

On the economic front, North Korea has been facing chronic economic stagnation and energy/food shortages in recent years due to the fragility of its socialist planned economy and decreased economic cooperation with the former Soviet Union and Eastern European countries following the end of the Cold War. As for the food situation in particular, there are some factors which indicate its improvement such as the information that food rationing system was normalized on the occasion of the 60th anniversary of the foundation of Korean Workers' Party. However, because food shortages are rather structured, it seems North Korea still has to rely on food assistance from foreign countries.<sup>75</sup> It was pointed out that many North Koreans are starving and sense of moral has declined.

In response to these various economic difficulties, North Korea is implementing realistic reforms, although limited in scale, and trying to reform some economic management systems. It is believed that since July 2002, North Korea has been carrying out a new economic policy in which wages and commodity prices are raised and exchange rates are devalued. On the other hand, as it is considered that North Korea is not likely to undertake a structural reform that would affect its current regime, there would be various difficulties in improving North Korea's economic situation fundamentally. North Korea should be monitored continuously to see whether it will replace its current improvement measures with a structural reform. At the same time, it is necessary to watch what effects will arise from these social improvement measures.<sup>76</sup>

#### **4) External Relations**

Although North Korea has improved its relationship with Western European countries, etc., its activities related to nuclear issues have raised the concerns of foreign countries.

The second Bush administration of the United States, inaugurated in January 2005, made it clear that it would make efforts, similarly as the first Bush administration, to persuade North Korea to abandon its nuclear program in close cooperation with other countries. The Bush administration aims to solve the problem through the Six-Party Talks. On the other hand, the United States takes a stance that it will strictly restrain illegal activities including counterfeiting of currency, which are strongly suspected as being operated by North Korea, separating them from issues discussed in the Six-Party Talks. North Korea criticizes these measures of the United State as the "financial sanction" that aims the "elimination of North Korea's regime" and demands the United States to abandon its "hostile policy" toward North Korea. Thus, there is a significant difference in these two countries' stances. In addition, the United States expressed concern over the possible proliferation of nuclear weapons and nuclear-related materials by North Korea's acquisition of them. The United States has also repeatedly expressed concern over North Korea's development, deployment, and proliferation of ballistic missiles.

Furthermore, United States has designated North Korea as a terrorist-supporting state because North Korea abducted Japanese people, continued to provide a haven to the hijackers of Yodo, and did not take any substantial measures to cooperate in the fight against terrorism.<sup>77</sup>

Concerning relations between North Korea and the ROK, while international concern increases about the nuclear issue of North Korea, the two countries have been continuing talks as well as economic and human exchanges. North Korea appeals North-South cooperation and the ROK is willing to continue North-South talks and exchanges. On the military front, no specific results were achieved after defense ministerial talks

were held in 2000. In 2004, however, military talks by generals-level were held and the two sides agreed on measures to prevent incidental conflict in the Yellow Sea and on the suspension of propaganda activities near DMZ. By the summer of 2005, these talks had contributed to a certain progress including the opening of a hot-line between the headquarters of fleet of North Korea and the ROK and the completion of the removal of facilities and equipment for propaganda. But no progress was made at the military talks by generals-level that were held in March and May 2006.

Concerning relations between North Korea and China, the China-North Korea Treaty on Friendship, Cooperation and Mutual Aid, which was concluded in 1961, is still effective. After 1992 when China and the ROK established diplomatic relations, North Korean relations with China seemed to have changed from the close relationships they enjoyed during the Cold War, but appear to have improved again. For example, the leaders of the two countries made mutual visits during the period.<sup>78</sup> Concerning North Korea's nuclear issue, China has repeatedly expressed its opinion that the Korean Peninsula should be denuclearized, and has played an active role in resolving this issue by, for example, acting as chairman of the Six-Party Talks and contributing to the adoption of the joint statement at the 4th Six-Party Talks. Some people, however, point out that, under these circumstances, relationship between China and North Korea seem to be not as close as they were.

Although relations between North Korea and Russia cooled compared to the way they were during the Cold War, their relations improved as both countries signed the Russia-North Korea Treaty on Friendship, Cooperation and Mutual Aid, which lacked articles on military alliance,<sup>79</sup> in February 2000, and Russian President Vladimir Putin visited North Korea in July of the same year. Kim Jong Il, Chairman of the National Defense Commission, visited Russia in both 2001 and 2002. Thus, relations between North Korea and Russia have been strengthened in recent years.

Since 1999, North Korea has made an effort to establish relations with Western European countries, etc., and have establish diplomatic relations with Western countries, etc. and attended at ARF ministerial meetings. On the other hand, European Union and ASEAN have expressed concern over North Korea's nuclear issues.

For the solution of North Korea's nuclear issues, it is important for Japan, the United States, and the ROK to keep working closely together. At the same time, other states and international organizations such as China and Russia, which are other participants of the Six-Party Talks, the European Union, the United Nations, and the IAEA may play important roles in this concern.

It is quite natural to prohibit North Korea from acquiring nuclear weapons. At the same time, Japan must continue to pay attention to security issues other than the nuclear issues and closely watch future developments on the Korean Peninsula, such as military antagonism, and North Korea's development, deployment, and proliferation of ballistic missiles.

Because North Korea is a closed country, it is difficult to clearly identify the trends of its policies and activities. However, it is necessary to continue to pay close attention to such trends as it is important to determine the real intentions of North Korea.

