

# Look East, Act East: transatlantic agendas in the Asia Pacific

**Report N° 13**

December 2012

Edited by Patryk Pawlak

Contributors: David Camroux, Nicola Casarini, Andrew S. Erickson,  
Richard Gowan, Daniel Keohane, Bernice Lee, Patryk Pawlak,  
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## FOREWORD

Since this publication project was launched, several developments have occurred that have a bearing on the Asia-Pacific region. While the democratic transition in Burma/Myanmar has accelerated its pace and peace has made headway in Mindanao, bilateral tensions, territorial disputes and nationalism have flared up in the South and East China Seas – thankfully, without major consequences. The American presidential election has been followed by the Chinese leadership succession. The ASEM summit in Laos has marked its expansion to 51 members. And the US ‘rebalancing’ towards Asia has regained visibility and momentum – after losing some steam since the ‘pivot’ idea emerged a couple of years ago – with President Obama’s recent trip to the region.

In this context, the *Look East, Act East* report explores possible avenues for closer cooperation between the EU and the US in the wider region. Is it possible to think (and act) ‘transatlantic’ in the Asia Pacific? Are there concrete opportunities to ‘square the triangle’, so to speak, rather than move separately and work at cross-purposes, especially in times of economic crisis and stagnation?

This publication offers facts, figures, maps and ideas to better understand regional dynamics and identify common interests and shared platforms. Above all, it tries to explain that the rise of the East should not divide the West, and that investing more (economically, politically and strategically) in the Asia Pacific is not a zero-sum game but a win-win scenario at the global level – for both the EU and the US.

*Antonio Missiroli*

*Paris, December 2012*



## INTRODUCTION

We are pleased to present the final report prepared in the framework of the research project 'Look East, Act East: transatlantic strategies in the Asia Pacific' carried out at the EU Institute for Security Studies since January 2012. The aim of this project was to explore the possibilities for developing a more strategic EU involvement in Asia – both inside and outside the transatlantic partnership. To this end, the EUISS organised a series of meetings with policy makers, diplomats and members of the research community from Europe, the United States and Asia. We also conducted a survey which resulted in the analysis entitled *Transatlantic strategies in the Asia Pacific. Findings of a survey conducted among EU and US foreign policy experts* (available on the EUISS website).

The report concludes that, on the whole, the transatlantic partners share similar objectives with regard to the Asia Pacific: nuclear non-proliferation and disarmament, free navigation and protection of the global commons, trade liberalisation and multilateralism. Nevertheless, history and geography, as well as differences in perceptions, contribute to forging two distinct stances *vis-à-vis* the region. Europe's focus is on issues related to trade, financial regulation and global imbalances. The United States views the region through different lenses, giving precedence to security and trade issues. The challenge, therefore, is to identify areas where those two positions intersect and could potentially serve as a basis for an effective pursuit of common EU-US interests in the region.

To fill this gap, we have asked a group of American and European experts to identify those issues which, in their view, play an important role in framing transatlantic cooperation in the Asia Pacific. Following their analysis, the argument we make is that both the European Union and the United States need to find a way to remain relevant in a world where the balance of power is increasingly shifting eastwards. In such a world, leveraging individual components of 'power' (military and/or economic) unilaterally matters less than combining forces across borders and between like-minded actors (trade and/or military ties). A possible way to develop this 'network power' potential is the reinforcement of network diplomacy mechanisms.

In that spirit, the report highlights nine priority objectives for a shared transatlantic agenda in the Asia Pacific:

- **Maintain peace and stability** through the expansion of confidence-building measures and application of international law as a basis for dispute resolution and interstate relations
- **Shape the emerging economic landscape** by mutually reinforcing policies at transatlantic level and through a more comprehensive approach to the Asia-Pacific region, beyond China

- **Support global trade liberalisation** through assistance for achieving market economy status and coordination of trade and investment strategies
- **Embrace Asia as a third ‘pillar’ of global governance** by favouring Asian governments’ engagement in multilateral diplomacy and strengthening the role of ‘middle’ powers
- **Promote Western values and norms at global level** through better coordination in international institutions and a more intensive transatlantic dialogue on future global governance
- **Ensure resource security (energy and raw materials)** through support for alternative resources and/or production methods and dialogue on security implications and changing patterns of global dependencies
- **Reduce the region’s environmental footprint** through trilateral coordination with regard to the energy/electricity mix, clean development mechanisms, clean coal, and sustainability
- **Promote trade and security integration in the region** by reinforcing ASEAN’s role (and ASEAN-based processes) as its cornerstone and strengthening expertise on Asia and people-to-people exchanges
- **Build a constructive relationship with China** by establishing sectoral dialogues *with* it and having a more regular transatlantic conversation *on* China.

## Acknowledgements

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*Patryk Pawlak and Eleni Ekmektsioglou*

*Paris, December 2012*



# I. TOWARDS A TRANSATLANTIC ECONOMIC STRATEGY IN THE ASIA PACIFIC

**Peter Sparding and Andrew Small**

## **Introduction**

Trade and economic policy is the most natural area for cooperation between the United States and the European Union in Asia. As the largest economic powers in the world, and the region's principal trading partners, the two sides still have substantial capacity to shape its emerging economic landscape. They also have very similar interests – and challenges – in dealing with the biggest economy in the region, China. Until recently, it was hard to identify a broader economic strategy in Asia for either side but with the launch of the Trans-Pacific Partnership (TPP) and the EU's growing array of bilateral negotiations and deals (most notably with South Korea, India and Japan) their respective strategies are increasingly taking shape – while remaining very far from being coordinated. Cooperation on trade policy *vis-à-vis* China is in a relatively advanced state although there are still divisions on various sensitive issues.

## **The Asia Pacific as a growth engine for Europe and the US**

The transatlantic economy represents the most integrated economic space in the world. Europe and the United States still jointly account for more than 50 percent of global GDP in terms of value. But as Europe remains mired in its debt crisis and the US recovery is slow at best, observers are increasingly looking to the Asia-Pacific region to serve as a growth generator for the sluggish West.

While the West continues to struggle to bounce back from the crisis, for much of Asia the recovery has been exceptional. Double digit growth rates returned to the emerging economies in the region as early as the second quarter of 2009, prompting Federal Reserve Chairman Ben Bernanke to acknowledge that 'Asia appears to be leading the global recovery'.<sup>1</sup> In 2010, the Asia-Pacific region was the first to exceed its pre-crisis levels of exports and imports, increasing its share of global merchandise exports and imports to 36 percent and 34 percent respectively. While export growth rates started slowing markedly towards the end of 2011 due to weak external demand and the disruptions caused by the earthquake in Japan, and numbers have been softer in 2012, growth rates across the region remain impressive.

1. Ben Bernanke, Speech at the Federal Reserve Bank of San Francisco's Conference on Asia and the Global Financial Crisis, Santa Barbara, California, 19 October 2009.

Although questions about the sustainability of this process remain, for Europe and the US, the Asia-Pacific region seems to be a natural source of growth as they struggle to emerge from the crisis. Throughout the past decade, trade flows between the transatlantic economies and Asia have increased dramatically. Bilateral trade with China alone has expanded from \$121.5 billion with the United States and \$77.6 billion with the EU when China joined the World Trade Organisation (WTO) in 2001 to \$456.8 billion and \$480.9 billion USD by 2010 respectively.<sup>2</sup>

To date much of this increase has taken the form of growing Asian exports to Western markets. While global production in large part has already moved to the Asia Pacific, consumer demand for Western products has thus far been lagging. But Asia's rapidly growing middle class could signal a shift in the distribution of global demand. China's exploding consumer market alone – increasing by \$300 billion in 2010, and potentially by as much as \$500 billion in 2012 – offers vast new opportunities for European and American businesses.

A shift of global demand to the Asia Pacific could help curb global imbalances and be a significant driver of economic growth in Europe and the United States. The transatlantic partners therefore have a shared interest to ensure that – despite a natural level of transatlantic competition – individual strategies are mutually reinforcing in shaping the economic environment of the region. But transatlantic coordination – or even harmonisation – of economic policy towards the Asia Pacific is currently inadequate.

This is also evident with regard to the question of how to deal with China. While there is increasing evidence of tactical cooperation on trade matters, stark differences have been visible on such issues as Chinese currency appreciation and target-setting for global current account imbalances.<sup>3</sup> These divisions will be difficult to overcome for the time being, but much could already be gained from an increased coordination on trade and investment strategies. Here, Europe and the United States face similar challenges, e.g. market access problems, IPR theft and forced technology transfer. As China's two biggest trading partners, clearly they are in a far stronger position if they adopt a concerted approach. While China's size means that it would naturally be the key focus of such coordinated efforts, a comprehensive approach to the entire Asia-Pacific region is needed. To the extent that such strategies are already identifiable, they have been focused on trade policy. But closer cooperation on trade policy could subsequently lead to an overall transatlantic economic strategy towards the Asia Pacific that is better aligned.

2. Andrew Small and Bates Gill, 'Untapped Trilateralism: Common Economic and Security Interests of the European Union, the United States and China', Europe China Research and Advice Network, November 2012.

3. Bruce Stokes, 'Continental Rift: Bridging Transatlantic Differences on Economic Policy Toward China', Stockholm China Forum Paper Series, German Marshall Fund of the United States, 2011.

## The US and the Trans-Pacific Partnership (TPP)

Probably the most comprehensive economic strategy now being pursued in the Asia-Pacific is the Trans-Pacific Partnership (TPP) free trade agreement, currently being negotiated between the United States, Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam. Together these nine countries account for 26 percent of global GDP and a total trade volume of \$5 trillion.<sup>4</sup> It is estimated that a successful TPP agreement ‘could yield annual global income gains of \$295 billion (including \$78 billion for the United States’ and would ‘offer a pathway to free trade in the Asia Pacific with potential gains of \$1.9 trillion.’<sup>5</sup>

After completing free trade agreements with Colombia, Panama and South Korea in 2011, the TPP remains the Obama administration’s chief trade initiative. While the eight partner countries only accounted for 7 percent of US goods exports in 2011, Japan, Canada and Mexico, three of the four biggest US trade partners, have expressed interest in joining TPP negotiations. If these economies joined the agreement, the TPP would offer vast trade opportunities in the Asia Pacific.

This trade initiative, quite noticeably, leaves out China – or more accurately, is visibly constructed *around* China. If it were to succeed, and especially if it included not only the US, but also Japan, the costs of non-membership could be significant for China’s export-oriented economy.

From a US perspective, the TTP is designed as a ‘true 21<sup>st</sup> century’ trade agreement ‘that will reflect US priorities and values’.<sup>6</sup> As such it will cover behind-the-border issues, such as regulatory standards, rules on state-owned enterprises, and intellectual property rights that are troubling economic relations with China. The initiative thus presents the US and its partners with the opportunity ‘to shape the regional economic architecture to the comprehensive standards of the TPP and of US FTAs,’<sup>7</sup> meaning that countries wanting to join in the future will have to adhere to these rules. Much hinges on the forthcoming decision on Japanese participation. If they included the biggest and third-biggest economies in the world, TPP talks would ‘essentially be a free trade area negotiation between Tokyo and Washington within the context of a regional deal’.<sup>8</sup> A high-standard regional free trade agreement, including the United States, Japan and possibly South Korea would ‘pose a huge challenge to

4. Joshua Meltzer, ‘The Trans-Pacific Partnership – Its Economic and Strategic Implications’, Brookings Institution, 2011.

5. Peter A. Petri and Michael G. Plummer, ‘The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications’, Peterson Institute for International Economics, June 2012.

6. ‘USTR Ron Kirk Remarks on Trans-Pacific Partnership Negotiations’, Office of the United States Trade Representative, December 2009.

7. Ian F. Fergusson and Bruce Vaughn, ‘The Trans-Pacific Partnership Agreement’, Congressional Research Service, 12 December 2011, p. 5.

8. Bruce Stokes, ‘Japan, the Trans-Pacific Partnership, and the United States’, German Marshall Fund of the United States, April 2012, p. 2.

China' and would 'serve as a big source of leverage in dealing with China on heretofore very problematic issues'.<sup>9</sup> In this way, a successful TPP could serve as a stepping stone towards a Free Trade Area of the Asia Pacific (FTAAP) and consolidate existing regional and bilateral agreements, thereby putting outsiders under real economic pressure to join (and accept the high standards set), a process previously described as 'competitive liberalisation'.

Conversely, a failure to move forward with an ambitious trade and economic policy agenda in the Asia Pacific would severely damage the United States' chances of shaping the future of the region. Over the past few years the number of bilateral and regional trade agreements between countries in the Asia Pacific has increased dramatically. Should the United States abstain from such trade deals in the future, for example due to domestic obstacles, it will be increasingly left out of the preferential network in one of the most dynamic regions of the world and would risk foregoing vast economic opportunities,<sup>10</sup> a prospect the country can hardly afford given its goal of export-led growth. Moreover, its geopolitical influence in the region *vis-à-vis* China would almost certainly diminish.

Similarly the debate about the coming wave of Chinese foreign direct investment in the United States has been split between hopes of immense economic opportunities and simultaneous worries about Chinese intentions. China's development from FDI recipient to resource-driven investor in Latin America, Africa and the Asia Pacific, has now reached the developed world, including the United States and Europe, and Chinese FDI in the US is starting to boom. Still, the United States, while averaging approximately 15 percent of global FDI, currently only receives 2 percent of Chinese FDI, a number that has some American observers worrying about the country missing out on the vast opportunities of the \$1-2 trillion of expected Chinese FDI by 2020.<sup>11</sup> The United States, they argue, can hardly afford to miss this chance at a time when Chinese inflows of FDI are set to increase massively and the US economy is in such a perilous state. Striking the right balance between economic and national security concerns and the enormous prospects of inflowing Chinese FDI will thus be a major challenge for US policy makers over the coming decade – one that they share with their counterparts in Europe.

9. C. Fred Bergsten, 'Asia-Pacific Perspectives on the Future of the World Trade System', Transcript of portion of Panel 1, Asia-Pacific Perspectives on the Future of the World Trade System, of the East-West Center/US Asia Pacific Council 8<sup>th</sup> Annual Washington Conference, Peterson Institute for International Economics, 23 May 2011.

10. *Ibid.*

11. David M. Marchick, 'Fostering Greater Chinese Investment in the United States', *Policy Innovation Memorandum* no. 13, Council on Foreign Relations, February 2012.

## The EU's bilateral agreements in the Asia Pacific

As the United States continues its 'pivot' to the Asia Pacific, Europe has struggled to find a common economic strategy towards the region. But while some see a danger of the EU 'becoming squeezed' between Chinese and American ambitions to shape the region's economic landscape, this rivalry might also open up 'increased opportunities for the EU as a third major partner in Asia'.<sup>12</sup>

Despite its geographical distance, the European Union has long sought to strengthen its economic and political presence across the region. In a 2001 communication, *Europe and Asia: A Strategic Framework for Enhanced Partnership*, the EU Commission identified the further strengthening of mutual trade and investment flows with the region as one of the main strategic goals of its Asia policy.

The EU's Global Europe strategy was launched in 2006 and seen as a reaction to a changing global trade landscape. While officially remaining committed to achieving progress through the multilateral system of the WTO, the Global Europe strategy signalled Europe's willingness to engage in new bilateral free trade negotiations with emerging economies. Such FTAs, the Commission noted at the time, could build on the WTO 'by going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation' (*Global Europe: Competing in the World. A contribution to the EU's Growth and Jobs Strategy*, 2006.) Global Europe was followed by a Commission communication on *Trade, Growth and World Affairs* in 2010, which again emphasised Europe's need to seize the opportunity of higher levels of growth abroad, especially in East and South Asia, and the EU's willingness to do so through FTAs.

Following this bilateral approach, over the past few years the EU has embarked on a highly ambitious set of trade negotiations in the Asia Pacific, launching trade talks with South Korea, India, ASEAN, and with Singapore and Malaysia. In 2010, a far-reaching agreement was signed with South Korea. Initial talks have furthermore been initiated with Vietnam and are likely forthcoming with Indonesia and Japan. Talks in Southeast Asia, if successfully concluded, may well lead to the resumption of efforts to conclude an ASEAN-wide agreement, which would be a helpful ballast to its role in the region's economic integration processes.

Similar to the United States' TPP-strategy, the EU's regional agreements are noticeably constructed around China, an approach that has been referred to as 'Asia-minus-one'. The FTA with South Korea and talks with Japan in particular, both of which have or are considering trade deals with the United States, could similarly set high standards for trade deals of the future and at the same time be significant enough in size that non-participation would be costly for China.

12. Anders Ahnliid, Claes G. Alvstam and Lena Lindberg, 'A World Without Verona Walls. New challenges for the external trade policy of the EU in a resilient global economy – with a special focus on Asia', Centre for European Research at University of Gothenburg, October 2011, p. 423.

The EU has also put a new emphasis on the need for reciprocity and mutual benefit in future trade agreements and has explicitly acknowledged challenges with China's industrial and macro-economic policies in this regard. All of this can be viewed as part of a European move towards a more assertive stance in its trade policy towards China.

One example of this increasing assertiveness is the recent Commission proposal on government procurement, which would allow public authorities in the EU to exclude foreign companies from contracts worth over €5 million if they are based in countries that do not offer EU businesses similar access to public procurement bids. However, the proposal is not supported by all Member States and there is currently not a qualified majority either for or against the proposals. Furthermore it remains questionable, given China's relatively small involvement in Europe's procurement market, whether the EU proposal will be successful at ensuring reciprocity.<sup>13</sup>

Reciprocity will also play a major role with regard to the question of how to treat the increasing wave of Chinese foreign direct investment into Europe. As it accounts for less than 0.2 percent of all foreign investment stock in Europe, China, for the time being, only accounts for a tiny share of overall direct non-financial investment in the EU.<sup>14</sup> But from this low baseline a clear upward trend has become visible since 2008. Today, Chinese firms have investments in all EU Member States and of the \$1-2 trillion in direct investment that China is expected to place over the coming decade a large share will be split between the United States and Europe.<sup>15</sup> Even at current low levels, these investment flows, highlighted by several headline-grabbing purchases and paired with the bleak economic situation in large parts of the EU, are causing anxious reactions. There are worries that a 'scramble for Europe'<sup>16</sup> is underway, as Chinese companies are taking advantage of the European crisis and playing Member States off against each other. By contrast with the United States, where the Committee on Foreign Investment in the US was established in 1988 to review all FDI transactions for national security impacts, similar legal regimes in the European Union remain too diverse and heterogeneous.<sup>17</sup> A more consistent framework is needed, however, if Europe is to successfully balance legitimate security concerns with the immense economic opportunities of incoming FDI.

13. Fredrik Erixon, 'When Sisyphus met Icarus. EU-China Economic Relations during the Eurozone Crisis', German Marshall Fund, April 2012.

14. Jamil Anderlini, 'Chinese investment in Europe to surge', *Financial Times*, 26 October 2011.

15. Thilo Hanemann, 'Chinese FDI in the United States and Europe. Implications and Opportunities for Transatlantic Cooperation', German Marshall Fund, June 2011, p. 2.

16. François Godement, Jonas Parelo-Piesner and Alice Richard, 'The Scramble for Europe', European Council on Foreign Relations, July 2011.

17. Nicolas Véron, 'Europe Needs Consistency in Welcoming Foreign Investors', Peterson Institute for International Economics, 14 January 2011.

## Conclusion and recommendations

The United States and Europe are increasingly focused on strengthening their economic relations in the Asia Pacific. As the emerging economies of the region start to generate a significant amount of global demand and foreign direct investment, especially from China, starts to flow to Europe and the United States, the Asia-Pacific has the potential to become a true growth generator for the ailing West.

A joint transatlantic approach could help overcome the ‘noodle bowl’ of FTAs already existing in the Asia Pacific by consolidating individual trade agreements. Agreements will be stronger if they can at least avoid conflicting provisions and preferably incorporate common ones that both sides agree to include in their negotiations as standard. The shared objective of setting an aspirational bar for future trade agreements on issues such as IPR protection and standards will be more effectively reached if the transatlantic partners coordinated their efforts, whether under the auspices of the Transatlantic Economic Council or through a specific mechanism.

Combined or coordinated strategies seem especially prudent with regard to dealing with China. While there has been good progress when it comes to tactical cooperation, such as joint WTO cases, there is still considerable scope to extend this into broader economic strategy. Devising a trade framework that can impact Chinese policies in a positive direction will need to have sufficient economic weight to make non-participation too costly for Beijing, which at present TPP alone is highly unlikely to achieve.

Achieving greater leverage on issues such as market access and forced technology transfer will be more effective if there are efforts to build cooperation between a broader group of economic policy officials in Europe and the United States on common approaches to China on issues of mutual concern – at present, this level of coordination is still far more extensive among trade policy officials than elsewhere and still limited even there.

Given that the EU is actually moving ahead with a more ambitious trade agenda in Asia than the United States, this should be viewed as an opportunity for a more integrated conversation between the two sides about how respective economic policies in the region can support shared political and security objectives, rather than simply pursuing a competitive advantage.

## II. ASIA'S GROWING THIRST FOR RESOURCES: A NEW AGENDA FOR TRANSATLANTIC COOPERATION

**Bernice Lee**

Over the past two decades, emerging countries from Asia have doubled their share of global income and triggered fundamental changes in the patterns of consumption, production and trade across the world. The rising fortunes of the Asia-Pacific region have raised new fears about future resource security, especially *vis-à-vis* energy and other raw materials. In addition to the dramatic growth in demand for these resources from Asia over the past decade, these fears are exacerbated by the imposition of export controls to support domestic processing of raw materials, subsidise inputs for domestic industries or enforce price discipline among mineral exporters.

### **New actors, new uncertainties**

Asia's growing influence in global resource markets has not only attracted increasing attention to its environmental footprint; it is also reshaping international politics. Rising fossil fuel demand, for example, will deepen China's and India's dependence on – and geostrategic interest in – the Middle East. It will also force both to seek greater imports from other exporting regions, such as Russia and Central Asia, Africa, South America and Australia.

