

Chaillot Paper

December 2006

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Facing China's rise: Guidelines for an EU strategy

*Philip Andrews-Speed, Axel Berkofsky, Peter Ferdinand,
Duncan Freeman, François Godement, Eberhard Sandschneider,
Antonio Tanca and Marcin Zaborowski*

Edited by Marcin Zaborowski



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Il faudrait bien plus d'un Cahier de Chaillot pour évaluer la spectaculaire montée en puissance de la Chine sur l'échiquier international. En moins de deux décennies, la République populaire s'est en effet affirmée comme un acteur majeur de la mondialisation économique (elle génère aujourd'hui 5% de la richesse mondiale); comme une pièce maîtresse pour l'évolution du marché de l'énergie (12% de la demande mondiale); comme la première puissance démographique du monde (20% de la population mondiale, soit l'équivalent de ce que représentaient les puissances européennes au XIX^e siècle, au plus fort de leur domination); enfin, comme un partenaire difficile mais indispensable pour la solution des crises majeures, s'agissant notamment de la lutte contre la prolifération nucléaire nord-coréenne ou iranienne. A tous égards, les évolutions que suivront, ou ne suivront pas, les politiques chinoises risquent d'être beaucoup plus déterminantes pour la prospérité et la sécurité internationales que celles de n'importe quelle autre puissance du vieil ensemble occidental.

Une telle concentration de pouvoirs ne va pas sans soulever immédiatement de multiples interrogations, qui sont parfois autant d'inquiétudes. Quels sont les objectifs de la puissance chinoise, la préservation du statu quo régional en Asie ou la contestation de ce qui reste de domination occidentale, et plus particulièrement américaine, sur le système international? Existe-t-il un modèle chinois, de modernisation économique et politique, susceptible de concurrencer, dans les perceptions internationales, le monopole tenu jusqu'ici par le modèle libéral et démocratique? Quels sont les risques de revers possibles, économiques, écologiques, sociaux, d'une telle fulgurance dans l'ascension économique de la Chine? La notion de « menace chinoise » est-elle pertinente, et si oui, à l'égard de quels types d'intérêts occidentaux?

Ces questions sont désormais sur la table des Européens, alors que l'Union souhaite développer un « partenariat stratégique » avec la Chine et éviter que ne se reproduisent les divergences et malentendus, y compris transatlantiques, qui ont accompagné naguère la question de la levée de l'embargo sur les armes à destination de ce pays. Elles forment également la

trame de ce Cahier de Chaillot. Sous la responsabilité éditoriale de Marcin Zaborowski, chargé de recherche à l'Institut, les meilleurs experts européens de la Chine ont été sollicités pour proposer au lecteur une approche globale, à la fois concrète et stratégique, de la nouvelle puissance chinoise et de son impact potentiel sur l'évolution du système international.

L'ensemble des études contenues dans ce Cahier dresse le portrait d'une Chine à la fois fascinante, opaque, et éminemment complexe. De caricature, positive ou négative de la puissance chinoise, on n'en trouvera guère dans ces pages. Après les polémiques suscitées par l'affaire de l'embargo, l'objectif n'est autre que de dépassionner les débats, de nourrir la réflexion stratégique de l'Union à partir d'une expertise proprement européenne, d'enrichir ainsi le dialogue euro-américain initié en 2005 sur la question chinoise, et de contribuer à l'élaboration d'une stratégie européenne à l'égard de la Chine qui soit à la fois commune, globale et durable.

Paris, décembre 2006

Introduction

Marcin Zaborowski

Facing China's rise:
Guidelines for an
EU strategy

With its booming economy, China is emerging as the key player in Asia-Pacific and possibly as the world's next superpower. So far, China has mainly developed as a 'trading power' – concentrating on the expansion of its economy and retaining a relatively restricted international role. However, there is no doubt that the dynamic rise of China's poses major challenges to the *status quo* in the region with consequences for its neighbours and other powers present there, such as the US and, increasingly, also the EU.

Clearly, China has always been a power to be reckoned with, but over the last decade its influence and 'punch' at the global level have grown at an accelerated pace, changing the international system. There are three major areas in which 'China's rise' is beginning to have global implications:

- **The economy** – the impact of China's economic expansion has been affecting global markets since the 1990s. In the last few years, China's trade surplus as well as its stock of foreign currency and bonds have grown to the point at which Beijing's policies are key factors shaping the global economy.
- **Energy** – in the last five years China has become an energy importer; it is already the world's second biggest energy consumer (the first being the US). China's demand for energy has pushed prices up with implications for other consumers and for the geopolitics of energy-rich regions.
- **Global governance** – in response to its growing energy needs China has invested in some states in the Middle East and Africa, where its interests and relationships with local regimes are often in conflict with both the US and the EU. This raises the question as to whether China sees itself as a shareholder in global governance and international security or not.

What are the implications of China's rise for the EU? The transatlantic dispute over the arms embargo highlighted the need for the EU to develop its own security perspective on China, which would address, among others, the issues of China's defence policy and the modernisation of its military, the security situation in East Asia and Pacific as well as China's energy policy. In response to these questions, this *Chaillot Paper* provides an analysis of some aspects of China's domestic transformation and its evolving international relations with a view to providing guidelines towards the development of effective EU strategic thinking on China.

Outline of this *Chaillot Paper*

The *Chaillot Paper* is divided into three parts: the first one deals with various aspects of China's domestic transformation, the second focuses explicitly on foreign policy and the third addresses the EU's China policy.

Part One, **China's domestic transformation and the changing world order**, includes chapters on trade and the economy, democratisation and military modernisation. Duncan Freeman's chapter on trade and the economy discusses the impact of China's expanding trade on the EU and the wider world. The chapter also deals with the question of whether China's growing economic status is a threat or an opportunity for the EU. The chapter on democratisation by Peter Ferdinand considers whether China is evolving towards a liberal democracy and whether the EU has a role to play in promoting an open society in China. In the last chapter in this section Eberhard Sandschneider discusses China's military modernisation and the views and perspectives of the US and the EU on this matter.

Part Two, **China's Foreign Policy**, consists of chapters dealing with China's regional role, its energy policy and Sino-American relations. The contribution by François Godement on China's role in East Asia deliberates whether Beijing's foreign policy behaviour is becoming hegemonic or benign and focused on exercising its influence primarily through economic means. The chapter by Philip Andrews-Speed looks at China's energy policy and its broader international implications in the context of the energy market and

global security. Marcin Zaborowski's chapter analyses China's relations with its most important strategic partner – the US. This chapter argues that although dynamic and intense this relationship remains overall quite ambivalent.

Part Three, **Assembling an EU-China strategy**, includes two contributions, both of which deal with EU-China relations. The chapter by Axel Berkofsky addresses the key developments in the relationship between the EU and China, posing the question whether these relations are truly 'strategic' as argued in key EU documents. The final chapter by Antonio Tanca discusses the EU's developing China strategy.

Part I

China's domestic transformation and the changing world order

China's rise and the global economy: challenges for Europe

Duncan Freeman

Facing China's rise:
Guidelines for an
EU strategy

1

Introduction

In recent years both the general public and the political classes in Europe have come to realise that the economic transformation of China that began in the late 1970s has a direct impact on their interests. Today what happens in China is given as much attention as events in almost any other nation, and this is especially true in the economic field. 'Market moving' events today are just as likely to be occur in China as in any other part of the world. There are good reasons for this. Decisions made in China now can have an immediate as well as long-term economic impact throughout the world. Suddenly the influence of China is seen in everything from the price of raw materials and oil to the imbalances in world trade, and in economies from East Asia to Latin America.¹

Viewed from the perspective of history, China is far from being a new factor in the world economy. What is certainly new is the degree of its current impact in the modern world, and the speed with which it has achieved this from a position of marginality that followed a long historic decline and then period of isolation following 1949. The Chinese economy has become increasingly internationalised. Foreign trade and investment have been significant factors in the rapid growth of the economy, especially since the 1990s. China has been extremely successful in attracting foreign investment, which in recent years has been arriving at the rate of about US\$50 billion a year, although in per capita terms the amounts are relatively small, and are only a small proportion of total investment in the Chinese economy.

In trade, the change has been enormous. In 2004 China was the world's third largest exporter after Germany and the US, and accounted for 6.5% of world exports.² It was also the third largest importer, after the US and Germany, accounting for 5.9% of world

1. See Nicole Gnesotto and Giovanni Grevi, *The New Global Puzzle. What World for the EU in 2025?* (Paris: EUISS, 2006), chapter on China, pp. 155-64.

2. World Trade Organisation. See: http://www.wto.org/english/res_e/statis_e/its2005_e/its05_overview_e.pdf.

imports. In 2004, exports of goods and services were the equivalent of 34% of China's GDP, compared with 23% in 2000. In the other direction, imports in 2004 were equivalent to 31% of GDP, compared with 21% in 2000.³

As its role in the international economy has grown, so too has China's economic relationship with Europe. The EU is now China's biggest trade partner,⁴ having recently overtaken the US which for many years had occupied that position. However, the US is still China's largest export market, followed by the EU. From the European perspective, China is much less important as a trade partner than the US. Nevertheless, China's share of EU trade is growing rapidly. Both Chinese and European political leaders tend to express satisfaction with this developing economic relationship, and it is true that the atmosphere is generally considered to be very positive. Nevertheless, there are voices of disquiet in Europe that pose the question of whether the relationship should be seen so positively, or whether China should be seen as something other than an economic partner.

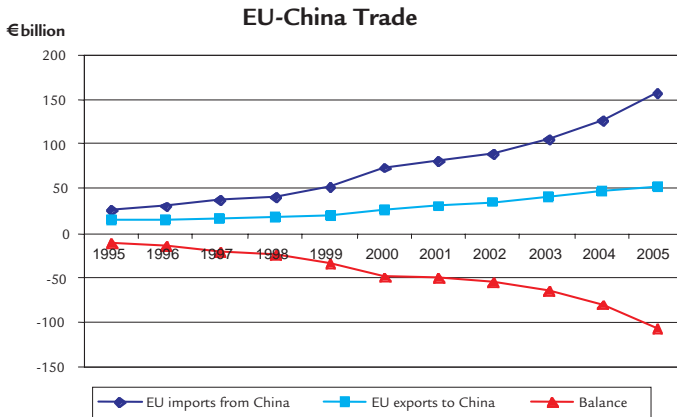
China: a threat or an opportunity?

The economic impact of China is often characterised in terms of threats and opportunities, or more neutrally as challenges. Of course, the perception of economic threats and opportunities depends very much on the position from which they are viewed. Nevertheless, it is clear that the challenges presented by China to Europe are many.

In crude economic terms, the negative aspect of the relationship is often portrayed, especially in the media, as a flood of imports from China which threaten European companies and jobs, and by extension the wider economy and even the fabric of European society. At a general level, the facts appear obvious: the EU has a large and growing trade deficit with China and Europe imports ever-increasing amounts of cheap Chinese goods. Although in recent years EU exports to China have been rising, this has been far outpaced by imports from China. Over the past five years the EU trade deficit with China has more than doubled.

3. World Bank estimates. See: <http://devdata.worldbank.org/external/CPProfile.asp?PTYPE=CP&CCODE=CHN>.

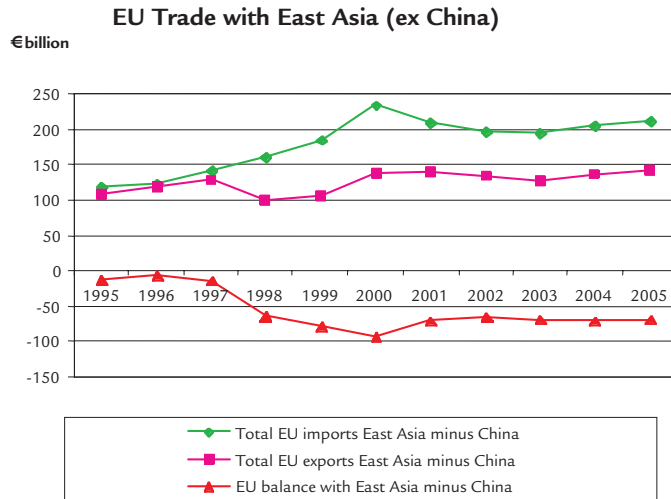
4. PRC Ministry of Commerce. See: <http://english.mofcom.gov.cn/aarticle/statistic/ie/200603/20060301722237.html>.



Source: Eurostat.

However, these simple figures do not tell the whole story. Focus on a single bilateral trade statistic fails to capture the complex trading relationships which exist in a world of globalisation. China is increasingly part of an integrated world economy where complex production arrangements are the norm. A large proportion of 'Chinese' exports to Europe are in fact goods that are often manufactured in several Asian countries, of which China is the last in the chain. There has been a rapid shift in patterns of trade from Asia in recent years, as China imports parts and materials from the region, and then exports finished products to markets in the US and EU. This has resulted in a sharp decline in the trade surpluses of most major Asian economies with Europe, most notably Japan. As a result, the EU trade deficit with East Asia (apart from China)⁵ in 2005 was significantly less than its peak in 2000. China, on the other hand, now has substantial trade deficits with most major Asian economies. Indeed, the Chinese argue that since the value added in China in these processes is often low, it is the other Asian economies that are the real beneficiaries of these trading patterns.

5. Here East Asia is taken to be South Korea, Japan, Taiwan, Hong Kong, Vietnam, the Philippines, Thailand, Singapore, Malaysia and Indonesia.



Source: Eurostat.

Arguably, if concerns are limited to trade itself, Europe is not just faced with a challenge from China, but from the fact of Asia's increasing economic integration. China may be a central pillar of this integration, but it is one part of a much broader phenomenon.

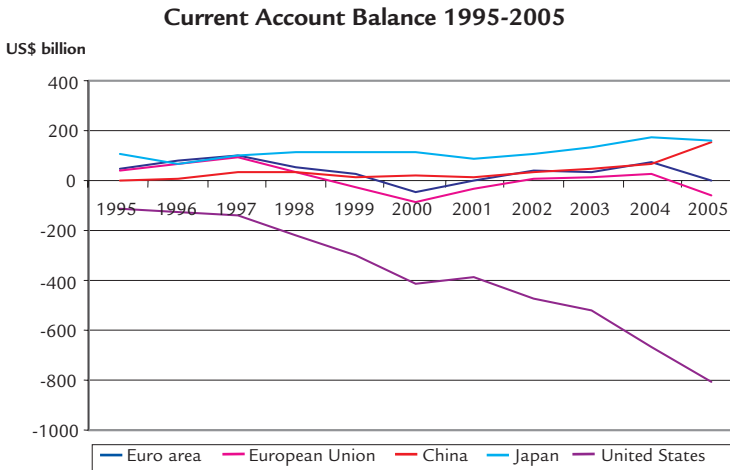
Furthermore, this integration also increasingly directly involves European companies that operate in Asia. Foreign investment enterprises accounted for 58% of all Chinese exports in 2005.⁶ European companies have been significant investors in China, and many others have supply chains that include China. Very often, the ultimate beneficiaries of China's export boom are foreign companies, including those from Europe.

This integration and competition creates conflicting interests. The most obvious examples of this are textiles and footwear, which have been the subject of disputes between the EU and China. According to the advocates of European domestic manufacturers in these sectors, unrestrained Chinese exports will destroy businesses and jobs in Europe, and are the result of fundamentally unfair trade practices on the part of China. This view is contested not just by China and its producers, but also by many European companies that import and sell Chinese products, as well as by those that have invested in production in China.

As a wider economic question, the extent to which the trade deficit with China represents a problem for Europe is debatable. Taken as a whole, the EU does not suffer from significant trade or

6. PRC Ministry of Commerce statistics. See: <http://english.mofcom.gov.cn/aarticle/statistic/ie/200603/20060301722205.html>

current account imbalances. Unlike the US, the deficit with China is not the main element in an even larger problem of both trade and current account deficits. On the contrary, in recent years, the EU has enjoyed small current account surpluses on several occasions. Although the problems might appear similar, it would be wrong to simply conflate the EU and US deficits with China, and ascribe them to the same causes.



Source: International Monetary Fund.

While Europe may have macro-economic grounds for not being too concerned by the bilateral trade balance with China, Chinese competition is seen as a threat by many business sectors in the EU. For those sectors that do face competition from Chinese exports, this is a serious problem, especially for those workers threatened with losing their jobs. To some, China's capacity for competition is a wider threat not just to specific European industrial sectors, but even to Europe's social and economic model.

Whether this is the case remains to be proven. It is unclear that either imports from China, or delocalisation of jobs to China, have contributed significantly to the wider problems of economies in Europe. Many of the problems of the European social market economic model predate the emergence of China as a significant actor in the world economy, and there are many other external factors as important as China. According to many of its defenders,

the main threat to this model appears to come from within the EU, from the UK and Eastern European members. Of course, whether social dumping and the Polish plumber are really the threats they have been made out to be is another question.

On the other hand, the economic success of Scandinavian countries indicates that with the right policies it is possible to compete in the world economy and have a strong welfare state, although it is difficult to know how far the lessons can be generalised for the rest of Europe. As the success of the Scandinavian economies has shown, the failure of many European economies in job creation is a more fundamental problem than the threat of jobs being destroyed by external competition.

Repercussions of the Chinese economy on the world economy

In large part the Lisbon Agenda was intended to address some of these fundamental problems of the European economy, but progress in achieving its goals has been limited. Against the view that European industries need to be protected from Chinese competition, Trade Commissioner Peter Mandelson has argued that they should receive no protection for its own sake: they must compete in an open trading system, and at the same time the competitiveness agenda must be pushed forward.

Whether this can solve the longer term problem remains to be seen. This argument sidesteps the question of what happens as the Chinese economy itself develops, since it too is seeking to develop new industries that have higher value added and are in high-technology sectors. In the longer term, the threat to European companies from these new industries in China may be as great as that from cheap textiles and footwear. For many years these low value added goods represented a declining proportion of China's exports. While these are vital industries that employ huge numbers of people, China itself does not wish to remain at the bottom end of the technological ladder, but is increasingly focused on developing its own high-technology industries. In 2004 high-technology exports accounted for 30% of China's manufactured exports, compared with only 19% in 2000.⁷ Already in 2005 the Commission has highlighted the fact that R&D spending in China is growing much faster than it is in the EU. Furthermore,

7. World Bank statistics. See: <http://devdata.worldbank.org/data-query/>.

there is a growing trend for Western companies to set up R&D centres in China.

Aside from these broader issues, the EU will have to continue managing the day-to-day problems of the relationship with China. Although the leaders of Europe and China may wish to emphasise the positive, there are many areas where problems occur. China remains the leading target for anti-dumping actions by the EU. These actions will continue, as European producers will attack what they see as unfair trade. In return, Chinese producers will attack what they consider to be an unfair form of trade protectionism. On the other side of the coin, Market Economy Status (MES) remains an important issue for the Chinese government and producers who are caught in anti-dumping actions. Apart from its practical implications, the Chinese government attaches considerable symbolic importance to this issue. However, given the EU's insistence that it is a purely technical question whose resolution will depend on a number of quite fundamental changes in the Chinese system, this issue is unlikely to disappear soon.

Concerning trade in the other direction, the EU will continue to press for better access to markets in China. Although European companies recognise that China has made great progress in opening up its economy, they also believe that they face significant barriers. Despite the efforts made by China in implementing its World Trade Organisation (WTO) commitments, there are still restrictions on the activities of foreign companies in many sectors, especially in services, which are increasingly important to the European economy. At the same time, the problem of protection of intellectual property in China will remain a critical issue for European companies. European companies operating in China are increasingly urging the EU to press China on issues such as these.

These issues are in large part the result of a rapidly developing economic relationship, and are by no means unique to the EU and China. Similar problems have been raised in the past by the emergence of other economies, and they can even occur in mature economic relationships such as that between the EU and the US. However China raises some broader problems that go beyond those associated with other economies.

For instance, China's success in exporting, even if it is often only part of the production chain, and in attracting foreign investment has allowed it to accumulate huge foreign exchange reserves,

currently close to US\$1 trillion, the largest in the world. These reserves have been mostly invested in US government debt.

It is sometimes argued that China can use these holdings to exercise the apparent power they give by selling a part of its holdings, or simply by not purchasing as much US government debt as it has in the past. However, the challenge they present is not really the power that they are sometimes perceived as bestowing on China. Any action of this kind would be a two-edged sword, damaging China as much as the US. The real challenge is what happens if the current cycle can no longer be sustained. Until now the cycle of China exporting to the US and then lending it the proceeds has brought benefits to both sides. If it cannot be sustained, for instance when indebted US consumers can no longer continue increasing their purchases of Chinese goods, then the consequences will be serious, and will extend beyond their own bilateral relationship to affect the rest of the world. Even if it may have little influence over the outcome, Europe will not be a mere bystander, but will be directly affected by how this imbalance is resolved.

The fundamental imbalance in China's relationship with the US may be a major problem facing the world economy, but the effects of China's economic rise are to be seen in many other ways. Most notably, more and more attention is being paid to China's growing demand for raw materials, and, more importantly, energy and its efforts to secure supplies abroad. China now imports about 12% of its total energy needs,⁸ a significant increase on even a few years ago.

Through its purchases of commodities and investments in production, China's role is growing in many parts of the world where previously its direct interests were limited. But as China plays an increasing role, it is not clear that it is playing by the same rules as the EU or other established actors such as the US. This challenge is not just economic, but also political. Most recently this has been seen in China's growing activities in Africa, Sudan being the most notable example, where it is often accused of being unconcerned with problems such as human rights or corruption in its search for sources of oil or other commodities. So far, these issues have not been a part of the many dialogues that take place between the EU and China, but as Chinese interests throughout the world expand, so will the policy challenges for Europe, and the need for them to be addressed.

8. PRC National Bureau of Statistics. See: <http://www.stats.gov.cn/tjsj/ndsj/2005/indexeh.htm>.

Policy challenges for the EU

Emerging challenges such as those created by China's expanding role in Africa will require new approaches by the EU. However, the fact that from the EU perspective China does not play by the rules there does not mean that there is nothing that can be done. The economic history of China in the past 25 years is in large part a story of its integration into the world economy, and its increasing acceptance of the established rules by which it operates. Most notably, entry into the WTO was a major step in bringing the actual role of China in the world economy under the established rules.

However, an even greater challenge will arrive as China is increasingly required not just to obey the rules, but also to make them. Already, the EU as well as the US have been calling for China to play a more active role in the Doha Development Agenda. So far China has been reluctant to respond positively to these calls, but clearly its standing and influence in the major international institutions such as the WTO, IMF and World Bank will only continue to strengthen. However, despite the reforms of the past decades, and the enormous changes that have occurred in virtually every aspect of China, it is clear that there are many differences between China and the major Western economies which have dominated the rule-making of the world economy for over 50 years. Furthermore, China also has interests that do not necessarily coincide with those of the other major economies. Until now China has generally accepted the rules of the game, even if at times it has not fully played by them. A major challenge will come if China attempts to change the rules of the game, or more strongly assert its own interests within the current rules.

The challenges that China is perceived to present are largely based on the assumption that its economy will continue developing as it has since the late 1970s. An even greater challenge than all those resulting from the present trends continuing, would be if they were reversed and economic failure occurred in China. The possibility of the failure of China's economic reforms has been debated almost since their inception. This debate continues, as observers outside China, and even within the country, point to the many serious domestic problems that must be tackled. The Chinese government faces many difficulties in sustaining economic reforms and growth. The challenges faced by the Chinese govern-

ment are well known, and range from reform of the banking system through to reversing the severe environmental degradation that has occurred. These challenges are internal, but their successful resolution will have an impact beyond China's borders. Even in Europe, there is a real interest in ensuring that the development of the Chinese economy does continue.

Whether the problems are successfully dealt with will in large measure depend on the policies adopted by the Chinese government. Nevertheless, the EU can play a role in aiding the decision-making process, as it has been doing through the increasing contact it has with China in many policy areas.

In reality much of the European response to China's economic growth has been driven by individual companies that have been trading and investing there. It is they, rather than policy-makers, that have established the business foundations of the economic relationship with China, and it is this economic foundation which remains the most substantial element in the EU-China relationship.

To the extent that China is a threat to Europe, many of the solutions will depend on the policies adopted by the EU and its Member States. Europe's internal actions, for instance, advancement of the Lisbon Agenda, will have as much impact on meeting the Chinese challenge as any policies directed specifically at China. European governments have responded to China's rise in the world collectively through the EU, as well as at the level of individual Member States. The pinnacle of this response has been the Strategic Partnership that the EU has entered into with China, although this deals with a broad range of questions without any focus on economic issues. Much of the substance of forming the economic response has been in the hands of the European Commission which has been responsible for the direction of the overall trade policy with China.

At the same time each Member State has pursued its own commercial policy with China, often leading to claims that Europe lacks any real coherence, and that its members can easily be played off against each other as they seek advantage in the China market. The reality is that Member States have diverging views, that differ not just because of their commercial interests, but also due to the fundamental policy outlooks. The textile and footwear issues have

demonstrated that there is often no consensus on how to deal with China, even if all Member States subscribe to the same broad policy aims.

Ultimately the challenge for Europe will be to ensure that the economic foundation benefits both sides in the bilateral relationship and that this is generally perceived to be the case both in Europe and China. This will include both the purely bilateral issues as well as the many other challenges that China has raised. Here the EU will need to continue its efforts to ensure that China's integration into the international economy benefits China, and also all the other participants that are affected by its remarkable economic development.

The challenge of democratisation

Peter Ferdinand

Facing China's rise:
Guidelines for an
EU strategy

2

Introduction

The EU has a clear interest in the democratisation of China. This is not just because the EU is a 'club' of democracies. A democratic China would be more transparent and predictable. It would also greatly reduce, if not remove, the potential source of a security confrontation with Taiwan. The establishment of a democratic political system on the mainland would undercut Taiwanese justifications for separatism. Neighbouring states would see the security benefits that would derive from this, and it would facilitate *détente* with the US.

On the other hand, as is emphasised elsewhere in this *Chaillot Paper*, the EU also needs to maintain a mutually beneficial trading relationship and the trade deficit with China is expanding. Putting pressure on China to show greater respect for human rights and greater transparency will never be the only important concern.

