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**Abstract**

This thesis assesses the potential of U.S. Naval Forward Presence in the Western Pacific to stabilize economic markets around the world in the event of a crisis in the South China Sea and the Taiwan Straits. It utilizes a scenario analogous to that of the 1995-96 Taiwan Strait crisis that it sets in the year 2005. The scenario utilizes existing military, political and economic conditions in the region to forecast likely behavior of the main actors. The thesis concludes that U.S. Naval Forward Presence is the vital ingredient to protect U.S. interests in the region, discourage crisis escalation, and stabilize world oil and financial markets.

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THE CRISIS OF 2005 – THE ROLE OF U.S. NAVAL FORWARD PRESENCE IN
THE EVOLUTION OF RELATIONS BETWEEN THE PEOPLE’S REPUBLIC
OF CHINA AND THE REPUBLIC OF CHINA

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ABSTRACT

This thesis assesses the potential of U.S. Naval Forward Presence in the Western Pacific to stabilize economic markets around the world in the event of a crisis in the South China Sea and the Taiwan Straits. It utilizes a scenario analogous to that of the 1995-96 Taiwan Strait crisis that it sets in the year 2005. The scenario utilizes existing military, political and economic conditions in the region to forecast likely behavior of the main actors. The thesis concludes that U.S. Naval Forward Presence is the vital ingredient to protect U.S. interests in the region, discourage crisis escalation, and stabilize world oil and financial markets.
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EXECUTIVE SUMMARY

Since the Republic of China (ROC) retreated to the island of Taiwan in 1949, the government of the People’s Republic of China (PRC) has vowed to eliminate its Nationalist rival. The United States has stood as guarantor of Taiwanese independence at least since the Korean War, which seemingly has placed the two countries on a collision course. The latest of several confrontations occurred in 1995-96, when the United States dispatched carrier battle groups (CVBG) to discourage Beijing’s attempt to influence the outcome of the Taiwanese elections by firing missiles near the island. U.S. policy seeks peaceful resolution of the PRC-ROC differences so that unification, if it comes, will be voluntary.

Unfortunately, time does not seem to be working to diffuse tensions in the region for several reasons. First, Taiwan is evolving toward an increasingly democratic form of government, which has made it less willing to contemplate union with an authoritarian PRC. Second, one of the greatest constraints in the past on PRC behavior toward Taiwan has been fear of Soviet attack should Beijing become overly committed in the South China Sea. Recent Sino-Russian rapprochement has removed this threat, hence freeing Beijing to look east. The third factor in a shifting strategic equation is the growing might of the Peoples Liberation Army (PLA). The U.S. Department of Defense report to Congress, The Security Situation in the Taiwan Strait, dated 26 February 1999, concludes that, by 2005, China’s ability to implement a naval blockade of Taiwan, to establish air superiority over the island, conduct an amphibious invasion of Taiwan, and to gain information dominance will have increased markedly.

This thesis adopts as its premise a hypothetical crisis in PRC-ROC relations that erupts just after the Taiwanese parliamentary elections scheduled for December 2004, in which the PLA will use the threat of military force to influence post-election ROC political behavior. This crisis will elicit a response by U.S. Naval forces. The working hypothesis of this thesis is that U.S. Naval Forward Presence will still be sufficient to deter PRC behavior, despite the evolving strategic environment in the Western Pacific. The implications of this for the U.S. Navy’s portion of the QDR process are huge. As the Bush administration searches for best direction to take the Navy, it may cast doubt on
whether Naval Forward Presence and its core element of the CVBG is the best strategy for the United States. The importance of proper funding is critical for the U.S. Navy fully to be prepared for the challenges of the future. Only in this way can the United States Commander in Chief Pacific (USCINCPAC) reserve the capability to make sound decisions based on a realistic assessment of U.S. military capabilities in a time of crisis. The U.S. Navy in the Pacific theater in the form of Naval Forward Presence is vital to regional stability. This thesis will argue that the U.S. Navy has in the past had an important role to play in enforcing U.S. policy toward the China/Taiwan dispute, and will continue to do so in the future. The benefits of providing a stable political environment have generated enormous economic wealth. Thus the 1995-96 Taiwan Strait crisis impacted a variety of markets including oil, and bolstered the need for a Naval Forward Presence to guard the economic interests of the United States and its major trading partners. This recognition should enhance the prospects for the U.S. Navy to acquire adequate funding during the current and future QDR processes.
I. INTRODUCTION

A. DESCRIPTION

Since the Republic of China (ROC) retreated to the island of Taiwan in 1949, the government of the People’s Republic of China (PRC) has vowed to eliminate its Nationalist rival. On at least two occasions during the Cold War – 1954 and 1958 -- the United States dispatched ships to demonstrate Washington’s resolve in preventing a forceful absorption of the island by the mainland. More recently, in 1995-96, the United States twice dispatched carrier battle groups (CVBG) to counter Beijing’s attempt to underscore its readiness to use military force both to Taipei and to Washington by conducting military exercises, which included firing missiles around the island. Unfortunately, for several reasons, time does not seem to be working in favor of U.S. policy, which seeks a peaceful resolution of PRC/ROC differences so that unification, if it comes, will be voluntary. First, the evolution of Taiwan’s increasingly democratic and open government has made it less willing to contemplate union with an authoritarian PRC. Second, Taiwan’s evolution towards a more open government is seen as a direct challenge to the Communist Party, which controls the PRC. Third, as Taipei and Beijing have evolved in opposite directions politically, Washington appears increasingly determined to protect Taipei in the event of an attempt at a violent unification by the PRC. President Bush has declared United States resolve to do “whatever it took to help Taiwan defend herself.”¹

A fourth complicating factor is the position of Russia. One reason that Beijing can afford to be increasingly assertive toward Taiwan is that it no longer has a strong Soviet Union threatening its northern flank. A major reason that the PRC backed down in the 1954 and 1958 crises was that it was discouraged from action by Moscow. In the 1960s and 1970s, relations between the two communist powers worsened to the point that the Soviet Union was seen as China’s primary military threat. But, the end of the Cold War, combined with the policies of the George W. Bush administration, most notably on missile defense, has driven the former communist rivals closer together. Since 1992, ¹ Charles Gibson, “Taiwan,” Congressional Record article 5 of 50, Interview with President Bush on ABC’s “Good Morning America”, 25 April 2001; accessed on 2 May 2001; available from http://thomas.loc.gov/cgi-bin/query/D?r107:5::;Internet.
Russia has become a major supplier of modern weapons systems for the PRC’s People’s Liberation Army Navy (PLAN) and the Air Force (PLAAF), while Chinese orders help to keep Russia’s arms manufacturers solvent.

A fifth factor working against peaceful resolution may be an increasing military influence over PRC policy towards Taiwan. Closer relations between Russia and China, most notably in arms transfers, combined with China’s indigenous military modernization, have increased the PRC’s ability to resolve its dispute with Taiwan by force. While it is impossible to know for sure, increased military capability, when allied with the PRC regime’s evolution toward a market economy, may actually have increased the PLA’s influence over PRC policy toward Taiwan. The pursuit of a market economy actually throws into question the Marxist foundations of the PRC party legitimacy. This gives the PLA, which sees itself as the repository of both socialist legitimacy and Chinese national interests, increased leverage over a party in transition. Political leaders may be bullied by the military into taking strong action over Taiwan, both to solidify their political base and because they become convinced that a military solution offers a greater chance of success. Hence, enhanced offensive military capability may actually tempt Beijing to employ military force against Taipei, as the Taiwan issue directly challenges the sensitive issue of CCP (Chinese Communist Party) legitimacy. The U.S. Department of Defense report to Congress, *The Security Situation in the Taiwan Strait*, dated 26 February 1999, concludes that, by 2005, China’s ability to implement a naval blockade of Taiwan, to establish air superiority over the island, conduct an amphibious invasion of Taiwan, and to gain information dominance will have increased markedly.\(^2\) The U.S. Department of Defense also believes that China is modernizing its military to achieve regional dominance. Finally, the study asserts that, “Beijing believes that the Peoples Liberation Army can develop asymmetrical abilities in certain niches—such as advanced cruise missiles and conventional short-range ballistic missiles (SRBMs).”\(^3\) Niche weapon procurement supports the PRC intent to develop an advanced military capacity to

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\(^3\) Ibid.
deter third party intervention in Taiwan and to protect claims in the multilaterally disputed South China Sea.

