



# **Assembly of Western European Union**

**DOCUMENT 1674**

**29 November 1999**

**FORTY-FIFTH SESSION**

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**Global security: China on the threshold of a new era**

**REPORT**

submitted on behalf of the Political Committee  
by Mr Baumel, Chairman and Rapporteur

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*Global security: China on the threshold of a new era*

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*submitted on behalf of the Political Committee<sup>2</sup>  
by Mr Baumel, Chairman and Rapporteur*

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<sup>1</sup> Adopted unanimously by the Committee.

<sup>2</sup> *Members of the Committee: Mr Baumel (Chairman); MM Blaauw, N ... (Vice-Chairmen); MM Behrendt, Bianchi (Alternate: Rizzi), Brancati, Sir Sydney Chapman, MM Clerfayt, Cusimano, Dias, Mrs Dumont, Mrs Durrieu, MM Ehrmann, Evangelisti, Eyskens, Fayot, Guardans I Cambó, Haack, Hornhues, Lord Kirkhill (Alternate: O'Hara), MM Lemoine, Liapis, van der Linden, Marshall, Martínez Casañ, Micheloyiannis, Mrs Nagy, Lord Ponsonby, MM Puche Rodríguez, Roseta, Schmitz, Skoularikis, Sterzing, Timmermans (Alternate: Valk), Volcic (Alternate: Mrs Squarcialupi), Wray (Alternate: Vis), Yañez-Barnuevo, N....*

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*N.B. The names of those taking part in the vote are printed in italics.*

*Draft Recommendation*

*on global security: China on the threshold of a new era*

The Assembly,

- (i) Noting that Deng Xiaoping's modernisation initiative of 1978 produced impressive results in terms of rapid social, economic and technological development of certain areas of China – such as the area around Shanghai – but also an unevenness of growth in coastal districts, as compared to the interior, of a magnitude such as to call the country's unity into question if the discrepancy becomes more pronounced;
- (ii) Noting, however, that the combination of strict Communist Party control over the country and the establishment of a market economy of sorts in certain areas has caused anomalies that may sooner or later have unforeseeable consequences;
- (iii) Noting that the Chinese Communist Party, although to all appearances not prepared to renounce its supremacy, is adopting limited reforms – *inter alia* extending the scope of democracy at grassroots level – which make the political system more responsive to public opinion;
- (iv) Regretting that effective institutional protection for individual rights and freedoms is still lacking in China and that too many Chinese citizens, in particular political dissidents and members of ethnic and religious minorities, continue to suffer human rights abuses that are unacceptable;
- (v) Considering that China's entry into the World Trade Organisation will greatly contribute to its closer integration into the international community and to further urgently needed political, economic, social and legal reform;
- (vi) Considering that the disputes and differences between China and other nations as a consequence of China's objective to establish its position as a primary power in the South China Sea can be resolved only in a peaceful manner;
- (vii) Considering that the development of relations between China and Taiwan can only come about on a voluntary, peaceful and democratic basis and by agreement between both parties;
- (viii) Aware that China is alarmed by what it regards as the United States increasingly interventionist foreign policy and the seemingly receding role of the United Nations Security Council as a mandating authority for military action;
- (ix) Aware that China, fearing the emergence of a unipolar world where it could be hemmed in by United States hegemony, is seeking to strengthen its ties with other possible spheres of influence, such as Europe, in order to establish a multipolar world based on a system of more evenly distributed checks and balances;
- (x) Considering that every possible effort must be made to enhance security and stability in East Asia, and that China must refrain from defence equipment sales and more particularly sales of conventional or nuclear delivery means to regional and third-world countries as this might fuel a regional arms race with destabilising consequences;
- (xi) Aware that at present the performance of China's armed forces in no way measures up to their size and that it will take many years yet for the modernisation programmes now underway to remedy major deficiencies both in equipment and forces structure to yield tangible results;
- (xii) Desirous that China should accord far greater priority to democratisation and economic and social development than to military modernisation;
- (xiii) Welcoming China's first steps towards compliance with nuclear and conventional non-proliferation agreements,

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**RECOMMENDS THAT THE COUNCIL**

1. Use every endeavour to prevent sales of sophisticated defence equipment to East Asian and third-world countries where there is a risk they could revive a regional or international arms race;
2. Recommend the European Council to:
  - continue its unstinting pursuit of its aim for China's full and rapid integration into the international community, both in political and economical terms, thereby contributing to its democratisation;
  - use its good offices with all the parties involved to ensure that the development of relations between China and Taiwan, including their possible union, takes place only by agreement between the two sides concerned, on a voluntary, peaceful and democratic basis;
  - actively pursue its existing human rights dialogue with China, insisting that China urgently improve compliance with basic human rights and fundamental freedoms, especially with regard to political dissidents and religious and ethnic, in particular Tibetan, minorities;
  - ensure that in its continuing political dialogue with China, both the principle of a peaceful, balanced, multipolar world and the primacy of the United Nations Security Council's role are acknowledged as the most important guarantees of global peace, security and stability.

## *Explanatory Memorandum*

*(submitted by Mr Baumel, Chairman and Rapporteur)*

### *I. Introduction*

1. The Presidential Committee paid a visit to China in September 1999. In terms of State protocol, the Committee was treated with the utmost consideration, which suggests interest on the part of the Chinese authorities. There were three dimensions to the visit: political dialogue, the state of play as regards the economy and technology and historical and cultural aspects including leisure. The impression gained was that, in the political arena, the Chinese wished to go no further than preliminary contacts, which prevented more in-depth exchanges of ideas from developing or a firming up of views in certain areas. Be that as it may, the talks made it possible to outline a programme for the future.

2. During the visit, the Presidential Committee met:

- the Chairman of the Standing Committee of the National People's Congress, Mr Li Peng;
- the Deputy Foreign Minister of China, Mr Wang Yingfan;
- the Vice-Chairman of the Standing Committee of the National People's Congress, Mr Jian Chunyun;
- the Vice-Chairman of the State Central Military Committee, Mr Chi Haotian;
- the Chairman of the Standing Committee of the People's Congress of Qingdao, Mr Sun Bingyue;
- the Chairman of the Standing Committee of the People's Congress of Shanghai, Mrs Chen Tiedi;
- the Chairman of Shanghai Jinqiao Limited Corporation.

The following paragraphs provide an insight to the impressions gained on the visit.

### *II. Economic development*

3. At present, China is focusing mainly on development of its domestic economy. Visits by the WEU Assembly's Presidential Committee to Qingdao and Shanghai showed an economy expanding exponentially, with a strong current of

investment and explosive growth in urban areas. With a potential market of some 1 200 million consumers, almost any commercial venture seems to promise success, especially at a time when modern infrastructure is starting to emerge.

4. However, appearances may be deceptive. The State Statistics Bureau has postulated a GDP growth rate of 7.8% in 1998, slightly below the target figure of 8%, suggesting that government policy has offset most of the adverse aspects of the Asian economic crisis and weak domestic demand. The target for GDP growth rate in 1999 was 7%. Most experts consider the figures for Chinese economic growth to be overstated by at least 2% and in addition point out that these may need to be revised downwards by a further 2% as there are no buyers for many products and some 2-3% growth is accounted for simply by a natural increase in the labour force<sup>1</sup>. When such factors are taken into account, the official growth rate dwindles virtually to zero.