Like many Chinese, this author can imagine China being a democratic state in twenty years' time. But it is not at all clear how China will get from here to there. If it does so smoothly, it will be the first Communist regime to have achieved such a transformation. That makes it a challenge worth attempting, but the outlook is very unclear.

The leadership of the Chinese Communist Party (CCP) certainly do not intend to cede power. The last time that there was a major democratic challenge to the regime, in Tiananmen Square in June 1989, they responded with the utmost brutality. Protestors continue to be arrested. Reopening the question of what happened then, and why it happened, remains taboo. However, since then the regime has overseen an economic transformation that has raised per capita income to US \$1,300 per year. Thus there is no pressure for change stemming from economic failure. There has been an implicit bargain between the state and the people. The

state will deliver stability and rapid improvements in people's standards of living in exchange for political apathy or neutralism. In addition, China is simply too big for the outside world to impose change if the regime remains obdurate.

All of this suggests that the prospects for democratisation are bleak. On the other hand, an established literature in political science suggests a positive connection between economic development and the process of political democratisation. That economic development has taken place there can be no doubt: since economic reforms began in 1978, the Chinese economy has grown by over 400 per cent. This could suggest that political change might take place too.

Is China liberalising?

The Chinese government periodically resorts to force, using the tactic of 'killing the chicken to frighten the monkeys' (to quote an old Chinese proverb), i.e. it imposes exemplary punishments to deter dissidence and deviation from the government line, basically because it does not feel in control. The problem is that it has not yet devised a system of laws and regulations that consensually maintains stability. Yet today many groups of Chinese people undoubtedly enjoy greater freedoms than under Mao.

To take just some examples: people in China are no longer required to live in the same places for most, if not all, their lives. The household registration system, which used to be buttressed by the need for ration cards based upon place of residence in order to obtain basic foodstuffs, has been much eroded. This makes it easier for people to move around the country in search of work. Recent reports put the size of this 'floating population' at around 140 million, i.e. one tenth of the total, with 70 per cent of them aged between 15 and 35. However poor and exploited many of them are, these people are challenging authority, whether overtly or covertly. There is now a significant and growing, predominantly urban middle class in China. McKinsey recently estimated that these people represented 20 per cent of the urban population, but that by the year 2025 they will grow to 90 per cent.¹ Entrepreneurs flourish and contribute enormously to the growth of the economy. They are beginning to challenge authority by demanding greater observance of property rights.² Courageous lawyers,

1. Diana Farrell, Ulrich Gersch and Elizabeth Stephenson, 'The Value of China's Emerging Middle Class', *The McKinsey Quarterly*, June 2006. Available online at: www.mckinseyquarterly.com/article_page.aspx?ar=17988L2=7.

2. See, for instance, Chen Yingfang, 'Xingdongli yu zhidu xianzhi: dushi yundongzhongde zhongchan jieceng', *Shehuixue Yanjiu*, 2006(4), pp.1-20.

even members of the Communist Party, take up the cases of both the poor and the wealthy against the state, at considerable personal risk.³ Individuals now have the right to sue officials for maladministration. In 2002, 45,332 suits were brought against state officials. In 2005 the figure was around 100,000. Almost all are directed against local officials. Only a tiny proportion begin by citing central agencies, but individuals with grievances petition one level of government after another, in the hope of obtaining justice. Roughly one third of these cases ultimately result in judgements which find in favour of the plaintiffs, although even then officials find all sorts of ways to frustrate, circumvent, ignore or even suppress these verdicts.

The provinces of China, in general, enjoy greater autonomy than in the latter years of Mao's reign when ideological centralisation was exercised ruthlessly over the whole country. Individual provinces now have greater freedom to pursue economic strategies that capitalise on their local comparative advantages. Party secretaries usually get promotion for significant contributions to China's economic development, although the demise of central planning means that they may also get more blame for economic failure. Success insulates them from pressure from Beijing. Thus in many ways regional party officials have greater freedom of manoeuvre. The exceptions are autonomous regions with continuing ethnic tensions, such as Tibet and Xinjiang. There, officials still repress ethnic dissidents, whilst at the same time offering economic inducements for cooperation.

In the media there is far greater choice than was previously the case, partly because of the introduction of market forces. Even in terms of the old media there have been big changes. Twenty-five years ago there were only roughly one thousand newspapers and magazines in China. Now there are over ten thousand. And newspapers are now expected to make profits, or at any rate to avoid subsidies. This means that editors increasingly publish stories which will help to sell their newspapers. This can include investigative journalism, e.g. investigative reports into official corruption.

TV stations, too, are under great pressure to make profits. Provincial ones have fewer resources than national channels. Some have turned abroad either for programmes or for formats for programmes that are particularly popular. All of this has increased choice for viewers.

3. For a recent Pulitzer prize-winning series of articles in *The New York Times* on 'ragged justice' in China, see <http://www.pulitzer.org/year/2006/international-reporting/works>.

However, at least as important is the impact of new communications technologies upon the lives of Chinese citizens, especially the young. One sign is the explosion in mobile phone usage. There are now around 390 million mobile phone users in China, and they send roughly 1 billion text messages per day – a figure growing at an annual rate of around 40 percent. Now users can contact people throughout the country more or less simultaneously, for all sorts of reasons. It is worth noting that popular nationalist demonstrations in the last few years have often been organised through mobile phones.

Coping with this volume of messages in a crisis in real time would be an enormous potential challenge. Text messaging played a big role in orchestrating demonstrations that brought about the downfall of President Estrada of the Philippines in 2001, and then the volume of text messages in the Philippines rose from a ‘mere’ 50 to 80 million per day. Handling a crisis in China would be of a different order of magnitude.

The Internet is another source of alternative information. There are now around 111 million regular users of the Net in China, second only to the US, with over 12 million able to access broadband. Equally significantly, *The New York Times* reported in May 2006 that there were now 4 million bloggers in China. This medium offers an unprecedented opportunity for people, especially the young, to express themselves in public, even if they have to register with the authorities. The regime has devoted considerable resources to building ‘firewalls’ between the Chinese Net and the rest of the world – the Falun Gong demonstration in central Beijing in April 1999 showed how dissenters could use the Internet to organise. Journalists have been prosecuted for sending information abroad via e-mail. Yet the Internet is porous. Internet cafés and ISPs, who need to keep customers satisfied if they are to make profits, sometimes allow contentious material to be posted on bulletin boards, even though they know that censors will soon intervene. Word of mouth then takes over.

Politically the state can prevent the use (or misuse) of the Internet for promoting fundamental long-term issues or serving ‘subversive’ purposes, e.g. support for Taiwan, alternative parties, accessing search engines abroad for political information, etc. Where the controls sometimes break down are over immediate, unexpected crises, where the official media and censors are slow to respond. The SARS crisis, examples of official corruption, biased

court verdicts, the real causes of major accidents and disasters – all of these have provoked passionate debate on the Internet. Experienced users employ Aesopic language, using homonym characters for banned phrases (e.g. Falun Gong) to outwit the censors. And in August 2005 the editor of the weekly supplement ‘Freezing Point’ in the *China Youth Daily* publicly criticised his chief editor through postings that spread within hours to bulletin boards around the country before the censors could respond.⁴

The state does retain basic control. The CCP later closed ‘Freezing Point’. The name of the doctor who first revealed the scale of the SARS epidemic cannot be mentioned on bulletin boards. Yet courageous journalists continue to test the limits of government controls. Several retired senior party journalists, including Li Rui, one of Mao’s former secretaries, publicised the fact that they had signed a petition criticising the closure of ‘Freezing Point’.

The People’s Republic of China (PRC), like other countries, is not immune to the activities of ‘smart mobs’⁵ in crises. In fact it may be particularly vulnerable to them because of the lack of alternative authoritative institutions through which alternative views might be expressed.

China’s opening to the outside world

China is today more open to the outside world than at any time since 1949, and not just economically. It is more open to ideas, too, even if the regime attempts to filter them. Chinese journals and newspapers, especially those more inclined towards reform, now cite foreign ‘case studies’ for ideas on solving policy dilemmas that go beyond the economic realm. Lessons were drawn from the collapse of the Soviet Union and the downfall of President Suharto in Indonesia. European experiences are widely cited as a source for ideas on the reform of China’s malfunctioning welfare system. Delegations from the CCP have visited European political parties to discuss experiences in reforming political institutions, e.g. the Third Way in Britain, the achievements of the Swedish Social Democratic Party, etc. The recurring tug-of-war between the centre and the provinces over resources leads to comparisons of Chinese government practices with federalism in the US. And at the time of China’s accession to the WTO, one concern among educated Chinese was China’s possible ‘Latin Americanisation’ – Argentina was

4. For details, see: <http://www.washingtonpost.com/wp-dyn/content/article/2006/02/18/AR2006021800565.html>.

5. The term comes from Howard Rheingold, *Smart Mobs: the Next Social Revolution* (Cambridge, MA: Perseus, 2002).

then going through a major economic crisis associated with the failure of neo-liberal reforms.

In addition to economic flows, internationalisation is also spreading in the field of tourism. The number of Chinese going abroad (including Hong Kong, annually has gone up from 4.52 to 31 million in ten years, and it has been predicted that it may rise to 100 million by 2020. This will gradually make citizens of the PRC socially more cosmopolitan. More importantly, the number of Chinese students studying abroad is rising by over 100,000 per year and in 2006 the total number of students who have gone abroad since 1978 will have surpassed the million mark. Of these, around 232,000 have so far returned to China (many of the rest are still studying abroad). Not all of these students have positive experiences. Some return with a renewed sense of nationalism. Nevertheless the returned students will gradually come to play as big a part in the Chinese leadership as their predecessors from earlier generations who studied in the ex-USSR, e.g. Jiang Zemin and Li Peng.

Is China stable?

With all its economic success, China is going through a huge social upheaval. Sources of discontent are increasing and so too are protests. Economic development is causing enormous damage to the environment. According to a recent study for the World Bank, China contains 16 of Asia's 20 most polluted cities. The problems are compounded by serious and worsening problems of polluted water supplies and water quality.

A second source of discontent is increasing inequality. According to the UNDP *Human Development Report* for 2005, the Gini coefficient for income in China in 2004 was 0.447. In around 1980 it was estimated as 0.28, which was only slightly higher than in the most equal states in the world, i.e. the Nordic countries. This means that China has moved in one generation from having among the lowest rates of inequality in the world to having the same level of inequality as in Bolivia. In that sense China is 'Latin-Americanising'. And the figure for Bolivia is going down, whilst that for China is going up.

This increasing inequality is due to a whole series of issues. There is the increasing disparity in incomes between urban and

rural areas. There are increasing gaps between different sectors of the economy, with some enjoying monopolistic benefits, whereas wages in others, such as light manufacturing, suffer from intense competition. There are increasing disparities between regions, with the eastern provinces benefiting most from the reforms and the western ones the least, although the Rust Belt of old heavy industries in north-eastern China has been badly hit. And there are the problems of the erosion or disappearance of state welfare benefits – which particularly hits the elderly, the infirm and the poor. This also increases the burden on women. All of this has meant widespread discontent which could be catalysed by a major political crisis.

This problem is exacerbated by the increasing perception of corruption among officials. The 2005 Transparency International Corruption Index placed China joint 78th in the world, its lowest ever position. This corruption is often felt most keenly in the countryside, where 60 per cent of the population still live. The most bitter disputes concern the rezoning of agricultural land for industrial or residential use, with farmers getting little compensation, whilst officials are suspected of being bribed.

This is one of the major reasons for the increased number of public demonstrations that have been taking place across the country in the last few years. According to official statistics, there were over 87,000 demonstrations across the country in 2005, up from over 8,700 in 1993. Quite what all these ‘mass incidents’ amounted to, and how many people took part, was not made clear, although the figures for 2004 mentioned 3.5 million participants in 74,000 ‘incidents’. Some are minor, but others involve thousands and whole communities, go on for months, become violent and attract nationwide attention on websites. At the very least, this suggests an escalating problem of public lack of trust, and the absence of effective institutions that can resolve the issues through normal channels.

According to the Chinese expert Minxin Pei, this is evidence of a decentralised predatory state, where citizens are exploited by provincial and local officials. In his view, officials used to engage in corruption close to retirement age, when the risks of being found out were less. Now the phenomenon has spread to younger officials, either because they are more greedy, or because they have less confidence in the longevity of the regime since the dramatic collapse of the USSR. For Pei, this increased endemic corruption

makes a smooth transition to democracy both more necessary and less likely.⁶ It is no surprise that CCP leaders regularly cite corruption as the most important threat to the regime. Yet they cannot eradicate it. This is still a strong, but also a brittle, regime.

Is democratisation on the agenda?

Occasionally individual Chinese leaders have contemplated a more democratic course. Back in 1978 Deng Xiaoping flirted with the organisers of the 'Democracy Wall' – until, that is, he had defeated his rivals. In the second half of the 1980s Hu Yaobang and Zhao Ziyang envisaged the separation of state and party. In 1995 former Politburo member Tian Jiyuan called for direct elections for government officials, essentially going all the way to the top. And the notion of democracy resonates with ordinary people. The China panel in the 2000 World Values Survey came out as 96 per cent believing that a democratic political system was either 'very good' or 'fairly good'.⁷ During the second half of the 1990s the regime introduced competitive village elections throughout most of China, to which the EU contributed a great deal of funding. Later this did lead some rural party organisations to introduce competitive elections for their secretary as well. However, this has never progressed any further. Attempts to register a new China Democratic Party in 1998 led to the arrest of the leaders. In October 2005 the State Council produced a white paper entitled *Building of Political Democracy in China*,⁸ which justified the continuing leading role of the party.

CCP leaders adduce the fact that, as Deng put it, the party 'saved' China when it was threatened with disintegration in the first half of the 20th century. They cannot contemplate sharing power, let alone giving it away, for fear of a similar national catastrophe. Now they are building the CCP – with roughly 70 million members – into a party of power that represents all 'advanced' strata of society. It has become the preserve of an educational and social elite – roughly one fifth of members now claim to have a college degree, six times the national average. Symbolic of this change too was the decision in 2002 to admit entrepreneurs as members.

In turn this raises another issue that is often associated with democratisation, namely the emergence of a middle class that is more inclined towards political change. Here an analogy appears

6. Minxin Pei, *China's Trapped Transition* (Cambridge, MA: Harvard University Press, 2006).

7. Ronald Inglehart, Miguel Basáñez, Jaime Díez-Medrano, Loek Halman and Ruud Luijck (eds.), *Human Beliefs and Values* (Mexico City: Sigle XXI Editores, 2004).

8. See: <http://english.people.com.cn/whitepaper/democracy/democracy.html>.

with the rise of democracy in Europe during the 19th and 20th centuries. There was, however, a significant difference from the PRC. Although a middle class may be emerging, as mentioned at the beginning, it is certainly not a homogeneous grouping. Large sections of it derive their livelihood from cooperation with the state. Many businesses depend upon state licences or approval. Whatever their private inclinations, these businessmen will be reluctant to put their financial interests at risk by invoking political change, unless they feel threatened by predatory and arbitrary officials. That might happen one day, but the CCP has now opened its doors to entrepreneurs and that will postpone potential political alienation.

The same can be said for ‘civil society’. China expert Bruce Gilley points out that there were 135,000 registered ‘social groups’ at the end of 2002⁹ – but the key point is that they had to be registered. In that sense they were still controlled by the state.

Protests are sometimes large, but usually relatively spontaneous. The main protagonists campaigning for democracy still tend to be individuals rather than organised groups – journalists, students and workers.

Conclusion: a role for the EU?

How much can the EU actually contribute to this process of change? How much priority can be given to this? As mentioned at the beginning, the EU has conflicting commercial interests in China, too, with leverage more difficult since China’s admission to the WTO. Others are also active, the US in particular. There is not much scope for the EU to do something acting alone. At the same time, whilst the EU and the US want the same general direction of change in China, they may not always prioritise the same things. Indeed it would be better if they did not, since it is important that China is presented with alternative versions of modern democratic states.

The previous sections have suggested that the Chinese state is in difficulties, though not on the verge of collapse. What China needs is a modern, just, authoritative rather than authoritarian, more transparent state. Democracy would help. It would be as important for a successfully democratising China to have a respected and accepted state as for it to have elections and a multi-

9. Bruce Gilley, *China’s Democratic Future: How It Will Happen and Where It Will Lead* (New York: Columbia University Press, 2004), p.74.

party system. EU members, perhaps more than the US, are respected for effective public services: public broadcasting, transport, administration, welfare, healthcare, education. To demonstrate how these operate successfully in a democracy could be the focus of EU efforts.

There is another important consideration. It has recently been suggested that an essential precondition for democracy promotion is that the providers of foreign aid should follow the lead of domestic political actors.¹⁰ This would prevent money being wasted on projects which were not 'owned' by the people who need to make them work on the ground. If the Chinese regime is not committed to democratisation through multi-party elections, there is no point trying to force it upon them, but there are alternatives. It is also important to find areas of cooperation that will counterbalance the inevitable frictions over trade that are likely to continue for years. Chinese leaders will be more likely to accept and work with this kind of advice.

At least among the older generations of Chinese political leaders, it is an article of faith that continued communist rule is essential for maintaining national unity. They argue that China is too big to allow for alternative parties which would only split the country, and there also remains a perceived threat of external interference – the foreign interventions in the 19th century have not been forgotten. How democracies handle problems like social and economic inequality and corruption: all of this could and should be debated, so as to encourage the feeling that democracy brings benefits through facilitating smoother change, not social and political collapse. The experiences of Eastern and Central Europe could be adduced to show that former communists have been elected to the highest positions in the land – something that would have seemed inconceivable in the immediate aftermath of the 'velvet revolutions' in 1990. This could be a factor of reassurance in China. Former communists could demonstrate the change by representing the EU in its dealings with China.

Another thing worth doing would be to publicise successes of European democracies in encouraging openness in handling social and economic challenges. There certainly ought to be an emphasis on media cooperation given the desire for change experienced by many Chinese agencies, e.g. more training facilities or secondments for Chinese journalists with European media organisations and universities. There could also be online public

10. Ted Piccone and Richard Youngs (eds.), *Strategies for Democratic Change: Assessing the Global Response* (Washington, D.C. and Madrid: Democracy Coalition Project and FRIDE, 2006).

debates between European and Chinese journalists and academics over the practical benefits and weaknesses of democracy.

We need to adopt a long-term perspective and not expect quick results. A large-scale study led by Adam Przeworski suggests that where democracy replaces dictatorship, its chances of survival are much greater when *per capita* income has reached approximately \$4,000.¹¹ This will take decades in China.

There is one exception to this: Hong Kong. The question of democracy there is resurfacing with a lot of popular support. No final decision has yet been taken over the procedure for selecting the Chief Executive in 2007, or for expanding the franchise for the Legislative Council in 2008. Popular protests have already led to the resignation of the first Chief Executive, Tung Chee-Hwa. Beijing has consistently asserted its ultimate authority over the Hong Kong system, and the leaders have been afraid of allowing anything that might serve as a precedent for the regime on the mainland. Yet Hong Kong does have all the socio-economic preconditions for democracy – it is a prosperous liberal society, which is much less corrupt and genuinely subject to the rule of law. Before the return of the former British colony to China, the EU openly supported Britain's attempts to introduce greater democracy in Hong Kong. It would be consistent for the EU to maintain that long-term position now and encourage Beijing to view democracy in Hong Kong not as a precedent, but as an experiment, in the same way that the Special Economic Zones around Hong Kong served as experiments in economic reform in the 1980s. It would also reassure Taiwan about mainland respect for its democracy, if reunification took place.

The EU can and does have an impact upon the evolution of the Chinese system. It has raised the level of consciousness about the need to observe human rights. It has obtained the release of some political prisoners. It has devoted a lot of resources to helping to establish village-level elections. But that example is also a reminder of the limits of what it can achieve. It has not yet been followed by similar reforms at higher levels of the state. The same can be seen in the Chinese legal system. Many agencies from around the world have contributed generously for years to improving justice in China and they have certainly made a difference. Yet, as we have seen, there is still a very long way to go.

We can influence China, we can expect China to abide by internationally agreed standards of human rights, we should criticise it

11. Adam Przeworski, Michael E. Alvarez, José Antonio Cheibub and Fernando Limongi, *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990* (Cambridge: Cambridge University Press, 2000), p.273.

when it fails to do so, but we cannot *make* China do anything. How do you guide a charging elephant? Perhaps we should seek advice from Indians about that – and about how democracy works in their country. There might be useful insights to be had. We should pursue a consistent, long-term policy, even when other more immediate considerations obtrude. It will require regular attention and some humility – but no kowtowing. The relationship will have to be based, as Chinese diplomats regularly remind us, on the principle of equality and mutual benefit. But – as they do not say – it also needs to be open to scrutiny.

Is China's military modernisation a concern for the EU?

Eberhard Sandschneider

Facing China's rise:
Guidelines for an
EU strategy

3

Introduction

For many years, Western debates on China have been focused on China's enormous economic success. The West has been impressed and at the same time intrigued by the formidable economic progress of what is still – nominally at least – a Communist country. And Western nations have been more than willing to compete with each other, both within Europe and across the Atlantic, when it comes to grabbing a share of China's huge market. In recent months, however, both in the US and in Europe a more sombre perspective has overshadowed relations with China. European observers have started to realise that China not only constitutes a huge market, but also a challenging and highly successful competitor for western companies both in its domestic market and increasingly also in our own home markets. Additionally, the focus on China's economic performance has meant that Europe has not dwelt a great deal on the issue of China's military modernisation over the last ten to fifteen years. But Europe has certainly now come to realise that there is another debate about China going on in the US, a debate characterised by the dichotomy between containment and engagement. Europe is not even thinking about containment – quite rightly, because any attempt at containing China would certainly be bound to fail. But the different perspective on China as demonstrated by the American debate is meanwhile increasingly acting as an irritant in transatlantic relations.

At the moment, the EU clearly does not have a security perspective on China. This chapter will argue, however, that Europe needs to develop such a perspective – and probably sooner rather than later. There is no contradiction between having a cooperative policy towards China and building a security perspective towards a rising power which may soon have the capacities to challenge not only the US, but also Europe, if one assumes a notion of security which is broader than strict military perspectives seem to imply.

A policy of promoting partnership with China is easily advocated, but difficult to implement when it comes to almost all sensitive issues in international relations. In most cases, there is no solution without China, but China has got its own agenda and is pragmatically, and very strategically, following its own interests. China's growing assertiveness can easily be observed in its stance on issues such as security, energy supply, the economic effects of globalisation and even in the hotly debated field of values and human rights. China steers its own course and the West still seems to be nonplussed by the way Chinese leaders consistently and successfully pursue their strategy, without paying much attention to Western criticism.

Thus, one of the major challenges ahead of us is bridging the transatlantic gap concerning the divergent China policies of Europe and the US. Dealing with China's military modernisation is certainly one of the most sensitive issues in this respect.

China's military modernisation: a balance sheet

Buoyed up by its economic success, China has been pursuing its process of military modernisation in a very focused way. China's military expenditure has been growing in double digits over the last two decades. In Chinese currency terms, the officially announced military budget has nearly quadrupled from about 64 billion yuan in 1995 to 248 billion yuan in 2005.¹ In 2005, the military budget grew by 17 percent. Officially, China spent US\$29.9 billion on its military. However, since vital parts of the budgets of a number of ministries contain military-related expenditure, western experts assume that the real amount could be estimated at somewhere between US\$35 and 90 billion. Any comparison, however, with US military spending reveals the huge gap with which China will continue to be confronted: Compared to our highest estimates of US\$90 billion in the case of China, the United States is spending US\$501.7 billion in the fiscal year 2006² – roughly equal to the defence spending of the rest of the world combined. The Pentagon's official budget of US\$441.6 billion is augmented by US\$49.1 billion for the wars in Afghanistan and Iraq and by an additional US\$11 billion for its nuclear weapons programme. One may, therefore, conclude that China's military is catching up

1. Dennis Blasko, 'Chinese Army Modernization: An Overview', *Military Review*, no. 70, September/October 2005.

2. House Armed Service Committee Action on the Fiscal Year 2006 Defence Authorisation Act (H.R. 1816).

in absolute terms, but is still lagging far behind the US as its major potential rival on a comparative basis.

Additionally, military modernisation has been accompanied by a remarkable shift in China's doctrine: the formerly perceived threat of 'early, major and nuclear war' has been replaced by the doctrine of 'local and limited war'. The PLA limits its scope of operations to protecting China's sovereignty, including Taiwan and the South China Sea. Since it does not have foreign bases and has no global defence commitments, its main mission is to concentrate on defence against foreign threats and maintain domestic security. As a result, a diversified military doctrine is primarily focused on Taiwan and China's immediate regional interests. The army's modernisation has been based on the country's economic success and on imports of modern weapons technology mainly from the former Soviet Union. A 'revolution in military affairs', to quote a term used in the US and Europe, is slowly being implemented – although with a distinctively Chinese slant. PLA leaders know quite well that given the relative backwardness of their military infrastructure, achieving mechanisation and sophisticated computerisation is of paramount importance to the army, although it will remain at a much lower standard compared to its western counterparts. While China is rapidly increasing its military capacities, the official policy is anything but aggressive: in its White Papers on defence, China continuously pledges never to engage in an openly aggressive policy towards its neighbours, or in a strategy of hegemonic competition.

On balance, this leads to a twofold conclusion. In absolute terms, Chinese military modernisation has made tremendous progress, but in relative terms and compared to the United States, it is still not gaining much ground. This does not, however, prevent the US from taking an increasingly critical and proactive perspective on China's military and defence policies.

Growing American scepticism: a matter of transatlantic concern

Concerns about the speed and scope of China's military modernisation and the country's increasing capacity for active power projection are growing internationally, especially among its Asian

neighbours and, as we have seen, within the USA. The EU so far has been very reluctant to join the debate.

The US government is closely monitoring China's attempt to modernise its military and to increase not only its regional but also its global outreach. A major issue of concern is non-proliferation, since China has been actively pursuing trade in weapons' technology, especially with states which in a western perspective are regarded as failing or even as rogue states. China's cooperation with Pakistan in exchanging nuclear technology, and its trade relations with Iran, Libya and Syria, have repeatedly met with harsh criticism from America. Western observers are still worried about nuclear cooperation between China and Iran. Similarly, the country's role as the only potential partner of North Korea has fuelled western suspicions, although it is true that China has played an active and increasingly instrumental part in the Six-Party talks.