## **(2) The ROK**

### **1) General Situation**

In the ROK, democracy has taken root through after the direct presidential election adopted by the 1987 amendment to the constitution. The Roh Moo-hyun administration, inaugurated in February 2003, upholds "Policy of Peace and Prosperity," which succeeds to the thinking of "Engagement Policy" promoted by the administration of former President Kim Dae-jung.

U.S. forces, mainly the Army, have been stationed in the ROK since the cease-fire of the Korean War. The ROK has established close security arrangements with the United States primarily based on the United States-Republic of Korea Mutual Defense Treaty. The two countries started the Future of the Alliance Policy Initiative (FOTA) Meetings in April 2003 and have made efforts to resolve pending issues between them such as relocation of U.S. Forces Camp Yongsan located in the center of Seoul to Pyongtek area to the south of Seoul, and reposition of U.S. troops which are stationed in the northern side of the Hang Gang to the southern side of the river. At the U.S.-ROK Security Consultative Meeting in October 2004, both countries agreed on starting the Security Policy Initiative (SPI) Meetings and continue to discuss issues such as the restitution of the operation control authority<sup>80</sup> over U.S.-ROK allied forces in wartime, which is currently held by the United States, to the ROK.

To assist U.S.-led military operations in Afghanistan, the ROK forces continue to dispatch engineering and medical units there. Regarding the units which have been dispatched to Iraq in response to the request from the United States, the ROK plans to continue the dispatch although the scale of the dispatched forces will be reduced from the current size of less than 3,700 personnel to less than 2,300.

Between the ROK and China, since the first visit by then Chinese Minister of Defense Chi Haotian to the ROK in January 2000, a variety of military exchanges have been promoted by, for example, mutual exchanges of high-ranking military officials and mutual visits of naval vessels and air-force planes. In March 2005, Yoon Kwang-ung visited China as the first ROK Defense Minister visiting the country since 2001 and in April 2006, Cao Gangchuan visited the ROK as Chinese Minister of Defense for the first time since December 2000. At the ROK-China summit talks held in July 2003, the two leaders agreed to develop their partnership into all-around cooperative partnership. In this way, relations between the ROK and China have expanded into various areas, including politics/economics and security.

In recent years, exchanges of senior military officials, including defense ministers, have been carried out between the ROK and Russia. When Russian Minister of Defense Ivanov visited the ROK in April 2003, both countries agreed that it is important for them to cooperate with each other in the areas of military technology, defense industry, and war materials and to promote military exchanges. Both countries also agreed to continue exchanges of senior military officials. In February 2004, the navies of the two countries conducted joint search and rescue exercises for the first time<sup>81</sup> and in April 2005, ROK Defense Minister Yoon Kwang-ung visited Russia and had a meeting with his counterpart, as the first meeting between the two countries' Defense Ministers in approximately two years.

## **2) Military Affairs**

### **a. Defense Policies**

The ROK has a defensive weakness in that its capital, Seoul, where a quarter of the country's population is concentrated, is situated close to the DMZ.

The ROK aims "to defend the nation from external military threats and invasion, uphold peaceful unification, and contribution to regional stability and world peace" as its national defense objectives. As one of "external military threats," the ROK had regarded North Korea as its "main enemy." In its Ministry of National Defense's White Paper 2004, however, North Korea is no longer described as such. Instead, the

White Paper refers to "direct military threats from North Korea including its conventional military capabilities, weapons of mass destruction, and forward military deployment."

Currently, the ROK intends to promote "National Defense Reform 2020" to satisfy its defense needs such as organizing its military capabilities in line with the development of information and scientific technologies, balanced development of its Army, Navy, and Air Force, elimination of inefficiency, and buildup of barrack culture which is consistent with social trends. The reform program upholds the following four issues as its priority subjects:

- i) Expansion of civilian base for national defense: Establish the structure in which civilians have the central role in deciding on and implementing defense policies and the military forces concentrate on executing combat missions.
- ii) Buildup of the military structure and system of the forces in conformity with the characteristics of modern wars: While reducing the size of the standing forces from 680 thousand personnel to 500 thousand mainly in the Army, and that of reserved troops from 3 million to 1.5 million, enhance its war potential by modernizing equipment and other means.
- iii) Reorganization of the national defense management system to be low-cost and high-efficiency: Develop the organization and system in which the transparency of procurement service and expertise are assured and in the area of logistic support, improve infrastructure for computerization and promote outsourcing.
- iv) Improvement of barrack culture so that it is consistent with trends of the time: Take measures to improve the environment of military personnel's service and establish the system to prevent accidents.

#### **b. Trends in Defense Buildup**

The ROK Armed Forces consist of a ground force made up of three ground army commands of 22 divisions and two Marine divisions, totaling approximately 590,000 personnel; a naval force made up of three fleets of about 180 vessels with a total displacement of approximately 135,000 tons; and an air force (Air force and Navy) of nine combat air wings with approximately 600 combat aircrafts, including F-16 fighters.

In recent years, the ROK has been trying to modernize its Navy and Air force with the introduction of submarines, multi-role helicopters, and F-15Ks as ROK's next fighters (FX). Also, the ROK plans to procure four Airborne Warning and Control Systems (AWACS) by 2012, and domestically manufactured destroyers (KDX-IIs, KDX-IIIs, and KDX-IIIs). The KDX-III (an Aegis-equipped destroyer) will be in service in 2008. In addition, the ROK Navy is scheduled to construct two large transport ships by 2010. In November 2001, the ROK Institution for Defense Science launched a short-range missile test. The ROK is believed to be trying to realize the domestic production of missiles.<sup>82</sup>

The 2006 defense budget rose approximately 8% over the previous year.