The same also applies to the global coal market. Even though China and India are respectively the world's largest and third largest coal producers, their hunger for coal will not only spur greater demand for Australian and Indonesian exports but also higher production in countries like Colombia and Vietnam.

Also on the horizon are potential escalations of territorial disputes over resource access in the Asia-Pacific region. China and Japan – and to a lesser extent Taiwan and South Korea – continue to dispute maritime borders in the East China Sea. In the South China Sea hydrocarbon deposits and fishing rights are also a source of tension.

The growth of emerging economies is also creating new global dependencies. Key metal-producing countries, for example, are increasingly reliant on exports to China – now the destination for more than half of metals exported by Australia, Indonesia and Peru and well over a third of exports from Brazil and Chile.<sup>1</sup> Other emerging

1. All the data are from Chatham House's *Bilateral Trade Database* and Chatham House, *Resources Futures*, December 2012.

economies are rapidly increasing their metal imports. Thailand's metal imports have risen eightfold in value (nearly threefold in volume) over the past ten years. Jindal Steel projects that India will be importing 40 to 50 million tonnes of steel by 2020 – on current trends India will be producing about 150 million tonnes of steel by this date, while its demand will be 200 million tonnes.<sup>2</sup>

### **Growing resource fears**

The most iconic resource-related dispute involves Chinese control over the rare earths – a group of 17 metallic elements whose unique properties make them indispensable in a variety of advanced technologies, from clean energy to defence. According to 2010 figures, China produces 97 percent of the world's rare earth supply and 79 percent of the rare earth magnets. Chinese dominance of rare earth production has been a major source of concern. Its accelerating consumption of its own rare earth resources could leave the rest of the world without a viable alternative source in the short term.

Today, access to rare earth metals is creating trade tensions between China, the United States and the EU. Western countries are accusing Beijing of using its complex export quota system unfairly to restrict access for Western companies, in order to strengthen China's position in the valuable downstream processing industries. Since 2004, China has also applied tighter quotas and taxes on coking coal exports for which it is the world's largest producer. According to the OECD, this provided Chinese steel producers in 2008 with 'a cost advantage equal to more than 20% of the world market price for carbon steel'.<sup>3</sup>

Beyond China, Indonesia has also forced companies to submit plans to develop domestic processing capacities in order to obtain an exporting licence for nickel ore and other unprocessed metals and plans to move to a full ban on exports by 2014. Vietnam has imposed restrictions on iron ore, copper and specialty metals.<sup>4</sup> In India, the world's third largest iron ore exporter, there has also been a long-running debate about an export ban to support domestic steel industry.

The spectre of future scarcities underlines the imperative of responding to a more competitive world in terms of energy and resources and their security implications. The geopolitical implications of growing oil consumption in the Asia-Pacific region also remain unclear. According to a recent Chatham House report, by 2020 Asian oil imports will account for roughly 60 percent of interregional oil trade.<sup>5</sup> Historically,

2. 'India's steel import may touch 50 mn tonnes by 2020', *Economic Times*, 13 April 2012.

3. Alan H. Price and D. Scott Nance, 'Export Barriers and the Steel Industry', in *The Economic Impact of Export Restrictions on Raw Materials* (Paris: OECD Publishing, 2010)

4. 'Indonesia, Vietnam curb raw minerals exports', *ConceptBank*, 19 June 2012.

5. John Mitchell, Valerie Marcel and Beth Mitchell, *What next for the oil and gas industry?*, Chatham House Report, 2012.

US energy security policies comprise support for international trade and market-based solutions – whether domestic or international. This strategy is underpinned by military capacity and willingness to safeguard trade routes like sea-lanes and to protect supply sources.<sup>6</sup> In light of the so-called shale gas revolution in the US, and the prospect of energy independence in the coming decades, the question is whether the US's evolving energy needs may have spillover effects on US foreign policy.

Not all shortages translate into longer-term scarcities. The recent price spike in response to expanding use in magnet technologies and Chinese rare earth export restrictions has begun to ease as high prices have led to significant demand destruction. Rare earth mines in California and Australia are scheduled to go into production in 2012, which will go some way to ease supplies of for example light rare earths such as cerium and lanthanum.

For all the concern over potential supply disruptions, both the US and the EU economies are extremely vulnerable to potential higher energy prices, in part the result of growing demand from emerging economies. High *per capita* US energy use makes its economy more exposed to fluctuating global energy markets than other developed countries.<sup>7</sup> Without accelerating deployment of non-fossil fuel energy technologies at the global level, increasing demand for energy will be met by fossil fuels, aggravating future climate-related threats and increasing the energy security risk in countries and regions of interest to the United States, whether friends or foes.

### **The EU's external energy and climate policy: convergence and fragmentation**

A divergent set of interests have driven the policies of the European Union and its Member States towards Asia to date. This is due to the Member States' different industrial and consumption profiles, location in Europe and the levels of import dependencies. Table 1 (opposite, compiled by the author) describes some key factors and examples of these divergences as well as highlighting divergent commercial interests.

6. John Mitchell, 'Asia's New Role in Global Energy Security', in *Oil and Gas for Asia: Geopolitical Implications of Asia's Rising Demand*, National Bureau of Asian Research, NBR Special Report no. 41, September 2012.

7. Overall US energy consumption has fallen for the last seven years and is now equal to that of 1998. Despite this, its *per capita* energy consumption is well above the world and OECD average.

**Table 1: EU energy relations with Asia – key factors and examples**

Key factors	Common or divergent interests (Countries)
<b>Import dependence</b>	
<p>Import dependence and fuel mix, storage etc.                      Vulnerability to price movements e.g. macro-economic position; energy and food poverty</p>	<p>Energy import dependence varies among MS  <i>Fuel mix</i>: wide variety (e.g. highly coal-dependent Poland; nuclear in France; gas in UK)  <i>Production</i> – only a few significant producer countries (UK, Netherlands, Poland and Germany – coal)  <i>Location</i> e.g. north Europe (linked to North Sea production); south (North Africa pipelines); east (landlocked, Russia-dependent)</p>
<b>Competition with Asian countries over energy resources</b>	
<p>Competition between EU and Asian countries</p>	<p>Directly affected by Russian decisions over gas pipelines etc to Asia (Poland, Ukraine, Germany – not UK, Spain, Norway, France)                      Competition in liquefied natural gas (LNG) markets (e.g. Spain, Portugal, UK)                      Countries with significant foreign investments in resources in Africa and Latin America (e.g. UK, France, Italy, Spain) where Chinese and Indian investments are growing                      Competition for access to oil resources, particularly in Middle East and Africa</p>
<b>Competitiveness and commercial interests</b>	
<p>Access to key materials for manufacturing industries                      Impact of resource pricing and environmental regulations on heavy industry                      Harmonisation of technology standards</p>	<p>Countries with large manufacturing sectors (Germany, UK, Italy, France) may fear the burden of resource-related regulations on their short-term competitiveness <i>vis-à-vis</i> Asia                      Countries with lots of heavy industry (Germany, Poland) which fear relocation of production to Asia                      Lower production costs for some renewable technologies in Asia, particularly solar PV (Germany) and wind (Germany and Denmark), are leading to calls to curb programmes in the EU as they are said to be subsidising overseas manufactures not domestic jobs                      High-tech industries with significant IP-related issues are reluctant to manufacture in countries with poor IP protection laws</p>
<b>Attracting Asian investment in Europe</b>	
<p>Market structure/level of liberalisation                      Economic situation                      Investment needs                      Political acceptability of Asian investment</p>	<p>Ongoing liberalisation process and financially-driven privatisation is opening the door for investment in utility sectors in Europe; as a result some utilities are actively seeking Chinese, Japanese and Indian investment.</p>

In recent years, climate change has to some extent provided a rallying point for EU energy and climate policies – even though there have been notable detractors like Poland, a coal-based Member State – around which emerged a strategic vision that by and large has been adhered to by the Member States. This alignment of the energy security and the global decarbonisation agendas has enabled the Member States to come together on the 2008 Energy and Climate Package, with components like energy efficiency, carbon capture and storage, clean and renewable energy, technology investment and joint grid development. However, concerns have been raised over the likely form of the post-2020 target or targets.

With climate change and clean energy as a focus, cooperative ventures with Asia have also increased significantly. Examples include projects on clean development mechanisms, clean coal with China and India as well as deforestation with Indonesia. There are also a number of ‘strategic partnerships’ with key Asian states, including the EU-China Partnership on Climate Change (since 2005) or the EU-India Initiative on Clean Development and Climate Change, as well as high-level declarations, whether with Japan, ASEAN or ASEM. The European Commission has engaged in projects all over Asia through development cooperation, with a global allocation of €1.187 billion made to Asia for the period 2007-2013. Most of the funding is delivered through specific projects, by sector or by budget support to national governments, programmed on the basis of national Strategy Papers. Many joint technology development projects were promised or invested.

Recent alignment of energy and climate policies notwithstanding, engagement by the EU with Asia tends to be on a country-by-country basis with major players. Alongside EU-led initiatives are wide ranges of parallel activities pursued by Member States with their respective counterparts in Asia. These include for example collaborative activities pursued by Member States with China in the energy sector (see Table 2). Only limited progress has been made on a combined EU policy on Asia, and engagement has tended to be confined to individual countries seen as major polluters or competitors for energy supply. In any event, Member States have traditionally reserved significant prerogatives when it comes to energy policy, and frequently negotiate separately with third parties.

Despite some attempts at coordination, national preferences often undermine common negotiating positions. The energy mix in different countries also affects the ability of the EU to implement a concerted energy policy. Poland’s electricity system uses 90 percent coal, and Estonia, the Czech Republic and Bulgaria all use coal for the majority of their electricity production, while Germany is reliant on Russian gas.

**Table 2: Energy-related ODA from EU institutions and Member States to China (2001-2010) (in US\$ million)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Belgium</b>			0.3	0.2							
<b>Denmark</b>	5.7	3.7	1.6	12.9	4.7	7.5	4.5	1.2	19.7		0.5
<b>Finland</b>		0.1	4.1	4.6	7.6	7.0	3.2	0.1	0.0	3.8	0.3
<b>France</b>	1.2								1.0	0.7	
<b>Germany</b>	4.2	4.6	12.9	10.8	18.1	5.6	13.3	1.5	25.9	2.3	7.5
<b>Italy</b>	0.0	7.4	0.0		0.0			1.4	8.7		
<b>Netherlands</b>	1.4	12.4	0.5	0.3	0.0			1.2	2.5		
<b>Portugal</b>											
<b>Spain</b>			0.2	0.5	0.6	0.2			0.1		0.2
<b>UK</b>					2.5				0.6		0.4
<b>United Kingdom</b>	7.9	2.9	0.8					1.2	0.9	2.9	0.5
<b>EU Institutions</b>		17.7							28.8		2.6

Source: OECD-DAC database

Recent developments, from the European debt and financial crisis, high and volatile resource prices, together with the stalemate in global climate and trade arenas, have also made it more challenging to continue or upscale these activities. And these new faultlines are undermining the aspired coherence of the EU strategy on energy and climate. With the push for a global climate agreement relegated to the backseat, there is less alignment among the different facets of the EU's energy and climate security policy. Today, the external dimensions of the EU's energy policy are again more aligned with the trade and investment agenda, broadly focusing on market access, market expansion and investment conditions.

In any case, concerns over trade and competitiveness continue to dampen any potential EU goodwill, especially with regard to China – whether over export restrictions, local content requirement, intellectual property or the uneven playing field for foreign companies in China, especially in the services sectors. Many trade disputes also continue to strain EU-China relations: the latest include solar panels and rare earth minerals. Of the 37 ongoing EU trade defence investigations from June 2011, 15 involve Chinese companies.<sup>8</sup>

Yet on matters of energy and climate change a regional approach is increasingly important. Competition and cooperation for energy is crucial in structuring price and supply dynamics, while climate change initiatives are often strengthened by regional integration and benefits of scale. This applies not only to the EU but also Asia. For example, the way in which provision is made for the supply of gas to the North-

8. Data from European Commission, *Trade Defence Investigations*, 2012. See: <http://trade.ec.europa.eu/tdi>.

East Asian market will have a huge impact on the region as a whole. Following the Fukushima disaster in Japan and consequent shutdown of nuclear reactors, Japan's requirement for the liquefied natural gas (LNG) market has increased, which along with increases in Chinese demand is leading to significant price differentials with the North American and European markets.

Issues related to gas from Russia also highlight critical linkages between the EU and Asian gas markets. Russia favours a pipeline through western China, making Russia a swing supplier between Europe and Asia able to dictate terms and prices. As a counter to the Chinese negotiating position favouring a pipeline through northeast China, Russia has repeatedly threatened to make a deal with South Korea to build a gas pipeline linking the two countries via North Korea, with the possibility that energy security and the nuclear tensions of the region could become entwined.

A regional Asian strategy, with support from the EU as Russia's other key market, would have the potential to speed up the resolution of gas supply, and keep prices at an equitable level. This issue will likely gain further attention as gas will be of increasing importance in Asia as countries, particularly China, seek to reduce their dependence on coal and cut emissions. Delay in the construction of a pipeline, or inordinately high prices, could leave China with fewer options for its coal-based energy sector.

### **A new transatlantic agenda on energy and climate change in Asia**

The US and the EU do not have a shared strategic vision on the Asia-Pacific region, in part due to different perceptions of security risks and threats, as well as the EU's primary focus on the Eastern and Southern neighbours. Looking to the future, a transatlantic agenda that adheres to a single strategic vision that integrates energy, climate change and resource security will be challenging. That said, and even though the fuel mix of energy sectors varies considerably within and between the regions, there are some overriding areas for common action. At this critical juncture, elements of a cooperative transatlantic agenda could address the following issues:

**Oil price volatility:** Through the G-20, the EU and the US could discuss how best to enhance the stability of the international oil markets through minimum national stockpiles, especially for many emerging major Asian consumers who are not members of the International Energy Agency and therefore not bound by the minimum stockpile requirements of 90 days.

**Coal:** Coal remains an important part of the energy and electricity mix in all three regions. Trilateral co-ordination would be beneficial in a number of areas, including carbon capture and storage as well as financing policies to promote the best available technologies and common emissions performance standards.

**Renewables:** More advanced policy thinking is needed to drive the deployment of a new generation of technologies in future energy systems, i.e. smart grids and storage technologies. As major consumers and producers of renewable energy these three regions can become a key testing ground for new policies and therefore hubs for the development of local and regional renewable-based electricity systems.

**Global standards:** Energy end use remains an underdeveloped area of national energy policies and international cooperation despite the importance of globalised production and supply chains. As governments and regional bodies increasingly require higher energy benchmarks, developing a global arrangement for dynamic standards will enhance cooperation and accelerate innovation, and help level the playing field.

**Assessing the geopolitical implications of new fossil-based resources:** The geopolitical and security implications of new developments in the energy sector remains unclear or contested – whether lowered US dependence on foreign oil or higher demand from Northeast Asia for Russian gas. More joint thinking is also needed to assess the security implications of future US energy independence for Asia and Europe, including the likelihood of US reassessment of priorities in foreign and defence policy and the potential responses from other major powers in Asia.

### III. THE US, EUROPE AND ASIA'S RISING MULTILATERALISTS

#### Richard Gowan

Over the last five years, Asian governments have assumed an increasingly important role in global diplomacy. This is a significant change in the international system. For most of the first two post-Cold War decades, Asian powers played a limited role in multilateral affairs. China had a seat at the top table in the United Nations Security Council (although it typically adopted a low profile there through the 1990s) and Japan had a good track record as a constructive member of the G-8. But the US and its European allies remained the primary actors in both directing and reforming international organisations.

Since the financial crisis began in 2008 Asian powers, including a number of 'new middle powers' in the Asia Pacific (Indonesia, South Korea and Australia), have begun to play a more active role in multilateral processes on issues ranging from development to disarmament. This has opened up opportunities for the US and Europe to collaborate with Asian partners on global issues, but also created tensions. European officials have been unnerved by the challenge to their position at the apex of multilateral diplomacy.

Nonetheless, European powers and the US have a common interest in promoting Asian governments' engagement in multilateral diplomacy at the global as well as the regional level.<sup>1</sup> The US and its allies in the EU can promote multilateral cooperation across a range of important substantive areas: maritime security, the law of the sea, climate change and global economic cooperation. In addition, there are the sensitive *structural* aspects of international cooperation.

The structural dimension of multilateral cooperation centres on how power is distributed in international institutions (including old and highly-bureaucratised institutions such as the UN and newer, less formal clubs such as the G-20), how decisions are made in those institutions and how policy processes are initiated and facilitated. This chapter explores the rise of Asian powers as decision-makers and diplomatic facilitators in multilateral affairs, and the response of Western powers.

1. In the rest of this chapter the term 'multilateral affairs' refers to global issues, rather than regional multilateral arrangements.

## Asia and multilateralism: new dynamics

The US largely let European governments take the lead in shaping multilateral mechanisms in the first two decades after the Cold War. By contrast, very few ‘truly significant and successful international institutional reforms [...] driven from Asia’ occurred in this period.<sup>2</sup> Hence there was ‘some sort of disconnect’ between the shift of real-world economic power to Asia and the failure to change the structures of decision-making in global institutions.

Five years on, Asia’s position in the multilateral system looks very different. China has emerged as a much more assertive force in the Security Council. In some cases, as over Syria, it has clashed with the West. In others, such as stabilising relations between Sudan and South Sudan in early 2012, it has cooperated closely with the US and EU members. The rapid rise of the G-20 in response to the financial crisis has given Asian members of the Group a much stronger say on global economics. While foreign policy experts have focused on China’s and India’s trajectories, other countries in the region – the new ‘middle powers’ – have begun to stake out greater roles in the multilateral system. South Korea not only hosted the G-20 in 2010 but convened the second Nuclear Security Summit in 2012. Indonesia has taken a greater role in UN peacekeeping and development debates. Australia, which occupies an unusual position as both an Asian and Western power, is also more prominent at the UN and will host the G-20 in 2014. As Andrew Cooper and Jongryn Mo have argued, Asia’s increasingly confident middle powers ‘form a natural constituency for a liberal global economic order, having benefited so much from one in the past. They have the credibility to defend those principles now from assaults on all sides by the big players.’<sup>3</sup>

This efflorescence of Asian interest in multilateral cooperation should be a source of strategic satisfaction to both US and European policy-makers. The EU’s members have called for increased global burden-sharing through ‘effective multilateralism’ for the last decade. The Obama administration has prioritised both cooperating with Asian powers in global institutions and creating multilateral frameworks to handle Asian challenges.

However, adapting multilateral diplomacy to accommodate Asian powers has also created strains between the US and its European partners. EU diplomats have complained that the Obama administration has been ready to sacrifice *European* influence in international institutions while avoiding any reduction in its own leverage. This complaint crystallised during debates at the G-20 in 2009-2010 over reforms to the governance of the International Monetary Fund (IMF). The US put public

2. Richard Gowan and Bruce D. Jones, ‘Conclusion: International Institutions and the Problem of Adaptation’, in Bruce D. Jones, Shepard Forman and Richard Gowans (eds.), *Cooperating for Peace and Security: Evolving Institutions and Arrangements in a Context of Changing U.S. Security Policy* (Cambridge: Cambridge University Press, 2009), pp. 313-14.

3. Andrew Cooper and Jongryn Mo, ‘Middle Powers Can Punch Above Their Weight’, *The Wall Street Journal*, 4 November 2011.

pressure on European powers to accept a 6 percent reduction in their combined voting quotas on the IMF's board.<sup>4</sup> The European members of the G-20 only consented to this after extended and chaotic diplomacy. Ironically the US Congress has yet to approve the IMF reforms.<sup>5</sup> Yet some European commentators and officials see the clash over the IMF as indicative of deeper transatlantic differences over multilateralism. They fear that Washington and Asian powers share a taste for loose cooperative mechanisms with limited legal underpinnings – rather than EU-type structures that involve pooling states' sovereignty.<sup>6</sup>

But if there are transatlantic tensions over Asia's new role in multilateral affairs, the countries of the region have very different visions of the future of international institutions. China, for example, is firmly opposed to reforming the UN Security Council to admit India and Japan as permanent members (there are of course, also big differences within Europe over Security Council reform, and the American stance is ambiguous).<sup>7</sup>

Meanwhile, the middle-sized Asian Pacific powers fear being eclipsed by China and India. In 2012, the foreign ministers of Australia, Indonesia and South Korea joined with their counterparts from Mexico and Turkey to discuss how to ensure a role for middle powers in the G-20. Smaller Asian countries are also concerned by the emergence of a new multilateral order dominated by the region's big powers. These concerns have been most effectively articulated by Singapore, which launched a 'Global Governance Group' (3G) in 2009 to address the implications of the G-20 for existing multilateral institutions. Successive presidents of the G20 have made a point of cooperating with 3G – with Singapore still taking a lead role – to maximise the legitimacy of their decision-making.

So while there are obstacles to deep cooperation between the US and Europe on forging joint approaches to Asia on multilateral policy issues, there are arguably even greater obstacles to Asian powers forging common positions on multilateral affairs themselves. It would be foolish to imagine that fully coherent 'Transatlantic' and 'Asian' visions of multilateralism will cohere in the near future. The US and European powers arguably have an interest in promoting a diverse range of Asian powers – and especially the new middle powers – to act as agenda-setters and diplomatic facilitators in multilateral affairs.

4. See Hans Kundnani and Justin Vaïsse, *European Foreign Policy Scorecard 2010* (London: European Council on Foreign Relations, 2011), pp. 74 and 117.

5. Jan Strupczewski, 'Europe Struggles to Meet Pledge to Cut Seats on IMF Board', Reuters, 20 September 2012.

6. Mark Leonard, 'Europe will Leave G20 with a Unilateral Future', Reuters, 20 June 2012.

7. Germany cooperates with Brazil, India and Japan (the 'G4') in an ongoing quest for permanent seats on the Security Council. Italy and Spain oppose Germany's ambitions. France and the UK back the G4 in principle.

