



European Institute
for Asian Studies



Nomisma

The European Union's Strategic Interests in East Asia

**Study on the economics and politics of East Asian
Cooperation and in particular China's role in this process:
Challenges and Opportunities for EU policy**



Volume I: Main Report and Synthesis

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This Study Report has been prepared on the request of the European Commission, Directorate General for External Relations. It was commissioned through an open call for proposals (2004/S 109-090167) and awarded to the EIAS-NOMISMA consortium in November 2004. Implementation took effect from early January 2005 through to the end of August 2005.

The Study Report comprises two volumes. Volume I entitled 'Main Report and Synthesis' combines the issues and scenario analyses with the results of the questionnaires and interviews, leading to recommendations for the European Union. Volume II entitled 'Expert Analyses of East Asian Cooperation, China's Role and EU Policy' presents in full the background papers prepared for the Brainstorming Workshop held in Brussels June 16-17, 2005. The two-volume study report was completed by the 22nd of August 2005.

The views expressed are those of the authors and contributors alone and can in no way be taken to reflect the views of the European Union. All errors and omissions are the sole responsibility of the authors and contributors associated with the EIAS-NOMISMA consortium.

EXECUTIVE SUMMARY AND MAIN RECOMMENDATIONS

Issues and Challenges

East Asia is emerging as the world's fastest growing region and a high-profitability zone with strong demands for European trade, investment and technology.

East Asia is emerging as the world's fastest growing region and a high-profitability zone with strong demands for European trade, investment and technology. Most of those interviewed for the study observe and forecast a rapidly increasing degree of cooperation and integration within the East Asian

region. It is imperative for the EU that the emerging East Asian regionalism is an 'open and inclusive' one, where cooperation within does not limit engagement with the outside world. Avoiding a 'fortress Asia' and promoting a secure and stable region would be key long-term EU interests in the region.

The unprecedented growth in China and the region, in particular Korea, Taiwan and Vietnam, is changing how the region views itself and how the rest of the world views China and East Asia. Offering labour and markets, China is rapidly becoming the manufacturing workshop of the world. China's approach to slowly liberalising trade and services, coupled with its recent accession into the WTO, indicates a new path for developing countries – a transferable model, according to Chinese experts, for other emerging economies.

Promoting stability within China as the country undergoes domestic transition will be pivotal to the EU's future engagement with China and the region at large. For the time being, China and the EU perceive themselves to be complementary global actors with a shared vested interest in pursuing a stable world order and a commitment to effective multilateralism. China's desire to strengthen links with Europe, which some suggest may spring from its perceived need to dilute US hegemony, puts the EU in a unique position to support transitional reform. A necessary first step for the EU will be to understand the pace and sequence of domestic economic and political reforms, which China is prepared to undertake, and assist them in this process.

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China also looks to Europe to strengthen cooperation with it in the field of science and technology. It is in this sector where the EU, more than the US, can take the lead through scientific and technological transfer. A precondition would be the strengthening of respect for Intellectual Property Rights (IPR), an issue that has become increasingly problematic for both sides.

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The key to EU assistance, and the way it is received, will be the manner in which Europe engages its counterpart. Symbolism and the importance of gestures should never be underestimated in dealing with the Chinese authorities.

The approach that Beijing chooses to regional integration and cooperation will greatly influence the kind of regional entity that will eventually arise in East Asia. As one European commentator expresses it, ‘the role of China, its behaviour, will be critical in the emergence of an East Asian political and economic grouping’. It is in the interest of all external actors that China’s foreign policy and practice is being shaped in a manner that can serve as an example for the Asian region.

The interests and concerns of individual Asian states, be they convergent or divergent, will shape the form and function of future regional structures. Current negotiations undertaken by East Asian governments will, at the very least, lead to a more autonomous East Asia; in which regional partners know each other better, coordinate their actions more widely, determine common goals and form common positions. Tremendous progress has been achieved in this direction over the past few years. New rules are being discussed in East Asia and even if the outcome remains an open process, external actors will find it more difficult to capitalise on regional divisions in the future through a ‘divide and rule’ strategy. The starting point for East Asian regional integration will be, and already is, activities and agreements in the sphere of trade and economic cooperation.

The prospects for advanced military security cooperation seem distant for the moment; however, voices within China would like to see Asian countries ‘focus on cooperation and co-ordination across borders and in different spheres of security to strive for ‘comprehensive security’. However, ‘hard’ security stumbling blocks do exist on the path to a dynamic East Asian region, most notably the dilemma of North Korean nuclear proliferation and tensions in the Taiwan Strait.