This thesis examines a hypothetical crisis in PRC-ROC relations that erupts just after the Taiwanese parliamentary elections scheduled for December 2004, in which the PLA uses the threat of military force to influence post-election ROC political behavior. This crisis would require a response by U.S. Naval forces. This scenario forms a plausible basis for an assessment of the implications of the Taiwan question for the U.S. security posture for a number of reasons. First, it closely parallels that of 1995-96, when the PRC, in reaction to a U.S. decision to give ROC President Lee Teng-hui a visa to the United States, orchestrated overtly aggressive amphibious maneuvers and missile launches by the PLA. Second, China’s acquisition of asymmetrical military capabilities, as forecasted by the U.S. intelligence community, increasingly could militarize the PRC political process due to the fact that Beijing will be able to back up political rhetoric towards Taiwan with military might. Third, Beijing would likely garner political support from Russia, due to increased mutual opposition to U.S. policies in the Far East and over missile defense, and therefore would be emboldened to take a hard line toward Taiwan. Fourth, Washington is more likely to be distracted by its “war on terrorism” declared by President Bush following the September 11, 2001 attacks on the World Trade Towers in New York and on the Pentagon. In pursuit of the war on international terrorism, increasing amounts of U.S. intelligence and military assets are being absorbed in the Middle East and South Asia. This level of commitment of U.S. assets toward the “war on terrorism” will most likely continue even after the situation in Afghanistan is stabilized. Therefore, Beijing might reasonably conclude that Washington’s priorities have changed and be encouraged to accelerate their aggressive policy towards Taiwan. Finally, Washington would most likely respond to PRC aggression toward Taiwan by the deployment of one or more carrier battle groups (CVBGs) to the region. Not only would this confirm a pattern of previous U.S. behavior. But also, the current Republican-led U.S. administration would be even more inclined to adopt a resolute response to PRC provocation with a show of force in order to distinguish its China policy from the more accommodating approach of its Clinton predecessor.
1. Background/Justification/Importance

U.S. intelligence has assessed that China intends to modernize its military as a deterrent to third-party intervention in Taiwan and to protect claims in the South China Sea.\(^4\) Currently, the PLA is obtaining advanced weapons, including indigenously produced cruise and ballistic missiles, and openly purchasing sophisticated Russian naval and aircraft weapon systems.\(^5\) Future military confrontations between Taiwan and China may require the United States to display a naval show of force, as was the case in the 1995-96 Taiwan Strait Crisis. A future Taiwan Straits situation may be made even more complicated by the fact that the PLA, with its relatively newly acquired advanced weapon systems, may lack the competence to coordinate the weapon systems in a crisis. This will make its response difficult to predict. What is clear, however, is that the political situation will have become militarized due to the fact that the PRC has acquired more capable weapons systems so as directly to confront the U.S. Navy. Furthermore, the PLA may have a greater say in their use.

Any crisis dealing with China and Taiwan, or with the South China Sea, will involve a U.S. Naval Forward Presence. The U.S. Navy has accepted this responsibility since the emergence of a communist regime in China in 1949 and will justify funding to prepare for this possibility via the QDR process. The importance of proper funding is critical for the U.S. Navy fully to prepare for the challenges of the future, giving the Commander in Charge of the Pacific (CINCPAC) the ability to make sound decisions based on a realistic assessment of U.S. military capabilities in a time of crisis.

The U.S. Navy in the Pacific theater will continue to have an important stabilizing effect in the form of forward presence. This thesis will argue that the U.S. Navy has in the past had an important role to play in enforcing U.S. policy toward the China-Taiwan dispute and will continue to do so in the future. In addition to its strategic importance, U.S. Naval presence in the Western Pacific also brings with it an element of economic stability. By examining how the 1995-6 Taiwan Straits crisis had a positive impact on a variety of markets, including oil, a case can be made that a U.S. Naval Forward Presence brings about significant economic benefits to the United States and to its major trading

\(^4\) Ibid.
\(^5\) Ibid.
partners. This recognition should enhance the prospects for the U.S. Navy to acquire adequate funding during the current and future QDR processes.

B. METHODOLOGY

The research for this thesis comes from a variety of primary and some secondary sources. It focuses on the relationship of the United States, Taiwan and PRC. Additionally, the thesis makes use of books, scholarly articles and official reports as research sources on the evolving political climate in the region, as well as the technological capabilities of PLA, Taiwanese and U.S. naval forces.

C. ORGANIZATION

The thesis looks first at the evolution of U.S.-PRC policy toward Taiwan by exploring the history of China’s attempt to absorb Taiwan, the PLA’s modernization program, and how it clashes with U.S. goals in the region. It then posits a scenario for a hypothetical U.S.-PRC confrontation over Taiwan set in the year 2005. This year was chosen because Beijing may be tempted, as in 1995-96, to influence, through a display of military force, the post Legislative Yuan elections, where the Democratic Progressive Party has won a majority of seats. The scenario presents a plausible course for a U.S.-PRC confrontation over Taiwan. Finally, the thesis offers a projection on the likely influence U.S. Naval Foreword Presence may have on oil prices, a bedrock indicator of economic stability.
II. THE ROAD TO 2005; THE EVOLUTION OF US-PRC POLICY OVER TAIWAN

A. UNDOING THE “CENTURY OF HUMILIATION”

Beginning in the mid-19th century, European and American intrusions into the Western Pacific initiated a slow disintegration of China’s traditional dynastic system. The Chinese empire’s inability correctly to assess and adapt to the new threat of Westerners approaching from the sea, an anomaly from their historic problem of meeting threats in Central Asia, gradually destroyed the millennia-old framework of dynastic rule. That China’s antiquated army and navy were no match for Western militaries became evident in the first Opium War, which ended with the Treaty of Nanking in August of 1842. This and subsequent treaties, forced on a reluctant China by victorious Western states, became known as “unequal treaties” because they required the Qing Emperor to agree to policies that forfeited much of China’s sovereignty and they were not reciprocal. The result of the Opium War inaugurated what the Chinese call the “century of humiliation” as other incursions, wars, and treaties that granted new concessions and added new privileges for the foreigners followed the Treaty of Nanking. Foreign settlements established in the “treaty ports” created by these “unequal” settlements became pockets of foreign sovereignty over which China had no jurisdiction. Their security was assured by the presence of their respective warships and troops and their legality rested on extraterritoriality. Reform movements within China, like the “Self-Strengthening” movement of the 1860s and the “Hundred Days’” reform of 1898, failed to reunify the country and reverse the death spiral of the Qing dynasty.

The Western powers were not the only countries to intervene in China. Following the Meiji restoration of 1868, Japan quickly joined the ranks of powers making claims on Beijing. Japan defeated China in the war of 1894-95. The Treaty of Shimonoseki forced China to cede Taiwan and the Penghu Islands to Japan, pay a huge indemnity, permit the establishment of Japanese industries in four treaty ports, and recognize Japanese hegemony over Korea.

The erosion of the Qing dynasty’s claim to the “mandate of heaven” to rule over China resulted in the Revolution of 1911. Sun Yat-sen led the revolution, but Yuan
Shikai took over as head of the Chinese Republic. Although the revolution did overturn the Qing dynasty, it failed to unify the country. By 1915, much of China escaped the control of the Republic and instead was ruled by regional warlords. Japan, taking advantage of China’s disarray, placed upon China twenty-one demands, which reflected Japan’s attempt to turn north China into a Japanese protectorate.

Sun Yat-sen, China’s new revolutionary leader, tried unsuccessfully to enlist Western support to resist Tokyo’s encroachment. Therefore, in 1923, he turned for protection to the Soviet Union, which had recently achieved its own revolution. The Soviet leadership initiated a dual policy of support for both Sun Yat-sen and the newly established Chinese Communist Party. Sun Yat-sen’s untimely death cleared the way for his protégé, Chiang Kai-shek. By 1927, the Nationalist Government, led by Chiang Kai-shek, had nominally unified China under the Kuomintang (KMT) with a successful military campaign known as the Northern Expedition. China’s unification under the KMT was an imperfect process because Chiang had been forced to co-opt a number of warlords by allowing them to exercise a great degree of autonomy. Nevertheless, this arrangement, though unsatisfactory, freed Chiang to turn on the Communist elements within the Nationalist Party. Though successful in driving the Communists from the large cities, they established themselves in remote areas of the country and held out against Chiang’s offensives. Civil war between the Nationalist government and the CCP became a constant feature of Chinese history until the ultimate victory of Mao Zedong in 1949.