## Working with Asia's rising middle powers

There are three main reasons for Western governments to encourage a wide variety of Asian powers to seek multilateral leadership roles. The simplest is *functional*. Many multilateral processes underway require the engagement of 'champions' – from Asia and beyond – to advance individual issues. The second is *financial*: European governments in particular have had to review their contributions to international institutions in recent years. Asian governments can potentially fill some of the resulting funding gaps. But there is also a *political* argument for engaging a wide range of Asian power on multilateral affairs.

In the immediate aftermath of the financial crisis, both the US and Europe were largely focused on integrating China and (to a lesser extent) India into international decision-making. This was the period in which it was still fashionable to talk about a 'G-2' of China and the US running the world, or perhaps a 'G-3' with the EU as the third pillar. Such notions worried not only Japan – which had a stake in conserving the primacy of the G-8 in financial affairs – but also other Asian powers wary of China's uninhibited rise.

Since late 2009, Western officials have also worried that their courtship of China has not paid off. Beijing played 'an obstructionist role at the climate change negotiations in Copenhagen, regularly and openly criticized US leadership, and sought to water down sanctions against Iran's nuclear program at the UN Security Council.'<sup>8</sup> When India joined the Security Council as a temporary member in 2011, it was also unexpectedly negative in dealings with the US and EU powers, criticising the NATO campaign in Libya and initially opposing interference in Syria.

Any serious US and European multilateral strategy towards Asia must, of necessity, pivot on China and India. But it has become clear that the region's middle powers are potentially easier to work with, not only on regional issues (as in US outreach to ASEAN over tensions in the South China Sea) but also on global multilateral questions.

We have noted that South Korea has hosted the G-20 and the Nuclear Security Summit, but it was also host of the conference on development principles in Busan in 2011. Ban Ki-moon has been a solid friend to the Western powers at the UN, especially during the Libyan and Syrian crises. Seoul has been elected for a temporary Security Council seat in 2013-2014.

Indonesia has clashed with the West at the UN on some issues, not least human rights, but has looked for areas of cooperation as well. Today there are just under 2,000 Indonesian troops in UN peacekeeping missions – a number roughly equivalent to China's more widely-discussed contribution. Over half the Indonesian per-

8. Thomas Wright, 'How China Gambit Backfired', *The Diplomat*, 28 July 2010. .

sonnel are based in Lebanon, where they operate alongside contingents from EU members including France, Italy and Spain to stabilise the border with Israel.

Indonesia has additionally played a convening role in climate change diplomacy at the 2007 Bali summit and aimed to establish a voice on development issues. This year, Ban Ki-moon appointed the country's president, Susilo Bambang Yudhoyono, as a leader of a High-Level Panel on the future of international development policy after the Millennium Development Goals expire in 2015 (his two co-chairs are David Cameron of the UK and Ellen Johnson-Sirleaf of Liberia). Indonesia is also a significant force within the Organization of the Islamic Conference (OIC). Although the OIC's 56 members argue with the US and Europe over religious freedom, they have cooperated with the West to put pressure on Syria at the UN, having called for action in Libya.

Australia is more of a known quantity to US and European policy-makers, but it has also increased its focus on multilateral diplomacy in recent years. Like South Korea, Australia was elected this year for a temporary seat on the Security Council – it has not been a member since 1986 – in addition to preparing to preside over the G-20 in 2014. Its G-20 leadership will be important to the future of the Group, as it will follow Russia's 2012 presidency, which may be complicated by Moscow's poor relations with the West.

The US and Europeans have an interest in the Asian middle powers deepening their multilateral commitments, so as to maintain the widest possible array of diplomatic partners in the Asia Pacific. There are many global questions which can only be resolved by direct engagement with China and/or India. But the US and European powers are likely to retain more room for manoeuvre in negotiations if other Asian governments are prepared to take up autonomous positions. As we have noted, these Asian powers have begun to explore ways to cooperate with middle powers from elsewhere, like Turkey. 'Working as a loose coalition,' Cooper and Mo argue, 'they could be in a position to break any gridlock among the biggest economies by offering credible alternatives.'<sup>9</sup>

Smaller Asian countries can also play a significant role in multilateral negotiations. Singapore's role in building the 3G group is not the only example of this. Europe and the US have many potential multilateral partners in Asia, if they invest carefully in building up diplomatic coalitions.

### **Strengthening transatlantic engagement with Asia's new middle powers**

If Asian powers believe the US and EU want to cling onto power in international institutions, they are unlikely to sustain their recent interest in multilateralism. This topic will recur in the years ahead: in 2015, for example, there will be a review of

9. Cooper and Mo, *op. cit.* in note 3.

countries' voting weights at the World Bank.<sup>10</sup> Some multilateral reform issues, such as Security Council reform, never go away. It is sometimes argued that all EU members and the US should agree on a strategy for managing these processes, but this is politically unrealistic. What the US and its European counterparts *can* do is improve the quality of their dialogue with Asian powers on these issues. At a working level, the US Assistant Secretary of State for International Organization Affairs and the EU External Action Service's Managing Director for Global and Multilateral Affairs could jointly convene a *Working Group on Multilateral Leadership*, bringing together representatives from Asian middle powers and other non-Western governments (like Mexico) that have overseen major international conferences.

Such a working group would be functionally useful: non-Western governments, such as Mexico and South Korea, have proved very adept convenors for complex processes. It would also demonstrate US and European recognition of these governments' importance. If such a group proved useful, it could also act as a *de facto* contact group for the discussion of medium and long-term international institutional reform problems.

There is also an argument for developing functional working groups at the UN with Asian middle powers to deal with issues such as development and the Security Council agenda. There are still some areas of UN policy in which Asian powers play a very limited role and the US and EU predominate, such as humanitarian relief. The US and EU could cooperate on common initiatives to increase Asia's stake in such areas. However, these would not necessarily give the Asian middle powers *political* reassurance that they will not be sidelined in higher multilateral talks, in or out of the UN.

There are opportunities to provide greater reassurance on this front. In 2013, the UK will host the G-8. It has been suggested that it could invite the leaders of some of the new Asian middle powers (and their counterparts from other regions) to attend this summit. The G-8 regularly addresses issues including development aid – and specifically aid transparency – so this would dovetail well with cooperation at the UN and elsewhere.

Inviting Asian and non-Asian middle powers to the G-8 leaders' summit without inviting China and India might be controversial. A more limited option would be to invite Australia, Indonesia and South Korea to participate in one of the regular G-8 foreign ministers' conferences or to join a G-7 finance ministers' meeting. More ambitiously, a G-8 summit with Asian middle powers could be used to roll out policy proposals to be developed and presented to the full G-20 in Australia in 2014. The US, EU and Australia are likely to coordinate closely over G-20 issues anyway. But steps could be taken to include a wider array of Asian partners in advance talks on building an agenda for 2014.

10. See Jakob Vestergaard, *The World Bank and the Emerging World Order: Adjusting to Multipolarity at the Second Decimal Point* (Copenhagen: DIIS, 2011).

These steps would need to be taken with care. There is no point in alienating China or India needlessly, and this places limits on US and EU relations with other Asian governments. But given the contributions the Asian middle powers have made to multilateral cooperation, there is a clear logic for deepening Western ties with them.

### **Conclusion: a (multilateral) world of opportunities?**

In the final analysis, Asian powers of all sizes will still put their immediate national interests – and regional alliances – before global engagement. But it is also clear that the region’s middle powers and many smaller states see multilateral diplomacy as being in their national interests too, at least for the time being. Their interest in international institutions will be shaped by the success or failure of international cooperation on substantive issues, such as trade and climate change.

But Asian powers – and especially the region’s middle powers– also value the status and reputational value they derive from multilateral diplomacy. If the US and European powers want multilateral institutions to retain some vitality in the years ahead, they should ensure that Asian powers have incentives to sustain and increase their agenda-setting and facilitating roles in the international system.

## IV. TRAJECTORIES OF REGIONAL INTEGRATION IN THE ASIA PACIFIC

David Camroux and Patryk Pawlak

### Introduction

The institutional aspects of regional integration processes in the Asia Pacific are currently unfolding along two parallel paths: trade and security. Indeed the nexus between the two and its impact on international relations, both multilateral and bilateral, is increasingly acknowledged.<sup>1</sup>

An increasing number of Free Trade Agreements are being concluded in the region which, in addition to generating growth, are also seen as having geopolitical and strategic objectives and as confidence-building measures that will lead to deepening regional integration in Asia. At the centre of this process in Southeast Asia is the ambition to create a three-pillared ASEAN Community by 2015 with 'a single market and production base' as its foundation. The progress achieved so far has allowed, for instance, the removal of most import tariffs on intra-ASEAN trade, although the pace of removal differs from one member country to another. The decision taken at the ASEAN Economic Ministers meeting in Siem Reap in August 2012 confirmed the establishment of a regional comprehensive economic partnership agreement (RCEP) among the ASEAN+6 countries. In May 2012 financial cooperation was brought to a new level by establishing a crisis prevention facility – the Chiang Mai Initiative Multilateralisation Precautionary Line (CMIM-PL), a USD 240 billion fund aimed at preventing a regional financial crisis in East Asia.

At the same time, the process of political and security integration is occurring at a much slower pace, notwithstanding the fact that the world's five largest importers of conventional weapons in recent years are all in Asia: India, South Korea, China, Pakistan and Singapore. Despite the privileged position that ASEAN occupies within the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS), the Association faces serious constraints in attempting to assume more leadership and fully realise its potential.<sup>2</sup>

1. Avery Goldstein and Edward Mansfield (eds.), *The Nexus of Economics, Security, and International Relations in East Asia* (Stanford, CA: Stanford University Press, 2012).

2. David Martin-Jones and Michael Smith, 'Making Process, Not Progress: ASEAN and the Evolving East Asian Regional Order', *International Security* vol. 32, no.1, Summer 2007, pp. 148-84.

Even though ASEAN is becoming more active its non-interference policy, dating historically from the Bandung conference of 1955, prevents it from collectively taking decisive action on most of the region's pressing challenges. A struggle for influence between China, the US and increasingly Russia is another factor undermining the potential for closer political and security cooperation. The most recent meeting between Russian and Chinese leaders in June 2012 resulted in President Putin's announcement of support for stepping up Sino-Russian security cooperation in the Asia-Pacific region.

Finally, there are also some significant negative factors which, despite being generally conducive to regional integration processes, might also undermine them. For example, the American military alliances in the region impact on other bilateral relations, notably with China. Numerous decisions taken recently by the United States (e.g. the expansion of the missile-defence shield in the region) risk speeding up an arms race or further antagonising China. At the same time, the US military establishment observes developments in the region and is wary of being dragged into confrontation with China over issues which are not at the centre of US strategic interests.

### **Trajectories of regional integration and implications for transatlantic relations**

The vast interests that both the EU and the US have in the region do not imply that they have to 'be in every room and every conversation that Asians have with one another'.<sup>3</sup> However, clearly there are compelling strategic reasons to engage with Asia on a range of issues. In this context four areas may be identified as having particular importance: generating growth, strengthening security, maintaining stability and building a cooperative relationship with China.

#### **Generating growth**

The negotiation of several free trade agreements is an essential component of the transatlantic turn towards Asia. The United States, for instance, is pursuing its interests in two ways: while it is negotiating the Trans-Pacific Partnership (TPP) it, rhetorically at least, maintains support for the idea of a broader regional integration through a reinvigorated Asia Pacific Economic Cooperation (APEC). Coupled with US participation (alongside Russia) in the East Asia Summit (EAS) forum, since November 2011 these efforts made in promoting the TPP and, in particular, in pressuring Japan to join the negotiations, mark a recommitment to multilateralism within Asia.<sup>4</sup> In a similar vein, the EU is pursuing its trade objectives in the region through negotiations that seek to build on existing bilateral agreements with individual Asian

3. Dick K. Nanto, 'East Asian regional architecture: new economic and security arrangements and US policy', *CRS Report for Congress*, 15 April 2010.

4. David Camroux, 'Regionalism in Asia as Disguised Multilateralism: A Critical Analysis of the East Asia Summit and the Trans-Pacific Partnership', *International Spectator*, vol. 47, no. 1, March 2012, pp. 97-115.

countries (such as that with South Korea) and through developing a network of FTAs with countries in the region.

While there may be a desire to strengthen economic and trade ties between and with countries in the region, there is a risk that this approach might be undermined by domestic political considerations in the United States and in the European Union. The opposition of the US Congress to planned free trade agreements (including the TPP) on grounds of job protection, the defence of intellectual property rights and support for labour and environmental standards, could diminish the standing of the United States in the region and undermine its credibility. At the same time the ASEAN+6 FTA could further divert trade away from the US market. While the European Union could theoretically gain from such a trade diversion by increasing its own exports to the ASEAN +6 markets, in broader terms it could suffer collateral damage should the global commitment to free trade and commonly shared standards be undermined. Similar risks exist within the European Union. Despite the fact that the competence for trade policy lies with the European Commission, individual Member States still enjoy freedom with regard to their industrial and financial policies. Coupled with a lack of inter-European solidarity this is exposing some relatively weaker Member States to pressure from large external actors like China.<sup>5</sup>

A growing grey zone where economic and political interests collide resulting in uncertainties about stability in the region can also be observed. While there is a general assumption that extensive trade relations between China and other countries in the region will prevent them from entering into military conflict, there is also evidence that these linkages can be explored for political gains. A blurred distinction between economic and political interests can also have significant implications for the EU-US agenda in the region, in particular concerning their relationship with North Korea. In 2012, Kim Yong-nam – President of North Korea’s Presidium of the Supreme People’s Assembly – completed several visits to ASEAN countries, which resulted in calls (e.g. from Indonesia) for more engagement with the DPRK.

### **Strengthening security**

Regional frameworks for cooperation are a means of improving stability and security in the region and thus reduce the risks to European and American interests in the region. For instance, the ARF has established a number of Inter-sessional Support Groups (ISG) and Inter-sessional Meetings (ISM) on CBMs, Search and Rescue Coordination Cooperation, Peacekeeping Operations and Disaster Relief. In addition to the possibility of military conflicts, there are numerous security issues (e.g. counter-terrorism, organised crime, etc.) which are better addressed through transnational cooperation rather than by individual efforts.

5. François Godement and Jonas Parello-Plesner, ‘The Scramble for Europe’, *Policy Brief* no. 37, European Council on Foreign Relations, July 2011.

The biggest challenge in the security realm is establishing and strengthening relationships in particular through building upon existing military exchanges and exercises which enhance transparency and facilitate information sharing (e.g. Western Pacific Naval Symposia, Five Power Defence arrangements). For instance, the ASEAN Defence Ministers' Meeting-Plus meetings established in 2010 to facilitate constructive engagement between ASEAN and key stakeholders in the region (in which the United States participates) is viewed as 'an opportunity to move our [ASEAN-Plus] regional security cooperation beyond humanitarian assistance and disaster relief. It will allow the region to cooperatively tackle the emerging peace, stability and security challenges in the years ahead'.<sup>6</sup> Other security cooperation initiatives include ARF disaster relief exercises between twenty countries (coordinated by Japan and Indonesia), the Regional Cooperation Agreement on combating piracy and armed robbery against ships in Asia and the joint Malacca Straits patrols.

Whereas the professed neutrality of ASEAN and its own 'way' of approaching regional integration allow it 'to bring together the major players in an atmosphere of consensus and mutual respect to work together to pursue common interests',<sup>7</sup> it also diminishes its capacity to move forward on issues. A remaining challenge is working towards a more coherent approach within ASEAN, which is currently torn between members who appear supportive of Chinese interests (i.e. Burma/Myanmar during the junta period, Cambodia, and, to a certain extent, Thailand and Laos) and countries like Indonesia, the Philippines, Singapore and Vietnam who are seeking to maintain a certain distance from the PRC. This is a fluid situation with Burma/Myanmar, since the political transition began in early 2011, now seeking to downplay its privileged bilateral relations with China and a once Sinocentric Singapore emphasising *realpolitik* interests over civilisational solidarity.

### **Maintaining stability**

One of the clearest expressions of the growing importance of China and the perception of threat it poses for other countries in the region is the hardening of the approaches to territorial claims and rising nationalism over the past months. Territorial disputes in the region are most worrying since they are proliferating in both the South China Sea and the East China Sea. Their consequence is, not only the increased likelihood of a military confrontation between the main stakeholders resulting more from a blunder than a conspiracy, but also the negative impact they already have on existing collaborative projects in the region. For instance, the latest standoff between Japan and South Korea over the Takeshima/Dokdo Islands was one of the reasons why South Korea decided to withdraw from an agreement on sharing military intelligence with Japan.

6. 'Asia's new distribution of power and its implications', Speech by Stephen Smith, The 10<sup>th</sup> IISS Asian Security Summit, 4 June 2011.

7. 'Building strategic confidence: avoiding worst-case outcomes', Speech by Ng Eng Hen, The 10<sup>th</sup> IISS Asian Security Summit, 4 June 2011.

In that context a potential role that regional fora – and ASEAN in particular – might play in defusing the conflicts and facilitating dialogue is gaining in importance. Given the depth of intraregional trade relations, both China and ASEAN members have an interest in avoiding a heightening of tensions in the region. While China insists on a bilateral approach to such discussions, most countries in the region prefer any potential solution to come about through direct multilateral negotiations between ASEAN and China. Building on the Declaration of Principles on the South China Sea of 1992, ASEAN and China issued in 2002 a joint Declaration on the Conduct of Parties in the South China Sea. Despite some progress made during the Indonesian presidency of ASEAN in 2011 (e.g. an agreement to discuss the joint development of undersea resources) only slight progress has been made towards the adoption of a binding Regional Code of Conduct in the South China Sea. In May 2012 ASEAN finished drafting the core elements of the document but it has yet to be approved by Northeast Asian partners.

Despite the policy of non-involvement in the discussion about territorial claims in the region, the United States and the European Union have issued a joint statement in which they call upon ASEAN and China to ‘advance a Code of Conduct and to resolve territorial and maritime disputes through peaceful, diplomatic and cooperative solutions’.<sup>8</sup> In the past (e.g. at the 2010 ARF in Hanoi) the United States went as far as to declare that outcomes of the South China Sea disputes impact on US national interest, which caused an open diplomatic disagreement with China. The EU’s thinking on the ongoing disputes in the region is still embryonic. The issue is hardly ever discussed in Brussels although interest in some European capitals is growing (e.g. the French White Paper on Defence and Security). Nevertheless, the EU is well-placed to support ASEAN countries in dealing with the China challenge, used as it is to seeking multilateral solutions in contrast to America’s more bilateral mindset. Moreover, unlike the US, EU Member States have, like China, signed and ratified the UN Convention on the Law of the Sea (UNCLOS) which provides a desirable framework for finding durable solutions to maritime disputes. By supporting ASEAN’s demands for multilateral negotiations with China, and by putting its expertise in international maritime law at the disposition of Southeast Asian countries, Europe could contribute to a peaceful resolution of these conflicts.

### **Building relationships with China**

A rising China and the challenges it faces are being carefully monitored in the rest of the world. On the one hand, there is a fear that if China comes to dominate regional institutions in East Asia, it could influence them in a way that might be prejudicial to US interests. The assistance the PRC offers usually entails no preconditions concerning domestic reforms and is offered with full respect for national sovereignty (as opposed to American and European assistance promoting Western democracy-related objectives).

8. EU-US Joint Statement on the Asia-Pacific Region, 12 July 2012.

In a recent influential study, Hugh White has suggested that the best option for the US in Asia is to relinquish any pretence of supremacy and to share power with China across the Pacific<sup>9</sup> This advice is of importance, particularly as it corresponds to the historically grounded option favoured by most small and middle powers in the region. For example Indonesia's first Vice President, Mohammad Hatta, enunciated the principle of 'rowing between two reefs' to conceptualise his country's non-alignment.<sup>10</sup> Today that principle can be seen in the foreign policies of many Asian countries: relying on China as an economic locomotive while depending, directly or indirectly, on the US as a security guarantor, while maintaining a critical distance from both. In the jargon of international relations theory, 'soft hedging' is the preeminent foreign policy posture in Southeast Asia.

As some analysts have observed, China has pursued a strategy in Southeast Asia that relied heavily on economic sticks and carrots.<sup>11</sup> In 2012, as a result of the standoffs between China and the Philippines, the former blocked containers of Philippines bananas from entering Chinese ports. Previously, the Chinese customs agency had also blocked shipments of rare earth oxides, rare salts or pure rare earth metals to Japan in retaliation for the detention of the captain of a Chinese fishing trawler in an incident near the Diaoyu/Senkaku Islands. As a reaction to a worsening of the island dispute in October 2012 top Chinese officials snubbed the annual meetings of the World Bank and IMF because they were being held in Tokyo. Perhaps in ways that are less subtle than those used across the Pacific, the Chinese leadership appears less and less reticent to use its economic clout to promote its own interests.

### **The way forward: rebalancing together**

The 'soft hedging' foreign relations practice of the small and middle powers in the region provides an opportunity for the EU, as well as the US, to perform the role of balancer. Rather than pursuing their interests bilaterally with individual countries in the region, there is a growing, if incomplete, consensus that the Western engagement should be anchored in the region's multilateral institutions.

The main challenge for EU-US cooperation in the region is to establish a mechanism for cooperation that would support strengthening regional structures while at the same time advancing transatlantic interests. In order to achieve that, the EU and US should continue to provide their support for the capacity building of the ASEAN Secretariat.

9. Hugh White, *The China Choice: Why America Should Share Power* (Collingwood VIC: Black Inc., 2012).

10. Daniel Novotny, *Torn between America and China: Elite Perceptions and Indonesian Foreign Policy*, Institute of Southeast Asian Studies, Singapore, 2010, p. 10, 300.

11. Bonnie S. Glaser, 'China's coercive economic diplomacy – a new worrying trend', *PacNet Newsletter* no. 46, 23 July 2012.

At the transatlantic level, the objective should be to improve bilateral coordination on issues related to the Asia Pacific. Coordination should also take place through bilateral EU-US cooperation. The existing cooperation structures (the New Transatlantic Agenda, Transatlantic Economic Council, Transatlantic Energy Council, etc.) should be tasked to contribute to a joint paper outlining the possibilities for EU-US cooperation in the region. A better coordination of policies could be also achieved in Washington and in Brussels.