If the European Union intends to take part in East Asian integration processes, it must further familiarise itself with the complexities of the region. Currently, East Asia is going through dramatic changes, yet the European Union doesn’t seem to pay sufficient attention to the

East Asia is going through dramatic changes, yet the European Union doesn’t seem to pay sufficient attention to the fundamental evolutionary processes at work.

fundamental evolutionary processes at work. For all these reasons, the level of expectation towards the European Union is rather low. Especially in Southeast Asia high expectations have only generated frustrations with the EU. Added to this is the EU’s perceived lack of credibility as a united and coherent actor. East Asia, therefore, constitutes a test case for the EU’s ability ‘to be and act as a major power’. According to a EU Member State government official the EU must begin to integrate its economic engagement with a more visible political presence. In order to do this the EU ‘should utilise ASEM and ARF more constructively. The EU should be active on such issues as security, NPT, anti-terrorism. The Asians look for concrete results’.

The rise of a more organised and coherent East Asian regional grouping will create future strategic challenges for the EU.

The rise of a more organised and coherent East Asian regional grouping will create future strategic challenges for the EU. As competition from East Asian actors increases, Europe must adapt to changing circumstances and remain on the forefront of technological

advances. At the same time, it is vital that the EU pursues greater access to Asian markets. Trade is, by definition, a two-way street. Analysts point to the long-term implications of East Asian regionalism and note that: ‘The relative weight of Europe to Asia will decrease. Overall, the weight of the EU will decrease while that of Asia and the U.S. will increase’.

Scenarios and Shaping Factors

The authors of this study identify several clusters of factors which may lead China away from the ‘naïve’ or ‘optimistic’ scenario of sustained high economic growth to a scenario of deceleration of growth or, possibly, a third scenario of a substantive slow-down of growth. These are:

1. *Domestic political instability*
2. *Ecological and environmental barriers*
3. *Macroeconomic mismanagement*
4. *Increasing protectionism in OECD markets*
5. *Any occurrence of external military conflict*

In view of these formidable obstacles, a ‘slight deceleration’ of Chinese growth is judged most likely by the authors of this study, yet this would not in itself endanger the Chinese political system, even though the government’s performance-based legitimacy will be eroded. Nevertheless, even a

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slight decline will mean that social tensions, which have already been rising sharply over the past ten years, will be exacerbated further. Overall a ‘gradual’ political reform scenario for China is most likely and can deliver adequate economic performance, while it can also deliver substantial benefits in terms of civil and political rights, as well as for the relations with Taiwan, the US and the EU. Intra-regional geo-political flashpoints will be main shaping factors for East Asian regional cooperation and integration.

Korean Peninsula. It would seem that the Six-Party talks, resumed July 26, 2005 after stalling for over a year, will be the most important instrument to achieve a durable resolution of the present insecurity within the Korean Peninsula. A framework agreement including credible verification of North Korea’s nuclear programmes would undeniably be a

The most likely outcome is one in which the world would have to ‘live with a nuclear DPRK’...

success for China's 'new diplomacy'. Indeed, it would secure China a stable periphery at its North Eastern borders, addressing problems of forced migration from DPRK, etc. However, the most likely outcome is one in which the world would have to 'live with a nuclear DPRK'; if so 'security dilemmas' would persist in North East Asia, gravely endangering the security of the region.

China-Taiwan. The three scenarios which are distinguished regarding the outlook for China-Taiwan relations reflect the three broad options of (i) peaceful unification; (ii) continued status quo; or (iii) *de jure* independence. A continued status quo is most likely in the short-to-medium term (5-10 years) and implies that the latent insecurity in the East Asian region will remain. The EU's position on China-Taiwan articulated by the Luxembourg Presidency, emphasising dialogue and peaceful resolution through initiatives from both sides, remains the appropriate key to engagement.

China's bilateral relations with Japan and the US will be further shaping factors of East Asian regional cooperation and integration. Will the Sino-Japanese relationship be characterised by antagonism and destructive competition, or will it be one of constructive engagement and

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partnership? A continuation of the present status-quo with current tensions would seem most likely. This will be a major political obstacle to North East Asian integration and thus slow down integration throughout the region. The EU does not have an option but to wait-and-see how the tensions will unfold, with only limited influence on its resolution. In the present situation, characterised by a lack of predictability, it is

essential for the EU to retain flexibility in order to respond with as few constraints as possible at a later moment in time.