China’s instability enhanced Japan’s pursuit of regional hegemony and provided a vehicle for the Communists rise to power. Hungry for raw materials and pressed by a growing population, Japan initiated the seizure of Manchuria in September 1931, renamed it Manchukuo the following year, and established ex-Qing emperor Puyi as head of the puppet regime there. The loss of Manchuria, with its vast raw materials and war industries, was a blow to the Nationalist economy. As China was distracted by civil war, Japan in 1937 began a full-fledged invasion of China. Successive Japanese offensives drove the Nationalists ultimately to the city of Chungking in the far western part of the country. As the Japanese were interested only in occupying the major arteries of communication, the CCP was able to infiltrate and enthrone large sections of the country.
behind Japanese lines. This became a key factor in the CCP’s success in the renewed civil war that followed the defeat of Japan in 1945. Japan’s surrender also meant that Taiwan would revert to China. But after the Chinese Civil War concluded with the defeat of the Nationalists, Taiwan became the Nationalists refuge. Beijing today sees Taiwan’s defiance of its authority as part of the unfinished business dating from the Chinese civil war.

The victorious PRC, led by Mao Zedong, set out to restore stability, sovereignty and regional dominance to China. Mao sought to give the Chinese people a sense of order after the many years of civil war and chaos. The restoration of Chinese sovereignty, so often violated in the previous century, became critical for the credibility and legitimacy of the PRC in the eyes of its own people. Soon after the PRC took control of mainland China, the first confrontations began between Washington and Beijing that firmed up the U.S. policy of containment. The United States emerged to fill the political vacuum in the Western Pacific created by Japan’s defeat. Insurgent communist and nationalist movements churned Korea, Indonesia, Vietnam and the Philippines. With the outbreak of the Korean War in 1950, the protection of the KMT government on Taiwan became a cornerstone of Washington’s containment policy. Twice, in 1954 and 1958, Taiwan narrowly avoided becoming a Cold War battleground. U.S. policy over the past 50 years has helped to stabilize the Pacific arena. More importantly, future U.S. policies will affect and in some cases dictate Chinese actions toward Taiwan.

PRC long-term policy goals are: first, to make China a regional power and second, to exercise limited global influence, which will expand as its economy and resources grow. Finally, Beijing seeks to complete the agenda of national reunification. After the Cultural Revolution of 1966-1976 and normalization of diplomatic ties with the United States in 1979, China perceived itself as a developing power whose natural resources, manpower, nuclear capable forces, seat on the UN Security Council and growing economy gave it some of the attributes of a world power. The framework of


foreign policy that was established by Mao’s successor, Deng Xiaoping, in 1982 was called China’s “independent foreign policy.” Although this policy was developed during the Cold War, it has served China well during the post-Cold War era.

The foreign policy framework established by Deng Xiaoping is based on 4 key assumptions: (1) great power conflicts are decades away; (2) economic strength is paramount; (3) regional conflicts will occur but East Asia should remain stable; (4) the PRC has much to gain by foreign investment. Bilateral ties with the United States are critical for the policy to succeed, along with improved economic relations with all states in the Pacific Rim. As China increases its economic prowess, its military strength must evolve to buttress its policies. To prepare for this new era, the PRC is pursuing military reform with a view to improve both intelligence collection and to restructure the PLA as a smaller more capable force. Jiang Zemin, Deng’s successor, continues to follow this general policy direction, which is unlikely to change in the foreseeable future.

The Chinese vision is not a far-fetched dream, but a realistic blueprint for internal and external development. China’s economic growth has averaged seven percent since the early 1980s, which has made China the sixth largest economy in the world. During the same period, the United States economic growth has remained at two to three percent annually. Of course, China started from a much lower scale of development than the United States. Moreover, China’s history does cast some doubt on its ability to modernize successfully and become an economic and military powerhouse. The Communist Party, known for its inefficiencies, will play the largest role in China’s modernization. The Party will have to evolve to the point that it embraces privatization of the economy and fosters a creative environment for its scholars, scientists and entrepreneurs. Making these changes would provide China with the chance to become the market of great fortune the West has believed it to be since Marco Polo first reported its riches in 1295.


8 Lampton, Ibid., p. 64.
9 Lampton, Ibid., p. 65.
1. **PRC Attempts to Assimilate Taiwan**

In December 1954, the United States and Taiwan signed the Mutual Defense Treaty, which secured Taiwan’s protection under the umbrella of the U.S. containment policy. The treaty prohibited Chiang Kai-shek, then Nationalist leader of the ROC, from trying to “recover the mainland” by force. Nevertheless, on two occasions, Mao’s China mounted military offensives against Taiwan. They contested I-chiang-shan Island in 1955 and Quemoy and Ma-tsu Islands in 1958. These offensives increased the Nationalist government’s dependence on the United States for military support. The ROC and PRC have been in a stalemate ever since.

With the normalization of diplomatic relations between the United States and PRC in 1979, each side released a statement laying out its policy toward the Taiwan situation. The United States resolved that the Chinese themselves settle the Taiwan issue peacefully.10 For its part, the PRC vigorously argues that the “reunification” of their country is entirely a Chinese internal affair.11 The PRC’s patience shows signs of wearing thin after many years of failing to negotiate “reunification.” The 1990s were highlighted by ups and downs of cross-strait talks. The PRC proposed a “one-country two systems” approach, which Taiwan declined to accept. Beijing’s frustrations were routinely manifested in the publication of its defense white papers, which restated China’s claim of entitlement to use force against Taiwan. Unlike previous white papers, however, the 2000 version reserved the right to attack if Taiwan refused “sine die” to conclude “the peaceful settlement of cross-Straits reunification through negotiations.”12

2. **Economic Exclusion Zones**

China’s search for energy sources to feed its rapidly expanding economy has generated an expansive “economic exclusion zones” (EEZ) policy. The PRC, since the early 1950s, has laid claim to the entire South China Sea as depicted on the map below, Figure 1. This forms a second area of potential conflict between Beijing and several countries, including the United States. Currently, seven countries hold direct claims to

islands in the Spratly and Paracel maritime regions based on United Nations Convention on the Law of the Sea (UNCLOS). From a historical perspective, the Chinese case is better documented than those of the other claimants. But the extent of the Chinese claims (and particularly the PRC’s expansive and undefined “nine-dashed line” claim) remains ambiguous and contradictory.

PRC interests in the EEZ is based mainly on the premise that vast oil reserves lie beneath the surface, reserves vital to China’s economic growth. Beijing estimates that every one percent increase in GDP requires a 1.8% increase in oil consumption.

Figure 1. South China Sea Territorial Claims by Surrounding Countries
Source: Map taken from http://www.middlebury.edu/southchinasea

Estimates based on the past decade and predictions for the next five years have Chinese growth approaching 8%. The energy capacity within the PRC-claimed waters may become critical in the future as the untapped natural resources in that zone become economically feasible to draw upon. China’s ability to assert its South China Sea claims has increased with the liberalization of the PLA economy. The PRC’s rise as a regionally dominant power will continue to influence the way in which Spratly and Paracel maritime regions are divided up. The ROC echoes Beijing’s claims in the South China
Sea. If the PRC attains niche military parity with the United States, the South China Sea issue will be aggressively pursued with perceived outcomes favorable to China.

3. Stabilize the Rule of the Communist Party

In 1978, after the death of Mao and normalized diplomatic relations with the United States, Deng Xiaoping restored authority to the Chinese Communist Party as a decision-making entity based on its revolutionary legitimacy. The constitution in 1982 was revamped to allow Deng to pursue a two-pronged strategy. According to American Sinologist Kenneth Lieberthal, Deng first loosened the ideological straitjacket of the party to create a general sense of new opportunities, excitement and support. The Cultural Revolution had been so disastrous to the Party’s legitimacy that Deng was able to build coalitions between conservatives and reformers to make sweeping changes. The Third Plenum witnessed the failure of Hua Guofeng, Mao’s replacement, in his effort to hold back the backlash against the Cultural Revolution. It was not ideology that failed Hua Guofeng or gave Deng Xiaoping victory. Rather, it was Deng’s ability to build a coalition among erstwhile political enemies to implement his strategic vision for China’s economic and military development.

From 1978 to 1984, Deng was successful with his reforms. But eventually, within Deng’s ad-hoc coalition tensions rose to a point that they dominated subsequent policy making. However, routine had been restored to the political system, so that plenums were held as scheduled and consensus was regularly achieved between the two sides. But the power struggle between Chen Yun, leader of the conservatives, and a Long March veteran, and Deng Xiaoping caused the reform movement to take on periods of policy loosening (fang) and tightening (shou).

After 1984 regular plenums served only to mask rather than resolve differences of opinions among the party leaders. Party compromises became reconciled through power struggles. Deng’s 1984 adoption of the “Decision on the Reform of the Economic Structure,” which ran counter to the course championed by the conservative Chen Yun,

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14 Ibid.
created deep fault lines within the party. The 1989 Tiananmen Square incident was interpreted as a visible consequence of the interplay clash between the two sides.

