

U.S.-China Economic and Security Review Commission

China's Military Modernization and the Cross-Strait Balance

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The Commission is particularly interested in exploring the following questions:

1. What risks to the United States if Taiwan further delays or fails to purchase sufficient defense systems?
2. How are the risks different if Taiwan proceeds with the purchase of necessary military defense articles?
3. What are the risks to allies and alliances in the region?
4. What can be done by unilaterally by the US to reduce those risks?

Mr. Chairman, Honorable Commissioners, distinguished colleagues, ladies and gentlemen. It is an honor to be invited to address the Commission on this pressing and vital question of security in the Asia Pacific region.

I would like to preface my comments by explaining my, I hope not too unfamiliar, accent. I am employed by the United States Air Force as a Professor at the Air War College. Just a few short weeks ago, I *permanently* immigrated to the US to take up this exciting opportunity to serve the American people. Inter alia, I come to this role having served as a defense official in the Australian Department of Defense. Consequently, I should note for the record that my comments today are entirely my own and do not reflect the views of either government or defense establishment.

The Commission staff has kindly provided me with a series of questions that are of concern to your deliberations today. In my response I will examine some of the assumptions underpinning those questions and the possible ways events might unfold in the region and their implications

for US policy. In particular, I would like to draw the Commission's attention to the possibility of a future shock to the US Asia Pacific alliance system.

- **The Commission asks: What are the risks to the United States if Taiwan further delays or fails to purchase sufficient defense systems?**

The answer will depend on whether Taiwan faces a credible threat and the timeframe within which a credible threat might emerge. The origins, nature and scope of that threat will have a major impact on whether Taiwan is adequately defended. Considering the threat of the use of force, the current capabilities and force structure of the Taiwanese armed forces are comparatively well known. Yet the degree to which Taiwan is sufficiently armed also depends upon the willingness of its friends and allies to contribute military forces to a hypothetical future conflict. That willingness will hinge on a number of factors, especially the specific cause of, and therefore responsibility for, any war that may emerge. "Washington's expectations [of its allies], as well as its own actions, would be affected by the manner in which the war began: an unprovoked attack by China is one thing and a declaration of independence [by Taiwan] is another" according to Ron Montaperto, Dean of the Asia Pacific Centre for Security Studies in Hawaii.¹

There is no doubt that in recent years Beijing has been both modernizing and growing its military capabilities.

Until the 1990s China's military capabilities were focused on defeating an invading force from abroad, and mostly comprised reverse engineered early soviet systems with very limited reach. The PLA of two decades ago was designed to deter invasion and occupation by foreign powers... The PLA of the future is being architected to project Chinese power across the Asia-Pacific region. The future PLA's strength will be centered in cruise missile-armed long range strategic bombers and submarines, long range fighters [armed with beyond visual range air to air missiles and network centric sensor systems] supported by aerial refueling aircraft, airborne early warning and control aircraft, and modern surface warships, rather than the large land armies of previous decades.²

¹ China and Taiwan: Flashpoint for a war, *The Sydney Morning Herald*, July 14, 2004.

² Kopp, C., Goon, P., *China's Rise as a Regional Superpower*, Air Power Australia Analyses, May 19, 2005, p.7

In essence, the PRC is emulating US conventional forces – a process that was initiated by Beijing following the rapid US victory in the first Gulf War. It is perhaps ironic that decisive victory in one theatre could stimulate a capable challenger in another so few years downstream.

Of course, military capabilities alone do not constitute a threat. To an analysis of capabilities must be added an examination of strategic intent, reputation and credibility. However, it is worth adding that expansion of military capabilities, particularly those that enable the projection of major combat power, cannot be ignored in the calculus of a competitor's strategic intent. So if the PRC has been enhancing its military capabilities, as a range of sources testify (see for example the Pentagon's 2005 *Annual Report to Congress on the Military Power of the PRC*), what do we know about Beijing's intent to use its forces?

The mainland Chinese do not mince words, so neither will we. Beijing has consistently made it crystal clear that it intends to use force in the event that Taipei seeks to move away from the status quo in any direction other than integration. The March 2005 Anti-Secession Law marked a turning point in the PRC's position. The legislation authorizing the use of military force against Taiwan represents a major departure from previous policy which emphasized 'soft power' over military power as a means for achieving reunification. The credibility of this threat grows in direct proportion to the increasing size and sophistication of the PLA's power projection assets. However, exactly *how* Beijing might choose to use force remains to be seen. The warfighting strategy adopted by the PLA will in turn be yet another factor in calculating the adequacy of extant Taiwanese defense arrangements.