For Sino-US relations. The decisive question will be how US foreign policy will address the challenge of regionalisation in East Asia and the increasing role that China will play within it. *Hedged Engagement* has been the chosen terminology for describing the present relationship. This is most likely to remain the dominant policy scenario for the medium-term future. A comprehensive Sino-US partnership would be a major stabilising force across the region. In contrast, the 'hedged engagement', continued from the present situation, will continue to be a divisive element in the region's make up.

East Asian multi-lateralism. A further scenario elaborated for this study, develops the possible forms which multi-lateralism may take within East Asia (possibly involving other parts of Asia, notably India and Central Asia). The three scenarios identified refer different degrees of institutionalisation of (sub)-regional cooperation: (i) 'full' institutionalisation; (ii) 'shallow' institutionalisation; and (iii) 'faltering' institutionalisation. The 'full' institutionalisation scenario would effectively constrain China's power and its freedom to manoeuvre. In contrast, shallow institutionalisation would leave ample scope for China to take on a regional leadership role; this is judged the most likely scenario for the medium term. Interestingly, shallow institutionalisation in East Asia would offer the best opportunities for the EU to actively project its soft power.

Overall, the 'most likely' scenario developed by the EIAS-NOMISMA consortium is one of continued growth in China with political stability. Nevertheless, the authors believe that the

challenges to Chinese economic growth are quite formidable and therefore hold the view that a deceleration of the growth rate somewhat below the post 1980 historical trend is most likely (around 7 percent). ASEAN integration is expected to deepen further and East Asian integration to emerge in a hybrid-form. The regional outlook is having to live with the present regime in DPRK, while tensions in China-Taiwan relations increase further and Sino-Japanese relations are unlikely to improve. Sino-US relations are bound to remain in their present sensitive state, but deterioration is unlikely. The authors hold an upbeat view on China-Taiwan cross-strait relations in view of the momentum towards a peaceful resolution created by the historical meetings of Taiwanese opposition leaders with the Secretary General of the CPC, President Hu Jintao. Further progress would require the duly elected President of Taiwan to be an integral part of the process.

East Asian regionalism will not be a case of simply substituting or transplanting China for Japan – there will be a duopoly of leadership.

East Asian regional cooperation and integration will have two major players in the forefront -- Japan and China – of approximately equal economic size by 2020, though distinct in terms of technological and military capability, per capita income, demography, culture and foreign policy stance. It is not believed that the ‘flying geese’ analogy – popular in the mid-1990s with

Japan leading the formation, will remain appropriate: China’s emergence will be additional and cumulative. East Asian regionalism will not be a case of simply substituting or transplanting China for Japan – there will be a duopoly of leadership. East Asian regional cooperation and integration will be a loose ‘FTA-plus’ style regional association. Unlike the European Union, it will not amount to a custom union – and certainly not a political union. It will be characterised by severe restrictions on the movement of people and capital, although the Asian system of temporary and managed migration will continue to grow. It will be characterised by *shallow* integration, including functional cooperation across a number of distinct domains, including trade, investment, finance and monetary cooperation, development and humanitarian assistance and underpinned by policy-coordination and (in some areas such as trade) common policy frameworks and regional policy coordination.

The implication for the EU is that it would have to start to think of East Asia as a ‘community-for-itself’ and not merely as a ‘community-in-itself’. A sense of collective destiny and shared interest will be articulated through the formation of common institutions. It is with these institutions that the EU will be uniquely placed to engage.

Five Key Recommendations

Effectively projecting EU soft power.

Europe should use its soft power to protect its vast interest in East Asia thereby contributing to the stability of the region. With limited military capabilities to project ‘hard’ security, the EU should continue to focus on non-military security interests such as illegal migration, trafficking, organised crime, WMD proliferation etc. Soft security issues where the EU has a comparative advantage and a certain

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‘moral authority’ over the US may serve as a counterweight to ambiguous feelings towards the US and enhance the EU’s profile within the region. Practical suggestions of projecting soft power could include a change in the institutional format of the ARF. The EU could send a permanent representative (instead of the troika). Furthermore the ASEM coordinators should meet at the ministerial level. The EU may consider supporting a future-oriented joint research project to be carried out by leading think tanks from EU and East Asia on the desirability and feasibility of establishing an East Asian security cooperation mechanism.

The promotion of rule of law, good governance, human rights and democracy will remain a hallmark of Europe’s approach to East Asia.

The promotion of rule of law, good governance, human rights and democracy will remain a hallmark of Europe’s approach to East Asia. In the interest of more effective results, the EU should present these concepts, not from a high moral ground, but from the angle of good governance and public administration,

with focus on how, in concrete terms, the European way may better tackle the multiplying social, economic and political challenges that these societies encounter. Human rights concepts can be mainstreamed into the EU’s aid projects. For instance, in HIV/AIDS projects, efforts should be made to cultivate the idea of protecting the privacy of individual patients. This approach may be more effective in promoting human rights in East Asia.