The cycles of economic expansion and retrenchment reflected a divided party. Although Tiananmen was a result of intense party conflict, Deng never the less emerged victorious. The political balancing of power has become the legacy of the Deng Xiaoping era. In addition, Deng also laid the foundation for liberal economic reforms that have allowed the contradictory spectacle of the communist regime working to strengthen the foundations of a market economy.

Deng’s era, which Jiang Zemin is extending, has left the party embroiled in constant power struggles between the two factions. Jiang Zemin has become a power broker whose goal has been to maintain a forward-looking party direction while at the same time shoring up his power base. “If Jiang Zemin did not stand up for Chinese sovereignty, he could be removed,” one of China’s senior military leadership is quoted as saying. “It would not be a big thing. We have a collective leadership.” By moderating his ideology, Jiang Zemin is able to maintain the spirit of Deng’s liberal economic reform. This moderating trait is also what has allowed market reforms to take place within China to the extent that the PRC has now been given approval to enter the World Trade Organization.

4. Regional Leadership

Beijing publicly denounces the idea of China becoming a hegemon in the future. Sinologist Michael Pillsbury quotes Chinese documents as showing “the new Chinese-style world system of the Five Principles will be much better than systems of the past and present, because there will be harmony, no ‘power politics,’ and no more ‘hegemony’.” The Chinese may profess a desire to not become a world hegemon. However, their actions, including the quest to build a robust military so that they can stand up to the West, as evidenced in the EP-3E incident of April 2001, indicate ambitions to regional hegemony. The idea of respect upon which Beijing insists recalls that pursued by the Japanese following the Meiji Restoration. The Chinese do not subscribe to Western

16 Ibid., p. 526.

views of international relations as a choice between realism or liberalism. “In contrast to Western research that suggests that miscalculation and misperceptions may be the leading cause of war, Chinese analysts assert that ‘scrambling for resources’ causes war,” according to U.S. Sinologist Michael Pillsbury. “Economic factors are... the most fundamental cause triggering war.”18 The Chinese reasoning, with its strongly Marxist/Leninist overlay, has some merit. But from a U.S. perspective, it seems to fit easily into the neo-realist approach to power politics.

“Strategic misdirection” was the Chinese explanation for the United States victory in the Cold War. By keeping oil prices down, the United States was able to limit Soviet income. The United States’ pursuit of the “Star Wars” defense platform brought about the collapse of the Soviet Union by economically bankrupting them. Beijing concludes that China, even with its strong growth in GDP, is not yet in a position to challenge the United States and possibly may be at the receiving end of a “strategic misdirection” campaign. The PRC fears that a “China threat” policy may result in the focus of United States defense technology against China.

“Engagement” and “containment” have surfaced as the two strategies available to the United States in its dealings with the PRC. “There is general agreement in the United States that Washington should use its influence to have Beijing conform to international norms and to foster changes overtime in China’s political, economic and security systems compatible with U.S. interests,”19 according to Kerry Dumbaugh a Congressional staffer. The Nixon, Ford, Carter, Reagan, Bush and Clinton Administrations followed a strategy of engagement towards China. At the outset of his administration, however G.W. Bush, labeled the PRC “Strategic Competitor.” Talk of strengthening security alliances with Japan, South Korea and Australia give the impression that Washington was set to pursue a strategy of containment vis-à-vis Beijing, although the events of September 11, 2001 and the subsequent “war on terror” may have modified Washington’s policy somewhat.

Bush’s views came as no surprise to Beijing, which contended that the “mistaken” bombing of the Chinese embassy in Belgrade and growing U.S. support for further

18 Ibid.
assistance to Taiwan’s defense already offered indications of Washington’s real policy. The TMD initiative is also perceived as being targeted against China and offers further proof to Beijing that U.S. intentions are hostile.

The PRC wants to hold confrontation with the United States in abeyance, until its strength is sufficient to challenge the United States. As mentioned previously, 2005 is the timeframe the United States intelligence services forecast that the PLA will be able to face successfully down the United States over Taiwan. The two building blocks for Chinese success are an aggressive revolution in military affairs (RMA) for the PLA followed by the pursuit of a Russian alliance.

B. PRC’S RMA

1. China’s Advanced Military Capabilities

In his book, *China Debates the Future Security Environment*, Michael Pillsbury argues that some PLA officers truly believe that the PRC will become an East Asian hegemon in the short term and will eventually equal the United States around the year 2025. In the short term, as the East Asian hegemon, China plans to circumscribe Taiwan’s political options through the continued production and targeting by the PLA of the CSS-6 missile system. Beijing calculates that the PLA’s cruise missiles will intimidate Taiwan, while the PLA navy and air force deter third-party intervention.

China’s focus on missile systems, naval assets and fourth generation fighters offers a credible strategy to achieve this goal. In addition to recent acquisitions of technologically advanced weapon systems, Beijing, in its 1995-96 Taiwan Strait exercises demonstrated an intent to develop a joint operations capability. The weapon systems that China is purchasing abroad include the Kilo-class submarine, Sovremenny destroyer and Su-27 and Su-30 fighters. In this way, the PLA can pose a direct threat to a U.S. carrier battle group that dares insinuate itself between China and Taiwan.

Some may doubt China’s ability to tactically employ sophisticated weapon systems like the Sovremenny and the Kilo submarine. But the fact that the PLA possesses these platforms means that the United States must consider them a credible

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threat. The Sovremenny is already equipped with the SS-N-22 Sunburn ASCM. This poses a realistic challenge to a U.S. carrier battle group. However, the Sovremenny as a “stand alone” weapon system is vulnerable to attack and counterattack. Another report states that the Chinese are trying to acquire SS-N-27 anti-ship cruise missiles for the four Kilo submarines. A Kilo submarine armed with SS-N-27 missiles would be a greater threat to U.S. surface ships than China’s SS-N-22-armed Sovremenny-class destroyer, since detecting a submarine is a far greater challenge than detecting a surface vessel.

The acquisition of modern fourth generation fighters is paramount to the success of PLA strategy because most of its indigenous PLA fighter aircraft are obsolete, even antiquated 1950s era technology. The Su-27 and Su-30 are and will be a significant upgrade over China’s existing inventory and are comparable to the U.S. F-15C air superiority fighter. The combination of the PLA’s AA-11 AAM and either the SU-27 or SU-30 fighter could prove a vexing air to air challenge for current day fighter aircraft of other Asian and U.S. forces. “The effectiveness of the Su-27, for instance, will depend on a large part on how well these fighter aircraft are supported by, and integrated with, any future PLA aerial refueling, airborne early warning, and electronic warfare capabilities,” according to the report to Congress.

2. Military Allies

China’s indigenous advances in missile technology, due mainly to U.S. technology being sold to China during the 1990’s, have directly affected U.S. policy towards the Far East. National Missile Defense (NMD) and Theater Missile Defense (TMD) are advertised as defenses against North Korean aggression. But some may see the system as concentrating on protection from China. U.S. defense initiatives like NMD and TMD appear to be pushing China and Russia to form a PRC-Russian strategic partnership against the sole superpower. In July 2000 several Chinese sources reported that Russian President Vladimir Putin told Chinese President Jiang Zemin that in the

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22 Kan, Ibid.

23 Kan, Ibid.
event of conflict between the People's Republic of China (PRC) and Taiwan, he would order the Russian Pacific Fleet to block any intervention by the U.S. 7th Fleet.\textsuperscript{24} China and Russia have even held a joint exercise that simulated a Taiwan scenario. Therefore, not only is China trying to purchase a naval fleet and a fourth generation air force. It is also hoping that the Russian Pacific fleet might support it during critical junctures, as forecasted for the 2005 time frame. The flaw in this scenario is the diminishing capability of the Russian Pacific Fleet due to lack of funds. The Jane’s article also mentioned China’s leasing of airborne early warning (AEW) aircraft from Russia, made necessary after the U.S. pressure on Tel Aviv caused the Israeli AEW deal to collapse. Nevertheless, the prospect of Sino-Russian cooperation in the Pacific has the potential to create problems for U.S. military planners attempting to game a crisis over Taiwan and/or the South China Sea, because it would constitute an unwanted escalation.

More recently it has been reported that the PRC has pursued the acquisition of forward naval bases in Myanmar\textsuperscript{25} and Pakistan.\textsuperscript{26} A PLAN fleet located in the Indian Ocean would create a whole new set of challenges for the United States. The PRC’s acquisition of advanced weapons and forward basing combined with a military alliance with Russia serves to underline China’s resolve to be taken seriously as an Asian power, and to settle the Taiwan question on its own terms.