#### **(3) US Forces Stationed in the ROK**

Combined with the ROK's own defense efforts, U.S. forces stationed in the country play a vital role in preserving the military balance on the Korean Peninsula and providing a deterrent against large-scale armed conflicts.

Currently, the United States is changing the posture of U.S. forces stationed in the ROK based on the agreement to reposition them to the southern side of the Hang Gang in two stages (made at the 2nd FOTA Meeting held in June 2003) and the agreement to reduce the number of its stationed military personnel (approximately 41,000) by 12,500 (made at the U.S.-ROK Security Consultative Meeting held in October 2004). In the course of these changes, the United States is making efforts to maintain and strengthen the deterrence capabilities of U.S.-ROK allied forces by retaining divisions of approximately 30,000 personnel in

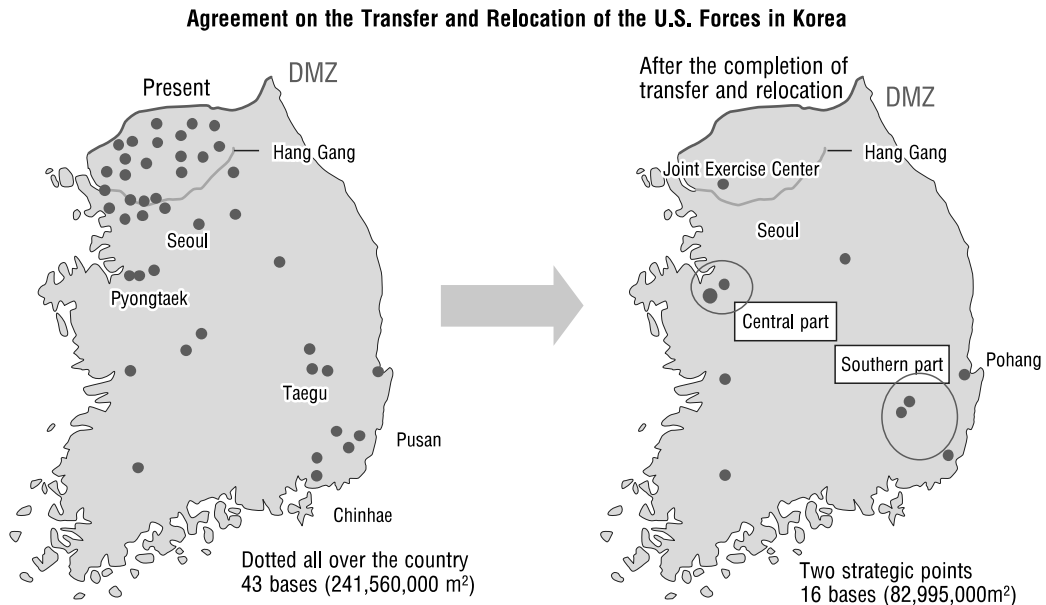


Fig. 1-2-7

the ROK and investing 11 billion dollars in the modernization of the U.S. forces stationed in the ROK under the United States-Republic of Korea Mutual Defense Treaty.

The United States and ROK have engaged in joint exercises in order to increase their joint defense capabilities in dealing with contingencies on the Korean Peninsula. Among these is the "Fool Eagle" exercise, a large-scale joint logistics support field exercise, which was staged in March 2005 concurrently with the combined wartime reinforcement exercise "RSOI" (Reception, Staging, Onward movement & Integration).<sup>83</sup>

### 3. China

#### (I) General Situation

##### 1) General Situation

China has the world's largest population with a variety of races, religions, and languages in a vast land surrounded by as many as 14 countries and the Pacific Ocean. Most of its ethnic minorities populate in the borderland, and have neighbors with the same ethnic origin beyond the border. China has a long history with a distinct culture and civilization. The pride derived from the history and the experiences of semi-colonization have driven their desire for a strong nation and a sense of nationalism. China, under the guidance of the Communist Party, aims at building a modern socialist nation.

China has a national objective of continuing the modernization in its nation building. Therefore, China promotes trade and personnel exchanges as well as economic and technological cooperation with other countries in the world. And the country has also attached much importance to the establishment of stable

security environment in the surrounding areas. Furthermore, China aims to establish cooperative relations with other countries, mainly through cooperation in areas of non-traditional security such as international crimes, terrorism, maritime search and rescue, anti-piracy, and regulation of drug smuggling.

Especially in recent years, China has been substantially increasing its trade value, attracting much investment from foreign countries, and achieving dramatic economic growth. China has been mounting its position in the world economy and now many countries welcome deeper economic relation and mutual benefit with China. At the same time, it is pointed out that China is seeking diplomacy focusing much on resources acquisition. On the military front, China has thus been steadily growing as an outstanding political and economic power in the Asia-Pacific region. And the trend of its military development draws attention from countries in the region.

Domestically, on the other hand, China has several problems. Corruption of Communist Party cadres and other local and central political elites has become a serious political issue, and separatist and independent movements are also serious. Furthermore, as a result of rapid economic growth, economic gap among urban residents have come to surface in addition to widening urban-rural, and coastal-inland gaps. A variety of other issues including environmental pollution have also come to surface. Attention should be paid to how China deals with these issues.

## **2) Relations with Taiwan**

China holds the principle that Taiwan is a part of China, and that the Taiwan issue is therefore an internal matter. The country maintains that the one-China principle is the underlying premise and foundation for discussions between China and Taiwan. China has claimed that it would never abandon efforts for peaceful unification, taking policies and measures to solve issues of the Taiwanese interest including security of their rights, while it has also expressed strong opposition against any intervention in unification of China by foreign powers, or against any move toward independence by the Taiwanese. The Anti-Secession Law, enacted in March, 2005, strongly reflects such a standpoint of China.