It is recommended that Europe and some East Asian countries like China, Vietnam, Laos, and even North Korea and Burma, jointly explore, through concrete projects, ways and means to promote and protect all human rights, including encouraging best practices, giving due consideration to local social and cultural conditions. This joint approach will help these countries to “own” human rights initiatives and also facilitate Europe’s greater understanding of these complex societies.

But the EU needs to clearly state that the exploitation of workers (reflecting a disregard for basic human rights and labour safety conditions) is unacceptable to European businesses and/or consumers. Such a stance may give rise to political confrontation with China and others; nonetheless, the EU must be resolute and steadfast when discussing said issues.

Various Member States of the EU have experienced transitions from dictatorships to democracies, transitions that have been accompanied by a modernisation of their economic, social and political structures. This experience should be perceived as an asset in the promotion of EU-East Asian political dialogue and exchange, and should be given special attention.

Support the emerging multilateralism in East Asia. The US and the EU need to start a dialogue on models and modes of regional integration. It is in the interest of both actors (and

... the need for the European Union to promote the concept of open regionalism as a normative and institutional basis of its interregional relations with East Asia.

individual EU Member States) to develop a common approach to the challenge of supporting/developing an inclusive, i.e. open, regionalism in East Asia. From this follows the need for the European Union to promote the concept of open regionalism as a normative and institutional basis of

its interregional relations with East Asia.

It is advisable to encourage East Asia to draw on Europe's rich experience in building regional institutional frameworks, as this region is now engaged in or will soon start various regional institution-building initiatives such as ASEAN + 1, ASEAN + 3, regional security arrangements, regional energy communities, and regional financial initiatives. Institution building is widely regarded in East Asia as a main source of Europe's soft power.

Active EU participation at the East Asian Summit (December 2005) will be a clear sign of the EU support for regional integration in East Asia.

Strategize Cooperation with China. Europe does not always understand the complexity of the Chinese approach, which combines pragmatic, soft and dynamic elements with inflexible positions. China's approach to economic policy must be understood in the context of its reform processes and the contradictory balance between economic liberalization and social pressures. Rapid growth rates do not conceal the structural imbalances and constraints that China faces today.

In addressing regional social and economic inequality, the EU has long standing experience of successes and failures through its 'European Regional Policy' and the regional policies of its individual Member States. These consolidated experiences can provide valuable knowledge and "best practices" for supporting China to elaborate its own regional and local development policies. Most pertinently, the recently acceded Eastern European countries have infused new experiences to the EU: in dealing with economies in transition from 'plan' to 'market'. The search for a more socially acceptable balance between growth and cohesion, that the new EU Member States are engaged in, represents a highly relevant experience to be shared with China.

The EU, in the process of tackling its own socio-economic problems, can be an ally and partner to China as it elaborates a *sustainable model* for a Chinese social security system: a system that would try to balance social targets with financial constraints.

During 2004 European Commission officials alone undertook a total of 206 missions to China, apart from numerous missions mounted by EU Member State officials and business representatives. This demonstrates clearly the

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importance attached by the Commission to EU-China relations. Nevertheless, the match between the overall political and economic importance of China and the deployment of human resources to the Commission Delegation in Beijing could easily be improved. Trade negotiation, investment advice and regulation, as well as regulatory reform in key sectors are of enormous economic importance for the EU. Yet, much of the expertise deployed to Beijing in the process of deconcentration focuses on development assistance, even though it is a pertinent question whether the EU should at all be providing aid to China. It would also be wise to assess whether the proliferation of sectoral dialogues between the EU and China does not outsize the capability of the EU institutions to manage these effectively and ensure tangible and operational results. Key areas may be identified, including human rights, market

economy status, arms embargo and security cooperation, regional and cohesion policy, science and technology cooperation, social security systems and cultural exchanges. These should be given high priority.

The EU should strive to develop communicative and rhetorical strategies that demonstrate “parity of esteem”

Keep ‘culture’ central in developing interregional relations. The impact of socio-cultural issues on interregional relations in all spheres of interaction should not be underestimated. The concept of “culture”, with all of its implications for social, economic and foreign policies, should be expanded in the framework of sectoral dialogues and special

attention should be paid to sensitive issues that may jeopardise closer cooperation. The EU should strive to develop communicative and rhetorical strategies that demonstrate “parity of esteem” while staking out or discovering new areas of common ground that will encourage both sides to converge upon common rules for the creation of civic discourse.