Nowadays, virtually all EU policies have developed their own external dimensions. Plugging this expertise into the EU's diplomatic activities in the region is essential and could constitute an important element of transatlantic cooperation in the region. This approach could be better implemented by generating a list of lessons learned and best practices in each individual policy area which could then be shared with countries and organisations in the region.

One way in which these transatlantic people-to-people relations could be strengthened would be by working together on a joint project reflecting shared values on democracy and human rights. In our view the transformation that Burma/Myanmar is experiencing today provides such an opportunity. There is a window of opportunity now for a cooperative transatlantic project to significantly invest in an emblematic institution in Rangoon to provide training in public administration and the promotion of the rule of law.

## V. TRANSATLANTIC SECURITY COOPERATION IN THE ASIA PACIFIC

**Andrew S. Erickson and Austin M. Strange**

### **Introduction**

Europe and the United States stand at a critical crossroads as regards their individual positions in the Asia Pacific, and the extent to which they might cooperate with respect to this region. Brussels and Washington, and the democratic polities that they represent, each strive to promote larger universal values, support international institutions and defend the postwar international system and global commons. Both welcome the success, security and prosperity of emerging powers in the Asia Pacific such as China, but also want to ensure that these nations act as stakeholders that build on the existing international system that both sides of the Atlantic have worked so hard to develop. These principles and norms are worth promoting and defending, but this will not happen automatically in Asia – indeed, the US-EU relationship in the Asia-Pacific region contains elements of competition as well as cooperation. Yet it would be a shame for Europe and America to turn inward and focus only on their parochial interests when they have both contributed so much to the postwar world, and when the international system and institutions that underpin international relations will not sustain themselves in a vacuum.

Many US scholars envision a scenario in which US engagement with China becomes more effective as the result of a closer partnership with Europe. It is also in every EU country's best interest to coordinate policies towards China with the US to some degree, despite temptations for Member States to make decisions at the national level. As the US has come to understand from recent experiences such as the Iraq War, disunity on foreign policy issues remains a fundamental challenge to greater cooperation with Europe.

### **US and EU responses to security developments in the Asia Pacific**

Over the past twenty years, global defence spending has shifted eastward. The announced increases in the defence spendings of China, Southeast Asia and India have boosted aggregate Asian military spending above European defence spending for the first time in modern history.<sup>1</sup> And, while future projections are speculative at best, it is no secret that China's military spending growth rate is significantly higher than that of either the US or the EU.

1. 'Military spending in South-East Asia: Shopping spree', *The Economist*, 24 March 2012.

While US strategic rebalancing towards Asia has been perceived by some as the beginning of a gradual exit from Europe, many scholars have asserted cogently that evolving strategic focus does not equate to a ‘one-for-one’ tradeoff in which the majority of American contributions to European defence must be sacrificed in exchange for a greater Asia-Pacific presence. That said, America’s renewed focus on the Asia Pacific could be bolstered significantly with European support, and US policymakers must understand the significance of a cooperative Europe for engaging China.

While Europe is typically viewed as a latecomer to the Asia-Pacific region, its presence in Asia is in fact mature – it has consistently been involved in the Philippines, East Timor, Aceh, Afghanistan and Burma/Myanmar, as well as in counterpiracy and disaster relief operations throughout the region. Also, observers frequently overlook European states’ historical role as colonial powers in the Asia-Pacific, the residual effects of which are still lingering in states such as Indonesia. Yet while the US generally views twenty-first century Asia through a Sinocentric lens, it is clear that Europe continues to view Asia from a different standpoint, one that is less focused on China and more towards the Asia-Pacific as a whole. Discrepancies also exist among EU states with regard to the strategic prioritisation of China.

In addition, NATO’s recent operations in Libya and the Gulf of Aden demonstrate the growing awareness among its members that security is a global concept, and that instability in one region has significant economic and political consequences for the rest of the interconnected world. Indeed, Operation *Unified Protector* and Operation *Ocean Shield* could eventually become platforms of precedence for NATO’s entrance into the Asia Pacific. Admittedly, many European allies are likely keen on avoiding ‘mission creep’ by drastically reorienting NATO’s position towards the Asia Pacific when its traditional mandate is confined to the Western Hemisphere and when even various Middle East operations have been highly controversial within NATO policy debates. Indeed, many officials in Brussels may scoff at the notion of a European presence in the Asia-Pacific region, particularly given that the Libya mission was particularly taxing on several allies. But this certainly does not preclude a more subtle shift in strategic focus, particularly as Member States increasingly agree that it can be counterproductive to assess security threats in the global commons from a regional, rather than international, point of view. Individually, EU states have understandably been slower to prioritise China-related issues as a cornerstone of strategic planning. This is partially because of the nature of contemporary security, a dynamic concept inherently different from traditional combat-based national defence. Europeans may not sense that developments in Asia can impact the security of their borders, and are still learning that security developments in distant regions have major implications for their individual well-being.

## Dimensions of common interest

By no means should observers mistake geographic distance for strategic irrelevance when it comes to Europe's presence in the Asia Pacific. All countries in the EU have a vested interest in the stability of the Asia Pacific maritime commons: any prolonged disruption of trade within the Asia-Pacific would have significant socioeconomic repercussions for states in the EU. Massive deindustrialisation within the eurozone has made Europe dependent on a variety of imported manufactured goods, the markets for which may witness significant shortages in the event of large-scale Asia-Pacific maritime conflict.

Besides economic policies closely linked to Asia-Pacific security, most US-EU security dialogues on the Asia-Pacific region have centred around the EU's arms embargo on China. Today the general consensus is that the embargo is unlikely to be lifted in the near future, and in reality is already quite porous.<sup>2</sup> Many observers have speculated that the EU members currently experiencing financial hardship such as Portugal, Ireland, Italy, Spain and Greece may be more likely to make concessions to China with respect to selling sensitive military technologies. This could be exacerbated if the US announces more 'Buy American' policies that create the threat of US economic sanctions on the European defence industry. Such a development, which could make many Europeans perceive the US defence industry as progressively excluding them, might present China as an increasingly attractive partner. That said, the EU's most advanced military and weapons systems are in the hands of the UK, France and Germany – all of which are relatively stable domestically and less likely to defer to Beijing. These nations do not want to undercut their own domestic defence industries by transferring technology and likely damaging the future market share of their domestic companies. They have also been some of the most active EU states in recognising the significance of Chinese military modernisation. The embargo certainly cannot be ignored, but also should not bottleneck other critical areas of US-EU strategic cooperation *vis-à-vis* China, such as security in the global commons.

For example, legal disputes in the South China Sea (SCS) are prime examples of the enormous potential for US-EU cooperation to uphold international security norms in the Asia Pacific. Both sides disagree with the PRC's legal stance on territorial claims in the South China Sea, which have contributed to growing tensions among various Asia-Pacific states. Here China contends that 'historic rights' trump UNCLOS laws on sovereignty rights based on geographic distance from shores. Beijing also essentially treats exclusive economic zones (EEZs) as territorial waters, creating headaches for the passage of military vessels in waters traditionally claimed by China. A longer-term issue for the US and EU is the risk that the international

2. 'Transfers since 1989 included among others British Searchwater radars in 1996 and Spey Turbofan (from 2004 – 2011, ordered in 1988), French helicopters (i.e. AS-565SA Panther, SA-321 Super Frelon, ordered in 1980/81) between 89 and 2011 and French marine diesel engines and German MTU marine diesel engines to be used in the Chinese Type 051 Luhai destroyers, Type 052 Luyang destroyers, Type 054 Jiangkai-series frigates, and Type 039A Song conventional attack submarines,' *China-Europe Relationship and Transatlantic Implications*, Hearing before the US-China Economic and Security Review Commission, 19 April 2012, p. 4.

norms they have developed could be undermined if China exploits ‘legal warfare’ and rallies support to pressure the UN to alter UNCLOS and other international security mechanisms over time.

US and EU strategic maritime engagement with China also occurs in regions outside the Asia Pacific. For example, US- and EU-led anti-piracy initiatives, such as the Combined Task Force (CTF), EU NAVFOR and NATO’s Operation *Ocean Shield*, have all engaged in shipboard cooperation activities with the People’s Liberation Army Navy (PLAN) in the Gulf of Aden. Recent evidence from anti-piracy experiences off the Horn of Africa demonstrates the benefits that alignment of US and EU security policy can produce with respect to Chinese contributions to global governance. For instance, Beijing was initially hesitant to cooperate with a primarily US-led force, but has been more open to broader multilateral anti-piracy coordination efforts that incorporate EU NAVFOR and other European naval forces. Cybersecurity represents an additional field in which improvements in US-EU policy alignment are increasingly imperative. A significant portion of past cyberattacks have been traced to China. Beijing has been accused of covertly sponsoring hackers to retrieve sensitive military and dual use technology, behaviour that is harmful to both the US and Europe. But US efforts to persuade China to enter a cybersecurity treaty have been fruitless, since it is difficult to trace cyberattacks to a specific government. More direct capability development cooperation between the US and EU countries would help both sides defend against future attacks, and NATO already has strong cyberintelligence capabilities which could potentially be shared with allies in the Asia Pacific.

Space development is another strategic plane where the ‘tyranny of distance’ does not apply and where both sides have a stake in enhanced coordination. In 2007 China tested an anti-satellite weapon (ASAT) that according to NASA now accounts for 22 percent of all catalogued objects in low Earth orbit. This is one example of a broader trend in which China’s technological and operational progress in the global commons is accompanied by ambiguity over whether such developments will bring greater universal prosperity or threaten to destabilise the current system. The longer-term issue of consensus building also surfaces, as Beijing has advocated a multilateral treaty focused on constraining in-space, but not ground-based, weapons deployment. This reinforces China’s ASAT aspirations and simultaneously undermines current US and EU plans. Moreover, China’s impressive development of remote sensing technologies reflects broader space progression. Recent developments demonstrate the EU’s growing level of discomfort over signal overlaps of its Galileo satellite navigation system with China’s Beidou/Compass system, which many European countries perceive as a security challenge.<sup>3</sup> Nonetheless, despite uncertainty over China’s space aspirations, many EU policymakers view Beijing as an ambitious and financially-capable partner.<sup>4</sup> Brussels’s space cooperation with Beijing has been

3. Peter de Selding, ‘Europe, China at Impasse on Satellite Navigation’, *Space News*, 20 January 2011.

4. The Council of the European Union, ‘Toward a Space Strategy for the European Union that benefits its Citizens’, COM(2011) 152, Brussels, 2011, p.10.

criticised by the US but Washington needs to critically reassess its performance and rethink its official policies towards sensitive space technology transfers.

## **China and the transatlantic partnership**

Amid major differences in opinion over how to engage China in the various security dimensions, both sides still need to improve their understanding of emerging powers such as China. The sustained success of any future cooperation in the Asia Pacific depends directly on their understanding of Chinese society and Beijing's internal politics that shape its external development, particularly in the security realm.<sup>5</sup> The CCP is not like other communist regimes that the US and EU have previously engaged: far from an ossified authoritarian regime, it is constantly adapting and drawing lessons from changes it observes in other countries, both socialist and democratic.<sup>6</sup>

In many cases the CCP has recognised the need to be flexible, and at times has been highly responsive to both internal and external pressures. For example, it is likely that major recent Chinese military developments, such as the commissioning of China's first aircraft carrier, will result in more international calls for China to play by the rules and be a transparent stakeholder. Pressure and persuasion will certainly be more effective if it is channelled in a coordinated and concentrated way. China often claims ignorance by stating that it does not understand how the EU functions. This allows Beijing to 'deal directly with big European capitals,' essentially 'bypassing Brussels', in order to work bilaterally where it gains more leverage than if it were to directly engage the EU.<sup>7</sup> While this 'divide and conquer' approach is imperfect because many decisions in Europe are still consensus-based, such a policy is relatively desirable to Beijing. Broadly parallel but unorganised coordination of Asia-Pacific security policy by the US and EU may be similarly exploited by China.

## **Foundations of transatlantic security in the Asia Pacific**

In many ways, the security challenges in the Asia-Pacific – specifically those produced by China – are only beginning. As such, both short-term and long-term transatlantic policy responses are needed: the former to address immediate security dilemmas, the latter to lay the groundwork that will allow the US and EU to deal with long-term interests in the Asia Pacific. The long-term approach requires a concerted focus on

5. This reality has been demonstrated in both China's 'Near Seas' and 'Far Seas'. Strong and persistent public pressure in China for Beijing to protect China's citizens and economic interests abroad helped spur the launch of the PLAN's Gulf of Aden anti-piracy mission.

6. See David Shambaugh, *China's Communist Party: Atrophy and Adaptation* (Berkeley, CA: University of California Press, 2009).

7. Fredrik Erixon, 'When Sisyphus met Icarus: EU-China Economic Relations during the Eurozone Crisis,' *Stockholm China Forum Paper Series*, The German Marshall Fund of the United States, April 2012.

pooling resources to allow both the US and EU to further their understanding of the underpinnings of Chinese society that shape Beijing's security strategy.

The focus of a transatlantic engagement *vis-à-vis* China and the Asia-Pacific region at large should be on quality rather than scale, especially as US and European defence spending faces constraints in the coming years. Yet while the US appears poised to maintain a primary leadership role in Asia-Pacific security, Washington should take care to work with its European allies in ways that allow them to guide regional security rather than simply 'assist' with America's strategic rebalancing. Any US-EU cooperation in the Asia Pacific would be most effective if both sides recognise that they are complementary.

Of course, the US has much work to do itself if it desires greater EU security cooperation in Asia. As new challenges to both its national security and the stability of the global commons grow in both quantity and complexity, Washington needs to 'get its own house in order' with respect to the international laws and norms that it prescribes. In the Asia-Pacific region, perhaps the most important example at present is maritime law, specifically UNCLOS, the cornerstone of many maritime territory and sovereignty disputes involving China. Both the US and EU are keen to make substantial contributions to maritime governance over such issues. Of course, the benefits from cooperation on lower-profile issues, such as antipiracy and other transnational security initiatives, should also not be overlooked, especially since these operations typically affect the immediate economic and security interests of all states involved, making it easy to identify common interests and coordinate baseline levels of cooperation.

## Conclusion

It will be vitally important to continue to engage with Beijing on issues of mutual interest. Meanwhile, European and US strategic differences in the Asia Pacific are much less significant than shared interests between the two sides. At the same time, China's economic and political challenges to collective US and EU interests across the security spectrum can no longer be ignored. Working together to address these challenges will produce a result greater than the sum of its parts, and given the contemporary manifestation of security challenges, domestic austerity does not have to preclude meaningful and effective cooperation between nations across the Atlantic *vis-à-vis* China and the Asia Pacific.

It is essential that the US and its NATO allies do not simply pursue a 'division of labour' scenario in which the US handles the Alliance's Asia-Pacific duties while EU members essentially concentrate resources in regions closer to home. In fact, from an EU perspective it may be desirable to develop a more direct presence in the Asia Pacific to help ensure that the US remains committed to the Alliance's security interests in other regions that are traditionally perceived as more vital to European security.

Both sides should work to align their support of international organisations and norms to prevent recourse to the use of force to resolve disagreements. A powerful example of this is UNCLOS, the key international forum in which maritime law is being shaped. The US adheres to compatible customary international law, but should ratify it as soon as possible so as to ‘reinforce Europe and US common positions’ and enhance credibility *vis-à-vis* other international players.

The US and EU should allocate resources to areas within the maritime security realm such as improving international laws on transnational, non-traditional emergencies and contingencies, as well as increasing the frequency and intensity of military exchanges with the PLAN, in particular through each sides’ respective staff colleges.

The US also needs to be honest with itself regarding technology transfer in the space industry as well as in other security-related fields. If it seriously wants to engage the EU on adjusting the current state of dual-use transfers of space technology to China, it must first systematically evaluate its current policies with respect to technology transfer in the global commons.

In order for US-EU policies to complement each other, it is critical that both sides engage in high-levels of information sharing with regard to PLAN developments in the global commons. While the EU has been criticised for ‘free-riding’ off US-gathered information in recent decades, it is time to formally establish a comprehensive transatlantic framework that ensures policies on Asia-Pacific security issues from both sides will be formulated based on parallel threat perspectives and levels of information.

## VI. THE EU'S ROLE IN EAST ASIAN SECURITY

**Daniel Keohane**

The President of the European Council, Herman Van Rompuy, told an audience in London in May 2012 that 'Europe is clearly not a Pacific power and will not become one'.<sup>1</sup> Three days later, the French Defence Minister, Jean-Yves Le Drian, told an audience in Singapore that 'this area is indeed a strategic stake for France, which is and will remain a power in the Pacific and the Indian Ocean.'<sup>2</sup> Thinking about the European Union's role in East Asian security, most Europeans would probably agree with Herman Van Rompuy's statement. As East Asian economies continue to grow rapidly, the Asia-Pacific region has become increasingly important for both global security and prosperity, as well as for the EU. The stereotype of a European role in East Asian security, however, is that no such role exists since Europeans would prefer to trade, not fight, with East Asians. This caricature may be true in most European capitals, but not in all of them, as the French Defence Minister explained. As Europe's economic interdependence with East Asia grows, so too should its role in Asia-Pacific security.

### **What do Europeans think about East Asian security?**

Few EU governments currently imagine a military role for Europeans in East Asia. In many ways this European lack of attention to East Asian security is understandable. The main external focus of EU security and defence policies has been on Europe's neighbourhood, from the Eastern Atlantic to the Western Indian Ocean. Only two out of 27 EU peace operations have been deployed beyond Europe's broad neighbourhood, to Afghanistan and Aceh in Indonesia. Furthermore, Europe's neighbourhood is currently very turbulent: at the time of writing (autumn 2012) a civil war is raging in Syria; Libya is not yet fully stabilised; and there are concerns over Iran's nuclear programme - among many other challenges.

The Pentagon's announcement in January 2012 that the US intends to rebalance some of its vast military resources away from Europe towards the Asia Pacific did cause much debate and discussion in Europe. But that debate has been almost entirely Europe-centric: would the US pivot to Asia-Pacific mean American disengagement from European security? Significantly, as yet there has been little discussion of a substantial European role in East Asian security. Instead, would the US Pacific

1. Herman Van Rompuy, *The Power of the Union: Europe, its Neighbourhood and the World*, Chatham House, London, 31 May 2012.

2. Jean-Yves Le Drian, 'Emerging Risks to Global and Asia-Pacific Security', IISS Asia Security Summit – Shangri-La dialogue, Singapore, 3 June 2012.

pivot mean Europeans have to take on much more responsibility for security in their neighbourhood?

If they do think about East Asian security, the starting assumption of most Europeans is that the United States will remain the main external military actor in that region, and any potential European role in East Asian security has traditionally been partly seen through that transatlantic prism. For instance, in June 2012, the European External Action Service produced a document, *Guidelines on the EU's Foreign and Security Policy in East Asia*, an update of an earlier document published in 2007. Among many other things, it says that the EU should 'remain sensitive' to the US role in East Asian security, and that 'the credibility of US defence guarantees in the region is essential for the region's stability'.<sup>3</sup>

There is not yet much debate across Europe, however, about the potential strategic consequences of China's rapid military rise. For instance, while European defence budgets are falling, China's defence budget has increased by an incredible 170 per cent between 2002 and 2011, and according to some projections, China's defence budget will surpass the collective spending of the European members of NATO by 2020. Plus, with a few notable exceptions, such as the French 2008 White Paper on defence, there is not yet much discussion in most national capitals of the implications for Europe of instability in the Asia Pacific, a region with numerous potential hotspots such as Taiwan, the South China Sea and North Korea. In part this is because Europeans have nothing approaching the already large (and growing) military presence and commitments of the United States in the Asia-Pacific region. Taiwan, for example, is an American challenge due to its legislative commitment to defend the island from invasion – but it is not a concern for most Europeans.

Apathy in some national capitals towards Asia-Pacific security is also partly due to the fact that Europeans have tended to mainly see markets rather than enemies in East Asia. Some 28 percent of EU external trade in 2010 was with East Asia, an impressive five percent more than across the Atlantic. The specifics of EU governments' bilateral relations with East Asian countries are beyond the scope of this paper, but the economic crisis has led many EU governments to focus their foreign policies on short-term geo-economic interests, especially trade and investment deals, rather than longer-term geo-strategic concerns. For example, Germany's export-led economic growth is increasingly dependent on China, which accounts for almost seven percent of Germany's total exports – the third largest market after France and the United States.

Even before the economic crisis, trade tended to trump security in European thinking on East Asia. Europeans shocked American and Japanese observers during 2004-2005 when they discussed the possibility of lifting their arms embargo on China, initially without much reference to the potential impact on the strategic environment in East

3. Council of the European Union, *Guidelines on the EU's Foreign and Security Policy in East Asia*, Brussels, 15 June 2012.

Asia. Instead, much of the arms embargo debate revolved around those who wished to trade more with the rapidly-growing Chinese economy, and others who argued that China's abysmal human rights record justified maintaining the ban on weapons sales to Beijing. (Although Beijing might wish otherwise, there currently seems to be little chance that Europe's arms embargo on China will be discussed by EU governments in the near future, let alone dropped.)

### **The EU's security interests in East Asia**

Since the EU is the largest trade partner with major East Asian economies, open sea lanes in the Asia Pacific are a must for healthy Eurasian trade. Indeed, the EU's maritime trade with Asia accounts for more than quarter of transcontinental container shipping traffic – the most important trade route on Earth.<sup>4</sup> As an old proverb says: 'He who is Lord of Malacca has his hand on the throat of Venice'. Aside from open sea lanes and growing trade interests, the EU also has a much broader stake in East Asian security. The 2008 French White Paper on Defence and National Security said that Europeans should consider the impact of an Asian war on the global economy and on Europe's relationship with the United States. Michito Tsuruoka of the National Institute for Defence Studies in Japan has put it another way: 'As long as the EU intends to be a global strategic player, it cannot avoid political and security engagement in Asia'.<sup>5</sup>

Arguably the primary interest for Europeans in East Asian security is regional stability – especially preventing conflicts and resolving inter-governmental disputes peacefully. The East Asia region contains a large number of potential conflicts, as evidenced during the summer of 2012 by growing tensions over territorial claims in the East and South China seas. The number of disputes in these seas has risen dramatically from four in the 1980s to 28 between 2010 and 2012 alone.<sup>6</sup> Apart from maritime disputes there are other major challenges, such as the status of Taiwan and North Korea's nuclear weapons programme.