In contrast to Europe, the American debate on how to deal with China's growing military capacities has raised sensitive questions. China's rise is clearly perceived as a risk to regional stability in the Asia Pacific and as signalling the emergence of a potential future rival to US regional and global hegemony. Publications such as Richard Bernstein's and Ross Munro's book, *The Coming Conflict with China*³ or Robert Kaplan's provocatively titled article, 'How We Would Fight China?'⁴ have attracted considerable attention in the security debate in the United States. In its 2006 Annual Report on the Military Power of the People Republic of China (PRC), the Pentagon officially addresses China's growing potential for power projection beyond its own borders, the increasing speed of its military transformation and the perceived lack of transparency of China's ultimate political and military goals.

The predominant reason for America's edginess is, of course, closely related to the situation across the Strait of Taiwan. The China-Taiwan conflict has the potential to create major tensions across the Pacific, with the risk of a direct military conflict between the US and China. In 1979, the United States in its 'Taiwan Relations Act' proclaimed its willingness to engage for Taiwan's security, while China has never refrained from threatening military action in order to reintegrate the island into its own sphere of sovereignty. Military conflict is thus a looming danger and in consequence leads to serious concerns within the US military leadership about how to manage a potential direct clash with

3. Richard Bernstein and Ross H. Munro, *The Coming Conflict with China* (New York: Vintage, 1998).

4. Robert D. Kaplan, 'How we would fight China', *The Atlantic*, June 2005, pp.49-64.

PLA forces. From an American perspective, 'China's rapid development of cruise and other anti-ship missiles designed to pierce the electronic defenses of US vessels that might be dispatched to the Taiwan Strait in case of conflict'⁵ has been a matter of particular concern. In addition to naval capacities, China is actively striving for air superiority over the Taiwan Strait.

On the other hand, it certainly must be acknowledged that over the last few years China's foreign policy has been clearly oriented towards reducing conflict potentials and maintaining the *status quo* in order to avoid obstacles being put in the way of its overall development goals. Nevertheless the risk of an outbreak of major conflict can never be excluded. In that respect, it is obvious that Europe does not have a suitable answer – not only with regard to the conflict itself, but also regarding American expectations of at least indirect European support. Thus, any consideration of European concerns relating to China's military modernisation always has to take into account the transatlantic component, i.e. our increasingly difficult relationship with the US, especially on issues such as China.

European China policy: a critique

Today the European dream of China as an El Dorado for its businesses and exports is already turning into a nightmare as Europe's trading relations with China are marked by growing competition and potential rivalry. No doubt Europe has a China strategy – on paper at least. In its latest incarnation, the EU's China policy is based on four pillars: Europe wants to engage China further in a political dialogue, aims at supporting China's transition to an open society, tries to encourage China's integration into the world economy and pursues a policy of raising its own profile towards China.⁶ Although some may find much to criticise in EU policy declarations/documents, the official policy as it is expressed is music to the ears of European and Chinese business leaders. The EU correctly prides itself on having established a broad spectrum of institutionalised contacts with China.

The profound differences between Europe and the United States became visible during the weapons embargo controversy. When former German Chancellor Gerhard Schröder (soon to be followed by French President Jacques Chirac) proposed during a

5. Edward Cody, 'China builds a smaller, stronger military', *The Washington Post*, 12 April 2005.

6. Commission Policy Paper for transmission to the Council and the European Parliament: 'A Maturing Partnership – Shared Interests and Challenges in EU-China Relations', COM (2003) 533.

visit to China in December 2003 that the EU weapons embargo on China should be lifted, his argument was simple – and correct: the embargo was part of an EU sanction which had been imposed in a declaration of the European Council on 27 June 1989 as a direct reaction to the Tiananmen Square massacre on 4 June. Twelve years later, however, China had made considerable progress not only economically, but also in terms of cooperating with the West on human rights and international conflict resolution. Although it cannot be denied that China is still guilty of extensive human rights violations, there have been some improvements, a fact which Schröder and Chirac wanted to acknowledge. Seen in this light, the sanctions policy seemed to be a historical relic that could easily be abolished. Quite obviously, the ‘weapons embargo’ is a remnant of the EU’s overall sanction policy of 1989: the second of eight different clusters of sanctions referred to the ‘interruption by the Member States of the Community of military cooperation and an embargo on trade in arms with China’.⁷ Only the second part of that sentence is relevant today. All other measures have long been lifted. Even exchanges between military delegations have been resumed, as have all other forms of exchange halted by the 1989 decision. It should be added that countries like Japan and Australia were much more forthright in lifting their sanctions against China, by abolishing them altogether in the early 1990s. The fact that Europe decided to adopt a policy of progressively abandoning its trading sanctions against China, but has retained the weapons embargo as the only leftover of the EU’s original 1989 embargo decisions, suggests that the arms issue is a highly sensitive one. On a strictly factual basis, therefore, both Schröder and Chirac were right, but the two politicians completely miscalculated the international response to their suggestion. Without having coordinated with other European Countries and without having informed the United States of their position, they immediately encountered substantial criticism from important domestic constituencies, among EU member states and, more importantly and more vociferously, from across the Atlantic.

Analysed in a more sober perspective, the policies suggested by Schröder and Chirac were not aimed at increasing the arms trade with China, but rather at sending a clear signal for cooperation to Beijing. But during the ensuing transatlantic debate, which was highly emotional in tenor and not really based on hard facts, it became clear that a major difference between Europe and the US is

7. Declaration of the European Council, Madrid, 27 June 1989.

precisely a symbolic one. The United States government did not want to send the signal of engagement which some Europeans, hoping for increasing economic cooperation, were so keen on sending to China. The real problem both for the US and the EU remains unsolved: the major challenge is not the direct trade of weapons, but the problems connected with technology transfer and 'dual use' technology. For the time being, neither the US nor the EU have developed a satisfactory strategy on how to deal with this challenge.

Whatever US criticism may have been, the upshot of all this is clear: defining relations with China and how to deal with the Chinese has become a major source of discord in transatlantic relations. Despite the fact that the transatlantic debate on how best to manage the peaceful rise of China is slowly gaining ground, there is hardly much evidence that gives reasons for optimism. Europe and America are far from agreeing on a joint strategy on how to manage relations with China.

Here lies a major challenge for Europe. Europe's perspectives on China have been dominated by economic considerations and have been focused almost exclusively on China as a future key market. At the same time, Europe has to face the fact that China is not only a market for European businesses and investors, but also a growing competitor, and maybe even a strategic rival. When it comes to securing energy resources, e.g. in Latin America and throughout Africa, China is not constrained by human rights conditionality in its foreign policy and thus does not run the risk of being accused of operating a policy of double standards towards its partners. China does not combine economic cooperation with attempts to promote its own political and social values. While 'the West' is trying to convince autocracies to implement western political standards, China is just doing business 'with no strings attached' – and therefore is much more welcome as an interlocutor to autocratic governments than are either the EU or the US.

Viewing 'China as a partner' for multilateral approaches to international conflicts is similarly overoptimistic. China is looking after its own interests and European policies are far too weakly coordinated to constitute an effective counterweight to Chinese counterparts – whether politically or economically.

The message, therefore, is very simple: during its reform policies of the last twenty-five years, China has been evolving from a nation state with a comparatively limited regional outreach into a

major regional power. Its neighbours have chosen a broad spectrum of policies in order to engage China on bilateral and multi-lateral levels. But China's global positioning is improving literally on a day-to-day basis. Europe will have to face that challenge – and in a much broader sense than present policies seem to suggest.

Why have a security strategy towards China?

Based on a broader understanding of security policies, which includes soft and asymmetric challenges, Europe definitely needs a security perspective towards China. The reason is not that we should expect any form of direct military confrontation – after all, Europe does not have a Taiwan Relations Act. But nor does it have an answer to an ineluctable question: what would Europe do should tensions in the Taiwan Strait escalate and lead to military conflict involving the US 7th Fleet? Would a policy of declarations be enough?

Even if one assumes that the overall risk of direct military conflict between China and the US is pretty low today, the reasons for a European security strategy towards China are manifold. Whatever perspective one takes on global risks, China is both part of the problem and part of the solution. Developing a security policy towards China is a definite necessity for Europe in order to enhance its own global position and its own foreign and security policy.

As most western observers agree, China is flexing its military muscles. The US is taking a much more critical position towards China's growing military power. But with its increasing global outreach, China poses not only a hard, but first and foremost also a soft challenge, to European security interests as well. As Robert Kaplan reminds us: 'China will approach us asymmetrically, as terrorists do. In Iraq the insurgents have shown us the low end of asymmetry. The Chinese are poised to show us the high end of the art. That is the threat.'⁸ Most Europeans would certainly find it difficult to share – or even understand – this position in the American debate. Even if one accepts a certain degree of exaggeration, the core challenge should not be excluded by definition – certainly not in a medium- to long-term perspective. Thus, Europe would be well advised to include security aspects in its broader spectrum of policies towards China. It is imperative for Europe in a transat-

8. Kaplan, *op. cit.*, p. 60.

lantic perspective to concentrate forces and to cooperate with the United States in order to promote European interests concerning resource security, non-proliferation and behaviour towards failing states. Understandably, economic competition between EU Members and the US will continue. But it should not prevent us from a concerted attempt at developing a common security perspective not only towards China's military rise, but also towards its growing global impact. Transatlantic coordination is still in its very early stages. Both Europe and the United States will have to realise that only by cooperation and coordination of their policies will they be able to meet a challenge from China which for the time being still seems to lie far in the future, but which may become real sooner than many of Europe's dreams about China seem to suggest.

Part II

China's foreign policy

Neither hegemon nor soft power: China's rise at the gates of the West

François Godement

Facing China's rise:
Guidelines for an
EU strategy

4

China's rise is indisputable. This is clearly demonstrated by its position as an international trade giant, its ever-increasing military spending, and its hyperactive regional diplomacy both in Asia and throughout the developing world. The global dimension is reinforced by China's revamped public diplomacy, which makes full use of modern media and web communications, and by Chinese migration and the growth of Chinese tourism abroad. China's expansion is also served by its so-called strategic partnerships – even if some of these are undercut by the contentious territorial claims which complicate its relations with many of its neighbours. These are all facts that point to the possibility of a new Chinese hegemony in Asia. Just as Japan during the Meiji era formed the ambition to create its own westernised empire at the gates of Asia, China as a huge and modernised nation state – which unlike Japan has the immense advantage of enjoying an extensive linguistic and cultural influence beyond its own borders – may today be seen as establishing a latter-day Asian empire at the gates of the West.

A return to the historical *status quo*?

Some will point out that this is merely a revival of China's ancient hegemony, which harks back to the centuries before Western military and colonial intrusion in Asia.¹ For a millennium before the Unequal Treaties of the 19th century, China used 'soft' (commercial and human) means of influence over its neighbours in South-East Asia. Chinese patterns of migration and travel – e.g. the southward migration of Chinese settlers into South-East Asia and the drive westwards into present-day Western China of soldiers who founded colonies² – had a profound influence on the historical evolution of Asia, just as China's tributary system of relationships for a long time functioned as an alternative to the European nation-state and Westphalian model of equal and sovereign states.

1. The historical analogies are clearly drawn by Wang Gongwu in 'The fourth rise of China: cultural implications', *China: An International Journal*, vol. 2, no. 2, September 2004.

2. James Z. Lee, *The Political Economy of a Frontier: Southwest China, 1250-1850* (Cambridge, MA: Harvard University Press. 2000).

Some analysts go so far as to describe China's tributary system as an early model of 'soft' regional hegemony and draw on this analogy to describe China's current bilateral moves and its overtures to multilateral organisations in the region.³

According to this thesis, the increase in China's share of the world GDP would also represent a return to the *status quo* that prevailed before the Western conquest of Asia in the 19th century – in terms of an analogy with the Song to mid-Qing dynasties at least – rather than an exceptional development. This argument neglects, of course, the huge impact of global integration on the Chinese economy today, in comparison to the pre-19th century era when the traditional economy was not internationalised to the same extent. Based on the historical precedent, however, China's diplomatic, strategic and economic dominance in the Asia-Pacific region could be viewed as inevitable, and as requiring mainly pragmatic adjustments and realism on the part of China's regional and global partners. The exponents of this viewpoint suggest that China's South-East Asian neighbours today prefer 'bandwagoning' with China rather than 'balancing'. They also suggest that it would be ill-advised to apply a European geopolitical perspective from the 19th century or pre-World War II era to a region which is used to an instinctive hierarchical order. 'Historically, it has been Chinese weakness that has led to chaos in Asia. When China has been strong and stable, order has been preserved. East Asian regional relations have historically been hierarchical, more peaceful, and more stable than those in the West'.⁴

These views are not shared by serious historians of Central Asia's relations with China,⁵ who depict imperial China's competition with local khanates and states as characterised essentially by an alternance of 'soft' policies accompanied by the inducement of trade, and 'hard' policies where military power was used; nor are they borne out, for instance, by Vietnam's portrayal of its historical resistance to Chinese imperial bureaucratic rule. It would also be untrue to say that historical relations between the Korean kingdoms and China were entirely peaceful, while Chinese analysts of Sino-Japanese relations today highlight wars between China and Japan that occurred under five successive dynasties. But it is also true that anti-colonial struggle in the first half of the 20th century, and the bitter memory of wartime Japan, have eroded these historical perceptions. Increasingly, the Chinese diaspora in South-East Asia, which had turned its back on

3. David Shambaugh, 'China engages Asia: reshaping the regional order', *International Security*, vol. 29, no. 3, Winter 2004/2005.

4. David Kang, 'Getting Asia Wrong: The Need for New Analytical Frameworks', *International Security*, vol. 27, no. 4, Spring 2003. Kang's thesis was largely a rebuke to an earlier piece by Aaron Friedberg, who had first described a pattern for Asian security based on the European pre-war power balance model in 'Europe's past, Asia's Future?', *SAIS Policy Forum*, no. 3, October 1998, Johns Hopkins University. The debate was taken up again by Amitav Acharya in 'Will Asia's Past Be Its Future?', *International Security*, vol. 28, no. 3, Winter 2003/04, who expresses a constructivist view on the benefits of regional integration and institution-building.

5. Peter C. Perdue, *China Marches West: The Qing Conquest of Central Eurasia* (Cambridge, Mass: Harvard University Press, 2005).

Beijing during the Maoist era, serves today as a key conduit for China's soft hegemony throughout the region.

China and the regional balance of power

The arguments of both *realpolitik* and historical legitimacy concur in their vision of Chinese hegemony – of an unspecified degree and nature – over Asia. These arguments are themselves also reinforced by the fact that other major powers in the Asia-Pacific appear to be on the wane.

Russia: relegated to a junior role?

The former Soviet Union's military and ideological influence has all but disappeared in the region since 1991. Putin's Russia may well be undergoing a new authoritarian transformation based on the control of energy and primary material resources, and a new assertion of national interests over international rules and values. Yet the impact of these recent trends is minimal in the Asia-Pacific, where Russian demography and military strength have steadily declined. With regard to key issues in North-East Asia – an area where the Soviet Union traditionally exercised considerable leverage – such as the behaviour of North Korea, the new Russia seems to have increasingly renounced playing an active role, being content with taking a back seat in the Six-Party Talks on the Korean Peninsula that have taken place irregularly in Beijing. Russia is now attempting to balance the West's democratising influence in Central Asia with a renewed pact with mostly authoritarian states that are also producers of natural resources. That balancing act, of course, also leads to areas of convergence with China, which is both a complementary consumer of these natural resources and a staunch advocate of absolute national sovereignty and non-democratic development. With regard to energy issues in particular, President Putin has played a shrewd balancing act between China and Japan, maximising Russia's own gains.⁶

But China is also gaining the upper hand, because of its demography, its superior economy and overall dynamism. This is not a desirable outcome for Russian leaders in the long term, however tempted they may be by an alliance of authoritarian states in their backyard. Militarily, the lure of arms purchases by China is counter-balanced by anxiety about the future control of Siberia.⁷

6. Leszek Buszynski, 'Oil and territory in Putin's relations with China and Japan', *The Pacific Review*, vol. 19, no. 3, September 2006, pp. 287-303.

7. See Iliyas Sarsembaev, 'Russia: No Strategic Partnership With China in View', *China Perspective*, no. 65, May/June 2006, CEFC, Hong Kong.

Japan: weakening or gaining strength?

Japan, which is just emerging from the doldrums after a decade of financial crisis and reduced growth, has seen its political resolve strengthened on key issues of sovereignty and security. Yet it is unable to openly form an alliance with other nations of the Asia-Pacific. This is partly because of the ambiguity of its attitude towards its past history. Although the then Prime Minister, Junichiro Koizumi, apologised clearly and publicly to Asia in August 2005 for his country's deeds in the era of Japanese military imperialism, historical resentment still leaves Japan a hostage to nationalist sentiment among its Asian neighbours. While Japan's will to 'stand up' to China, and avoid having the terms of its relationship with China dictated to it, are perfectly understandable, some of its chosen responses, which chime with a nationalist mood in Japanese society, are self-defeating on the international scene.

Furthermore, Japan's insular economic interests have delayed deep economic integration in Asia. Japan did not internationalise its currency in the late 1980s, preferring to utilise regional currency differentials in order to retain a competitive edge on the global markets. Its strategy of bilateral free-trade pacts in East Asia, started in response to China's bolder if more abstract regional initiatives, is designed to preserve the regional production and supply chain of Japanese firms and above all Japan's technological edge. Japan competes head-on with China over issues and sectoral developments which are of symbolic significance, from the choice of members of the Asia-Pacific region to free trade agreements or participation in 'piecemeal projects' such as the Mekong Basin Initiative. Japan's traditional hang-ups about appearing to be leading too openly have reduced its competitive edge in regional diplomacy, while China now excels in crafting grand designs and eye-catching initiatives and in selling them through public diplomacy.⁸ In their public analyses (intended for Chinese rather than foreign consumption), however, Chinese analysts complain bitterly about the strength of the Japan-US alliance. They also allege that Japanese politicians take advantage of poor Sino-Japanese relations to advance their own agenda: they want to rewrite the 1946 Constitution and its Article 9 in the future, with a view to ending any statutory limitation on the use of military force abroad. While the Chinese usually remain silent about Japan's military cooperation with ASEAN and India, preferring to underline Japan's regional isolation due to the historical

8. Florence Biot, 'China defines its public diplomacy', *China Analysis* no. 5, May/June 2006 (web publication based on Chinese language journals and publications available at www.centreasia.org).

legacy of the Second World War, they also admit that Japan has a strong alliance with the United States – and that China in fact is competing with Japan for attention from Washington.⁹

America overstretched

The United States' overall strength and its economic and military relationships throughout the Asia-Pacific have increased, and not decreased as was commonly predicted in the 1980s and early 1990s. However, strategic tensions and military deployment from the Middle East to Afghanistan make America's resolve to open another conflict in East Asia less likely: this reluctance to become engaged on several fronts at the same time was illustrated by two years of indecision regarding North Korea (January 2000 to May 2002) and by much reluctance to respond to North Korean actions, until ballistic launches and a nuclear test in October 2006 made it impossible for the United States to further procrastinate. Overstretching and over-commitment of military resources are a factor that contributes to more strategic consultation with China and to a predictable preference for conflict avoidance. The Bush administration has often been much tougher in its security statements regarding Asia (including China) than in its actual policies, and does not gain much benefit from its actual restraint in the area of regional diplomacy. Washington's preference for bilateral relationships over even shallow multilateral groupings, its proclivity towards coalitions of circumstance and its use of Asian allies to help legitimise the action in Iraq since 2003, have considerably weakened America's hand on other issues, and more generally its power of persuasion and its soft power throughout Asia.

We should take note, however, that almost no previous US administration has escaped scathing criticism of its Asia policy, or the lack thereof. It is no coincidence that almost all analyses that tend to portray a Chinese 'soft power' on the rise throughout Asia, and eventually a new model of international relationships inaugurated by China, originate with American-based analysts and academics. They are as much the product of doubt and frustration over present-day American policies and their public expression as thoughtful analyses of China's policy initiatives. In contrast, this vision of a weakened America is not one that is shared by all Chinese foreign policy analysts and commentators. Some certainly believe in the weakening of the political compact between America and several Asian states, and in the advent of a Beijing consensus that

9. Liu Jianyong, 'Zhongriguanxi xi-angqiang yu qianjing' ('The present and future state of Sino-Japanese relations'), *Xiandai guoji guanxi* (*Contemporary International Relations*), no. 4, 2006. See *China Analysis* no. 6, September/October 2006. (web publication based on Chinese language journals and publications available at www.centreasia.org.)

would challenge the US model.¹⁰ Most analysts, however, show a healthy respect for America's hard power, and especially its military capabilities, which is often the first argument adduced for China's rise in military spending and technological modernisation. Almost all contemporary Chinese advocacy of a soft power role for China in Asia is based on consideration of the American precedent. In fact, while most Chinese foreign policy experts decry American unilateralism and defend the 'democratisation of international relations' (a catchphrase introduced by President Hu Jintao himself), they also articulate a vision for China's role, power and influence that replicates the American model on the world stage.

Europe: a weak strategic partner for Asia

Finally, Europe and the European Union, although they are in almost all sectors of the economy and society Asia's first or second external partner, have no discernable impact on the strategic and institutional balance of the Asia-Pacific. Europe's post-modern institutional construction, where there is no conception of a military balance and no prevailing nation-state, where the practical instruments for a common foreign and security policy are still very much in debate, and are as yet shared with the more traditional instruments of each of the 25 nation-states, is not easy to grasp for Asians, let alone regarded as a viable model for their own region. Asians predominantly see international relations either in terms of power balancing, or as a more or less subtle translation of the hierarchical relationships that prevail among nation-states.

China itself, after a strong campaign for a 'strategic relationship' with Europe, has been disappointed by the failure to obtain a lifting of the arms embargo. This has led to a pragmatic concentration of China's European policy on trade issues, with the aim to deflect protectionism and to extend the European market's potential to absorb Chinese goods and services. Europe, for which China represents the first source of external trade deficit and soon its first external supplier (before the United States), is the target of Chinese soft power and influence. But it is not a strategic partner as such, except to be used as a bargaining chip in China's relations with the US.

However, on a symbolic level, the European integration model and the values it embodies are still of interest to many Chinese as well as Asians generally, because they constitute a puzzling achievement of post-national construction.

10. Michal Meidan, 'Asie : la région n'existera qu'avec la Chine contre les Etats-Unis et leur ordre', *China Analysis*, no. 2, November/December 2005 (www.centrea-sia.org) and in particular the analysis of Pang Zhongying, 'China's role in the transformation of the future Asian regional order', *Waijiao pinglun (Foreign Affairs Review)*, no. 83, August 2005, pp. 41-9.

China's competitive advantage on the international stage

The perceived decline of influence of other major actors on the international stage, and particularly in the Asia-Pacific, highlights China's own increasing clout on the international scene. But this is not merely a case of rise and fall in traditional geopolitical terms. In reality, China's international identity and its posture are not founded on the same premises as other major nations which have become pillars of the world order since 1945. In most strategic analysis, China sees itself as particularly careful to eschew the historical precedent of other great or imperial powers, and to limit the international responsibilities and burden it might have to shoulder.

Two aspects stand out. China's newfound involvement with multilateralism is in practice synonymous with non-intervention in the affairs of sovereign states, including by multilateral organisations and internationally approved actions. This applied in the past to human rights and regime change issues. But today, in the case of both Iran and North Korea, it is also tied to a reluctance on China's part to consider any use of force or even to sanction backing up international resolutions.

This situation cannot be said to derive from a lack of involvement on China's part with international organisations: China had sent 6,000 soldiers to participate in 15 UN peace-keeping missions¹¹ before the recent decision to send another 1,000 soldiers to the UNIFIL force in Lebanon. Indeed, China has more personnel enrolled under the blue UN flag for police and peace-keeping missions than any other permanent member of the UN Security Council or NATO member.¹² This also gives the PRC unique observation posts on many of the world's conflicts. It occasionally pays a price for this, with six casualties incurred over the years, the latest in Lebanon in July 2006. Increased participation by China in terms of the supply of troops does not imply a concomitant increase in China's financial contribution. China does not participate in missions where peace is established through the use of force, as opposed to peace-keeping missions, and only deploys peace-keepers under the UN flag and with UN blue helmets.

As a developing country with very limited natural resources, China believes it has undertaken a huge effort of domestic reform to comply with the financial and trade rules of the global order. That domestic effort of adaptation makes China feel largely

11. Qin Gang, Spokesman for the Foreign Affairs Ministry, quoted by *People's Daily Online*, 20 September 2006.

12. Bates Gill and Yanzhong Huang, 'Sources and limits of China's soft power', *Survival*, vol. 48, no. 2, Summer 2006, p. 22.

exempted from contributing to the preservation of this global order, which is still ensured by the major 'old' industrialised nations and in particular by the United States. In fact, China sees the threats to this free market exchange as coming more from the issue of international sanctions and blockades (e.g. from the world's pre-eminent maritime power, the United States), than from a disruption of this international order by rogue states and other unchecked actors.

China's lack of commitment to the international system weakens the practical enforcement of international rules when sanctions and the use of force are called for. From its own perspective, China's bias against enforcement stems from the fear of being targeted one day by these very same international sanctions: concern over the Taiwan-China cross-strait issue is paramount, since China wishes to minimise international involvement over an area where it reserves the right to use force and is actively strengthening its military posture.

But China's preference for a token international order and its reluctance to commit to collective enforcement also works to its advantage in another area: in effect, China does not join coalitions or international actions, does not place demands on its counterparts, and therefore in certain circumstances appears as a 'safe' international partner. This is especially true for nation-states which have a reason to fear international action and sanctions, and the list of these extends well beyond rogue nations. The trend is particularly clear in relation to African states, where China now vies with other outside partners with its very competitive products and projects, including development aid packages with virtually no strings attached, other than the preferential purchase of Chinese goods. In effect, China is shaping a neutral international environment where there would be very little enforcement of international rules and values.