Since last April when General-Secretary of the Chinese Communist Party Hu Jintao, invited then President Lien Chan of the Nationalist Party of Taiwan discussed economic cooperation and facilitation of early resumption of talks between China and Taiwan, China has put an emphasis on exchanges mostly with opposition parties and business circles of Taiwan. Meanwhile, Taiwanese President Chen Shui-bian has clearly stated his position of taking up the one-China issue as an agenda, not a premise. There is a gap in the fundamental stances of China and Taiwan, as explained above, and both sides are unable to find a path to negotiations, and the stalemate continues without any official dialogue. Attention should be paid to future trends toward a peaceful resolution of the Taiwan issue. The point is whether they will find any meeting ground to reopen the official dialogue.

On the military front, China has often stated that it has not ruled out the use of force since the country is strongly opposed to any move toward independence by the Taiwanese. The Anti-Secession Law provides that if major incidents entailing Taiwan's succession from China and other similar cases should occur, the state should employ non-peaceful means and other necessary measures. This is considered to reaffirm non-renunciation of the use of force. It is important for China to possess capabilities for deterring and interdicting both any Taiwanese move toward independence and a potential foreign military intervention in future Taiwan Strait crisis<sup>1</sup>. And the main purpose of Chinese vigorous military modernization, funded by a large amount of increase of its defense expenditure, is considered to be ensuring these capabilities.<sup>84</sup>

## **3) Relations with the United States**

There are various problems between the United States and China, such as human rights issues in China,

the proliferation of weapons of mass destruction by China, U.S. sales of weapons to Taiwan, and trade imbalance between the two countries. And it seems that China is wary of increase in U.S. influence in the international community through the fight against terrorism, its increased presence in Central Asia, and inclination toward "U.S. unipolarity." On the other hand, the two countries have close relationship on the economic front, and China wish to maintain stable relationship with the United States in the future for the sake of steady economic development.

The U.S. makes it an objective of its policy that China continues to be an economic partner and becomes a "responsible stakeholder."<sup>85</sup> At the same time, however, the U.S. recognizes that China is facing "Strategic Crossroads", and has "the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages."<sup>86</sup>

The U.S. has realized that China has a responsibility to support international common interests including peace and stability and expansion of free and fair trade in the international society, which are crucial for China as well as other countries in the world. China does not necessarily agree to this U.S. position although China expressed its will to promote constructive and cooperative relationship with the United States during Hu Jintao's visits to the U.S. last April.

#### 4) Relations with Russia

Since 1989 when then President Gorbachev of the Soviet Union visited China to end China-Soviet confrontation, both countries have maintained a stance of placing importance on the bilateral relation. Deepening of "Strategic Cooperation Partnership" between China and Russia, established in the mid-90s, has been emphasized through a regular exchange of visits by their leaders. In 2001, the China-Russia Treaty of Good-Neighborliness and Friendly Cooperation<sup>87</sup> was concluded. In 2004, a longstanding issue of border demarcation between China and Russia, which once evolved into a military clash, came to a settlement.

Both countries have had a goal in common to promote world multi-polarization and building of a new international order. In addition, some economic motives seem to have driven good relationship between China and Russia. China has a long-term concern of securing reliable supply of resources and energy, while Russia finds potential of Chinese markets attractive, and shows a keen interest in diversifying exports to China which are now lopsidedly dominated by resources and energy.

On the security front, Russia is the world's largest exporter of weapons to China. China has purchased modern weapons from Russia including Su-27 and Su-30 fighter aircrafts, Sovremenny-class destroyers, and Kilo-class submarines, etc.

Prime Minister Koizumi pointed out that it is necessary to execute weapons export to China in a careful manner in the summit-level talk with the Russian President Putin last November, who claimed that Russia is not the leader of weapons export, but the country surely feels its responsibility. The State minister for Defense Nukaga also requested, during his visits to Russia, the Defense minister Ivanov to ensure transparency of, and to be careful with, weapons export to China in order to keep regional military balance.

China and Russia keep steady military exchanges including a regular exchange of visits by highest-ranking defense officials. And the two countries held joint military exercise last August. The exercise was joined by around 10,000 personnel of air, sea and ground forces including airborne units, marine corps, and logis-

tics units of both countries. China and Russia invited military observers for the exercise only from members and observers of Shanghai Cooperation Organization. The purpose of the exercise, on the part of China, appears to have been: learning operational methods of Russian weapons and doctrines of Russian military; deepening mutual understanding and building confidence between both forces; and demonstrating China and Russia as main players in multipolar world. In addition, it has also been pointed out that China intended to give an impact on the Taiwan issue.

## 5) Relations with North Korea

China regards the relation with North Korea as "traditional friendship", and North Korea seems to heavily rely on China for food assistance and energy supply, thereby China is believed to have a strong influence on North Korea. At the same time, however, it is pointed out that a certain distance has emerged in relations between China and North Korea. China has played an active role in the Six-Party Talks held in Beijing since 2003. The international community expects further contributions by China toward a resolution of the nuclear issue.

## 6) Relations with Other Countries

### a. Relations with Southeast Asian Countries

As for its relations with countries in Southeast Asia, China has been developing bilateral relations with all the countries in the region through active mutual top-level visits and other means.<sup>88</sup> China is also actively involved in multilateral frameworks such as ASEAN and ARF (ASEAN Regional Forum). Through these diplomatic fora, the country is deepening economic and cultural cooperation with ASEAN countries. In addition, China is eager to promote cooperative relations in "areas of non-traditional security".