Special attention should be given to the Culture Industry, both in terms of its economic dimension and in terms of its role in raising the profile of the EU in East Asia, and vice versa. The European Union and its process of regional integration is a process unknown by the majority of Asian people. The EU should have a communication campaign on its evolution and potential.

The role of the Asian communities resident in the EU in furthering EU-East Asian relations should not be underestimated and efforts should be made to integrate these communities into the process of cross-cultural dialogue in order to build more solid links and networks of interpersonal relationships between both sides.

The main modality for supporting East Asian integration would be through supporting the development of institutions at the regional level with capability to consult, analyse, review, monitor, inspect and advice on policy regimes to be implemented.

Unlike at present, these dialogues need not be confined to a single country nor to a single agency, but could be genuinely inter-regional and cross-sectional.

The development of these institutions would be underpinned through a series of inter-regional dialogues in key-areas. Unlike at present, these dialogues need not be confined to a single

country nor to a single agency, but could be genuinely inter-regional and cross-sectional.

Build-up analytical capability to engage with Asia. Most importantly, the European Commission working with EU Member States, should launch a major programme initiative to strengthen its analytical capability on contemporary Asian economics, politics and security. The EU’s historical lead-role in these fields has been seriously eroded since the mid 1980s. The capability in European universities, research centres and think tanks to deliver high-quality research and analysis to underpin commercial, scientific, economic, political and security cooperation and exchange has steadily weakened, while that in the US has been growing rapidly. While the EU institutions in Brussels can point to some 100 officials and

analysts working part or full-time on China, an estimate of the same capability for Washington D.C. puts the number closer to 1000 – ten times as much.

The human and intellectual resources demanded to manage EU-East Asia exchanges in the fields of trade, investment, intellectual property rights, security, culture etc. are bound to increase, but there is no coherent supply-response to date. A EU-level

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programme, involving the EU Member States and the Commission, should be designed to act as a catalyst to develop inter-disciplinary competences on Asia.

The overall implication of this study is that the EU should take a stance of ‘supporting East Asian cooperation and integration’ – indeed this may well be the headline of the forthcoming communications on EU-East Asia relations, such as the next EU-China communication.

...the EU should take a stance of ‘supporting East Asian cooperation and integration’

This ‘support for integration’ could take the form of a host of initiatives:

- at the levels of inter-regional institutions (e.g. ASEAN – EU dialogue) and processes (such as ASEM);
- at the levels of inter-governmental diplomatic relations (ARF);
- in the domain of cultural understanding and intellectual exchange
- at the levels of civil society and people-to-people exchanges;
- in the areas of political, social and economic rights;
- in the areas of academic, scientific and technological exchange and cooperation;
- in the trade and investment fields at both macro-economic and business levels; and
- in other specific domains of economic cooperation, such as environment, energy, agriculture, finance and savings, with the overall aim to support sustainable reform and development.

Amongst the numerous administrative and operational implications of approaching East Asia as an ‘integrating region’, will be that the artificial and bureaucratic distinction between OECD and non-OECD Asia may be an obstacle to effective EU-East Asia cooperation – this anomaly will need to be dropped.

Objectives, Implementation and Acknowledgements

The main objective of this study is to identify the European Union's strategic interests in East Asia, and to provide information on the region's likely development in economic, political, security and socio-cultural terms, with a special focus on intra-regional co-operation and in particular China's role. The study was requested by the European Commission, Directorate General for External Relations through an open call for proposals and awarded to the EIAS-NOMISMA consortium in November 2004. Implementation took effect from early January 2005 through to end of July 2005.

The specific objectives of the study are to:

- Analyse the current factual situation in the region, and in particular China, including relations with major global powers like the USA, Russia, India and the EU;
- Identify long-term shaping factors that affect/determine co-operation within East Asia and with the EU;
- Undertake a strategic analysis of the major world players in the region;
- Examine the existing EU policies and strategies towards the region and China;
- Analyse the challenges posed by the major powers in the region (Russia, China, USA, India); and
- Elaborate alternative scenarios, new options and recommendations for EU policies.

The EIAS-NOMISMA Consortium addressed these ambitious objective in a brief seven-month period through an intensive research and analysis effort, combining desk-research with a global round of expert interviews, a focus-group survey administered through a questionnaire, the preparation of a dozen of background papers by leading experts, a brainstorming workshop in Brussels presenting results and recommendations and , finally, the writing of the present 'Main Report and Synthesis', integrating the results of the above processes.