Conversely, China now uses its trade, foreign investment, tourist policy, and educational exchanges as tools of influence abroad, particularly in developing or emerging countries. Economic aid, formerly very limited, is now expanding. China has, for example, earmarked 900 million dollars of preferential credit for Chinese exports towards Central Asia at the last Shanghai Cooperation Organisation Summit in 2006.¹³ That policy is by no means confined to the Asian environment. China has announced a larger contribution at the China-Africa Summit held in Beijing

13. Interview with President Hu Jintao, 30 May 2006, Xinhua News Agency.

in November 2006. President Hu Jintao pledged 5 billion dollars of preferential loans and export credits by 2009, while announcing a 5 billion dollar fund to boost Chinese investment in Africa and extolling a ‘win-win relationship’.¹⁴ But it is particularly significant in an area where China is building the closest network of relations. These aspects, along with the powerful development of modern mass communications targeting overseas Chinese audiences, embody a Chinese version of soft power, one which, however, is predicated much more on the attraction of mutual interests than on the furthering of values. Because China is a country led from above, whose firms and individuals have to be responsive to official demands, it is impossible to separate economic and societal relationships from state-to-state relations: it is the Chinese government which mostly dictates the terms of separation, or on the contrary linkage, between government relations and private developments.

Spontaneous integration versus state-to-state relations

Economists have emphasised the spontaneous drive towards economic integration in Asia, which started in fact in the mid-1980s as a consequence of the re-evaluation of the Japanese yen, and has revolved more directly around the Chinese economy since the Asian financial crisis of 1997. Trade trends, FDI figures, and the flow of people and services all indicate the birth of a cross-border transnational economy. China now sits at the centre of a triangular relationship where natural resources and technology are imported to produce finished goods using Chinese labour, and are then exported to the entire world – but principally to the United States and the European Union, the primary customers of China’s processed goods industry. Much of the technologies and investments originate from Asia.

The argument is often made that as China integrates into the international marketplace, it accepts more international norms and rules. But the FDI and triangular trade that constitute the core of China’s integration into the global market do not give much political leverage to any other state. By signing up to WTO rules, China has positioned itself at the heart of the global trading system. By adopting a very conservative policy of financial liberalisation, it has also accumulated huge currency reserves which serve as political insurance against any international sanctions.

14. Speech by President Hu Jintao at the China-Africa Summit, 4 November 2006, www.focasummit.org.

The issue of China's soft power

China's diversified and fast-growing relationship with Asia is often cited as evidence of a newly-found soft power, and indeed theories and policies of soft power are emerging among Chinese analysts themselves as an essential component of the country's foreign policy. But the term 'soft power' can be used in a variety of meanings, which do not necessarily coincide with the original definition of the phrase, as coined by Joseph Nye about the United States' unique influence abroad.¹⁵ Joseph Nye by no means excluded the interplay of interests and the binding ties which come from technological advances or industrial mastery. But his definition of soft power proceeded from the capacity to inspire and persuade others, and therefore to apply policies, values, norms and bylaws to other countries and societies, even in the face of the reluctance and obstruction of authoritarian governments. China now possesses considerable commercial and financial influence by virtue of its own growing market, and the scope of its tourism, its media, and its educational and linguistic pull might suggest it has some claim to soft power status. Yet this can hardly compare to the global attractiveness of Western values as embodied by several centuries of democracy and free society.

To compound the issue, theoreticians of international relations sometimes get their facts on China wrong. For example, Joseph Nye himself has come out recently with an endorsement of China's soft power.¹⁶ Unfortunately, the only distinct individual fact he cites to support the notion is the existence of Gao Xingqian, the Nobel Prize novelist of Chinese origin. This writer left his country in the wake of the Tiananmen crisis and has not been acknowledged as a fellow Chinese by PRC authorities, who never cite his work or his Nobel Prize: his case is in fact a good example of why China's influence founders on issues of democracy and free speech – at least as far as those who care for these issues are concerned.

Much of Asia, in fact, remains ambivalent about democratic values and also feels attracted to the so-called 'Asian values'. These values are predicated on a world view which may range from regarding society as an extended family to prioritising good governance over democracy, or even to legitimising an authoritarian system that 'delivers the goods'. This is true even in countries

15. Nye's original statement was made in *Bound to Lead: the Changing Nature of American Power* (New York: Basic Books, 1990).

16. Joseph Nye, 'The Rise of China's Soft Power', *Wall Street Journal Asia*, 29 December 2005.

where open and competitive electoral systems and political contests have taken hold, such as Japan, Korea and Taiwan.¹⁷ For these countries, as former Singapore Prime Minister Lee Kuan-yew has expressed it, Chinese soft power may have a meaning in terms of civilisation and broad educational and cultural influence. Exponents of Chinese world-views may take the process further, and put President Hu Jintao's advocacy of the 'democratisation of international relations' and a 'harmonious international society' in the context of China's cultural renaissance, drawing from traditional Confucian values if not explicitly mentioning them.¹⁸

More broadly, China's economic successes have spawned praise for a so-called 'Beijing consensus' as opposed to the Washington consensus that originated with the post-war international order. Yet the Beijing consensus is more about what Chinese policy is not than about what it is: non-interference, non-hegemony, no alliances, in short a world view which is antithetical to that attributed to the United States and which rests essentially on the principle of *wu wei* – the traditional Taoist prescription for inaction. What is much more positively emphasised, of course, is the development of mutually beneficial business relationships. China has taken a leaf out of the former Clinton administration's book: it is now advocating a 'win-win' approach through free trade. This is not surprising, since China often emerges as winner-takes-all in its international trade relations.

Beyond this debate on the conceptual nature of China's soft power, two questions should be asked: (i) does China present to Asia a different model of relations from that proposed to other partners worldwide? (ii) does this 'soft model' apply to next-door neighbours with whom potential differences of interest loom largest?

The answer to the first question is no. The recipes applied to South-East Asian nations and ASEAN, for instance, are not different from the policies applied to more distant partners such as Iran, Africa or South America. This holds true for attitudes towards international crises and international regimes as well as in areas of soft policy. Thus, China's slow-moving acceptance of international condemnations of North Korea's nuclear proliferation, but its steadfast opposition to any concrete sanction or international action until North Korea actually demonstrated its nuclear power status, is not different from the attitude it takes on the similar

17. See Chong-min Park and Doh Chull Shin, 'Do Asian values deter popular support for democracy in South Korea?', *Asian Survey*, vol. 46, no. 3, May/June 2006.

18. Huo Zhengde, 'Zhonghua wenming fuxing yu heping fazhan daolu' ('China's cultural renaissance and the path of peaceful development'), China Institute of International Studies, April 2006.

Iranian issue, and is often grounded in the same arguments of respect for sovereignty. China's trade and investment diplomacy in South-East Asia is today mirrored by a similar priority given to trade and investment with South Asia, Central Asia or Africa, and this is also true of China's relations with the more distant Iran. Broad trade and human interchanges exist between China and Iran, and may be China's preferred tools of influence internationally. Aid linked to trade interests, investment in raw materials sectors, migration of Chinese businessmen and traders and resistance to international intervention in domestic affairs are the mainstays of China's new influence abroad.

In the case of North Korea, the country's isolation has actually increased China's economic leverage and trading opportunities with Pyongyang, while many Chinese technologies were sold to North Korea and later transferred to third countries. The North Korean regime's distrust of its neighbour, and its strategy of independence, mean that a 'Chinese model' has not been contemplated publicly since the early 1960s. North Korean leaders, however, have repeatedly visited Chinese international development zones and tried their own hand at the concept – without Chinese help. In contrast, Iranian leaders, from Ayatollah Khamenei and former President Rafsanjani to the radical Ahmadinejad, who do not have to deal with China as a next-door neighbour, have occasionally extolled a 'Chinese model' for Iran.¹⁹ In both cases, China may also choose, in the event of a crisis, to distance itself from a partner who seeks its strategic and diplomatic support. Beijing balances these links with its relationship to the United States. China may in fact leverage its relations with questionable partners against the possibility of extracting a more positive attitude from the United States on its key strategic concerns, such as Taiwan and technological transfers. Even so, as we can observe from China's reaction after the North Korean nuclear test of 9 October 2006, China does not support strong economic sanctions and refuses to endorse the international inspection of North Korean ships to search for proliferation-related materials. It is very unlikely that China would take a different position in the case of Iran, should the issue arise.

Similarly, China's strategy of cultural and linguistic influence is not exclusively confined to Asia. President Hu Jintao speaks of Chinese culture as intended 'for the world', and both the Chinese Bridge Programme and the Confucius Institutes – of which 100

19. John Calabrese, 'China and Iran: Mismatched Partners', *Occasional Paper*, The Jamestown Foundation, August 2006.

are planned by 2010²⁰ – encompass many other countries outside Asia. This is also the case for diplomatic concepts such as the ‘strategic partnerships’ pioneered first with Russia, but now established with many foreign partners. ASEAN was the first international organisation to which China extended the notion of a strategic partnership, but it has sought a similar designation for its relationship with the European Union. In all these cases, the term ‘strategic’ refers more to the absence of divisive issues than to a joint strategy in the traditional geopolitical sense.

Conversely, the preference for soft power and the resultant pragmatism do not apply to the same extent when China deals with its immediate neighbours and/or with issues of sovereignty. In the past half-century, China has been engaged in twenty-three territorial disputes encompassing all its land and sea neighbours, a world record. A recent perceptive study underlines China’s ultimate willingness to compromise over many of these disputes and to settle for less than half of its original territorial claims,²¹ but the same study does not necessarily take into account the outlandish scale of some of these initial claims. It cites insecurity as the main factor behind China’s concessions. It also recognises that China takes a much harder stance in geographic areas where the Han population is involved, rather than ethnic minorities (e.g. Hong Kong and Macao in the past, Taiwan in the future), and is also a tougher contender in maritime disputes, because ‘island groups cost little to dispute’.²² Finally, it notes that as China’s economic and military confidence increases, the insecurity factor decreases accordingly: China might therefore be less prone to compromise in the future.

In short, this analysis does not seem very convincing, beyond the fact that it is true to point out that China has indeed chosen compromise over confrontation in about half of the cases. As the continuing conflict over Taiwan and the bitter relationship with Japan indicate, and given that China has managed to become embroiled in a quarrel with North Korea over the symbolic issue of Mount Paektu and wider historical claims from the Kokuryo Kingdom period, it is clear that the PRC’s irredentism can survive in the face of worldwide economic integration. In South-East Asia – where maritime issues are more remote and of less urgent concern – years of negotiations finally led in 2002 to a Declaration on the Conduct of Parties in the South China Sea. The Declaration, however, has no legal force: it does not cite any geographical

20. *People’s Daily Online*, 9 March 2005.

21. M. Taylor Fravel, ‘Regime insecurity and international cooperation – explaining China’s compromises in territorial disputes’, *International Security*, vol. 20, no. 2, Fall 2005.

22. *Ibid.*, p. 82.

boundary, does not explicitly prevent the erection of structures on contested ground, and it is in fact not even equivalent to the Code of Conduct that was sought by ASEAN.²³

It is right to note that China and ASEAN are now meshed together by a web of declaratory or contractual agreements, culminating in the signing by China of ASEAN's original Treaty of Amity and Cooperation in 2003, which contains a general provision against the use of force to settle territorial disputes. Most of these commitments have little or no legally binding force. At the same time, future good relations between China and its neighbours do imply that China respects these new commitments.

China and multilateral security in Asia

China has become a member of all regional and subregional organisations in East Asia, whether formal or informal: e.g. APEC, the ASEAN Regional Forum, and CSCAP.²⁴ Furthermore, China has begun to spawn its own set of multilateral dialogues and institutions, such as the Shanghai Cooperation Organisation with Russia and four Central Asian states, but expanding beyond this group to Afghanistan, India, Iran, Mongolia and Pakistan as observer states, and inviting representatives from ASEAN to their June 2006 summit in Beijing. More informally, China has also created the Boao Forum for Asia, originally a replica of the Davos Forum, and today essentially an economic and good relations 'talking shop' involving Asian leaders and some other invited participants; it participates in the North East Asia Cooperation Forum, originally created by former President Kim Dae-jung of South Korea; Chinese analysts have repeatedly floated the idea of a permanent North-East Asia Security Forum that would succeed the Six Party Talks on the Korean Peninsula, but this is strongly resisted by Japan. These developments are increasingly matched by many bilateral strategic and military dialogues, as well as port-of-call visits or even joint exercises by the Chinese Navy. In the latter category, a surprising although symbolic China-India exercise in November 2003, and joint China-Russia land and sea exercises in July 2005, are important developments. It is to be noted that China has made many more discreet proposals to its neighbours for joint naval undertakings, for instance with a view to ensuring maritime security in the Malacca Straits.

23. For an interesting Vietnamese analysis, see Nguyen Hong Thao, 'The 2002 declaration on the Conduct of Parties in the South China Sea', *Ocean Development and International Law*, vol. 34, 2003, parts 3/4, pp. 279-285.

24. Council for Security Cooperation in the Asia-Pacific, a track II organization with many official participants.

These developments warrant two mutually complementary questions: has China significantly contributed to multilateral security by confidence-building measures and preventive diplomacy? Do the international organisations which it has created represent an innovative and effective model of regional cooperative security? There are very different answers to the first question.²⁵ David Shambaugh speaks about the ‘blizzard of meetings between Chinese officials and their counterparts’ in Asia, and cites Chinese officials to the effect that China has come to learn the positive aspects of regional integration. He also cites China’s New Security Concept – crafted in 1996 – as a major act of conversion to conflict avoidance, while recognising that this doctrine for export is mainly a rehashing of the five principles of pacific coexistence originally designed by Nehru’s India and advocated by the Mao-Zhou China of the past.

The reality is more complex. While China entered official multilateral security institutions such as the ARF in 1993, and second-track forums such as CSCAP in 1996, its original flexibility has given way to a much more assertive stance on the Taiwan issue. After the Shangri-La Dialogue was launched in 2002 as an informal meeting of Asia-Pacific Defence ministers under predominantly Western auspices, China came around to the idea of an ARF defence ministers’ meeting; but it began restricting its participation, or even withdrawing its delegations in some instances, in all second-track security forums that invited Taiwanese participants, or that even mentioned the issue of Taiwan. ASEAN’s Asia-Pacific Roundtable held annually in Kuala Lumpur, CSCAP and its working groups, and the Shangri-La dialogue, have all experienced either a drop in Chinese participation, or an increase in polemics, since 2004.

As regards conceptual progress and policy proposals, in 1996 CSCAP had designed a plan to move from confidence-building measures to preventive diplomacy and finally to cooperative security. Discussions have remained locked at the stage of confidence-building measures. ‘New’ issues such as terrorism and transnational crime have served to forge a superficial consensus. But this should not hide the lack of progress in every area that concerns the Asia-Pacific balance of power or regional preventive diplomacy, and the escalation in military spending by China.²⁶ Strikingly, of the original provisions discussed by CSCAP since 1996 (rotation of the ARF chair between ASEAN and non-ASEAN members, a

25. David Shambaugh, ‘China engages Asia: reshaping the regional order’, *op. cit.*

26. From the author’s participation in CSCAP meetings, and conversations with leading participants.

register of experts, a crisis arbitration mechanism, national White Papers on defence issues), most were either dropped by the ARF or could only be implemented in a very limited way. The ARF has created an Annual Security Outlook with contributions by its members, but there is no defence White Paper process. While the ARF Chair has been tentatively entrusted with an 'enhanced role', that role is very limited: convening an *ad hoc* meeting can only be done 'upon prior consent of directly involved states and the consensus of all ARF members', while liaising with the heads of other international organisations or second-track organisations can only be decided 'upon prior consent of the directly involved states and the consensus of all ARF members'.²⁷ While a group for maritime security exists within CSCAP, it has avoided getting involved in the sensitive topics of maritime boundaries and freedom of navigation – a situation in which, one must concede, Chinese semi-official participants can count on the support of their Indonesian and Indian colleagues.

In sum, there has been little progress in most areas dealing with preventive diplomacy and security. A lucid Singaporean analyst²⁸ explains: 'Because of the ARF's focus on confidence building and the lack of movement on preventive diplomacy, the ARF is often seen as a talk shop. There is a growing recognition that the ARF must move from confidence building to embarking on practical cooperation. The ARF has had an encouraging response to the publication of the Annual Security Outlook (ASO) of its members, which promotes transparency and builds mutual confidence. But it is unlikely that there will be scope for significant movement in areas of traditional security policy such as the prevention of military build-ups.' Most observers cite an increase in the 'comfort level' among participants as the essential achievement of multilateral security in Asia. Japan, among others, has lowered its expectations with regard to both the ASEAN Regional Forum and second-track organisations related to security, because of scepticism as to the commitment of participants: 'it is unlikely that ARF countries will ever become willing to establish preventive diplomacy and conflict-resolution mechanisms unless a major event shaking the regional security environment occurs'.²⁹

Does China propose an alternative model of multilateral security for Asia that would deliver significant progress? The three most often cited cases refer to its role regarding the Korean penin-

27. ASEAN Regional Forum, 'Enhanced role of the ARF Chair – (shared perspectives of the ARF members)', May 2001.

28. Barry Desker, 'Is the ARF obsolete? Three moves to avoid irrelevance', *IDSS Commentary*, 16 June 2006. Mr. Desker is the chairman of Singapore CSCAP.

29. Takeshi Yuzawa, 'Japan's changing conception of the ASEAN regional Forum', *The Pacific Review*, vol. 18, no. 4, December 2005, p. 478.

sula issue, the Shanghai Cooperation Organisation and, more modestly, the Boao Forum for Asia. The latter case is easiest to dissect: while on paper it attracts many participants, only very formal sessions take place, with both Chinese and visiting government figures delivering speeches but no significant dialogue: although the original participation was meant to be entirely Asian, it has occasionally been broadened. Commercial interests and presentations tend to preponderate at Boao, with many foreign firms offering sponsorship.

China has performed a very important service by hosting the Six Party Talks on the Korean Peninsula, and persuading North Korea to participate in those talks until 2005. But the meetings are said to be heavy on procedure and formality, and have not resumed since a very general declaration was adopted in October 2005. While China's diplomacy and its actual influence over North Korea are essential to the resolution of the issue, China has not created a new model of international relations in North-East Asia.

Finally, the Shanghai Cooperation Organisation, which has been steadily built up as an international organisation with a Secretariat based in Beijing and a stream of potential applicant states, remains more ambiguous in its objectives and achievements. The 1,533 word-long Joint Communiqué of its June 2006 summit mentions the words 'terrorism' or 'terrorist' eleven times, reflecting the original goal of an organisation designed to fight against subversion. The communiqué only refers obliquely to a 'new international situation', a sign that there is no possible strategic or even diplomatic joint action among the participants. Economic and trade objectives highlight the growing interrelationship between China and Central Asia. Evidently, China's energy diplomacy in Central Asia, and its aim to bring Iranian, Caspian Sea, Kazakhstan and Russian oil and gas resources to China by pipeline, also give an incentive to the SCO, although negotiations in this sector remain bilateral between China and each of its counterparts.

In short, China's soft power does not stem so much from positive motives but rather from disaffection and mistrust towards American policies. China uses its good regional relations, its trade and its promises of non-interference as an instrument against containment of China's rise, and to protect China's international economic goals. This is a wise and realist policy from the point of

view of China's self-interest, but it is not a case of soft-power diplomacy.

China's active participation in and contribution to multilateralism is often focused on non-traditional security. In some cases this is also a response to past criticism of China: an example of this is the careful way in which the government has handled the issue of epidemics and the Asian flu, following the mismanaged SARS episode of 2002-2003. In others, the development could prove to be of more vital importance. For instance, an Asia Cooperation Dialogue (ACD) involving regular meetings of foreign ministers was started in 2002, comprising 16 Asian nations and 2 Gulf states, a membership which is still expanding. In June 2004 the ACD announced the 'Qingdao initiative' which includes an emphasis on 'ensuring safe energy transportation along vital shipping routes through dialogue and cooperation'.³⁰ Since China and Japan are both signatories to this document, it may serve as a useful point of contact in the future.

Regional cooperation and power balancing: a dual strategy

Several conclusions emerge from this discussion. Just as Asia during the Cold War never experienced a complete freeze of economic relations, even though it was politically and militarily divided, today's tremendous economic growth and trade integration have not brought about complete *détente* and trust among Asian states. The growing interactions among diplomatic, military and second-track experts have not led to any new arrangements in traditional security, and divisions remain huge, even if more often than not they go unmentioned.

In practice, this means that regional states often apply a mixture of 'bandwagoning' and hedging strategies towards China that fit in with their own interests. On the economic front, the bulk of China's global trade surplus (rising prospectively in 2006 to 200 billion dollars) comes from exports to the US and the EU, while China's neighbours benefit from exports of parts and components, or direct industrial investment, to China. This is a triangular trade pattern that benefits the more advanced Asian economies, at least in the short term. But economic 'bandwagoning' with China is matched by military 'hedging' against China.

30. See: www.acddialogue.com/web/35.php.

This is true from North-East to South Asia. ASEAN as a whole, despite some reservations among its member states, has moved closer to Japan. Japan was the first external partner member at the origin of ASEAN's Post-Ministerial Conference and has taken on a maritime security role in South-East Asia, even if this is implemented by the Coast Guard rather than by Self-Defence Forces. Singapore may be close to China in its similar affirmation of Asian or Confucian values. But at the same time it has become a quasi-permanent port of call and logistical support for the US Pacific Fleet, in a swing area that serves both the South China Sea and the Indian Ocean. On the eve of the first East Asian Summit held in Kuala Lumpur in December 2005, ASEAN came out with a declaration of principle for its future legal and institutional Charter where, for the first time, it endorsed the 'promotion of democracy, human rights and obligations, transparency and good governance and strengthening democratic institutions'.³¹ Too much should not be made out of a declaration that was also signed by Burma/Myanmar and Vietnam. Nevertheless, the declaration must have sent a message both to China and to a watchful US that the new Summit was not going to be a proxy for China's diplomacy.

Finally, this duality of strategy is even more evident in the relationship between China and India, the other rising economic giant in Asia. The long-sought normalisation of relations between the two nations that turned their back on each other after the bitter 1962 conflict has taken hold. Trade with China soared from 35 million dollars in 1995 to 15 billion dollars in 2005: a steep rise that, it should be noted, still represents only 1.2 % of China's global trade. China is now regarded enviously by many elements in Indian society, which identify the Chinese model with economic freedom and success, and compare this unfavourably with their own bureaucratic environment. The attraction towards China also implies competition. Meanwhile, India has become a member of the ASEAN Regional Forum, a partner in maritime security with several South-East Asian navies, and benefits hugely in its relationship with Washington from its status as a potential power-balancer with China. A balanced diplomacy is indeed at work, as testified by the fact that India has signed with Brazil, Germany and, most importantly, Japan, a joint pledge of solidarity to enter the UN Security Council as permanent members.³² That particular initiative has not been lost on China, which has not endorsed

31. Kuala Lumpur Declaration on the Establishment of the ASEAN Charter, Kuala Lumpur, 12 December 2005.

32. Brazil Germany India Japan Draft Resolution on Security Council Reform, 8 June 2005; available at: <http://www.globalpolicy.org/security/reform/2005/0608g4resolution.pdf>.

India's bid for a permanent seat at the Security Council, in spite of all the talk about warm relations. But India has reaped the benefits of this balanced diplomacy, most importantly with the Bush administration's decision to launch civilian nuclear cooperation with New Delhi, in effect whitewashing India's past acquisition of nuclear weapons, its 1998 tests and its ballistic developments.

None of the above factors prevented the first Confucius Institute in India from being launched at Jawaharlal Nehru University in May 2005,³³ on the occasion of Prime Minister Wen Jiabao's visit to India. Those who equate the rise of China's influence and, indeed, soft power, with a change in the power balance and strategic architecture of Asia would do well to consider this development, along with Washington's recognition and appreciation of India's strategic role in the regional balance. China's remarkable economic rise, its growing influence and more sophisticated diplomacy, do indeed create extraordinary incentives towards better relations between China and its international partners. But they also raise questions regarding the future security posture of China, and the consequences of a new balance of power in Asia and beyond. Many Asian states therefore engage China in mutually beneficial relations, while also seeking at the same time to balance Beijing's rising power with other strategic relationships. It would be a mistake, however, to expect many Asian states to take an active role in constraining China's influence by turning this regional balancing act into an outright alliance against China.

33. *The Tribune* online edition, Chandigarh, 12 May 2005.

China's energy policy and its contribution to international stability

Philip Andrews-Speed

Facing China's rise:
Guidelines for an
EU strategy

5

Introduction

As China's economy continues its sustained and rapid growth, so does its demand for energy and other natural resource raw materials. China is now the second largest consumer of primary commercial energy after the USA, accounting for 15% of the world's total. Over the four-year period from 2002 to 2006, China's total commercial energy consumption grew by more than 50%, increasing as rapidly as or even more rapidly than its GDP. This soaring demand for energy has placed a huge strain both on the economy and on the natural environment in China. As a result, energy is now at the top of the central government's agenda as they seek approaches to address the twin challenges of constraining energy demand and fulfilling energy needs.

The country's appetite for energy is not only causing problems within China, but is also creating stresses overseas. These international stresses are becoming prominent at a time when energy as a whole is becoming increasingly politicised on the international scene. The aim of this chapter is to examine the drivers behind China's energy policy, to evaluate the perceived threats posed to the international community by China's international energy strategies, and to propose how the European Union may engage with China to address common interests in this domain.

The sources of China's energy policy

China's approach to the management of its energy sector and to the development of its energy policy derives from a number of underlying factors:

- The structure and rate of growth of the economy, and the consequent demand for energy;
- The nation's endowment of primary energy resources;

[The author is very grateful for the contributions of Ma Xin at all stages of the writing of this chapter.]

- ▶ The government's perception of external threats and its preference for 'self-reliance';
- ▶ The nature of its industrial and social policies.