### b. Relations with Central Asian Countries

Xinjiang Uygur region, a western province in China, is situated next to Central Asia. It directly shares borders with three countries of Kazakhstan, Kyrgyzstan, and Tajikistan, and has many ethnic minorities settled in the areas straddling borders. Naturally the region has lively exchanges of people with those countries. Thus political stability and security situations in Central Asian states influenced by terrorism by Islamic extremists and other factors greatly concern China. Chinese engagement in "Shanghai Cooperation Organization" (SCO),<sup>89</sup> which was es-

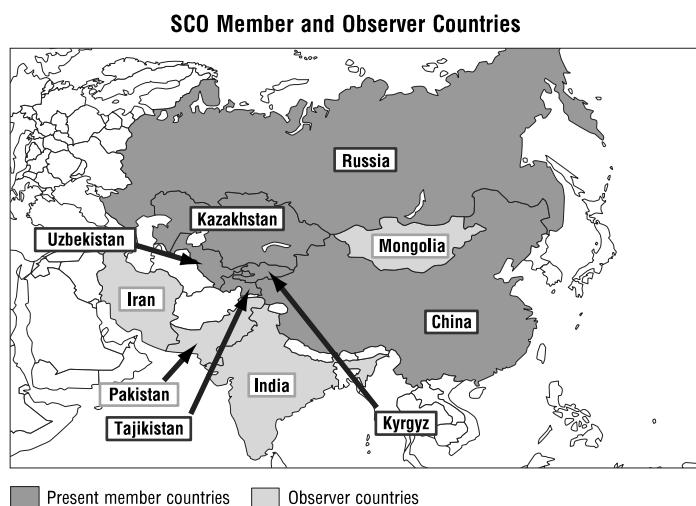


Fig. 1-2-8



tablished in June 2001, is viewed as an indication of such concerns held by China.

In particular, Russia and China, main member-states of the organization, seem to aim at deterring the influence of the US and expanding that of the SCO over this central region of the continent, by announcing the SCO summit communique which in effect encourages withdrawal of the US troops from Central Asia,<sup>90</sup> and granting the observer status to regional powers such as India, Pakistan and Iran.

#### c. Relations with South Asian Countries

With regard to South Asia, it appears that China has a favorable relationship with Pakistan including military cooperation, such as transfer of weapons and related technologies. On the other hand, China is also committed to improvement of its relationship with India. Having an active exchange of visits by leaders with India, China expresses that it views relations with India as a strategic partnership, and that the issue of border demarcation between China and India which once culminated in military clashes, is progressing. Looking to the military exchanges, China held the second joint naval search and rescue exercise last November, respectively with the Pakistani Navy and Indian Navy. It seems that China has come to place emphasis on military exchanges with India as well, with attention given to their balance vis-a-vis exchanges with Pakistan which is a country of traditional friendship.

#### d. Relations with EU Countries

Trade between China and EU countries has been remarkably growing in recent years. For China, the EU is now as important as Japan and the U.S. as a partner, especially in the economic area. China, through diplomatic opportunities, has strongly demanded EU countries to lift the arms embargo against China since the Tiananmen Square incident took place in 1989. Since some EU countries voiced their readiness for the lifting, Japan has sent messages to object to the lifting. It is necessary to paying continuous attention to future discussions on this issue within EU.

### 7) Export of Weapons

China has provided developing countries in Asia and Africa with weapons like small arms, tanks and aircraft, and it is reported that the main recipients are Iran, Pakistan, and Myanmar. China is suspected of proliferating missiles and its technology, and has held meeting over this issue with the United States. China promulgated and enforced regulations on export control of missiles and related items in August 2002, and on export control of biological and chemical weapons in October 2002. In last September, a paper entitled "China's Endeavors for Arms Control, Disarmament and Non-Proliferation" was issued, in which China states that it commits itself to the issues of international disarmament and non-proliferation based on criteria including: 1) if it is beneficial to national sovereignty and security; 2) if it is beneficial to maintenance of strategic stability in the world; and 3) if it is beneficial to universal safety of each state and greater mutual trust among countries.

## (2) Military Affairs

### 1) General

China, as its basic objectives and obligations for national security, declares to defend its national sovereignty, territorial integrity, and maritime rights and interests; to further develop its economy and society; and to continuously strengthen its comprehensive national power. In order to achieve these objectives and obligations, the country is committed to balanced economic and defense construction. China is aggressively promoting the "Revolution in Military Affairs with Chinese characteristics" based on its military strategy to win an "informationalized war,"<sup>91</sup> in order to cope with global trends in military

developments which have been observed in cases such as the air campaign of the Gulf War, the Kosovo conflict, and the war against Iraq, etc. Specifically, China has reduced the number of its military personnel, mainly in the army, and been modernizing its entire armed forces centering on nuclear and missile capabilities as well as naval and air forces. In addition, it is focusing more energy on enrollment and training of highly talented personnel and on the improvement of joint operational capabilities among services and arms.

## **2) Transparency in Military Strength**

Historically, China has not disclosed information on its possession status of specific equipment, the pace of improvement, the unit-level compositions of personnel, records of main military operations and exercises, or the amount and detailed breakdowns of the national defense budget, etc. As China is steadily growing as a political and economic power of the region, the trends of its military developments draw attention from countries in the region. Under such circumstances, in order to allay concerns held by those countries over China, it is important for China to increase transparency in its national defense policy and military capabilities.