5. Addressing the National People's Congress (NPC) on 5 March 1999, Prime Minister Zhu Rongji declared that although in 1998 economic growth rate targets had been largely achieved, the economic order in the country was in disarray, financial discipline lax and market demand feeble.

6. Notwithstanding the impressive development of the Chinese economy, especially in the economic development zones, the problems that could lead to a serious economic crisis are many. China's influence in the global market has until now been insignificant and it cannot make use of investment, high-technology products or control of a leading-edge industry to dominate sectors of the world market. Recent economic growth has been more dependent on resource use than on enhancing productivity through high technology. If China does not focus far more on the acquisition and exploitation of high technology, economic development may soon run out of steam.

7. The present performance of China's science and technology sector is not due solely to a lack of resources but also to institutional and

<sup>1</sup> *The Economist*, 2 October 1999.

systemic constraints that will take a long time to dismantle.

8. Mention should also be made of the following problems which are likely to have a negative impact on the economy sooner or later: declining government revenues, a fragile banking system, corrupt business practices, growing unemployment and a large number of debt-ridden industrial giants.

9. In order further to develop and consolidate itself as a credible and effective economic power China will need to reform its political, institutional and social infrastructure.

10. Some years ago, when inflation was the major threat to China's economic growth, the government saw the example of South Korea's *chaebols*<sup>2</sup> as a solution to its problems and started to transform the state sector into a number of conglomerates in which the profits of the small consumer-oriented companies would help huge "lame ducks" survive until such time as the technological revolution brought about their miraculous resurrection. The Asian crisis, accompanied by the failure of the Korean *chaebol* concept and the reduction of China's trade surplus, has forced the government to rethink its policy.

11. The manufacturing industry as a whole has to be privatised. It is continuing to absorb more and more savings, without paying taxes and while producing huge amounts of low-quality products which merely add to existing stocks and increase deflationary pressures. However, this would mean the end of the Chinese version of the Communist Party which keeps its hold over the privileged urban population by allowing only limited access to cities and their services, and guaranteeing life-long jobs and marked social progress.

12. Under the current system, state-owned companies have special relationships with private companies owned by former government officials. Such relationships tend to lead to the formation of monopolies and to eliminate competition and breed corruption.

13. Very little has been done to transform the inefficient state-owned companies that will be a

<sup>2</sup> Conglomerates of large numbers of companies clustered around a holding company. They are highly centralised and spread horizontally across the field of industrial activity.

growing burden on the economy. When Prime Minister Zhu Rongji came to office in March 1998, he promised to shut down most of China's non-performing state industries within three years. However, because of fierce opposition from conservatives, his efforts have to date met with little success. In the last week of September 1999, after the meeting of the Party's Central Committee, the *People's Daily* continued to reaffirm that privatisation of large state enterprises was not an option. The September 1999 report of the Communist Party's Central Committee has now pushed the three-year deadline back to 2010. Another reason for the decision was to minimise the number of workers being made redundant. Moreover, the political leadership also regards it as a way of increasing consumer spending and tackling spiralling deflation. The state-owned sector accounts for 41.9% of the economy, as against 56.2% in 1978. According to official statistics released in August 1999, 39.1% of state-owned concerns are losing money.

14. There are also huge problems with the banking system. The banks have been ordered by the government to grant loans to totally inefficient state companies that report profits while in fact making losses and living off new bank loans to pay workers and old debts. The state sector consumes about 70% of loans but contributes less than half of GDP. Many property development loans are lost through building activity that is wholly speculative – it is reported that in Shanghai alone around 70% of office space stands vacant.

15. In 1998, the government ordered banks to make an additional US\$ 12 billion in loans, most of which were used to support state-owned companies or to create unnecessary capacity. The much-needed reform of those companies is being postponed because the government is worried about the consequences of many more millions unemployed without a welfare safety net.

16. Experts estimate the number of unemployed in China's urban areas at some 16 million, and many more millions of unemployed workers are migrating into the cities from the countryside. The inability of the state-owned companies to pay their workers is a source of instability in the "rust belt" that stretches from the far north-east in Heilongjiang through Xian to Wuhan, Chengdu and Chongqing. The fact that these companies are unable to repay credit

means that loans of some US\$ 500 million, or at least 25% of all bank loans, are unperforming.

17. The four big state-owned banks are in a desperate situation because of this accumulated bad debt. In an effort to clean up the banking sector, the Chinese Government has already established two asset management companies – China Orient Asset Management (for the Bank of China) and Cinda Asset Management (for the China Construction Bank) – in order to prevent those banks being bankrupted by bad debt accumulated during years of state-directed lending. It is still, however, open to doubt as to whether they can change the habits of managers trained to fill quotas in a centralised economy rather than to earn profits.

18. Another major problem for the government is that Chinese consumers do not spend enough. They save around 40% of their income in bank accounts because they lack confidence in economic development. Many people are afraid that their jobs in the over large and inefficient state-owned companies may be wiped out and that they are no longer guaranteed pensions, subsidised healthcare and housing.

19. Not surprisingly, the situation as described above has led to growing reluctance to commit on the part of foreign investors. Foreign investment in China is expected to fall to about US\$ 27 billion in 1999 from about US\$ 40 billion in 1998.

20. In 1978, Deng Xiaoping declared that henceforth economic construction would take precedence over the class struggle. The question remains whether China's Communist Party will be able to manage the necessary political transformation in the coming years as successfully as it managed economic transformation over the past twenty. For the time being, the Party sees itself as the only body capable of directing the country.

21. Economic reform in China has now reached a stage where not only economic, but also social and political resources will need to be reallocated. With the abandoning of the planned economy in favour of a more capitalist market economy, there is no longer equal distribution of benefits and earnings. The interests of those who benefit most do not necessarily coincide with the interests of the state. Tens of millions of workers

are already unemployed as a result of the attempt to streamline state enterprises.

22. The State will have to mediate between rich and the poor if it wants to avert social disaster. It seems that the Communist Party and the State are incapable of doing so given that they are afraid to introduce even such basic devices as genuinely democratically contested elections, a free press and an independent judiciary.

### *III. Human rights and political freedom*

23. In September 1998, Prime Minister Zhu Rongji came out in favour of freedom of speech and of association. However, in November 1998, Li Peng, Chairman of the National People's Congress and the second-highest official in the country, emphasised that the Communist Party would not tolerate any political opposition.

24. Since 1978, significant political changes and improvements in human rights observance have taken place in China, but last year the government again clamped down on human rights and introduced tighter control over access to the Internet and foreign news. On 5 May, it ordered dozens of illegal and licensed cable TV stations to remove foreign satellite programmes from their services. Many similar activities formed part of the government's policy of keeping a tight grip on the media in the run-up to the tenth anniversary of the Tiananmen Square massacre. The authorities are clearly determined to draw a distinction between the approved use of the Internet and its use for "improper purposes" which includes the spreading of "subversive" political ideas. The government has also set up a special taskforce to monitor use of the Internet and to block sites deemed undesirable. Analysts have doubts whether it is technically possible to restrict the exchange of political information completely. Most of the authorities in power are afraid that a new opposition party would make common cause with the many unemployed to form a rival social democratic party.