Adding fuel to the potential fire of East Asian conflict is the rapid growth of Asian defence spending. According to the International Institute for Strategic Studies (IISS), Asian defence spending will exceed European expenditure for the first time this year. The IISS says that Asian countries increased their defence spending in 2011 by just over 3 percent (in real terms) on average, while China increased its defence budget by a whopping 6.8 percent in 2011. Just as important is how Asian countries are using their growing defence budgets to modernise their militaries. China has acquired an aircraft carrier and is building anti-ship missiles, submarines and fifth-generation

4. James Rogers, 'From Suez to Shanghai: The European Union and Eurasian Maritime Security', *Occasional Paper* no. 77, European Union Institute for Security Studies, Paris, March 2009.

5. Michito Tsuruoka, 'Defining Europe's strategic interests in Asia', *Studia Diplomatica* LXIV-3, 2011.

6. Thomas Wright, 'Outlaw of the Sea', *Foreign Affairs*, 7 August 2012.

aircraft; Japan is acquiring helicopter carriers, submarines and new fighter jets; while a number of other countries in the region are improving their air and naval capabilities. In other words, while all East Asian governments say they want multilateral solutions to their disputes, many of them are simultaneously investing in deterrence capabilities.

It is this evolving strategic and military context – along with growing trans-Pacific trade and investment – that explains the US military ‘pivot’ to the Pacific. The EU should work constructively with the US in East Asia, and steps have already been taken in this direction: US Secretary of State, Hillary Clinton, and the EU High Representative, Baroness Ashton, issued the first joint EU-US joint statement on the Asia-Pacific region (including security issues) at the ASEAN Regional Forum in July 2012.<sup>7</sup> But the EU should not (and does not) simply behave as a junior partner to the US in East Asia, and needs to also strengthen its own political relationships with governments in the region, especially with its formal strategic partners: China, Japan and South Korea. This is partly to work more closely with those countries on global challenges such as the spread of weapons-of-mass-destruction and climate change. But it is also because the EU has an interest in promoting democracy and human rights, more effective regional governance and peaceful cooperation throughout East Asia.

### **A partner not a power: the EU’s potential roles in East Asian security**

East Asian governments (and sometimes the US) may not always listen to the EU on their regional concerns, such as Burma/Myanmar in the past, but the EU should continue to push for its principles. In other words, the EU will have to deftly plough a diplomatic furrow with all its partners in the region, especially China and the United States. As an EU official neatly described the EU’s emerging security role to the *Wall Street Journal*: ‘The US will be an Asian power. We will be an Asian partner’.<sup>8</sup>

As outlined in the EU *Guidelines* document, there are a number of areas where the EU could potentially play a useful role in East Asian security. The first is working with East Asian countries on common cross-border challenges such as counter-piracy, cyber-security, maritime security, energy security, the impact of climate change and responding to natural disasters. The EU has already discussed improving cooperation on cyber-security with China, and has developed a lot of experience on cross-border counter-terrorism, maritime security and disaster-response that could be shared with East Asian governments – if they wish to develop common regional approaches to these challenges. Linked to this is continued EU support for developing ASEAN’s role in the peaceful regional governance of East Asian security. For example, in April 2012 the EU and ASEAN set up a working group to explore further cooperation, in-

7. European Union, *Joint EU-US Statement on the Asia-Pacific Region*, Phnom Penh, 12 July 2012

8. Laurence Norman, ‘EU looks to its own Asia pivot’, *Wall Street Journal*, 3 May 2012.

cluding on security subjects, and in July 2012 Baroness Ashton attended the ASEAN Regional Forum to discuss East Asian security.

The second area is conflict mediation. In contrast to the US, the EU's lack of military presence in East Asia could be an advantage if East Asian governments requested a neutral arbitrator to resolve their territorial disputes, especially maritime ones. The EU already has some experience of conflict mediation in East Asia. In 2005, for example, the EU deployed a monitoring mission to Aceh in Indonesia, to help implement a peace agreement bringing an end to a 29-year long conflict there. More recently, the EU has also supported peace efforts to resolve a sectarian conflict in Mindanao in the Philippines. In addition, the EU should promote the international law of the sea, especially the United Nations Convention on the Law of the Sea (UNCLOS), to help resolve maritime disputes in the region. The EU's voice in this area is both important and legitimate, especially since the US does not formally recognise UNCLOS.

The third and trickiest area is what potential military role the EU could have in the Asia-Pacific region or with East Asian governments. Some Americans would welcome a European military contribution to their efforts in East Asia; but some Europeans reject this idea, arguing that this would not be in Europe's geo-political interest, and the EU should focus its foreign and security policy resources on its own neighbourhood instead.<sup>9</sup> It is true that a few EU governments have military links in or near East Asia; and they may wish to conduct port calls or initiate naval exercises with Chinese, American and other countries' ships to help build confidence and cooperation in East Asian seas.<sup>10</sup> But the EU – as opposed to a few Member States – cannot be expected to play an active military role in East Asia, in part due to the current focus on Europe's turbulent neighbourhood, but also because of the lack of agreement, interest and military capacities in the 27 national capitals.

Instead the EU should focus its military efforts on two things: dialogues with East Asian militaries; and cooperation with East Asian governments outside the Asia-Pacific. For example, in July 2012 the EU agreed with China to set up a regular dialogue on defence and security, including training exchanges and sharing ideas on crisis management and tackling piracy. The two sides will hold a joint high-level conference during 2013 on security and defence issues, and the hope is that in time these EU-China military exchanges will encourage Beijing to become more transparent about its military build-up, to help allay lingering concerns in the region about its intentions. These types of military exchanges could be extended to other partners in the region, such as Japan and South Korea.

9. For examples, see James R. Holmes, 'How Europe can support the "Pivot"', *The Diplomat*, 9 July 2012 and Jonathan Holslag, 'Europe's convenient marginalisation', *The European Voice*, 5 July 2012.

10. France and the UK, for example, have military bases in the Indian Ocean (such as the islands of Réunion and Diego Garcia). The UK is also party to the 'Five-Powers defence arrangements', a series of bilateral defence agreements between Australia, New Zealand, Malaysia, Singapore and the UK.

In addition, East Asian governments are increasingly active beyond the Asia Pacific, especially in Europe's neighbourhood. For example, China's growing interest in African, Arctic and Middle Eastern security has been well documented. The EU works closely with China (as a UNSC permanent member) on Iran's nuclear programme, and has operated with Chinese, South Korean and Japanese ships (along with American, Indian and Russian vessels among others) in the western Indian Ocean to counter pirates. Brussels should try to build on those experiences to encourage more co-operation with East Asian governments on issues of joint concern in Europe's broad neighbourhood.

## **Conclusion**

It is difficult to imagine any significant military role for Europeans in East Asia, but this does not mean the EU has no security interest or role to play in that region. Herman Van Rompuy told Chatham House in May 2012: 'Yet as the single largest trade partner of the major East-Asian economies we not only have a stake in the region's stability, but also contribute to it. That's why Europe must remain globally engaged'. The EU will continue to play a low-profile and mainly non-military role in East Asian security, but it should seek to do two things: promote inter-governmental cooperation on cross-border security issues in the Asia-Pacific region; and work more with East Asian governments to tackle security challenges in Europe's neighbourhood.

## VII. CHINA'S RISE AND US STRATEGY IN ASIA

Jonathan D. Pollack

### **America, Europe, and Chinese power**

China's ascendance as a major power and its implications for the world economy, global governance and international security continues to be a source of major debate. The scope and rapidity of China's ascent have placed China at the centre of deliberations over international strategy. There are few historical precedents for the spectacular pace of China's economic advance, and the growth of its comprehensive national power has generated considerable unease. At the same time, by the acknowledgment of its senior leadership, China's overall development remains 'unbalanced, uncoordinated, and unsustainable.'<sup>1</sup> The extreme concentration of economic and political power in the hands of state-owned enterprises, glaring income inequality and pervasive corruption, industrial overcapacity fuelled by local and provincial interests, widespread environmental degradation and an underdeveloped legal and institutional framework highlight the consequences of unregulated growth presided over by highly protected elites almost entirely removed from public scrutiny. To numerous observers, the lack of accountability and transparency and the inability or unwillingness of central leaders to address the inequities of Chinese development reveals a system in disarray.

China's international position provides an instructive parallel to many of these internal concerns. After decades of uninterrupted economic growth, China's global footprint is inescapable. All states recognise the gravitational pull of the Chinese economy, but many remain wary about China's grudging, partial accommodation to extant international norms. Chinese leaders repeatedly emphasise their fundamental commitment to peaceful development and heightened cooperation with outside powers. But China's self-protective stance on a range of international issues and rising nationalist sentiment underscore the gap between China's declared aspirations and its actual behaviour. Sadly, long-submerged historical disputes have resurfaced in other Asian states as well, renewing volatile animosities that threaten to destabilise the region.

At the same time, Chinese strategic specialists argue that the established powers (particularly the United States) are unprepared to accord China genuine legitimacy as a major power, openly accusing the US of seeking to constrain or undermine China's rise, either unilaterally or in concert with others. There is a receptive popular audience within China for such arguments. The corollary to these expressed

1. Hu Jintao, Report to 18<sup>th</sup> National Congress of the Communist Party of China, 8 November 2012.

grievances is that outside powers must acknowledge and accommodate to China's growing strength, rather than vice versa. But other Chinese commentators contest these arguments, contending that enhanced international status requires China to develop normative authority appropriate to its growing economic and military power. Underlying these academic debates are deep, unresolved questions about how Chinese leaders and citizens envision long-term relations between China and the outside world, which are closely linked to China's internal political and social evolution.<sup>2</sup>

China's rise and its consequences for the international and regional order are not solely issues for regional actors or the United States to contemplate, nor are the outcomes of this process foreordained. China's economic imprint is global rather than regional. Growing numbers of Chinese nationals now live and work across the Greater Middle East, Africa, Latin America, and various sub-regions of Asia. Its diplomatic and corporate profile is evident across all continents. China's involvement in peacekeeping operations, military-to-military relations, and naval diplomacy is also increasingly diverse, and deemed a quiet success story by the military leadership.<sup>3</sup> Thus, lasting accommodation is best realised through mutual political and strategic understandings and development of shared international norms, but none of this will come easily, or soon.

As major centres of global power with a shared stake in an inclusive, rules-based international system, America and Europe have long sought to address the risks and opportunities associated with China's rise. However, policy coordination between the US and EU is far from satisfactory, in part reflecting their asymmetric roles in Asia and the Pacific. America retains a dominant security position in the region but there is no equivalent involvement by European states. In addition, there is widespread concern in European capitals that American preoccupation with the rise of China and a nascent Sino-American strategic competition have supplanted traditional US policy interests in Europe. But neither the US nor the EU wishes to see an erosion or breakdown in existing security arrangements on which the region's prosperity and stability have long depended. The need for enhanced American and European consultations over China's longer-term future and the parallel need to craft complementary US and European policy approaches (without fuelling Chinese perceptions of malign intent) is thus a pressing political and strategic issue that warrants far more attention.

2. Yufan Hao, 'Domestic Chinese Influences on US-China Relations', in David Shambaugh (ed.), *Tangled Titans – The United States and China* (Lanham, Maryland: Rowman and Littlefield Publishers, 2012), pp. 125-48. For representative examples of different schools of thought that are contending within China, see the essays by Wang Yizhou, Yan Xuetong and Wang Jisi in Mark Leonard (ed.), *China 3.0* (London: European Council on Foreign Relations, November 2012), pp. 106-22.

3. Lyle J. Goldstein (ed.), 'Not Congruent but Quite Complementary – US and Chinese Approaches to Nontraditional Security', *China Maritime Study* no.9, China Maritime Studies Institute, US Naval War College, July 2012.

## China's power and its consequences

Any assessment of US and European policy options must begin with the scope and implications of China's power transition. Since joining the World Trade Organisation in 2001, China's increase in aggregate economic power has sharply reconfigured global trade, finance and energy flows, as well as the resource requirements for China's infrastructural and economic development. These developments affect Europe as much as the United States. In 2000, China was the world's sixth largest economy; by 2012, it was the second largest, surpassing Japan. It is now the world's largest exporter and the global manufacturing hub, with its foreign trade volume five times greater than when it joined the WTO. Chinese planners concede that an export-led growth strategy is not indefinitely sustainable, but they have yet to demonstrate the will to fully pursue an alternative model emphasising enhanced domestic consumption. But a stalled or faltering economy in China (the major engine of global economic growth over the past decade) would pose major risks to the health of the international economy as a whole. Given China's massive foreign exchange holdings, it is also playing an ever larger role in efforts to achieve global economic and financial stabilisation. European calls for major infusions of Chinese financial support to assist in the rescue of the euro gives Beijing undoubted policy leverage in enhancing market access in Europe and in pressing for changes in technology transfer policy, including in the defence sector.

The accumulation of economic power is also enabling China to pursue long-deferred Chinese national security goals. The quest for wealth and power has been an aspiration of Chinese modernisers for more than a century. Advanced weapons development was largely set aside during the first two decades of the reform era, but the pace and scope of military modernisation has accelerated over the past fifteen years. Sustained double digit defence budget increases have appreciably enhanced the nation's military capabilities since the mid-to-late 1990s. An antiquated military is being transformed into a professionalised force, as demonstrated by naval missions conducted well beyond China's territorial waters and exclusive economic zones (most notably, in anti-piracy missions in the Gulf of Aden) and the initial operations of China's first aircraft carrier, built from the shell of an unfinished former Ukrainian carrier. China's air force is also acquiring advanced capabilities, which will ultimately enable China to progress beyond its traditional air defence role. The emergence of a more capable military commensurate with China's economic capacities and interests is hardly unexpected, but these new realities are matters of increasing significance to the United States and Europe.<sup>4</sup>

China does not appear intent on frontally challenging American military power, but its military development has altered strategic assessments across Asia, with many regional states openly soliciting a heightened US security role. The enhancement of

4. Mathieu Duchatel and Alexandre Sheldon-Duplaix, 'The European Union and the Modernisation of the People's Liberation Army Navy', *China Perspectives*, no. 2011/4, pp. 31-41.

China's air, maritime and strategic capabilities is no longer a matter of conjecture but an accomplished fact. Moreover, China now possesses the economic wherewithal to sustain military modernisation for the indefinite future. Chinese leaders view these growing capacities as integral to the credibility of China as a major power and to the protection of its national security interests. Over time, the People's Liberation Army (PLA) is also developing capabilities that could severely complicate or inhibit US military operations in areas close to Chinese territory. Though far from possessing global reach and untested in battle for more than thirty years, the PLA will emerge as a much more consequential military force in future decades. These capabilities are leading the US military to reassess its plans and policies.<sup>5</sup>

China's role in regional security will thus represent a continuing challenge for the US and other powers. Beijing's involvement in security cooperation with neighbouring states remains limited and episodic. Such involvement rarely touches upon the deeper security faultlines between China and the region. China's quest for strategic autonomy and its continued wariness towards US political-military intentions often leaves the world's two largest powers standing apart – despite efforts by successive American presidential administrations, since the establishment of US relations with Beijing in the early 1970s, to define long-term strategies towards China. All have favoured a mix of engagement and hedging, hoping to offer sufficient incentives to Chinese leaders to broaden and deepen relationships across an increasing spectrum of policy arenas.<sup>6</sup> There are self-evident reasons to incorporate China within existing international structures, relationships and policy norms. All states recognise the need to fashion policies commensurate with China's increasing economic, political and strategic weight; to seek durable understandings with China's leaders; and (wherever possible) to facilitate productive Chinese contributions to the refashioning of the international order. Any conceptualisation of Asia's strategic future that does not include China as a core part of the equation is doomed to failure.

### **Adapting to China's rise**

China is now an arrived (or arriving) power across the full spectrum of national capabilities. The challenge of China's fuller incorporation into the global and regional system is thus very different from the earliest decades of its opening to the outside world. Barring a major slowdown in the Chinese economy, unanticipated internal upheaval or highly coercive Chinese behaviour directed against neighbouring states, there is no realistic possibility of denying China enhanced international influence. But it is the forms and extent of accommodation, and the bargains that must be struck to achieve them, that matter most. The US, the EU, and other powers must

5. Ashley J. Tellis and Travis Tanner (eds.), *Strategic Asia 2012-13 – China's Military Challenge* (Seattle and Washington, D.C.: The National Bureau of Asian Research, 2012).

6. For detailed assessments of these issues, see Rosemary Foot and Andrew Walter, *China, The United States, and Global Order* (Cambridge: Cambridge University Press, 2011); and Michael D. Swaine, *America's Challenge – Engaging a Rising China in the Twenty-First Century* (Washington, D.C.: Carnegie Endowment for International Peace, 2011).

balance multiple and (at times) contradictory or competing objectives. All states recognise that a realignment of global power is underway and that China is at the centre of this process, but they seek to ensure that China's rise does not disrupt or undermine existing power relationships. They also want to preserve options should China directly challenge the extant political and security order, without letting such possibilities become self-fulfilling prophecies.

These issues are easier to describe in theory than to pursue in practice. Both China and the United States claim that they seek to prove history wrong, asserting that they can avoid the acute rivalries or wars often associated with major power transitions. China is engaged in most major international institutions, but its commitment to shared norms is uneven. As an autonomous actor that seeks to preserve as much freedom of action as possible, there is often an uneasy strategic fit between China and other major powers, especially with the United States. America's global reach and forward military presence in the West Pacific pose continuing challenges to Chinese interests. At the same time, the United States and other powers must carefully weigh how political and security collaboration with China and China's responses to these possibilities could reconfigure the future contours of global and regional security.

US policy has long encouraged Beijing to participate in more inclusive international strategies. Washington believes that granting China a seat at the table will elicit increased support for global governance. This goal presumes that China sees accommodation with US policy in its long-term interest. Barack Obama has been more committed to such a policy than any of his predecessors. From the earliest months of the Obama administration, senior US officials sought to encourage China's fuller involvement on pivotal issues (most notably, reform of the global financial system, nuclear non-proliferation, and climate change) that transcend the traditional bilateral security agenda.<sup>7</sup> These efforts built on the efforts of the Bush administration, most fully captured in the speech of then Deputy Secretary of State Robert Zoellick envisioning China as a 'responsible stakeholder.' In Zoellick's view, China was a major beneficiary of globalisation, and should thus be prepared to contribute to collective goals and needs that reflected its relative gains and its growing strength.<sup>8</sup>

However, the results of such efforts to date remain mixed. President Obama has repeatedly called on China to 'play by the rules', thus signalling that he believes it often does not. China has yet to display the self-assurance or creativity that many US officials anticipated. Divergent perspectives on Sino-American politics, economics and national security have limited accommodation and heightened strategic suspicions

7. Jeffrey A. Bader, *Obama and China's Rise – An Insider's Account of America's Asia Strategy* (Washington, D.C.: Brookings Institution Press, 2012).

8. Robert Zoellick, 'Whither China: From Membership to Responsibility?', Remarks to the National Committee on U.S.-China Relations, 25 November 2005, US Department of State.

in both polities.<sup>9</sup> Though the regularity and depth of interactions between senior American and Chinese officials has surpassed those undertaken in all previous administrations and Sino-US trade and investment ties are also at historic highs, they have not produced the convergence of interests and policies that many senior officials sought. China and the United States thus find themselves in an ‘in-between’ zone – neither starkly confrontational nor able to achieve a comfort level that would enable major policy breakthroughs.

However, US Asia policy is not exclusively China-driven. From the outset of the Obama administration, there was an unmistakable commitment to a heightened US regional profile, including participation in multilateral diplomacy where the United States had previously been at best an episodic participant. This shift to a ‘rebalancing strategy’ was fully unveiled during President Obama’s visit to the Pacific in November 2011, including the first ever participation by an American president in the East Asia Summit. In the immediate aftermath of the president’s visit, the Department of Defense (under President Obama’s signature) released a new strategic guidance document, stating that ‘US economic and security interests are inextricably linked to developments in the arc extending from the Western Pacific and East Asia into the Indian Ocean region and South Asia (...) while the US military will continue to contribute to security globally, *we will of necessity rebalance toward the Asia-Pacific region.*’<sup>10</sup>

The Obama administration has repeatedly characterised its Asia strategy as comprising economics, politics and national security, but the military dimension of US policy has received disproportionate attention, and has been widely viewed as an effort to counterbalance Chinese power. Many of the announced US policy changes, including rotational deployments of US Marines to Australia, the planned stationing of the first four Littoral Combat Ships (LCS) to Singapore, and the pledge that impending reductions of US military forces would not be at the expense of US capabilities in the Asia-Pacific region, have reinforced this conclusion. Though these activities do not suggest a major shift of US defence resources to the region beyond long-planned steps, they have revealed the gestational elements of a longer-term US-China geostrategic rivalry. The trajectory of future US-China relations thus remains uncertain if not necessarily unsteady. Should rebalancing ultimately become code language for inhibiting the fuller integration of Chinese power into the region, Beijing would have far fewer incentives to collaborate with the United States. Without unambiguous commitments by leaders in both systems to control the risks of heightened strategic rivalry, Washington and Beijing could face a decidedly more contentious if not overtly adversarial relationship in the years to come, with unwelcome consequences for Asia and the globe.

9. For one treatment of these issues authored by two prominent specialists from the US and China, see Kenneth Lieberthal and Wang Jisi, *Addressing U.S. – China Strategic Distrust*, John L. Thornton China Center Monograph no. 4, March 2012.