As China's economy has grown over the last thirty years, inevitably there has been a concomitant rise in the demand for energy. But the rate of growth in the demand for energy, at about 5% per year, used to be consistently lower than the rate of increase of GDP, at least until the year 2002. This was attributed to the success of the government in reducing the energy intensity of the economy through shifts in the structure of the economy away from energy-intensive industries and through supporting measures to enhance energy efficiency.¹

The recent years 2002 to 2005 have been marked by a substantial and sustained increase in both economic growth and in energy intensity. Indeed the years 2003 and 2004 saw annual rises of primary energy consumption of 15%, higher than the official figures for GDP growth. This reversal of the improvements in energy intensity was a result of the government-induced boom in construction and heavy industry. The rapid growth of the economy combined with this rising energy intensity resulted in shortages of coal, electrical power and oil products.

Since the mid-1990s China's government has become increasingly aware that the era of self-reliance for energy is at an end. Although it has ample coal resources, the remaining reserves of oil and natural gas are limited and growing dependence on imports for both oil and gas has become inevitable. However, the government has still sought to maintain as much direct control as possible over the supply chain for oil and gas coming from overseas. This approach is based on a number of concerns which relate both to the oil and gas themselves and to wider security concerns.

The reasonable belief that reserves of oil and gas are finite underlies a fear that there will inevitably be competition between nations for access to these dwindling resources.² This fear is further heightened by the realisation that China and the rest of the world will become increasingly dependent on the Middle East in order to meet their energy needs, with all the risks that this will entail. Furthermore, a large proportion of China's imports of oil – and, in the future, gas – will be transported through sea-lanes which are open to disruption by pirates, terrorists and accidents.

1. Jonathan E Sinton, Mark D. Levine and Wang Qingyi, 'Energy Efficiency in China: Accomplishments and Challenges', *Energy Policy*, vol. 26, no. 11, 1998, pp. 813-29; Jiang Lin, 'Energy Conservation Investments: a Comparison between China and the US', *Energy Policy*, forthcoming 2006.

2. Jacqueline L. Weaver, 'The Traditional Petroleum-based Economy's Eventful Future: Of Peak Oil, Chinese Oil, Flags and Open Doors', *Cumberland Law Review*, vol. 36, no. 3, 2006, p. 505.

Since its foundation in 1949, the People's Republic of China (PRC) has always been very sensitive to external threats from major powers, and this mindset still prevails today and is relevant to its energy strategy. The US is seen as providing the principal external threat to the nation's security today. US naval power ensures that America has control over sea-lanes throughout the world, including those which are of major importance to China. Whilst China may be prepared to free-ride on the security cover provided by the US in the Middle East, it is less comfortable with the US maintaining a controlling role in south and east Asia – not least because China's government fears that the US could blockade China.³

The final set of considerations underpinning China's approach to energy policy lie in the government's industrial and social policies. Despite the growth of the private sector in China and the continuing process of privatisation of state industries, the government has repeatedly insisted that 'pillar' industries such as energy will remain in state hands, for reasons of economic security, and that these companies are to be supported in their ambitions to become major international players. Such companies employ very large numbers of people. Their expansion overseas provides new opportunities for the employment of Chinese workers, which in turn helps the government address one of its most pressing social challenges, that of unemployment.

The combination of industrial and social policies with the preference for self-reliance also explains China's preference for carrying out as much raw material processing as possible within China, rather than importing the final processed product. Domestic processing maximises the interests of the state companies, employs more people and enhances 'self-reliance'. Despite these short-term advantages, there are evident costs to such an approach in terms of energy consumption and pollution.

These perceptions and priorities held by the Chinese government underlie an approach to energy policy which has been described as 'strategic'⁴ or 'mercantilist'.⁵ Central to this approach is the government's involvement in all parts of the energy sector, either by direct government action or by indirect influence through state energy companies, both within China and overseas.

3. Robert E. Ebel, *China's Energy Future: The Middle Kingdom Seeks its Place in the Sun* (Washington D.C.: Center for Strategic and International Studies, 2005).

4. Philip Andrews-Speed, Liao Xu-anli and Roland Dannreuther, 'The Strategic Impact of China's Energy Needs', *Adelphi Paper* no. 346 (London: International Institute for Strategic Studies, 2002).

5. Kenneth Lieberthal and Mikal Herberg, 'China's Search for Energy Security: Implications for US Policy', *NBR Analysis*, vol. 17, no. 1, 2006, pp. 5-42.

The key elements of domestic energy policy have been to maximise domestic production of primary energy resources and energy products, to maintain state control of the energy sector, and to construct strategic oil storage.⁶ The government continues to exert substantial control over the energy industry through its ownership of the major domestic energy companies. The government maintains tight control over prices for crude oil and oil products, as well as over wholesale and retail electricity prices. Coal prices are partly liberalised, but the government frequently has to step in to constrain the price charged to electricity generators. The import and export of energy products also remain under state control.

In 2004, China's energy sector was in such a state of crisis as a result of the soaring demand for energy that the government announced a strategy and a number of measures designed to tackle some of these deficiencies. Energy conservation and energy efficiency became a top priority, and incentives to develop clean and renewable energies were introduced.⁷

China's international energy policy

International dimensions of China's energy policy relate principally to oil and, to a lesser extent, to natural gas. The main priorities are to diversify and secure imports of oil, to gain access to primary resources in the ground, and to enhance the security of oil and gas transportation to China.⁸

Diversifying and securing oil imports

Since the late 1990s the Chinese government has sought to secure long-term supply agreements with those states which hold large shares of global oil reserves and to diversify the sources of importation. Four key agreements were achieved with Saudi Arabia, Iran, Angola and Russia. These four countries now supply some 45% of China's imports of crude oil compared to 13% in 1995. In each case, the oil supply objective was strongly supported by a range of diplomatic and economic measures: for example, political and military initiatives with Russia, a long-term political relationship with Iran backed by technology transfer and construction services, and reconstruction aid in Angola. Smaller supply agreements have also been completed with countries such as Nigeria, Brunei, Venezuela and Iraq.

6. Philip Andrews-Speed, *Energy Policy and Regulation in China* (The Hague: Kluwer Law International, 2004).

7. Jonathan E. Sinton, Rachel E. Stern, Nathaniel T. Aden and Mark D. Levine, *Evaluation of China's Energy Strategy Options* (Berkeley, CA: Lawrence Berkeley National Laboratory, 2005).

8. Philip Andrews-Speed et al., 2002, op. cit.; Ann M. Jaffe and Steven W. Lewis, 'Beijing's Oil Diplomacy', *Survival*, vol. 44, no. 1, 2002, pp. 115-34; Bo Kong, *An Anatomy of China's Energy Insecurity and its Strategies* (Springfield, VA: Pacific Northwest National Laboratory, 2005).

China's import strategy shows a preference for importing crude oil rather than oil products, partly because of the intention to maximize the quantity of oil refined within China⁹ and partly because of the regulated prices for oil products in China, which are much lower than international levels. In this respect, the government has been encouraging certain oil-exporting states, such as Saudi Arabia and Kuwait, to invest in China's refining industry, for China needs new refineries which can process the high-sulphur crude oil from the Middle East.

The further component of the strategy for oil imports also relates to the limited capacity of China's refining industry to take the sour crude oils which many Middle East OPEC members produce. This has provided a strong incentive for China to import increasing quantities of crude oil from West Africa which are both sweet and light, and well suited to China's refineries.

Overseas investment

China's national oil companies (NOCs) have been going abroad to acquire stakes in oil fields since 1993. They started slowly and went almost unnoticed. But now, one or more of them owns assets in almost every major oil-producing region in the world. The total investment to date has been estimated at seven billion US\$.¹⁰ In some countries, for example Sudan, they are welcomed as strategic partners. In others, such as the US, they are repelled as they are seen as representing a threat to strategic interests.

The drivers for the overseas investments come from two sources: the government and the NOCs themselves.¹¹ The government takes the view that Chinese companies owning the production rights to oil reserves overseas will enhance national energy security. A second driver for government is the desire to promote its NOCs as national champions. This dovetails with the ambitions of the NOCs themselves to become major international oil companies. As remaining oil and gas reserves in China are limited, the future for expansion lies overseas.

A third and final strand of government policy derives from the way in which the NOCs' activities may be used to support wider diplomatic and strategic goals around the world. In this context the Chinese government may seek to address, directly or indirectly, the needs of the host government.

Certain host governments may need NOCs from China or other countries to participate in the development of their

9. Robert E. Ebel, 2005, *op. cit.*

10. Bo Kong, 2005, *op. cit.*

11. Xin Ma and Philip Andrews-Speed, 'The Overseas Activities of China's National Oil Companies: Rationale and Outlook', *Minerals and Energy*, vol. 21, no. 1, 2006, pp. 1-14.

resources or may seek to use China's eagerness to secure oil supplies as a lever to fulfil their own political goals. Examples include: countries in which the US or Western governments have forbidden their own companies to invest (e.g. Iran, Sudan, Burma/Myanmar and Syria); governments with a stated desire to break the 'monopoly' of western companies (e.g. Equatorial Guinea, Libya); governments which want to 'tweak the nose' of the West or the US (e.g. Venezuela, Iran); governments which are keen to obtain aid and infrastructure from China (e.g. Angola, Sudan and Nigeria); and governments which want to regain control over their natural resources (e.g. Kazakhstan, Russia).

Securing the transport routes

China sees itself as being partially enveloped by a 'belt' of oil and gas reserves which extends from the Russian Far East, through Siberia to Central Asia and then on to the Middle East. In those countries and regions immediately adjacent to China, the construction of oil and gas pipelines is seen by the government as an effective way to enhance the security of oil and gas supply by reducing the country's reliance on international sea-lanes. A pipeline from Kazakhstan to western China with an initial capacity of 10 million tonnes per year was opened early in 2006. The planned capacity is 20 million tonnes per year by 2010.¹² Further oil pipelines may be constructed from central Asia, both for oil and gas. Plans for a 20 million tonne per year oil pipeline from Russia to China continue to be delayed by controversy within Russia as well as by tension between China and Japan;¹³ however it is likely that such a pipeline will be completed by 2010. In the meantime more than 10 million tonnes per year of crude oil is being transported from Russia to China by rail. Gas pipelines from Russia and Central Asia are also under discussion.

A second type of pipeline has been discussed which is intended to reduce the risk or distance for tankers carrying oil from the Middle East. One idea is to construct a pipeline across the isthmus of southern Thailand in order to reduce the amount of oil being conveyed through the Straits of Malacca. The likelihood of this project progressing in the near future is reduced by the cost of working in such difficult terrain and the risks associated with domestic unrest in that region of Thailand. Furthermore, this project might damage China's relations with those countries in the region which benefit financially from the shipping and which

12. Janet Xuanli Liao, 'A Silk Road for Oil: Sino-Kazakh Energy Diplomacy', *Brown Journal of World Affairs*, vol. XII, no. 2, 2006, pp. 39-51.

13. Lyle Goldstein and Vitaly Kozyrev, 'China, Japan and the Scramble for Siberia', *Survival*, vol. 48, no. 1, 2006, pp. 163-78. Janet Xuanli Liao, 'The Petroleum Factor in Sino-Japanese Relations: Beyond Energy Cooperation', *International Relations of the Asia-Pacific*, vol. 7, no. 1, 2006.

would stand to lose from the pipeline.¹⁴ The second project would see a pipeline built from the Indian Ocean through Burma/Myanmar to south-west China. This would obviate the need for oil being transported from the Middle East to pass through the Straits of Malacca and cross the South China Sea. This second alternative does indeed offer more benefits but also involves political risks and potentially high construction costs across hazardous terrain.

At the same time as pursuing a pipeline strategy to reduce its dependency on sea-lanes, the government is also seeking to better protect the sea-lanes of communication through the Indian Ocean and the Malacca Strait through three types of measures. The first involves participating in the construction of new deep-water ports or gaining access to existing ports in south and south-east Asia. These steps are central to the PLA navy's strategy to develop a 'string of pearls' in these countries to deter the disruption of energy supplies from potential threats, including the US Navy. The second involves the gradual development of the Navy's 'blue water' capacity, with the help of Russia. The third involves China's participation in regional initiatives to enhance security in the South China Sea region.

The role of oil and gas diplomacy

The relationship between China's government and its NOCs continues to be close both at home and abroad. Overseas, the government has an interest not only in oil and gas, but in enhancing its wider geopolitical influence and status, in persuading governments to switch their allegiance away from Taiwan, in regional security in the 'near-abroad' of Central and East Asia, as well as in other economic activities.

The nature and strength of the links between the oil and gas strategy and these wider political, strategic and economic goals vary from country to country, and, consequently, so will the degree of involvement of the government in oil and gas decisions. In strategically important countries such as Kazakhstan, Russia, Iran, Saudi Arabia and Sudan, the government is not only very closely involved, but may actually play the leading role. In other Middle Eastern states of less strategic importance, and certain African and Latin American countries (such as Angola and Venezuela) the role of government may be less but will still be significant. Elsewhere the government may play only a supporting role.

14. Bo Kong, 2005, *op. cit.*

Regardless of the role played by government, oil and gas exploitation is rarely the sole activity undertaken by China in a country. In most cases it is accompanied by a package of deals arranged by state companies, private companies and government agencies, coordinated to a greater or lesser degree, which may cover a wide range of investment and trade (for example in Africa),¹⁵ may include substantial aid packages in poorer countries, may involve transfers of civilian or military technology, may be supported by the provision of civilian workers or military personnel, and may be underpinned by inter-government agreements.

International implications of China's energy strategy

The early years of the twenty-first century have seen growing concern around the world about the way in which China is managing its domestic energy sector and is conducting its international energy policy. However, some of these concerns are based on distorted perceptions of Chinese intentions and misunderstanding of key issues relating to energy markets. Whilst certain parties persist in presenting China's international energy strategy as a threat to western interests, a growing number of informed commentators agree that this pattern of behaviour does not represent a concerted attempt by China to undermine the interests of the US or Europe; but rather that it has emerged from a cluster of strategies designed to address national needs.¹⁶

The actual or perceived stresses arising from China's behaviour may be examined under three categories: economic, political or strategic, and environmental.

China's ever increasing demand for oil is indeed a contributory factor to the current level of high oil prices, but only one of a number of economic and political factors. The strategy of sending its NOCs to acquire oil and gas resources around the world, as a number of other countries are also doing, does not reduce the total availability of crude oil to the world. Quite the reverse. These NOCs add to the world's flows of oil and gas by investing in projects and locations that the private sector will not touch. Competition for oil does exist in certain cases. For example, both the US and China are keen to import the sweet light crude oil from West

15. Andrea Goldstein, Nicolas Pinaud, Helmut Reisen and Xiaobao Chen, *The Rise of China and India. What's in it for Africa?* (Paris: OECD, 2006).

16. Zha Daojiong, 'China's Energy Security: Domestic and International Issues', *Survival*, vol. 48, no. 1, 2006, pp. 179-90; Bo Kong, 2005, op. cit.; Ann M. Jaffe and Steven W. Lewis, 2002, op. cit.; Kenneth Lieberthal and Mikkal Herberg, 2006, op. cit.

Africa. However, for as long as investments from all parties continue to flow into the region, the supply of this valuable oil should continue to grow.

Whilst China's strategy does not directly threaten the energy security of other oil-importing nations, China's NOCs do provide competition to international oil companies (IOCs), independent oil companies and even other NOCs. This competition is seen to be 'unfair' given the scale of the diplomatic support given to the NOCs by China's government and the availability of funding on very favourable terms.¹⁷ Though China by itself does not pose a threat to the effective operation of international markets for energy projects and energy products, the increasing tendency of producer and consumer governments around the world to follow such approaches certainly does threaten to undermine existing systems and norms in the international energy markets. At the same time, opportunities for inward investment in China's energy sector remain limited.¹⁸

The convergence of China's foreign policy and energy policy does create some real or perceived stresses of a political or strategic nature. China's energy diplomacy and the acquisition of overseas oil and gas assets enhance the perception of competition between states and regions for resources. This perception – which, arguably, is misguided – will encourage energy-producing states to play China and Asia off against the West: for example, Venezuela, Russia and Iran and smaller countries. But in most cases these are merely political postures and not viable threats, for two reasons: first, the producers have concerns regarding security of demand just as much as consumers have concerns about security of supply; and second, there are always alternative suppliers, at least in the long term.

Two areas of real concern do exist. The first relates to China's willingness to ignore international opinion in its dealings with 'states of concern' such as Iran, Sudan, Burma/Myanmar, Turkmenistan, Venezuela, Uzbekistan and a number of states in central and west Africa. China's preference to ignore the nature of the political leadership in these countries and to refrain from interfering in their domestic affairs is one of the key longstanding cornerstones of the country's foreign policy. However this approach clearly undermines the policy of some western governments to encourage good governance and democracy, and to promote their

17. Peter C. Evans and Erica S. Downs, 'Untangling China's Quest for Oil through State-backed Financial Deals', *Policy Brief* no. 154 (Washington D.C.: The Brookings Institution, 2006).

18. Philip Andrews-Speed, 2004, op.cit.

own interests. The second area of potential tension lies in China's ambition to exert greater control over sea-lanes which the US currently views as being under its umbrella.

The third major set of stresses arising for China's energy sector relate to the environment. Though the US's energy sector is the largest in the world and produces the greatest amount of emissions, China's energy sector is catching up, and in some respects is much more polluting in terms of acid rain, particulates and toxic metals. Should China's energy demand continue to grow at the rate and in the way it has in recent years, then its impact on the global and regional environment will necessarily exacerbate tensions with neighbours and with the world at large. Similar concerns relate to China's ambitions for its nuclear energy industry with respect to safety, the environment and proliferation.

Challenges and opportunities for the European Union

These perceived and real threats provide an opportunity for cooperation between the EU and China in the field of energy.¹⁹ Clear common interests exist, for example the desire to enhance the availability of oil and gas to the world and the security of energy transportation routes, and the need to improve the management of China's energy sector with positive consequences for its economy and for the regional and global environment. Set against such optimism is the reality that, as in many fields of potential cooperation, there may be common interests but there are not always shared values,²⁰ especially with respect to intervention in the affairs of other states and in the relationship triangle between the US, the EU and China.

Any strategy developed by the EU, or the US, to develop a substantial programme of cooperation with China in the field of energy should address three issues.

First, the EU should resist the temptation to criticise or obstruct China's international energy policy. Rather, there is a need to understand China's concerns and the strands of logic behind its behaviour. For China is neither the first nor the only country to have pursued or to be engaged in the pursuit of such strategies. History suggests that countries and governments follow a learning curve with respect to their understanding of and

19. Christophe-Alexandre Pailard, *Strategies for Energy: Which Way Forward for Europe?* (Paris: Fondation Robert Schuman, 2006).

20. Katinka Barysch, *Embracing the Dragon. The EU's Partnership with China* (London: Centre for European Reform, 2005).

trust in international oil markets,²¹ and that China's mercantilist approach may well evolve, not least as a result of increasing costs.

The second dimension of the cooperation strategy builds on the first, and seeks to encourage China's integration into international energy and economic systems and institutions. To achieve this it is necessary to assist China in enhancing its understanding of and confidence in international energy markets and to encourage deeper participation in organisations such as the International Energy Agency.²² Further, it may be desirable to encourage China to raise its international commercial credibility in the energy sector by abiding by existing international norms relating to export credits in order to reduce the impression of 'unfair competition' and by adhering to current and future WTO rules relating to energy products and services.²³

Parallel diplomatic measures will be needed to raise awareness in China of perceptions in the EU and the US of China's 'non-interference' approach and to encourage China's active participation and cooperation with western nations in addressing the challenges and risks posed by failing states. There will also be a need to alleviate Chinese fears over the security of sea-lanes.

The third component of a programme of cooperation should be directed at China's domestic energy sector. This would have two components, 'soft' and 'hard'. The 'soft' component could include assistance in the formulation of energy policy and strategies, capacity building at all levels of government, assistance with energy data collection and management, and encouraging commercial cooperation between European and Chinese energy-producing companies.

The second – and much more important – 'hard' cooperation would involve the provision of technologies, skills and funds to allow China to make massive and rapid advances in energy efficiency and energy conservation, and in clean and renewable energies, including clean coal technologies, biofuels and carbon sequestration. The benefits of such programmes to China, the region and to the world will be very great, but so will the costs.

The European Union and China embarked on a programme of cooperation in the field of energy in 1996. The time has come to widen the scope of this programme, to deepen the commitment and to massively expand the funding.

21. Pierre Noël, *China's International Energy Security Policy – Implications and Responses*, presentation to the EPRG Spring Research Seminar, Cambridge, 19 May 2006.

22. Kenneth Lieberthal and Mikkal Herberg, 2006, *op. cit.*

23. Peter C. Evans and Erica S. Downs, 2006, *op. cit.*; Ann M. Jaffe and Steven W. Lewis, 2002, *op. cit.*

US-China relations: running on two tracks

Marcin Zaborowski

Facing China's rise:
Guidelines for an
EU strategy

6

Introduction

There is no doubt that US-China relations are of major importance for the future of the global order and especially for international relations in East Asia-Pacific. No other power challenges America's global prominence to the extent that China does and this is likely to be even more the case in the future. The rise of China has already challenged the balance of power in East Asia and America's position in the region. China's growing economic presence in Africa, the Middle East and Latin America has provided an alternative to the US's (and the EU's) influence there and has weakened America's leverage *vis-à-vis* the regimes with which it has differences, such as Iran, Sudan and Venezuela.¹

However, although the rise of China preoccupies American diplomats and Pentagon planners, it would be premature to assume that this relationship is bound to grow more acrimonious. Sino-American relations are simply too complex and multi-layered to be assessed only by focusing on conflict areas. On the positive side, a largely good historical record exists: the two countries were on the same side during the Second World War, America played an active role in bringing China back into the global system and there are close societal links between the two countries. For example, a considerable proportion of China's young and upcoming élite has been educated at American universities. On the other hand, the two states are locked in uneasy relations over Taiwan and they increasingly compete for influence in the wider East Asian arena. The economic and energy aspects of the relationship are also ambivalent.

This chapter addresses the post-Cold War evolution of the relationship by way of focusing on some key areas of conflict and cooperation, including regional security, energy and the economy. The chapter also discusses Washington's and Beijing's policy approaches towards each other.

1. Marcin Zaborowski, 'US China policy: implications for the EU' (Paris: EUISS, October 2005); Pierre-Antoine Braud, 'La Chine en Afrique: Anatomie d'une nouvelle stratégie chinoise' (Paris: EUISS, October 2005).

The end of the grand bargain

In the 1970s President Richard Nixon and Chairman Mao Zedong, followed by President Jimmy Carter and Supreme Leader Deng Xiaoping, constructed a strategic 'grand bargain' that kept the Sino-American relationship on the path of *rapprochement* until the end of the Cold War. The 'bargain' concerned first and foremost China's posture in the Cold War context, Beijing declaring itself neutral and severing its security links with the Soviet Union. In return, the US recognised the People's Republic of China (PRC) and committed itself to a 'One-China' policy. Consequently, Washington severed its diplomatic links with the government of the Republic of China (ROC) in Taiwan and withdrew from its defence treaty with the island, although it declared that it 'continues to have an interest in the peaceful resolution of the Taiwan issue and expects that it will be settled peacefully by the Chinese themselves'.²

It is worth noting that although farsighted and controversial, America's policy shift with regard to Taiwan did not seem as radical in the 1970s as it may appear today. After all, the 'One-China' principle was not a matter of debate, in fact it was one of the few areas of consensus between the mainland and the island. There was no disagreement between Beijing and Taipei on the principle of unification, which was seen by both sides as their ultimate objective, albeit on their respective terms. There was also no normative argument involved – Taiwan was a dictatorship, just like the mainland. Perhaps most importantly, there was no sense of urgency in addressing the issue – both the US and China agreed that the Taiwanese question should be relegated to the background and dealt with in the distant future.

Underpinning this 'grand bargain' there were some vital security and economic interests. The US was eyeing China as a huge untapped market and the Chinese were looking towards the US as a useful partner in overcoming the country's isolation and backwardness. As long as the Cold War persisted, even the American military presence in Asia-Pacific was seen as mutually beneficial, with the Chinese perceiving it as a useful and cost-free bulwark against the Soviet threat. China also provided the US with valuable intelligence during the Soviet operation in Afghanistan and the US did the same for China during its border war with Vietnam in 1979.

2. As quoted in Kerry Dumbaugh, 'Taiwan's Political Status: Historical Background and Ongoing Implications', *CRS Report for Congress*, 23 February 2006, p. 3.

With the end of the Cold War and the demise of the Soviet threat, the terms of the grand bargain have collapsed one after another. In the wake of the Cold War the US no longer perceived China as a strategic asset in its competition against the former Soviet Union. In fact, with its dynamically expanding economy and its growing international confidence, China started to be seen by some in Washington as a replacement for the outgoing Soviet threat. For China the American military presence in its vicinity and its security alliances in Asia-Pacific lost their value as a cost-free deterrent against the Soviets; instead, they now perceived all this as directed towards the containment of China itself. Finally, the Taiwanese issue, for so long put on the back burner, came back to haunt the relationship much earlier than anticipated by Mao, who had not envisaged this happening for at least a century. No longer a military dictatorship, Taiwan is now a democracy. Moreover, the principle of 'One China' ceased to unite Beijing and Taipei, with the Taiwanese President Chen Shui-bian being elected in 2000 and 2004 as an advocate of the island's independence.

In other words, since the 1990s the Sino-American relationship has been affected by two sets of challenges – the end of strategic congruence that followed the collapse of bipolarity and the re-emergence of regional East Asian conflicts (most importantly China's disputes with Taiwan and Japan), with the US being often pitched against China in this context.

Contemporary ambiguity

The post-Cold War Sino-American relationship remains dynamic, often close yet at the same time highly ambivalent. America is both China's friend and its regional rival. For one American President, China was America's 'strategic partner', for another it is its 'strategic competitor'.³ Washington and Beijing tend to agree on how to handle North Korea but are much less in agreement on how to deal with Iran. Economic relations between the two are increasingly interdependent, yet they are also burdened by a growing number of trade and exchange rate disputes. There are three main areas of the relationship where this ambivalence is most apparent – (i) relations in Northeast Asia, (ii) energy and (iii) economic relations.

3. The term 'strategic competitor' was used by President George W. Bush during his campaign to differentiate his approach from the approach of President Clinton, who referred to China as a 'strategic partner'.

Northeast Asia

Despite the end of the Cold War, America remains present in the East Asian region both diplomatically and militarily. Through its alliances with Japan and South Korea as well as its close relations with Taiwan, the American presence in the region is a pivotal element in the regional balance of power. There are currently 34,000 US troops based in Japan and another 37,000 in South Korea. Japan remains almost completely reliant on American military protection and its security relations with the US have only strengthened in recent years, including an agreement on Japan hosting America's missile defence installation. In a historic decision signifying its first overseas deployment since the end of the Second World War, in 2004 Tokyo agreed to send troops to Iraq.⁴ The alliance with South Korea remains less intimate not least because the US has been critical of Seoul's 'sunshine policy' towards the North which Washington sees as weakening its leverage on Pyongyang. Still, Seoul is firmly supportive of the US military presence in the area and it tends to bandwagon behind the US on all major security issues, including Iraq.⁵

Taiwan

But it is America's relations with Taiwan that represent the most contentious issue in the Sino-US relationship. Contrary to common belief, the US has not officially committed itself to the defence of the island. The Taiwan Relations Act (TRA), adopted by the Congress as the basis for regulating America's relations with the island in 1979, does not oblige the US to resort to military intervention in the event of an attack. The TRA refers merely to US interest in a peaceful resolution of the Taiwan question, stating in this context that forceful military action would be of 'grave concern to the United States' and that Washington's policy is to 'maintain the capacity of the United States to resist (...) coercion' in addressing the Taiwanese issue. In this context, the TRA provides for the sale of US defence equipment and services to Taiwan that 'may be necessary to enable Taiwan to maintain a sufficient self-defence capability'.⁶

However, as long as the Cold War endured, Washington was willing to compromise with the mainland even in such sensitive matters as its arms sales to Taiwan. In a joint US-PRC communiqué, issued in August 1982, the PRC stated that its 'fundamental policy' was to resolve the Taiwanese issue peacefully. In return, Washington stated that it did not 'seek to carry out a long-term

4. The six hundred strong Japanese troops deployed in 2004 were withdrawn from Iraq in June 2006. See: <http://edition.cnn.com/2006/WORLD/meast/06/20/iraq.japan/index.html>

5. South Korea deployed approximately 3,000 troops to Iraq in February 2004. (See: <http://www.heritage.org/Research/AsiaandthePacific/wm427.cfm>). It withdrew 1,000 troops in 2006 (<http://english.aljazeera.net/NR/exeres/AC016D54-C0DC-479F-99C6-56C9F1E6ABE2.ht>).

6. As quoted in Kerry Dumbaugh, op. cit., p. 4.

policy of arms sales to Taiwan' and that 'it intends to reduce gradually its sales of arms'.⁷

Following the normalisation of US-China relations and the adoption of the TRA, Washington's policy towards Taiwan has been referred to as 'strategic ambiguity'. On the one hand, Washington recognised the PRC as the only legitimate representative of China and it agreed with the principles of the 'One China' policy, also indicating that it was going to end its arms sales to Taiwan in the future. On the other hand, the TRA provided for unofficial yet still extensive relations with Taiwan and continuing arms sales to the island. Whilst the 1982 US-China communiqué implied an eventual ending of the sale of American weapons to the island, it left it to the US to decide on the timing of such a termination.

'Strategic ambiguity' proved effective in maintaining the delicate balance in the US-China-Taiwan triangle until the end of the Cold War and even later into the early 1990s. However, the post-Cold War rise of China and the weakening of the strategic rationale for the continuing Sino-America *rapprochement* put America more firmly in the position of Taiwan's protector. Rather than decreasing the sale of its arms, as suggested by the terms of the 1982 communiqué, the sales of US weapons to Taiwan have actually expanded. For example, in 1992 the US sold 150 F-16 aircraft to Taiwan and, more recently, in 2001 President Bush approved a sale of Kidd-class destroyers, antisubmarine P-3 'Orion' aircraft and diesel submarines.⁸

The US has also made some bold moves and issued declarations suggesting that it would resist any aggression against Taiwan. In 1996 the PRC fired missiles close to the Taiwanese shore in an apparent attempt to influence the presidential elections there – allegedly, to discourage the islanders from voting for Lee Teng-hui who was critical of Beijing's version of the One-China policy.⁹ President Clinton responded by sending two US carrier battle groups into the area. In 2001 President Bush publicly declared that the US would do 'whatever it takes' to help Taiwan's defence – this position signifying a departure from the more cautious tone of his predecessors.

In other words, 'strategic ambiguity' seemed to be giving way to a clearer and more assertive position on the Taiwanese issue in Washington. On the other hand, the US has not abandoned its 'One-China' policy and it continues to oppose Taiwanese independence. Reportedly, the US is involved in a fair amount of

7. As quoted in Kerry Dumbaugh, 'Taiwan: Recent Developments and US Policy Choices', *CRS Issue Brief for Congress*, 24 January 2006, p. 3.

8. *Ibid.*, p. 1.

9. Ross Terrill, *The New Chinese Empire and What it Means for the United States* (New York: Basic Books, 2003), pp. 13-14.

arm-twisting to discourage the current administration of Chen Shui-bian against declaring independence and antagonising the mainland. This suggests that despite all the occasional muscle-flexing, the US and China are in fact implicitly co-operating on the Taiwanese issue and that their objectives are not really irreconcilable.¹⁰

North Korea

The area where US-Chinese co-operation is far less problematic, although far from being free from controversy, is North Korea. Historically, the US and China were at the frontline of the Cold War divide in the Korean peninsula. During the Korean War US marines faced the Chinese 'voluntary army' that crossed the border to support the North Korean communist forces. Following the Armistice Agreement, the US signed a Mutual Defence Treaty with the South in 1953 and it effectively became the sponsor state of the Republic of Korea (ROK), basing its troops directly over the Southern side of the Armistice Line poised to deter aggression from the North. China played a similar role *vis-à-vis* the Democratic People's Republic of Korea (DPRK), signing a bilateral treaty with Pyongyang and (alongside the Soviet Union) committing itself to the economic and military assistance to the North.

This state of play remained in place unchallenged throughout the Cold War; in fact, much of it persists. Whilst China established diplomatic relations with the South in 1992, the US has not done the same with the North. Some American forces have been pulled out from South Korea, but the US continues to maintain a large military presence there. In the meantime, China maintained and, indeed, increased its position as the DPRK's sponsor and its main economic lifeline. China accounts now for 40 percent of the North's trade (twice as much as South Korea), it continues to supply the North with essential fuels and grain and the DPRK's economy is increasingly incorporated into China's development plans for its northeast regions.¹¹ Perhaps most importantly, China is in favour of retaining the *status quo* on the Korean peninsula and preventing a collapse of the DPRK. There are many reasons why China chooses to pursue this approach, not least because of a likely flood of North Korean refugees across its 1,400 km long border and the subsequent economic implications for its weak northeast regions. But an expectation that the US could dominate a future unified Korea forms an important part of Beijing's rationale for its continuing support for the current DPRK regime.

10. Banning Garrett, Jonathan Adams and Franklin Kramer, 'Taiwan in Search of a Strategic Consensus', *Issue Brief*, The Atlantic Council of the United States, March 2006.

11. 'China and North Korea: Comrades Forever?', *Asia Report* no. 112, International Crisis Group, 1 February 2006, pp. 2-4.

However, despite these historical and contemporary differences, the US and China share one very important objective – a strong preference for a nuclear-free Korean peninsula. For America, a nuclear North Korea represents a direct threat to its position in the region – where it may attack or blackmail its allies Japan or South Korea – and in the longer term DPRK may develop a capacity (i.e. the Dapodong-II missile, which is planned to have a 4,000-mile range) to reach the US itself.¹² Even more urgently, the US is seriously concerned about the possibility of Pyongyang selling its nuclear technology to terrorists, which is not an impossible prospect considering the DPRK's dire economic situation and the regime's involvement in illegal activities (for example counterfeiting US currency and trade in narcotics).¹³

China opposes North Korea's nuclear programme for a variety of reasons, of which perhaps the most important are its regional security implications and especially the reaction of Japan. China sees the progressive 'normalisation' of the Japanese defence policy as largely prompted by North Korea's aggressive posture, such as the incident in which the DPRK fired a missile that flew over Japan in 1998 or the revelation in 2002 that Japanese citizens had been kidnapped over the years by the North Korean secret service.¹⁴ According to the Chinese, these incidents provided Japan with an 'excuse' to remilitarise and change its constitution in the way that would allow it to take a more proactive security role in the region and possibly counterbalance China's influence.¹⁵ China is also worried that further development of the North's nuclear programme could prompt a domino effect in the region with Japan, South Korea and even Taiwan (the latter being the most alarming prospect for Beijing) going nuclear too. There are also environmental concerns for Beijing to consider, such as the possibility of an accident at a North Korean nuclear facility along the border, which would be likely to result in a large-scale contamination of the Chinese northeastern regions.¹⁶

The US and China have closely cooperated over the North Korean issue. China was instrumental in setting up the Six-Party Talks framework in response to the US demand to multilateralise the North Korean issue. China was also the main architect of the failed agreement following the fourth round of Six-Party Talks in September 2005. This agreement was meant to end the DPRK's nuclear programme and facilitate its return to the NPT in exchange for America's security guarantees and international help

12. For more on the missile programme, see Jimian Yang et al, *New Missions for China and US: Strategy-Making & Policy Options* (Shanghai Institute for International Affairs, February 2006), pp. 72-3.

13. William J. Perry, 'In Search of a North Korean Policy', *Washington Post*, 11 October 2006.

14. Yang et al, *New Missions for China and US*, op. cit., pp. 72-3.

15. *Ibid.*, p. 70.

16. 'China and North Korea: Comrades Forever?', op. cit., p. 12.

in the construction of light-water reactors in North Korea.¹⁷ Although the September 2005 deal has subsequently collapsed, Washington's cooperation with Beijing has only increased over time. In less than a year Presidents Bush and Hu Jintao had three meetings and six telephone conversations to discuss the North Korean issue. There have been numerous interactions between the Chinese Foreign Office and the State Department, including Beijing sending its special envoy to the US and frequent visits by Chris Hill (US special envoy responsible for the DPRK dossier) to China.¹⁸

Whilst the US and China agreed on their opposition to the North Korean nuclear programme, until recently they have had very divergent views on the best tactics to be applied towards Pyongyang. Washington has been continuously in favour of sanctions whilst Beijing has preferred dialogue and negotiations. However, following the nuclear test that North Korea appears to have carried out on 9 October 2006, both the US and China voted at the United Nations in favour of a resolution demanding an immediate return of the DPRK to Six-Party talks and imposing sanctions (under chapter 7, though excluding the use of force) against Pyongyang.¹⁹ Although subsequently some differences have emerged in Washington's and Beijing's respective interpretations of the sanctions (with China declaring that it would not search North Korean cargoes) the very fact that for the first time China endorsed a putative action against its protégé demonstrates the growing convergence of American and Chinese interests on the issue.

Energy

The US and China are the world's largest energy consumers and major importers of raw materials, especially gas and oil. Both the US and China are expected to maintain this position and further increase their dependency on external energy sources in the future. By 2030 China's oil demand will grow by 150% from 5.3 to 13.3 million barrels per day (mb/d) whilst America's oil consumption will grow by 39% from 19.7 mb/d in 2002.²⁰ The US now imports about 47% of its oil but by 2030 this figure will have climbed to 66% whilst China's dependency on imported oil may grow from 40% in 2004 to as high as 80% in the next 20 years.²¹ In many respects, China and the US are therefore in comparable positions – they

17. See 'Vague statement appeases needs of all sides' and 'China basks in achievement of bringing Pyongyang in from the cold', *Financial Times*, 20 September 2005.

18. Yang et al, *New Missions for China and US*, op. cit., p. 75.

19. 'Security Council Condemns Nuclear Test by Democratic People's Republic of Korea', Resolution 1718 (14 October 2006). See: <http://www.un.org/News/Press/docs/2006/sc8853.doc.htm>.

20. Nicole Gnesotto and Giovanni Grevi (eds.), *The New Global Puzzle. What World for the EU in 2025?* (Paris: EUISS, 2006), pp. 64-5.

21. 'The Military Power of the People's Republic of China 2005', Annual Report to Congress, Office of the Secretary of Defense, Washington D.C., p. 10. Available online at: <http://defenseink.mil/news/Jul2005/d20050719china.pdf>; see also *The New Global Puzzle*, op. cit., chapter on energy, pp. 53-74

both have enormous energy needs and both are eying each other warily as competitors at the global energy market.

The two states are also deeply suspicious about each other's foreign policy agendas in the energy-rich regions. The Chinese see America's Middle Eastern policy as driven first and foremost by its quest for oil and its 'war on terror' becoming an excuse to secure US access to the region's resources. America's 'democracy promotion' agenda is seen in this context as a tool for securing its lasting political influence and making sure that the governments in the region will favour close economic relations with the US. As argued by Jiamian Yang, 'the US has taken a road of democracy promotion for energy security'. The US military presence in Iraq and even in Afghanistan serves the same purpose according to Chinese scholars.²²

The US views with equal apprehension China's growing presence in the Middle East, Africa and even in its direct vicinity in Latin America. There are three types of standard arguments that appear in the US debate on the issue. Firstly, China's aggressive investments are blamed for pushing oil prices up to the level that hurts the global, especially American, economy. It is also argued in this context that much of the recent price hikes have been artificially created by China seeking contracts that would guarantee it sole use of supplies.²³ Secondly, China is accused of undermining US diplomacy and its anti-terror campaign by investing in the states that Washington accuses of sponsoring terrorist networks, such as Iran and Sudan.²⁴ Thirdly, some experts argue that China is proliferating its conventional and unconventional weapons technology in exchange for oil contracts in the Middle East and especially in Iran and Saudi Arabia.²⁵

America's economic and political prominence in the oil-rich Middle East and to a lesser extent in Latin America is apparent. However, judging by the trends of today it appears that despite (or more to the point perhaps because of) its mighty military presence in the Middle East, America's influence in the region is declining. America has withdrawn from Saudi Arabia, following its invasion of Iraq its image in the region is now at an all-time low and, with the exception of Israel, it has become politically suicidal for any Middle Eastern leader to side openly with the US. Anti-Americanism is also rising in Latin America, and especially in Hugo Chavez's Venezuela, which remains one of the US's main oil suppliers.

22. Yang et al, *New Missions for China and US*, op. cit., p.38.

23. For example see 'Statement of Hon. C. Richard D'Amato, Chairman, US-China Economic and Security Review Commission', 13 July 2005. Available online at: http://www.uscc.gov/testimonies_speeches/testimonies/05_07_13_testi_damato.pdf.

24. 'The Military Power of the People's Republic of China 2005', op. cit.

25. Dan Blumenthal, 'Providing Arms: China and the Middle East', *The Middle East Quarterly*, Spring 2005.

In both the Middle East and Latin America, China's influence is growing, backed by its policy of investment that carries no political conditions. Beijing has also increased its diplomatic activity in the Middle East as demonstrated by its appointment of a special envoy for the area, Ambassador Wang Shijie, and a series of high-level state visits. For example, the visit of President Hu Jintao to Egypt and Algeria, in February 2004, led to the establishment of the Sino-Arab Cooperation Forum with the overt purpose of promoting energy links between China and the Arab states.²⁶ Following the visit of six finance ministers of the Gulf Cooperation Council (GCC) to Beijing in 2004, China has entered into negotiations on the establishment of a free trade area with these states.²⁷

China's potentially most promising energy relationship is with Iran. Shortly after Bush's re-election in autumn 2004, China's Foreign Minister Li Zhaoxing flew to Tehran where he concluded an oil and gas deal between the state-owned Sinopec and Iranian oil ministry. The deal could be worth as much as US\$100 billion over the next thirty years and according to some US commentators it is the primary reason why Beijing opposes UN sanctions against Iran in response to its nuclear programme.²⁸

But China's oil diplomacy goes well beyond the Middle East and Iran and it now includes Africa (from where over 30 % of China's oil comes),²⁹ Russia, Central Asia and Latin America. The US is especially nervous about the latter and most of all about Beijing's increasingly cosy relationship with defiantly anti-US Venezuelan President Hugo Chavez who was lavishly hosted by the Chinese on his 4-day trip to the country in December 2004.

Most recently, America's concern about China's expansion into energy markets has hit closer to home – in the US itself. In June 2005 China National Offshore Oil Company (CNOOC) bid for the acquisition of Unocal, a middle-size American oil company based in California. CNOOC offered US\$18.5 billion (the highest offer in the bid) and, in order to appease the growing political opposition to the deal, it made a commitment not to sell Unocal-controlled oil and gas resources based in the US to China.³⁰ The deal became highly publicised in the US, encountering stiff opposition from members of the Congress and especially from the US-China Economic and Security Review Commission (USCC). The critics pointed out that CNOOC remained a state-controlled company (70%) and that its offer was heavily subsidised by the Chinese state. It was also argued that while China embarked on taking over

26. 'Sino-Arab cooperation forum focuses on energy', *People's Daily Online*, 14 April 2005.

27. Yang et al, *New Missions for China and US*, op. cit., p. 39.

28. Blumenthal, 'Providing Arms: China and the Middle East', op. cit.

29. Pierre-Antoine Braud, 'La Chine en Afrique: Anatomie d'une nouvelle stratégie chinoise', op. cit.

30. Yang et al, *New Missions for China and US*, op. cit., p.39.

a strategic sector US company, its own energy market remained closed to significant foreign investment and controlled by the state.³¹ Whilst some of these arguments have been driven by pragmatic considerations, there is no doubt that the chief argument against CNOOC's acquisition of Unocal was political, with 'national security' rhetoric being brought to the forefront of the debate. In this intensely politicised atmosphere the Chinese decided to pull out from the bid. As a result the CNOOC incident, together with the more recent Dubai port deal, became clear evidence of politically motivated protectionism in America.

There is no doubt that the energy aspect of the Sino-American relationship is a difficult one. However, it is an exaggeration to see it as destined to lead to conflict. The fact that both the US and China are increasingly dependent on external energy sources does not necessary imply that they have to compete against each other or that they have to see each other as threats.³² For example, until recently it was not China but Japan who was the world's second energy consumer and Japan still remains the world's second importer of oil. Yet there has never been a serious debate in the US about Japan being a threat to US energy interests.

This suggests that the energy relationship between the US and other countries is influenced primarily by political considerations and Washington's perception of whether a given country is an ally or not. America is not sure about China in this respect; hence this energy relationship tends to be ambivalent. On the one hand, there are the tensions as previously outlined; on the other hand the two countries are engaged in an energy dialogue that may lead to a more co-ordinated approach. For example, in May 2004 the US and China signed the Memorandum of Understanding regarding energy policy dialogue and energy issues were amongst the main topics of discussion at the Sino-US high-level Strategic Dialogue in August 2005.³³ Arguably, as major energy importers, both countries have a joint interest in keeping energy prices down. They both share a common concern about the safety of transport routes, with China effectively relying on American protection in the Malacca Strait, through which most of its imported oil is shipped. Finally, global energy security is dependent on the stability and predictability of the international system – China's and America's views on global governance may differ but their interests coincide in seeking to prevent a major energy crisis that would hurt their consumers.

31. 'Statement of Hon. C. Richard D'Amato, Chairman, US-China Economic and Security Review Commission', op. cit.

32. As argued in the chapter by Philip Andrews-Speed, China avoids competing against the US and tends to invest in the countries where the US presence is small or non-existent.

33. Yang et al, *New Missions for China and US*, op. cit., p. 43.

Economic and trade relations

US-China economic relations have expanded vastly since the establishment of official contacts in 1979. Total US-China trade rose from US\$5 billion in 1980 to US\$285 billion in 2005. Whilst the EU has recently become China's main trading partner (overtaking the US) the US remains its biggest export market. For the US, China is now its third trading partner, its second largest source of imports and its fourth largest export market. There is no doubt that US-China economic relations are extremely dynamic and increasingly interdependent. However, the commercial ties between the two countries have also been strained by a number of disputes of which the most important have revolved around the US trade deficit, China's currency policy and its poor record in protecting intellectual property rights (IPR).³⁴

The US's trade with China has recorded a rapidly growing deficit since the late 1980s, reaching close to US\$202 billion in 2005. Last year the US imported goods from China worth US\$243.5 billion (whilst its exports were worth only US\$41.8 billion), which accounted for 14.5% of total US imports. The importance of China as a source of US imports has grown from eighth-ranking in 1990 to second in 2005. Moreover, whilst in the past the US was mostly importing labour-intensive and unsophisticated products (toys, games, clothing), the proportion of technologically-sophisticated products (such as computers) has steadily risen in recent years.³⁵ The ever-expanding deficit has increasingly alarmed the Administration and especially the US Congress. The Congress has responded with legislation aimed at pressuring China to open up its market to US products and change its monetary policy (i.e., by appreciating the yuan), which is seen in the US as the major source of the deficit.

The Chinese currency, the yuan, was pegged at 8.28 to the US dollar between 1994 and 2005. In order to maintain this level of exchange, the Chinese government intervened in the international market and imposed restrictions and controls over the movement of capital in China. American policymakers and business leaders argued that the Yuan was undervalued *vis-à-vis* the dollar by 15-40% and that the policy was hurting US producers especially in the manufacturing sector. Members of the Congress have called on the Administration to pressurise China to appreciate its currency or to float it freely on the international market.

34. For a detailed US perspective on these questions, see Wayne M. Morrison, 'China-US Trade Issues', *CRS Brief for Congress*, 21 March 2006.

35. All data here quoted after Morrison, 'China-US Trade Issues', *op. cit.*

Beijing has been reluctant to respond to these pressures, arguing that its currency policy was not designed to promote exports but to maintain economic stability at the time of major structural reforms.³⁶ However, in July 2005 China announced a change in its policy – an immediate appreciation of the yuan *vis-à-vis* the US dollar by 2.1% and moving towards an adjustable exchange rate based on movements within the basket of designated currencies (US dollar, the Japanese yen, the euro and the South Korean won). Still, this change has been seen in the US as insufficient and pressure and calls (including the threat of a Senate bill introducing a 27% tariff on Chinese products) for a more thorough reform have continued.³⁷

The other major economic dispute concerns violations of US intellectual property rights (IPR) in China. According to American sources, counterfeiting of US products takes place on a massive scale in China, depriving US producers of licence fees. For example, it is estimated that counterfeits constitute between 15-20% of all products made in China and account for about 8% of its GDP. Industry analysts estimate that IPR piracy cost US copyright firms \$2.3 billion in lost sales in 2005. The piracy rate for IPR-related products, such as films, music and software, is over 90%.

According to the terms of its WTO accession (November 2001), China was obliged to bring its IPR laws into compliance with the organisation's standards. China has subsequently passed relevant legislation and the United States Trade Representative (USTR) has stated on a number of occasions that China has indeed made much progress in creating a legal framework to deal with piracy.³⁸ However, whilst in terms of anti-piracy legislation China may be close to international standards, its enforcement record is still rather lax. In the rare instances when IPR-offenders are caught they are subjected to mild penalties. Widespread corruption is also a factor here, with some governmental agencies being 'encouraged' to be less vigilant in pursuing piracy.

This economic relationship is certainly a difficult one with the issues of trade deficit, piracy and Chinese acquisition of American companies becoming an integral part of the 'China-threat' discourse in the US. However, US-China economic relations are also increasingly close and interdependent. For example, while the trade between the two countries is massively unequal it is also true that China effectively finances a considerable share of America's

36. Fan Shengqiu, 'An Assessment of the World Economic Situation in 2005', *International Strategic Studies*, China Institute for International Strategic Studies, January 2006, pp. 34-41.

37. Morrison, 'China-US Trade Issues', op. cit.

38. 'US-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement', United States Trade Representative, Washington D.C., February 2006.

budget deficit. China is now the second (after Japan) purchaser of US government bonds, with its acquisitions amounting to US\$257 billion at the end of 2005. Some US analysts worry that should the Congress be successful in pushing China to appreciate its currency this would have a negative effect on the level of China's purchasing of the US bonds, which could result in higher interest rates, possibly leading to the slowdown of the US economy. In other words, the Chinese need the Americans to keep buying their products but the Americans need the Chinese to keep buying their bonds.

Whilst China and the US are bound to disagree on some economic issues they do have much more in common than may be apparent from focusing on trade deficit or IPR. Most importantly, they both embrace globalisation and both share a belief in the value of the market economy. The US played a crucial role in bringing China out of its self-isolation and facilitating its gradual opening up to the global market. American economic success has served as an inspiration for Chinese leaders, especially for Deng Xiaoping. While it is natural that the US views China's galloping economy with some apprehension, in many respects the US is also responsible for China's economic success.

Policy approaches

Ambivalence is apparent in all major spheres of Sino-American interaction. It is therefore natural that ambivalence also occupies a central place in the official policies of Washington and Beijing regarding each other. In its official pronouncements the US always embraces the rise of China and although some American policy-makers may have qualms about China's success they do realise that this is an unstoppable process. Hence, the guiding American objective with regard to Beijing is not to stop but to influence the rise of China in a way that would be conducive to US interests. For China, the top objective is first and foremost its self-enrichment but also, and increasingly so, America's acceptance of its privileged role in the Asia-Pacific.

The view from the US

Whilst the guiding principle of America's China policy is clear, this is not to say that there exists a domestic consensus on how to handle relations with Beijing in the US. In fact, hardly any other subject divides Washington's foreign policy community as much as Sino-American relations. There is certainly a very strong lobby of China bashers in the US, especially in the Congress where a peculiar coalition of right and left wing interests meet in demanding that the Administration takes a tougher stance towards Beijing. This coalition includes foreign policy conservatives, evangelical Christians, economic protectionists and human rights activists; and as such it covers a very broad spectrum of opinion in the Congress and it cuts across the parties. On the other hand, there exists an influential group of 'China-optimists', which consists of the realist branch of foreign policy experts and business leaders, who argue that the US has benefited from engaging China and that it should continue to do so.

