

THE MILITARY BALANCE 2006

Press Statement

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remarks by

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INTRODUCTION

Welcome to the launch of *The Military Balance 2006*.

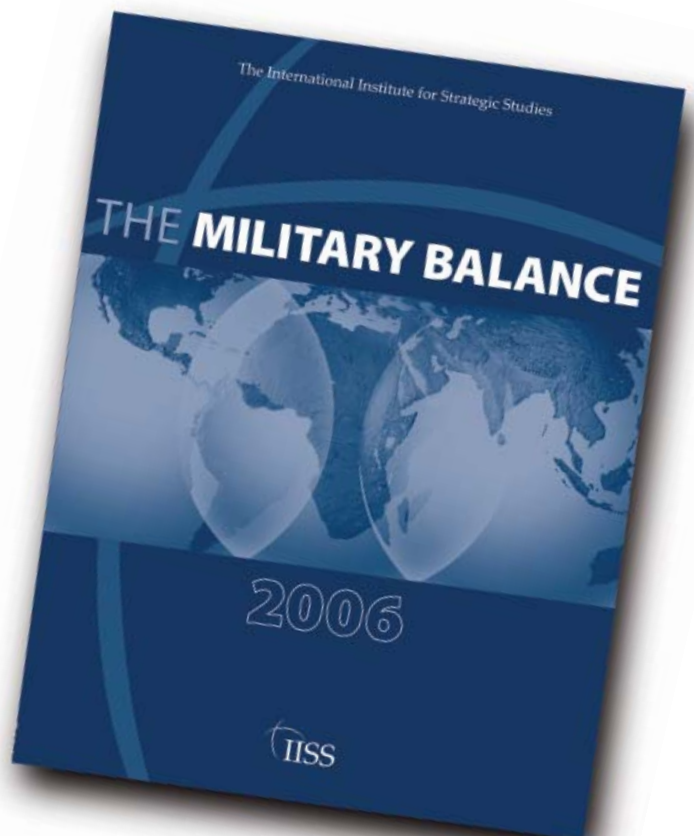
Joining me to answer your questions today are: Christopher Langton, Editor of *The Military Balance*; Patrick Cronin, Director of Studies; Alex Nicoll, Director of Defence Analysis; Dana Allin, Senior Fellow for Transatlantic Affairs and Editor of *Survival*; Dr Mamoun Fandy, Senior Fellow for Gulf Security; Toby Dodge, Consulting Senior Fellow for the Middle East; Mark Fitzpatrick, Senior Fellow for Non-Proliferation; Oksana Antonenko, Senior Fellow for Russia and Eurasia; Rahul Roy Chaudhury, Research Fellow for South Asia; and Jean Yves Haine, Research Fellow for European Security.

The last issue of *The Military Balance* was published in October 2005, some six months ago. We do not intend to publish every six months, but in planning the schedule of our annual publications we felt that henceforth *The Military Balance* should be published at the beginning of the calendar year. The next printed issue will be available in early February 2007. At that time, we also plan to launch the electronic database: *The Military Balance Plus*, after we have tested it this autumn with different groups of potential users. That database will be hugely useful to those wanting to 'interrogate the data' more imaginatively than is possible when dealing with a print edition. In the meantime, we felt it useful to produce an edition in the middle of this year, so our subscribers would not experience too large a gap in this transition period. It also gives us the opportunity to update our figures, and assess a still very troubled international security landscape.

In addition to the regular Chart of Conflict and detailed descriptions of the armed forces around the world and a large array of non-state actors, *The Military Balance 2006* offers extensive assessments of Iran's defence industry, the maritime security challenges in Southeast Asia, and the increasing role of private security companies. The publication of *The Military Balance* at this time also allows us to report on the US Quadrennial Defence Review, presented to Congress on 6 February, and a host of regional developments in other theatres, including those not so regularly in the news.

Our Chart of Conflict again shows quite how many parts of the world are engaged in brutal combat. Some countries, such as the Sudan, have as many as four to five different struggles going on simultaneously, and in other places, ceasefires have cracked and dormant domestic conflict has revived. In South Asia alone, for example, the last six months has seen a huge crisis in Nepal, a revival of violent conflict in Sri Lanka, the appearance of suicide bombing by extreme Islamists in Bangladesh, and the hardening of the Naxalite rebellion in five provinces of India.

Overall, the dangerous triptych of Iraq, Afghanistan and Iran continues to dominate the defence and security agenda, as do the wider, now iconic, twin problems of terrorism and proliferation of WMD.



IRAQ

The announcement of a government of national unity on 19 May was the culmination of an 18-month political process that saw two national elections and the writing of a new constitution ratified by a countrywide referendum. The electoral process saw a turnout of 63% in January 2005 and 70% in December. However, democracy has exacerbated Iraq's ethnic and religious tensions, with voters largely dividing along Sunni, Shia and Kurdish lines.