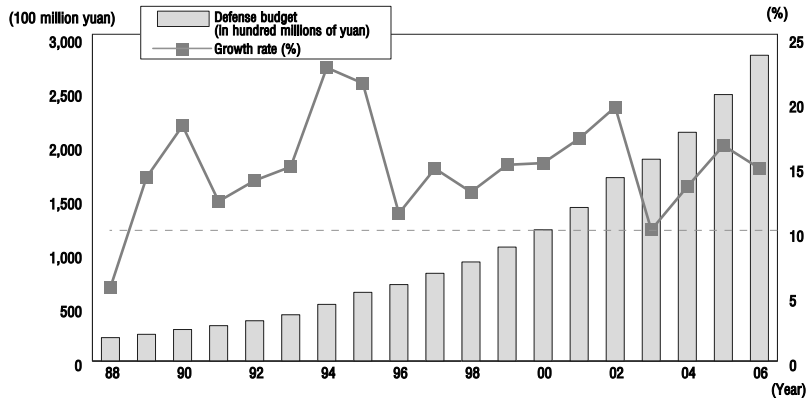
China released a comprehensive white paper on defense entitled "China's National Defense" in 1998, which has since been published every two years. In line with this, China published "China's National Defense 2004" in December 2004. It is desirable that China has continuously published documents on its national security as it contributes to improving transparency concerning China's military capabilities. However, it needs to be pointed out that improvement in transparency was not necessarily tried in visible ways through four white papers issued in the past. For example, as to detailed breakdowns of the national defense spending, past defense white papers have merely announced the total amount of expenses according to three categories of living expenses of personnel, maintenance cost of operations, and expenditures for equipment. It is desired that China increases transparency in its military capabilities through various opportunities in the future including the next defense white paper.

## **3) National Defense Budget**

As to the national defense expenditures, one of the elements to measure military strength of a state, China announced that its national defense budget for FY 2006 would be 280.7 billion yuan, an increase of 14.7 % over that of the previous year, recording a growth rate of over 10 % for 18 consecutive years in terms of the initial defense budget. This pace of increase in official defense expenditures means that the defense budget has increased two-fold every five years, and that the size of the official national defense budget of China has nominally grown 13 times in the last 18 years. With respect to the relationship between national defense and economy, China states that it will firmly maintain the principle of coordinated development of national defense and economy in the defense white paper "China's National Defense 2004." It is therefore not very probable that China will rapidly increase resource allocation to national defense.<sup>92</sup> Based on this upward trend in the defense budget, however, it is expected that modernization of military capabilities will continue to be promoted in the future. If China is to continue increasing its defense spending at a rate of approximately 15% over the previous year in the future, the Chinese official defense expenditures will significantly exceed the defense budget of Japan by 2008.

Also, it must be noted that the amount of its defense budget announced by China is considered to be only a part of its actual military expenditures.<sup>93</sup> For instance, it is believed that all of the equipment procurement costs and research and development expenses are not included in the official figures for defense expenditures.

### Changes in China's Officially Released Defense Budget



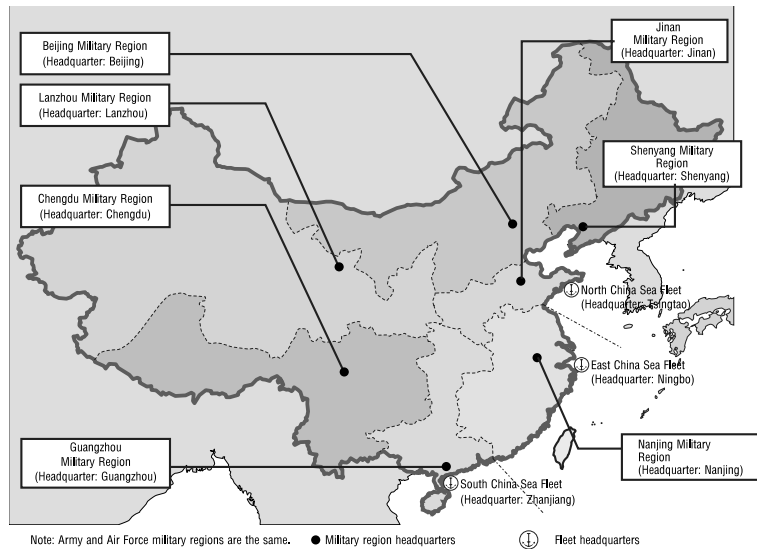
Note: The total defense budget for FY2002 and FY2004 were not disclosed, and there is a discrepancy when we apply the disclosed growth rates and amounts of increase to the initial budgets of FY2001 and FY2003. This graph uses 168.4 billion yuan and 210.0 billion yuan as the defense budgets for FY2002 and FY2004, respectively. These are calculated on the assumption that disclosed growth rates and amounts of increase are based on the actual defense expenses for FY2001 and FY2003.

Fig. 1-2-9

#### 4) Military strength

China's military forces are composed of the PLA (People's Liberation Army), the Chinese People's Armed Police Forces,<sup>94</sup> and the militia.<sup>95</sup> The PLA, created and led by the Communist Party of China, consists of the Army, Navy, Air Force, and the Second Artillery Force. As the size of the PLA is the largest in the world but not all of its forces possess weapons and other equipment with sufficient fire-power and mobility, some of their arms being old-fashioned, China is continuing its effort to modernize the PLA. Against such a backdrop, based on an objective evaluation, it should be carefully assessed if the target of modernizing troops exceeds the scope required for the national defense of China, hence it is necessary to watch these trends of modernization in the future as well.

