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China's Rise: Diverging U.S.–EU Perceptions and Approaches

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Foreword

The papers presented here were prepared under the auspices of the trans-Atlantic working group entitled “China’s rise. Diverging U.S.-EU perceptions and approaches.” They reflect the main topics and debates of two meetings, one held in Washington, D.C. in February 2005 at the Center for Strategic and International Studies (CSIS), and the other held in Berlin in April 2005 at the German Institute for International and Security Affairs (Stiftung Wissenschaft und Politik, SWP).

The working group was part of a larger project entitled: “Diverging Views on World Order? Transatlantic Foreign Policy Discourse in a Globalizing World” (“TFPD”). This project was initiated in 2002 and was made possible by a grant from the German Marshall Fund of the United States, an American institution that stimulates the exchange of ideas and promotes cooperation between the United States and Europe. The aim of the project is to engage decision-makers and opinion leaders from the United States and Europe in an open exchange of ideas.

The People’s Republic of China faces many challenges in its modernization drive, but there is a consensus on both sides of the Atlantic that China is becoming an ever more important economic and political actor in the world and might assume a far more dominant position, at least in the Asia-Pacific region. However, such a consensus does not exist with respect to the assessment of and the reaction to China’s presumed rise: While many American scholars and decision-makers see China as the future peer competitor of the United States and a possible threat to U.S. security interests, a vast majority in the European Union and its member states does not assume that a stronger China will necessarily clash with Western interests. Consequentially, while U.S. policy vis-à-vis China has been a mixture of engagement, hedging and containment, the EU has pursued a course of comprehensive engagement and co-operation.

Until recent years, the United States expressed only a passing interest in European China policy. This is hardly surprising considering that European interests in China were dominated by trade and economic issues. Moreover, with the Common Foreign and Security Policy (CFSP) of the European Union in its early phase, each member state still pursued its own China policy. Only a small minority of academics on both sides of the Atlantic called for a trans-Atlantic dialogue on China and better coordination of respective policies regarding China.

This began to change when Javier Solana, the High Commissioner of CFSP of the European Union, listed China as one of the EU’s future strategic partners in the new European security strategy formulated in 2003

and when European political leaders—especially in France and Germany—initiated an effort to lift the European arms embargo on China. This embargo on selling weapons to China had been in existence since the Madrid summit of the EU in the summer 1989 as a reaction to the decision of the Chinese leadership to end the peaceful demonstrations on Tian’an-men Square by force. The possibility of lifting the EU embargo was actively discussed in the United States—by China experts, the U.S. administration, but most vehemently by Congress—and Europeans were criticized for ignoring or even deliberately compromising American security interests.

For the trans-Atlantic working group on China, the possible lifting of the European arms embargo was an important issue since it was symptomatic of the different reactions to China’s rise on both sides of the Atlantic. However, issues of concern for the working group are far broader than the arms embargo issue. The working group addressed concerns and exchanged views on how to assess China’s growing international role and reactions in the United States and Europe with respect to the following areas:

- ▶ global governance,
- ▶ economic globalization,
- ▶ the Taiwan issue,
- ▶ regional governance,
- ▶ domestic governance.

Considering the diversity and contradictions inherent in China’s modernization process, it is hardly surprising that there are diverging assessments of China’s domestic development and international behaviour in the United States as well as in Europe. But these differing analyses do not represent an “Atlantic divide.” Rather, such a divide exists with respect to the conclusions that are drawn by political decision-makers for the policies of their respective countries towards China. These conclusions have more to do with the different interests and levels of engagement not only in China, but in the Asian-Pacific region as a whole.

It is not unlikely that the new interest in an (official) high-level political dialogue between the United States and the European Union will dwindle, after the EU’s recent decision to postpone lifting the arms embargo. There is no consensus whether stronger efforts to coordinate China policies between the U.S. and the EU are necessary or even desirable. But even if such coordination should not come about, it is still important to continue an in-depth and long-term trans-Atlantic exchange of views on China-related issues, so that mutual understanding of positions and likely policy measures is improved. Such an exchange does not only enrich our perspectives, but can serve as an “early warning” system to identify and address possible trans-Atlantic problems which will arise regarding approaches toward China.

The TFPD-China working group has taken but one step by providing a platform for open and stimulating exchange. Even the highly contentious embargo issue was discussed in a constructive way and was not allowed to cast a shadow over our meetings.

We would like to express our gratitude to the German Marshall Fund of the United States for their continued financial commitment to the TFPD-project, but also to the State Department in Washington, DC for their support and input. Last but not least, we would like to thank all the people at CSIS, SWP and the State Department who took care of organizational matters in a most professional and efficient way.

Berlin and Washington, August 2005
Bates Gill (CSIS) and Gudrun Wacker (SWP)

China's Evolving Role in Global Governance

Bates Gill

Introduction

This paper provides an overview of China's growing role in world affairs, and how the United States and Europe might agree or disagree on how best to assure that global growing role can make a greater contribution to the management of global challenges and opportunities.

Because the list of global issues is so lengthy, and the interesting ways in which China is engaged on these issues so diverse, this brief paper cannot give a full and comprehensive exploration of these issues. Instead, it will focus on three key areas of global governance and cooperation where China's activity has been particularly interesting:

- ▶ dealing with unstable regions, failing states, and terrorism;
- ▶ countering global proliferation and strengthening global arms control;
- ▶ world economic development, trade and financial issues.

The paper will end with some general conclusions about these developments and some ideas of how the United States and Europe can respond to them.¹

Sovereignty Questions: Dealing with Unstable Regions, Failing States, and Counterterrorism

Generally speaking, it seems unlikely that China's foreign policy will actively or concretely respond to questions of regional instability, instability, and counterterrorism outside of its own borders, and especially as these challenges arise far from Chinese borders. Overall, Beijing remains a strong proponent of traditional notions of sovereignty and the sanctity of the internal affairs of states.

That said, however, there are several interesting developments regarding China's approach to these issues in recent years. Most obvious, especially when compared to China's not-so-distant past, is how Beijing's leaders have clearly come to recognize the benefits of becoming more open to and dependent on a globalizing outside world—such as joining the World Trade Organization and adhering to its rules—in spite of the risks involved in such an approach. In particular, this tendency has increasingly led Chinese leaders to recognize the importance for Chinese interests of stability in areas around China's periphery and even farther afield.

More specifically, in recent years and on certain issues, China has demonstrated a more constructive and active approach toward the global challenges of unstable regions, failing states, and terrorism. For example,

* Center for Strategic and International Studies (CSIS), Washington, DC.

¹ This paper draws in part from the forthcoming book, Bates Gill, *Rising Star: China's New Security Diplomacy*.

under certain conditions, China has come to accept a more prominent role for the United Nations Security Council and region-based multilateral security organizations, in dealing with failing states and regional instabilities. Interestingly, China was supportive of the international community's approach to addressing security challenges in East Timor and Afghanistan, even though the initial and decisive responses were not undertaken by the United Nations, but by multinational forces under national flags.

Another interesting indicator of a more flexible and constructive approach by China to questions of regional instability and failing states is its support of United Nations (UN) peacekeeping operations. Chinese contributions to UN peacekeeping missions have grown from approximately 50 persons in 1998 to more than 1000 troops, civilian police and military observers in 2004. By 2004, China jumped from the middle rankings of UN peacekeeping contributors in the late-1990s (China was typically about the 45th largest contributor out of 85 or 90 total contributors) to the United Nations' 17th largest contributor, providing more civilian police, military observers, and troops to UN peacekeeping operations than any of the other permanent five members of the United Nations Security Council, and more than any NATO country.

As of 2004, China was participating in 12 out of the 17 ongoing UN peacekeeping operations, and was contributing to all seven of the ongoing operations in Africa. Its contribution in 2004 of 597 peacekeepers to the United Nations Operation in Liberia (UNOMIL), made up of a transportation company, sappers, a hospital team, military observers, and civilian police, is the largest single contribution of personnel China has ever made to a UN peacekeeping mission. Out of the 59 UN peacekeeping operations since the late 1940s, China has taken part in 20, and contributed a total of over 2,000 personnel from 1989 to 2004. A total of six Chinese peacekeepers have died while serving the United Nations.

China has even gone so far to accept the arrangements of the US-led "container security initiative" (CSI) to counter the possible shipment of dangerous materials through the globe's major ports. The arrangement calls for the posting and observation role of official U.S. agents in Chinese ports, a step involving Chinese sovereignty which would have been almost impossible to contemplate just a few years ago in China. China has also expressed an interest to learn more about the Proliferation Security Initiative (PSI), a more intrusive set of counterterrorism policies led by the United States. The proposed activities of PSI, particularly the tracking and boarding of ships on the high seas suspected of carrying sensitive, weapons of mass destruction (WMD)-related materials, raises many sovereignty-related concerns. However, many in China claim that their concern lies mostly in technical issues, rather than those of principle.

Nevertheless, while China is making some interesting changes in its approach, many challenges lie ahead to test how profound these changes really are. The United Nations and the broader international response to problematic developments in such places as Sudan, North Korea, and Iran will be affected by Chinese decisions, especially within the United Nations.

Looking further ahead, such issues as Middle East stability and Islamic radicalism and how the international community should address them, will call for Chinese input. At this stage, it is not entirely clear whether China will support a more active and intrusive role by the international community to tackle problems emanating from these countries.

Looking ahead, there may be other opportunities for the United States and European counterparts to consult and possibly coordinate on issues related to China and challenges of sovereignty, failing states, and terrorism:

- ▶ Providing peacekeeper training and encouraging greater role for China in peacekeeping;
- ▶ Encouraging in China the need for Great Powers to manage and contain regional conflicts if possible;
- ▶ Seeking greater Chinese support and consultations for UN and other multilateral action (such as NATO) aimed at stemming regional disputes and instabilities;
- ▶ Probing on Chinese reactions of UN Security Council involvement related to Korea and Iran;
- ▶ Seeking consensus across the United States, China, and the European Union on questions of stemming of Islamic radicalism and terrorist activity.

Countering Proliferation and Strengthening Arms Control

Compared to the recent past, China today is a far more active participant on the global nonproliferation and arms control scene. Since the early- to mid-1990s, China has strengthened its policies and practices with regard to nonproliferation, and has done so at a number of levels. At the international, multilateral level, China has joined and increasingly adhered to a range of regimes including the Nuclear Nonproliferation Treaty (NPT), the Chemical Weapons Convention (CWC), the Comprehensive Test Ban Treaty (CTBT), the Australia Group, the Zangger Committee, and the Nuclear Suppliers Group.

China has also reached a number of key bilateral agreements with the United States which have stemmed the flow of sensitive technologies to such countries as Iran and Pakistan. Perhaps most importantly, China has begun to establish and enforce its own set of domestic regulations and export controls aimed at preventing the proliferation of weapons and sensitive technologies from within its own borders. At each of these levels, many questions remain about China's willingness and ability to adhere to these commitments. But overall, the trend line is positive as China takes a more serious approach toward global nonproliferation and arms control consistent with international norms, consistent with China's role as a nascent Great Power, and—most importantly—consistent with their own national interests.

However, in spite of this generally positive approach toward global nonproliferation and arms control challenges, it is likely to be tested by a

number of problems looming over the horizon. For example, voices in Washington have begun to increasingly express concern that China “is not doing enough” to encourage a more forthcoming North Korean position regarding the dismantlement of its nuclear weapons programs. Concerns over Iran’s nuclear programs may lead to a more open confrontation between Teheran and the international community, but it remains unclear how China will react should the issue become an international crisis—being brought before the United Nations Security Council, for example.

The Conference on Disarmament, a body which had a number of successes in the mid-1990s, such as concluding the Chemical Weapons Convention and Comprehensive Test Ban Treaty—in no small measure because of Chinese cooperation and acceptance of global arms control norms—is now in deadlock because of seemingly insurmountable differences between the United States and China over such questions as a fissile material production cut-off treaty and preventing an arms race in outer space. As a result, progress in that body is stalled, with little to no prospects for movement in the near- to medium-term.

Some opportunities exist for the United States and European counterparts to consult and possibly coordinate on issues related to China and its approach toward nonproliferation and arms control. For example:

- ▶ Probing the Chinese about their likely reactions if and when concerns over the nuclear programs in Iran and North Korea come before the United Nations Security Council;
- ▶ Working with China in the Conference on Disarmament to assure that a fissile materials production cut-off treaty remains a possibility for the future;
- ▶ Strengthening the Nuclear Nonproliferation Treaty both normatively and in its enforcement powers by granting the IAEA and other non-proliferation bodies better teeth to investigate and enforce the NPT;
- ▶ Providing assistance and advice to strengthen Chinese export controls;
- ▶ Constraining strategic missile development and strategic offense/strategic defense arms racing with China;
- ▶ Encouraging China to take more active part/support for Proliferation Security Initiative (PSI).

China's Globalizing Economy and Its Challenges

There is no need to go into great detail about China’s economic successes—an economy growing at 9 percent or more a year, with more than \$650 billion in foreign reserves, and more than \$60 billion in foreign direct investment a year—as these figures are widely known and touted.

More interesting intellectually and for issues of trans-Atlantic relations are possible *challenges* to China’s continued prosperity and economic stability which in part result from these economic successes. These challenges could have a global impact and ought to encourage a greater degree of U.S.–Europe consultation, as well as U.S.–Europe–China collaboration.

While this brief paper cannot begin to cover some of the pertinent issues in this regard, an overview of energy-related challenges might help illustrate the overall point. For example, it is interesting to note that in the past, around 1820, China accounted for approximately 58 percent of world energy consumption. By 1940, owing to a century of Chinese political, economic and social decline, that proportion had dropped to 17 percent. Now that China is returning to a more “normal” position in world affairs share, its share of world energy consumption is likewise on the rise and returning to a more “normal” proportion.

Today, China is the largest producer and consumer of coal in the world, and fully 65 percent of China’s energy demand is met by domestic sources of coal. But China’s domestic coal sources burn neither efficiently nor cleanly. In 2004, China became the world’s second largest consumer of oil, surpassing Japan. In addition, approximately one-third of China’s oil is now imported, with China accounting for approximately 40 percent of the growth in world oil demand since 2000.

Moreover, we know that Chinese demand for oil will increase significantly over the coming years, reaching by some estimates about 13 billion barrels a day in 20 years versus about 5.5 billion barrels a day now. At that point, imports will account for about 65 percent of net oil consumption.

How will China’s continuing and growing quest for energy supplies affect issues of global governance? On the more positive side of the ledger, as China must increasingly turn to foreign supplies of energy, Beijing will be likewise dependent on regional and global stability to assure access to and transport of these supplies to China’s borders.

On the other hand, many analysts express concern about how an increasingly strong China might pursue its energy needs. An increased need for secure sea lanes of communication may help drive a more rapid modernization of Chinese naval forces in the Western Pacific and the Southeast Asia littoral. China may emerge as a more open competitor for foreign energy sources, such as vis-à-vis Japan, India, the United States and Europe. China’s need for secure foreign sources of energy will likely lead it to overlook political and security issues of concern—for example, in places such as Sudan or Iran—and bring it into foreign policy clashes with Europe, the United States, and others in the international community. Over time, the question needs to be asked, will China’s energy consumption and subsequent environmental damage actually *limit* Chinese growth? As China becomes increasingly dependent on foreign energy supplies, does it risk a major economic downturn if and when those supplies are significantly diminished or interrupted owing to events beyond Beijing’s control?

These are questions and issues that ought to concern the United States and Europe, and underscore the need for trans-Atlantic dialogue on them, as well as increased understandings about the steps that China is taking to address these concerns on global energy matters. In the near-term it is already clear that China is emerging as a more active and influential player on global energy markets, seeking to expand its economic and

political influence and interests where energy sources are found: Central Asia, Persian Gulf, Middle East, South America, and Africa.

Broadening Global Agenda for China?

This brief overview cannot do full justice to what is and will be a broadening set of global issues in which China will likely play a more important role over the medium- to longer-term. Such issues might include:

- ▶ **Global health:** China and the world have a joint interest in assuring China does not become a source for infectious diseases that could spread globally. Moreover, as China progresses economically, scientifically, and chronologically, the United States and Europe should look to work with China as *contributor to*, not consumer of, global health resources, improvements, and discoveries.
- ▶ **Global environment:** China's rapid economic development already has contributed to the world's burgeoning environmental challenges. Clearly China will need to be a part of international solutions in the future.
- ▶ **United Nations reform:** As a permanent member of the United Nations Security Council, China will play a central role in any reform and improvement of the United Nations, from Security Council membership, to greater accountability and transparency of operations, to recalibrating the balance of membership dues and contributions, to the role of the United Nations in addressing regional security challenges.

Conclusions

In conclusion, the United States and Europe should probably keep a somewhat restrained view about the prospects for China as a proactive global player, but also recognize and act upon opportunities to bring China into the international community as they arise.

This approach reflects the genuine reality China faces: it remains in many ways a developing world country, its leaders largely focused *inward* on domestic, internal problems, and unable and unwilling to take on a greater global role at this stage. Also, on some issues, there remain lingering, conservative, but minority remnants which see the value of autarky and independence—borne of an earlier era in post-1949 China—which is at once wary of global institutions and their role in managing world affairs. There is an even stronger strain in Chinese foreign policy thinking which is determined to play by China's rules, while also avoiding the appearance of overbearing "Great Power." At the end of the day, it is also true that in spite of its spectacular growth on the world stage, China does not have the diplomatic and economic capacity and experience, yet, to play at a global level in the same way that the United States, Japan, and certain major European countries are able to play.

All that said, however, China, whether Beijing likes it or not, is becoming a greater and greater force in global affairs, if for economic reasons alone. We see that Beijing is generally more prone to respond to and

support actions of global governance which reflect a significant international/regional consensus. Moreover, over the past five to six years, China has become a more vocal and active supporter of global multilateral institutions, and even more open to the idea that multilateral responses to global problems do not have to be made by the United Nations or other formal multilateral governmental bodies.

By and large, the United States and Europe have considerable shared interests in encouraging a greater and more responsible global role for China across a range of issues. Such an approach would help to build in China a greater awareness of its responsibilities as a growing global power, would embed and invest China more deeply in global and regional stability, and would draw Beijing away somewhat from a more insular, narrow, and potentially dangerous overemphasis on its regional rivalries and problems—especially with Taiwan, but also Japan and the United States.

Coping with China as an Economic Power— European versus American Approaches

*Jens van Scherpenberg**

Introduction

If differing European and American approaches towards China's rise as a political as well as an economic power can be summarized, the prevailing attitude among Americans would have to be characterized as one of concern—be it with regard to China's might or with regard to more mundane issues such as job losses—whereas among Europeans the dominant perception is one of amazement and opportunity.

Clearly the reason for such diverging views lies in the relative position of the viewer. The U.S. view is that of the incumbent dominant power that keeps a suspicious eye on an emerging potential competitor. From the perspective of many major EU member states, China may by now already have become a peer to the EU in many if not all regards. This, however, is not seen as a threat to the EU's own international power position.

Economic history tells us of quite a few new economic powers rising—and reshuffling the international division of labor. In an open world economy—such as the one prior to World War I and after World War II—newly-rising economic powers have been relentless agents of structural change. As they moved into manufacturing they quickly took over low-tech, labor intensive manufacturing, climbing the technology ladder more or less quickly. Among the current major economic powers, Germany was an early example, and Japan the most recent one before China.

There is a good chance that the global economic regime put in place by the U.S., as the benevolent hegemon, and since then co-supported by the European Union member states could well accommodate yet another big newcomer. The more so since China has been undergoing a substantial transformation into a responsible player within the international system of economic and political multilateral institutions. This at least is—in a nutshell—the predominant European view towards China's rise.

American foreign economic policy towards China has continued to vacillate between, on the one hand, containing a strategic rival and preventing it from acquiring the technological wherewithal to challenge the incumbent by a variety of direct and indirect sanctions and political trade impediments, and on the other hand, co-opting an emerging power into America's international system and thus integrating a promising new sphere of trade and investment into the global economy.

The divergent approaches of the EU and the U.S. are reflected in the comparative pattern of American vs. European trade and investment

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relations with China. I will provide some empirical evidence to underline this diverging trade pattern. Subsequently, I will address the issue of macroeconomic imbalances, closing with some remarks on political conclusions to draw from trade patterns as well as from imbalances.

Patterns of Trade

For economists, China's rise in the world economy has become a textbook paradigm for globalization at work. Therefore, I will briefly phrase what is happening in a textbook manner, too.

Imagine an emerging economy with abundant cheap labor, a fairly decent provision of public goods such as education, transport and communications infrastructure etc. and a rather favorable business environment. With open international markets, such an economy would naturally evolve into a prime location for labor-intensive production of any kind. It would attract foreign direct investment, and would be a major importer of machinery and equipment and of other high technology goods while exporting predominantly products with lower technology content. Its exports would gradually displace higher cost production in developed economies while the latter move upscale to more knowledge-intensive high technology products in the composition of their exports.

This is roughly what happens with trade between China and the EU.

In a rather simplistic manner, based solely on one-digit trade classification, Graph 1 (p. 18) shows the share of exports in class 7 of the Standard International Trade Classification (SITC) system, which comprises "machinery and transport equipment," thus most products with higher technology content, as a percentage share of total exports to China, for the EU-15 countries and for the United States.

EU-15 SITC 7 exports to China throughout the last ten years have been in the range of 65–70 percent of overall exports to China. Civil aircraft, one of the most important single items among SITC 7 goods, account for some 7 to 8 percent of European SITC 7 exports to China—an indicator of the diversified nature of these exports.

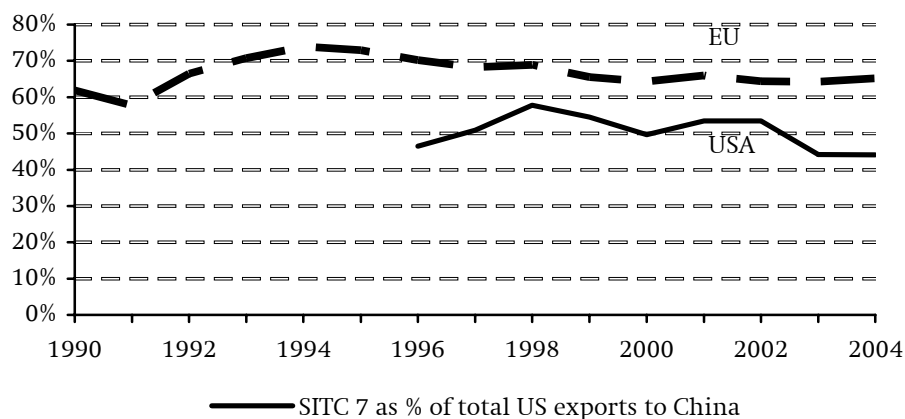
The U.S. trade pattern looks quite different. The SITC 7 share of American exports to China since 1996 has on average been more than 15 percentage points lower than the respective EU figure; in recent years, the differential has even reached 20 percentage points. And civil aircraft exports account for a quarter to a third of total American SITC 7 exports to China, three to four times the respective EU share.¹

There are several possible explanations for this rather stark divergence, such as the following:

- ▶ The US dollar might be too expensive vis-à-vis the Renminbi compared to the Euro. But actually it has been the Euro which has appreciated

¹ An especially high volume of aircraft sales to China registered in the trade balance of that year, does indeed almost fully account for the peak in the U.S. SITC 7 share of exports to China for the year 1998.

Graph 1
U.S. and EU exports of SITC 7 goods to China
 (% of U.S. and EU total exports to China)



Sources: Eurostat and U.S. Census Bureau, International Trade Statistics.

against the Renminbi, thus European exports to China should be at an exchange rate disadvantage versus American exports.

- ▶ The U.S. may have been losing market share in SITC 7 goods—machinery and transport equipment—to Japan and Europe, and increasingly also to other emerging economies for quite a while. But that would not account for shifts in the composition of U.S. exports to China.
- ▶ The U.S. may be particularly competitive in primary products, such as agricultural products, food and beverages, crude materials (SITC 2) or chemicals (SITC 5). But the U.S. figures—for SITC 7 exports as for total exports—are substantially lower than the European figures even on an absolute value basis.

Therefore, the most likely explanation—and indeed the one which best accounts for the drop in U.S. SITC 7 exports to China since 2000—seems to be the explicit and implicit U.S. bias against technology exports to China, as an expression of its policy of constraining the potential peer competitor.² This policy framework would have a restrictive effect even on U.S. technology exports to China that are not controlled or for which approval is usually granted, as well as on Chinese purchases of such products, because from the buyer’s perspective it introduces an element of unreliability and risk that creates a disincentive with regard to high technology imports from the U.S.

A recent study by a research team from George Washington University has been looking into the enduring if difficult to measure negative effects on American exports of U.S. sanctions and export controls against China.³

² For the concept of hegemon—potential peer competitor relationship and the policy instruments available in that relationship cf. Thomas S. Szayna et al., *The Emergence of Peer Competitors. A Framework for Analysis*, Santa Monica, CA (RAND), 2001.

³ Jiawen Yang, Hossein Askari, John Forrer, Hildy Teegen, “US Economic Sanctions Against China: Who Gets Hurt?,” *The World Economy* 27:7 (July 2004), pp. 1047–1081.

Adam Segal from the Council on Foreign Relations has recently raised similar arguments in a *Washington Quarterly* article.⁴ He pleads for a strategy of commercial engagement with China while keeping in place narrowly defined export controls on a few sensitive military technologies. That would amount to a sound and restrictive redefinition of the ominous “Critical technologies” list of the 70s and 80s. From an economist’s point of view, Segal is correct in arguing that the way for the U.S. to maintain its technological and hence military superiority today is through competition and innovation in mutually open markets, not through strict export controls of high tech products. The latter would only create additional incentives for China to catch up as quickly as possible in technological development through technology imports from other countries while stifling the pressure for innovation. In the U.S. Segal’s views are mostly shared, in a wider perspective, by a recent CSIS study on Globalization and Security.⁵

To some extent, the current U.S.-EU debate about high-tech (and dual-use) exports to China calls to mind the trans-Atlantic disputes about trade relations with the Soviet Union and Eastern Bloc countries, not least the notorious U.S.-German conflict about high-performance natural gas pipes and pipeline technology to be delivered to the Soviet Union in exchange for long-term contracts for natural gas shipments to Germany. From the U.S. perspective, Germany was seen as not paying appropriate respect to the American policy of restricting its strategic rival’s access to technological and financial resources. At the time West-East technology transfer may to some extent have been slowed down by strict export control policies contributing to the lagging technological development of Eastern Bloc countries. In today’s globally integrated economy, however, technology diffusion processes are much less controllable and the technology sources much more diverse than in the 1960s. It is highly likely, therefore, that any widespread restrictions on high tech exports to China by the U.S. will not have the desired effects, but on the contrary, substantial undesired ones, creating strong additional incentives for China to devote ever more resources to research and development as well as reducing its stake in the US-sponsored international order.

(Im-)balances

As can be concluded from the last section, with a view to trade patterns, it is no wonder the U.S. trade balance with China runs a steep deficit. But of course there are other reasons for that deficit. The textbook case for a major emerging economy like China in an open international economic environment would be to run a current account in balance or slightly in deficit, reflecting the country’s need to import large amounts of capital

4 Adam Segal, “Practical Engagement: Drawing a Fine Line for U.S.-China Trade,” *The Washington Quarterly*, 27:3 (Summer 2004), pp. 157-173.

5 James A. Lewis, *Globalization and National Security. Maintaining U.S. Technological Leadership and Economic Strength*, Washington DC (CSIS), December 2004.

goods as well as raw materials and energy. Such a deficit would be financed by substantial inflows of foreign direct investment, intent to capitalize on the superior returns of a high-growth emerging economy. And except for its bilateral balance with the U.S. China's current account balance mostly fits the textbook case of a developing economy that has still a long way to go to overcome its deficiencies. With the exception of the substantial surplus in the first months of 2005 that obviously reflects a surge in textile exports after the expiry of the WTO Textile Agreement, China's overall current account has more or less been in balance. Chinese accumulation of currency reserves corresponds more or less to a surplus of capital inflows from FDI as well as portfolio investments.

Therefore, the problem lies in America's bilateral trade deficit or capital flow surplus with China. But is it a problem at all and if so for whom? Opinions vary widely on the issue. Some of these, however, should clearly be refuted.

First among them is the view that China is gaining political leverage on the U.S. from its large dollar holdings and its ongoing massive investment in U.S. treasuries. This allegation is not at all supported by political and market realities. The Japanese once, in the early 1990s, were rumored to have tried to exercise their leverage on the U.S. with their treasury holdings and to have very discretely been told by the U.S. Treasury to refrain from any such idea—which they obviously did. Today, the American financial markets are even deeper, wider and more sophisticated than at the time and thus probably even less susceptible to disruption. Using dollar and treasury reserve holdings as policy leverage would be of no avail to China, hurting its own economy much more than the U.S.

Second, it has been argued, among others by Fred Bergsten⁶, that the bilateral U.S.–China imbalance is due to deliberate and trade-distorting Chinese exchange rate manipulation. But with the Euro rising against the dollar and hence the dollar-pegged Renminbi, the trade balance effect of such “manipulation” should have been even more devastating on the bilateral EU-China trade balance—which is not the case. Revaluing the Renminbi against the dollar and pegging it to a currency basket instead of the dollar will do little to reduce the U.S. trade deficit with China. The pattern of U.S. exports is one reason for the resilience of the U.S. trade deficit towards exchange rate changes—there is very little capacity and capability to translate a more favorable exchange rate into higher U.S. exports. Possibly, the Euro-zone countries could even gain more from the Renminbi revaluation than U.S. exporters of manufactured products. The low American savings rate—and hence the high import demand—is another reason for the presumably negligible impact of Renminbi rebasing on the U.S.–Chinese trade balance.

⁶ C. Fred Bergsten, “Reform of the International Monetary Fund,” Testimony before the Senate Subcommittee on International Trade and Finance, Committee on Banking, Housing, and Urban Affairs, June 7, 2005, <http://www.iie.com/publications/papers/bergsten0605.pdf>.

Third, it is said that the U.S. current account deficit—and specifically its deficit with China and other Asian countries—cannot go on forever. If it were to be more than a truism—nothing goes on forever in the human sphere—this assertion would require clearly identifying the causes that might trigger the breaking point of the current mechanism of balance of payments adjustment. Currently, deficits are balanced through corresponding capital movements without disruptive movements of exchange rates or interest rates. Several economists, as well as Governor Gramlich from the Federal Reserve have convincingly argued that current imbalances can go on and keep increasing for quite another while.⁷

Addressing the bilateral US-Chinese imbalance, therefore, is not so much an issue of bilateral economic relations, even less so of unilateral U.S. trade policy measures against China, than it is a matter of U.S. domestic economic policy, which may have to support an increase in the household savings rate and thus a reduction of domestic private consumption and import demand.

Policy Conclusions

Whether to engage or to contain China is very much a decision to be implemented through foreign economic policy. And the economic facts point strongly against containment. As a big importer, as the third largest trading power, as a regional center of gravity and by the sheer weight of its absolute GDP, be it calculated on exchange rate parity or PPP, China simply cannot be contained any more. Instead, it should be prominently engaged in a strengthened system of global economic governance.⁸

Europeans' perceptions of the rise of China tend to be shaped by their own historical experience post-WWII. Create a strong web of economic and political interdependence based on strong multilateral agreements and institutional links and everything will fall into place, including eventually the one most sensitive issue: Taiwan. Ever deeper economic integration may ultimately make formal national unification superfluous. But even before such a still remote idea can become reality, the diffusion of ideas and democratic values that goes with a dynamically growing economy based on private initiative might defuse the Taiwan straits conflict. The European approach to promote such a process is the same as the one towards East European countries during the Cold War, banking on "Wandel durch Handel," (democratic) change and transformation through trade and economic integration.

With a view to China's already strong position in the global economy and its increasing integration into the multilateral economic order, any

⁷ Edward M. Gramlich, "Budget and Trade Deficits: Linked, Both Worrying in the Long Run, But Not Twins," Remarks by Governor Edward M. Gramlich, presented at the Euromoney Bond Investors Congress, London, February 25, 2004, <http://www.federalreserve.gov/boarddocs/speeches/2004/20040225>.

⁸ Cf. Jeffrey Garten, "The Global Economic Challenge," *Foreign Affairs*, Jan/Feb 2005, pp. 37-48.

such policy of engagement today would have to happen on China's terms as much as on those of the incumbent powers, be this on currency and exchange rate issues, on furthering the WTO regime or, more particularly, on achieving more mature, competitive and integrated capital markets among the major economic powers. The willingness of China to engage as a major player in its own right, however, should be fostered and embraced.

Lifting the EU Arms Embargo on China: An American Perspective

David Shambaugh*

The trans-Atlantic rift over the proposed lifting of the EU's arms "embargo" on China has the real potential to seriously undermine the relationship between the United States and the European Union (particularly certain member states) as well as the NATO alliance. Make no mistake, this is not just another issue that can be finessed and "managed," *if* and when the embargo is lifted it will have a seriously negative impact on U.S.-EU relations. The EU should have no illusions about the seriousness with which the United States views this issue, as lifting the embargo will very likely cause political, legal, and commercial retaliation by the Congress and executive branch. Perhaps more damaging than the tangible retaliation, that can be anticipated, will be the further corrosive effect on the shared trust and strategic vision that has given common cause to the "West" for more than half a century. Indeed, damage has *already been done* simply as a result of the *consideration* by Europe to lift its "embargo," insofar as it has further eroded the trust and perceptions of European allies in the eyes of the U.S. Government, Congress, and nongovernmental experts in Washington.

There is no doubt that this is a very corrosive and highly explosive political issue that, if not properly handled, will only further contribute to a trans-Atlantic relationship that has hemorrhaged in recent years over the war in Iraq, International Criminal Court, Kyoto Treaty, U.S. unilateralism, various trade frictions, and other issues. The timing of the issue also unfortunately coincides with a proclaimed and demonstrated desire by both the U.S. and EU to arrest the atrophy, and to stabilize and rebuild the trans-Atlantic alliance.

It now appears that a combination of American displeasure and pressure has combined with China's passing of its Anti-Succession Law and the failure of China's National People's Congress to ratify the UN Covenant on Civil and Political Rights at its annual March convocation, to forestall the EU's lifting of the embargo before the end of Luxembourg's presidency in May 2005.¹ It is apparent that these events have divided what seemed, six or eight weeks ago, an emerging consensus within the EU to lift the embargo. Britain has seemingly pulled back from its earlier support, while the Netherlands, Norway, Denmark, and Poland all apparently continue to hold deep reservations about the wisdom of lifting the embargo. Further complicating matters is that now, in several countries (such as Germany, Britain, and the Netherlands), a "two-level game" has developed—called

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¹ See Richard Bernstein, "Europe Backpeddling on China Arms Ban," *International Herald Tribune*, April 16-17, 2005.

democracy. That is, the parliaments in these countries (as well as the European Parliament itself) have expressed their reservations and/or opposition to lifting the embargo. Since these are democratic countries and parliaments do express the will of citizens, this opposition must be taken seriously by national leaders who are prepared to lift the embargo. Chancellor Schroeder, in particular, risks the splintering of his ruling coalition if he bucks the Bundestag.

Even if the move to lift the embargo has been slowed, it has not been entirely derailed. A number of nations—led by France—apparently continue to believe in the efficacy of lifting it, and they will likely continue push for doing so in 2006 (after the UK's rotating presidency). Those who favor lifting the embargo have put forward six essential arguments that, they say, justify lifting it. Let us examine, from one American's perspective, each of these principal arguments, merits and demerits, in turn.

Argument No. 1: The Hollow and Leaky Embargo

First, it is frequently noted by European interlocutors that the “embargo” is nothing more than a single sentence in a 1989 communiqué, drafted in the wake of the Tian'anmen massacre and agreed at the Madrid Summit that year, and is nothing more than a voluntary proclamation by the EU member states at the time. As such, it is not legally binding and does not have strict enforcement mechanisms, is becoming increasingly “leaky” in any event, and should be scrapped. The EU also argues that all of its other 1989 sanctions have long been lifted, and thus maintaining this one is anachronistic.

It is true that the embargo is voluntary, simply a political statement, and lacks legal basis and strict EU-wide enforcement mechanisms (the export control regulations and Code of Conduct are voluntary). These are all deficiencies that should be rectified *and strengthened* rather than lifted. More to the point, however, is the *symbolism* of the embargo. For the United States, the embargo (like the similar U.S. sanctions) symbolizes continued discontent with China's human rights record and concern over its military modernization program.

It is also true that the embargo has not been a complete prohibition on defense technology or component transfers to China, but it has still *largely* prevented the flow of lethal weapons and weapon platforms to China. It has also been increasingly porous in recent years (such transfers doubled from 2002 to 2003 reaching a total of 416 million Euro in 2003). The answer, though, is not to lift the embargo in order to facilitate the flow of such systems to China—the answer is to *strengthen the embargo* precisely to prevent the flow of defense technologies and weapons to China.

Argument No. 2: A Strengthened Code of Conduct and Export Controls Will Be Effective

The second European argument is that controls on exports of lethal weapons and defense technologies to China are guided by strict national export control regulations of each member state, at the EU level, the 1998 EU Code of Conduct, and that after lifting the embargo a strengthened Code will provide a more restrictive regime to control sales.

It is true that the existing Code needs strengthening, as it largely regulates lethal weapons and component parts, but makes no provision for defense or dual-use technologies—which is what the People’s Liberation Army (PLA) is mainly interested in buying from Europe. Moreover, the Code is not legally binding and allows considerable leeway for national interpretation of export licensing and reporting rules—contributing to the growing porousness.

We have yet to see the strengthened Code of Conduct (or even a draft), which has been in preparation in Brussels for over a year, or the so-called “toolbox” that will apply to countries emerging from such embargoes. The proof will be in the pudding of the new Code, but EU officials already admit that it will not be legally binding and will remain substantially up to each member state to interpret.² Moreover, there will be no provisions for dual-use technologies (civilian technologies with military application), which fall under the Wassenaar Arrangement. European export controls—particularly at the EU level—are in real need of strengthening, particularly in the wake of the 2004 inclusion of ten new East and Central European member states.³ There may also be a need for replacing the defunct COCOM and dysfunctional Wassenaar Arrangement.⁴ Even if such a broader mechanism is not put in place, there is still a need for regular and institutionalized cross-checking and monitoring of export license *applications* between the EU and the U.S. *prior* to their issuance. For its part, the United States Government should provide very detailed (and regularly updated) lists of munitions, weapons, defense technologies, and dual-use technologies of greatest concern and which the U.S. would not like European governments to approve for sale or transfer to China.

In any event, the United States has serious doubts about both the professed European commitment *not* to sell weapons or transfer defense technologies to China, post-embargo, and this particularly is the case with respect to France (there is a general lack of trust in Washington concerning France’s commitment to adhere to *any* new post-embargo Code or

² Apparently, there is some consideration being given to making the revised Code legally binding. See Daniel Dombey, “EU Considers Binding Rules on Arms Sales,” *Financial Times*, April 18, 2005.

³ See Scott Jones, “EU Enlargement: Implications for EU and Multilateral Export Controls,” *The Nonproliferation Review*, Summer 2003, pp. 1–10.

⁴ See Seema Gahlaut, Michael Beck, Scott Jones, and Dan Joyner, *Roadmap for Reform: Creating a New Multilateral Export Control Regime*, Athens, GA: University of Georgia Center for International Trade and Security, 2004.

export control mechanisms). France has a significant credibility problem in the eyes of the U.S. and its record of transfers to date, *in lieu of the embargo*, is reason for such strong concern. Recent reports have circulated that France's Dassault Aviation has already concluded a deal, in anticipation of lifting the embargo, worth 12 billion Euro to sell 210 advanced Mirage fighters to China.⁵ Such an action could be a mortal wound in an already badly frayed U.S.–France relationship.

Argument No. 3: The Embargo as Impediment to Building a “Strategic Partnership”

The third argument put forward by Europeans is that maintaining the embargo is inconsistent with the overall robust state of European–China relations, and prevents the full “renormalization” of ties post-1989. Europeans also argue that maintaining an embargo stigmatizes China unfairly—lumping China together with pariah states like Zimbabwe, Myanmar, and Sudan—and is an impediment to reaching further agreements and deepening EU-China relations.

This argument makes little sense, as Europe-China relations have never been better, and it is difficult to identify any impediments to further development of ties. China has certainly not withheld any agreements because of the embargo, although it will likely reward Europe commercially for lifting it. It is not at all clear what Europe will tangibly and positively gain by lifting the embargo, other than the commercial revenue from arms sales and technology transfers. Moreover, it is equally unclear what the European side is actually asking for in return for lifting the embargo—only recently has it been hinted that ratification of the second UN Covenant would be sufficient incentive.⁶

Argument No. 4: 2005 Is Not 1989

Fourth, the EU argues that China's human rights situation has improved sufficiently since 1989 and therefore the original rationale for the embargo no longer applies.

It is definitely true that human rights in China have steadily improved since 1989—but that year sets a pretty low baseline for comparison. Moreover, China has still not ratified the UN Covenant on Civil and Political Rights, has not repealed legislation governing its draconian reform-through-labor (*laogai*) camps, continues various forms of religious restrictions and persecution, continues to incarcerate large numbers of prisoners of conscience, will not permit Red Cross access to its prisons, will not release high-profile political prisoners, continues to execute several thousand per year, and has stonewalled meaningful human rights dia-

⁵ “China to Buy 210 Fighter Jets if EU Ends Arms Ban,” *Straits Times* (Singapore), April 12, 2005.

⁶ Katrin Bennhold and Graham Bowley, “EU May Demand Gesture on Rights,” *International Herald Tribune*, April 14, 2005.

logues with Western nations over the past two to three years. The EU has publicly expressed its frustration with the stagnation, or retrogression, in China's human rights situation, by calling for "tangible improvements on the ground"—but Beijing has rebuffed such calls. Where, then, is the human rights rationale for lifting the embargo?

While the human rights situation in China has improved relative to 1989, there continue to be serious deficiencies and violations of global norms. *Maintaining* the embargo also sends a strong and unified political signal that the Chinese government itself has yet to come to terms with its actions of 16 years ago. There has been no official recantation of the lethal repression—far from it, as the government continues to claim it was a necessary action to prevent its overthrow. Nor has there ever been a full accounting, or even acknowledgement, of the estimated 1,500–2,000 civilian deaths on June 4. The U.S. Government estimates that approximately 2000 individuals remain imprisoned from their participation in those events, with thousands more exiled abroad. Countless others had their lives and careers affected by their participation in the pro-democracy demonstrations.

Argument No. 5: The Embargo Does Not Impede China's Military Modernization

Fifth, in an interview with the *Financial Times* France's Minister of Defense Michele Alliot-Marie presented a new argument in favor of lifting the embargo: since "our [French] experts" tell her that China's domestic military industry will be capable of producing "exactly the same arms that we [France] have today within five years," maintaining the embargo is pointless and "...lifting it could be better protection for us than maintaining it."⁷

This is the most ludicrous rationale of all, and is premised on very faulty logic and intelligence. This judgment either reflects very poor intelligence and information or does not speak well of French weapons (the latter is not likely). With a few exceptions (ballistic missiles, inertial guidance systems, diesel propulsion, and a new generation of tanks), virtually all foreign experts on the Chinese military recognize that China's indigenous military-industrial complex remains 10–20 or more years behind the state-of-the-art. Ms. Alliot-Marie and France's Ministry of Defense should consult any number of respected studies on the Chinese military to better inform themselves on this issue.⁸

It is indisputably clear that the *lack* of Chinese access to the Western arms market over the past 15 years (and longer) has demonstrably slowed China's domestic arms manufacturing capabilities. Whatever modern

⁷ "French Defense Minister Pushes Case to Lift EU Arms Embargo on China," *Financial Times*, February 16, 2005.

⁸ See, for example, David Shambaugh, *Modernizing China's Military: Progress, Problems, and Prospects*, Berkeley: University of California Press, 2003; Council on Foreign Relations, *China's Military Power*, New York: Council on Foreign Relations, 2004.

conventional weapons China's military possesses have been sold to it by Russia—but are not manufactured in China. Even Russia has been very careful not to sell China the latest generation of its weaponry, nor has Moscow transferred the means of production to China—thus ensuring a dependency on Russian spare parts and new systems. There is also a strong segment of the Russian military and strategic community that does not believe such sales are in Russia's own best national security interests—but they continue in order to prop up the country's financially-strapped defense industries (a similar rationale seems to be driving France's calculations).

Argument No. 6: The Train Has Left the Station

Finally, it is argued that the resolution adopted by the European Council on December 17, 2004, instructs Luxembourg to “finalize the well-advanced work” to lift the embargo during its presidency, but that when this occurs sales to China will not exceed current “quantitative or qualitative levels.” By this bureaucratic reasoning, the EU is mandated to lift the embargo and that there is nothing to worry about when this occurs.

There is no good reason that European rethinking, prudence, and a desire not to aggravate trans-Atlantic ties further cannot stop, or at least retard, the lifting of the embargo. It is not yet a done deal—indeed there is already evidence that such pragmatism and realism is prevailing. It will also be very difficult to enforce these ceilings in practice and to prevent individual member states from breaking the caps. The United States used precisely such language in the 1982 U.S.–China Joint Communiqué concerning arms sales to Taiwan—the ceilings were never quantifiably clear and were soon broken.

The Big Question

Thus, virtually all of the main arguments put forward by European officials and experts are unconvincing to Americans. They also defy strategic logic. At the end of the day, Europe must have a very clear answer to a simple question: *why is it in Europe's strategic interest to help the Chinese military modernize*, and thus alter the military balance in Asia? There is no justification. There is no doubt that the PLA is modernizing, but *why is it in Europe's strategic interest to accelerate this process?* It is incumbent on the EU to provide clear and convincing answers to these key and core strategic questions.

More to the point, one does not hear China's Asian neighbors clamoring for a strong Chinese military and the lifting of the embargo. Far from it. A PLA possessing real power projection capabilities is one of their worst strategic nightmares, as it would radically change and destabilize the East Asian security environment. This is also of deep concern to the United States—which, after all, has been the guarantor of East Asian security and stability for half a century.

Yet, from the American perspective, *none* of these arguments touch the real issues: maintaining stability in the Taiwan Strait, the security of Taiwan, and preventing China from possessing European arms that might potentially be used in battle against American forces.

In sum, lifting the arms embargo on China is very ill-advised—if anything it needs to be substantially strengthened. Both Europe and America can continue to enjoy robust relations with Beijing, while maintaining their respective arms embargoes. China will just have to live with it until Beijing comes to terms with its actions of 1989 and eliminates military pressure against Taiwan.

Lifting the EU Arms Embargo on China. U.S. and EU Positions

*Gudrun Wacker**

Preliminary Remarks

The plan of lifting the European arms embargo on China has been most strongly supported by the French President Chirac and the German Chancellor Schroeder and has led to growing criticism in the U.S. The U.S. sees lifting the embargo as a threat to its security interests in the region. The issue was especially troublesome at a time when the U.S. and Europe were trying to overcome the rift created by the war in Iraq. This paper was prepared for the first of the two trans-Atlantic conferences on American and European reactions to the rise of China. Therefore, it reflects the state of affairs in February 2005.

In the meantime, the European Union has postponed the decision on lifting the embargo. There were several reasons for this: U.S. pressure and the prospect of U.S. sanctions certainly played a role. Even more importantly, China passed an “anti-secession law” in March 2005 which underlined Peking’s willingness to use “non-peaceful means” should Taiwan declare independence. About one month later, large-scale and sometimes violent anti-Japanese demonstrations took place in some major Chinese cities; they were at least tolerated by the Chinese leadership. Both events provided welcome arguments to all those political forces within the EU which had not been in favour of lifting the embargo to begin with. And the proponents had to concede that if lifting the embargo was considered a symbolic act, such a gesture should not be made at a time when China demonstrated a rather self-assertive and aggressive attitude.

The ensuing crisis of the EU itself over the ratification of the constitution and the budget stalled other projects already under way. Among these was the strengthening of the “Code of Conduct on Arms Exports” of the EU and the “toolbox” which was supposed to supplement it (see below). Their finalization is the necessary prerequisite for lifting the embargo.

All this does not mean that the embargo issue is dead. For instance, should China ratify the UN covenant on political and civil rights, as the EU has been requesting for a while, this could bring the issue back on the agenda of the EU. Since the EU still wants to go ahead with intensifying its relations with China, the embargo will be lifted sooner or later—after the appropriate safeguards are in place. Therefore, even though there have been some important developments with respect to lifting the embargo since February 2005, the information and arguments presented in the following paper have not lost their validity.

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The U.S. Position: Why the Embargo Should Be Kept in Place

A whole range of arguments have been raised by the U.S. (and less publicly, by Japan¹ and Taiwan² as well) against lifting the European arms embargo:

- ▶ the human rights situation in China, which was the original reason for the arms embargo in 1989, has not fundamentally changed for the better—and some would even argue the situation has deteriorated over the past few years;
- ▶ the U.S. and EU embargoes are complementary, and the Europeans should not break out of the common front with the U.S. on this issue;
- ▶ lifting the EU arms embargo will lead to a change in the balance-of-power in the region in China's favour, especially with respect to the situation in the Taiwan Strait (arms race, destabilization of the regional situation);
- ▶ lifting the EU arms embargo could in the future lead to a situation where U.S. soldiers are confronted with weapons produced by NATO allies—military conflict over Taiwan is the most likely scenario of a confrontation between China and the U.S.;
- ▶ the Russian Federation will drop all restrictions on arms sales to China out of fear of European competition on the Chinese market;
- ▶ lifting the EU arms embargo will lead to cooperation between European and Chinese defence industries; this could in turn lead to sensitive U.S. technology falling into the hands of China;
- ▶ China's record of proliferation is still unsatisfactory, so European arms and technology could be transferred from China to states of concern or third parties;
- ▶ the EU defence industry will become more competitive by selling arms to China and this will threaten the dominant position of U.S. industries;
- ▶ finally, it has been argued that by lifting the embargo the EU is giving away much too cheaply a powerful instrument to get concessions from the Chinese—in fact, the EU gets nothing in return. Thus, the EU is acting against its own interest.

In general, the U.S. side considers the restrictions on arms exports of the EU which will apply after the European embargo is lifted as insufficient because they are not legally binding. For the reasons listed above, the U.S. government and even more so members of both political parties in Congress are strongly opposed to the EU taking this step. From the American perspective, the Europeans once again seem to be driven by greed: short-term profits are given priority over the legitimate security interests of Europe's allies.

1 See e.g. remarks of the Japanese Foreign Minister Nobutaka Machimura during the visit of British Foreign Secretary Jack Straw in January 2005, Agence France Press, January 20, 2005, cited from *Napsnet Daily Report* (Email), January 20, 2005.

2 Taiwan's Vice-Minister of Foreign Affairs, Michael Kau, visited several European countries in January 2005 to explain Taiwan's concern about the anti-secession law and the lifting of the embargo. See "Kau seeks support against China's law," *Taipei Times* (online), January 20, 2005, p. 4.

Most of the U.S. arguments listed above are based on the assumption that at least some EU member countries will increase arms sales to China immediately after the embargo has been lifted and that economic gains from these sales are in fact the prime motive behind lifting the embargo. In contrast to the outlined American position, EU officials and political leaders of member states stress that there is no intention on the EU side to increase arms transfers to China.³ They argue that lifting the embargo would be mainly a symbolic step. But how can this be guaranteed? Which safeguards will be in place after the embargo is lifted?

The European Position: Effectiveness of the Embargo and the Code of Conduct

Before addressing the question of the EU Code of Conduct on Arms Exports⁴ which is the major European instrument to control arms exports, it should be made clear that there are major differences between the U.S. arms embargo on China and the European one:

- ▶ The U.S. arms embargo on China was made public law in early 1990, while the EU embargo was merely a political declaration of the heads of state of the European Community at their summit in Madrid in June 1989 (which falls into a time well before the Common Foreign and Security Policy of the EU was on the horizon). Therefore, the U.S. embargo is legally binding, while the EU's is not.
- ▶ The U.S. embargo refers to the U.S. Munitions List, while the EU embargo is not specified in its scope. Rather, the interpretation of scope and the implementation of the embargo were left to the individual member states. In the late 1990s, the UK and France came forward with their respective interpretations of the embargo⁵. The embargo has lost more and more of its effectiveness ever since.
- ▶ While the U.S. munitions list also includes dual-use items, such items are not addressed by the European embargo. It simply refers to "an embargo on trade in arms with China".⁶

³ See official statement of the European Council in December 2004: "It [the European Council] underlined that any result of the decision [to lift the arms embargo] should not be an increase of arms exports from EU Member States to China, neither in quantitative nor in qualitative terms." Council of the European Union, Brussels European Council, 16/17 December 2004, *Presidency Conclusions* (16238/1/04 REV 1), http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/83201.pdf. The remarks of French Defence Minister Michele Aillot-Marie in February 2005 in the *Financial Times* contradict these declared intentions of the Council. See "France urges end to China arms embargo," *Financial Times*, February 15, 2005, p. 1. According to other comments from the French government, this statement reflected the personal position of the French defence minister.

⁴ Council of the European Union: *EU Code of Conduct on Arms Exports*, 8675/2/98, June 5, 1998, <http://ue.eu.int/uedocs/cmsUpload/08675r2en8.pdf>.

⁵ See SIPRI website: UK statement: <http://www.sipri.org/contents/expcon/euchiuk.html>; French statement: <http://www.sipri.org/contents/expcon/euchifra.html>.

⁶ European Council: "EU Declaration on China," Madrid, June 26-27, 1989, <http://projects.sipri.se/expcon/euframe/euchidec.htm>.

Several other factors should also be mentioned: First, the EU's "Common Foreign and Security Policy" (CFSP) is a work in progress. Therefore, the EU is not yet a fully-fledged foreign policy actor and it can not decide and act on behalf of the member states in this realm. Concerning foreign and security policy, the relevant actors are still the member states. For example, every member state has its own national laws on export controls. In the case of Germany these laws are quite strict. Even if the embargo on China falls, these national export controls will still be applicable.

Second, there are provisions on the EU level already in place that are at least as binding as the embargo:

The "EU Code of Conduct on Arms Exports" was finalized in 1998 and constitutes an effort to unify and harmonize arms export policies of the member countries and to prevent undercutting. Although the Code of Conduct is not an EU law⁷, it is an elaborate, *politically* binding instrument. The Code sets up eight criteria which have to be taken into consideration before an export license for military goods is granted—the human rights situation in the recipient country and regional peace and stability are two of these criteria—and it also established mechanisms for reporting and mutual consultation between member countries. Annual reports on the performance under the Code of Conduct have been published and improved over the years. These publications not only contain lists of export licenses granted and refused broken down by recipient country, but also aim at further improving the Code by establishing "best practices" and pointing to issues that need to be addressed in the future. The EU considers its Code of Conduct as "the most comprehensive international arms exports control regime."⁸

In light of a possible future lifting of the embargo on China, it is important to note that a review process of the Code of Conduct was initiated in December 2003. This review process is almost finished and a revised and strengthened Code could be finalized in the coming months (i.e. spring 2005). This revision comprises several dimensions:⁹

- ▶ A consensus has been reached to include *new elements* in the Code: arms brokering¹⁰, transit/transshipment, licensed production overseas, in-

⁷ Weapons were excluded from the Common Market under the Treaty of Rome. In contrast, there is an EU regulation for the export of dual-use goods: *Regulation (EC) No. 149/2003 of 27 January 2003 amending Regulation (EC) 1334/2000 with regard to intra-Community transfers and exports of dual-use items and technology*, OJ L 30 of February 5, 2003, http://europa.eu.int/comm/trade/issues/sectoral/industry/dualuse/docs/reg149_2003en.pdf.

⁸ See Council of the European Union, *Sixth Annual Report on the Implementation of the Code of Conduct*, November 11, 2004, 13816/04. In addition to the now 25 member states of the EU, Norway, Romania, Iceland, Bulgaria, Canada and Croatia declared that they share the objectives of the Code and aligned themselves with its criteria and principles. All annual reports on the Code can be found on the SIPRI Website under <http://www.sipri.org/contents/expcon/annrep.html>.

⁹ See *Sixth Annual Report*, pp. 7–9.

¹⁰ The June 2003 Common Position on the control of arms brokering is to be included in the revised Code of Conduct (problem: not all countries have national laws on arms brokering).

tangible transfer of software and technology, end-user certification and national reporting.

- ▶ A revised version of the “User’s Guide” providing *guidelines for the implementation* of the Code of Conduct was published in December 2004.¹¹
- ▶ Temporary procedures are under discussion that would apply to countries if the EU decides to lift an existing arms embargo (“*toolbox*” to supplement the Code of Conduct)¹².
- ▶ A stronger role is ascribed to the European Parliament (*rapporteur*).
- ▶ Exchange on denials of export licences with candidate countries for EU membership and countries outside the EU (first country: Norway) has been initiated.
- ▶ Reporting has been further harmonised (references to Military list numbers¹³ are supplied if available) which will lead to more systematic and transparent tables.

In sum, the process triggered by the European debate about lifting the embargo on China has had positive effects that go beyond the question of China (strengthened Code, closing of loopholes, “toolbox,” exchange with countries outside the EU). Moreover, due to the latest EU expansion in May 2004, new member states like the Czech Republic had to commit to the Code of Conduct. All these measures should lead to improved controls and more transparency in arms exports than before.

Why Lift the Embargo?

On the political level, the EU argues that China has come a long way since 1989. Although grave deficits with respect to the human rights situation remain, there has been progress in some fields. Major concerns for the European side are labour camps, the number of death sentences, administrative detention, minority and religious rights (Tibet, Xinjiang, Christians).

The EU sees the rise of China, its growing economic and political weight, as an opportunity and challenge, as a process that should be accompanied and supported from the outside. Engagement on every possible level—bilaterally and multilaterally—is seen as the best chance to bring China as a responsible player into the international community. In view of the commonalities identified (multilateralism, UN and international regimes) the EU views China as a future strategic partner. (Admittedly, France

11 Council of the European Union, *User’s Guide to the European Union Code of Conduct on Exports of Military Equipment*, 16133/1/04, December 23, 2004, <http://ue.eu.int/uedocs/cmsUpload/st16133-re01en04.pdf>.

12 See *Sixth Annual Report*, p. 4. There is no information yet on the specific provisions of this “toolbox.”

13 EU Common Military list categories: See *Sixth Annual Report*, pp. 12–13. The revised *Common Military List of the European Union* (November 17, 2003) to which the Code of Conduct refers to can be found at http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c_314/c_31420031223en00010026.pdf.

identifies slightly different commonalities with China—multipolarity as a counterweight to the United States.)

As a future strategic partner, it does not seem appropriate to put China into the same category as Zimbabwe or Burma/Myanmar—countries that are also subject to an arms embargo. Getting rid of the arms embargo is seen as the last step of normalizing relations with China rather than as a reward for anything. (This is reflected on the Chinese side's interpretation of the embargo as political discrimination.) The EU wants to move on with its relationship with China and sees lifting the embargo as a necessary measure on the way forward.

Therefore, from the EU perspective lifting the embargo is mainly a symbolic move without practical implications for arms sales. If this is the case, the EU can hardly use this move to extract substantial concessions from China. However, the EU and governments of several member countries have been communicating to China that it would be helpful—albeit not a precondition—for lifting the embargo if China would, for example, ratify the International Covenant on Civil and Political Rights.¹⁴ The EU Parliament and national parliaments in several countries voted against lifting the embargo until more substantial progress in the human rights situation becomes visible.¹⁵

Towards a New Transatlantic Rift?

Has the EU—as Jack Straw stated—simply been unable to communicate that lifting the embargo is not about exporting arms and military technology to China? Are the different standpoints on both sides of the Atlantic only due to misunderstandings? That might be part of the problem, but it is hardly all of it.

There seems to be a general attitude on the American side that the EU embargo should not be lifted under any circumstances whatsoever. The conditions for lifting the embargo and the timing only play a very marginal role for the American position. Lifting the European embargo seems only acceptable to the U.S. if she herself deems it wise to take the initiative to lift her own embargo. If this interpretation is correct, nothing that the Europeans do to strengthen the Code of Conduct or introduce other safeguards will change the U.S. position. The Europeans certainly would like to satisfy all sides involved, but this might not be possible.

Some ideas have been brought up to solve the situation: One is that the U.S. draws up a list of items and equipment that they do not want the Europeans to export to China. Another proposal is to include Japan in such consultations between the EU and the U.S.¹⁶

¹⁴ China signed the Covenant in 1998, but has not ratified it yet.

¹⁵ Parliaments have, however, no part in the decision to lift the embargo.

¹⁶ See "EU and US seek to defuse China arms embargo tensions," *Financial Times*, February 1, 2005, p. 6.

Any such solution would, however, require that the U.S. acknowledges and respects the EU attempts at establishing an efficient common arms export regime guided by European foreign policy interests.

History Meets Strategy: Understanding U.S. Perspectives on the Taiwan Issue

*Derek J. Mitchell**

For better or for worse, the issue of Taiwan remains at the heart of U.S.-China relations and U.S. China policy, and likely will stay so for many years to come. The impasse across the Taiwan Strait serves as one of the most dangerous flashpoints in the world, threatening to incite military conflict between two nuclear powers. To the outsider, one may reasonably ask both why China cares as much as it does about Taiwan, and even more so why the United States cares so much about this island off China's coast. Indeed, why does Washington continue to adhere to a policy that, given the clear resonance the issue has in China's national sensibilities, antagonizes the Chinese people, prevents any real breakthrough in bilateral relations, and likewise chances a military conflict with the most important rising power in the world? The following paper attempts to briefly outline the U.S. perspective on the Taiwan issue, particularly the historical context of U.S. interest and involvement in both China and Taiwan over the past century, and the development of U.S. Taiwan policy over many decades through hot and cold wars alike.

Historical Context

U.S. involvement and interest in China as a whole began tentatively in the late 18th century with the establishment of limited trade ties. Relations gained momentum upon the opening of Chinese territory and society more widely to the world under aggressive European pressure in the mid-19th century. However, during this period and extending into the first decades of the 20th century, the United States gradually came to see China as a source not only of economic but also of spiritual opportunity. Christian missionaries began to arrive in an effort to save 800 million souls, to do good works, and to bring "enlightened" Western ways to a vast new frontier. In the process, news about China was transmitted back to the United States through U.S. churches, which increased interest and awareness of Chinese affairs within U.S. society.

It was in this context that the United States established a connection to Chiang Kai-shek's China of the 1930s. A missionary's son, Henry Luce of *Time Magazine*, used his magazine to tout Chiang and his US-educated Christian wife Soong Mei-ling (Madame Chiang) as the one hope for the development of a modern, Westernized and Christian China that kept both "warlordism" and atheistic communism at bay. America's connection to China, and in turn Chiang, increased with the publication of Pearl

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Buck's 1930's novel (and later movie) *The Good Earth*, in which Americans projected their Depression-era struggles to China's age-old hard-scrapple conditions, and solidified further after Pearl Harbor in 1941 when the United States and China found themselves allies against a common Japanese enemy. A triumphant visit by Madame Chiang to the United States during the war, during which she addressed a joint session of Congress in flawless English, solidified the Chiangs as China's hope in the American psyche.

Thus when Chiang succumbed to communist military and political pressure and fled to Taiwan with his Nationalist (Kuomintang) government in 1949, many in the United States were stunned and angered.¹ Combined with increasing concern about the new threat of international communism in the aftermath of World War II, the start of the Cold War, and the imperatives of U.S. domestic politics, the refrain of "Who Lost China?" became a heated cry in U.S. policy and partisan circles. Minority Republicans, including senators from McCarthy to Knowland (known as the "Senator from Formosa"), were seeking an issue with emotional resonance in the United States to undermine Democratic control of both the presidency and Congress as the 1950s dawned. They vilified the Truman Administration and China hands in his State Department for allowing communism to expel an old ally and end the long-standing U.S. project to change China.

In fact, the State Department had completed an internal white paper by August 1949 that placed responsibility on Chiang and his Kuomintang regime for "losing" China, and by 1950 had decided that, despite its concern about communist victory on the mainland, the United States was in no position, militarily or otherwise, to prevent Mao's forces from finishing the job by taking Taiwan. This posture changed, however, when North Korea attacked South Korea in June 1950 to start the Korean War, which highlighted the perceived need to demonstrate U.S. commitment to defend against aggressive communist expansion (although largely with Europe—and by extension the Soviet Union—in mind). The U.S. government placed its 7th Fleet in the Taiwan Strait to prevent both the Chinese communists and Chiang's Nationalists from taking advantage of the situation to take provocative action while the United States was engaged to the north. The result of this change in the strategic situation led to the establishment of a formal anti-communist U.S.–Republic of China (on Taiwan) alliance in 1954 that lasted 25 years through the height of the Cold War, and further tied the United States strategically and emotionally to the people on Taiwan.

Indeed, U.S. domestic politics and the Taiwan issue remained the primary obstacles (at least from the U.S. side) of normalization between the United States and the communist mainland. During the Eisenhower

¹ Others had less sympathy for Chiang and his governmental allies in the mid- to late 40s given its egregious corruption, malfeasance, brutality, and failure to curb lawlessness and rampant inflation in the aftermath of the war. To these observers, Chiang had simply failed to maintain China's fabled "mandate of heaven" and thus deserved his fate.

presidency, two small islands just off mainland shores but still controlled by Taiwan—Quemoy and Matsu—became the scene of tense, military stand-offs between the United States and the People's Republic of China (PRC) where U.S. use of nuclear weapons to demonstrate U.S. commitment to preventing communist aggression was discussed. In 1963, President Kennedy commented to a leading U.S. senator that he wanted to normalize relations with the PRC but would have to wait for a second term given the political sensitivities involved. It took staunch anti-communist Richard Nixon to break the impasse with the PRC, but even then how to handle the Taiwan issue held up establishment of formal diplomatic relations for seven years thereafter before Jimmy Carter was able to quietly conclude an agreement that took effect on January 1, 1979. The diplomatic agreement required that the United States not only end its diplomatic relationship with the ROC in Taiwan but also withdraw its troops and sever the U.S.-ROC military alliance.

However, Congress's traditionally strong commitment to Taiwan emerged again in the wake of this sudden blow to the ROC on Taiwan. The Taiwan Relations Act (TRA) mandated the establishment of "unofficial" relations with Taipei, and proclaimed a rather broad if undefined commitment to Taiwan's defense and well-being.² Remaining loyal to the legacy of decades of allied relations and emotional connection to the Chinese Nationalists remained important to many in the United States, particularly in the conservative camp.

The 1990s: New Factors in U.S. Perspectives on the Taiwan Issue

In the late 1980s and 1990s, a critical new development emerged with lasting impact on U.S. perspectives on the Taiwan issue: the establishment of Taiwan democracy. In 1987, the traditionally authoritarian Kuomintang government lifted martial law, and over the next several years steadily introduced civil liberties and democratic processes to the island. With this development, not only did the political landscape on the island change with the rise of indigenous Taiwanese voting power, complicating the cross-strait divide, but U.S. popular commitment to the island also became stronger as American values entered the mix. Although U.S. commitments to Taiwan security clearly predated political reform on the island, the importance in the American mind and to U.S. political calculations of Taiwan's democratic development cannot be overestimated.

Another phase in U.S. perspectives on Taiwan came in 1996 as the island prepared for its first free presidential election in March. To intimidate Taiwan voters against incumbent President Lee Teng-hui, the PRC launched missiles into the waters surrounding the island as the election

² The TRA mandates that the United States provide defense articles to enable Taiwan to maintain a "sufficient self-defense capability" and announces that the United States would view mainland aggression or coercion to solve the impasse with "grave concern." The latter phrase has been interpreted as reflecting continued U.S. military commitment to Taiwan should the PRC attack the island.

approached. However, instead of preventing Lee's victory (he won), the PRC's aggressive intimidation of Taiwan backfired. The United States dispatched two aircraft carriers toward the Taiwan Strait as a signal of its continued commitment to peace and stability in the region. More fundamentally, China's action led the United States to debate seriously for the first time in years the nature of its defense commitment to Taiwan and of the Chinese military threat and political intentions over the island. The incident also made the United States aware that both it and Taiwan were not prepared to address in a coordinated fashion a military threat from the PRC. This recognition led to a steadily growing stream of political and military contacts between the two sides, begun under President Clinton and accelerated under President Bush, to the point where today extensive interaction occurs at all levels, infuriating and enflaming sentiment toward the United States on the mainland.

The 1996 incident also led to a sense in the United States that the Taiwan Strait was a potentially dangerous flashpoint that required focused political and military attention. The United States came to recognize that one may be ambiguous politically—about the ultimate resolution of a sovereignty question, etc.—but one cannot be ambiguous militarily: one plans or does not plan, and the Pentagon began to treat a Taiwan Strait scenario as a real possibility for which the United States must be prepared to enable its political leaders to consider a full range of political and military options, and exercise appropriate concerted action.

Chinese Military Modernization

At the same time, the 1996 incident served as a wake-up call for China about its ability to assert its interests on the Taiwan issue. At the time, the island retained a qualitative edge in military hardware. The PRC also recognized its need to account for possible U.S. intervention in a Taiwan contingency. This recognition led China to undertake a concentrated effort to develop and modernize its military, and draw up a military doctrine that focused on resolving the Taiwan impasse by force if necessary.³ China set out with great focus to integrate and operationalize its military capacities against Taiwan to a degree that seemed to move beyond deterrence toward coercion or worse. U.S. arms sales authorizations to Taiwan grew in response, chilling U.S.–China relations and militarizing the cross-Strait impasse to an unsettling degree, particularly in the face of little political flexibility or initiative from the mainland, and demographic and

³ China's military modernization largely included but was not limited to major purchases of advanced weaponry from Russia, including fighter jets, submarines, destroyers with anti-aircraft carrier missiles, and other technologies and systems to modernize their operations. The PRC also deployed hundreds of short- and medium-range ballistic missiles deployed just off the shoreline opposite Taiwan, began to develop amphibious landing capabilities, and focused on the development of advanced information operations such as cyber-warfare and C4ISR (command, control, communication, computers, intelligence, surveillance, reconnaissance) capabilities, among other initiatives.

social trends on the island that seemed to create an increasingly “Taiwanese” identity among its citizens separate from the Chinese “motherland”.

Although many constraints remain against a PRC military attack on the island, China’s coercive and destructive potential toward Taiwan has grown greatly over the past half-decade and shows little sign of abating. Trends in the cross-strait military balance are very poor for Taiwan, and extremely worrisome to the United States given its commitment to Taiwan’s defense.

In fact, the implications of China’s approach to Taiwan, and how the U.S. responds in turn, are broader than Taiwan itself, as the United States is concerned about the signal it may send should its policymakers explicitly or tacitly accede to Chinese coercion or aggression to resolve the impasse. East Asia remains dependent on the United States as the regional guarantor of stability and security in the face of China’s rise and in the absence of any viable collective security structure to serve this function. This guarantor function remains as relevant to U.S. and regional security needs in the 21st century as it was during the Cold War of the 20th century. Given other unresolved territorial and sovereignty disputes in the region, such as in the South China Sea, the East China Sea, etc., the United States and others in the region are concerned that the U.S. security guarantee would be seriously undermined should Washington fail to prevent the PRC from exercising non-peaceful means to resolve the Taiwan issue. Furthermore, the United States views its encouragement of China to take a less militarized approach to Taiwan as an important component of an overall policy to shape China’s peaceful approaches to international disputes in the future.

Conclusion

U.S. commitment to Taiwan’s security has continued now for more than 50 years, and its Taiwan policy has essentially been consistent through seven presidents of both parties over the past 30 years, since the Nixon opening to China in 1972, with some minor tactical alterations over time. This policy as it has evolved over time incorporates two fundamental elements:

1. Peaceful resolution: As a matter of policy, the United States is agnostic about the ultimate solution to the Taiwan impasse⁴ but has consistently demanded that any resolution be through peaceful means. In the wake

⁴ U.S. governments have been careful in its various public pronouncements, particularly the 1972, 1979, and 1982 U.S.–China communiqués, never to state its position on the ultimate sovereign status of Taiwan. In essence, the United States has adhered to the ambiguous formulation in the 1972 Shanghai Communiqué, which states “The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain that there is but one China and that Taiwan is a part of China.” While it is debatable today whether “all Chinese” on Taiwan consider the island to be part of China, the United States has used this formulation to avoid taking a position of its own on the sovereignty question. Such ambiguity rather than clarity over the Taiwan question, particularly as embodied in the language found in the three U.S.–China communiqués and the Taiwan Relations Act, makes up what U.S. officials call its “One China policy.”

of democracy on the island, the Clinton Administration added that this solution must be acceptable to the Taiwan people.

- 2. No unilateral change to the status quo:** The exact definition of the “status quo” in relation to Taiwan is somewhat ambiguous but may generally be defined as *de facto* independence to exercise authority over the political, economic, social, cultural and military affairs of the island under an ROC government and ROC constitution until such conditions develop whereby a peaceful resolution may be negotiated. Any unilateral actions on either side that move provocatively toward either *de jure* independence (by Taiwan), or coercive unification (by the mainland) would be opposed by the United States. In this way, the United States has sought to maintain delicate cross-Strait stability, and balance in its relations with both sides of the Strait.

Undergirding U.S. Taiwan policy over the past half-century and more has been a litany of U.S. statements, agreements, policies, laws, and emotions that in turn have been at the heart of the turbulent U.S.–China relationship, and U.S. strategic policy, during this same period. While Taiwan remains a darling of the American right wing, a general consensus within the U.S. elite arguably exists today about the importance of managing the cross-Strait issue effectively to promote other U.S. strategic interests, including: supporting the spread of democracy worldwide; preventing damage to peace and stability in a critical region of the world; maintaining the credibility of global U.S. security commitments; encouraging the peaceful rise of China; and staying true to the security and well-being of an old ally and friend. Although perhaps difficult for outsiders—and many Americans—to understand fully, America’s perspective on the Taiwan issue has a deep historical and strategic context. In fact, this context is essential to understanding why the United States retains such a unique concern with the defense of a small island of 23 million people, despite the consequent risk of conflict with a major nuclear power whose development and cooperation will be so essential to U.S. interests of global security, stability and prosperity in years to come.

The Taiwan Issue and the Role of the European Union

*Adam Ward**

In looking at the role of the European Union in the Taiwan issue I start with some rather basic and familiar premises. The first of these is that the manner in which the dispute between China and Taiwan is resolved—whether it is done cooperatively or coercively—and even the precise way in which a stalemate may be carried forward into the future, will be decisive in shaping China as a power and in determining the form of China's participation in international strategic affairs.

If one tends to believe that China's posture towards Taiwan is indicative of an essential disruptiveness and assertiveness inherent to long-term Chinese strategic objectives as a whole, pointing over time to a more coercive and demanding Chinese attitude towards the outside world, then the cross-Strait dispute carries considerable predictive significance. If one takes the less stark view, namely that China's obsession with Taiwan and all that this has given rise to—a military build-up and occasional shrillness in its dealings with some countries—are the exception that proves the rule of a more benign and cooperative China, then one still has to concede that this exception could under some circumstances infect all of China's diplomacy very much for the worse. And if one takes the middle view, as I suspect most analysts would, that China's trajectory as a power is still undecided, then the dispute with Taiwan stands out as a key factor that could swing things either way.

There are many scenarios which can be developed about the cross-Strait dispute. A cooperative resolution of the dispute leading to reunification or political accommodation of some description might, in time, contribute to the ebbing of uncouth nationalist impulses as the significant force in Chinese politics they are today; but they might just as well create a nationalist euphoria and the projection by China of an assertive self-confidence that would be badly received in Asia and elsewhere. A conflict to settle the issue, in all likelihood involving the United States, on the other hand, would certainly produce an enormous strategic and economic convulsion in which Asian countries would be asked to choose sides—and some European countries would be invited to participate militarily.

A second basic premise is that the current and potential effects of the dispute between China and Taiwan are inescapable. The European Union cannot be isolated from or significantly insulated against them. It inevitably follows from all of this that the European Union must have not only a clear policy towards but also a strong role in the cross-Strait dispute. It must, as a matter of practical self-interest, try to encourage certain

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outcomes and to discourage others. As well as interests, matters of credibility are at stake here: a European Union that seems aloof from, or even oblivious to, a dispute of this magnitude will struggle to be taken seriously as an aspiring actor in global security affairs. Currently, the EU falls down here.

Its stated policy towards the cross-Strait dispute is simple and transparent enough. It entails adherence to the 'One China' policy and, with that, full diplomatic recognition of the People's Republic of China. No member of the European Union recognises Taiwan or is remotely in prospect of contemplating that possibility. Within this structure, however, economic ties with Taiwan are sought and encouraged by the EU, and private dialogues are conducted, episodically, with reasonably senior Taiwanese diplomats and military officials—sometimes in the teeth of public objections by China. The EU 'insists'—and that is an unusually robust and rare expression in the lexicon of the EU's dialogues with China—on a peaceful resolution of the cross-Strait dispute, and stresses that any settlement reached following a dialogue ought to take into account the wishes of the people of Taiwan.

As far as it goes, there is nothing particularly objectionable or unusual in this. It is an approach adopted by many states around the world in their attempts to square calculations about hard geopolitical realities, economic interests and political affinities in dealing with China and Taiwan. But the problem is that this really *is* as far as the EU's policy appears to go.

Official documents on foreign policy priorities and major bilateral relationships cannot always be completely comprehensive, and they cannot, and in some senses perhaps should not, capture fully all of the intricate calculations and debates that produce these public statements. Even allowing for this, however, it is hard for anyone—and certainly anyone in Beijing or Taipei—who picks up a major policy paper produced by the European Union in recent years to conclude that the Taiwan issue has been a matter of serious concern to the EU or an important point of discussion in its otherwise impressively extensive and involved dialogue with China.

The European Security Strategy paper published at the end of 2003, which was admirably outward-looking, clear-headed and straight-talking for an EU document, only mentions China twice in its fourteen pages: once in a fleeting reference to China's accession to the World Trade Organisation, and again on the last page, where it is blandly identified as a 'strategic partner'. There is no mention of the dispute with Taiwan and its potential ramifications. In the paper produced earlier in 2003, entitled '*A maturing partnership—shared interest and challenges in EU-China relations*', the EU's call for cross-Strait dialogue and a peaceful resolution of the dispute, its view that economic ties will help blunt political antagonisms, and the EU's own interest in whatever non-political ties with Taiwan its adherence to a 'One China' policy will permit—all of these are rehearsed in six lines of a 32-page document.

A reliance on written public statements does not, perhaps, allow for the possibility of a private, behind-the-scenes dialogue on the question of Taiwan. No doubt mention is made of it. And, on sensitive issues like this, there may be a definite advantage in preferencing quiet communication over public hectoring. But if this is so, then the European Union has traditionally tended to speak not so much *sotto voce* as in a barely audible whisper. From Taipei's perspective, of course, the silence has been deafening.

Why has the European Union's policy taken this form, when so much is at stake? There isn't a single cause or a coherent strategy behind it. Functional reasons have often been advanced. It is said that policy priorities are inevitably shaped by perceptions, and that perceptions, in a circular sort of way, are determined by the form of engagement. The European Union's engagement of China has been primarily economic and so China is seen through an economic lens. This tendency, it is argued, has been reinforced by the lack on the part of EU members, and certainly the institutions of EU, of material interests and strategic assets in China's vicinity of the kind possessed by the U.S., leading to a reduced sensitivity to security concerns. Allied to this, the European Union has only recently begun to conceive of itself as a major actor in international security and to put into place, including in the Constitutional Treaty, political mechanisms and bureaucratic instruments and military capabilities to help realise this ambition.

There is something to all this. But it is not entirely satisfactory as an explanation of the EU approach, or non-approach, to the Taiwan question. Deeper economic engagement of China, and of Taiwan itself for that matter, can, it seems to me, just as well lead to a clearer understanding of the dispute between them, rather than to an ever-tightening myopia. The European Union has member states that pride themselves on their global perspectives and contacts, rather than on parochialism, and many have a long history of engagement with Asia in particular. The EU has two permanent members of the UN Security Council, with a third knocking on the door. Clearly, then, political issues as much as functional determinants have also to be looked at.

Perhaps the most significant of these is the tendency of the European Union to acquiesce too much to Beijing's view that a proper adherence to the 'One China' policy involves instant disqualification from meaningful comment on or intervention in the cross-Strait dispute, and that formal diplomatic recognition of China by the EU is in some way diminished or qualified by contact with Taiwan. Then there has been the inclination to see the China-Taiwan dispute as a matter that comes under the purview of the United States. There are various reasons for this: U.S. strategic and military pre-eminence in Asia is seen as a fact of life, and makes Washington the natural arbiter; and some would with justification argue that the U.S. has in any case not been particularly welcoming of European engagement in Asia in the past, except in times of crisis or when support of U.S. policy objectives was needed. Be that as it may, it has to be admitted that definite advantages, not least in smoothing economic relations with China, have also been perceived in Europe in allowing the U.S. to bare the

diplomatic costs and military burdens of involvement in a seemingly intractable dispute. In this sense, Europe has been a knowing 'free-rider'.

If one adds all of these things together—and the list is not complete—one ends up with a bit of a muddle: some degree of self-interested political calculation arguing against intervention in the cross-Strait dispute; some sense that the scope for intervention is constricted by a lack of means; wide variations in the degree to which EU member states and domestic constituencies have been seized of the issues involved; and the absence of a common, rounded strategic assessment at the EU level that is reflected in policy. It is tempting to say that the EU's posture on China and Taiwan is too detached and unfocused to do any good, but sufficiently so to do harm.

The trauma over the issue of the arms embargo has been exceptionally revealing. What did it reveal? It showed that the analytical and policy vacuum concerning China and Taiwan was large enough to allow countries with strong views but narrow, national interest-driven perspectives to step in, set the agenda for the EU and imply to China that a major policy decision would be taken—without first engaging in much prior, intramural consultation within the EU. It showed that once discussion did get under way, there was no consensus on the issues at hand. And, quite significantly, I think, it showed that European debates were dominated by questions surrounding human rights, and the implications for the bilateral relationships of member states with China as against the potential impact on trans-Atlantic relations. Until a reasonably late stage, and probably not that much before China itself made it an issue by passing an anti-secession law, Taiwan did not feature in its own right as a central focal point of European discussions. Some significant damage has been done: the Taiwanese have been led to conclude that at best there is ignorance of and at worst indifference to their concerns in Europe; and China has probably concluded the same, and that it is only external pressure from Washington that has stayed Europe's hand. But the European position is not completely irrecoverable, and if nothing else the experience of the last year has been instructive.

What might a more constructive European Union approach involve? Much of it boils down to matters of clarity and volume. As a starting point, the European Union would have to indicate that it was not prepared to participate in the fiction that the cross-Strait dispute is an entirely internal Chinese affair, and that outside interest and intervention in it is illegitimate. It should set out clearly that it regards the dispute as a matter affecting not only East Asian interests but the material security of the EU. It should avoid giving Beijing the impression that Europe is willing to soft-pedal on the issue in return for better commercial relations with China. It ought more loudly and forcefully to express its opposition to any use of military force by China in the settling of the dispute, and underline the point that Beijing should make no assumptions either way about the stance the EU would adopt in such an event. The cross-Strait dispute should explicitly be made the focus of a bilateral security and military dialogue, or at least formally included in broader such discussions. Indeed,

this might in addition to the tightening of export controls be made a condition of the lifting of the arms embargo. The EU should more actively encourage cross-Strait dialogue, rather than talk about its desirability in abstract terms, even perhaps to the extent of floating the idea that it might make a more effective mediator than the United States.

In its dialogue with Taiwan, the European Union should signal that it wants to expand contacts with this democracy, and that the pace and scope of these will be determined by the EU and not by Beijing. It should offer clear reassurances that Taiwan's interests will not intentionally, or by default, be sacrificed in the pursuit of better relations with China. It should also, however, make clear that there is no such thing as automatic and inevitable European support for Taiwan, and that unilateral provocative action will be looked on frostily. It is an approach, in other words, that resembles in part the policy of 'strategic clarity' that the Bush administration has been developing.

The EU should organise its diplomacy on this issue in consultation with the United States. And a more constructive European approach would be one in which American policy positions and statements would be publicly reinforced when and where the European Union thought this was valid and necessary. Too often in the past this has not been the case. But, in order to have credibility, not just with China and Taiwan, but within the EU itself, it would be important for European Union policy not to resemble something that might have been faxed-in from Washington. The effectiveness of a stronger European role in the cross-Strait dispute would flow precisely from the fact that the EU's interventions were seen to be selective and based on independently derived assessments. That, in turn, means that the EU will have to plough resources into developing analytical capabilities to inform policy, and to put into place a structure for consultation through which a more rounded assessment of China and Taiwan would be developed internally.

On the whole, however, I arrive at a fairly pessimistic prognosis. It's not hard to. It is true that we now have, by default, an official trans-Atlantic dialogue on China, and that awareness inside the EU—both within and among member states—about the cross-Strait dispute is increasing. Even so, the hurdles to a more significant and effective role are immense. And some of them are of the EU's own recent making. China cannot really be expected to take seriously admonitions about the unhelpful effects of its defence build-up on cross-Strait political dynamics from an EU that is proposing to take a politically and presentationally important step of repealing the arms embargo while leaving in place a quite permissive export control regime. Taiwan might for the same reason be entitled to doubt the extent to which Europe will uphold its interests or could credibly pose as a mediator. American confidence in a constructive European role will not develop easily, and it seems likely to be much more discouraging of a European role than before. The instinct to avoid antagonising China seems fairly well engrained in the EU's psychology. And in a context of scarce resources and abundant distractions, I see deferral and drift.

China's Rise in the Asia Pacific: Beijing's Moves, Washington's Responses and the Future Challenges for Both Nations

*Evan S. Medeiros**

It has become trite—but true—to point out the “rise of China” in the Asia-Pacific region. Once reviled in the region as a revisionist and destabilizing power motivated by the odd blend of Marxist and Maoist ideologies, China is rapidly emerging as a welcome “engine of growth” that Beijing claims is committed to regional stability, prosperity and security. Indeed, some Asian nations—but by no means all—have begun to look to Beijing for leadership on key economic and regional security questions. China's rising profile and influence in Asia is by far the most consequential development for the region in decades, and one that portends a significant, rapid and enduring reshaping of the regional order.

Washington views these developments with open eyes and anxious twitches. China's growing role in Asia raises numerous implications for the future of U.S. political influence and security strategies in the region. U.S. policymakers and analysts have started to seriously study and debate the sources and consequences of these shifts at the very time that new patterns of regional interaction are emerging.

This paper addresses these issues by examining the nature of China's expanding influence in Asia and the ongoing American debates about possible U.S. policy responses. The paper ends by noting several challenges confronting China as it seeks to translate its growing influence into both hard and soft power.

China's Moves in the Asia Pacific

Evidence of China's growing role in Asian economic, security and political affairs abounds. First and foremost, China's rapidly expanding trade, aid, and investment in the region are the most dynamic elements of this broader phenomenon. China's trade with East and Southeast Asian nations has been growing by over 30% annually for the last two years. Both China's exports to Asia *as well as* its imports from Asia have been surging, which is a far less controversial and more sustainable pattern than China's unbalanced trade patterns with the U.S. and EU. As of mid-2005, almost half of all of China's total trade volume is intra-regional, and this share is growing each year. In 2004 China became *both* Japan's and South Korea's leading trade partner, and China is now the largest export market for Taiwan. According to a 2004 World Bank Brief, China has become the locomotive

* The RAND Corporation, Washington, DC.

for much-needed growth in several Asian economies such as Japan, South Korea and Australia.¹

Beyond trade, China's foreign direct investment in Asia grew to over \$40 billion in 2003, which is impressive given the paucity of it ten years ago. Yet, the scale of China's FDI still pales in comparison to the level of Asian investment from the U.S. (2%) and Japan (11%). Furthermore, China is developing more robust and sophisticated foreign aid and development assistance programs. China has forgiven debt from several of the poorer Southeast Asian nations (e.g. Laos and Cambodia) and offered favorable loans and credits for infrastructure development to others. In response to the Tsunami disaster in December 2004, the Chinese government donated \$83 million in financial and in-kind aid, which was China's single largest humanitarian aid donation to date.

In terms of security and foreign policy issues, Beijing's embrace of multilateral security institutions in Asia represents one of the most significant shifts in China's diplomatic approach. In the early 1990s, China was wary of such forums as venues it thought would criticize and constrain China. Beijing now views participation as a means to shape international rules, improve relations with neighboring countries (especially in Southeast Asia), manage concerns about rising Chinese power, and limit what Beijing perceives as undue U.S. regional influence. In East Asia, China has actively engaged the Association of Southeast Asian Nations (ASEAN) and the ASEAN Regional Forum (ARF). In these venues, Beijing has taken a series of calculated steps to reassure ASEAN states that China's rise does not threaten their economic and security interests. It has done this by establishing numerous structures for China-ASEAN interactions, and it has signed a bevy of joint statements and agreements on trade and security issues. For example, in 2001 China proposed the establishment of a China-ASEAN Free Trade Area, the first of its kind. To allay regional fears about its territorial ambitions, China also agreed to a Declaration on a Code of Conduct for the island disputes in the South China Sea. Beijing in 2004 signed the Treaty of Amity and Cooperation, signaling its acceptance of ASEAN norms of negotiated conflict resolution. It was the first non-ASEAN state to take this step. China is now leading the charge in favor of an East Asia Summit in late 2005, which will not likely include the U.S.²

Beyond multilateral engagement, China has made a concerted effort to improve the quality of its bilateral relationships by forging numerous "strategic partnerships" with countries throughout Asia. China now has such partnerships with Thailand, Vietnam, South Korea, Malaysia, Lao, Cambodia, and most recently with India—China's long-time regional rival. While establishing such "strategic partnerships" is part window-dressing,

1 David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security*, 29:3 (Winter 2004/2005); for the World Bank's November 2004 East Asia update see <http://www.worldbank.org.cn/English/content/eap10-04.pdf> and for the April 2005 China Update see <http://www.worldbank.org.cn/English/content/cqu04-05-en.pdf>.

2 Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs*, November 2003, pp. 22-35.

it is a nascent diplomatic edifice upon which China seeks to raise the level of political dialogue between China and its Asian neighbors. The substance of such "strategic partnerships" now includes annual exchanges on traditional and nontraditional security topics among top diplomats and even senior political leaders.

Corresponding with the expanding scope of formal diplomatic relations, China's People's Liberation Army (PLA) has stepped up its military-to-military interactions with China's neighbors in Asia.³ This is part and parcel of China's effort to manage threat perceptions and reassure Asian militaries that the PLA doesn't threaten their security. China's military-to-military diplomacy with the region is increasingly diverse and robust. China now has high-level exchanges with most countries in East and Southeast Asia; it has allowed military officials from neighboring countries to watch Chinese military exercises; it has invited a few to participate in joint exercises (a first for the PLA); PLA Navy ships visits abroad are common; academic and functional exchanges between China and Asian militaries are growing in number; China has sought to bolster transparency of PLA affairs with its biennial defense white papers, and it has offered favorable arms sales packages to Cambodia, Indonesia and the Philippines, among others in the region. In 2004 alone, top PLA officials visited Australia, Brunei, India, Malaysia, New Zealand, North Korea, Pakistan, and Thailand.

Origins of China's Activist Diplomacy in Asia

The qualitative changes in China's diplomacy in Asia have been more far more evolutionary than revolutionary. They have developed gradually over the last 10 to 15 years and stem from several sources.

First, they are part and parcel of a gradual transition in Chinese foreign policy that dates back to Deng's "reform and openness" policies adopted in the late 1970s. To facilitate economic modernization at home, Deng's top national priority, China gradually adopted a far more open foreign policy that sought to secure sources of trade, aid, investment and technology as well as to ensure that external threats did not divert the leadership away from China's much-needed internal reforms; stabilizing China's periphery has always been a critical part of China's view of its security environment. Since then, China's third and fourth generation leaders have increasingly recognized the degree to which China's national interests remain tied to more and higher quality interactions with major powers and international organizations. Deng's thinking on foreign affairs remains the central theoretical underpinning to the new activism in China's foreign policy.

A second, contributing factor to China's new diplomacy is the ascension within China of a new generation of policymakers and diplomats who are far less wary of the international community and are savvier about

³ Ken Allen, "China's Foreign Military Relations: 2003-2004," *Chinese Military Update*, RUSI, 2:5 (December 2004).

interacting with their counterparts in Asia. Some of these policymakers have studied and lived in Western countries and share few of the misperceptions and apprehensions of China's older generation. These officials and diplomats regularly travel and live abroad, solicit advice from China's non-government regional experts, and welcome new initiatives, even ones that break with long-standing government positions. Chinese policymakers now talk about acting like a "responsible major power" in support of the "peaceful rise" of China.

Third, China's more confident and proactive diplomacy in Asia is the culmination of specific regional initiatives adopted over a decade ago. Beginning in the early 1990s, China sought to break out of international isolation following Tiananmen, to hinder Taiwan's efforts to increase their international space, to grow China's regional influence, and to address regional concerns about China's growing military and economic power. These foreign policy goals were collectively reflected in China's policy of "good neighbor diplomacy" (*mulin youhao waijiao zhengce*), that was also known as China's "peripheral diplomacy" (*zhoubian waijiao*).

In the last five to seven years, the scope and content of China's regional diplomacy has broadened and with differing degrees of emphasis. China's now refers to such an approach as a policy of "amicable neighbor, secure neighbor, and prosperous neighbor" (*mulin, anlin, fulin*) or "great peripheral diplomacy" (*da zhoubian waijiao*). Reassurance messages to China's Asian neighbors have become a particularly important element of the above policy as China's rise in regional economic and regional security affairs has accelerated and China's neighbors have expressed concerns about such phenomena. In addition, Chinese regional policymaking is also increasingly aimed at hedging against and constraining, when possible, U.S. influence. Because China does not seek to confront the U.S., the prominence of this motivation in actual policies varies. It remains a persistent influence in Beijing's calculations.⁴

Fourth, the most proactive and innovative aspects of China's new diplomacy gained momentum after September 11, 2001. Chinese leaders viewed this event as precipitating a decisive shift in global politics because U.S. strategists no longer view "the rise of China" as the major threat to U.S. security interests. For many Chinese, counter-terrorism replaced China as the central U.S. security preoccupation in the coming decades. In addition, Chinese strategists see the U.S. as heavily preoccupied with Iraq and the Middle East, which allows China greater opportunities and "strategic room" to enhance its profile and influence in the Asia-Pacific region. As a result, Chinese leaders now call the next 20 years a "strategic opportunity"

4 The history and development of China's Asia policy can be found in speeches by Chinese Vice Foreign Minister Wang Yi. For example, see "Quanqiuhua Jincheng Zhong de Yazhou Quyu Hezuo," [Regional Cooperation in Asia Amid Globalization], April 21, 2004, <http://www.fmprc.gov.cn/chn/wjdt/zyjh/t87474.htm>; also "Wang Yi Tan Zhongguo de Guoji Diwei he Waijiao Zhengce," [Wang Yi Talks about China's International Position and Foreign Policy], September 4, 2004, <http://www.china-embassy.org/chn/xw/t83962.htm>.

for China's national development and regional diplomacy because Beijing will not face a major challenge to its external security.⁵

Future Challenges to China's Regional Diplomacy

Beijing will confront several challenges as it seeks to be a more influential actor in the Asia-Pacific region. Some are linked to China's own capabilities and others are related to regional reactions to China's growing influence.

Chinese leaders will face the problem of rising expectations about China's behavior; this has two dimensions. First, China has signed several trade and security agreements as part of its regional diplomacy. China now needs to comply with this wide range of commitments. Beijing's mixed history of compliance with trade, security and human rights pledges suggests such steps will be problematic. These developments, in turn, will likely complicate China's relations with its neighbors who may become concerned that China's initial actions were superficial. A related challenge is that, as China's regional profile rises, China's neighbors will continue to expect more of Beijing as a reflection of China's self-proclaimed status as a "responsible major power." It is not clear that China has the national will or capacity to consistently meet expectations of itself as a regional leader.

China's approach toward the Taiwan question will inevitably complicate its regional diplomacy as well as its relations with major powers. Specific policies, such as its more coercive ones, reveal the limits of China's efforts to appear moderate and benign. In 2004, Chinese officials pressured Singapore's incoming prime minister, before he had taken office, to avoid visiting Taiwan and then berated him following his trip. In March 2005, Chinese diplomats threatened Australia to recuse itself from involvement in a military conflict over Taiwan, despite their treaty commitments to the U.S. Most recently, China's passage of the Anti-Secession Law led many European capitals to reconsider an impending decision to lift the European Union's 1989 arms embargo on China. Such actions and statements from Beijing present China in a more confrontational light. Any Chinese use-of-force (limited or major) to address the Taiwan question would heighten latent concerns, especially among Southeast nations, that China's rising power may threaten their security interests.

Furthermore, China faces numerous and overlapping governance challenges that stem from China's efforts to balance the transition of a large developing country to a more market oriented economy against maintaining central control on government actions. China's governance deficit directly and indirectly affects its foreign policy and external perceptions of China. It limits Beijing's ability to inform and control the multiple actors in China's large economy and expansive bureaucracy; this in turn frus-

⁵ For such views on U.S. policy toward China see Wang Jisi, "US-China Relations Seeking a New Stable Framework," *Zhongguo Dangzheng Ganbu Luntan*, January 6, 2005, pp. 37-39; Wang Jisi, "The Impact of US Strategic Adjustment on US-China Relations," *Xuexi Shibao*, August 16, 2004.

trates the government's ability to manage internal problems and to fully comply with trade and security commitments. For example, Beijing's initially slow and dismissive response to the spread of SARS in China highlighted to Southeast Asian governments the degree to which China's governance challenges, like public health crises and environmental problems, can threaten *their* interests.

A related complication for Chinese policymakers is possessing the necessary resources for China to play a more active role in regional affairs—especially compared to the U.S. and its allies. China, as a large developing country facing numerous developmental problems, is limited in the national resources it can use to pursue its regional diplomatic agenda. The most obvious example is the comparatively small amount of aid that China donated to Tsunami victims earlier this year. China provided \$83 million worth of financial and material support. While this was by far the greatest amount of foreign aid China has ever provided to disaster victims, it paled in comparison to U.S., Australian or Japanese support for relief operations.

The U.S. Debates China's Rise in Asia

As one might expect, China's growing influence in Asia has prompted a debate in the U.S. about the implications for U.S. economic and security interests in the region. The central questions in this debate are the extent to which China's rise will undermine U.S. regional influence and whether China seeks the ultimate aim of pushing the U.S. out of Asia. There are *at least* four schools of thought in the U.S. on these questions. The one common theme among these perspectives is the high degree of uncertainty about China's future; yet each school of thought interprets and reacts to such uncertainty in different ways.

The first maintains that China's growing integration into Asia is a natural phenomenon that will contribute to regional prosperity and stability, especially as China becomes increasingly bound by regional economic arrangements and security commitments. This school continues that China's rise in Asia is the inevitable result of China's historical role, its geographic proximity and its cultural influence. This school further argues that China does not seek to push the U.S. out of Asia and has specifically provided such assurances to senior U.S. officials several times in recent years.⁶

A second school agrees that there are inevitable elements of China's growing role in Asia and some of them—such as China's embrace of regional organizations—will contribute to prosperity and stability in Asia. However, tensions and suspicion between the U.S. and China are inevitable in this process as well. China does not seek to expel the U.S. from Asia because of the costs involved in such an effort and because of the “public

⁶ David Shambaugh, “China Engages Asia: Reshaping the Regional Order,” *International Security*, 29:3 (Winter 2004/2005).

goods" provided by U.S. security commitments. Nonetheless, Beijing fears that the U.S. seeks to constrain China's rise and perhaps even contain some of China's more activist diplomatic initiatives. In response, China will take steps to respond to what Beijing perceives as U.S. efforts to constrain China's rise. This response will likely manifest itself as an effort to build and maintain positive political and security relations with key U.S. friends and allies in the region; such an effort will implicitly impact the quality of U.S. ties in the region.⁷ China's current unease with U.S. presence in Asia could grow and perhaps become more confrontational if China continues to accumulate hard and soft power.

A third school of thought differs slightly, but in important ways, from the second one. It argues that China is already soft-balancing against U.S. influence in Asia, which is a more activist approach than the reactionary and incremental one noted above. While China does not seek to expel the U.S. from Asia *right now* because of the highly costs of confronting the U.S., China's leaders will take every opportunity to balance against U.S. power using all the economic and political tools it possesses and the new ones it acquires as its power grows. According to Robert Sutter, "China [...] continues to counter U.S. influence through trade agreements, rhetoric, Asia-only groupings and other means that amount to a soft balancing against the U.S. superpower." Ultimately, this school argues, as China's power accumulates it will eventually seek to rid Asia of U.S. power and influence.⁸

A final set of arguments in the U.S. argues that China's rise in Asia automatically and necessarily trades off with U.S. influence, and that China is actively undermining U.S. regional influence. According to this school of thought, China currently seeks to expel the U.S. from the Asia Pacific region and its economic, diplomatic and military strategies are all aimed at achieving that goal. More broadly, these commentators argue that China's growing economic engagement with Africa and Latin America are similarly motivated by geopolitical aims of expanding China's global influence. Chinese and U.S. leaders possess starkly different notions about the international system and China's response to U.S. predominance is to balance against U.S. power wherever and whenever possible. The appropriate U.S. response to China's rise is to actively contain China with a web of regional security alliances, robust military deployments, and protectionist trade policies.

Chinese Diplomacy Moving Forward

The continued growth and transformation of China's role in Asia-Pacific affairs will be a persistent trend in the coming decades. China will

⁷ Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs*, November 2003, pp. 22–35.

⁸ Robert Sutter, "Rising Dragon and American Eagle—Part II," *YaleGlobal Online*, April 22, 2005; also see Robert Sutter, *China's Rise in Asia—Promises, Prospects and Implications for the United States*, Occasional Paper Series, Asia-Pacific Center for Security Studies, Honolulu, Hawaii, February 2005.

increasingly become a force in shaping regional economic and security institutions and the discourse within them. U.S. and Asian policymakers should welcome such a development but treat it with equal prudence. The possibilities for eliciting cooperation from China may increase as China's stake in global stability grows and U.S. and Chinese interests overlap. At the same time, China will become better at leveraging international organizations and bilateral relationships in ways conducive to achieving its foreign policy interests. The potential for partnership on pressing security and economic issues will grow, but—on issues of discord or disagreement—China will be better equipped to confront and challenge the interests, preferences, and policies of the prevailing regional or global powers. These dueling possibilities present the international community with a complex set of nested challenges and opportunities that will shape an evolving international security landscape in the 21st century.

China's Regional Initiatives— Comments Concerning the EU Approach

*Franco Algeri**

China is becoming more and more engaged as an international actor, especially in Asia and the Asia-Pacific region. Participating in different regional initiatives has become a characteristic sign of China's foreign policy. Of course, these initiatives differ significantly concerning their goals, scope and binding nature. Looking at the EU's reaction to China's use of and engagement in regional forums, three basic aspects need to be considered. First, the EU is in general favourable to regional cooperation and integration efforts. Second, China's participation in regional initiatives is perceived mainly positively in the overall framework of the EU's Asia policy. Third, however, looking at the development of the EU's foreign and security policy as a whole, the question of how to approach China as a leading actor in international affairs becomes more complex.

1. Regional Initiatives as a Core Concept

The EU itself can be defined as the most prominent example of a regional integration project. For the participating states, integration is linked to specific values (e.g. democracy, rule of law, human rights) and interests (e.g. stability, economic benefits). Furthermore, for a single state the policies of the other states are becoming more predictable and confidence building amongst actors guided by common as well as different interests can be strengthened. Against such a background of mainly positive experiences, the EU and its member states are supportive of regional cooperation and integration initiatives in other parts of the world.

Inter-regional dialogues have become characteristic for European foreign policy and they have been intensified over the last decades; for example, EC-ASEAN relations are dating back to the 1970s.

The legitimacy of engaging in and supporting regional dialogues can be derived from the legal framework in which the EU is embedded. Article 11(1) of the Treaty on European Union mentions the promotion of international cooperation as one of the objectives of the Common Foreign and Security Policy (CFSP) of the Union. Further references can be found in the European Security Strategy, which was adopted by the European Council in December 2003. In this document, which is the first of its kind and which explains that the EU is considering itself as a comprehensive foreign and security political actor with global reach, regional conflicts are identified amongst others as one of the key threats Europe is facing. It also becomes clear that distant threats are as much a concern for the EU as

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those that are near at hand. Consequently, the line of defence for the EU, has been shifting to geographically more distant regions. Handling different situations, which attract European security concerns, is intended to be done with a mixture of instruments, comprising e.g. development aid, economic and trade activities and now even military means.

As the key principle of the EU's foreign policy approach, the Security Strategy highlights "effective multilateralism" (of course, a wide debate could be opened about what hides behind the term "effective"). Building an international order on effective multilateralism stresses the importance of international institutions. Regional organisations such as the Association of South-East Asian Nations (ASEAN) are considered as supportive of the strengthening of global governance. Furthermore, amongst those countries with which the EU develops "strategic partnerships," China is one of the Asian countries, together with Japan and India.

Against this background, it becomes obvious that an overarching conceptual framework exists, in which the EU carries out commonly agreed policies. This has to be kept in mind when looking at the EU's China policy. Moreover, EU-China relations cannot be isolated from a broader European Asia policy.

2. The EU's China Policy in the Context of European Asia Policy

From a European perspective, China's participation in regional initiatives is primarily seen as positive, and in official documents and declarations from the EU this is regularly reiterated. As expressed, for example, in the *Country Strategy Paper 2002–2006* "the key objective of the EU's policy towards China is to support the continued reform and transition process and to engage China further in the international community and to integrate it further into the world economy [...]."¹ With respect to regional issues the European Commission acknowledged "China's efforts to broaden its regional influence and contribute to regional developments have been evident in moves to develop closer ties with the ten members of the ASEAN. China has also been instrumental in helping to bring about rapprochement on the Korean Peninsula. But unresolved territorial/border disputes remain sticking points [...]."²

There are no obvious indications that the Europeans suspect China of exploiting the idea of regional cooperation for the purpose of strengthening its role as a regional hegemon. Rather the EU is concerned about the fact that common institutions are missing in Asia: "Given the lack of common institutions and the diversity of the continent, there is very little in terms of explicit common policy objectives agreed among all Asian

1 Commission Working Document, Country Strategy Paper, China, 2002–2006, Brussels 2002, p. 4, http://europa.eu.int/comm/external_relations/china/csp/index.htm.

2 Commission Working Document, op.cit., p. 11.

countries.”³ This, again, is typical for the European approach, i.e. knowing about European integration history and the importance of institutions as regulating and stabilizing factors, a higher degree of institutionalisation of relations amongst Asian countries is expected to lead to corresponding effects.

China is engaged in a multitude of diverse regional forums. However, the most important ones for the EU are the Asia-Europe Meeting (ASEM) and the ASEAN Regional Forum (ARF). Looking at ASEM, it can be observed that—even though for a while the process as such seemed to have reached its end—through a continuous process of institutionalisation, mutual understanding and cooperation can be deepened. The ARF offers the Europeans the chance to debate regional security issues not just with Asian countries but also with the United States and the Russian Federation.