The controversial constitution, which ushers in a highly decentralised federal system, only managed to pass the referendum after a last-minute deal brokered by US Ambassador Zalmay Khalizad. This mandates a committee of the Iraqi parliament to review and possibly redraft divisive aspects of the constitution. However the chances of substantial change to the constitution look doubtful as parliament would have to vote in favour of the new draft before the new draft was submitted to another national plebiscite. Although the new constitutional committee may well become a focus of intense and acrimonious debate it will probably not deliver political compromise, creating renewed resentment amongst the Sunni population, the majority of whom voted against the constitution in 2005.

The divided nature of Iraq's new ruling elite was highlighted by the fact that the new government was only announced after intense negotiations lasting for five months. These proved to be so acrimonious that Prime Minister designate Nouri Maliki, could only form a new government by postponing a decision on the two most important ministries. The inability of Iraq's political parties to agree the appointment of technocratic figures for these sensitive positions at Interior and Defence means that there may be fundamental challenges to the stability of Prime Minister Maliki's government which is due to serve for a full term of four years.

The five-month interregnum, between the December elections and the formation of a government, created a dangerous political vacuum that hastened Iraq's slide.

The insurgency and sectarian violence are ultimately driven by the security vacuum that has dominated the country since the fall of the old regime in 2003. The result has been the growth of an insurgency estimated to have 20,000 fighters in its ranks that is increasingly motivated by a radical Islamist ideology. It is the 10% of the insurgents who are estimated to be foreign, personified by the Jordanian Jihadist, Abu Musab al-Zarqawi, that have been responsible for the most damaging sectarian violence. Numbers of US-trained government forces fighting the insurgency have continued to rise. However the speed with which the new Iraqi army and more particularly the police force have been built does raise problems. The rank and file of both forces are neither well enough trained to be fully effective on their own, nor sufficiently loyal to the national government to remain

above the sectarian struggles gouging Iraq's sense of national identity.

It is doubtful that a collective sense of Iraqi nationalism can survive in a context of increasing sectarian violence and the continuing security vacuum. This means national politics, conducted in the parliament and around the Green Zone, will be dominated by an escalating use of divisive sectarian rhetoric and zero-sum calculations. At a local level the population's lives will remain dependent on *ad hoc* local organisations to supply some modicum of security and predictability. It is in situations like these that sectarian and criminal militias tend to thrive.

The collapse of the Iraqi state and the rise of sectarian politics has caused a great deal of anxiety amongst the neighbouring states. This has triggered unilateral interventions, as governments try to forward state interests and regional rivalries by supporting proxy organisations within Iraq. The danger is clear: an increase in instability, violence and radical Islamism. The alternative would be a larger role for overt, coordinated, multilateral intervention, involving the key regional powers, to stabilise the situation.

AFGHANISTAN

With the signing of the Afghanistan Compact at the London conference on 31 January, the international community committed itself to giving continuing support to Afghanistan up until 2010. Meanwhile, the Taliban insurgency intensifies with frequent attacks varying in scope and size, and occurring mostly in the central and southern provinces. The suicide weapon has been used with greater frequency, but the preferred *modus operandi* remains the use of guerrilla-style tactics against Afghan security forces and international forces including a growing number of NATO troops.

NATO is increasing its force numbers from 9,000 to 15,000 to enable so-called Stage 3 expansion into the southern provinces thereby lifting some of the burden from the US forces engaged in *Operation Enduring Freedom*. The US will now withdraw some 2,000 troops, and will concentrate its remaining forces in the east of the country. The intention is to merge the two missions by the end of the year. However, the increase in NATO operations will not involve taking over the anti-terrorist missions from the US; instead the extra troops will concentrate on reconstruction and protective security whilst seeking to bolster the Afghan National Army and Police in the hope that indigenous forces can begin to operate with less coalition support.

The UK is currently in overall command of the NATO force and provides the Task Force charged with operations in one of the most unstable provinces – Helmand. Amongst other security challenges to reconstruction, the cultivation of poppy is widespread in Helmand, and the other

southern provinces, but there are no easy solutions to the problem. Initiatives vary from the short-term option of crop eradication, to licensing or crop replacement. All of these options carry high risks to international forces as they will come into direct confrontation with the local population and the Taliban for whom poppy is a major source of revenue. A further complication is that in-country heroin production is increasing as illicit pre-cursor chemicals, necessary for production, find their way across porous borders.