C. \textbf{US: GOALS IN WESTERN PACIFIC}

The G.W. Bush Administration, which took office in January 2001, was eager to distance itself from what it saw as a policy of appeasement of Beijing followed by the Clinton Presidency. A Rand study entitled \textit{The United States and Asia: Toward a New U.S. Strategy and Force Posture}, published in 2001, characterized the Clinton Administration’s policy in the following way: “The United States should seek to influence the region [Asia] in a manner that fosters the development of democratic, market-oriented societies that are willing and able to abide by current international norms

\begin{itemize}
\item[\textsuperscript{26}] Bill Gertz comp. “China building port for Pakistan,” Geostrategy-Direct Backgrounder, 29 May 2001; accessed on 6 June 2001; available from \url{http://www.geostrategy-direct.com/getstrategy-direct}; Internet.
\end{itemize}

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of behavior and, eventually, to cooperate in the manner of the democratic European nations so that major armed conflicts among them become unthinkable.”\textsuperscript{27} Despite, the terrorist incidents of September 11, 2001, which have pushed Washington and Beijing closer together, there is scant evidence that the Bush Administration has wavered in its commitment to Taiwan to protect it from PRC intimidation.

The perception in Washington that the PRC is a rising power with hegemonic aspirations influences U.S. policy in the Far East. The Rand study concluded that it is paramount for the United States to remain the stabilizing force in the Western Pacific until East Asia functions as a group of democratic nations able to resolve their differences peacefully. The most consistent diplomatic/military stabilizer in the region is the USCINCPACCOM, currently commanded by Admiral Blair, and the U.S. Seventh Fleet. The United States policy in the Western Pacific rests on four pillars: maintain regional stability; shepard the Taiwan issue towards a peaceful resolution; keep open the SLOCs in the South China Sea; and, finally, oversee the continued development of trade.

1. Regional Stability

The rise of China as a regional economic and military power in the post-Cold War era has brought about a shift in focus in the United States from Europe to the Asian-Pacific region.\textsuperscript{28} While the United States has exercised a stabilizing influence within Europe as a leader of NATO, the Asia-Pacific lacks such a multilateral organization. Therefore, Washington maintains its influence in the Far East through official bilateral ties with its allies Japan, South Korea and Australia, and at the same time maintains unofficial bilateral ties with Taiwan. The way in which the reliability of the United States is perceived as an ally and “balancer” in the region will have a pivotal influence on the strategic behavior of the United States allies.

A strong U.S.-Japan security alliance will be critical for the Asian-Pacific post-Cold War era, just as it was during the Cold War. Both the United States and Japan, and indeed nations throughout the region, recognize the alliance as critical to their interests of

\textsuperscript{27} Khalizad, \textit{Ibid.}

regional peace and stability.\textsuperscript{29} As an ally and balancer, the United States has two critical advantages according to the recent Rand study: “It is powerful, and it is far away and hence is less likely to be seen as a direct threat.” \textsuperscript{30} In September 1997, Japan strengthened its commitment to rear area support of U.S. forces engaged in the region.\textsuperscript{31} The Bush Administration quickly reaffirmed Japan’s importance to regional stability. Japan’s commitment takes on a greater importance, given Beijing’s increasingly assertive posture in the region.

Cold War alliances are still critical in the post-Cold War era. Following the 1951 U.S. Japan Security Treaty, Japan was solely allied with the United States. Likewise, the post-Korean War U.S. ROK treaty established the alliance between the United States and South Korea. The strong US-ROK deterrence posture has contributed to the diplomatic successes on the easing of tensions on the Korean peninsula. A unified Korea allied to the United States would serve as a counterweight to an Asia split between China and Japan. In addition, a strong bilateral security relationship would protect U.S. interests on the peninsula and in East Asia.\textsuperscript{32} The Bush Administration’s initial view of China as a “strategic competitor” highlighted the importance of secure bilateral ties with South Korea and possibly a unified Korea. An attempt to increase ties to form a multilateral agreement among United States allies in the region would undoubtedly include South Korea.

In the summer of 2001, Australia proposed a new Asia security forum to include the United States, Australia, Japan and South Korea. This would undoubtedly firm up the commitment by the Bush Administration to remain engaged in the Asian-Pacific region. Australia, another long time ally, is a critical partner for the United States in the Asian-Pacific post-Cold War era, just as it was during the Cold War. The drawback of this approach is that by working actively to create a multilaterally defined organization, the

\textsuperscript{30} Khalizad, \textit{Ibid}.
\textsuperscript{31} Slocumbe, \textit{Ibid}.
\textsuperscript{32} Slocumbe, \textit{Ibid}.
United States in its attempt to reassure its allies of its commitment to the Asia Pacific, will send Beijing the message that it is being “contained.”

The 2001 Annual Report to the President and the Congress by Secretary of Defense William S. Cohen asserts that the success United States strategy hinges on strong alliance relationships within the region, especially with Japan, the Republic of Korea (ROK) and Australia. In addition, “the continued strengthening of U.S. security dialogues and confidence building measures with members of the Association of Southeast Asian Nations (ASEAN) through the ASEAN Regional Forum is one of many ways the United States is working to enhance political, military and economic ties with Allies and friends in Southeast Asia.” The United States military presence or, at the very least easy access to the Far East, is critical for two reasons: first, it reassures strategic allies of the U.S. commitment to that region. Second, it allows a real capability for the United States to implement war plans in the vastness of the Pacific.

With the support of regional allies, the United States could reduce its permanent force structure in its Pacific area of responsibility. For example the United States could rely on guaranteed access for an influx of military assets during a crisis. One example of many possibilities would be to extend security cooperation with the Philippines. The Philippines could allow frequent rotating deployments of U.S. forces. Of course any initial response to a Taiwan situation would involve the Navy. But as the Philippines are critically located to cover contingencies in the South China Sea, the islands may become a key factor in future U.S. strategic policy.

A delicate balance between the reduction of forces and bases in a caretaker status will undoubtedly be watched closely by the United States’ long-time allies in the region, not to mention by Beijing. As mentioned previously, the role of the United States as a stabilizing force is viewed by many regional players as critical, especially in a time when China is rising as a regional power. However, since the multilateral security alliance

33 Slocumbe, Ibid.


35 Khalilzad, Ibid. This idea was presented in the study. Also for more information on the Philippines on a potential base for U.S. force deployed ships, see Thomas Garcia, “The Potential Role of the Philippines in U.S. Naval Forward Presence” (Master Thesis, Naval post-Graduate School, 2001).
proposal by Australia, there has been little action by the players involved to develop further the idea. U.S. bilateral policies in the Far East may be interpreted by China as being ambiguous. The PRC may choose to interpret ambiguity as a green light to make an aggressive move toward Taiwan.

2. Peaceful Resolution of Taiwan Issue

For over fifty years, the United States has been able to protect Taiwan from assimilation into the PRC against its will. With the full normalization of U.S.-PRC relations in 1979, it could be said that the Cold War with the PRC was over. This was confirmed as Chinese communist economic policy began to abandon socialist principles and evolve toward capitalism. Bilateral relations, between Washington and Beijing are based on the so-called “three communiqués” of 1972, 1978 and 1982. The second communiqué the United States accepted Beijing’s “one China” formula that accepted that Taiwan is part of China. However, Taiwan’s development as an economic power and robust democracy has created a dilemma for both Beijing and Washington. The more Taiwan evolves, the less likely it will willingly join the PRC and the less likely Washington will stand aside and allow Beijing forcibly to integrate Taipei into the PRC.

The 1995-96 Taiwan Strait crisis occurred in reaction to the U.S. decision to give then ROC President Lee Teng-hui a visa to the United States. The PRC orchestrated overtly aggressive amphibious maneuvers and missile launches by the PLA. This directly challenged the United States determination to ensure the Taiwan situation was resolved peacefully. At that time, political tensions were mounting within the PRC over the possibility of the Taiwanese Democratic Progressive Party (DPP) candidate winning the presidency in the Taiwanese elections. The DPP’s whose platform included a free and independent Taiwan. The PRC reacted with a show of military force by launching two SRBM’s towards Taiwan during an exercise that coincided with the elections. The United States twice responded with the deployment of CVBGs to the Taiwan Straits in November 1995 and March 1996. The PLA curtailed its exercises. The United States recalled its carriers and the Taiwan situation returned to the status quo.

The policies formulated by United States administrations since Harry Truman have proven successful in allowing Taiwan to evolve toward capitalism and democracy. Taiwan’s ability to keep Beijing at bay has been due largely to the fact that an unhappy
Congress enacted legislation in 1979 to permit continued U.S. support for Taiwan independence. This legislation, which is more than 20 years old, is called the Taiwan Relations Act. “Of particular importance in the current environment is Section 3 of the TRA, dealing with U.S. defense commitments to Taiwan. Section 3 is non-specific about the defense articles and services the United States will provide. It merely calls for ‘such defense articles and services…as may be necessary,’ and gives Congress a role in determining what needs Taiwan may have.”  

The TRA’s section 3 contradicts the 1982 communiqué between Washington and Beijing, which committed the United States slowly to reduce the quantity and quality of arm sales to Taiwan. The ambiguity of the United States policy has been the lynchpin for continued success in allowing Taiwan freely to pursue self-determination.

3. The United States and the South China Sea

Since 1995, the United States views freedom of navigation in the South China Sea (SCS) as vital to its national security interests. The sea lanes of communication (SLOC) of the SCS, as depicted on the map below, Figure 2, are the economic conduits for Northeast Asia, through which vital oil and imports as well as exports of finished products throughout the world. The SLOC’s secondary importance concerns U.S. Naval forces transiting to the Indian Ocean and the Persian Gulf. That the SCS remains a potential hot spot cannot be in doubt. The April 2001 EP-3E incident was simply the latest in a list of confrontations in the SCS that include the Chinese take over of the Paracel Islands in 1974, the occupation of six reefs in 1988, and subsequent reef occupation incidents in 1992 and 1995. The SCS is part of China’s main focus for economic expansion which it is prepared to back by military power. Protection of Chinese claims, which includes most of the South China Sea, will require a large and capable U.S. fleet. United States policy with regards to freedom of the sea firmly agrees with and actively supports the UNCLOS III Law of the Sea agreement, which puts restrictions on claims made on the high seas.

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4. Globalized Trade

The United States is the world’s biggest proponent of free trade, primarily because it strengthens the U.S. economy. The major countries of East Asia have also reaped the benefits from the increased globalization of trade. Taiwan, in particular, with its “miraculous transition” was quickly identified as one of the Asian-Pacific’s financial leaders. The United States and its allies depend upon sea-lane access, which continues the integration of world markets. Areas of the world such as the South China Sea have become critical choke points for trade. The U.S. Navy has been essential in guaranteeing freedom of the seas so that free trade would flourish.

Economic interdependence may be seen as the best way for the Taiwan situation to be defused. The PRC’s and the ROC’s accession in 2002 into the World Trade Organization demonstrates the PRC’s increasing integration into the world economy. But the fact still remains that Taiwan has a unique history. Even as the United States and the
PRC increase their economic ties, incidents like the EP-3E collision indicate that economic self-interest alone cannot keep two nation-states from tangling in a quarrel. Even as economic ties between the PRC and the ROC have increased tremendously in the 1990’s, the PRC defense white papers have stepped up the menacing tone of their rhetoric about their willingness to use force to “reunify” Taiwan.
III. SCENARIO

A. INTRODUCTION

The scenario begins in January 2005, after a political watershed year, including presidential elections in both the United States and Taiwan, followed by elections in the Legislative Yuan, the Taiwanese Parliament, in December 2004. Presidents Bush (Republican) and Chen Shui-bian (DPP) were both re-elected. However, there was a power shift in the Legislative Yuan. Until now, the KMT had maintained 46.4 per cent, or 123 seats, in parliament against 29.6 percent for the DPP. A rise in nationalistic sentiment among the Taiwanese catapulted the DPP into control of the body with 130 seats against the 70 seats for the KMT.

In Beijing, the CCP had undergone a “changing of the guard” in the autumn of 2002, as General Secretary Jiang Zemin of the Communist Party stepped down and new, younger communist leaders took office. China’s economy has maintained the eight percent growth rate and is now ranked third behind those of the United States and Japan. The Communist Party successfully engaged the revolution in military affairs (RMA) at the turn of the century. The PLA believes that the government is prepared to utilize its modern, high-tech arsenal of electronic warfare, including cyber war and anti-satellite weapons, as well as cruise and ballistic missiles to realize PRC objectives toward Taiwan. However, China has attained great success in the RMA and continues to modernize its conventional forces, the PLA has yet to be put to the test.

The Russian Pacific Fleet is able to maintain an “Eskardo,” as the Russians call it, which is equivalent to a U.S. battle group. The Sino-Russian strategic partnership has blossomed into a yearly joint exercise during the month of June, in which the two militaries practice invading an island, closing off the SLOCs through the South China Sea and attacking two CVBGs. In the United States, the Taiwan Security Enhancement Act has still not passed the Senate. The Democratic controlled Senate believed the Taiwan Relations Act to be sufficient and favors a policy of engagement through trade with China. U.S. arm sales to Taiwan have not been as robust as Taiwan would have liked and Aegis cruisers and fast-attack submarines have yet to be approved. In the PRC’s eyes, the critical political linkages between the United States and Taiwan have yet to develop
in the 21st century. The lack of truly state-of-the-art advanced arm sales and the failure to implement the TMD initiative is casting doubt on whether the United States will actually intervene on Taiwan’s behalf in the case of Chinese aggression. In addition, the United States is heavily distracted by its war on terrorism, casting doubt on whether the United States still sees Taiwan as a top priority.

B. TIMELINE

The main events of the crisis are as follows:

**January 5, 2005**

Washington is unable to install the TMD system on Taiwan since the TSEA failed to pass the Senate. This has caused President Bush to follow through with his threat, made in May 2001 at the time of the authorization of the sale of four Kidd class destroyers. Now, the sale of Aegis cruisers and fast-attack submarines to Taiwan will be approved. White House officials say that this move reflects a longstanding U.S. commitment to help Taiwan to defend itself. China announces that the “imperialist” United States is continuing its effort to meddle in China’s internal affairs. In a State of the Union Address, President Bush states the U.S. policy on Taiwan by saying, “Read my lips! We will do whatever it takes to defend Taiwan!”

**January 15, 2005**

Since the KMT defeat in the Legislative Yuan elections, President Chen has stated privately that he will work with the DPP-controlled body to shorten the timetable for Taiwanese independence. Beijing’s Xinhua News Agency quotes unnamed PLA sources that state that Taiwan is on a collision course for a military confrontation.

**January 17, 2005**

The PLA force structure is strengthened along the coastline facing Taiwan. Fifteen Chinese troop carriers transporting landing craft move down from Shanghai to dock at the Fujian port of Xiamen. This gives the PRC a total of 45 landing craft across the Strait from Taiwan. While Quemoy is near the mainland, it is 175 kilometers across the Taiwan Strait from the mainland to Taiwan. PLA-AF SU-30s continue to harass U.S. surveillance planes, which are ordered to remain 100 miles off the coast of China.
January 19, 2005
Taiwan’s defense minister says China is massing troops for a large scale amphibious assault exercise, foreshadowing a Taiwan invasion scenario.

January 20, 2005
China allows CNN International to do a piece on the 600-plus missiles pointed at Taiwan. Wolf Blitzer does a compelling piece on the resolve of the Chinese people to be reunited with their Taiwanese brethren. But Blitzer is quick to point out that the 2001 U.S. arms sales of AMRAAM air defense system, in addition to the successful delivery of the four Kidd Class Destroyers and the upgraded Patriot III Air defense system, cast into doubt China’s ability to pose a credible threat to Taiwan.

It is possible, however, that Beijing has drawn the opposite conclusion a recent PLA internal paper that has fallen into U.S. hands argues that the TMD has not been incorporated into Taiwan’s defense and Washington will not protect Taiwan in a crisis. Instead, the paper argues, the United States has been using TMD as a bargaining chip for economic issues. Through the integration of U.S. intelligence efforts and command and control systems with those of Taiwan, TMD would demonstrate on both the political and military levels a firm resolve to defend Taiwan. Without any effective way to defend Taiwan, the United States will most likely not risk a CVBG to secure Taiwan and instead fall back on its ambiguous Taiwan policy as an excuse not to intervene.

January 25, 2005
China proposes a two-year incremental plan to do away with trade barriers on U.S. automobiles, which was to occur prior to required barrier drops as outlined in the WTO phase-in process. The U.S. auto industry would then have a free reign to sell cars to a population of over one billion people. In the same press release, China mentions that it is close to signing the largest contract ever with Boeing. Both transactions offer a boost to the U.S. economy and a way to offset somewhat America’s huge trade imbalance with the PRC.

February 2, 2005
The PLA announces military exercises scheduled for February 15.
February 4, 2005

President Putin announces that the Russian Navy will join the PLA exercise scheduled for February 15. Of note: last June’s annual joint Sino-Russian exercise came to an alarming conclusion as elements of the Russian Fleet remained in the South China Sea for nearly 90 days. Ostensibly, this was because both Beijing and Moscow are leery of the U.S. acting unilaterally as it did in Kosovo in 1999. Some elements in the CCP argue that a crisis over Taiwan might bring on a demonstration of U.S. air power such as that used against Belgrade and Afghanistan in 2001. Others believe that, with elements of the Russian fleet operating in the South China Sea for an extended period, the United States will approach the Taiwan situation more cautiously.