25. The China Democratic Party, established in 1998, called on the Communist Party to allow the introduction of a political opposition. In December of that year, one of its proponents, Wang Yucai, was charged with subversion and given an 11-year sentence. Two others received sentences of 13 and 12 years respectively and nearly all



party leaders have now been arrested and tried or are awaiting trial.

26. In a report published on 20 April 1999, Amnesty International accused the authorities in Xinjiang of "gross and systematic human rights violations", alleging that they had routinely arrested, tortured and executed ethnic Uighurs in the region as part of a systematic campaign to keep the population and separatist terrorist organisations under control.

27. Falun Gong, a movement based on a spiritual theory developed in the early 1990s which draws on a blend of traditional Chinese exercises and Buddhist and Taoist religious beliefs, was declared an illegal organisation by the government in July 1999, on the grounds that it was a cult with political ambitions to subvert the power of the Communist Party. Since then, the government has been conducting a campaign to wipe out what it has described as an "evil sect" through the "re-education" of its erstwhile members and spells in detention or labour camps for those continuing to practise their beliefs. Since the end of September 1999, an estimated 3 000 Falun Gong supporters have been arrested. Their total number is unknown but is said to be between 2 and 10 million throughout China.

28. On his recent visit to China on 16 November 1999, United Nations Secretary-General Kofi Annan declared that the Chinese Foreign Minister had assured him that the "fundamental rights" of Falun Gong practitioners were being observed<sup>3</sup>.

29. Compatibility between a communist regime and a market economy appears to be fairly hard to maintain and time will tell in this connection how the regime and its structures evolve in the face of changes in society and attitudes. In any event, the challenge is enormous and one that will be watched closely around the world, as it is not clear for the time being whether China will move in the direction of social democracy or towards creeping economic liberalism under an authoritarian regime.

30. On the other hand, many officials admit informally<sup>4</sup>, and it was also acknowledged during the Assembly's Presidential Committee visit, that some change will be necessary. Some reformers

<sup>3</sup> *International Herald Tribune*, 17 November 1999.

<sup>4</sup> "China at fifty", *The Economist*, 2 October 1999.

back attempts to give the party-directed judiciary more independence. Li-Peng, by no means a liberal, supports attempts by the state media to uncover corruption and government wastage. In the villages, village leaders are elected, but outside the villages experiments in accountable government have largely been shelved.

31. The present leadership is clearly aiming for a stronger state role. It is trying to steady the economy through better control of what remains in state hands. Will Prime Minister Zhu Rongji succeed in saving the regime without the party or state property, as seems to be his aim?

32. President Jiang Zemin, on his recent state visits to the United Kingdom and France defended China's human rights record, saying that China was moving towards democracy, but that it was important to preserve social stability. He described an EU report on human rights as "interference in the internal affairs" of China, adding that democracy was not an absolute concept, but one that was "relative to the characteristics of each country"<sup>5</sup>.

33. Earlier, on 23 April 1999 at the UN Commission on Human Rights in Geneva, China succeeded in defeating a US-sponsored resolution condemning its human rights record. A no-action motion was adopted by 22 votes to 17 with 14 abstentions, which meant that the resolution could not be debated or voted on.

#### *IV. Relations with neighbouring countries*

34. China's relations with neighbouring countries are no longer basically guided by ideology and the emphasis is rather on developing friendly ties with them regardless of ideological conviction. After the collapse of the bipolar world, China realised that the development of regional or sub-regional blocs could afford new opportunities for dealing with the West and in particular a possibly hegemonistic United States. Chinese policy in the region therefore aims to create an environment conducive to China's own economic modernisation and national security.

35. China's policy towards surrounding countries has a twofold objective: to settle border disputes through consultation and negotiation and to prevent alliances between its neighbours and outside hostile powers. This policy has obviously

<sup>5</sup> *International Herald Tribune*, 26 October 1999.

been shaped by the dynamics of China's relations with global powers, in particular the United States, and by the interaction between China itself and regional rivals such as Japan and India.

36. With these aims in view, China has normalised and improved its relationship with Russia, India, Mongolia, South Korea, Pakistan and other countries of the region. It also became a full dialogue partner of ASEAN in 1994.

37. China has always taken a firm line on the disputes involving the "lost" territories of Hong Kong, Macao and Taiwan, arguing that both ethnically and historically the people of those territories are Chinese. Hong Kong reverted to China in 1997 and Macao will do likewise in December 1999. Taiwan's case is more complicated and will be discussed in the next chapter.

38. China is still involved in several border disputes with a number of countries in the region – with Vietnam over the demarcation of the Tonkin Gulf and with Japan over the Senkaku Islands, a group of islets on the edge of the continental shelf, northeast of Taiwan.

39. The most important multilateral dispute concerns the Spratly Islands situated in a region of great natural potential, whose resources include oil deposits. China maintains that its maritime borders run from Taiwan south-westwards along the coast of the Philippines, East Malaysia and Brunei and northwards, roughly along the coast of Vietnam. These extensive territorial claims in the South China Sea may even extend as far as Indonesia's gas-rich Natuna Islands at the eastern entrance of the Malacca Strait. Recently, China concluded a bilateral agreement with Malaysia and is courting Thailand which has no claims in the South China Sea. The Philippines, Brunei, Vietnam and Indonesia dispute China's claims and are trying to resist Chinese strategic pressure in the South China Sea.

40. In 1988, Vietnam was involved in a military spat with China over the Paracels Islands, which China seized from Vietnam in 1974, and still occupies most of the Spratly Islands. The Philippines has stepped up its claims to the islands and has protested against Chinese construction activity on Mischief Reef. In early 1995, China started building on Mischief Reef arguing, in response to protests from ASEAN countries, that the constructions were fishermen's shelters. Tensions eased when, later that year,

China and the Philippines signed a "code of conduct". In late 1998, however, China again stepped up its activities on and around the reef. The Philippines now accuses China of having turned the reef into a high-tech military base. Many observers argue that Mischief Reef is another stepping stone in China's slow naval progress down the South China Sea. China, however, is not prepared to give up its claims to sovereignty over the islands and it would appear that the crisis in East Timor has led to a hardening of its position (see Chapter XV).

41. China is unlikely to give up its overall claim to sovereignty over most of the South China Sea. However, political analysts tend to argue that such extensive territorial claims are based primarily on emotion and ideology, rather than on any national assessment of the country's oil and gas requirements.

42. There appears to be no consensus among the various factions in China about the formulation of a policy for the South China Sea, but nor is there much indication at present that China is prepared to enforce its claims through aggressive military means.

43. President Jiang Zemin had already stated, on a recent visit to Thailand, that "China is ready to have in-depth discussions with the relevant ASEAN countries on the principles and ways of safeguarding peace and stability in this region, as well as in the South China Sea"<sup>6</sup>. China is, however, opposed to referring any of its claims to the International Court of Justice or the International Tribunal for the Law of the Sea.

44. Understandably, China's refusal to consider multilateral negotiations or arbitration to resolve the dispute, while at the same time modernising its naval, amphibious and air forces, is causing concern to ASEAN countries.