This year will be crucial for Afghanistan as well for NATO as it expands its mission into the south. The Taliban, taking advantage of what they perceive to be an opportunity during the switch from US to NATO deployments, are likely to continue to increase their operational tempo – not least as they know that casualties amongst European NATO member states may mobilise domestic opinion in those states against the ‘war’. One critical issue for the success of the NATO operation will be control of cross-border infiltration of insurgents from Pakistan. With some 80,000 Pakistani troops trying to exercise control amongst a hostile local population on their side, it is hard at this juncture to see how more can be done; yet, in order for NATO forces to succeed, border control, and better liaison with Pakistan, must be considered central to the success or failure of the mission which involves some 5,700 British troops.

IRAN

As Iran rushes to install as many centrifuges for uranium enrichment as possible and to restrict IAEA inspections to the legal minimum, the UN Security Council continues the slow dance of diplomacy. The Europeans recently agreed to table an enhanced incentives package for Iran, essentially a re-packaged version of the offer the Iranians preemptively rejected last August. Iran is not likely to be any more swayed this time, but Iranian rejection of the package will strengthen the hand of the US and the E3 in persuading Russia and China of the need for further measures at the UN.

By June, the P-3 (France, UK, US) could well get the Chapter VII resolution they seek, making it mandatory for Iran to re-suspend its uranium enrichment programme and cooperate fully with the IAEA. A 30-day deadline will set up the first sanctions resolution. To keep the 15–17 July G8 St Petersburg Summit from falling apart, Russia will probably not veto the Chapter VII resolution or the follow-on politically targeted sanctions.

President Ahmadinejad’s 8 May scolding letter to President Bush was aimed not at winning Washington’s ear, but at splitting the Western world. That said, there are certainly Iranians – at least those in Expediency Council Chairman Rafsanjani’s camp – who do want to talk with America. A growing number of influential Americans – including Senators Hagel, Lugar and even McCain – have joined European voices calling for the US to engage Iran

directly. Convinced that this would turn a world vs Iran concern into a bilateral dispute, the Bush administration will not, in its words, ‘reward bad behavior’ at the very least until Iran fully suspends the enrichment activity.

Iran’s May announcement that it joined the nuclear club by enriching gasified uranium to 4.8% U-235 content was surely exaggerated. Iran skimmed on the diagnostic and sustainability tests necessary to ensure that the components are properly calibrated and fitted and that the centrifuge machines will not crash during commercial scale operations. By successfully running a 164-centrifuge cascade, however, Iran did establish new facts on the ground. Diplomacy failed to stop Iran before it could acquire the enrichment technology with which it can assemble further cascades in hidden facilities. How soon Iran could produce 20–25 kilograms of highly enriched uranium for a nuclear weapon is now the key timeline. The IISS estimate of 2010 remains valid. Other estimates of 2009 and even 2008 are within the margin of error, given the number of unknowns. US intelligence estimates remain cautious, though it is interesting to note that some European assessments tend to the shorter end of the above time frames. The IAEA’s limited access – it now can no longer monitor the centrifuge component facilities – inevitably requires policymakers to rely on worst-case assumptions about Iran’s progress toward the bomb.

NORTH KOREA

As North Korea continues to expand its nuclear arsenal, diplomatic efforts to resolve the crisis remain at an impasse. North Korea, which claims to have a nuclear deterrent, currently has enough plutonium for 5–11 nuclear weapons. Every year the 5 MW(e) research reactor at Yongbyon can produce another 7.5kg of plutonium, about one weapon’s worth (depending, inter alia, on how long the fuel rods are in the reactor). In addition, in about 3–4 years, if North Korea is able to finish construction of the 50 MW(e) reactor that was frozen under the 1994 Agreed Framework, it will be able to produce another 56kg of plutonium annually, enough for 5–10 more weapons.

All these weapons and the associated facilities would be dismantled if the 19 September 2005 Joint Statement of Principles produced at the end of the fourth round of Six-Party Talks in Beijing ever is implemented. Those talks remain stalemated, however, over Pyongyang’s anger at US financial controls directed at North Korean currency counterfeiting and other illicit activities. In March the US Treasury extended sanctions to a Swiss firm accused of procuring goods for Pyongyang with weapons-related applications, and this month the US government further turned up the heat by banning US entities from any dealings with North Korean-flagged vessels. The sums involved are not large; of greatest concern to Pyongyang is the \$24 million in its accounts frozen at a Macau bank. Washington

claims that each month North Korea boycotts the talks it gives up far more money in potential incentives.

For its part, Pyongyang judges that the Bush administration is not serious about negotiations, and that the financial controls are evidence of hostile intent. In fact, neither side believes the other would agree to the concessions necessary for a deal. The Bush administration sees financial sanctions, the Proliferation Security Initiative, and an increasing emphasis on human rights in North Korea as justifiable in their own right, including for containing North Korea's weapons sales, but also as a means of pressure on Pyongyang. The financial pressure is outweighed, however, by South Korea's increasing trade ties with the North and its willingness, in President Roh Moo-hyung's words last month, to 'make many concessions' so the North Korean regime does not collapse. China has the same approach. Concern about the increasing policy divergence among partners in the Six-Party Talks may account for the feelers from Washington last week that if North Korea returns to the Beijing forum, talks could begin on a peace treaty to end the armistice that has prevailed since 1953. Meanwhile, reported activity at a test site for the long-range Taepo-dong missile may be North Korea's way of sending a reminder that it has its own ways to increase pressure.