China’s news agency again transmits warnings towards Taiwan about the dangers of independence.

February 5, 2005

The China Business Council led by Boeing, Motorola, Caterpillar, AT&T, and the American industrial group “Business Coalition for U.S.-China Trade” step up their lobbying to deter President Bush from confronting Beijing over Taiwan, lest a crisis damage their profits. However, during his State of the Union address, the President reaffirms that the United States will defend Taiwan if the island is attacked.

The Russian news agency Itar-Tass announces that the Russian Pacific Fleet has taken station in the South China Sea during the Chinese exercise.

February 7, 2005

In the evening the PLA announces a live fire exercise of the JL-2 missile from their newly commissioned class of the Type 094 class nuclear submarine (SSBN), in addition to an amphibious landing exercise to take place between February 15th and 20th. Recent intelligence reports have verified the PLA’s much improved cruise missile technology. In fact, the improved accuracy of the new missiles is such that they are now capable of taking out specific Taiwanese military targets.
February 8, 2005
The Senate Foreign Relations Committee reopens the Taiwan debate. Beijing’s Xinhua News Agency calls on the DPP to put more emphasis on the reunification with the mainland. Otherwise, Taiwan could force a military confrontation.

February 12, 2005
CNNT (Taiwan) reports large-scale power grid failures all over Taiwan except for key industrial sites and the Taipei Airport. They also report massive cell phone failures throughout the capital. Beijing has no comment.

February 15, 2005
The United States dispatches the ready carrier battle group, led by the USS Kitty Hawk, to take up station in the Taiwan region. The battle group contains Aegis cruisers and is also accompanied by three newly commissioned stealth missile gunboats along with the command and control ship USS Blue Ridge. Estimated time of arrival for the CVBG is 18 February. Simultaneously, the U.S. Administration announces the approval of the sale of eight Aegis cruisers and eight fast-attack submarines to Taiwan, with the caveat that delivery will not occur until the summer of 2012. Beijing reacts angrily and threatens to cancel plans to drop trade barriers on U.S. automobiles and cancel the Boeing contract.

Internal PRC party documents later show that the increased political ties between the United States and Taiwan, together with the power projection of the carrier battle group and the sale of advance weaponry, convincingly demonstrate an unconditional U.S. commitment to back Taiwan.

February 16, 2005
Taiwan’s defense minister states on CNNT (Taiwan) that his nation’s air defense mainframe computers have come under attack by an unknown source, but that Taipei has ample back-up systems to maintain Taiwan’s defense shield (which is not true). U.S. Secretary of State Powell pointedly blames China for increased cyber warfare attacks on Taiwan. Secretary Powell adds that China is clandestinely attacking Taiwan’s economy and that the United States will support its ally.
**February 18, 2005**

Powell, at an impromptu press release, announces that the United States is canceling the 25 February port visit in Manila for the Ronald Reagan Battle Group, which is on its return transit home from the Persian Gulf. The battle group will be redirected to take up station south of Taiwan.

**February 20, 2005**

The PLA announces the conclusion of the successful sub-launched JL-2 missile test firing and states it will continue with the amphibious exercise, but on a much smaller scale. Beijing offers no further comment on this change of plans.

**February 22, 2005**

China announces that its amphibious landing exercise is complete and that all forces will return to their home bases. The United States announces that it will withdraw the U.S. aircraft carriers currently operating in the area. Beijing had concluded that war with the United States was imminent if the DPP and President Chen had gone public with legislation for an independent Taiwan. Beijing believed it could have defeated the carrier battle groups, but felt the United States would resort to the use of nuclear weapons upon losing two carrier battle groups. The willingness to send two carrier battle groups to the area was enough to demonstrate the U.S. commitment towards Taiwan.
IV. NAVAL FORWARD PRESENCE ECONOMIC IMPACT

A. RELATIONSHIP BETWEEN NAVAL FORWARD PRESENCE AND THE ECONOMY

The United States is a maritime nation dependent on external commerce for its economic livelihood. On any given day, fifty percent of the U.S. Navy’s active fleet is underway and more than a third is forward deployed. In addition, ninety five percent of U.S. trade is transported by sea, which represents 20 percent of America’s GDP. The Navy has long argued that its role in the global economy is to be forward-deployed. Naval Forward Presence brings four primary benefits: 1) it deters the outbreak of war; 2) the Navy is positioned to respond rapidly to crises; 3) U.S. Naval Forward Presence shapes the future security environment through engagement; 4) finally, Naval Forward Presence demonstrates U.S. resolve in the pursuit of foreign policy objectives. These benefits remain valid at the onset of the new millennium. The Navy continues to be the prime protector of the U.S. economic security, whose importance and fragility were revealed by the recent terror attacks.

1. Economic security as a United States National Security Interest

“From the founding of the republic, our economic expansion has been largely a product of foreign trade—initially raw materials and later, manufactured goods,” writes Captain Sam Tangredi. “Today, the product includes information, but even this travels over routes that pass through sea, air, littoral, space and cyberspace mediums in which the Navy operates.” The livelihood of all U.S. citizens depends on the government’s commitments and policies relating to the domestic and global economy. A strong economy is one of the core requirements for the United States in pursuit of national security goal. Much hinges on the successful management of the value of the U.S. dollar, which is a key component of the world global economy. There are mechanisms in place,


38 Ibid.

such as Alan Greenspan and the Federal Reserve that play a global as well as a national role in the management of the economy as it responds to market forces. But U.S. Naval Forward Presence provides the stabilizing presence for the national and global economy.

2. Naval Postgraduate Schools Study on Naval Forward Presence

The direct linkages between the economy and Naval Forward Presence have been suggested for years. But until recently, no direct quantitative findings have connected the two. A new approach to quantify the economic benefits from Naval Forward Presence was required framed in terms that are easily understood. Professor Robert Looney’s October 1997 study worked from three basic assumptions. First, oil markets should provide an index of the manner in which markets assess the economic consequences of crisis and Naval Forward Presence/crisis response. Second, oil futures prices reflect market expectations based on available economic, political and military information. Third, if Naval Forward Presence is perceived as providing a stabilizing role, then Naval crisis response should decrease futures prices. After analyzing three case studies in which the Navy was directly involved, significant economic benefits can be attributed to Naval Forward Presence/crisis response. The following graph, Figure 3, shows how the U.S. Navy’s initial response to Desert Storm affected NYMEX Spot prices.
The above graph (Figure 3) depicts the methodology through which the conclusion was reached that Naval Forward Presence resulted in an economic savings to the U.S. economy. Professor Looney’s third study will show how Naval Forward Presence positively affected the U.S. economy as well as those of other industrial countries. Three of the case studies indicated significant economic benefits. U.S. Naval defense against the 1987 Iranian attacks on Gulf shipping equated to 11.2 billion dollars in savings, whereas the Gulf War and 1994 Iraq-Kuwait border incident each resulted in 55.2 and 11.7 billion in savings, respectively. The study concluded that linkages between oil prices and Naval Forward Engagement and crisis response exist. In all three cases, within a day after the naval crisis response, oil prices declined and this downturn quickly spread through the futures market. The gains increased when further equilibrium in oil markets were factored in. Although spot price movements by themselves are small, they
produce significant positive impacts when they influence forward markets and ripple through the economy.

A second study concluded in October 2000 reinforced conclusions about the positive economic impact of Naval Forward Presence. The October 2000 study utilized event analysis, which makes it possible statistically to link changes in market prices to Naval fleet movements. In addition, crisis events that the Navy responded to are shown to affect in the short and longer term the pattern and movement in the dollar/yen exchange rate, commodity indexes and major stock exchanges. More specifically for the purpose of this thesis, the study utilized the Taiwan Strait Crisis of 1996, which was an apparent non-oil case.

3. Taiwan Case Study

The Taiwan Straits Crisis of 1995-6 proved to be exceptional as initial indications were that it would be a non-oil case. The second study calculated that the measure of impact from the crisis on the United States gross domestic product was most probably in the range of $3.4 billion (in 1995 dollars). The following flow chart (Figure 4) depicts the process of the event analysis for the Taiwan Straits crisis:

![Flow Chart of Economic Benefits of Taiwan Straits Crisis](http://web.nps.navy.mil/~relooney/QDR2Finales.pdf)

**Figure 4** Flow Chart of Economic Benefits of Taiwan Straits Crisis

The result of Naval Forward Presence and its ability quickly to respond to critical events as in the Taiwan Strait crisis demonstrates a positive impact on a variety of markets including oil. The study points out that the final impact on the U.S. economy depends on the strength of these market linkages, within the framework of globalization. Naval Forward Presence and globalization compliment each other with an end result of a stronger U.S. economy.

B. GLOBALIZATION TRENDS FOR THE FUTURE

A third study completed in October 2001 by Dr. Looney examines the linkages between Naval Forward Presence/crisis response and oil prices in the context of changes in the global economy and on the various dimensions of globalization. The study in concert with the latest study published by National Defense University, *The Global Century: Globalization and National Security*, examines a multitude of countries that were divided into the endogenous growth countries and the developing countries. The two groups constitute the majority of world trade and production. The following table summarizes the findings of the oil shock impact analysis:

<table>
<thead>
<tr>
<th>Country</th>
<th>General Globalization</th>
<th>Structural Openness</th>
<th>Financial Globalization</th>
<th>Global Growth</th>
<th>Over Time</th>
<th>Naval Forward Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td></td>
<td>++</td>
<td>+</td>
</tr>
<tr>
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<td>+</td>
<td>+</td>
<td>(-)</td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>Austria</td>
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<td>+</td>
<td>(-)</td>
<td></td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>Canada</td>
<td>+</td>
<td></td>
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<tr>
<td>Finland</td>
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<td>+</td>
<td>(-)</td>
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<tr>
<td>France</td>
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<td>+</td>
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<tr>
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<tr>
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<tr>
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<tr>
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<td>+</td>
<td>(-)</td>
<td>(-)</td>
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<td>+</td>
</tr>
</tbody>
</table>

Table 1. Summary Oil Shock Impact Analysis


Table 1 indicates that oil shocks will continue to influence the industrial world, even though some argue that globalization will insulate the industrial world from further shocks in oil prices. “The analysis found clear linkages between the globalization defined country groups and the manner in which oil shocks affect their economies. Over time and contrary to popular opinion, Group 1 countries have become more vulnerable to oil price shocks in the sense that a 10 percent increase in the price of oil today would cause a greater reduction in income i.e., the oil shocks driven loss in income as a percent of GDP has increased gradually over time in line with the process of globalization.”

1. The United States Navy’s Role in Increased Globalization

U.S. Naval Forward Presence with its ability to respond quickly and effectively to a crisis, combined with expanding globalization, will create a “virtuous cycle” of expanded world trade and economic growth. Most importantly, the stabilization of oil, financial markets and exchange rates will stimulate rapid globalization, which in turn increases world growth. The studies carried out at the Naval Postgraduate School have come a long way in proving the economic benefits of Naval Forward Presence. There is no question but that the world economy has truly become globalized. The key result is that Naval Forward Presence and crisis response mitigated oil shocks and returned prices

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to their equilibrium levels. The continuation of global trends will undoubtedly have a major impact on the industrial nations of the world, most notably the United States.

2. Applying the Results to the 96 Taiwan Straits Case Study

Chapter II of this thesis argues that China is arming with the strategic goal of projecting its power in East Asia, and that this constitutes a serious threat to U.S. Pacific interests. With that in mind, Naval Forward Presence is the quickest, most effective tool to dissuade China from forceful unification of Taiwan and the pursuit of other regional hegemonic ambitions. A direct byproduct of the effectiveness of Naval Forward Presence is the economic shock wave stabilization. Therefore, the implications for forecasting that by 2005 the PRC will again begin to threaten Taiwan, lends support for a continued pursuit of a robust Navy that has the direct ability to be “forces for combat, shaping world events through presence”..

A scenario of such a crisis is found in chapter III. By applying the results of Dr. Looney’s study findings on the 1995-96 Taiwan Straits Crisis to a future potential crisis, one can conjecture the magnitude of economic savings the United States Navy will again bring to the economy in the event of a future crisis.

3. Reinforcement of the Importance of Naval Forward Presence

The potential for Chapter III’s scenario is very realistic based on the current course the PRC has undertaken. Again, Naval Forward Presence with its effective ability quickly to respond to such a crisis, will again benefit the U.S. economy. Applying the economic modeling based on Professor Looney’s studies, one could conclude that a conflict such as that in the scenario would only increase in the savings to the U.S. economy. In 1995 dollars the savings was determined to be at 3.4 billion, while in 2005 dollars that number could extend to over 5 billion in savings to the U.S. economy. A higher dollar amount could be totaled if all of the countries in Table 1 were positively affected. A future Taiwan crisis would have an even larger impact upon the global economy.

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42 Tangredi, Ibid.
V. CONCLUSION

The situation in the South China Sea and Taiwan Strait continues to be a delicate one. Issues vital to the future stability of a region where the United States has considerable political and economic interests remain unresolved. The region contains a number of “flashpoints,” any one of which could have a seriously destabilizing effect should they become activated -- the Korean peninsula, Taiwan, disputes over the Paracel and the Spratlys, or the continued instability in Indonesia to name but four. The problem for Washington is the increasing volatility of these flashpoints. The huge question mark in the equation is the role of the PRC. The disappearance of the Soviet Union, Beijing’s growing economic and military might, its increasing assertiveness in its self-defined “Economic Exclusion Zone,” its hair trigger nationalism embedded in a sense of entitlement left unrequited after a “century of humiliation,” and the fragile sense of legitimacy of the Communist regime have combined to challenge a half-century of regional balance crafted by the United States.

This thesis accepts as one of its fundamental premises the argument of Sinologist Michael Pillsbury, that the PRC’s survival may be linked to its ability to follow through with a combined economic, security and foreign policy that seeks to make China the regional hegemony by 2025. The argument may certainly be made that Pillsbury offers a “worst case scenario” that incorporates a mournful vision of future Sino-U.S. relations. However, from the perspective of U.S. Naval Forward Presence and the QDR process, history and reason would argue against plans based on the optimistic assumptions that Washington and Beijing have few fundamental differences that cannot be resolved short of a show of force. “Wars, Clausewitz’s reminds us, “is politics.” Therefore, diplomacy and military power go hand-in-hand. Of no region is this more true than the Taiwan Straits and the South China Seas.

The “reunification” of Taiwan with the mainland and the disappearance of the rival ROC would be a vital stepping stone to Beijing’s strategy of becoming a regional hegemon. On three occasions in the past, Beijing has attempted to invade, or at the very least intimidate, the ROC. One premise of this thesis has been that the past supplies a
plausible guide to the future, all the more so because growing PRC assertiveness in the region makes another attempt to intimidate Taiwan in the near future more, not less likely. As Beijing flexes its military muscle, it may calculate that U.S. power in the region has declined. U.S. policy toward Taiwan has always been characterized by its “ambiguity”--Washington recognizes Taiwan’s right to reject unification with the PRC, while acknowledging that Beijing has a historic claim on the off-shore island.

Arguably, since 11 September 2001 and the rapprochement between the United States and the PRC to fight terrorism, that ambiguity has only increased. Beijing may calculate that the United States and its military, particularly its naval forces, are overstretched, and that Washington is distracted by problems in the Islamic world. It may seize this moment to act against Taiwan, at a time when the United States is least likely or able to respond. The consequences of a successful intimidation of the PRC’s offshore nemesis would be a detachment of the ROC from U.S. protection, a policy shift in Taipei toward the PRC, followed by an incalculable credibility loss for the United States. It takes only a tiny leap of the imagination to conjecture that Japan would begin seriously to rearm, North Korea emboldened to act against its southern rival, and Beijing inspired to advance into its “economic exclusion zone.” All of these events would undermine the stability of the region and challenge America’s position there.

U.S. Naval Forward Presence has provided a significant – arguably the most important means – through which Washington has asserted its interests in the Western Pacific and maintained a regional balance of power there since the end of World War II. The central question posed by this thesis has been: “Does U.S. Naval Forward Presence continue to be a viable means to protect U.S. interests and achieve U.S. policy goals in the region?” The answer provided by this thesis is unequivocally “yes.” Not only has U.S. Naval Forward Presence seriously modified PRC behavior in past crisis situations, but also, economic statistics have been mustered to prove that U.S. Naval Forward Presence stabilizes financial and oil markets, protecting U.S., and indeed world, economic interests. This thesis argues that U.S. Naval Forward Presence will continue to be a vital ingredient in the future to provide stability in the Western Pacific and protecting, most importantly, U.S. economic interests. It has demonstrated a plausible scenario for a PRC-U.S. confrontation over Taiwan set in 2005, the most likely time for a
repeat of the 1995-96 crisis. Based on the history of past confrontations, it concludes that U.S. Naval Forward Presence would both deter the PRC and protect U.S. strategic and economic interests in the Western Pacific. To ensure favorable U.S. interests in the future, today’s planners and legislatures must invest in weapon systems that support and modernize U.S. Naval Forward Presence to maintain it as an effective tool of U.S. diplomacy in the Western Pacific.
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