10. *Sustaining U.S. Global Leadership: Priorities for 21<sup>st</sup> Century Defense* (Washington, DC: U.S. Department of Defense, January 2012), p. 2.

## Implications for US-EU collaboration

China's regional and global rise will undoubtedly remain a major preoccupation for American policy makers. The United States continues to ponder how to most effectively address China's rise both regionally and globally. Though Washington will devote priority attention to various allies and partners that live in the shadow of Chinese power, fuller transatlantic consultations must be part of this process. Europe retains a separate strategic identity and potential avenues of influence distinct from those of the United States. The EU could thus be a prospective interlocutor on a range of issues that China is not prepared to discuss fully with the United States, or vice versa. As noted previously, Europe does not play a security role in the Asia-Pacific region even remotely equivalent to the United States. But the European stake in long-term relations with China (including the continued viability of its industrial base, future trade and investment relations with China, and Beijing's adherence to international law) is of the utmost importance.

External characterisations of Chinese strategy posit an assertive Chinese state intent on claiming its due in the international power hierarchy. But many Chinese strategists and scholars see China as challenged and even somewhat besieged. They do not suggest a self-confident leadership intent on challenging the United States or (even less) offering an alternative model of the future international order. Its institutional structures and decision-making procedures also remain very underdeveloped and not commensurate with its growing power and influence. At the same time, heightened nationalism and political-military rivalry are increasingly evident across Asia. The EU may not be directly involved in all these issues, but it exhibits obvious disquiet that Europe's past could represent Asia's future. Though few predict an imminent crisis in China's relations with the outside world, there is palpable strategic uncertainty in Asia and the Pacific, with states simultaneously worried about an overly militarised US-China relationship or inexorable pressures for accommodation with Beijing that could marginalise the future American role.

The rapidity of China's advance and what many observers perceive as Chinese secrecy about its longer-term goals is generating questions about prevailing policy approaches. In the past, China had an imputed strategic significance by virtue of its size, factor endowment and geographic location. But the policy debate over China has undergone a profound shift. Beijing may not yet be a fully revived great power, and it confronts a host of daunting obstacles and uncertainties in its domestic development, but its centrality to Asia's looming strategic transition is beyond dispute.

Europe is far from strategically irrelevant in deliberations over China's future.<sup>11</sup> Its lack of direct security involvement along the periphery of China may be to its advantage, in as much as European views are far less likely to trigger sharp reactions in Beijing. Being paired with the United States does not necessarily work to Europe's

11. See Frederic Grare, 'Europe and Security in Asia', Carnegie Endowment for International Peace, 11 October 2012.

advantage in trying to draw Beijing into deeper, more sustained discussions about Asia's future or the relevance of European experiences with international law and institution building. Though some analysts advocate a US-EU-China mechanism for deliberating Asia's strategic transition, this is unlikely to prove practicable at a Track One level. China will always seek to avoid diplomatic or strategic deliberations where it could be the primary object of discussion involving multiple parties. In a trilateral context, Beijing would see Europe as too integrally tethered to its American partner, and hence far from an independent voice.

A more promising alternative for the EU would be to pursue more intensive bilateral interactions with China and advance consultations with the United States separately from Washington's bilateral channels with Beijing. The immediate challenge that any discussions must overcome is China's almost reflexive efforts to resist either its marginalisation or the magnification of its responsibilities as a global actor, thereby precluding reasoned discussion of its role in the future international order. The ultimate audience for all external attempts to influence China's future strategic directions is internal. Patient, persistent efforts to address China's abiding suspicions about the outside world are not a panacea, but they offer a means to begin a long overdue strategic dialogue between Beijing and other major powers.

## VIII. THE EU'S APPROACH TO CHINA: IMPLICATIONS FOR TRANSATLANTIC RELATIONS

**Nicola Casarini**

China is possibly the EU's most ominous economic and trade challenge. At the same time, Beijing represents a formidable opportunity for many European companies as well as for EU aspirations to emerge as a global actor. The country continues to be viewed with suspicion across Europe due to the non-democratic nature of the Chinese regime, raising questions as to what use Chinese leaders will make of their country's increased capabilities. Yet, it is precisely this authoritarian Communist China, informed by values and principles quite different from those of the EU and its Member States, that has come to support the EU's integration process – including key initiatives such as the European common currency. This dual significance of China for the EU – as both a daunting challenge and a formidable opportunity – has implications for the transatlantic relationship. There is great scope for joint EU-US cooperation on advancing a set of rules and principles in China dear to Western public opinion. At the same time, the role that China plays in supporting the eurozone at a time of growing speculative attacks against the euro-area coming mainly from Wall Street-based banks and hedge funds has the potential to drive a wedge between the transatlantic allies. To contribute to a better understanding of the prospects, and challenges, of EU-US cooperation, this chapter examines the EU's approach to China, with particular attention to those aspects that distinguish it from the US.

### **The development of the EU's China policy**

In its first policy paper on China, the European Commission declared that 'relations with China are bound to be a cornerstone in Europe's external relations, both with Asia and globally' (*A Long-Term Policy for China-Europe Relations*, 1995). Three more China papers would follow (in 1998, 2003 and 2006), along with the publication of concept papers by some EU Member States.<sup>1</sup>

Since the beginning, the EU's China policy has been predicated on a division of labour: on the one hand, the EU level (mainly the European Commission and today the EEAS) has engaged China by promoting its socialisation in the international arena, acting as a norms entrepreneur by funding a number of programmes, development projects and dialogues on human rights awareness, rule-of-law enforcement and social capital building. This strategy is defined in the European Commission's *China*

1. The United Kingdom published the most recent one: *The UK and China: A Framework for Engagement* (London: Foreign and Commonwealth Office - FCO), January 2009.

*Country Strategy Paper 2007-2013*, a multi-annual document that provides the general framework for EU cooperation assistance to China. At the same time, EU Member States have tended to maintain good political relations with Chinese leaders, shying away from a confrontational stance on sensitive issues pertaining to China's sovereignty (Tibet, Xinjiang, human rights, democratisation) and national pride (Taiwan). Thanks to this largely non-confrontational approach, EU Member States – in particular the large ones – have been able to obtain lucrative contracts for their national companies, while retaining at the EU level a certain degree of critical pressure, in particular through initiatives such as the yearly EU-China Dialogue on Human Rights.

Economic considerations have traditionally been the driving force of the EU's China policy. Since 2004 (after EU enlargement), China has become the EU's second biggest trading partner and the EU is China's biggest trading partner. If current trends continue, Beijing is poised to become the EU's most important commercial partner by the end of 2012. The surge in two-way trade has been accompanied by a growing number of European companies investing and relocating production in China, increasing the current stock of EU foreign direct investment there. In recent times, investments have begun flowing also in the other direction as Chinese financial institutions and companies increasingly acquire stakes of European industrial and financial assets.<sup>2</sup>

The development of EU-China relations has been facilitated by the absence of conflict issues that could bring the two sides to a military confrontation – unlike the case of US-China relations where the Taiwan factor and US commitment to Asia's security may lead to a military stand-off. The lack of any serious commitment by the EU to Asia's security has made it easier for EU policy makers to engage Beijing across the board and avoid contentious matters.

In 2006, the European Commission in its fourth (and last so far) Communication on China openly called for more *quid pro quo* in the relationship, including clear political conditionality with regard to the proposal to lift the EU arms embargo on China. Notwithstanding the hardening of tone in the 2006 document, the EU and its Member States have never confronted Beijing as openly as the US on political and security issues.

At the societal level, domestic public opinion in Europe and America appear closer than their governments when it comes to how they view China. In fact, European public perceptions *vis-à-vis* China have deteriorated in the last few years, mirroring the negative perceptions that have developed in the US.<sup>3</sup> This is the result of the emergence of a discourse highlighting the Chinese economic challenge in some EU Member States, based on the perception that China has been invading European markets with cheap products and taking away jobs in the manufacturing sectors, a view

2. Thilo Hanemann and Daniel H. Rosen, *China Invests in Europe*, Rhodium Group, 7 June 2012.

3. German Marshall Fund of the US, *Transatlantic Trends 2012*, Washington, 12 September 2012.

strengthened by Beijing's active industrial policy which is turning the country into a low-cost competitor in high-skill industries.<sup>4</sup> The rapid growth of skill-intensive imports from China represents a serious challenge for certain European industrial sectors that are considered sensitive. However, the EU has never departed from a firm engagement policy. In the US, in contrast, the approach towards China has also included elements of containment.

## EU and US approaches towards China

The difference between the transatlantic allies *vis-à-vis* China reflects the different nature – and responsibility – of the two actors in the contemporary global order. While the US sits on top of the international system and is the world's pre-eminent military power, the EU is mainly a trading and civilian power. Although endowed with a formidable set of soft power capabilities the EU lacks the capacity to seriously deploy hard power, in particular in parts of the world as far away as the Asia Pacific.

The US remains the ultimate guarantor of the liberal international order created in the aftermath of World War II. For many in Washington, a rising China is the most ominous strategic challenge to both America's global primacy and that particular international order created (and maintained) by the US.

For the EU and its Member States, the maintenance of the US-led liberal international order is fundamental for preserving peace and prosperity. Yet China is not perceived by the majority of EU policy makers as a potential enemy or as a military threat to the current global order – though the non-democratic nature of the Chinese regime continues to be viewed with suspicion by EU policy makers and public opinions. A rising China can be accommodated into Europe's worldview. The EU has indicated in its 2003 *European Security Strategy* its preference for a benign and cooperative multipolar international system whose *modus operandi* is multilateralism, with the United Nations playing a central role.

### The EU's approach

Devoid of security and military concerns, the EU's approach to China reflects – and attempts to promote – a liberal internationalist agenda based on the idea of change through trade. The assumption behind this approach is that in an increasingly interdependent world China's rise is inextricably interlinked with – and helped by – the country's smooth integration into the society of nations and that as such it is in the interest of the EU to engage Beijing in all fields of policy with the aim to promote the fullest possible Chinese involvement in the international arena. The underlying hope is that such a stance would lead China, over time, to greater democratisation and

4. Jonathan Holslag, 'Unravelling Harmony: How Distorted Trade Imperils the Sino-European Partnership', *Journal of World Trade*, vol. 46, no. 2, April 2012, pp. 221-38.

promotion of human rights within the country as well as the adoption of a peaceful and cooperative posture abroad.

In recent years, a growing number of scholars and policy makers have begun to argue in favour of more conditionality in EU-China relations, in particular on economic and trade issues.<sup>5</sup> In the same vein, the European Parliament, a number of national Parliaments, and some political forces within EU Member States have stepped up criticism *vis-à-vis* the Chinese regime and its trade practices. EU-China relations have also come under strain amid concerns about unfair competition. In September 2012, the European Commission began a broad investigation into whether Chinese companies had exported solar power equipment for less than the cost of making it. Moreover, it is widely felt in Europe that many Chinese sectors – most notably the public procurement market – are closed to outside competitors, leading some EU policy makers such as Karel De Gucht, the EU Commissioner for Trade, to increase calls for more reciprocity in EU-China relations. However, the domestic politicisation of China, and the consequent linkages between commercial and political issues, have remained significantly less marked than in the US.

The EU and China launched a strategic partnership in 2003, upgrading it in 2010 to include foreign affairs, security matters and global challenges such as climate change and global economy governance. A large number of sectoral dialogues (more than 50) underpin the Sino-European strategic partnership which is characterised by a high degree of institutionalisation. Since 1998, there is a yearly EU-China Summit complemented, since 2008, by a EU-China High-Level Trade and Economic Dialogue – which follows on the heels of the US-China Strategic and Economic Dialogue – and since 2010, by a yearly EU-China High-Level Strategic Dialogue.

The EU has tended to focus on bilateral relations with China. The US's China policy has been developed, in contrast, in the wider context of Asian security, an approach felt to be more in tune with the US's role and strategic interests in the region.

### **The US approach**

In the US, the debate as to whether China should be contained or engaged cuts across party-lines and has continued unabated since the early 1990s. Advocates of the former position point to China's accumulation of military power, its growing economic strength and its increasingly nationalistic and adversarial postures on international issues – in particular over Taiwan and the territorial and maritime disputes in the East and South China Sea – as reasons for advocating a firm policy of restricting the projection of such power. To those arguing for such a policy of containment (or balancing), lenient initiatives undertaken with the aim of supporting China's transformation and/or changes in the domestic arena would merely embolden the Chinese

5. See François Godement and John Fox, *Power Audit of EU-China Relations*, European Council on Foreign Relations, London, 2009.

Communist Party in its authoritarianism at home, encourage further nationalistic posturing abroad and, by facilitating the growth of China's trade surplus, provide resources for additional arms development. Those who endorse this approach consider the acquisition of increased capabilities by China as something that would tilt the balance of power in Asia in Beijing's favour in a situation where there could be future tensions between the US and China.<sup>6</sup>

The other side of the debate points out that China is still relatively weak militarily, spending less as a proportion of GDP on defence than the US and that, even if the PLA has made some dramatic improvements, it is still handicapped by some primitive military hardware. In the view of those supporting an engagement policy, the US and its allies should engage with China in order to integrate the country into the international community and make it a responsible stakeholder so that the benefits flowing from that would support domestic change and a peaceful posture abroad.<sup>7</sup>

For the majority of US experts and policy makers, however, the containment versus engagement debate does not fully capture the complexity of the situation since there can be no question of not engaging with China. At the same time, there is equally no good reason for pandering to China and being more tolerant of its authoritarianism than that of other countries.<sup>8</sup>

Robert Zoellick, former Deputy Secretary of State, coined the notion of 'responsible stakeholder', providing a policy framework for the Bush administration to handle China's rise as a global economic and military power, while encouraging it to play by the established rules.<sup>9</sup> James Steinberg, Mr. Zoellick's successor in the Obama administration, introduced the notion of 'strategic reassurance' as a way to highlight and reinforce the areas of common interest while trying to manage the increasing propensity for the US and China to rub up against each other in security matters.

Over the years, the US has adopted a strategy towards China and the region that combines the stick and the carrot: a firm security posture – especially with regard to any unilateral move by China to take Taiwan by force or to impose its will in territorial and maritime disputes in the East and South China Sea – but at the same time behaving in a constructive way towards China, since if it appears that the US is provocative towards Beijing, that might force Asian countries to make a stark and unwelcome choice between Beijing and Washington, with the risk of jeopardising US policy in the region. The US pivot to Asia announced by President Barack Obama in November 2011 is the latest manifestation of this approach.

6. See Aaron Friedberg, 'Bucking Beijing: An Alternative U.S. China Policy', *Foreign Affairs*, September/October 2012.

7. See Robert S. Ross, 'The Problem with the Pivot', *Foreign Affairs*, November/December 2012.

8. See Thomas Christensen, 'Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy toward East Asia', *International Security*, vol. 31, no. 1, Summer 2006, pp. 81-126.

9. Robert Zoellick, 'China and America: Power and Responsibility' – Speech by Robert Zoellick to the Asia Society Annual Dinner in New York, 25 February 2004.

## The US pivot to Asia and the China-eurozone connection

The US pivot to Asia presents the transatlantic allies with the opportunity to cooperate together to promote peace and security in the Asia Pacific, including the protection of the sea lanes on which US and EU trade with the region depends. In this context, the joint Ashton-Clinton statement issued in July 2012 is a powerful message addressed to China and its attempt to impose its will over territorial and maritime disputes in the South China Sea. While the transatlantic allies share the same security concerns towards the evolving dynamics in the Asia-Pacific region, the experience of the EU and the US *vis-à-vis* China has been somewhat different in the last decade.

China has strongly supported European integration initiatives undertaken by the continental member states of Central and Western Europe, as the case of the euro illustrates. While US policy makers had mixed feelings about the European common currency, worrying that its creation would weaken the global status of the dollar, the Chinese government supported it from the beginning, starting a process of diversification of its reserves that continues until today. Since summer 2011, after the US's credit rating was downgraded by S&P, China has begun disinvesting away in earnest from dollar-denominated assets and increasing its holdings in euro which now account for around 30 percent of China's foreign reserves.<sup>10</sup>

China backs the eurozone for reasons of national interest. By keeping the value of the currency of its first trade destination up, Beijing benefits from the competitiveness of its products and further augments the EU's trade deficit with China. In the same vein, the US is lukewarm *vis-à-vis* the European common currency because this is not in line with its perceived national interest, e.g. the maintenance of the dominant position of the dollar.<sup>11</sup> However, the result is that support for the eurozone in the last few years has mainly come from China, while speculation against the peripheral members of the euro-area has been coming mainly from Wall Street-based banks and hedge funds.

China's support for European integration has not been confined to monetary issues. Beijing has also backed Europe's space ambitions, lending both political and financial support to Galileo, the EU-led global navigation satellite system alternative to the American GPS. When Galileo was launched, the US firmly opposed it for fear of a challenge to its space primacy and leadership in key strategic and high-tech industrial sectors. China, instead, contributed to propping up the European project, committing tens of millions of euro and becoming Galileo's most important non-EU partner. It is noteworthy that most of the EU countries involved in the Galileo project are also members of the eurozone.

10. Nicola Casarini, 'China's approach to US debt and the eurozone crisis', *China's Geoeconomic Strategy*, LSE IDEAS (Special report), London, June 2012, pp. 43-47.

11. Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (Oxford: Oxford University Press, 2011).

## Conclusion

For the EU – and in particular the core members of Central and Western Europe more active in promoting integration – China is not only a trade and political challenge, but also presents a strategic opportunity to enhance Europe’s role in world affairs and gain autonomy from the US. This contributes to an image of China among EU policy makers – in particular from the core members – which is somehow different to that prevalent in America today, in particular within some important sectors of both the Democrat and Republican camps which tend to view Beijing as a threat. These various factors need to be taken into account when devising a joint EU-US approach towards China. Such a policy should be crafted bearing the following considerations in mind:

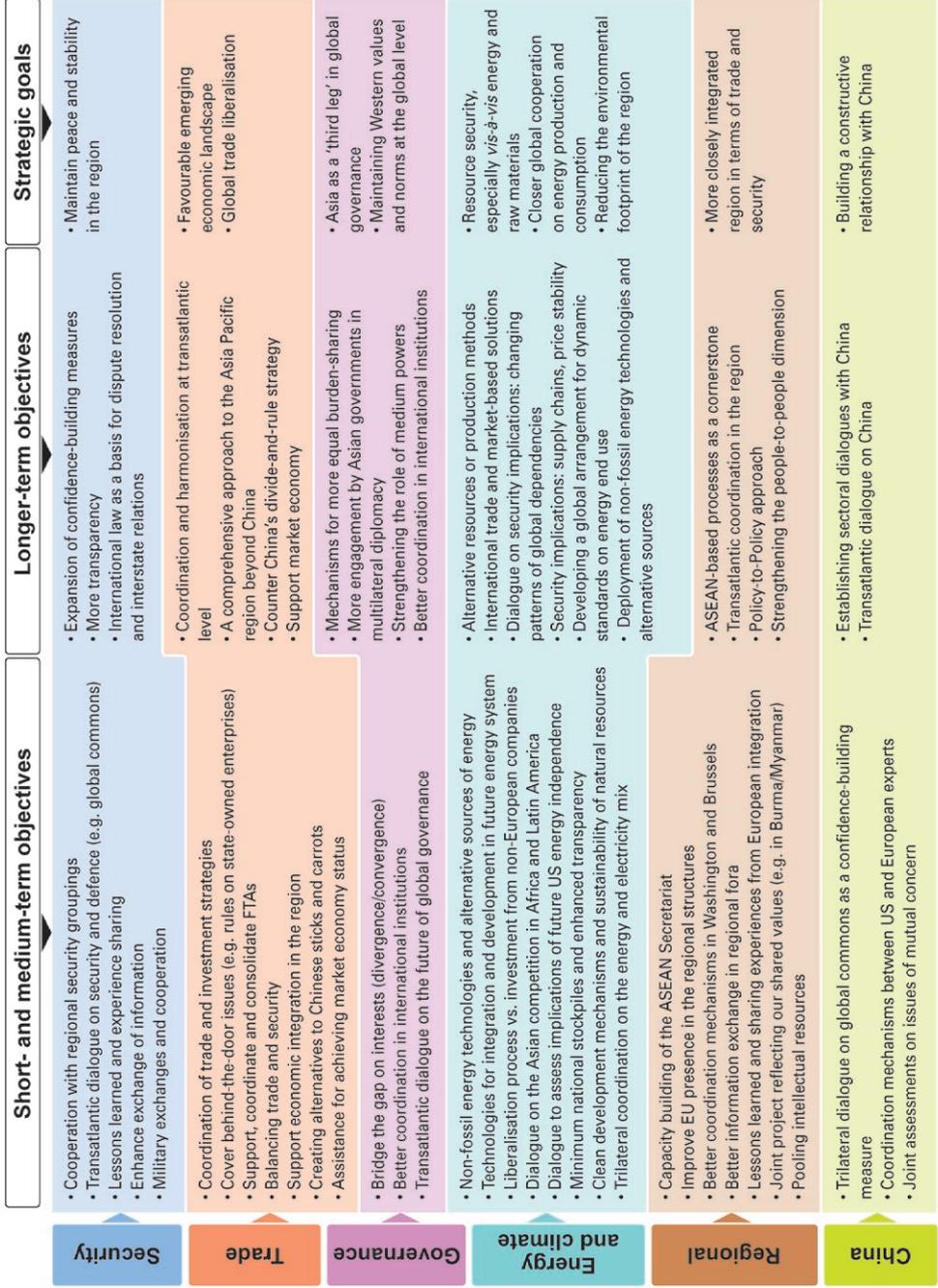
- EU and US leaders need to develop a better understanding of each other’s China policy, including its linkages with domestic debates. The establishment of a regular – and structured – coordination mechanism between US and EU experts on China could improve this state of affairs and contribute to producing a joint assessment on issues of mutual concern for the transatlantic allies
- EU-US policy dialogue on China needs to be upgraded. This could be achieved by establishing a high-level EU-US strategic dialogue on China, including sub-working groups on trade, security and global governance, with the aim to further a joint approach and smooth out differences
- It is important to send a reassuring message to China and the other Asian countries about EU-US intentions. To this end, the EU and US could explore the prospect of a Trilateral Dialogue – US-EU-China – on the ‘global commons’ with the aim of building trust among the world’s three largest economies.