45. At the Association of South-East Asian Nations summit meeting in Manila at the end of November 1999, ASEAN political leaders might adopt a code of conduct forbidding claimants to the disputed Spratly Islands from using force or the threat of force, or expanding their presence there. China would be asked to sign the code.

46. China's relations with Japan are not without their difficulties. During the first half of the

<sup>6</sup> *International Herald Tribune*, 22 November 1999.

century the two were deadly enemies and Japan for many years occupied large tracts of Chinese territory. Since the end of the second world war, Japan has consistently cultivated a close relationship with the United States – which includes far-reaching security arrangements – to protect itself against China.

47. In 1978, the two countries signed a peace treaty. However, notwithstanding a relationship that is to all appearances a friendly one, mistrust between them is engrained, although they are aware that there is no alternative but for them to get along with one another. As a result, both strive constantly to contain the other's influence.

48. China is trying to discourage Japan from aspiring to regional leadership or taking a bigger political role in the world. It is opposed to Japan developing into an important military power and has criticised recent moves to strengthen military ties between Japan and the United States. Japan does not want the Taiwan Strait to be excluded from its security agreement with the United States and refuses to meet Chinese demands regarding Taiwan. Japan is also reluctant to make large-scale investments in China because it does not want to further the development of a potential rival.

49. China's relations with India have improved since the military clash in 1962 which brought them to an all-time low. In 1993, the two countries signed an agreement on maintaining peace and tranquillity and an agreement on confidence-building measures was signed in 1996, with President Jiang Zemin visiting India in the same year. Nevertheless, there are still issues causing tension in Sino-Indian relations.

50. For example, India is concerned about China's close relationship with Pakistan and the fact that it has provided the latter with the technology to develop its missile programme further. India suspects China of using its relationship with Pakistan as a brake on Indian influence in the region. Furthermore, China has an on-going border dispute with India over the south-eastern Himalayas and the Aksai Chin plateau.

51. Finally, there is unease between the two countries over Tibet. India, while officially recognising China's claim to Tibet, allowed the Dalai Lama and the exiled Tibetan Government to establish themselves in India and campaign for independence.

52. China needs help from Asia's newly industrialised countries in terms of capital investment and expertise in modernisation.

53. There is no doubt that at present China's first priority is its own economic development. Notwithstanding its rhetoric about using force to achieve its political ambitions in the neighbourhood, it is aware that a military conflict would seriously damage opportunities for essential co-operation with other countries in the region.

#### *V. Relations with Taiwan*

54. China's relationship with Taiwan is a very sensitive issue. The Chinese position is that there is but one China of which Taiwan is a part. China has gradually shifted its policy from liberating Taiwan by force to peaceful reunification according to a "one country, two systems" formula. This change of attitude stimulated the development of economic relations and trade across the Strait rose from US\$ 5 billion in 1990 to US\$ 25 billion in 1997. Political relations, however, remained officially non-existent and hostile.

55. There are no direct government-to-government links between China and Taiwan and communications between them take place through the Association for Relations Across the Taiwan Strait (ARATS) in Beijing and the Straits Exchange Foundation (SEF) in Taipei.

56. After six years' contact through these non-official bodies, the two sides have yet to get a dialogue on security matters off the ground or even to reach agreement on more down-to-earth issues such as fishing disputes or the repatriation of illegal immigrants.

57. China's policy as regards Taiwan can only be fully understood in the context of the US policy towards the island which, during the cold war especially, the United States regarded as a stronghold against communism. When, in 1972, the United States started to cultivate more cordial relations with China, it published a communiqué jointly with China in which it "acknowledged that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is part of China".

58. In January 1979, the United States broke off diplomatic relations with Taiwan and recognised the People's Republic of China. However, the Taiwan Relations Act passed by the US Gov-

ernment that same year allowed it to protect Taiwan while engaging with China, and to continue to sell arms of a “defensive character” to Taiwan. In the years that followed, Taiwan gradually made a successful transition from one-party authoritarianism to multi-party democracy and the first free and open parliamentary elections were held there in 1992. The first direct presidential election was held in 1996, when Lee Teng-hui was elected president by a wide margin.

59. The events in Tiananmen Square in 1989, continuing repression of political dissenters and other failings in China’s record on human rights and democracy were viewed askance by the US Congress and resulted in greater support for Taiwan in the 1990s. Notwithstanding a US-China agreement signed in 1982 whereby the United States would gradually reduce its arms sales to Taiwan, weapons supplies from the US grew in volume and improved in quality in the 1990s and through them, and other weapons sales and technology transfers, Taiwan is now better armed than ever with state-of-the-art equipment in each of its three armed services.

60. In October 1997, the US Government issued a new statement of policy limiting its support for Taiwan, summed up in “three no’s” and reiterated by President Clinton during his visit to China, on 30 June 1998: “[we] don’t support independence for Taiwan, or two Chinas, or one Taiwan – one China. And we don’t believe that Taiwan should be a member of any organisation for which statehood is a requirement”.

61. Members of the US Congress concerned about the Clinton Administration’s policy on Taiwan have put forward the Taiwan Security Enhancement Act, which seeks to enhance Taiwan’s self-defence capability – in the words of its sponsors “in the face of the People’s Republic of China’s unprecedented military build-up”. The Act would, *inter alia*, establish direct communications between the US military and Taiwan. It also authorises Taiwan’s inclusion in a possible theatre missile defence system. Congress has, however, decided to postpone consideration of the Taiwan Security Enhancement Act until next year.

62. China, is opposed to the Act because, if adopted and implemented, it would, *de facto*, include Taiwan in a US-led military alliance, restore the 1954 US-Taiwan Mutual Defence

Treaty – abandoned when the US normalised its relations with China – and gradually overturn the present *status quo* in the Taiwan Strait.

63. The Chinese Government also considers Taiwan’s possible inclusion in a US-sponsored theatre missile defence system a very serious matter because it would upgrade Taiwan to a *de facto* US protectorate, ignoring China’s sovereignty claims and the progress that has been made in accommodation and towards reunification.

64. In a wider perspective, the Chinese Government is fiercely opposed to the deployment of a US-sponsored Asian theatre missile defence system, regarding this as part of an aggressive policy of containment by the United States which could result in a dangerous arms race in the region.

65. Despite the US’s protective and generally supportive attitude towards Taiwan, the country is nevertheless losing official international recognition. In July 1999, diplomatic relations extended to only one European country, FYROM, and 27 others in the rest of the world – mostly small and impoverished nations, largely won over by offers of substantial aid. Taiwan is, however, a member of a number of international organisations and China has agreed to Taiwan’s entry into the WTO as a “customs territory”, subject only to the condition of its own prior accession. Taiwan’s efforts to rejoin the United Nations and its affiliated organisations have, however, failed.