This 'Study Report' has been prepared under the overall direction of the study's Team Leader, Dr Willem van der Geest, Director, European Institute for Asian Studies, Brussels (Consortium Leader), working in coordination with Dr Roberta Benini, Scientific Coordinator of the Economic Analysis Department of NOMISMA (Consortium Partner), and in close collaboration with Dr Sebastian Bersick, Research Fellow EIAS.

The Consortium, gratefully acknowledging the financial support of the European Commission, was able to invite a group of twelve leading scholars to write issue and background papers. These were: Prof Robert Ash (London), Dr Roberta Benini (Bologna), Dr Sebastian Bersick (Brussels), Dr Sophie Boisseau du Rocher (Paris), Prof Seán Golden (Barcelona), Mr Willem van Kemenade (Beijing), Dr Françoise Nicolas (Paris), Mr Frank Umbach (Berlin), Prof Wing Thye Woo (Davis, California), Prof Shujie Yao (London), Ms Roberta Zavoretti (London) and Prof Zhang Wei-Wei (Geneva).

The initial findings of these background papers were presented at a Brainstorming Workshop at the European Commission. The sessions at the workshop were chaired by Mr Jan-Willem Blankert, Mr Hervé Jouanjean and Mr James Moran from the Directorate General for External Relations of the European Commission and Mr Jean-Luc Dehaene, Member of the European Parliament, Vice-Chair of the Delegation for Relations with China and former Prime-Minister of Belgium.

For this report, Dr van der Geest concentrated in particular on the scenario analysis, whereas Dr Benini focused on the EU-China economic analysis and recommendations. Dr Sebastian Bersick concentrated on the political issues and the security recommendations. Ms Signe Bruun-Jensen and Ms Karoliine Horekens of EIAS also contributed to the writing of the issues chapter and the recommendations. Prof David Shambaugh of George Washington University (Washington D.C.) advised on the ideas behind the scenarios and peer-reviewed the background papers in the political and security fields. The recommendations of the report benefited enormously from the insights offered by Prof Zhang, Prof Golden, Dr Boisseau du Rocher and Ms Zavoretti.

A focus-group questionnaire was developed at an in-house workshop with several researchers (Bersick, van Kemenade, Zhang) directed by van der Geest and Benini, with contributions from Bruun-Jensen and Horekens. The challenging task of processing, interpreting and reporting on the views of the 96 respondents was undertaken by Bruun-Jensen, whereas Andy Carling provided helpful technical advice and support for the on-line survey.

The Study Report comprises two volumes. Volume I entitled ‘ Main Report and Synthesis’ combines the issues and scenario analyses with the results of the questionnaires and interviews, leading to recommendations for the European Union. Volume II entitled ‘ Expert Analyses on East Asian Cooperation, China’s Role and EU Policy’ presents the background papers prepared for the Brainstorming Workshop in full. The two-volume study report was completed by the 22nd of August 2005.

On behalf of the Consortium, we would like to acknowledge the contribution of the authors of the background papers, the chairs and officials participating at the Brainstorming Workshop and the contributing authors to this ‘Main Report and Synthesis’ for their cooperation throughout. A particular word of thanks is due to those 96 insiders across the world who volunteered their time and insights on EU-East Asia through responding to the focus-group questionnaire.

Furthermore, nearly one-hundred officials and experts across eighteen countries were willing to meet with members of the research team to discuss the present and future outlook for East Asia, China’s role within it and the implications for the European Union. Van der Geest conducted interviews in New Delhi, Taipei, Beijing and Brussels, Benini in Hong Kong, Shanghai and Beijing, as well as Budapest, Prague, and Warsaw; Bersick in Washington D.C. and Berlin, Boisseau du Rocher in Jakarta, Bangkok and Singapore, Horekens in London, van Kemenade in Beijing, Tokyo and Seoul. Insights gained informed the background papers and proved decisive for the drafting of the issues and scenario chapters.

We are particularly grateful to the European Commission for having been awarded the study service contract and to Mr Jan-Willem Blankert, Relations with China, DG External Relations for his keen interest in the study and constructive suggestions throughout.

The views expressed are those of the authors and contributors alone and can in no way be taken to reflect the views of the European Union. All errors and omissions are the sole responsibility of the authors and contributors associated with the EIAS-NOMISMA consortium.

Dr Willem van der Geest, EIAS, Brussels
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August 22, 2005

Chapter I: Issue Analysis

Introduction

An analysis of intra- and interregional relations within the context of EU-East Asian affairs has to take into account a plethora of issues and actors. The analysis of the results of the EIAS-Nomisma focus-group survey reveals significant data on the issues at stake.