PLA planners have a wide spectrum of military options to consider, from full scale conventional combat aimed at invasion of the island, to a strategy of denial, such as a blockade, to long range stand-off missile strikes aimed at harassing Taipei. To that spectrum must be added a list of unconventional options for attacking Taiwan, from Special Forces raids to information operations aimed at critical infrastructures.

While comprehensive, accurate and trusted open source intelligence on the PLA order of battle is hard to come by, what is available would seem to indicate that the PLA is still some years away from being able to successfully mount high intensity joint operations aimed at invasion of Taiwan. However, given the PLA's extant capabilities, the PLA would most likely be able to

deny access to the strait for a period of time measured in weeks against the Taiwanese and a combination of their allies.

Key current capabilities include

- Short Range Ballistic Missiles, estimated by the Pentagon to be in the vicinity of 650-730 missiles (increasing at a rate of between 75-120 per year)³
- In excess of 200 long range Su-27/30 combat aircraft armed with Beyond Visual Range (BVR) missiles such as the R-77,
- 12 batteries of the highly capable Russian S-300 SAMs systems (each battery may contain 38-48 missiles)⁴,
- new submarines,
- capable surface combatants armed with long range SAMs and hypersonic anti ship missiles;

Consideration of Taiwan's capabilities and intentions are just as important in gauging the sufficiency of the islands defenses against the spectrum of possible PRC warfighting strategies. The Taiwanese operate a technologically sophisticated but comparatively numerically inferior defense force compared to the PLA forces against which it might be required to operate. Emphasis is placed on maritime and air defense assets. Compared to the significant investment in advanced conventional arms on the other side of the strait, Taiwan's capabilities have been relatively stagnant for some time. In this context the addition of the 2001 US arms package (being considered by the Taiwan legislature), which includes 12 P-3's, 8 new conventional submarines, and in particular several batteries of the Patriot missile system, would be a much needed addition to the defense of Taiwan but would not provide Taipei with a quantum leap in its overall defensive position.

Indeed, given the time it takes to field submarines into the fleet, in the short term, greater benefit may be derived by placing an increased emphasis on ISR and airborne defensive and strike assets. In short, early warning systems, many more patriots, and enhanced air combat capabilities, will be more valuable to deterring and defending against a sub-invasion PRC strike on the island. To these must be added increased allied cooperation/coordination programs to ensure if the US and others are to assist Taiwan they are able to arrive in a strategically meaningful period of time.

³ Office of the Secretary of Defense, *Annual Report to Congress: The Military Power of the PRC, 2005*, p.29

⁴ Fisher, R D., *China's Military Power: An Assessment from Open Sources*, Testimony before the House Armed Services Committee, July 27, 2005, p.11.

With respect to the sufficiency of its defense posture, Taiwan's intentions are much more important than its capabilities. Between now and the Beijing Olympics in 2008, there will quite possibly be a strong temptation in Taipei to disrupt the status quo in the hope that the PRC will be reluctant to act on the promise in the Anti-Secession Law. Some have maintained that the Administration's early experiment with declaratory clarity (as opposed to ambiguity), the we will "do whatever it [takes] to help Taiwan defend herself" comment, provoked the Taiwanese to step up their rhetoric concerning independence.⁵ The Administration was later forced to reign-in Chen Shui-bian's independent streak, along with its own rhetoric. Nevertheless, the possibility that Taiwan might seriously miscalculate and rush towards a new stage in its history during the Olympic window, while slight, can't be ignored. This is a much greater risk to US policy and regional security, than the current state of Taiwanese armaments.

Short of an unlikely Taiwanese miscalculation, the good news is that there is far too much for the PRC to lose than to gain by the use of force across the strait. According to the 2005 Pentagon assessment "Taiwan is China's single largest source of foreign direct investment".⁶ Any attack beyond the level of harassment would undoubtedly be focused on a range of Taiwanese critical infrastructures, such as communication nodes, upon which the economy depends. Attacking those targets would be a form of MAD in light of the financial, economic and social ties between the two sides.

China's energy-hungry 'peaceful rise' is predicated on export led growth. Just how elastic China's economy is with respect to absorbing a rapid decline in export market share or a failure in the energy supply chain, remains to be seen. Both of these events might occur due to market forces and/or global events, and would almost be guaranteed in the event of unprovoked military aggression initiated by Beijing.

Nor is China's 'peaceful rise' fireproofed from economic discontinuities, either locally or internationally. The 1997 Asian Financial Crisis was as unexpected as it was hostile towards the regional so called 'tiger economies' which came under pressure due to the fragility of the banking sector. The PRC largely avoided the pain that went with the financial crisis due to the reluctance of the government to float the currency. Consequently, the much needed reforms that were enacted in many of the countries that did suffer during the crisis were avoided in the PRC

⁵ Tucker, N.B., 'Strategic Ambiguity or Strategic Clarity?' in Tucker, N.B., (ed), *Dangerous Strait: The US - Taiwan - China Crisis*, Columbia University Press, NY:2005, p.202
⁶ Op cit, Office of the Secretary of Defense, p. 42

leaving a significant question mark over the sustainability of its extant financial sector. How long the PRC will be able to resist, or avoid, further exposure to the vagaries of the global economy is a factor not of will, but of time.

No matter what the source of the problem, a period of economic adjustment in the PRC would impact on both its ability to mount military operations and sustain advanced acquisitions. This will not stop China's military transformation, just delay it. But the timing of such a delay, were it to eventuate, could become critical to cross strait security.

Another critical issue in cross strait security is the role of allies. The Commission's final two questions ask **what are the risks to allies and alliances in the region and what can be done unilaterally by the US to reduce those risks?**

It is at this point that I want to return to the possibility of an alliance shock mentioned in the introduction. I have been surprised at the lingering strength of the US reaction to the anti-nuclear ship visits policy adopted by New Zealand in the early 1980s. That policy is *still* viewed by some segments of the Washington foreign and defense policy elite as an inexcusable betrayal of a close friend. The anger is visceral. Imagine then the likely scale of the reaction if arguably America's closest and most loyal ally looks the other way if a crisis emerged in the Taiwan Strait?

In the bilateral security relationship Australia has almost never used the word NO.⁷ Indeed, Australia has a long tradition of loyalty and sacrifice serving the interests of its great and powerful friends. From the revenge of Gordon of Khartoum, through to the hunt for Bin Laden in the caves at Tora Bora, to paraphrase the popular WWI song "Australia was always there" alongside the British up until the fall of Singapore and with the United States thereafter.

WWI, WWII, Vietnam, Korea, Gulf I, East Timor, Rwanda, Somalia, OEF, and OIF. Australia has always stood shoulder to shoulder with the United States. The commitment of Prime Minister Howard to the US Alliance is personal, having been in DC on the morning of 9/11 and witnessed the burning Pentagon building from his hotel window. On his return to Australia the ANZUS alliance was almost immediately invoked in solidarity with the American cause.

Yet the deep history, culture and kinship that bind Australia to America are being challenged by emerging Australian national interests in economic engagement with the PRC. The realities of

⁷ In the contemporary period Australia first said no to the US when President Reagan sought Prime Minister Hawke's ascent to participation in the MX missile program.

this shift are disguised by Mr. Howard's ready willingness to assist the US whenever he can in the global struggle against violent extremism. Nor have Australia's recent contributions been operationally insignificant. The SAS played a critical role both in Tora Bora and in the western desert of Iraq in eliminating the strategic threat aimed at Israel. American commanders who have worked with Australia forces are universally filled with admiration for their allies. All of this will only serve to make the future shock over Taiwan that much more vivid and jarring.

Already the world's second largest consumer of primary energy after the US, according to the Australian Bureau of Agricultural and Resource Economics, energy security is critical to China's future.⁸ LNG will play an increasingly important role in the Chinese economy particularly as a cleaner alternative to coal – also a key Australian export to China. Consumption of gas in 2001 was just 4% of all energy consumption in China⁹ and is currently met entirely from domestic sources.¹⁰ However natural gas consumption is expected to grow by 12% annually, quickly exceeding domestic capacity. Chinese officials estimate that by 2020 50% of their gas needs will be met from off shore fields¹¹ but it is more likely to be much earlier than that. Similarly ABARE estimate that Chinese electricity consumption is forecast to rise 11% in 2004 alone. Currently China imports about 20% of its crude oil requirements and this is conservatively expected to double by 2020.¹²

Australian exports to China have more than doubled in the past five years.¹³ For example, in 2005 \$32 billion in iron ore deals were written in one year.¹⁴ Energy products are key to this development. On a recent visit to the US Prime Minister Howard told the American press that LNG shipped from the North West Shelf could supply up to 15% of the energy needs of the world's fifth biggest economy, namely the state of California.¹⁵ The first of three deals between the PRC and Australia is reported to be worth up to \$25 billion and represents a projected 3 million tons of LNG per year for 25 years.¹⁶ This level of investment is likely to grow given that Australia has the capacity to meet demand. For example, the Gorgon gas field, situated 130km off WA is reported to have 365 billion tons of *proven* gas reserves.¹⁷

⁸ Dow Jones, 'China's energy demand to provide more export opportunities for Australia', cited in *Alexanders Oil and Gas Connections*, volume 9, issue #14 - Wednesday, July 21, 2004, <http://www.gasandoil.com/goc/news/nts42904.htm>

⁹ Ibid.

¹⁰ Xinhua News Agency, 'China to become promising LNG market by 2020', April, 26, 2004, cited in <http://www.china.org.cn/english/BAT/94033.htm>

¹¹ Ibid.

¹² China Daily, 'LNG deal to boost trade links between china, Australia', China Daily April 28, 2004, <http://www.china.org.cn/english/BAT/94225.htm>

¹³ Regan, T., 'Australia sidesteps US on China', in *Christian Science Monitor*, July 21, 2005.

¹⁴ \$20bn China Iron Deal Inspires Ore, *The Australian*, October 21, 2004.

¹⁵ AP, 'Howard and Schwarzenegger talk hot air', cited in the Sydney Morning Herald, June 3, 2004, <http://www.smh.com.au/articles/2004/06/03/1086203541380.html?from=moreStories>

¹⁶ CNN, 'Australia wins huge China LNG deal', August 8, 2002, <http://www.cnn.com/2002/BUSINESS/asia/08/08/aust.chinalng.biz/>

¹⁷ Ibid.

Oil and gas are just the start. Australia holds about 40% of the world's uranium reserves.¹⁸ The PRC and Australian governments are working out an arrangement whereby China promises its use of the material will be for peaceful purposes and will be a contribution to minimize green house gases. While politically appealing to a domestic audience, there is no way to police such an arrangement. It represents a growing number of cases where Australia will turn a blind eye on bigger political and strategic considerations for a quick buck.

Such phenomenal growth in energy use, expected in such a short time frame, will have all sorts of security consequences for China, the region, and the global economy. Indeed energy security is a double edged sword for China. On the one hand China's sheer buying power permits Chinese influence to reach deep into the polity of energy supplier states, such as Australia, presenting all sorts of new dilemmas. For example, in the not too distant future the government of the day in Canberra will need to find 100 billion good reasons to support the US over China in any future clash over Taiwan. Cultural affinity and intelligence sharing is one thing. \$100 billion worth of trade in just one commodity in a rapidly expanding bilateral trade relationship is another matter entirely. Canberra would take the money over cultural solidarity every day of the week. And Beijing knows it.

It should not come as a surprise then to discover that China has already been working a stick and carrot approach to position Australia against the US over Taiwan. While Australia has a Free Trade Agreement with the US it is fast approaching a similar deal with the PRC and Beijing has not let Australia forget what's at stake. In Beijing in August 2004, when asked whether a strategic partnership with Beijing was precluded by Australia's possible obligations under the ANZUS Treaty vis a vis a crisis in the Taiwan strait, the Australian Foreign Minister, Alexander Downer, said "Australia would not feel obligated under the ANZUS Treaty to help US forces defend Taiwan if China tried to regain the island republic by military force".¹⁹

Foreign Minister Downer went on to state that the ANZUS Alliance was only "symbolic" and that it only counted if the territory of a member state was attacked. In fact the treaty states clearly that an attack on "the armed forces, public vessels or aircraft" is sufficient cause for either the US or Australia to invoke the Treaty.²⁰ The US State department immediately corrected Mr. Downer, an action that was swiftly followed by a Prime Ministerial intervention and a subsequent correction by Mr. Downer. Of course, by then the damage was done.

¹⁸ China uranium talks: Downer, *The Australian*, August 9, 2005.

¹⁹ ANZUS loyalties fall under China's shadow, *The Sydney Morning Herald*, August 18, 2004.

²⁰ Unlike the NATO Treaty, ANZUS states that in the event of an armed attack each signatory would meet the common danger in accordance with its constitutional processes.

This is an unprecedented development. No Australian Minister has ever questioned the ANZUS Alliance. Regrettably the Downer statement is not an isolated case. Former Howard government minister, Warwick Smith, now Chairman of the Australia-China Business Council, said Australia would risk its economic future by contributing forces. "It's not a bad thing to say 'no' sometimes" Smith was quoted as saying.²¹ These developments are in stark contrast to the immediate and unqualified support for the US intervention in the Straits back in 1996.

To these rhetorical shifts can be added shifts in the Australian position on key issues of concern to Washington. For example, the Pentagon report to Congress on the Military power of the PRC stressed that the consequences of lifting the EU arms embargo on the PRC "would be serious and numerous.." and "would have direct implications for stability in the Taiwan Strait and the safety of US personnel".²² Yet Australia supported the lifting of the ban. Mr. Howard has recently taken Australia into the new East Asian Summit, "a regional architecture that excludes the US and that is likely to foster a new dynamic of East Asian regionalism with China as its epicenter".²³

There is an inherent tension in Australia's economic security being so closely tied with the PRC and its military security being tied to the US. The fault lines are already starting to show. Howard himself put the evolving position more subtly "I have encouraged them [China] to accept that our close defense alliance with the US is not in any way directed against China".²⁴ The costs for Australia of going against the grain over Taiwan would be much higher than it would be for the US in the longer term. A former head of Australia's Foreign Affairs Department, Stuart Harris, recently observed that "In any conflict between the US and China, China would eventually – probably quite quickly – need to restore good relations with the US and vice versa. A country like Australia however, if on the US side, would not be easily forgiven. We would be punished for a very long time" Harris said.²⁵

Consequently Australia will be doing as much as a small pacific power can to ensure the Taiwan issue is resolved peacefully. In some respects its unique position between the two giants of the Asia Pacific, presents both Canberra and through it Washington with an opportunity to influence Beijing. But as this discussion has shown, there is a small body of evidence to suggest that

²¹ China and Taiwan: Flashpoint for a War, *The Sydney Morning Herald*, July 14, 2004.

²² Office of the Secretary of Defense, op cit, p.24

²³ Poised Between Giants, *The Australian*, July 23, 2005.

²⁴ Poised Between Giants, *The Australian*, July 23, 2005.

²⁵ China and Taiwan: Flashpoint for a war, *The Sydney Morning Herald*, July 14, 2004.

Australia's history of ready support for Uncle Sam may not be automatic in the case of a cross strait crisis and Washington should be prepared for that day to come.

One way for Washington policymakers to influence the relationship could be to encourage US investment in, and acquisition of, Australian energy products. As the attached article argues, there are good incentives for the US to make a strategic decision to become an energy customer of Australia. Of course governments on either side of the Pacific cannot dictate to private corporations who their customers and suppliers can and cannot be. But imaginative policy settings that incentivize US-Australian energy partnerships set within the new US-Australia FTA would be an important first step in diversifying Australia's key energy markets that tie it so closely to Beijing's regional interests.

Australia has much to loose in the advent of a crisis in the Taiwan Strait. Depending on the circumstances of the day, it faces either loosing markets or an erosion of its long term security. Defense self reliance rhetoric aside, without US support, the Australian defense budget would have to be increased probably as much as threefold to enable Australia to genuinely defend itself. The impact of loss of access to US intelligence, defense technologies, joint exercises and the like is harder to quantify but no doubt as dramatic in its effects. Moreover, by acquiring so many US military systems, from the M1A1 main battle tank, the JSF fighter, and Aegis equipped Arleigh Burke destroyers, Australia is far too enmeshed in US military systems to risk isolation.

The prospect of loosing hundreds of billions of dollars of new contracts, sustaining a period of golden economic opportunity, will equally not be taken lightly. However there is some cause to reflect that notwithstanding China's attempts to diversify its supplier base, its growth trajectory is such that it may very well need to do business with Australia whether it likes it or not. At least this will probably be the calculus in Canberra if one of the parties to the crisis becomes impatient and does something rash.

Washington should not take its south pacific cousin for granted. It should take a hard look at ways it can ameliorate China's economic engagement strategy as a means of making the decision making environment less fraught for its allies and friends.