66. Although it may be difficult for most outsiders to appreciate, there are more shades to the debate in Taiwan on its relations with the People’s Republic of China (PRC) than distant observers tend to think. Having hotly debated independence versus reunification in the early 1990s, the main political parties – the ruling Kuomintang (KMT) and the opposition Democratic Progressive Party (DPP) – are now moving towards a joint form of words emphasising Taiwan’s political independence from the PRC (but not necessarily from China as a civilisation or nation) and maintenance of the *status quo* across the Strait. Also, there is general agreement that the Republic of China (Taiwan) has been an independent, sovereign state since it was founded in 1962 and that the PRC has never exercised governing authority over the island or collected taxes from its population. An important difference between the parties, however, is that the DPP supports a referendum to approve any

change in Taiwan's current status, while the KMT argues that reunification with China is the ultimate objective, but one that can only be achieved once China becomes a democratic country and reaches a standard of living comparable to that of Taiwan.

67. The bottom line is therefore that the preference of the overwhelming majority of the population of Taiwan lies in maintaining the *status quo*, either indefinitely or permanently. The people reject reunification with the PRC under the "one country, two systems" model advocated by Beijing.

68. On 9 July 1999, relations between China and Taiwan again deteriorated when President Lee Teng-hui declared that in future contacts between them should be conducted on a "special state-to-state" basis. China immediately warned Taiwan that it was playing with fire and made clear that it was prepared to use force to recover Taiwan.

69. The reactions from both the Chinese and US Governments made clear that neither was happy with President Lee's remarks. In Taiwan, responses were mixed. Taiwan's Mainland Affairs Council stated that the Government had no plans to revise the Constitution, under which Taiwan is now considered part of China. At the same time, it emphasised Taiwan's commitment to dialogue with Beijing and peaceful resolution of the cross-Strait dispute<sup>7</sup>.

70. President Lee backtracked to an extent on his earlier pronouncements in making clear that special state-to-state relations did not mean there were two states<sup>8</sup>. On 28-29 August 1999, the National Congress of the KMT adopted a resolution stating that relations between the two sides of the Strait must be defined as special state-to-state relations, thus opening a new era for the two parties<sup>9</sup>.

71. In recent years, China has grown increasingly dissatisfied with the present situation in which Taiwan appears to be moving away from China, while steadily modernising and strengthening its armed forces. The Chinese military establishment is using developments in Taiwan

as leverage for modernising China's armed forces. Now that the Chinese Government has succeeded in bringing Hong Kong and Macao back under Chinese sovereignty, it no longer seems willing to delay resolution of the Taiwan problem indefinitely.

72. China has repeatedly threatened to use military force in order to reunify Taiwan with mainland China. Missiles were fired into the Taiwan Strait and recently, in September 1999, during the WEU Assembly delegation's visit, amphibious landing exercises were held on the mainland coast to show off China's capability. According to a classified US Defense Department report leaked to the press on 10 February 1999, the Chinese armed forces had between 150 and 200 missiles aimed at Taiwan deployed in its southern region. The report claimed that China planned to increase the number of missiles to 650 over the next few years.

73. Would China be capable of invading and conquering Taiwan by military force? As matters stand now, there is no doubt that China's armed forces in no way match Taiwan's state-of-the-art forces armed with leading-edge equipment, largely acquired in the United States and France. All the deficiencies mentioned earlier and experience deriving from recent operations point to the inadequacy of the People's Liberation Army in resolving the Taiwan issue by force.

74. China's M-9 and DF-21 missiles can hit targets in Taiwan only to within an accuracy of 100 metres, although high-accuracy cruise missiles are expected to be deployed by 2005. However, missiles are not enough to conquer Taiwan militarily. The M-9 and DF-21 missiles have not been integrated into an effective battlefield command and control system. At the moment, the Chinese navy and air force lack the capability to mount an amphibious assault. It is estimated that China could mount and transfer an invasion force to Taiwan consisting of one reinforced infantry division and one division of paratroopers, which falls far short of the 300 000 troops needed to overrun a beach.

75. In short, all the signs are that there will be no violence: the financial and commercial ties between the partners are strong and no-one would dream of breaking them off. Taiwan's total investment in China is US\$ 46 billion with roughly 46 000 Taiwanese-funded enterprises

<sup>7</sup> *Wall Street Journal Europe*, 3 August 1999.

<sup>8</sup> *Defense News*, 30 August 1999.

<sup>9</sup> *Le Monde*, 3 September 1999.

operating in China today. China is looking forward to more of the same. Nor does the United States want to provoke a major crisis between Taiwan and China.

76. On 2 September 1999, at a hearing for his appointment as European Commissioner for External Relations, Chris Patten said it was important to reduce tensions between Taiwan and Beijing, adding "What matters is that reunification should be voluntary, peaceful and by agreement between the two sides".

77. In conclusion, therefore, notwithstanding its strong language and threats to use military force, China is aware that only continuing improvement in its relations with Taiwan can ensure the regular flow of investment from the Chinese diaspora that is needed to counteract the tendency for national savings not to be converted into consumption.

#### *VI. Relations with Russia*

78. Over the last decade, China's relations with Russia have improved dramatically – partly because both countries had parallel interests. Each was involved in a process of economic reform and had a common interest in security and internal stability. Moreover, both were worried about the United States' behaviour in world affairs and trying to establish themselves as counterweights in a world apparently dominated by the United States.

79. A twice-yearly summit meeting system at presidential and prime minister level initiated in 1992, has been institutionalised and what was originally known as a "constructive partnership" is now referred to as a "strategic cooperative partnership". After the November 1997 Summit, an agreement was reached on the eastern section of the Sino-Russian border.

80. Recently, on 1-3 June 1999, Russia's Foreign Minister, Igor Ivanov, paid an official visit to China. In a joint communiqué after the visit, both sides pledged to strengthen their strategic cooperative partnership. They also confirmed they had reached a final agreement on the demarcation of a common border between the two countries, announcing that the relevant legal documents would be signed shortly.

81. Military cooperation between the two countries has also improved considerably. Most

of China's new military equipment has been or is being acquired in Russia. China bought Sukhoi 27 (equipped with AA10 intermediate-range and AA11 short-range missiles) and Sukhoi 30 fighter aircraft, JL-76 AWACS-type aircraft and Phazotron Zhuk II radars for its airforce while the Chinese navy acquired Russian Sovremenny-class destroyers and Kilo-class submarines, and a modernisation programme for Romeo-class submarines in cooperation with Russia is under way. China also ordered SS-N-22 anti-ship missiles for its destroyers, and acquired Russian air-portable armoured vehicles and a production licence for the Russian RPO-A Shmel rocket launcher.

82. Because of the country's urgent need for cash, the Russians had little choice other than to sell this equipment, but they are not completely confident about possible long-term developments. A modern Chinese army could represent a future threat.

#### *VII. China's relations with the United States*

83. Owing to a number of recent events, relations between China and the United States have become strained. China is worried about the increased role of an expanding NATO at the expense of the UN Security Council. It is dissatisfied with the prospect of a US-sponsored theatre missile defence system in East Asia, in particular in Taiwan and Japan, with increased US arms sales to Taiwan and the strengthening of US defence links with Japan and South Korea. China points out that, at the same time, the United States, in the name of regional stability, is requiring it to comply strictly with international arms control agreements.

84. China is worried about US policy in Kosovo and afraid it may serve as a precedent if China decides to take action in regions where there is growing ethnic unrest, such as western Xinjiang and Tibet, or to assimilate Taiwan by force.