Half of all respondents to the survey assess the probability that EU-East Asia relations will be a decisive factor in global relations in the next 20 years as ‘high’ or ‘very high’. 27% declare themselves as being neutral while only 18% hold the view that the probability is ‘low’ or ‘very low’. This is a quite striking outcome, in particular because of the use of the strong term ‘decisive’. As many as 81% of the respondents believe that the EU has a strategic political interest in East Asia. Whereas three out of four of the respondents hold the view that the EU has a strategic *security* interest in East Asia, 91% of the respondents believe that the EU has a strategic *economic* interest in East Asia. With respect to the future development of East Asian intraregional relations 72% of the respondents hold the view that strengthened cooperation in functional areas will lead to a deepening of integration in East Asia.

Though the above mentioned figures stress the importance of multilateral cooperation (between the EU and East Asia as well as within East Asia), bilateral relations between countries, respectively China-US and China-Japan relations, are seen as the most important political factors shaping the emergence of East Asia as a global actor by 2020-2025. Multilateral institutions on the interregional level, like the ASEM- or APEC-process, are thought of as being less important. At the same time, a majority of the respondents assess EU-Asian relations as a defining element of international politics within the coming 20 years. Equally the respondents attach high importance to the ASEAN+3-process. Out of this two developments need to be differentiated when analyzing EU-East Asian affairs: (1) the institutionalization of an East Asian regionalism and (2) the response to this process by the rest of the world and in particular the EU.

The ‘Rise of China’

Throughout its history, the People’s Republic of China has witnessed periods of dramatic upheaval, transition, and reform.¹ Currently, the nation is experiencing a course of unprecedented economic prosperity, which is changing how China views itself, and how the rest of the world views China. Offering labour and markets, the PRC is rapidly becoming the manufacturing workshop of the world. China’s approach to slowly liberalizing trade and services, coupled with its recent accession into the WTO, indicates a new path for developing countries – a transferable model, according to Chinese experts, for other emerging economies.

¹ See: Zhang Wei-Wei ‘Long-term Outlook for China’s Political Reform (With special reference to the European interests in these reforms)’. Volume II of this report.

However, China, which up until now has based its rapid development on trade (an export-led model), is currently seeking alternative growth patterns for the future. As a society in transition, it faces the challenge of constructing a social safety net, tackling increasing unemployment, regional economic and social disparities etc., all of which impact negatively upon economic growth. ‘Quality of growth’, as opposed to traditional rate of growth, is rapidly becoming an issue – a point not lost on the Chinese authorities who face the daunting task of constructing a smooth transition.

China is currently seeking alternative growth patterns for the future.

China’s emergence: Trade-FDI nexus

In 1978, China ranked 23 in the world for its trade volumes, by 2002, China became the 6th largest exporter and the 7th largest in total exports and imports. In 2003, China became the 4th largest exporter in the world, with a trade volume of \$851 billion. By 2004, the volume of trade was more than \$1.13 trillion, making China the third largest trading nation in the world. The composition of China’s exports has changed from agricultural commodities and raw materials to manufactured goods. The share of manufactured goods rose from less than 50% in 1980 to more than 90% in 2002.

The contribution of foreign invested firms to China’s exports increased from nothing to over 50% by 2002. From 1993, the inflow of foreign capital rocketed, and by 1996, China became the largest recipient of FDI in the developing world and the second largest recipient in the world, only second to the US. Despite the Asian Financial Crisis during 1997-98, China continued to attract large inflows of foreign capital, and by 2002, it became the world largest recipient, surpassing the US. The accumulative stock of direct foreign investments was estimated at \$501 billion in 2003.

China has emerged as the world’s number one producer of TV sets, a market dominated by Japan 20 years ago. At present, China looks like an assembly factory of all kinds of brand-named automobiles (Ford, Opel, Volkswagen, General Motors, etc.) from all the key industrialised nations. It is quite possible that China will become one of the main exporter of motor vehicles in 10 years time.

From: Shujie Yao, “Building a Strong Nation, How Does China Perform in Science and Technology”, Vol. II of this Study Report

So far, the Chinese government has adopted a cautious approach to economic transition and restructuring, initiating experimental programs to ‘test the waters’ before implementing nation-wide initiatives.² Such careful experimentation, be it economic or institutional, underscores the significance of learning from experience, before diffusing the acquired ‘best practices’ universally. This approach was born out of the necessity to ensure a fundamental stability of the central political and institutional system whilst tackling disparate and often contradictory economic and social objectives that almost inevitably give rise to trade-offs. As a case in point the dichotomy between rapid growth and equity targets, given the limited financial resources at disposal. To outsiders it may seem that this approach is overly cautious, however, the Chinese government’s willingness to allow experiments of reform is often stronger than it would formally appear.