#### Deployment and Strength of PLA



		China	Taiwan
Ground forces	Total postures	2,250,000 troops	290,000 troops
	Ground troops	Approx. 1,600,000 troops	Approx. 200,000 troops
	Battle tanks	Type-96A, Type-96, Type-88A/B, etc. Approx. 8,580	M-60, M-48A/H, etc. Approx. 1,830
Maritime forces	Warships	Approx. 780 vessels/ 1,075,000 tons	Approx. 340 vessels/ 205,000 tons
	Destroyers & Frigates	Approx. 70 vessels	Approx. 30 vessels
	Submarines	Approx. 70 vessels	4 vessels
	Marines	Approx. 10,000 troops	Approx. 15,000 troops
	Combat aircraft	Approx. 3,530 aircraft	Approx. 530 aircraft
Air forces	Modern fighters	J-10 × 62 aircraft Su-27 × 148 aircraft Su-30 × 121 aircraft	Mirage 2000 × 57 aircraft F-16 × 146 aircraft Ching-Kuo × 128 aircraft
	Population	Approx. 1,306,000,000	Approx. 23,000,000
	Terms of service	2 years	16 months

(Note) Materials are taken from Military Balance (2006), etc.

Fig. 1-2-10

a. Nuclear Force and Ballistic Missiles

China has made an independent effort to develop nuclear capacity since the mid-1950s with a view to guaranteeing deterrent, supplementing its conventional forces and ensuring its influence in the international community. China possesses one hundred and several tens of 160 medium-range H-6 (Tu-16) bombers in addition to ballistic missiles.

As for ballistic missiles, China currently possesses approximately 30 Intercontinental Ballistic Missiles (ICBMs), of which main missiles are assumed to be the fixed type with a liquid fuel propulsion system. This type of a missile, in general, requires time-taking injection of liquid fuel immediately before launching, thus signs of launching can be detected beforehand, which may invite preemptive attack. For this reason, China has been promoting the development of a new solid-fuel model of ICBMs and Submarine-Launched Ballistic Missiles (SLBMs), and conducted test launches of a new-type ICBM, DF-31 and its variants within its territory. Also, China possesses a considerable number of IRBMs/MRBMs, mid-range missiles covering the Asian region including Japan. DF-3 missiles of a liquid-fuel propulsion system has been deployed until now, and recently, it is believed that conversion to DF-21 missiles of a solid-fuel propulsion system, which can be transported and operated on board the TEL (Transporter-Erector-Launcher), has been progressing. These

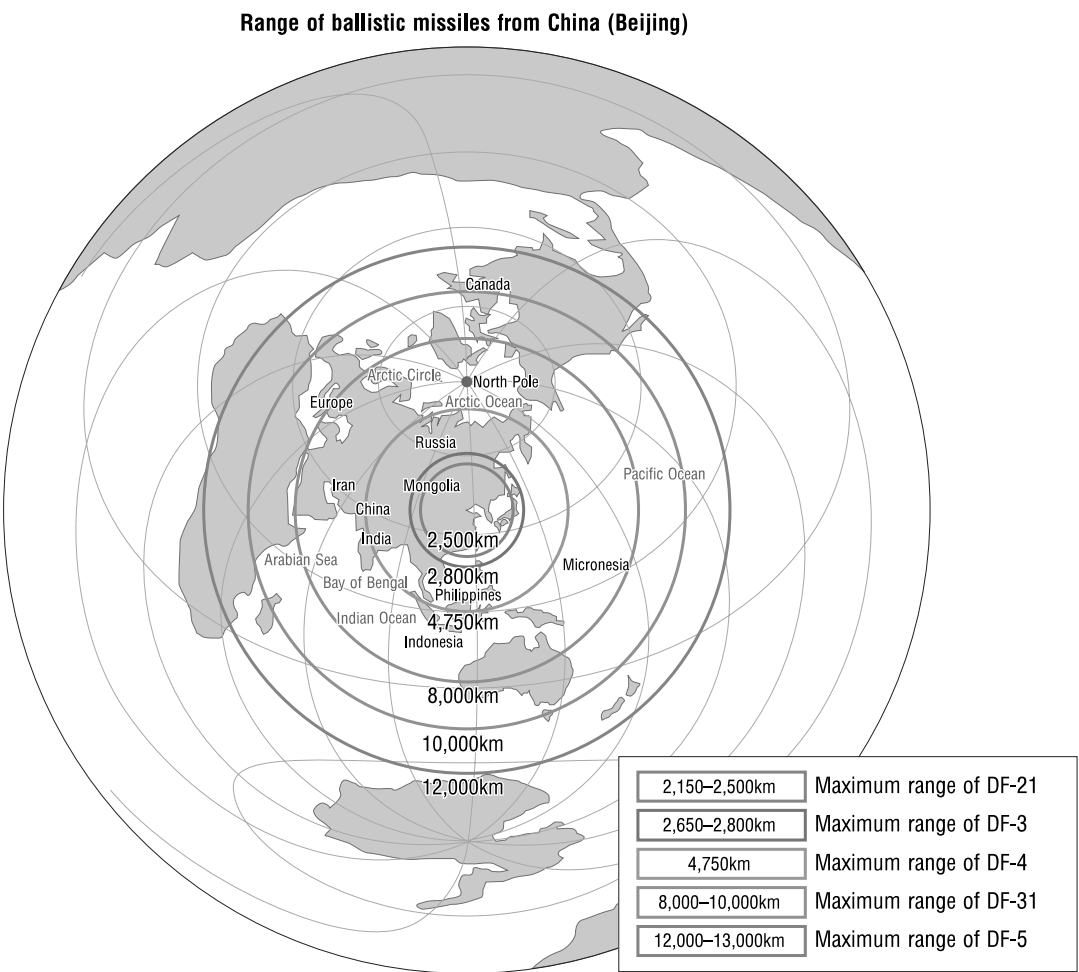


Fig. 1-2-11

missiles are capable of carrying nuclear warheads. Furthermore, as to SRBMs (Short-Range Ballistic Missile) including DF-15 and DF-11 missiles along the shore of the Taiwan Strait, it is estimated that China possesses at least 700 plus several dozens of those missiles, and the number is increasing every year. It is believed that efforts to improve performances of aforementioned ballistic missiles such as accuracy are being continued, and also, research-and-development works on multiple warheads are reportedly progressing.