85. In 1978 Deng Xiaoping launched his modernisation initiative to transform China into a strong, unified and wealthy nation whose all-round national strength would make it respected worldwide and dominant in Asia. Modernisation was concentrated in the fields of industry, technology, agriculture and the armed forces. The United States is aware that China's emerging economic, military and political power has the

potential, sooner or later, to challenge vital US interests on a number of issues and destabilise existing regional security. Clearly, recognition of China as the foremost power in Asia could only take place at the expense of US influence in the region.

86. Since the events in Kosovo, where NATO acted without a UN mandate to stop human rights' violations by the Yugoslav Government within its own territory, the Chinese military, like the country's politicians, are worried about possible US military action in East Asia. With its recent Kosovo experience in mind, the Chinese leadership considers US behaviour less predictable than during the cold war. It is worried that the Americans might take action against North Korea or in the Taiwan Straits. At the same time, the Chinese military tends to think that the US is using NATO as an instrument for possible crisis-intervention in Europe and its Defence Treaty with Japan in the same way in Asia. A Chinese military expert concluded tersely that, in his opinion, the US objective was "to create in the 21st century a Roman-style imperial system under US domination, slowing the emergence of a multipolar world, extending unipolar domination and actually making itself into the latest global emperor in human history"<sup>10</sup>.

87. Notwithstanding the rivalry that exists between China and the United States, the Chinese are apparently fascinated by the United States as a blueprint for their own development into a modern, industrialised society.

88. Opinion polls among China's younger generation have consistently shown that they regard the United States as the nation that is most hostile to China, but at the same time the United States was considered the most desirable overseas country to visit and study.

89. The Chinese leadership knows full well that the truly decisive battles are the economic ones that take place on the American market, which in the absence of any protective barriers for the past five years or more, have been absorbing most of China's commercial surplus.

90. US Secretary of State Madeleine Albright paid an official visit to China from 28 February to 2 March 1999. Relations between the two

countries had deteriorated over human rights, trade relations, the banning of US satellite sales to China and US plans for a theatre missile defence (TMD) system for Asia.

91. In its annual report on human rights published on 26 February 1999, the US State Department asserted that the Chinese authorities' record on human rights had worsened during 1998. China accused the United States of meddling in China's internal affairs by "fabricating unwarranted charges". The United States was displeased at the crackdown on organised dissent and the Secretary of State called for the release of a number of political prisoners. Nevertheless, Mrs Albright confirmed that the United States was maintaining its policy of not linking human rights and trade issues.

92. Prime Minister Zhu Rongji paid his first official visit to the United States on 6-14 April 1999. On that occasion, President Clinton delivered a conciliatory address, stating that bringing China into the World Trade Organisation was definitely in the interests of the United States. Both leaders stated that they were committed to an agreement on this issue before the end of the year.

#### *VIII. Relations with the European Union*

93. China is aware of the existence of the EU and of its economic importance. On the other hand, it does not have a very high opinion of its role in world politics. China thinks that, particularly in security and defence matters, Europeans are much too tied to the United States' apron strings.

94. The intricacies of the development of a European Common Foreign and Security Policy (CFSP) and NATO's role in that framework may be difficult for China to understand – let alone exactly what is involved in the process of merging WEU with the EU. At the moment, it would appear that China is trying to use Europe and the EU in its contest with the United States. One of the clearest messages transmitted to the WEU Assembly's delegation was that Europe should not stand for a unipolar world in which the only power to decide right from wrong is the United States. Europe should have its own policy and make its own contribution to establishing and maintaining a multipolar world. It should also make every effort to bolster the United Nations Security Council's unique authority in crisis-prevention and management.

<sup>10</sup> Peng Guangqian as quoted in the *Wall Street Journal*, 15 September 1999.

95. The European Union makes play of the fact that China is now its third most important non-European trading partner while the Union is itself China's third largest trading partner.

96. The Union's main objective is for China to be integrated rapidly and fully into the international community, both politically and economically. It supports the process of economic and social reform underway in China and backs China's transition to an open society based on the rule of law and respect for human rights, believing this will benefit China's development and lead to greater global stability. It also wants China to be more integrated into the world economy and play a full part in the world trade system.

97. The European Union is committed to comprehensive engagement with China and political dialogue between the two is being enhanced both bilaterally and through Asian and global fora. The first EU-China Summit was held in London in April 1998 at heads of government level, putting EU relations with China on a par with those with the United States, Japan and Russia. The second EU-China Summit took place in Beijing. The EU's strategy is laid out in a policy document entitled "Building a Comprehensive Partnership with China", which was endorsed by the EU's fifteen governments in June 1998. In October that year, Commission President Jacques Santer cemented the new relationship during his official visit to Beijing.

98. The European Union, while welcoming some positive developments with regard to China's involvement with UN human rights mechanisms, has remained critical of continuing large scale violations of human rights in China. In particular, the action taken against political dissidents in China as well as the issue of the death penalty have placed a great strain on the EU-China dialogue on human rights. The European Union has continued to pursue this dialogue with China of which the most recent round took place in Berlin in February 1999. A third legal seminar took place in Bonn in May 1999. The European Union wishes to make the dialogue more concrete and oriented towards progress on the ground.

99. The European Union aims to broaden the scope of its political dialogue with China so as to address issues of global interest such as the fight against drug trafficking, money-laundering, or-

ganised crime, and illegal immigration, all areas where EU competence has been enhanced under the Amsterdam Treaty<sup>11</sup>.

100. Europe and China also cooperate closely through the ASEM (Asia-Europe Meeting) process, launched in Bangkok in 1996. This is now a broad forum for in-depth consultations between European and Asian partners and has prompted a wide series of cooperation initiatives. China has been particularly active in all ASEM economic cooperation initiatives and is organising the second ASEM conference on human rights in Beijing in 1999.

### *IX. The role of the United Nations*

101. At the yearly UN General Assembly meeting, China's Foreign Minister, Tang Jiaxuan, declared that respect for national sovereignty and non-interference in another country's affairs were "the basic principles governing international relations" and that any deviation from this principle could lead to a new form of gunboat diplomacy that would wreak havoc<sup>12</sup>. According to Foreign Minister Tang, the outbreak of war in Kosovo had sounded a universal alarm.

102. China attaches great importance to the United Nations Security Council as a hedge against possible hegemonic behaviour on the part of the United States and a guarantee of a multipolar world.

### *X. Spy case*

103. A US Congressional Committee report, the Cox Report, claimed that, over the previous two decades, China had improperly and systematically acquired valuable technology with possible military application from the United States. The report contained allegations that China had procured rocket and missile technology by conducting commercial satellite launches for US companies. It also claimed that China in the 1980s had stolen nuclear weapons technology from the US Energy Department's laboratories in order to develop a neutron bomb.

104. On 6 March 1999, the *New York Times* published a report claiming that a Chinese-American scientist, Wen Ho Lee, working at the

<sup>11</sup> Memorandum by the European Union at the 54th United Nations General Assembly.

<sup>12</sup> *International Herald Tribune*, 24 September 1999.



Los Alamos nuclear weapons laboratory in New Mexico, had helped China develop the W-88 miniature nuclear warhead. This intelligence provided China with the capacity to deploy multiple warheads on its new-generation mobile intercontinental ballistic missiles by 2002. Publication of the report led to the dismissal of Mr Lee from the Los Alamos laboratory for alleged security violations. Further claims, published on 8 April, alleged that China had stolen vital neutron bomb data from the United States as early as 1995.

105. A declassified version of the Cox report was eventually released to the public on 25 May 1999. The report strongly criticised two US commercial satellite manufacturers, Loral Corporation and Hughes Electronics, for breaching US export regulations by supplying China with rocket-launch technology which had military applications.

106. The Cox Report claimed that the alleged espionage had given China the potential to build a weapons programme "on a par" with US technological abilities, but the extent of the intelligence losses was questioned by analysts.

107. In the meantime, the FBI has found new evidence which does not entirely exonerate the Los Alamos laboratory or Mr Lee but suggests that the most likely origin of the information is one of the weapons "integrators". This new analysis of the case was said to have provided convincing evidence that China could have obtained classified information about the W-88 and other US nuclear warheads<sup>13</sup>.

#### *XI. The bombing of the Chinese Embassy in Belgrade*

108. On the evening of 7 May 1999, the Chinese Embassy was hit by bombs dropped by a US Airforce B-2 stealth bomber. These destroyed a part of the embassy building killing three Chinese citizens and injuring 20 others. China reacted with anger. There were major protests in Beijing and elsewhere in the country, endorsed by the Government, and a mob burned the home of the US Consul-General in the city of Chengdu. China accused NATO of pursuing "absolute gunboat diplomacy" in Yugoslavia and called for an official NATO apology. The word was that China expected significant concessions on mili-

tary, trade and diplomatic issues to get the relationship between China and the United States back to normal<sup>14</sup>.

109. On 14 May, President Clinton delivered a personal apology and explanation for the Embassy attack to President Jiang Zemin. Later, on 16-17 June, a US delegation led by Under-Secretary of State Thomas Pickering visited Beijing to provide an official explanation of the bombing. President Clinton's apology, which claimed that it had been a "tragic mistake", was repeated. Under-Secretary of State Pickering asserted that human error, faulty databases, outdated maps and a failed target review process had caused the "accident". China's Foreign Minister Tang Jiaxuan rejected the US explanation as "not convincing" and demanded that those responsible be severely punished.

#### *XII. Present state of China's armed forces and their modernisation*

110. Notwithstanding the fact that the People's Liberation Army (PLA) is the largest in the world, it appears incapable, both doctrinally and in practice, of carrying out modern warfare operations.

111. China's defence budget officially stands at US\$ 12.7 billion, or 1.2% of GDP.

112. The present-day army is the product of a doctrine that has invariably emphasised the threat from the landward side. The navy, 75% made up of small ships unable to operate on the high seas, is essentially a coastal fleet acting as a deterrent to any seaward attack. The airforce is similarly lacking in modern equipment and currently has a purely defensive role.

113. In short, China is faced with the military conundrum of entering the 21st century with weapons that date back to the 1960s and 70s. To mention only a few examples, its anti-aircraft detection and defence systems are completely out-of-date; less than 10% of its large surface vessels are equipped with anti-aircraft weapons, its command, control, communications and intelligence systems are also fairly primitive and its electronic warfare assets, both defensive and offensive, where they exist at all are obsolete. Aircraft are not able to provide enough air cover for troops and there is no integrated C<sup>3</sup> system

<sup>13</sup> *International Herald Tribune*, 20-21 November 1999.

<sup>14</sup> *Financial Times*, 12 May 1999.

for combined air, land and sea force operations. Lastly, advances in military technology, such as stealth or "smart" weaponry are studied only exceptionally.

114. The fact that China's defence system is today completely out-of-date raises two difficulties. It is impossible in the very near future for quantity even partially to compensate for lack of quality, which puts the army in a position of weakness. In the longer term China will find it necessary to replace a good deal of its equipment, at high cost, if it wants to remain credible.

115. The army feels it is being squeezed between a society intent upon economic growth and the prospect of future high-tech military operations, which the country is unable to mount. In the 1980s, China started to become aware of the shortcomings in its armed forces and in June 1995 Chinese leaders announced major changes to the PLA's objectives.

116. The new doctrine in fact prepared the PLA for undertaking limited peripheral warfare or responding to serious crises within the country.

117. The PLA has taken steps to modernise its forces and is focusing on the building of rapid reaction forces that can project power. Total manpower will be reduced from 2.5 to 1.8 mil-

lion. A non-commissioned officer corps is to be trained, so as to keep expertise in the ranks. The period of enlistment has been reduced from four years to two. Training is to be improved and the objective is to educate fewer people to take on more responsibility. However it will take at least another decade for the PLA to meet the basic requirements of a modern armed force and modernisation of the airforce will yield no credible results until post-2010. Furthermore, the Chinese themselves acknowledge that as far as the navy is concerned, they will not have a credible fleet on the high seas this side of 2050.

### *XIII. China's nuclear forces and ballistic missile system*

118. Nuclear capability stands at some 200 ground-to-ground ballistic missile warheads, plus 100-150 warheads in naval and airforce possession. The main objective of China's nuclear forces is to demonstrate a genuine strike capability that the Americans and Russians will have to reckon with. China wishes to assert its presence in the world and to be capable of exerting pressure when circumstances demand. It takes a long-term view and is aware that time is on its side.

119. At present, Chinese nuclear forces include the following weapon systems:

Type	NATO designation	Number deployed	Year first deployed	Range (km)	Warheads x yield	Warheads in stockpile
<i>Aircraft</i>						
H-6	B-6	120	1965	3 100	1-3 bombs	120
Q-5	A-5	30	1970	400	1 x bomb	30
<i>Land-based missiles</i>						
DF-3A	CSS-2	50	1971	2 800	1 x 3.3 Mt	50
DF-4	CSS-3	20	1980	4 750	1 x 3.3 Mt	20
DF-5A	CSS-4	7*	1981	13 000	1 x 4-5 Mt	7
DF-21A	CSS-6	36	1985-86	1 800	1 x 200-300 kt	36
<i>SLBMs</i>						
Julang-1	CSS-N-3	12	1986	1 700	1 x 200-300 kt	12
<i>Tactical weapons</i>						
Artillery/ADMs, Short-range missiles					Low kt	120

\* It is said that currently about 18 DF-5A missiles are deployed (*Financial Times*, 3 June 1999.)

120. Three strategic missiles are currently under development in China. The DF-31 (Dong-feng) is a mobile ICBM (Intercontinental Ballistic Missile) with a 5 000-mile (8 000-km)

range and a single 700-kg nuclear warhead which is expected to be operational within two years. The first test flight took place on 2 August 1999. The use of solid-propellant engineering is a

testimony to the advanced technology used in developing the missile. Some 10 to 20 DF-31 missiles may be deployed, replacing the DF-4, which has half the range and was developed in the 1960s. In the meantime, China is developing the DF-41 missile with a 12 000-km range which could enter service around the year 2005.

121. Development of a second-generation submarine-launched ballistic missile (SLBM) Julang II (JLII) may be completed by 2002 and 16 missiles will be carried by the first Type 094 nuclear-fuelled ballistic submarine (SSBM) when it enters service in 2009 or 2010<sup>15</sup>. The JG-2 missile has a 8 000-km range and will be able to carry one 200-300-kt warhead. The Type 093 nuclear submarine with dedicated non-ballistic missile launchers (SSGN) is expected to be launched in 2000.

122. The United States plans to develop a missile defence system for its allies in Asia and to develop a national missile defence. This is considered to be a violation of the 1972 Anti-Ballistic Missile (ABM) Treaty and, combined with the US Senate's decision of 13 October 1999 not to ratify the Comprehensive Test Ban Treaty (CTBT), has caused great concern in China which argues that it could dangerously alter the strategic balance in Asia and the rest of the world and even lead to a new nuclear arms race.

123. China's nuclear ballistic missile force has always been limited, but is strategically the country's only trump card and means of wielding influence in its own region and, if need be, elsewhere. The creation of a national ballistic missile defence in the United States and of a more limited ballistic missile defence for US allies in Asia such as Japan, Taiwan and South Korea, could give China the feeling that it is trapped in its own corner and deprived of any means of pursuing what it regards as its vital national interests.

124. China has already started to implement a US\$ 10 billion programme to improve its nuclear forces. Solid-fuel technology for its missiles will enhance its nuclear forces credibility as instantaneous missile launch capability will make its forces survivable and provide a second strike capability for retaliation. It is also developing

sophisticated multiple warhead technology which could enable it to penetrate an anti-missile shield.

125. It is hardly surprising that such developments are causing concern in India and Pakistan which may feel compelled to modernise their own forces.

#### *XIV. China's non-proliferation policy*

126. China's position is improving in so far as weapons proliferation is concerned. In the 1980s, China was one of the major proliferators of nuclear-related technology, assisting nuclear programmes in no less than ten countries, including Algeria, Iran, Iraq and Pakistan. However, in 1992, China acceded to the Nuclear Non-proliferation Treaty (NPT) and reputedly complies with its treaty obligations.

127. China signed the Comprehensive Test Ban Treaty (CTBT) in 1996 and on 24 October 1999 President Jiang pledged that it would ratify its obligations under the Treaty, at the same time criticising the US Senate for its refusal to ratify. China furthermore ratified the Chemical Weapons Convention in 1997 and has pledged to abide by the requirements of the Missile Technology Control Regime (MTCR), although it has yet to become a full member. It became party to the Biological and Toxic Weapons Convention (BWC) in 1984, but the US Arms Control and Disarmament Agency concluded in its 1997 report that it was highly probable "that China was not in compliance with its obligations under the BWC".

#### *XV. China and the crisis in East Timor*

128. China's policy in the East Timor crisis has shown how much importance it attaches to maintaining the legitimacy of the United Nations as an organisation for worldwide prevention and management of crises. At the same time, China has been conducting itself in such a way as to enhance its image as a responsible power and to increase its influence in South-East Asia.

129. Once Indonesia had succumbed to international pressure and agreed to international involvement, China voted in favour of UN Security Council Resolution 1264 which authorised the establishment of a multinational Australian-led force to restore peace and security in East Timor. Indonesia's agreement to the UN presence ensured that China's strict adherence to the

<sup>15</sup> *The Military Balance 1998/99*, page 169, IISS, October 1998.

principle of non-intervention in the internal affairs of sovereign states was not challenged.

130. The East Timor crisis also had positive results for China's policy of weakening the influence of the US-sponsored security network in the region.

131. In 1995, Indonesia and Australia concluded a security cooperation pact with positive encouragement from the United States. Together, Indonesia and Australia control the straits linking the Indian and Pacific Oceans. One of the objectives of the security pact was to ensure that Australia and Indonesia were not drawn or pressured into China's sphere of influence. Indonesia was also determined to stand up to China and Chinese territorial claims in the South China Sea, where Beijing may be evincing an interest in Indonesia's gas-rich Natuna Islands.

132. In September 1999, Australian reaction to the post-referendum violence in East Timor and the Australian Prime Minister's public criticism of the 1995 security pact (entered into by the previous government) caused Indonesia to abrogate the pact unilaterally.

133. East Timor's independence and increasing calls for independence for the province of Aceh, have caused concerns in neighbouring countries in south-east Asia that Indonesia might disintegrate further. Indonesia comprises about 400 different ethnic and religious groups and Aceh, Irian Jaya, South Sulawesi and the Maluku Islands are already demanding independence. An unstable and weakened Indonesia could be to the detriment of the security of the entire region.

134. If Indonesia ceases to be a bulwark of resistance to China in the South China Sea, the latter might seize the opportunity to extend its influence in the region, having already taken advantage of the military weakness of the Philippines to consolidate its grip on Mischief Reef.

#### *XVI. China's accession to the World Trade Organisation (WTO)*

135. On 15 November 1999, the United States and China announced that they had concluded a comprehensive agreement opening up the Chinese economy to foreign competition in return for China's entry into the World Trade Organisation (WTO) – thereby resolving China's trade dis-

putes with the United States. The US-China agreement on China's entry into the WTO does not require the approval of the US Congress. However, the Congress would have to grant China permanent normal trade status, formerly known as "most-favoured nation status". The Congress therefore has to approve a change to the Jackson-Vanik amendment to the Trade Act of 1974, which requires Congress to review China's trade status annually. This will certainly be the occasion of heated debate on China's human rights record, its policy towards Taiwan and other China-related issues which normally elicit severe critical comment from Congress, but most observers take the view that a defeat in any vote on permanent normal trade status for China is probably out of the question.

136. However, China still has to negotiate agreements with the European Union, Brazil, Canada, India, Switzerland, and a number of developing countries before the WTO can discuss its application. Bilateral agreements with Japan and Australia have already been concluded.

137. The European Union estimates that the US-China agreement covers 80% of Europe's concerns – which leaves 20% of Europe's demands to be negotiated. The outstanding negotiations are not expected to present an obstacle to China's becoming a WTO member next year.

138. Nevertheless, one important problem that remains to be resolved is the position of Taiwan. China does not want to belong to an international organisation where Taiwan is a member and, at present, Taiwan is also a candidate for WTO membership. WTO member states may have to make a choice between the two. However, if they are not prepared to do so, China may have to take its own decision. Whichever way things fall out, the decision may have far-reaching consequences in the region.

139. Most observers agree that the US-China agreement represents a major victory for Prime Minister Zhu Rongji, who is an advocate of reform.

140. It is assumed in China that WTO entry will push the country towards political reform, although no-one expects the leadership to embrace any substantive changes immediately. It should not be forgotten that one of the leadership's main considerations in pushing for the

country's membership of the WTO has been the hope of attracting the increased foreign investment that is essential for economic growth, which is in turn a requirement for social stability. Chinese leaders anticipate that the achievement of those objectives will help consolidate Communist Party rule.

141. WTO membership will also replace the present experimental economic development model with more orderly development towards a

market economy. In the long run, the market will inevitably become a greater factor in determining reforms than the party leadership.

142. China's membership of the WTO will further strengthen efforts to establish the rule of law within the country and consolidate the domestic legal system at the expense of the present arbitrary regime under Communist Party control. The speed at which reform takes place should not, however, be overestimated.

## APPENDIX

*A short bibliography of recent literature on China*

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