# ANNEXES

## Tables and charts

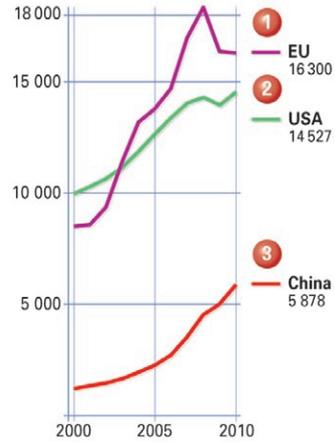
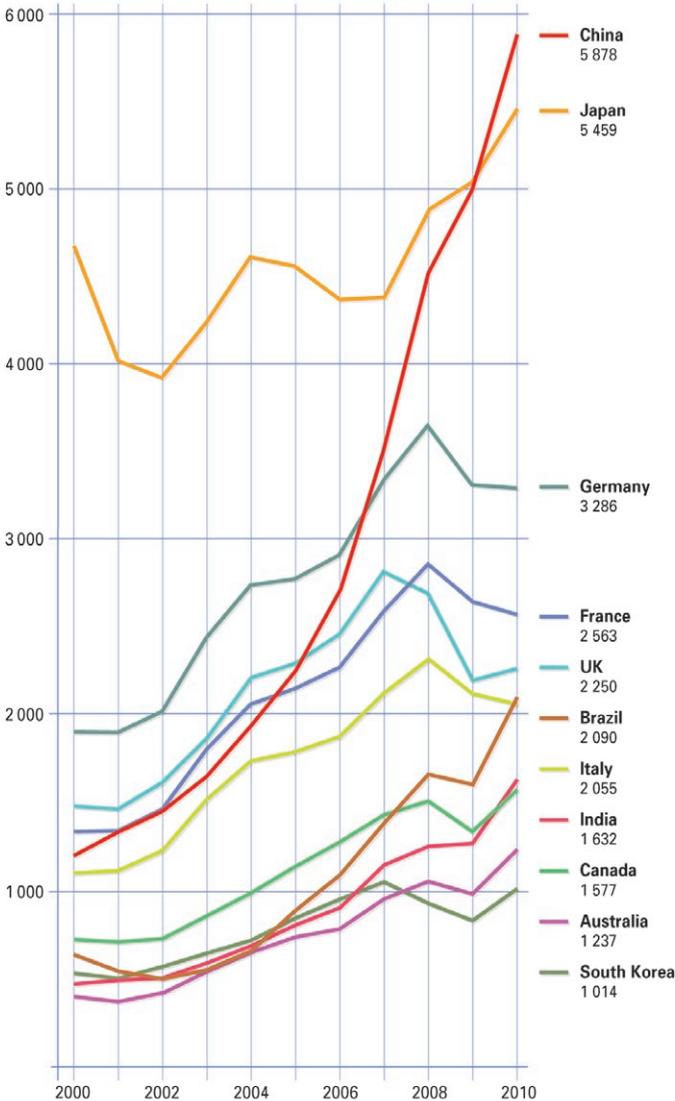
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# Towards a comprehensive transatlantic agenda in the Asia Pacific: key objectives



## The world's biggest economies

**GDP in biggest economies for years 2000-2010**  
in current prices US \$ billions



**The EU and the top 15 GDP countries in 2011**  
in current prices US \$ billions

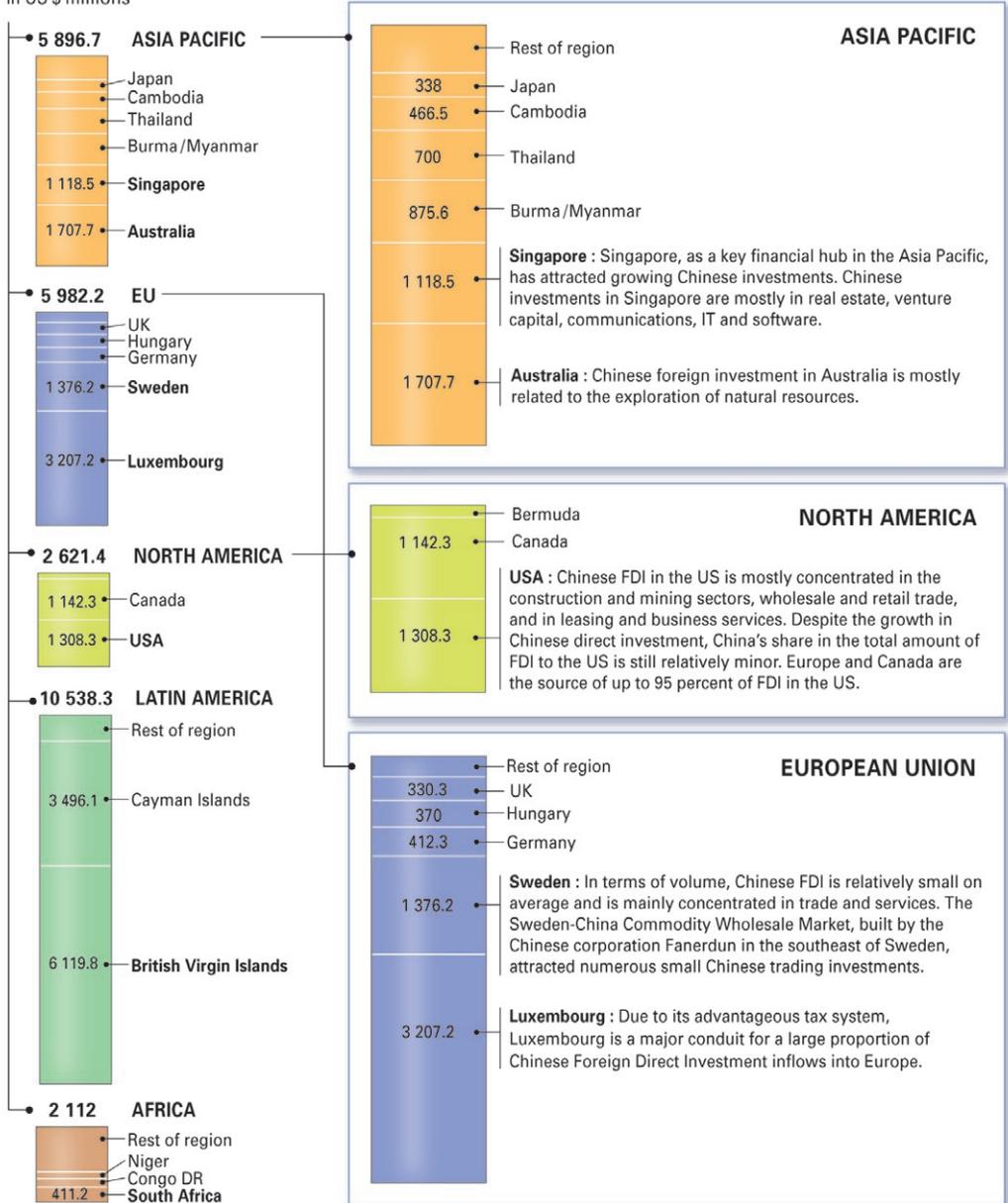
1	European Union	17 610
2	United States	15 075
3	China	7 928
4	Japan	5 867
5	Germany	3 607
6	France	2 778
7	Brazil	2 493
8	United Kingdom	2 431
9	Italy	2 199
10	Russia	1 850
11	India	1 827
12	Canada	1 739
13	Australia	1 487
14	Spain	1 480
15	Mexico	1 153
16	South Korea	1 116

Note : Russia, Spain and Mexico are also in the top fifteen GDP countries. Trends in GDP growth for the years 2000-2010 represent the top ten world economies and the Asian countries in the top fifteen.

Sources : International Monetary Fund, World Economic Outlook Database and IndexMundi.

## Chinese investments abroad

China's outward Foreign Direct Investment flows by country and region 2010  
in US \$ millions

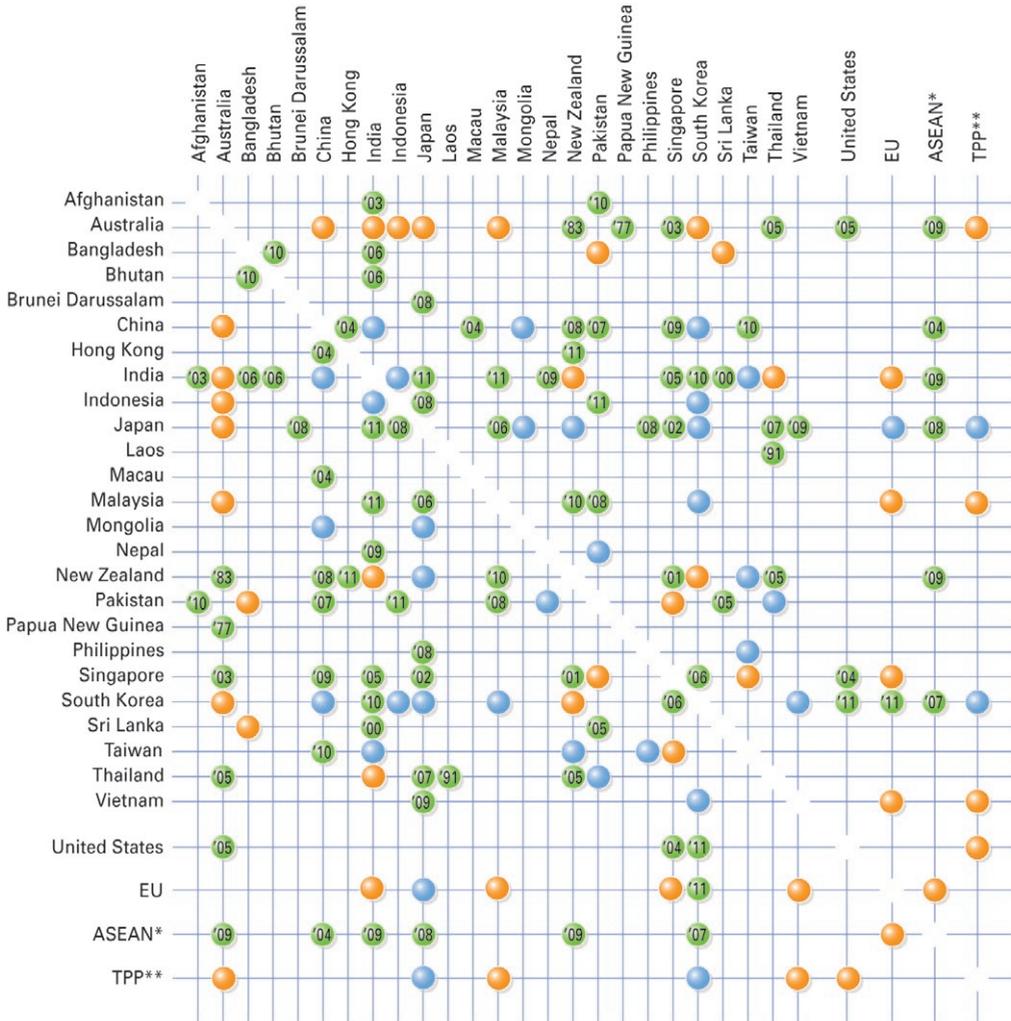


Source : Ministry of Commerce of the People's Republic of China.

## Key bilateral and regional trade agreements in the Asia Pacific

Status of trade liberalisation agreements

10 Year of ratification      Negotiations      Under consideration



\* ASEAN members : Brunei Darussalam, Burma/Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam ;

\*\* Trans-Pacific Partnership (TPP) members : Brunei Darussalam, Chile, New Zealand, Singapore, Mexico, Peru and Canada.

Sources : Data from ASEAN, European Commission and World Trade Organisation. As of October 2012.

## Major trade partnerships in Asia

### Top 5 Partners

	1	2	3	4	5
<b>China</b>	EU	US	Japan	Hong Kong	S. Korea
<b>India</b>	UAE	EU	China	US	S. Arabia
<b>Japan</b>	China	US	EU	S. Korea	Australia
<b>New Zealand</b>	Australia	China	EU	US	Japan
<b>South Korea</b>	China	Japan	EU	US	S. Arabia
<b>Australia</b>	China	Japan	EU	US	S. Korea
<b>Laos</b>	Thailand	China	Vietnam	EU	S. Korea
<b>Vietnam</b>	China	US	EU	Japan	S. Korea
<b>Cambodia</b>	US	Hong Kong	China	EU	Thailand
<b>Burma / Myanmar</b>	Thailand	China	Singapore	India	S. Korea
<b>Brunei</b>	Japan	S. Korea	Singapore	Australia	China
<b>Singapore</b>	Malaysia	EU	China	US	Indonesia
<b>Philippines</b>	Japan	US	Singapore	EU	China
<b>Malaysia</b>	China	Singapore	Japan	EU	US
<b>Thailand</b>	Japan	China	EU	US	Malaysia
<b>Indonesia</b>	Japan	China	Singapore	EU	US
<b>EU</b>	US	China	Russia	Switzerland	Norway
<b>US</b>	EU	Canada	China	Mexico	Japan
<b>ASEAN</b>	China	EU	Japan	US	S. Korea

### Top trading partners for the EU and the US in Asia

	1	2	3	4	5	6	7	8	9	10
<b>EU</b>	China	Japan	India	S. Korea	Singapore	Australia	Hong Kong	Taiwan	Malaysia	Thailand
<b>United States</b>	China	Japan	S. Korea	India	Singapore	Malaysia	Thailand	Hong Kong	Australia	Indonesia

Note : With regard to trading partners in Asia, ASEAN as a grouping comes second only to China both for the EU and the US.

Sources : European Commission, The US Census Bureau, ASEAN and National Bureau of Statistics of China.

## The best places to do business in Asia



**1** World Rank 2011  
**1.** Regional Rank

Starting a business	
1. New Zealand	<b>1</b>
2. Australia	<b>2</b>
3. Singapore	<b>4</b>
4. Hong Kong SAR, China	<b>5</b>
5. Taiwan, China	<b>16</b>

Registering property	
1. New Zealand	<b>3</b>
2. Singapore	<b>14</b>
3. Thailand	<b>28</b>
4. Taiwan, China	<b>33</b>
5. Australia	<b>38</b>

Getting credit	
1. Malaysia	<b>1</b>
2. Hong Kong SAR, China	<b>4</b>
3. New Zealand	<b>4</b>
4. Singapore	<b>8</b>
5. South Korea	<b>8</b>

Protecting investors	
1. New Zealand	<b>1</b>
2. Singapore	<b>2</b>
3. Hong Kong SAR, China	<b>3</b>
4. Malaysia	<b>4</b>
5. Thailand	<b>13</b>

Trading across borders	
1. Singapore	<b>1</b>
2. Hong Kong SAR, China	<b>2</b>
3. South Korea	<b>4</b>
4. Japan	<b>16</b>
5. Thailand	<b>17</b>

Enforcing contracts	
1. South Korea	<b>2</b>
2. Hong Kong SAR, China	<b>5</b>
3. New Zealand	<b>10</b>
4. Singapore	<b>12</b>
5. China	<b>16</b>

Note: Economies are ranked on their ease of doing business, from 1 – 183. A high ranking on the ease of doing business index means the regulatory environment is more conducive to starting and operating a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2011.

Source: The World Bank, *Economy Rankings 2011*.

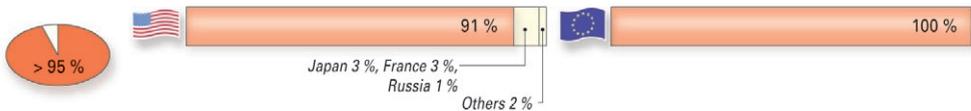
## Raw materials production and global dependence on China



### Rare earths elements :

lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, lutetium, scandium, yttrium

**Applications :** high efficiency magnets used in wind power turbines, hard drives, and car parts; car exhaust catalysers and oil cracking catalysers; engines and batteries for electric and hybrid vehicles, phosphors used in energy-saving bulbs, as well as LED, LCD and plasma displays; NiMH batteries; high-tech ceramics; various metal alloys; audio equipment; fiber optics; camera lenses and filters; hi-tech glass applications, medical imaging and tracing, industrial pigments, lasers, radars, water treatment.

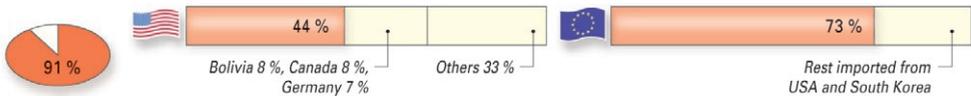


**Impact of the restrictions :** sharp price increase of +500% to +1000% (or more in some cases)

- Currently, despite a price correction downwards due to obstructed demand, prices remain much higher than before 2010 (year of quota tightening)
- China export prices are usually up to +100% higher compared to Chinese domestic prices, and in some cases even higher
- Many companies were forced to abandon production of some products, or increase their final prices
- Many companies were forced to relocate to China to gain viable access to raw materials
- High degree of uncertainty for all businesses across the value chains

### Tungsten

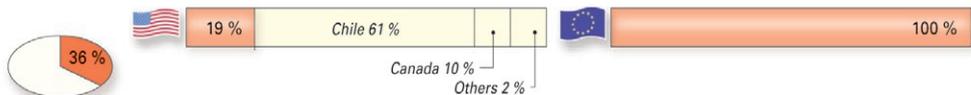
**Applications :** cemented carbide and high-speed steel tools, used in lighting technology, electronics, power engineering, coating and joining technology, the automotive and aerospace industries in general and medical technology.



**Impact of the restrictions :** Prices of Chinese APT (ammonium paratungstate – a tungsten product which has the highest trade volume) has more than doubled between mid-2009 and mid-2011. Chinese domestic APT price was approximately 30% below Chinese FOB APT price in 2011.

### Molybdenum

**Applications :** Stainless steel, alloy steels and high-speed and tool steels used in construction, automotive, shipbuilding, aircraft and aerospace, drilling, mining, processing, energy generation – including in boilers, steam turbines and electricity generators; vessels, tanks, heat exchangers; chemical & petrochemical offshore processing; oil country tubular goods.



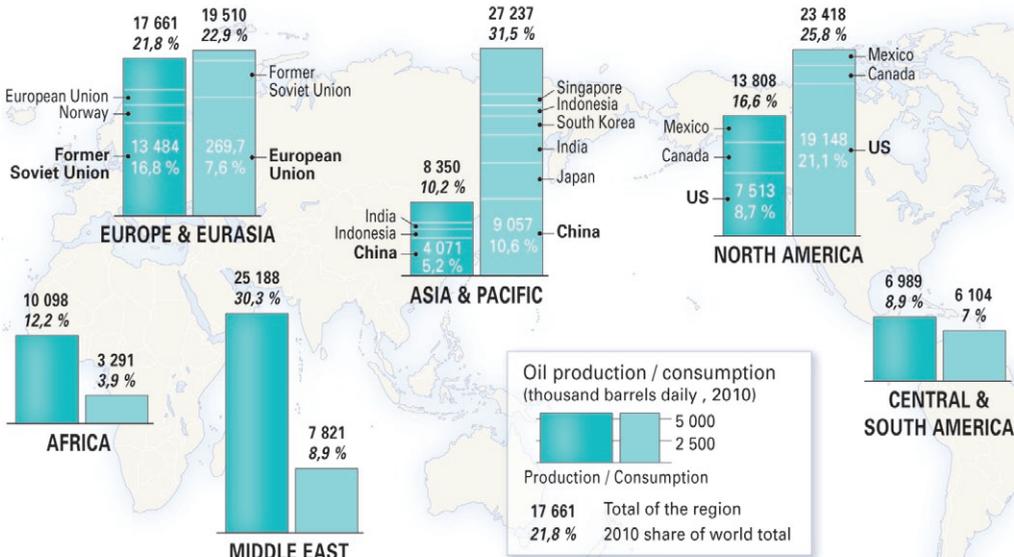
Note : US Imports of molybdenum ores and concentrates : Mexico 32%, Chile 30%, Peru 20%, Canada 17%, and Others 1%.

**Impact of the restrictions :** whereas China is the world's largest producer of molybdenum, China is only the world's fourth exporter in volume.

- Chinese exports of ferromolybdenum, one of the main traded molybdenum products, have decreased from 44,370 tons in 2000 to 898 tons in 2010, while global exports have increased by ~25%
- In a similar trend, export of molybdenum oxides and molybdates by China went down from 8,437 tons in 2000 to 2,385 tons in 2010, whereas global exports more than doubled
- At the same time, Chinese exports of downstream products of molybdenum (steel, stainless steel and steel alloys) have significantly increased, by almost 500%, since 2001

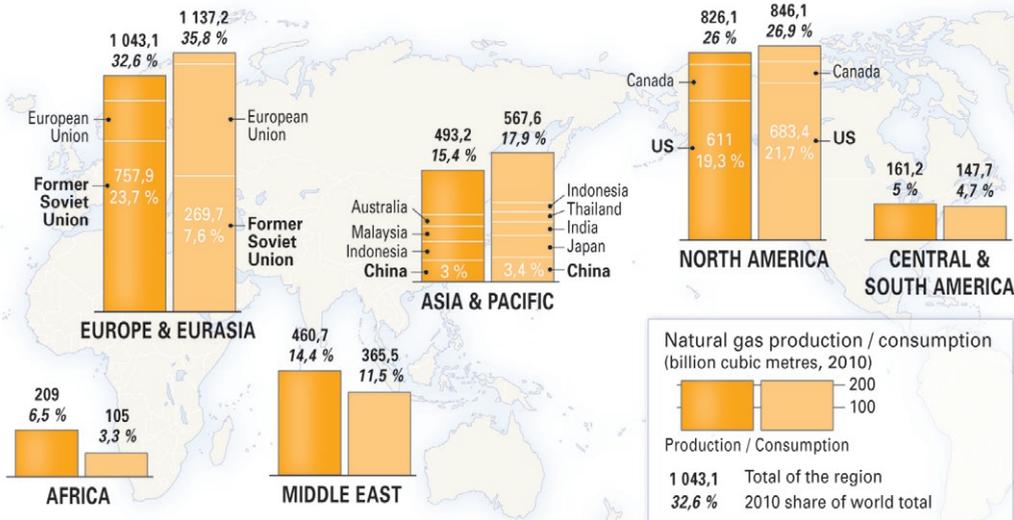
Sources : European Commission, Council of the European Union, Congressional Research Service.