In addition, China is believed to be advancing the development of cruise missiles. Once they become available for practical use, it will be a strength that complements Chinese capabilities of ballistic missiles.

#### b. Ground Forces

The size of the Chinese ground forces, with 1.6 million personnel, is the largest in the world. Since 1985, China has been continuously seeking to modernize its armed forces by curtailing personnel and streamlining organizations and systems in order to improve efficiency. The country aims to develop military forces with high capabilities, while reducing units inferior in equipment and technologies. In addition, China has sought to improve its military mobility by prioritizing the introduction of modern equipment to airborne troops and special forces. It is also working on a reform to improve its logistical support capability.

#### c. Naval Forces

The navy consists of three fleets-the North Sea, East Sea, and South Sea Fleets-and has approximately 780 ships (including approximately 70 submarines) with a total displacement of about 1,075,000 tons. They are in charge of the maritime national defense and protecting the sovereignty of territorial waters and maritime rights and interests. The Chinese navy, in the aspect of submarine capabilities, continues importing modern Kilo-class submarines from Russia and is actively engaged in construction of new types of domestically-built submarines. As to sea combatant crafts such as destroyers and frigates, efforts are being made to improve air defense and anti-ship missile capabilities.

#### d. Air Forces

China's Air Force and Navy possess approximately 3,530 combat aircrafts in total. The number of fourth-generation aircrafts is rising sharply. China has begun mass production of J-10 fighters, and promoted import and licensed production of Su-27 fighters as well as import of Su-30 fighters with anti-surface attack capabilities from Russia. In addition to the abovementioned import of new-type fighters, China continuously seeks to modernize its air force by acquiring the in-flight refueling capability and early warning and control

#### Course Taken by a Chinese Aircraft in the Vicinity of Japan (Example)



Fig. 1-2-12



Chinese aircraft flying in the vicinity of Japan

systems that are essential in conducting a modern air campaign.

Furthermore, China has started to enhance airborne electronic warfare and intelligence gathering capacity in addition to actual reconnaissance flights against surrounding countries. Especially, flights by Chinese aircrafts in the area surrounding Japan have been active since last year. It is thought that these aircrafts have been engaged in intelligence gathering against Japan, and attention should be paid to these trends.

## **5) Military Posture**

In recent years, the PLA has been conducting large-scale exercises including joint exercises of the Army, Navy and Air Force, and landing exercises, with the aim of advancing operational modernization. In 2002, the PLA promulgated "The Outline of Military Training and Evaluation" as a revision to the previous training doctrine to reform exercises based on science and technologies and to promote constantly new forms of exercises. Pursuant to the doctrine, the PLA General Staff Office has stipulated focus of exercises for this year, indicating a policy of enhanced practical trainings as well as continuous promotion of joint exercise to cope with an informationalized war.

In addition, the PLA is making efforts to train military personnel well acquainted with science and technologies. In 2003, the Strategic Project for Talented People was launched to develop brains capable of directing an informationalized war and of building informationalized armed forces. The Project has a goal of achieving a big leap in the training of talented military personnel by 2020.

## **6) Trends in national defense science and technologies**

In recent years, the PLA has introduced not only equipment imported from abroad such as Russia, but also domestically-produced new models of equipment. Modernization of Chinese military capabilities has been supported by progress in defense science and technologies. A healthy growth of the Chinese defense industry was once hindered by inefficiency caused by too much secrecy, etc., however in recent years, reform of the defense industry has progressed. According to "China's National Defense in 2004", special focus has been placed on two-way exchanges of technologies where military technologies are utilized for building the national economy, and in turn civilian technologies are absorbed into the national defense build-ups. Specifically, technologies of the defense industry have contributed to developments of civilian space exploration, the aviation industry and the boats and ships industry.

Among them, as to space technologies, the successful launching of the "Shenzhou V" spaceship in 2003 which sent the China's first astronaut into space, followed by the successful 5-day trip in space of the "Shenzhou VI" spaceship of October 2005 which carried two astronauts, demonstrated anew to the world technological strength of China in this field. The field of space exploration and that of military in China are organizationally linked to each other, and also, space rockets and ballistic missiles share some technologies in common, hence, two-way exchanges of technologies are believed to be promoted further in the future.

## **7) Expanded Scope of Maritime Activities**

In November 2004, a submerged Chinese nuclear-powered submarine intruded into Japan's territorial waters. Including this incident, Chinese naval vessels have been observed navigating near Japan. These vessels seem to have conducted some exercises or intelligence collections have been observed. Some other naval vessels as well as Chinese government-owned ships are also observed being engaged in oceanographic research within exclusive economic zone of Japan. Furthermore, China has exploring and developing oil gas fields including "Shirakaba", or "Chunxiao" in Chinese, of which mining field of contract and structure of stratum extend to the eastern side of the medium line between Japan and China. Last September Chinese naval vessels operated near these oil gas fields.<sup>96</sup> China intensifies maritime activities. Also other than the