EU-Asia relations are characterized by constant efforts to adapt to each other. This adaptation process is, to a large extent, led by the conviction that for a variety of security challenges—be they societal, economic, environmental, terrorism etc.—only a cooperative approach can offer sufficient solutions. The factual need to react to such challenges requires states, be it in Europe or Asia, to cooperate. Consequently, there is a growing demand for intra-regional and inter-regional cooperation. The intensity and the increasing activities of a multi-level dialogue between the EU and Asia as a whole, and between the EU and individual Asian countries in particular, are indicative of this growing demand.

All the conceptual considerations and concrete policies of the EU which are related to Asia have to be considered in order to understand the Union's China policy. To sum up, the China policy of the EU is part of its Asia policy and, at the same time, China is dominating the agenda of the Union's Asia policy.

3. Further Implications

Considering the above mentioned aspects, it can be argued that China's regional initiatives, as diverse as they are in nature, were and will remain of interest to the EU. However, addressing the question of how to react to China as an actor in the region, it also needs to be asked, which capabilities the Union has and will have in order to participate in the shaping of developments. In this context three aspects need to be emphasized; i.e. the coherence of the EU's Asia policy, the obvious tendency towards bilateralism in EU-Asia relations, and the development of the EU's capabilities in order to become a comprehensive foreign and security actor.

1. The coherence of the EU's Asia policy is challenged by a twofold heterogeneity problem. The first concerns the heterogeneity of a region stretching from Afghanistan in the West to Japan in the East and from

³ Commission of the European Communities, Strategy Paper and Indicative Programme for Multi-Country Programmes in Asia 2005–2006, Brussels 2004, p. 7, http://europa.eu.int/comm/external_relations/asia/rsp/index.htm.

China in the North to New Zealand in the South.⁴ Linked herewith is, secondly, the heterogeneity of problems and security challenges that characterizes such a region. The EU is diversifying its relations with individual countries in Asia according to each country's specific developments and needs. However, the policies used are not totally coherent, which sometimes weakens the European position. This coherence problem is characteristic of European foreign policy and has not been solved satisfactorily by past and recent Treaty reforms.⁵

2. Even though the EU is committed to multilateralism in its Asia policy, a growing tendency towards bilateralism can be observed. Bilateralism becomes visible on two levels: on the supranational level, i.e. the EU's Asia policy, and on the national level, i.e. the member states' Asia policy. On each of these levels the corresponding actors give preference to some Asian countries clearly more than others and a 'selective bilateralism' with single states (or sub-regions) in Asia has become a typical pattern.

China is by far the most important actor in the region for European interests. This is no new trend, and already in the last decade it was argued that the China euphoria of the Europeans might result in a neglect of other Asian countries.⁶ As mentioned earlier, China dominates the Asia policy of the EU and most of the EU member states. Europe perceives China as the most crucial actor in Asia and views China's regional initiatives with this in mind.

3. The EU is responding with a mixture of instruments and through different forums to developments in the Asia Pacific region. So far, the focus is on economic and trade relations, investment, and development aid related initiatives. This reflects long established and strong branches of the EU's external relations. Security policy did matter less in the past, due to the fact that the respective competencies for the EU are amongst the youngest integration projects. Taking all the criticism and concerns related to the EU's role as a military actor seriously, it nevertheless should not be ignored that the Union has developed over the last years a remarkable profile in this policy field. As such the EU is on its way to become a comprehensive foreign policy actor. But does this matter for relations with China and will it have implications for China's regional initiatives? The answer is yes. Surely, the EU is far from becoming a military actor in the Asia Pacific region comparable to the United States—and this is clearly no intention of the EU. But, the significance of the EU as an international actor with capabilities ranging from soft to hard instruments can be

⁴ This is the geographical description used by the European Commission for Asia. Commission of the European Communities, Communication from the Commission, Europe and Asia—A strategic framework for enhanced partnerships, COM(2001) 469 final, Brussels, September 2, 2001, p. 6.

⁵ See for an analysis of the situation in the last decade Franco Algieri, "The Coherence Dilemma of EU External Relations. The European Asia Policy," *Journal of the Asia Pacific Economy* 4:1 (1999), pp. 81–99.

⁶ See amongst others, Donald Maitland and Hu Yao-su, *Europe and emerging Asia*, London: Federal Trust for Education and Research, 1998.

witnessed in a growing number of cases. Even though the military 'radius of engagement' is still confined to an extended neighbourhood of the EU, this does not mean that a further geographical extension for comprehensive operations can be completely neglected. As explained above, the conceptual ground has already been agreed upon by the EU member states.

The importance of regional initiatives of China for the EU is to a large degree determined by the forms of European influence that can be exerted on China. With respectively well established European-Chinese interaction schemes and a steadily growing consolidation of the power of the EU, the Union has the potential to become a more influential actor in the region and for China.

China's Domestic Development— Seven Hypotheses

Thomas Heberer*

This paper addresses some of the political and social features and trends which are crucial not only for China's domestic development but also for the understanding of her international behavior. Since China's economic, political and social problems are rather well known, the focus will be on proactive and positive patterns of domestic development and change. These patterns can be presented in seven basic hypotheses:

Hypothesis 1

Researchers of Communist studies in the 1970s discerned three phases of the development of an established one-party system: **transformation—consolidation—adaptation**. China is now in the “adaptation” phase which is characterized by five features:

(a) A decline of the role of ideology. Ideology is gradually being replaced by economic, social and political pragmatism. This decline is—in fact—not a sign of regime decay but rather of political stability, as ideology is always linked to conflict. And the Chinese leadership is well aware that conflict undermines political and social stability.

(b) The emergence of new social forces—e.g. entrepreneurs, middle strata, interest groups, Internet chat groups—requires the Party to redefine its role within society.

(c) The emergence of a new political elite, i.e. a new, innovative, technical-managerial class.

(d) The re-emergence of a critical intelligentsia which does not oppose the Chinese party-state, but rather attempts to improve its structures and governance capacity.

(e) Local and trans-local social groups and organizations, e.g. traditional organizations like hometown associations and clans or “modern” associations like entrepreneurial or professional associations, increasingly demand participation in and influence on the political system.

Hypothesis 2

As a consequence, China is not a homogeneous authoritarian entity but rather represents a system of so-called **fragmented authoritarianism**. This fragmented authoritarianism is characterized by four features:

(a) There are different actors affecting political output: the central state, the provinces, local state, the military, new social strata, new social

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organizations, public opinion, etc.. This is true for the political output of domestic policy as well as that of foreign policy. Therefore, foreign policy is not shaped by the central leadership alone but rather by various actors.

(b) The Chinese party-state is not a homogeneous entity but a diverse entity. We therefore have to deconstruct our concept of the Chinese “state”: it does not exist without society and it is based on an interaction between both state and society. Moreover, the state is subdivided in vertical and horizontal levels and organizations. Therefore, the state has to be comprehended as an ensemble of various organizations interacting with society at various levels and shaped by inner tensions and conflicts.

(c) Within China we find many different and diverging “models” (this could be called “one country, one thousand systems”). In Nanjie village in Henan Province, for instance, the inhabitants returned to a neo-Communist model with a strong Mao cult and a single ownership system which permits only collective ownership. A short distance away there is a village where only private ownership exists and the village leadership consists primarily of private entrepreneurs. These and other models co-exist and are accepted by the political leadership.

(d) Finally, a growing public sphere is emerging, for instance via the Internet and NGOs or GONGOS, i.e. government organized NGOs, and public opinion increasingly influences domestic as well as foreign policy.

Hypothesis 3

Developmental states are called “purposeful” states, because they are characterized by the will to develop. Undoubtedly, the Chinese party-state is such a developmental state: it is successfully developing the economy and it knows when to withdraw, for instance by giving up the planned economy approach and developing a market economy or by dropping its “class character” (cf. hypothesis 4).

The Chinese leadership is well aware that central planning excludes people who want to work for a common goal while, in contrast, a market economy includes those people. China underscores the ways in which political power can contribute positively and effectively to economic well-being, for instance by means of long-term growth and structural change as pivotal goals; by political management of the economy; by institution building and institutional innovation.

Furthermore, the Chinese state is a strong state possessing “state capacity”. This capacity of the Chinese state comprises five elements: (a) **Legitimacy** in the sense of the legitimization of the political system accepted by its citizens; (b) **regulating and controlling capacity** in the sense of social control and regulation; (c) **resources of enforcement**, e.g. financial and coercive means as well as personnel resources; (d) **bargaining capacity**, i.e. the ability to incorporate new social groups, associations and organizations into bargaining processes and to find a balance between various particularistic interests; and (e) **learning capacity**, i.e. the ability to learn from mistakes and failures.

State capacity in this sense is important for implementing a successful development program and for successfully dealing with domestic problems and conflicts.

Hypothesis 4

Political pragmatism is a salient pattern of Chinese development and political culture. The government has to tackle and solve concrete problems and issues and does this in a pragmatic way. This pragmatism is characterized by four features:

Economically it translates into the transition from a planned to a market economy, and into the economization of politics. The latter means that economic development dominates politics and the activities of the central and local leaderships. Economic results and economic development successes are decisive for the assessment of an official and his career.

Politically the Communist Party has developed from a class party into a people's party. This is substantiated, for instance, by the so-called "Three Represents" (*sange daibiao*) put forward by former party chief Jiang Zemin. According to these principles, which have recently been officially included into the constitution, the Communist Party no longer represents classes but the entire Chinese people.

Ideologically: Marxism-Leninism was first "sinicized," i.e. adjusted to help tackle China's practical problems, and then in the 90s it was complemented by the "Deng Xiaoping theory" which, in fact, does not constitute a "theory" but a set of practical advice. Meanwhile, the aim of the regime is no longer a far away "communism" but a not too distant "harmonious society" (see hypothesis 6).

Regime legitimacy is no longer based on ideology, but rather functionally: by the promises of modernization and development; of gaining national strength; of preserving political, economic and social stability; and by establishing a "socialist democracy" and a "rule of law."

Hypothesis 5

The **central leadership** and thus the regime possess **legitimacy** and **trust**. Chinese people distinguish between the legitimacy of the central authorities and that of local authorities. The central authorities possess trust, the local authorities to a lesser degree or none at all. According to research findings of Chinese and Western scholars (including my own findings) a strong majority of the urban and rural population supports the regime. This support is based on successful economic development, the capacity to realize national goals such as reunification with Hong Kong and Macao or creating a "strong" China, and the preservation of political stability, i.e. a peaceful and stable order, and the conviction that the regime has saved China from a fate similar to that of the former Soviet Union.

Hypothesis 6

Chinese nationalism (or patriotism) currently is less an aggressive, externally-oriented ideology but rather serves domestic functions. I would argue that Chinese nationalism at present has two major purposes: First, it is an **integrative nationalism** aiming at further state- and nation-building. Secondly, it is a **modernizational nationalism** directed at mobilizing the people in the interest of a shared goal: modernization. This might be called the “solidaristic vision” for the nation.

Since China sees Taiwan as an internal affair, the Taiwan issue is **not** an indication for a growing aggressive behavior. Rather, the Taiwan issue should be understood as an issue of nation-building and thus of an integrative nationalism.

Hypothesis 7

Developmental trends. The regime can survive only as a strong one. Such strength cannot be preserved by great leaders alone; it needs more and more competent, responsible **citizens** consciously participating in social affairs. Participation is not only a means of improving the quality of policies and their implementation but also a means of reducing conflicts. Conflict theories argue that the higher the degree of participation in a given society, the lesser the degree of use of force in that society's domestic and foreign policies.

Speaking of competent and responsible citizens, what is meant by the term “citizen” in this context? “Citizen” is defined by three criteria: first, enhanced participation for the people, second, rising living standards, and third, civic liberties. We could even speak of *thin citizenship* based on small-scale rights, duties and transactions (in contrast to *thick citizenship* which is based on a large scale of rights, duties and transactions).

Clearly, until now, civic liberties exist only in a restricted manner. But in recent years the patterns of participation have been extended, for instance by establishing grassroots elections in villages and urban neighborhoods and by fostering social participation. In urban areas, in particular, we can discern a rising living standard among the majority of the people. Proto-forms of civic structures are evolving—a precondition for what is commonly considered civil society. Mao's “masses” (and classes) are gradually turning into citizens, at least in urban areas.

Currently the party-state faces the problem that people are hardly interested in participation and that the number of social “volunteers” willing to get engaged in participatory acts is still quite small. The party-state is therefore attempting to create new “communities” in the urban areas and to mobilize people who are economically or organizationally dependent, like Party members and the socially weak. The idea of the party-state is to initiate a top-down “civil society.” This concept can be called a form of “authoritarian Communitarianism.”

But unlike the Mao era, no individual is coerced to attend political or social activities. The organization of one's own life is now a personal matter for each individual in which the party-state does not want to interfere anymore. Thus, individual autonomy vis-à-vis the state and its agencies is increasing.

The concept of a "harmonious society" recently put forward by the Chinese leadership is strongly related to this "authoritarian Communitarianism". According to a leading Chinese social scientist this concept encompasses combating corruption, supporting the growth of a middle class and the reduction of low-income segments of the population.

The party-state is shifting more and more from governing to governance by enhancing transparency of local governments and reforming the administrative system. Clearly, it is not intended to make China democratic, but to make the single-party rule more efficient and accountable and to provide it with a better legal basis.

Interestingly, in recent years a discussion has emerged within China on both a "socialist multi-party system" and of "Social Democracy" as an alternative political concept for China. It is certainly too early to expect the implementation of a "socialist multi-party system" in the coming years. But we should not forget that in the 80s and 90s concepts such as a "socialist commodity economy," a "socialist shareholding system," a "socialist stock exchange market," a "socialist market economy," "socialist entrepreneurship," etc. were put forward and have now all been officially accepted and promoted. So why should the implementation of a "socialist" multi-party system in the near future be completely impossible?

Conclusion

China is not a pure dictatorship where no changes have occurred in the last decades, but a country that is gradually advancing towards a more open society with a growing degree of participation, legal security and individual autonomy. The cleavages within China are tremendous. It is, therefore, difficult to predict in which direction China will proceed in the next decades. This, undoubtedly, depends primarily on domestic issues. As long as the economy develops smoothly and the living standard of the majority of the people continues to improve, and as long as participation is enhanced, social and political stability can be preserved and China will increasingly become a trustworthy and accountable partner in world politics. On the other hand, it is easy to imagine the negative consequences which a failure of the Chinese state would bring about not only for China's inhabitants but also for the rest of world.

Abbreviations

ARF	ASEAN Regional Forum
ASEAN	Association of South-East Asian Nations
ASEM	Asia-Europe Meeting
CFSP	Common Foreign and Security Policy
COCOM	Coordinating Committee on Multilateral Export Controls
CSI	Container Security Initiative
CSIS	Center for Strategic and International Studies
CTBT	Comprehensive Test Ban Treaty
CWC	Chemical Weapons Convention
EU	European Union
FDI	Foreign Direct Investment
GONGO	Government Non-Government Organization
NGO	Non-Governmental Organization
NPT	Nuclear Nonproliferation Treaty
PLA	People's Liberation Army
PRC	People's Republic of China
PSI	Proliferation Security Initiative
ROC	Republic of China (Taiwan)
SITC	Standard International Trade Classification
TFPD	Transatlantic Foreign Policy Discourse in a Globalizing World
TRA	Taiwan Relations Act
UN	United Nations
UNOMIL	United Nations Observer Mission in Liberia
WMD	Weapons of Mass Destruction
WTO	World Trade Organization