CHINA

As China's strategic presence continues to expand, the questions of what resources Beijing is investing in defence capabilities, and to what end, also loom larger. *The Military Balance* this year details the methodology used by the IISS in estimating actual Chinese defence expenditure in circumstances of imperfect transparency that preclude definitive annual assessments.

An essay on the subject examines the difficulties posed by the lack of transparency in Chinese budget data and the special attention that should be exercised when using exchange rates to try and capture a figure in US\$ suitable for international comparisons. We conclude that at market exchange rates total Chinese military-related expenditure (in 2003) amounted to US\$39.6bn, about 1.7 times the official budget, and also provide an estimate of real spending using Purchasing Power Parity inputs which further inflates the figure to US\$75.5bn although, of course, this figure needs to be used with some caution.

The trajectory, however, is unambiguous: expenditure is on a sharp upward trend and will remain so in view of popular and elite support for accelerated defence modernisation, and because of China's increasing capacity to sustain spending at a high level without noticeably undermining other, developmental goals.

American discomfort at China's considerable but opaque exertions was aired with increased force in the last year – the pace being set by Secretary Rumsfeld at

the IISS Shangri-La Dialogue in June 2005. The Pentagon's two most recent annual assessments of Chinese military power, the latest of which was published only yesterday, have pointed to a more extrovert Chinese defence doctrine, a more effective alignment of doctrine and capabilities, surprising advances in capabilities, and a continuing shift in the cross-Strait military balance in China's favour. It was therefore somewhat encouraging that contacts between US and Chinese defence leaderships were stepped up in the last year, as Rumsfeld himself visited Chinese military facilities. Yet these contacts have been more ceremonial than substantive.

And while China has shown an increasing appetite for deepening bilateral military exchanges with existing partners – especially Russia, which last year participated with China in a major military exercise – Beijing continues to display some diffidence towards multilateral defence fora to which it might usefully contribute and in which it could work to address any regional apprehensions about its defence posture and plans. As matters stand, the US has settled on an approach to China that is encapsulated in the term 'hedged integration': Washington will encourage China to become a 'responsible stakeholder' in the international system, but it will on a prudential basis also prepare for alternative outcomes.

The Quadrennial Defense Review was infused with the more sceptical strand of this thinking: China was identified as a power at a 'strategic cross-roads' that is still pointing largely in the wrong direction and which has the greatest potential to emerge as a military rival to the US. The QDR calls for US defence alliances to be strengthened and adjusted to reflect these uncertainties. The military dynamic of the US-China relationship therefore remains implicitly but decidedly competitive, and there is little that augurs for change. With that, the risk will grow that this military dynamic will over time have a greater bearing on the tone and content of the relationship as a whole.

CONCLUSION

This edition of *The Military Balance* takes another snapshot of a world still greatly troubled by terrorism, intra-state conflict and, most dramatically perhaps, a WMD proliferation crisis.

The rough US consensus, summed up by Senator John McCain, is that the only thing worse than a US military strike is a nuclear-armed Iran. The rough Gulf Arab consensus might be that the only thing worse than a nuclear-armed Iran is a US military strike against the country, especially if it were still left with a nuclear option. The diplomatic challenge of the Iranian nuclear crisis is therefore clearly exposed. The problem is great, and the solution may be both no solution, and create consequences that are worse. There is a consensus emerging that an Iranian nuclear capacity is both almost inevitable, and

certainly bad. In the absence of an effective strategy to prevent that outcome that has regional support, a hedging strategy of containment might theoretically offer itself. But here again, it is difficult to judge how willingly Gulf Arab states would enter into an ever tighter security arrangement with the US, when public support for alliance with the US remains shallow. And yet, indications that the Gulf Arab states would invite more, rather than less, US involvement in the region could create a debate within the Iranian regime as to whether its security interests were truly served by continuing to ignore international concern about the programme Iran is now embarked

upon. Securing a delay in that programme through a negotiated or enforced suspension of Iran's enrichment activities would also give more time for that debate, if it took place, to have a satisfactory outcome, or for public opinion to question the advantages of regime policy.

An Iranian acquisition of nuclear weapons would dramatically alter the regional balance of power and would inspire all sorts of potential diplomatic shifts. Changing the cost-benefit analysis in Tehran, preventing a nuclear outcome, and controlling its consequences if it takes place will present the most difficult and classic strategic challenge in the months and years ahead.