² The Special Economic Zones established along the Chinese coast, were the starting points of a long process of policy experimentation leading eventually to wider economic and trade liberalisation policy implementation – with attraction of FDI as the major engine of growth.

Challenges to the ‘Rise of China’: Technology, Resources and Society

Increasing regional disparities accompanied by rising income polarization...are an unfortunate outcome of China’s reform and liberalization processes.

Increasing regional disparities accompanied by rising income polarization between rural and urban areas are an unfortunate outcome of China’s reform

and liberalization processes. In the first phase of reforms, benefits accrued to the rural population, as witnessed by the rapid decrease of the number of people at the poverty line and the increase in income and purchasing power. However, the present stage of rapid economic growth, sustained in the most advanced provinces and coastal areas with high FDI concentration, have again increased socio-economic gaps. Added to this are increasing regional unemployment rates in specific urban areas due to the restructuring of large State Owned Enterprises (SOEs). Patterns of uneven regional growth reflect diverse processes of adjustment and a decline in the sectors or branches of activities located there.³ Disparities between rural and urban incomes, which had improved over the last two decades, are once again accelerating and trends indicate a further widening.

The improvement of the educational system in China’s rural areas is an important target of the Chinese government social policies. It may lead to the effective amelioration of the quality of local labour in isolated rural areas traditionally characterised by low income and unqualified workers. Job creation targets need to be actively supported by developing the basic education of local populations in order to facilitate the creation of job opportunities and to further slow down internal migration to urban centres. Furthermore, the improvement of the local labour market, the progressive development of basic infrastructures and social facilities are complementary components of a strategy for development at the local level in the inner Chinese regions. The progressive bettering of the conditions in the rural areas might also, in turn, improve the capacity to attract investments, including FDI. The slow but progressive wage increases in the coastal areas and urban centres have already favoured a tendency toward a re-localisation of investment. The elaboration of a strategy for rural development should be considered an important element to the formulation of a broader regional policy by the Chinese government.

In order to fuel its rapid economic development, China has become increasingly dependent on a stable and secure energy supply. Its rapidly rising consumption of fossil fuels highlights the importance of developing new resource strategies and an environmental policy that addresses the challenges posed by increasing consumption. As the Chinese government strives for a ‘sustainable prosperity’ model of development, it must be able to balance the demands of industry with the realities of supply and demand.

The sustainability of China’s economic development will be, inter alia, contingent upon the government’s pursuit of responsible fiscal and monetary policies. China must address the problem of its banking sector, i.e. non-performing loans and inadequate banking supervision,

³ The government’s quest to improve the attraction capacities in terms of investments and infrastructure, of the Western provinces of China is a major challenge. The trade-off between necessary rapid growth rates of the Chinese economy at macro-economic level and targets of social equity and cohesion are inevitably contradictory.

as well as poor corporate governance of both banks and companies. Whilst the Chinese Renminbi has been recently delinked from its US dollar peg and devaluated by 2% against the US currency the new regime of a currency basket will not solve the weaknesses of the Chinese banking sector.

Constructing a legal framework for competition policy is a basic requirement for Chinese economic reform, together with institution-building targeted at creating the necessary capability for implementing progressive market regulation. This is integral to achieving the wider objective of establishing universal “rule of law”. The business environment for private companies, both domestic and foreign, must be improved in China. This relates to business development, the facilitation of a progressive lifting of bureaucratic red tape and eliminating corruption and political barriers to entrepreneurial initiatives, in particular for SMEs.

Restructuring and/or privatization of SOEs has such wide ranging economic and social implications for China, in particular on employment, that de-regulation in this field requires time and effective policy co-ordination to manage the social consequences. Thus, other related policies need to go hand in hand with competition policy, in order to avoid social disruption. An active social policy and an effective employment policy could be complementary initiatives that accompany the progressive liberalization of the economy and the improvement of WTO compliance and practices.

Many of the experts that have been interviewed for this study agree that structural changes will occur if and when China’s economic development miracle slows down. In addition to the aforementioned challenges, they highlight the increasing wealth gap, poverty, migrant labour exploitation, disease and environmental degradation as latent problems that may act as catalysts for change in the political structure.

The overall integrity of the Chinese government remains intact, but its control is not what it used to be.

The overall integrity of the Chinese government remains intact, but its control is not what it used to be. