great progress in its external relations and significantly improved its security environment. It is mainly attributed to the Bush administration in the United States, which shifted its policy in the direction of supporting Taiwan. Needless to say, there was no change in the basic policy of the United States to maintain an "unofficial relationship" with Taiwan based on the "one China" policy and

the Taiwan Relations Act. The United States also did not change its position of placing great importance on China, which constitutes a huge market for the United States, and of avoiding futile confrontations with China. On the other hand, however, entire changes were observed in the tone and wording concerning its policy toward Taiwan. For example, the Bush administration stated clearly that it would no longer mention the “three no’s” policy (no support for Taiwan independence, no support for “one China one Taiwan” and no support for Taiwan’s bid to join international organizations like the United Nations) announced by former President Clinton. During President Chen Shui-bian’s visits to South American countries in May and June, he was allowed to make transit via the U.S. East Coast and meet U.S. congressmen, which gave the highest level of honor to a Taiwanese official since the United States broke its diplomatic relations with Taiwan. Former President Lee Teng-hui’s visit to Japan also led to an appraisal of Chen Shui-bian’s foreign policy toward major countries as having achieved success within Taiwan.

In April 2001, the Bush administration decided to carry out large-scale arms sales to Taiwan to reinforce Taiwan’s defense capabilities, an event that symbolized the improvement in Taiwan’s security environment. The list of approved arms sales to Taiwan shows that the sales of large weapons that had been previously suspended were approved, including diesel-electric submarines, which are needed to blockade Chinese ports and break through any Chinese naval blockade, and *Kidd*-class destroyers and P-3 patrol aircraft, which are needed to significantly enhance the capabilities to secure naval supremacy. If the decision on arms sales is completely implemented, Taiwan’s defense capabilities will be significantly enhanced, enabling Taiwan to hold out for a longer time by itself in case China should launch an attack on Taiwan.

While the Bush administration shelved the sales of Aegis-equipped destroyers, whose relation with Theater Missile Defense (TMD) had become a hot topic, it does not mean that a decision not to sell such

destroyers had been made. High in cost and difficult to operate, it takes several years to build an Aegis destroyer. Moreover, if the decision on sales is made at the present moment, U.S.-China relations will deteriorate decisively, triggering disputes between China and Taiwan, which would also lead to the possibility of U.S. involvement. Further, the U.S. Department of Defense decided that the talks between Washington and Taipei on U.S. arms sales to Taiwan that had so far been convened every four years would be convened on irregular dates as of fiscal 2002. The decision aimed at preventing China from periodically exerting diplomatic pressure on the United States while enabling flexible discussion of arms sales according to Taiwan's needs. In other words, the shelving of Aegis-equipped destroyer sales this time and the decision on the flexible date for the U.S.-Taiwan arms talks enabled the United States to maintain a free hand while preserving the card toward China that the United States will immediately make the decision on arms sales if China threatens Taiwan with the use of force.

In addition to the increased arms sales, Bush, in reply to the question of whether the United States has an obligation to defend the Taiwanese if Taiwan were attacked by China and if so, whether the United States would use the full force of the American military, stated that the United States would do "whatever it takes" to help Taiwan defend itself. Though somewhat toned down later, these remarks made by Bush along with the decision on arms sales had a strong deterrence effect against China suggesting the use of force against Taiwan. Furthermore, John Bolton, the undersecretary of state for arms control and international security affairs, commented to the effect that the United States would consult with Taiwan in its missile defense research, thus demonstrating the explicit stance taken by the Bush administration to provide support to Taiwan.

The military relationship between China and Taiwan is an asymmetric one under which China has the unilateral intention to attack Taiwan while Taiwan has no intention of attacking China. Therefore, allowing China alone to strengthen its offensive power would imme-

Table 5-4. List of Approved Arms Sales to Taiwan Released by Bush Administration

Intended use	Description	Quantity
Ensuring air superiority	<i>Avenger</i> air-defense missiles AN/ALE-50 self-defense pods (for F-16s)	Unknown Unknown
Securing naval supremacy	Diesel-electric submarines <i>Kidd</i> -class destroyers P-3 patrol aircraft MH-53E minesweeping helicopters Mark-48ADCAP antisubmarine torpedoes <i>Harpoon</i> antiship missiles	Max. 8 ships Max. 4 ships Max. 12 planes Unknown Unknown Unknown
Defending isolated islands and beaches	AAV-7A1 amphibious assault vehicles M109A6 self-propelled howitzers	Unknown Unknown

Sources: Shirley A. Kan, "Taiwan: Major U.S. Arms Sales Since 1990," *CRS Report for Congress* (Order Code RL30957, Updated June 1, 2001), p. 3; *Washington Post* (April 24, 2001); *United Daily News* (April 25, 2001).

diately lead to instability. The United States has thus been selling defensive weapons to Taiwan under the Taiwan Relations Act for the purpose of maintaining a military balance between China and Taiwan. The dilemma exists that such measures, once taken, will prompt China to further strengthen its offensive power in the mid and long term. Consequently, although the implementation of arms sales will have the effect of keeping China in check and of stabilizing the situation over the short term, an "asymmetric arms race" between China and Taiwan will accelerate the destabilization of relations between the two countries in the future.

As mentioned above, China is restraining from threatening to use force against Taiwan but steadily strengthening its military capabilities with the aim to launch attacks on Taiwan and to build up its area denial capability against the United States in such cases. It is reported that China has built up its short-range ballistic missiles aimed at Taiwan, with the total number increased to 350. "Liberation No. 1," said to be aimed at Taiwan, lasted approximately three months. However, China refrained from blatant military intimidation as in 1996, fearing that such threat may give rise to the widespread theory that China is a threat. Consequently, it is unlikely that military relations between China

and Taiwan will become tense in the near future. In addition, as Beijing succeeded in its bid to host the Olympic Games scheduled for 2008, it is expected that until then China will refrain from taking military actions. In the past, Western countries boycotted the Moscow Olympic Games as part of their sanctions on the Soviet Union for its invasion of Afghanistan. How China can successfully manage the operation of the Olympic Games, a “festival of peace,” is a worldwide concern. Therefore, even if there are no serious military tensions between China and Taiwan, the military balance between China and Taiwan should be closely watched, as long as China repeatedly expresses its intention to use military force against Taiwan and continues to strengthen its military capabilities.

The September 11 terrorist attacks and the international antiterrorism coalition that was subsequently formed left Taiwan, which has neither diplomatic relations with major powers nor U.N. membership, in a state of concern. It was feared that the United States might sacrifice Taiwan's interests to win China's cooperation. The United States, however, provided evidence on the involvement of Osama bin Laden and al-Qaeda to Taiwan. Taiwan also accepted the request from the United States to let its aircraft fly over Taiwanese territory. No sign of deterioration in U.S.-Taiwan relations is observed because of the terrorist incident. Secretary of State Colin Powell clearly stated that there was no suggestion of a quid pro quo to obtain China's cooperation against terrorism. The rapprochement between the United States and China does not necessarily mean the aggravation of the security environment for Taiwan.

(5) Taiwanese Military Software Enhancement

To respond to the Bush administration's decision on the huge amount of arms sales, Taiwan has no other choice than to establish a special defense budget. The procurement amount this time amounts to NT\$270 billion (approximately \$7.7 billion) and Taiwan's defense budget is expected to increase by approximately NT\$60 billion (approximately

\$1.7 billion) over the next decade. In 2001, in addition to this sale of arms, the United States decided to sell the Joint Tactical Information Distribution Systems terminals, spare parts and relevant support and services amounting to \$725 million, as well as 40 AGM-65G *Maverick* air-to-surface missiles for F-16 fighters amounting to \$18 million. Furthermore, the United States is reported to have agreed in principle to sell 48 M1A2 *Abrams* main battle tanks. There is no doubt that the procurement of these weapons will contribute to the acceleration of the modernization of Taiwan's armed forces. Judging from the economic recession since the oil crisis, however, Taiwan is undertaking a heavy economic burden as a result of its continual procurement of expensive weapons.

From mid-March to mid-April, the "Hang Kung No. 17 Maneuver," an operation to prevent an enemy from landing, was held in the southern part of Taiwan. In the exercise, it was required that operations to annihilate the enemy should be launched at the farthest possible places from the coastline, based on the military strategy of "effective defense and strong defensive posture." The "Hang Kung No. 17 Maneuver" took on the meaning of testing the combat capabilities of Taiwan's armed forces after the completion of the "Armed Forces Restructuring Program," which was aimed at achieving a compact force size. On May 10, a squadron of *Mirage* 2000-5s was regimented in Hsinchu and officially put into operation. From March to May, the Taiwanese Navy crossed the Pacific in its first ocean navigation training mission. Lasting 95 days, the voyage included visits to countries in Central and South America, and the Caribbean Sea with which Taiwan has diplomatic relations. In 2001, Taiwan's armed forces completed the "Armed Forces Restructuring Program" and started to operate a large number of pieces of new equipment, with various kinds of training being launched as well. Twenty-two years after the severance of diplomatic relations with the United States, however, Taiwan's armed forces have become "isolated armed forces" that cannot hold joint exercises with the United States. There have long been arguments in

the U.S. Congress, therefore, that more attention should be paid to “software,” including military contacts between the United States and Taiwan, joint training with advice for Taiwan’s military and especially, broader training programs on C⁴I, combined, and joint operations. It is thought to be better than narrow training tied to particular weapon systems along with arms sales. Furthermore, the modernization of the military not only means the upgrade of equipment but also calls for the modernization of the organization. On October 25, 2001, the Legislative Yuan adopted the “Organic Statute of the General Staff Headquarters of the Ministry of National Defense” and decided to streamline the organization of General Staff Headquarters, and downgrade the General Political Warfare Department, which had ensured the Kuomintang’s political control over the military. These efforts toward organizational reform were only the beginning and future developments should be closely watched.

“Unofficial” military exchanges between the United States and Taiwan are on the increase. In June 2001, Taiwan’s military succeeded in its testlaunch of *Patriot* PAC-II Plus air-defense missiles against the simulated target of a ballistic missile. It was reported that civilian officials belonging to the U.S. military were present on the site. In order to drive forward the modernization of defense in the field of “software,” President Chen Shui-bian clearly stated in July that he was expecting a higher level of military exchange between Taiwan and the United States, including the implementation of joint military exercises. In the past four years, the United States and Taiwan have held seven rounds of “Monterey Talks,” a strategic dialogue between military counterparts. Furthermore, attention has been paid to reports that in addition to intelligence cooperation up to now, there has been a plan to lay down an underwater acoustic monitoring system around the island of Taiwan to monitor the movements of Chinese vessels. Intelligence thus obtained will be shared by the United States and Taiwan.

In addition to this, according to media reports, the cruise missile code-named *Hsiung Feng*-III, secretly developed by the Chungshan Institute

of Science and Technology in charge of weapon development, has a range of 500-1,000 km, can be launched from the ground, aircraft, surface vessels and submarines, and can include all major cities in the Chinese coastal area in its range. Although the Taiwanese authorities denied this report, saying, “it is not a cruise missile, but rather an antiship missile,” antiship missiles and cruise missiles are weapons for which the same basic technology is used, and offensive weapons like cruise missiles are not only cheaper than TMD but also have a better deterrence effect. It was also reported that Taiwan was developing a medium-range ballistic missile with a range of 2,000 km, though the Taiwanese authorities denied this report in the same way.

Whether Taiwan will develop and deploy such offensive weapons, and will have the capability to counterattack China in the future remains to be seen. During his inspection of missile defense units in the northern part of Taiwan, Chen Shui-bian commented to the effect that Taiwan intends neither to compete with China for military expansion nor to provoke it, but that Taiwan must maintain an appropriate deterrent capability. To pay such a high cost to enhance its defense capabilities against China while becoming more economically dependent on China is a serious dilemma for Taiwan. However, such a dilemma will remain as long as China intends to use force against Taiwan and continues to strengthen its national power.