Both these bodies of opinion have at times been successful in influencing Washington's China policy. For example, it was apparent that China-optimists, especially business interests, had a hand in promoting America's endorsement of China's WTO membership and the ending of the sanctions following the massacre at Tiananmen Square in 1989. On the other hand, the China-sceptical Congress amended the Taiwan Relations Act of 1979 by including comprehensive arms sales provisions in it. The pressures from the Congress have also forced the Administration to adopt a tougher position in the negotiations on China's WTO membership. Finally, the Congress set up the US-China Economic and Security Committee (known among other things for its role in opposing the sale of Unocal to the Chinese CNOOC) and it requires governmental agencies to report on Beijing policies, e.g. such as the Pentagon's annual reports on the PLA's modernisation.

However, despite the existence of these powerful and conflicting pressures in Washington, America's China policy has been marked by a remarkable consistency. There is a certain irony in the fact that a number of American presidents came into office declaring a major shift in their policy towards Beijing but then settled on the continuation of the policies of their predecessors. For exam-

ple, Ronald Reagan argued against Carter's policy of opening up to China and in favour of 'restoring' America's relations with Taiwan. Subsequently he did neither of these but instead agreed the famous joint communiqué with Beijing in which the US committed itself to lowering its arms sales to Taiwan – a provision that Reagan (unlike some of his successors) actually respected. Bill Clinton criticised President George H.W. Bush (the father of the present President) for his allegedly tame response to Beijing's crushing of the pro-democracy protests in 1989. However, it was under the Clinton presidency that the US removed almost all sanctions against China imposed in response to the Tiananmen incident. Finally, the current President Bush came to office announcing a major overhaul of China policy, which, according to him, should be based on treating Beijing as a 'strategic competitor' and strengthening America's ties with regional allies, especially Japan and Taiwan. Yet, following 9/11 China came to be seen in the White House as a useful ally in the 'war on terror' and a much-needed influence on North Korea.

This record demonstrates that whatever the intentions and political loyalties of presidential candidates, the reality is that America needs a co-operative China. Hence it is in the US's interest to continue engage Beijing. On the other hand, no American President can ignore the fact that China is emerging as the major competitor for its primacy in East Asia Pacific, that the Chinese armed forces are rapidly modernising and that Beijing may sometimes undermine America's efforts at curbing nuclear proliferation. Hence, Washington believes that it cannot afford to lower its guard, it must remain vigilant towards China and be prepared for all scenarios – including military confrontation in the Taiwanese Strait.

This combination of engagement and vigilance (referred to also as dual-tracking) is reflected in all main US strategic documents of recent years. For example, the 2006 National Security Strategy says: 'Our strategy seeks to encourage China to make the right strategic choices for its people, while we hedge against other possibilities'.³⁹ The Quadrennial Defense Review explicitly identifies China as the power with 'greatest potential to compete militarily with the United States' and argues that the US should adopt a 'balanced approach, one that seeks cooperation but also creates prudent hedges against the possibility that cooperative approaches by themselves may fail to preclude future conflict'.⁴⁰

Whilst pursuing this dual-track approach Washington's mes-

39. The National Security Strategy of the United States of America, The White House, 16 March 2006, p. 42. Available online at: <http://whitehouse.gov/nsc/nss/2006/>

40. *Quadrennial Defense Review Report*, Department of Defense, United States of America, 2 February 2006, pp. 29-30.

sage to China might be summed up as follows: you are becoming a great power, you deserve a special place in the world system – it is time for you to act as a *responsible stakeholder*. In other words, Washington is saying that it is prepared to acknowledge and endorse China's growing international status in exchange for Beijing's cooperation on key global issues, such as energy, nuclear proliferation and dealing with rogue states, especially North Korea, Sudan and Iran. Being a *responsible stakeholder* also means in Washington's eyes that China should be moving towards democracy and the rule of law (including dealing with IPR piracy) and that its economic policy should avoid protectionism.⁴¹

The view from China

Unlike the US, China's official foreign policy priorities are not global and remain rather modest. The only significant exception is China's attempt to serve as a champion of the developing countries. But even here it is clear that Beijing's position is driven by its economic considerations and especially its energy interests.⁴² Otherwise, China's strategic priorities are overtly domestic or regional. The Chinese leaders continue to stress the primacy of internal developments whilst keeping a 'low profile' in international affairs.⁴³

However, China's definition of its 'internal developments' stretches to its periphery, routinely including Taiwan. In addition, Beijing's stated intent to keep 'a low profile' in international affairs does not concern its neighbourhood and especially it does not apply to East Asia-Pacific and Central Asia where China systematically expands its influence. What China wants from the US is that it should recognise China's 'special interests' in the region and make room for Beijing in its pursuit of national interests there. The Chinese argue that this is a fair expectation – after all, regional security issues in the Asia-Pacific concern China much more directly than the US. Chinese scholars even tend to refer to the Asia-Pacific as 'China's periphery' and argue that any turn of events there has a major bearing on 'China's core interests' including its 'goal of building a well-off society'.⁴⁴

In this context, the Chinese tend to see America's activity in the region as an interference in its own sphere of influence. Beijing remains particularly concerned about what it calls a '*de facto* US-Japan-Taiwan military alliance' but also about the so-called

41. The 'responsible stakeholder' notion was first introduced by Robert B. Zoellick, Deputy Secretary of State, in his address 'Whither China: From Membership to Responsibility?', given to the National Committee on US-China Relations on 21 September 2005. The notion was subsequently repeated in the 2006 National Security Strategy and The Quadrennial Defense Review Report.

42. See 'Trade to top China-Africa summit', BBC News, 3 November 2006, available at: <http://news.bbc.co.uk/2/hi/asia-pacific/6112360.stm>.

43. For example one of Beijing's top diplomats, Wu Jianmin, has argued that China will keep a 'low international profile' for at least a century; see <http://politics.people.com.cn/GB/1026/3565534.html>.

44. Yang et al, *New Missions for China and US*, op. cit., p. 8.

'colour revolutions' in Central Asia that are seen from Beijing as engineered by Washington.⁴⁵ Beyond its 'own periphery' Beijing has also been deeply critical of America's *rapprochement* with India, which is seen as in part driven by the 'China-hedging' strategy.

Beijing's response to America's presence and its alleged increased activity in Asia has not been much different from Washington's own approach towards China and it boils down to combining cooperation with hedging. Whilst China continues to see the US as its most important partner in the developed world and, as argued here, there is a whole range of global issues on which the two countries see eye to eye, China has also taken a number of steps to hedge against America's influence in the region. Perhaps most noticeable among them was the setting up in 2001 of the Shanghai Cooperation Organisation, which includes a security dimension and has called for the withdrawal of US troops from Central Asia. China has also strengthened co-operation with Russia and the two have conducted military exercises, which included a Taiwanese scenario. Finally, Beijing has initiated the Asian multilateral security cooperation, which conspicuously excluded the US.



The key factors underlining both the American and Chinese policies towards each other are complexity, intensity and mutual suspicion. Despite its intense and increasingly interdependent relationship with Beijing, America is finding it hard to grapple with the phenomenon of China's rise. The crucial issue for Washington is how to ensure that this emerging superpower will be on the same side of the fence as the US. The answer so far has been to offer China a larger say in global affairs at the price of its evolution into a *responsible stakeholder*. But the Chinese do not really want a larger stake in a system that, as they argue, remains dominated by the US.⁴⁶ What the Chinese want is for the US to leave them alone to pursue their policy objectives in the Asia Pacific as Beijing considers fit. This, however, Washington is not prepared to do. As long as this strategic incongruence continues, the Sino-American relationship will run on two tracks. Although these are unlikely to be heading towards a collision course, such a scenario can of course never be definitively ruled out.

45. *Ibid.*, p. 15.

46. Wang Xianyun & Sun Yan, 'A Tentative Analysis of the Adjustment of the US China Policy', *International Strategic Studies*, March 2006, pp. 28-34; Yang et al, *New Missions for China and US*, op. cit., pp.12-16.

Part III

Assembling an EU-China strategy

The EU-China strategic partnership: rhetoric versus reality

Axel Berkofsky

Facing China's rise:
Guidelines for an
EU strategy

7

Introduction

The parameters of the EU-China relationship are now officially based on implementing their so-called 'strategic partnership'. But is it true to say that the EU's China strategy is 'naïve' or 'unrealistic' in this regard, as some European as well as American academics and analysts have argued over the last three years?¹ The democratic EU, these critics argue, differs too much from non-democratic and autocratic China in its approaches towards the conduct of foreign and security policies, global governance and international security. The EU Commission and the EU Council, on the other hand, maintain that engaging China politically and economically is still the wisest if not indeed the only possible course of action, as China is now a global economic, political and military force to be reckoned with, and is likely to become even more powerful in the future.

Arguably, three years after the EU announced its 'strategic partnership' with China, there is still a lack of understanding on the goals and objectives of the envisioned partnership, beyond the expansion of bilateral business and trade relations.

What are the EU's objectives in implementing the 'strategic partnership' and to what extent is Brussels willing to compromise its own values and foreign and security policy principles for the sake of expanding relations on all levels with a country whose human rights record is still questionable at best? What, on the other hand, does Beijing for its part expect from its 'strategic partners' in Brussels, how in Beijing's view does engagement with the EU impact on China's economic and social development and, last but not least, how seriously does Beijing take the EU as global foreign and security policy actor and partner?²

In this author's view, in order to make real and measurable progress implementing the envisaged EU-China 'strategic partnership', Brussels and Beijing now need to focus on and tackle the

1. This question was raised numerous times by European and US scholars attending workshops, seminars and conferences on EU-China relations over the last three years.

2. For Chinese perspectives on EU-China relations, see e.g. Huo Zhengde, 'On the China-EU Strategic Relationship', *International Studies*, vol. 2, China Institute of International Studies (CIIS), March 2005; Yi Wang, 'La Chine et l'UE: vers une coopération stratégique'; in Martin Ortega (ed.), 'Global Views on the European Union', *Chaillot Paper* no. 72 (Paris: EUISS, November 2004).

day-to-day economic and political problems which over the last year have been hitting the headlines on a regular basis: the growing bilateral trade deficit in China's favour, European concerns about China's human rights record, China's failure to implement and enforce effective and transparent intellectual property rights legislation, as well as Chinese concerns about what Beijing refers to as growing European 'economic protectionism'.³ EU-China efforts to pursue and jointly implement so-called 'effective multilateralism' and co-operation on non-proliferation issues should be secondary in the context of EU-China relations, not least because EU and Chinese approaches differ fundamentally, as will be shown in what follows. Three years after announcing the EU-China 'strategic partnership', it has become clear that political rhetoric on the scope and nature of EU-China relations has yet to catch up with political reality.

Is the honeymoon over?

In December 2006 three years will have passed since the EU called for the implementation of an EU-China 'strategic partnership' in its European Security Strategy (ESS).⁴ Already in September 2003 the EU Council adopted the EU Commission's paper on EU-China relations, entitled 'A maturing partnership: shared interests and challenges in EU-China relations', in which the EU referred to China as the EU's 'strategic partner'.⁵ Many EU-China conferences, workshops and seminars with direct or indirect EU Commission participation and/or sponsoring have taken place since then. Three years later, however, the EU goals of the envisioned 'strategic partnership' still remain vague and Brussels finds itself charged with the task of explaining to the outside world what exactly the strategic dimension of relations with China involves.

While countries like China's arch-rival, Japan, and above all the US, fear that the term 'strategic' in the context of EU-China relations implies that Brussels and Beijing are envisioning the expansion of strategic and geo-strategic relations aimed at reducing US global military influence and power, Brussels itself has repeatedly pointed out that 'strategic' is to be understood as 'comprehensive' in the context of EU-Chinese bilateral relations, excluding the

3. In April 2005, the European Commission published a 23-page document listing a number of issues on the EU's current and future China agenda, including envisioned actions and their current degree of implementation. These guidelines for action are arguably the most elaborate and detailed guidelines the European Commission has published for any country or bloc of countries in recent years; for details see 'China – Action Points/Guidelines for Action', External Relations Directorate General, Directorate Asia (except Japan and Korea) China, Hong Kong, Macao, Taiwan, Mongolia, April 2005; available at: http://ec.europa.eu/comm/external_relations/china/intro/2005_stock_ch_strat_april.pdf.

4. Javier Solana, 'A Secure Europe in a Better World', *European Security Strategy*, Brussels, 12 December 2003; available at: <http://ue.eu.int/uedocs/cmsUpload/78367.pdf>.

5. 'A Maturing Partnership: Shared Interests and Challenges in EU-China Relations', Commission of the European Communities, Brussels, 10 September 2003.

notion of a partnership aimed at counterbalancing US regional and global influence.⁶

‘Strategic partnership’, however, must have sounded more impressive than ‘comprehensive partnership’ to EU policy-makers and their counterparts in Beijing at the time, even if it very quickly turned out that announcing a ‘strategic partnership’ created expectations in Beijing which the EU was neither able nor willing to meet. This became particularly obvious during the controversy over the lifting or non-lifting of the EU arms embargo imposed on China in 1989. Back then Brussels had to find out the hard way that (at times high-sounding) political rhetoric does not always match political reality.

The good news is that the expansion of EU-China bilateral economic, trade and political relations over the last three years has without doubt been very impressive and both sides will continue to invest significant political and diplomatic capital and resources in the expansion of bilateral relations.⁷ To date, the EU and China are engaged in roughly 25 ‘sectoral dialogues’ covering a wide range of areas such as intellectual property rights, environment, the information society, energy & scientific co-operation, the peaceful use of nuclear energy, maritime safety, space co-operation, WTO issues and others. The dialogues take place at various levels, from working to ministerial level and increasingly involve business representatives from both Europe and China.⁸

Currently, however, EU policy-makers (like their colleagues in the US) are under pressure to adjust or even re-define trade and business relations with this country whose economy is growing at a rate of 10% per year, thereby creating ever-growing bilateral trade deficits. While EU-China bilateral trade is expected to exceed €200 billion this year, the trade deficit in China’s favour is expected to amount to up to €100 billion this year (as compared to €75 billion last year).

Judging by the issues that have dominated the headlines latterly in the European press, the three-year honeymoon in EU-China relations might indeed be over in view of the fact that ongoing bilateral trade friction and European complaints about the growing trade deficit in China’s favour continue to make it to the top of the agenda of EU-China summits and other official encounters.

6. Especially during the controversy over the EU weapons embargo throughout 2004 and 2005, the US was concerned that the next step of the implementation of the envisioned EU-China ‘strategic partnership’ would be the lifting of the EU embargo. The lifting of the embargo followed by increased EU weapons and weapons technology exports to China, it was feared in Washington, would threaten Washington’s security interests in Asia.

7. See *China’s EU Policy Paper*, The Ministry of Foreign Affairs of the People’s Republic of China, October 2003; available at: <http://www.fmprc.gov.cn/eng/wjzj/zjg/xos/dqzzywt/t27708.htm>; see also Li Zhaoxing, ‘Opening New Phases of China-EU Friendly Co-operation’, available at: <http://www.fmprc.gov.cn/eng/topics/wenjiabaocxzechoy/t174793.htm>.

8. See, for example, Axel Berkofsky, ‘EU-China Relations – Strategic Partners or Partners of Convenience?’; in: ‘German-Chinese Relations: Trade Promotion or Something Else?’, in: Hanns W. Maull (ed.), *German Foreign Policy in Dialogue*, Newsletter, vol. 6, no. 16, Deutsche Außenpolitik.De, June 2005; available at: <http://www.deutsche-aussenpolitik.de/newsletter/issue16.pdf>; see also Stanley Crossick, Fraser Cameron and Axel Berkofsky, ‘EU-China Relations – Towards a Strategic Partnership’; EPC Working Paper, The European Policy Centre (EPC), Brussels, July 2005.

EU-China trade friction, intellectual property rights and economic protectionism: whose court is the ball in?

Chinese government subsidies (regarded as excessive and illegal by the EU) for the Chinese textile and shoe manufacturing sectors have over the last year exacerbated ongoing EU-China trade friction and a long-term solution (as opposed to short-lived bilateral agreements like last year's agreement on the voluntary reduction of Chinese textile exports) has yet to be found and implemented. Looking at the growing trade deficit, however, it is necessary to point out that the ball, to put it bluntly, is only partly 'in China's court', as Chinese manufacturers and exporters essentially only export goods to Europe that European importers are willing to buy.

Not surprisingly, China accuses the EU of 'economic protectionism', maintaining that Brussels is violating the rules of free trade to protect European business from Chinese competition by threatening to impose new tariffs on Chinese shoe and textile imports. Furthermore – and this usually gets limited coverage and attention in the press – it is not Chinese manufacturers and exporters, but rather European and US importers buying Chinese goods and products, who take the lion's share of profits by taking advantage of cheap Chinese labour costs. That is especially the case in the textile and shoe manufacturing sectors where European consumers take advantage of cheap 'sweat shop-manufactured' sneakers and T-shirts.⁹

However – and here the ball is indeed very much in China's court – Beijing will have to address the issue of what Brussels refers to as excessive (or illegal, if one applies WTO regulations) government subsidies for Chinese shoe and textile producers, unless of course Beijing's authorities are prepared to be faced with additional duty and tariffs and shiploads of Chinese-made bras and T-shirts waiting in vain to be cleared for months in Hamburg, Antwerp and Rotterdam.

Also of concern to European business – and, increasingly, to Brussels policy-makers – is Beijing's growing involvement in China's emerging private business sector (an involvement in China until recently limited to the so-called state-owned enterprises). In view of the central government's counterproductive interference in China's private sector, EU policy-makers will be urged by European business to make sure that this interference will be kept to a minimum. Furthermore, the government's inter-

9. See e.g. Thomas Fuller, 'Billions in Trade Gap, Pennies for Workers', *The International Herald Tribune*, 4 August 2006.

ference in China's emerging private business sector certainly does not help China's quest to be acknowledged as a market economy. China has over the last three years unsuccessfully tried to convince the EU that Beijing deserves to be granted the requested market economy status (MES).

Intellectual property rights (IPR) will also remain on top of the EU-China agenda for years to come. China has throughout 2005 and 2006 failed to implement the transparent intellectual property rights legislation protecting European intellectual property in China. Typically in the past, Beijing requested more time, arguing that the geographical size of the country and the boom of private business start-ups make it very difficult if not impossible to effectively implement standardised intellectual property legislation in China. The EU for its part will continue to pressurise the Beijing authorities to enforce WTO-compatible intellectual property rights and regulations, pointing to the fact that roughly 60% of counterfeit goods being sold in Europe originate from China.¹⁰

Spoiling the party? Human rights, cross-strait tensions and the weapons embargo

Well-researched regular reports by Human Rights Watch, Amnesty International¹¹ and other NGOs confirm that China's human rights record is still far from satisfactory, to say the least. Also of concern is the continuing imprisonment of journalists, human rights activists and lawyers critical of the government and Beijing's ill-fated efforts to strengthen control over Chinese Internet users and websites.¹² Currently 50,000 'Internet policemen' are monitoring Chinese websites and bloggers although the government's ability to 'censure' the Internet does not appear sustainable in view of the rapidly growing number of Internet users in China.

The progress of the EU-China human rights dialogue (21 sessions have taken place to date)¹³ must be described as very limited as Beijing has up now not been able (or willing) to provide the EU with the requested 'verifiable evidence' on the improvement on its human rights record. Linked to the human rights issue are EU requests (presented sometimes with more, sometimes with less, insistence in Brussels) for the release of Chinese demonstrators imprisoned after having peacefully demonstrated for democracy and freedom of speech on Tiananmen Square in June 1989. So far, and 16 years after violently clamping down on the demonstrations, however, Beijing is unwilling to meet this EU request,

10. See for example *The World Factbook 2004* (Washington D.C.: CIA, 2004); see also Sylvain Plasschaert, 'China and the WTO', *EPC Issue Paper* no. 20, The European Policy Centre (EPC), Brussels, 15 December 2004; Peter K. Yu, 'From Pirates to Partners: Protecting Intellectual Property Rights in China in the 21st Century', *American University Law Review*, vol. 50, no. 1, October 2000; available at Social Sciences Research Network (SSRN): http://papers.ssrn.com/sol3/papers.cfm?abstract_id=245548; Sumner La Croix and Denise Eby Konan, 'Intellectual Property Rights in China: The Changing Political Economy of Chinese-American Interests', *East-West Center Working Papers Series* no. 39, January 2002.

11. For a critical assessment of China's human rights record, see also 'People's Republic of China: human rights defenders at risk', Amnesty International, December 2004; available at: <http://www.amnesty-eu.org/static/documents/ASA170452004main.pdf>.

12. The most recent case reported in the international press is the detention of the prominent Chinese dissident lawyer Gao Zhisheng who is being accused of 'criminal activity' by the Beijing authorities; for details, see Joseph Kahn, 'Beijing detains dissident lawyer', *The International Herald Tribune*, 19 August 2006.

13. See e.g. 'EU and China Hold 21st Round of Human Rights Dialogue', EU Presidency Press Statement on EU-China Human Rights Dialogue, 26 May 2006; available at: http://www.eu2006.at/en/News/Press_Releases/May/2605EUChinaHumanRights.html.

unconvincingly claiming that the imprisoned demonstrators are a ‘threat to China’s national security.’ To be sure, discussing human rights with Beijing still has the potential to spoil EU-China relations, although one would expect that ‘strategic partners’ should not shy away from discussing sensitive issues to improve what both the EU and China refer to as ‘mutual understanding.’

Arguably, the same should be valid for EU-Chinese interaction in the context of cross-strait relations and tension around the so-called ‘Taiwan question.’ While EU statements and official documents typically do not fail to criticise Taiwanese political rhetoric on cross-strait relations as ‘unhelpful’,¹⁴ the deployment of a steadily increasing number of Chinese missiles directed at Taiwanese territory usually does not get mentioned, at least not on the record. The EU’s position on cross-strait tension is indeed less than outspoken, which is odd in view of European business interests in Taiwan and significant bilateral trade relations. After all, Taiwan is the EU’s fourth-largest trading partner in Asia, and one might expect Brussels to be more concerned with peace and stability in the Taiwan Strait in view of its significant economic interests in Taiwan.

The EU, like the vast majority of countries, follows the so-called ‘One-China principle’ recognising the central government in Beijing as the sole legitimate representative of the Chinese people. However, it is arguable whether the ‘One-China principle’ should keep the EU from having a clear-cut and more outspoken position on cross-strait issues. The US approach towards Taiwan and its cross-strait policies prove that this does not necessarily have to be the case, although the strong US military presence in the region (in total roughly 100,000 troops, mainly in Japan and South Korea) without a doubt adds to the ‘credibility’ of US interests and concerns in the Taiwan Strait. Unlike the EU, the US has defence commitments in the region and maintains close defence alliances with Japan and South Korea that go back for decades.

In view of the EU’s less than outspoken position on cross-strait relations, Beijing does not have to be concerned about EU ‘interference’ in cross-strait tensions and Brussels’ timidity on this issue confirms the view of policy-makers in Beijing that the EU does not yet need to be taken seriously as a foreign and security policy actor with the influence and capabilities to threaten Chinese regional security interests.¹⁵ Even if this reasoning is not part of the official exchange between Brussels and Beijing, it is nevertheless consid-

14. See Ursula Plassnik, ‘A Broad Array of Topics Connects China and the EU’, EU Presidency Statement, 3 February 2006; available at: www.eu2006.at/en/News/Press_Releases/February/0302TroikaChina.html.

15. Numerous conversations with Chinese academics and officials over the last three years have confirmed that China’s military and defence establishment considers the EU position on cross-strait relations as proof that Brussels is still a ‘weak’ foreign and security policy actor.

ered to be an appropriate assessment of the current state of affairs by a number of scholars and analysts, who point out that China is a ‘realist power’ that believes in and is committed to balance-of-power politics backed up and supported by military might and force if deemed necessary.

Then again, armed conflict between China and Taiwan – despite the occasional cross-strait sabre-rattling – is very unlikely as both China and Taiwan are essentially interested in maintaining the current *status quo* and expanding bilateral trade relations (which amounted to more than \$100 billion in 2005).¹⁶ In fact, the absence of an immediate danger of armed conflict between Beijing and Taipei might indeed be the reason why Brussels has decided to keep a low profile on cross-strait issues even if it is debatable whether this is an appropriate position for the EU given its declared ambition to be a global foreign and security policy player.

Beijing does not perceive the EU as a ‘strategic competitor’ in Asia (and beyond) as Brussels has limited strategic interests in the region and (unlike the US) does not have military troops stationed in Asia. This – together with the perception that Brussels is not seeking to expand its global military profile beyond the current level – might indeed be one of the reasons why China has agreed to a ‘strategic partnership’ with Brussels in the first place. Accordingly, as Alyson Bailes points out, Asian regional security issues hardly make it onto the EU-China bilateral agenda¹⁷ and EU sources confirm that the newly-established EU-China dialogue on strategic issues has yet to do more than ‘scratch the surface’ of Asian security issues.

While in 2005 the EU announced in official statements ‘to promise to work towards the lifting of the embargo,’ China ‘chose’ to understand that the EU had effectively promised to lift the embargo, conveniently ignoring the exact nuances of the terminology used by Brussels.¹⁸ Furthermore, the Chinese reasoning on the weapons embargo is based on the (as it turns out faulty) assumption that the lifting of the embargo is a ‘one-way street’: Brussels lifts the embargo and ‘in return’ Beijing agrees to expand its relations with the EU on all levels, offering European business favourable treatment when investing and doing business in and with China.

In reality, however, the EU expected (and still does, even if the EU Commission usually points out that progress on human rights and the ratification of the UN Convention of Political and

16. For a detailed overview of China-Taiwan relations, see ‘Dancing with the Enemy’, *The Economist Survey on Taiwan*, 13 January 2005.

17. For an excellent analysis, see Alyson J.K. Bailes and Anna Wetter, ‘EU-China Security Relations: The “Softer Side”’, Paper presented at the conference ‘The International Politics of EU-China Relations’, British Academy and Chinese Academy of Social Sciences (CASS) London, 20–21 April 2006.

18. For the official EU position on the embargo, see e.g. Joint Statement of the 8th EU-China Summit, Beijing, 5 September 2005; available at: http://ec.europa.eu/comm/external_relations/news/barroso/sp05_478.htm.

Civil Rights are not official 'pre-conditions' for the lifting of the embargo) China to meet EU demands, such as Beijing's ratification of the UN Convention of Political and Civil Rights, the release of prisoners jailed during and after the Tiananmen massacre as well as an improvement in the human rights situation in China before lifting the embargo.

Beijing's insistence on having the weapons embargo lifted as soon as the ink on the EU's September 2003 China paper was dry, has delivered the 'proof' to a number of US academics and analysts (admittedly, many of them working for the US Administration or for right-leaning think tanks close to the Administration)¹⁹ that the necessary pre-conditions for a EU-China strategic partnership (whatever form this might take) are not yet in place (and, in their opinion, never will be). With the weapons embargo question as well as human rights issues in China unresolved, the argument went (and still goes) that China will continue trying to 'hold the EU hostage', demanding that Brussels change or indeed give up some of its foreign and security policy principles in order to implement the 'strategic partnership' with Beijing.

Beijing of course dismisses all of this and maintains that it neither needs EU weapons nor weapons technology and instead argues (admittedly not without logic) that lifting the embargo is to be understood as a signal that the EU is accepting and acknowledging China as an equal partner on the international stage. One of the results of the weapons embargo controversy – without a doubt unintended and undesirable from a Chinese viewpoint – was the establishment of an EU-US (2004) and an EU-Japan (2005) dialogue on East Asian security issues.

At the time, Beijing regarded the establishment of an EU-US strategic dialogue on East Asia security as nothing less than an US attempt to pressurise the EU not to lift the embargo, and it was feared in Chinese policymaking circles that Brussels agreeing to consult with the US on East Asian security issues meant that the EU had already agreed to postpone the lifting of the embargo indefinitely.²⁰ Indeed, the embargo issue was high on the agenda of this dialogue between Brussels and Washington and there is little doubt that Washington made full use of the exchange to urge Brussels to leave the embargo in place. In fact, it is fair to assume that it is very unlikely that the US would have dedicated resources and energy discussing Asian security issues with Brussels without the embargo issue dominating the EU-China agenda in 2004 and

19. Written analysis on China and US-China relations in US think tanks with (very) close links to the US administration, such as the Heritage Foundation or the American Enterprise Institute, more often than not lacked academic depth and credibility and the assessments on China and its foreign and trade policies were often faulty, ill-researched and prone to analytical and factual errors. This was especially the case for the articles on the EU weapons embargo.

20. Numerous interviews and conversations with Chinese government officials and scholars confirm this assessment.

2005. Before the embargo issue began to dominate the headlines, the US was only to a very limited extent (if at all) interested in discussing Asian security issues with the EU, including the nuclear crisis on the Korean Peninsula.²¹

Either way, Beijing will continue to urge the EU to lift the weapons embargo as China (government officials and academics alike) will continue to argue that the weapons embargo leaves the implementation of the envisioned 'strategic partnership' incomplete.

The EU and China: really partners on the international stage?

According to the official rhetoric, the EU and China share common approaches towards global governance and international co-operation favouring and pursuing 'effective multilateralism'.²² This sounds non-controversial and is to be welcomed in principle, but EU and Beijing's policy-makers have yet to go into detail explaining where and how China and the EU plan to pursue joint actions implementing so-called 'effective multilateralism.' The term 'effective multilateralism' became 'fashionable' after the US-led unilateral invasion of Iraq and was used to express the global community's determination to make unilateral decisions to invade other countries, thereby violating international law, a thing of the past. The EU and China also made 'effective multilateralism' part of their bilaterally shared terminology and Brussels and Beijing have continually repeated in official declarations and statements that 'effective multilateralism' is what the EU and China will (individually or jointly) implement. Where and how exactly the EU and China are planning to jointly implement multilateral policies, however, remains largely unclear and undefined.

Besides – and probably more importantly – it is questionable whether Brussels and Beijing really share common approaches towards multilateralism or 'effective multilateralism.' Whereas the EU as an institution itself is a product of a multilateral approach towards international relations, expressing the political will to share and indeed give up sovereignty, there is doubt as to whether the EU and China embrace similar concepts of multilateralism. Instead, China, as its regional foreign and security policies in Asia as well as its headline-making energy security policies

21. For example, even though the EU was involved in the first KEDO Agreement in 1997, the US never encouraged the EU to participate in the so-called 6-nation talks in Beijing.

22. Among many others, see for example Song Xinning, 'EU-China Strategic Partnership: Domestic and International Perspectives'; conference paper presented at the international conference on 'The International Politics of EU-China Relations', British Academy, London, 20-21 April 2006.

in Africa, Central Asia and South America show, typically favours bilateral over multilateral solutions and agreements and only turns to multilateralism when 'necessary'.²³ The same applies to China's regional foreign and security policies in Asia, and Chinese political rhetoric over recent years has often given the impression to the outside world that 'multilateralism' and 'multipolarity' are being used as quasi-synonyms meaning one and the same thing in Beijing's view of the world.²⁴

Whether Chinese policy-makers using and confusing the two terms in the same context is intentional remains a matter of speculation, but there is little doubt that China's vision of the world embraces a concept of 'multipolarity' on which it has put its own stamp, with Beijing as one of the 'poles' of global power and influence. In Brussels, on the other hand, 'multipolarity' and 'multilateralism' are not usually mentioned in the same context and it is the latter principle that the EU advocates.

What does China want?

China is an emerging economic, political and military power in need of international recognition. Whereas the US – at least the current Administration and those in charge of US policies towards Asia and China – perceive China's rapid economic rise as a potential threat to US global influence, the EU has repeatedly declared that China's rise is an 'opportunity' for Europe and the rest of the world. Beijing naturally appreciates such an assessment of its economic and social development, as it chimes with its own rhetoric of 'China's peaceful rise', indicating that its rapid economic growth will not (as realist scholars in the US and elsewhere argue) turn China into an aggressive military superpower with ambitions for regional and global dominance.

Officially, the engagement stance of the EU dismisses the notion that China's economic and military rise is to be perceived as 'threatening.' China is an 'opportunity', not a 'threat', according to the official rhetoric in Brussels.²⁵ However, there is without any doubt concern in European circles about China's rapid economic development and its growing political and military influence in East and Southeast Asia, even if political leaders in those regions (apart from the Japanese and of course Taiwan) typically choose not to voice their concerns on the record, at least not yet.²⁶

23. See for example Liselotte Odgaard and Sven Biscop, 'The EU and China: partners in effective multilateralism', paper delivered at the conference 'The International Politics of EU-China Relations', British Academy, London, 20-21 April 2006.

24. See Kay Möller, 'Europe's Policy: Neither Multipolar Nor Multilateral'; in Gudrun Wacker (ed.), 'China's Rise: The Return of Geopolitics', *SWP Study* 53, Stiftung Wissenschaft und Politik, Berlin, February 2006.

25. For an excellent analysis of the EU's perception of China, see also David Shambaugh, 'The New Strategic Triangle: U.S. and European Reactions to China's Rise', in *The Washington Quarterly*, The Center for Strategic and International Studies and the Massachusetts Institute of Technology, Summer 2005.

26. Numerous interviews and conversations with government officials, journalists and scholars in East and Southeast Asia over recent years have confirmed that China's economic and military rise, happening in parallel with a Chinese quest for regional dominance, is being perceived as potentially threatening in the region.

Admittedly, China's recent regional foreign (and above all foreign economic) policies in East and Southeast Asia, such as its efforts to establish a Free Trade Agreement (FTA) with ASEAN by 2012 as well as the generous provision of financial and economic support for individual developing economies in Southeast and South Asia, resemble those of a 'soft power' achieving political goals through economic assistance and support – even if China's economic, infrastructure and financial support for the military regime in Burma/Myanmar is controversial and a concern in the region and beyond.

In 'return' for Brussels' engagement, Beijing has over recent years done its share to make the EU-25 China's biggest trading partner, and has actively supported and encouraged European investments in China as well as academic and people-to-people exchanges in as many areas as possible.

Conclusion: what next?

EU Member States will continue to speak for themselves and with 'one voice' in only a limited number of areas of bilateral relations. China for its part will continue to deal with individual EU Member States or the EU Commission where and when it sees fit, while from time to time 'complaining' that Europe is not speaking with 'one voice' on foreign and security policy issues (as the controversy over the weapons embargo has shown). As regards European and Chinese co-operation on international issues and security, EU and China's interests and foreign and security policy conduct will continue to differ fundamentally, realistically limiting the number of international issues where the EU and China can jointly produce results.

As Beijing's energy and energy security policies in Africa and Central Asia show, China is implementing its policies strictly according to what Beijing refers to as the 'principle of non-interference' in internal political affairs of governments with which it is doing business. To put it bluntly, it is 'business over principle' in China's global and regional foreign policy (and specifically foreign economic policy) mindset. This approach means that 'external interference' in other countries' affairs is ruled out as a foreign policy tool.

Over recent years China (mainly driven by its rising thirst for crude oil and other commodities) has expanded and intensified

relations with a number of African nations (including Sudan) and Central Asian nations as well as with Burma/Myanmar and North Korea in Asia, regardless of international concerns about serious and internationally acknowledged human rights violations and civil and ethnic wars (as for example in Darfur). Even if the conduct of EU foreign and security policies is not entirely free of contradictions or indeed double-standards, Brussels' approach towards a number of autocratic regimes and dictatorships differs fundamentally from the Chinese approach in the sense that 'interference' – *inter alia* in the form of economic and diplomatic sanctions (as in the case of Burma, North Korea or Zimbabwe or Uzbekistan) – is an instrument of Brussels' foreign and security policy.

In view of the fact that it will remain difficult (if not impossible) to formulate and implement one single EU strategy towards China any time soon, the EU is above all charged with the task of identifying areas of bilateral co-operation where there is a consensus amongst all EU Member States. Even if that might turn out to be a 'mission impossible' in some cases, it is still better to be able to implement a limited number of policies backed by consensus rather than seeking to implement a wide range of policies that lack the support of all EU Member States.

EU-China bilateral trade will continue to grow for years, if not decades, to come. So, however, will the bilateral trade deficit in China's favour if the current bilateral trade problems remain unaddressed. The pressure of European business on EU institutions to urge Beijing to fully open its market is likely to become stronger and already there is a growing dissatisfaction among European investors about the lack of progress in creating more favourable conditions for investment and the protection of intellectual property rights.

At the recent EU-China Summit in Helsinki on September, the EU and China agreed to formally launch negotiations on the envisioned Partnership and Co-operation Agreement which will, according to the summit's joint statement, 'encompass the full scope of their bilateral relationship, including enhanced co-operation in political matters'.²⁷

Whether and how the agreement will give EU-China relations and the Brussels-Beijing 'strategic partnership' new impetus and momentum is certain to be observed with great interest in Europe, China and, last but not least, in Washington.

27. See Ninth EU-China Summit, Helsinki, 9 September 2006, Joint Statement; available at http://ec.europa.eu/comm/external_relations/china/summit/index.htm; see also 'EU and China to agree on opening negotiations for a new comprehensive framework agreement', European Commission press release, Brussels, 8 September 2006; available at: <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/1161&format=HTML&aged=0&language=EN&guiLanguage=en>.

Towards a comprehensive China strategy

Antonio Tanca

Facing China's rise:
Guidelines for an
EU strategy

8

Introduction

The last few years have witnessed a dynamic development of the EU's interest in the East Asian region, to a large extent driven by the phenomenon of China's rise. While the EU is of the view that its East Asian strategy should not be focused on China alone, there is no doubt that Beijing's growing regional and international status calls for special attention on the part of Brussels. For example, the recent nuclear and missile crisis in the Korean Peninsula and the role played by Beijing in finding a diplomatic solution to it, clearly demonstrate that the emergence of China as a global power with an increasing economic weight is taking place in a geopolitical context that remains highly volatile.

This chapter addresses some key aspects of the EU's China strategy. It discusses the rationale behind the development of the strategy and specifies the instruments and policies that the EU can use and pursue to promote effective partnership with China. The chapter also outlines some policy initiatives that the EU has already developed.

Why a comprehensive strategy?

At the latest EU-China Summit, in Helsinki, the two sides stated that their relationship was 'maturing into a comprehensive strategic partnership'.¹ How should this statement be interpreted? How far has the EU developed its thinking on what it expects from its relationship with China? Should the EU approach to China be seen in the more general context of the East Asian region?

Until relatively recently, the Common Foreign and Security Policy (CFSP) of the EU had little to say on Asian issues, partly for historic reasons, although there has for a long time been a presence of some EU Member States in the region. The European

1. Joint Statement of the Ninth EU-China Summit, Helsinki, 9 September 2006.

Commission has been active mostly on economic, trade and specific co-operation issues. But there has been a remarkable absence of the EU as a whole in the East Asian region. A question could be asked: does the EU really need a comprehensive strategy towards a remote part of the world? Should the CFSP address regional security in East Asia? In doing so, is there any value added for the EU or for Asia? This answer to these questions should be positive for a number of reasons.

The EU has a broad approach to security in the world based on its 2003 Security Strategy.² The goals pursued in that context are well known: the preservation of peace and security in accordance with the principles of the UN Charter; the promotion of the rule-based international system; the promotion of regional integration; the development and consolidation of democracy, the rule of law and respect for human rights and fundamental freedoms; as well as the promotion of policies to meet global challenges (e.g. in energy, environment and health). There are several reasons why Asia (and particularly China) are especially relevant for this.

Europe needs the support of Asia (and particularly of key East Asian countries) to pursue its global security and foreign policy goals effectively. Because of East Asia's increasing international political and economic weight, the region's influence is central for the achievement of the objectives outlined in the European Security Strategy (ESS) and other strategic documents of the EU. Japan and the Republic of Korea by and large already pursue a similar agenda. But the role that China will choose to play will be crucial in this context.

It is also clear that, as the first trading partner of China, the EU also has major economic interests at stake in Asia. The level of economic interdependence between Europe and Asia is increasing and it is of critical importance for Europe's future growth prospects. Security and stability in the East Asia region are pre-conditions for the region's continued economic success, and for the EU this has acquired an added dimension of importance given the EU's own direct economic interests there. Hence, the EU has a vested interest in the development of harmonious and co-operative relations between the region's major players. At the same time, it is clear that a possible conflict in the region would have dire security and economic implications for the EU.

The rise of China has added a sense of urgency to the pursuit of the objectives outlined above. It is important that China's growing

2. 'A secure Europe in a better world', *European Security Strategy*, December 2003, p. 11. Available online at: <http://ue.eu.int/ue-docs/cmsUpload/78367.pdf>.

status, whilst clearly a positive development, takes place in a manner that is advantageous for the international community as a whole. Given the geopolitical situation, the potential flashpoints and the increasing importance of China in the region, the EU needs to have a coherent vision on how to manage its relations with Beijing and other countries in the region (notably Japan) in order to better pursue its goals. Clearly, the policy choices of China are of great importance for the world not least because it is probably the only power in the region with the capacity to become a global player. China continues to declare that its paramount interest is in its own peaceful economic development. Should its policies remain true to these declarations, there is no doubt that China's international promotion would greatly contribute to world stability.

All in all, developments in the region are not 'neutral' or 'indifferent' for the EU, and the EU cannot afford to be either neutral or indifferent in relation to these developments. Hence the EU must have a clear strategic vision of what it wants from the development of its bilateral relationship with China and the other countries of the region. The EU must also develop its 'awareness' of the tools it has at its disposal to exert its influence and have a clear vision of their effectiveness and of the means of increasing their efficiency.

The key issues

In the conclusions on the EU-China Strategic Partnership adopted by the Council of the EU in December 2006, one can already single out a number of key issues on which the EU is focusing and to which even more attention should be devoted: there is the rise of China as such, and its growing importance in foreign policy, cross-straits relations and in the security architecture of East Asia. Another issue, not specifically addressed in the Council Conclusions but also relevant, is that of Sino-Japanese and Sino-Korean bilateral relations and the problem of rising nationalisms.

China's rise

It is now commonly stated that the EU should foster the development of China as a successful and responsible member of the international community. The Council Conclusions reinforce this point. The EU should continue to encourage China to play a con-

structive role in the promotion of effective multilateralism. The approach of the EU should be frank, transparent, focused on seeking reciprocity and on promoting deeper engagement. This is as much in the interest of China as it is in the EU's interest.

There are a number of specific fields where co-operation should continue and possibly increase or deepen. Here only some are mentioned which this author believes to be the most important. Besides fields such as arms control, non-proliferation and counter-terrorism, on which there is an ongoing dialogue, co-operation should increase further on energy and environmental issues. Some significant steps were taken at the 2005 Beijing Summit and the importance of these issues was reconfirmed at the latest Helsinki Summit in September 2006. But more needs to be done.

The question of illegal migration arouses a great deal of concern in European public opinion. China's internal developments should be followed and monitored with great attention, especially the negative effects of its economic growth (e.g. in terms of the environment, the growing income gap etc.). At the same time, the EU should contribute to the development of China's confidence in the international system. Not least important are China's activities in the developing world. The EU should actively pursue the structured dialogue on Africa, which has been launched at the latest Helsinki Summit.

On the question of *cross-straits relations*, the Council Conclusions clearly reaffirm the EU's One China Policy as well as the EU's wish to see both sides taking initiatives aimed at promoting direct dialogue between them, practical co-operation and confidence building. These measures include direct cross-straits flights, reduction in barriers to trade and increased people-to-people contacts. Recently the EU has been more active in taking a stance on cross-straits issues. However, it should heighten its level of attention on this issue even more. It should further develop its understanding of the cross-straits military balance (which would allow it to take sound decisions under the Code of Conduct). Also, it should not refrain from praising positive developments, and openly encouraging dialogue among all stakeholders concerned. This should include encouraging both sides to find pragmatic solutions for participation of Taiwanese experts in multilateral fora. If needed, it should express publicly or privately its concerns to either of the parties where provocative action is taken.

Regional security architecture

The encouragement of regional integration and promotion of strong regional institutions is a key tenet of EU policy worldwide. In East Asia this process is just at the beginning and is basically centred on ASEAN. Also, for the time being, such a system does not address shared regional security concerns. The US still provides a basic guarantee and this role must be recognised. There is a necessity to develop strategic dialogue with key partners to make sure EU policies do not undermine stability. The EU should seek to develop the authority of regional organisations or fora dealing with the issue such as the ASEAN Regional Forum (ARF), and promote direct cooperation initiatives. The Aceh Monitoring Mission is a good example of this.

Competitive nationalisms

Despite recent encouraging developments in the bilateral relations of Japan with China and the RoK respectively, competitive nationalisms in each of these countries and the underlying reasons for them remain a source of concern. The EU should promote co-operative relations between the States in the region and invite all sides to refrain from actions that might be misperceived. In particular, it should promote confidence-building measures (CBMs) on territorial and resources disputes, convince China to be more transparent on military expenditure, and be willing (if requested) to share lessons from its own past. In general, it should encourage leaders to build upon their flourishing economic relations to establish better political relations and more regional integration through regional bodies.

How the EU can achieve these goals

The recent Commission Communication 'EU-China: closer partners, growing responsibilities'³ and the Council Conclusions are important steps towards increased coherence of the EU's thinking on China. These two texts illustrate greater awareness of the complexity of the relationship and the need for any serious approach to be all-encompassing. Ideally, the same approach should be taken towards the entire East Asian region.

The complexity of the EU-China relationship is also demonstrated by the large number of ongoing dialogues involving the

3. European Commission, 'EU-China: closer partners, growing responsibilities', COM(2006) 631 final, Brussels, 24 October 2006. Available online at: http://trade.eu.europa.eu/doclib/docs/2006/october/tradoc_130875.pdf.

Community, the Union as such, and Member States individually. These dialogues cover an increasing range of bilateral and international issues. The Council Conclusions acknowledge a need for them to be focused, and deliver practical results with benchmark-setting and follow-up mechanisms. Co-ordination between the EU and Member States should even be improved on issues such as human rights, or strategic issues, where China has ongoing dialogues both with the EU and with a number of Member States. While the number of the dialogues should not necessarily be reduced, increased co-ordination with a view to delivering the same key messages and underlining the same concerns could be of great use. By now there have been many occasions showing that the Union's weight and influence are much greater when it speaks with one voice. This should be especially true when dealing with China.

The EU also needs to work 'externally' by deepening its exchanges with the region's key players. It has already done so with the launching of a series of strategic dialogues with the US, Japan and China itself. Discussions with other important players in the area such as the RoK, Australia and members of ASEAN complement these usefully. The EU should upgrade its engagement in the existing fora in which it already takes part, such as the Asia-Europe Meeting (ASEM), EU-ASEAN and the ARF, as this would help it to establish better channels of communication with regional players. By doing so the EU would also develop common analysis and approaches.

In all of this, the EU can count on a number of assets:

The first is its economic presence. EU general policy already consists of using its economic leverage to pursue a number of political goals, notably in the field of protection of human rights, counter-terrorism and non-proliferation. This is done, *inter alia*, by the insertion of specific clauses in its agreements with third countries. This is happening also in Asia, albeit slowly (e.g. in negotiations of Partnership and Co-operation agreements with countries of South East Asia and the forthcoming negotiations with China). This specific tool must be used with great care in Asia.

The second is the European experience with the post-war reconciliation. Without wanting to give lessons to anyone, if there is

a request from the countries in the region, some European experiences (notably the postwar Franco-German relationship and German-Polish reconciliation) could be of use.

The third is its experience in political and economic integration. Despite the great historical and geopolitical differences, which do not make the EU experience applicable as such to East Asia, some aspects of EU integration, including at the technical level, could provide a model.

Finally, there is often the impression that, despite the fact that Europe shares a large number of interests and values with some East Asian countries, and despite its economic weight, it is not taken seriously enough in the region because of its perceived 'detachment'. Some of these actors would probably welcome a more active EU interest in the region and would welcome its multilateralist approach.

What has been done so far?

In the last two years, the EU has made considerable progress in developing its strategic thinking and increasing the efficiency of its tools towards the region. Here are some examples:

- ▶ Launching of the strategic dialogues with the US, Japan and China, and enhanced dialogue with the RoK and Australia. The launching of these dialogues (in particular with the US and Japan) was originally triggered by the question of the possible lifting of the EU arms embargo towards China. It was felt that the EU needed to be explain its position to its friends in the region, and also deepen its knowledge of the key strategic issues in the area. These dialogues are proving very fruitful and should continue, while increasing their level of focus on specific issues of common concern such as the military balance in the region, energy or the situation in the Korean Peninsula.
- ▶ Launching negotiations of the PCA with China. The goal of the agreement is to constitute the basis for the EU's comprehensive strategic partnership with China and encompass the full scope of the bilateral relationship. This of course means that the provisions of the 1985 Trade and Co-operation Agreement will be

updated and be part of the new agreement. The negotiations, due to start at the beginning of 2007, will certainly be long and complex, given the complexity of the relationship.

- ▶ Launching of a structured dialogue with China on Africa. Africa is an area of increasing strategic interest. This dialogue will be an important tool for discussion and co-ordination with China on questions of great importance for the EU in the African continent, such as the situation in the Darfur region. It will also provide a tool for coordinated action for the achievement of goals such as poverty reduction, sustainable development and good governance in the African continent.
- ▶ The Commission Communication 'EU-China: closer partners, growing responsibilities' and the Council Conclusions on EU-China strategic partnership issued in the autumn of 2006, which, taken together, constitute a comprehensive review and restatement of EU policy towards China.



All in all, at present, the wording used in the Council Conclusions where the Council states its commitment to 'the maturing of the EU's comprehensive strategic partnership with China' perfectly defines the current state of affairs. Not all is ideal in the bilateral relationship. There are areas where the EU would like China to do more and vice versa. However, the general trend is that of a complex relationship which needs a lot of care and the right tools for it to be properly managed.

Whereas a lot of progress has been made in terms of 'internal coherence' and of reaching out to the key actors in the region, it will still be some time before visible effects in the region become evident. The EU should probably further sharpen its thinking and its tools to deal with the region as a whole. The codification of real strategic guidelines could help to that end and could enhance the Union's role and visibility.

Annexes

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Abbreviations

ACD	Asian Cooperation Dialogue
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASD	Asia Cooperation Dialogue
ASEAN	Association of Southeast Asian Nations
ASO	Annual Security Outlook
CCP	Chinese Communist Party
CFSP	Common Foreign and Security Policy
CNOOC	China National Offshore Oil Company
CSCAP	Council for Security Cooperation in the Asia Pacific
DPRK	Democratic People's Republic of Korea
ESS	European Security Strategy
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IMF	International Monetary Fund
IOC	International oil company
IPR	Intellectual property rights
ISP	Internet Service Provider
KEDO	Korean Peninsula Energy Development Organisation
MES	market economy status
NATO	North Atlantic Treaty Organisation
NGO	Non-governmental Organisation
NOC	National Oil Company
P5	The permanent five members of the UN Security Council (China, France, Russia, the United Kingdom and the United States)
PCA	Partnership and Cooperation Agreement
PLA	People's Liberation Army
PRC	People's Republic of China
R&D	Research and Development
ROK	Republic of Korea
SARS	Severe Acute Respiratory Syndrome
SCO	Shanghai Cooperation Organisation
TRA	Taiwan Relations Act
UN	United Nations
UNDP	United Nations Development Programme
UNIFIL	United Nations Interim Force in Lebanon
USD	US dollars
USTR	United States Trade Representative
WTO	World Trade Organisation


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With its booming economy, China is emerging as the key player in Asia-Pacific and possibly as the world's next superpower. So far, China has mainly developed as a 'trading power' – concentrating on the expansion of its economy and retaining a relatively restricted international role. However, there is no doubt that the dynamic rise of China poses major challenges to the *status quo* in the region with consequences for its neighbours and other powers present there, such as the US and, increasingly, also the EU.

What are the implications of China's rise for the EU? The transatlantic dispute over the arms embargo has highlighted the need for the EU to develop its own security perspective on China, which would address, among others, the issues of China's defence policy and the modernisation of its military, the security situation in East Asia and Pacific as well as China's energy policy.

This *Chaillot Paper* provides an analysis of some aspects of China's domestic transformation and its evolving international relations with a view to providing guidelines towards the development of effective EU strategic thinking on China.

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