## Production and consumption of energy resources: oil



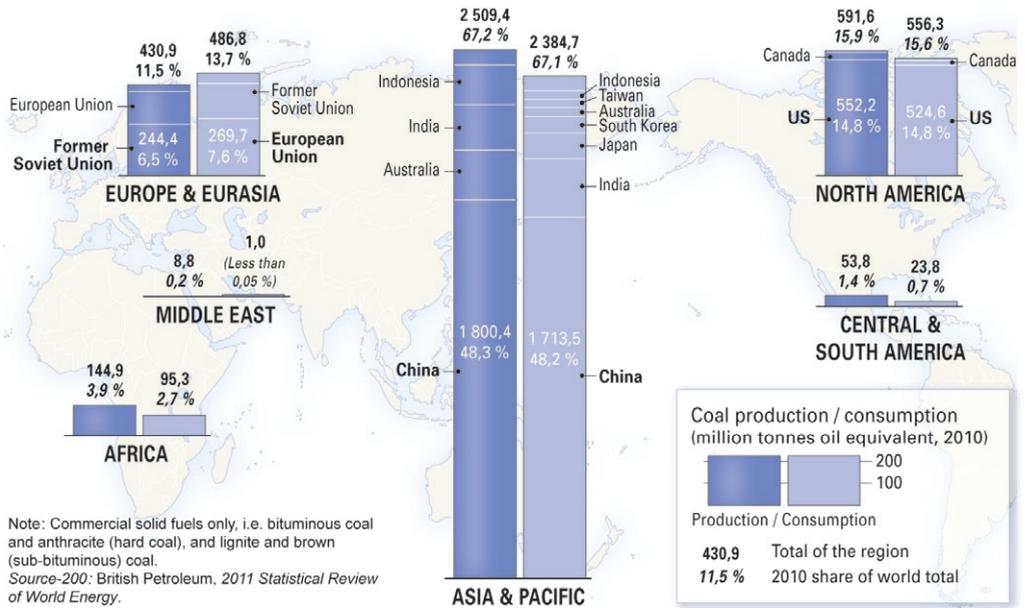
Note: Annual changes and shares of total are calculated using million tonnes per annum figures.  
 Source: British Petroleum, 2011 Statistical Review of World Energy.

## Production and consumption of energy resources: natural gas

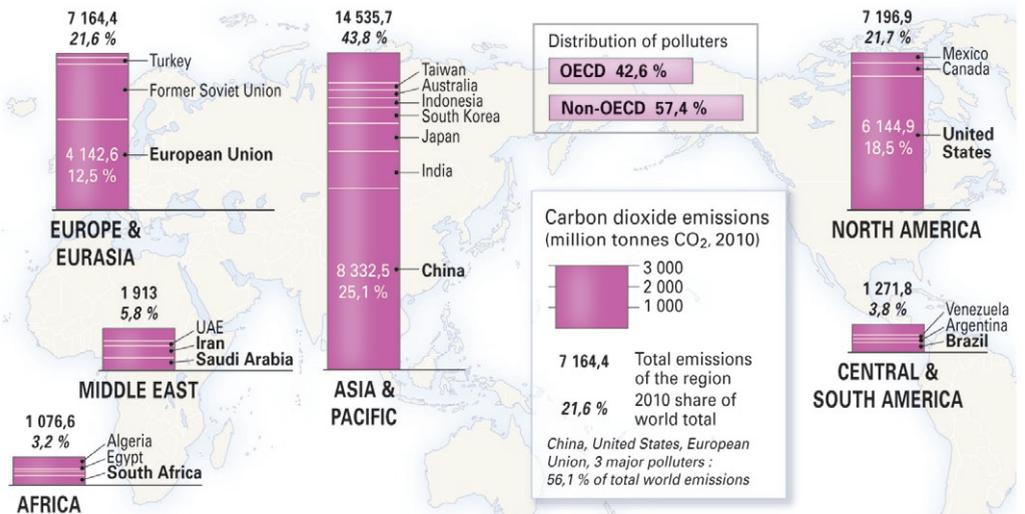


Note: As far as possible, the data above represents standard cubic metres (measured at 15°C and 1013 mbar). As they are derived directly from tonnes of oil equivalents using an average conversion factor, they do not necessarily equate with gas volumes expressed in specific national terms. Annual changes and shares of total are calculated using million tonnes of oil equivalent figures.  
 Source: British Petroleum, 2011 Statistical Review of World Energy.

## Production and consumption of energy resources: coal



## Major polluters (carbon dioxide emissions)



## Renewable energy capacity in Asia

### Cumulative installed capacities / power

in Megawatts, at end of 2010

WIND	Cumulative installed wind turbine capacity	Change 2010 over 2009	Share of world total
World total	199 523 	24,6 %	
Australia	2 084	10,5 %	1 %
China	44 781	73,2 %	22,4 %
India	12 966	19,8 %	6,5 %
Japan	2 429	10 %	1,2 %
New Zealand	495	6 %	0,2 %
South Korea	342	10 %	0,2 %
Taiwan	454	10,5 %	0,2 %
Other Asia Pacific	94	27 %	0 %

SOLAR	Cumulative installed photovoltaic (PV) power	Change 2010 over 2009	Share of world total
World total	39 778 	72,6 %	
Australia	503,6	174,3 %	1,3 %
China	893	139,4 %	2,2 %
India	189	57,5 %	0,5 %
Japan	3 617,2	37,7 %	9,1 %
South Korea	572,9	29,6 %	1,4 %
Malaysia	14,6	31,5 %	0 %

GEOTHERMAL	Cumulative installed geothermal power capacity	Change 2010 over 2009	Share of world total
World total	10 906 	1,8 %	
Australia	1,1	0 %	0 %
China	24	0 %	0,2 %
Indonesia	1 189	0 %	10,9 %
Japan	502	0,4 %	4,6 %
New Zealand	769,3	22,2 %	7,1 %
Papua New Guinea	56	0 %	0,5 %
Philippines	1 966	0,7 %	18 %
Thailand	0,3	0 %	0 %

Sources : BTM consult ApS., IEA Photovoltaic Power Systems Programme, EPIA, EurObserv'ER, SolarBuzz

## Major political, security and trade organisations in the Asia Pacific

Functions of organisations

● Multiple function   
 ● Political-Security   
 ● Trade

Status of membership

Member   
  Observer

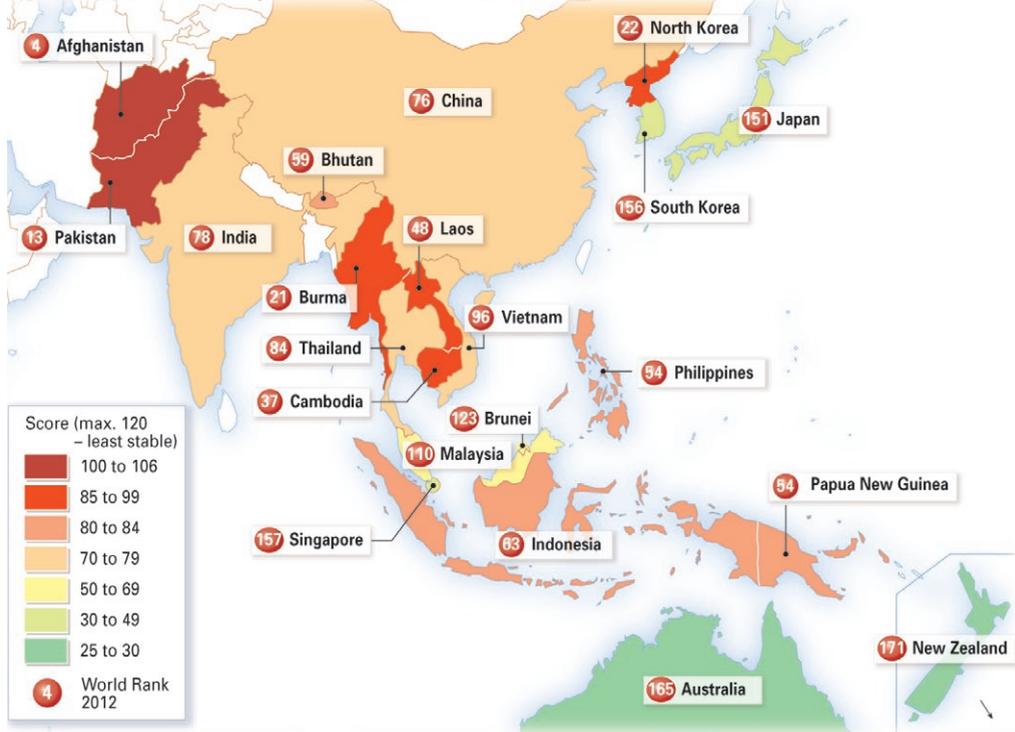


\*ARF (full list) : Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic Peoples' Republic of Korea, Republic of Korea, Laos, Malaysia, Burma / Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea, The Philippines, Russia, Singapore, Sri Lanka, Thailand, Timor Leste, United States, Vietnam.

\*\*APEC (full list) : Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States, Vietnam.

Source : EUISS research.

## Political instability in the Asia Pacific



### Demographic pressures

1. Afghanistan
2. Pakistan
3. Japan
- ...
19. South Korea
20. Singapore
21. New Zealand

### Uneven development

1. Papua New Guinea
2. Burma/Myanmar
3. North Korea
- ...
19. Australia
20. South Korea
21. Japan

### Poverty and economic decline

1. North Korea
2. Afghanistan
3. Burma/Myanmar
- ...
19. Brunei
20. Australia
21. South Korea

### Legitimacy of the state

1. North Korea
2. Afghanistan
3. Burma/Myanmar
- ...
19. Japan
20. Australia
21. New Zealand

### Human rights

1. Cambodia
2. Pakistan, Burma/Myanmar and China
- ...
19. South Korea
20. Australia
21. New Zealand

### External intervention

1. Afghanistan
2. Pakistan
3. North Korea
- ...
19. Singapore
20. Australia
21. New Zealand

Note : Through sophisticated search parameters and algorithms, the CAST software separates the relevant data from the irrelevant. Guided by 12 primary social, economic and political indicators (each split into an average of 14 sub-indicators), the CAST software analyzes the collected information using specialized search terms that flag relevant items. This analysis is then converted using an algorithm into a score representing the significance of each of the various pressures for a given country. Each indicator is rated on a 1 to 10 scale with 1 (low) being the most stable and 10 (high) being the most at risk of collapse and violence.

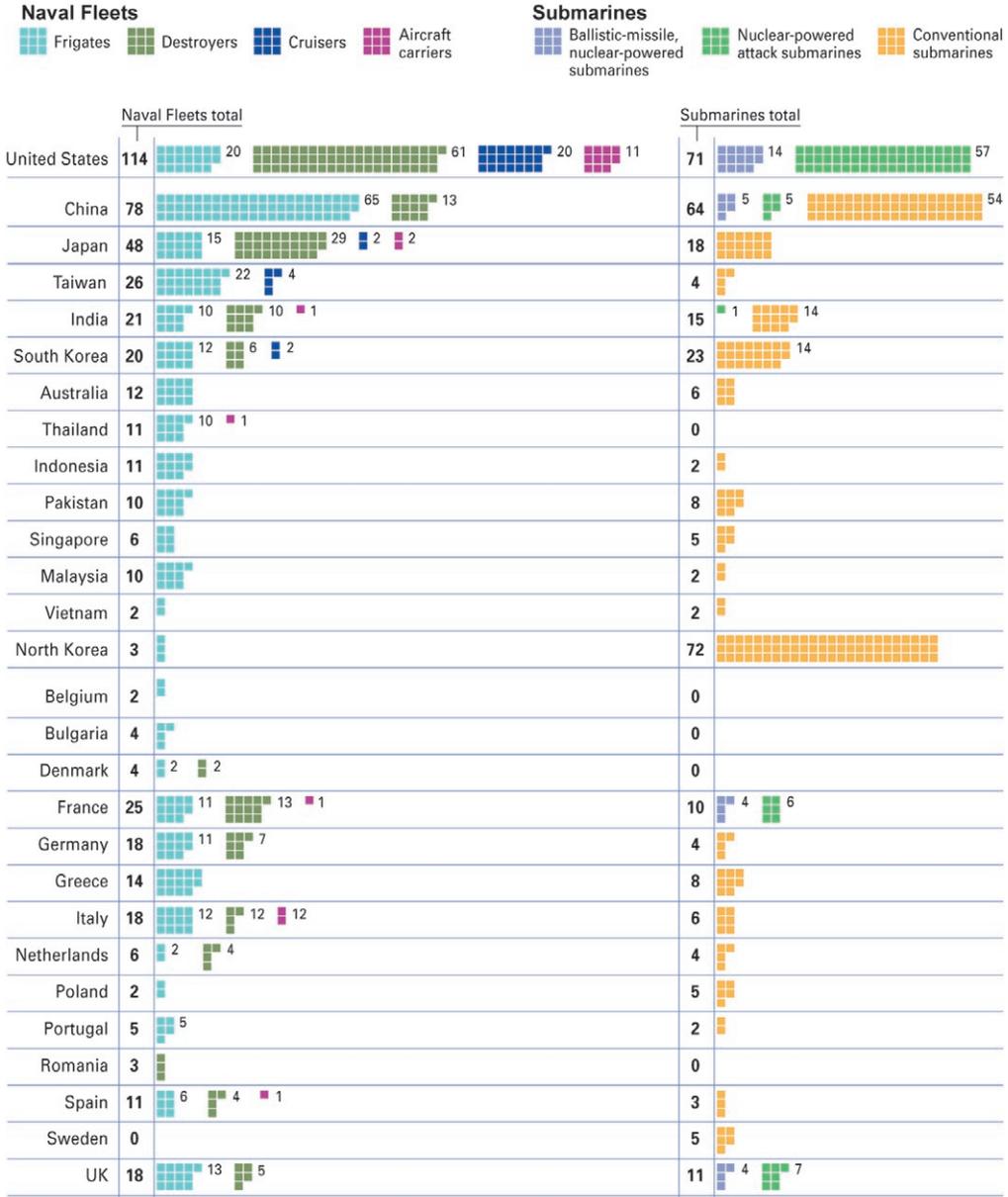
Source : Fund For Peace, 2012 Failed States Index.

## Major territorial disputes in the Asia Pacific



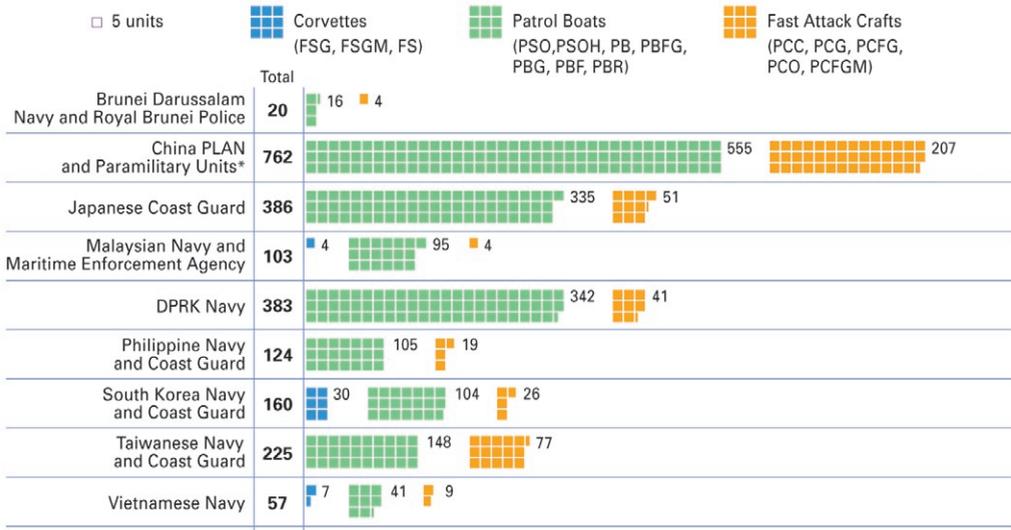
Source : EUISS research.

## Military capabilities distribution: the EU, US and Asia Pacific



Sources: IISS, *The Military Balance 2012*; Andrew S. Erickson, 'China's modernization of its naval and air power capabilities' in Ashley J. Tellis and Travis Tanner (eds.) *China's Military Challenge*, The National Bureau of Asian Research, 2012.

## Patrol and coastal combatants in the region



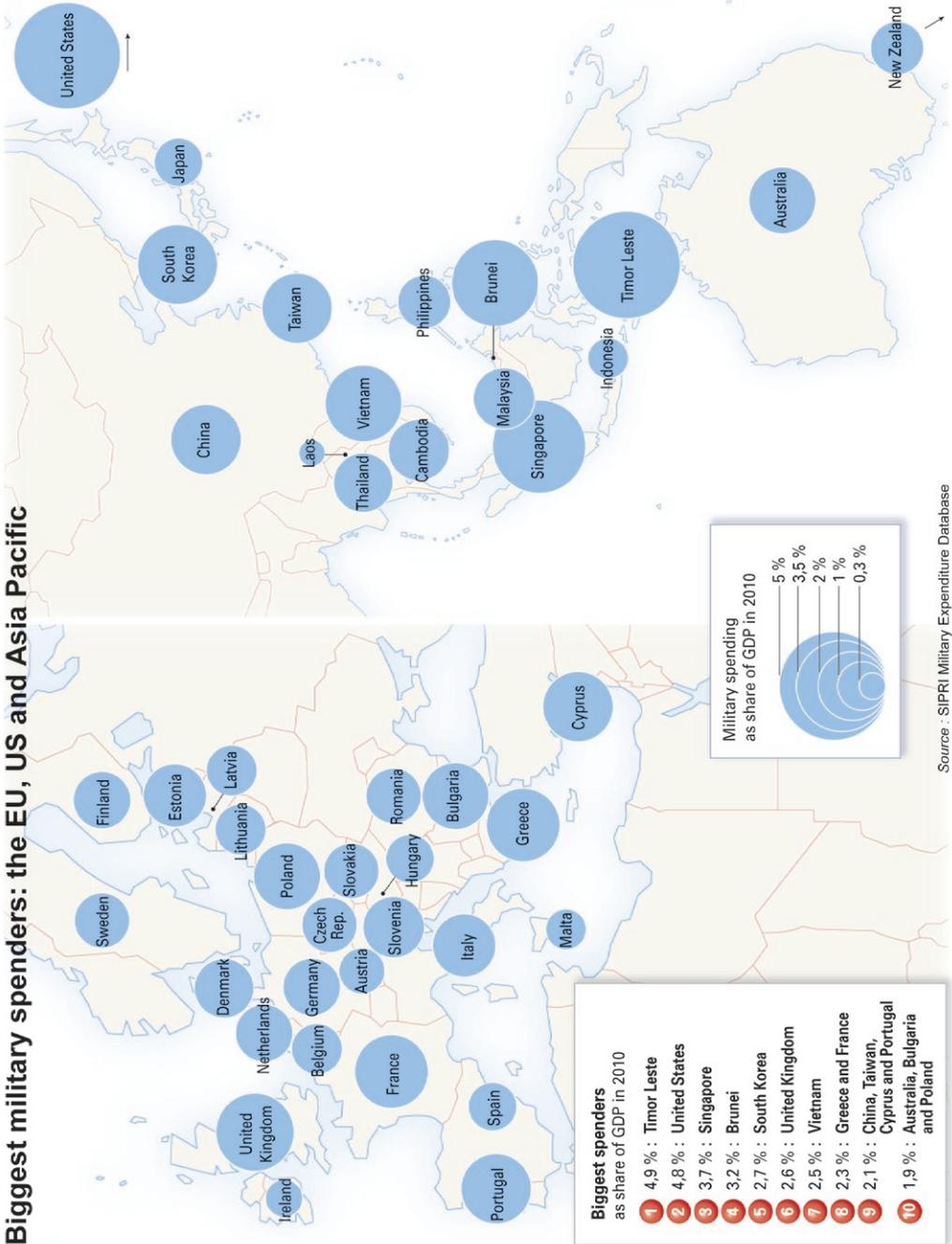
Notes : Includes only the Asia Pacific countries involved in territorial disputes in the South China Sea, the East China Sea and the Yellow Sea as well as North and South Korea.

\* The Chinese Paramilitary forces encompass : (a) Border Defence Force-Coast Guard (b) China Marine Surveillance (c) Maritime Safety Administration (MSA) (d) Fisheries Law Enforcement Command (FLEC).

Source : IISS, *The Military Balance 2012*.



**Biggest military spenders: the EU, US and Asia Pacific**



Source : SIPRI Military Expenditure Database

## ***Abbreviations***

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ADMM	ASEAN Defence Ministers Meeting
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASAT	anti-satellite weapon
ASEAN	Association of South-East Asian Nations
ASEM	Asia-Europe Meeting
CBMs	Confidence-Building Measures
CCP	Chinese Communist Party
DPRK	Democratic People's Republic of Korea
EAS	East Asia Summit
EEAS	European External Action Service
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GPS	Global Positioning System
IEA	International Energy Agency
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LNG	Liquefied Natural Gas

MS	Member States
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organisation
NTA	New Transatlantic Agenda
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OIC	Organisation of the Islamic Conference
PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PRC	People's Republic of China
SAARC	South Asian Association for Regional Cooperation
SCS	South China Sea
TEU	Treaty on European Union
TPP	Trans-Pacific Partnership
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
UNSC	United Nations Security Council
USD	US dollars
WTO	World Trade Organisation

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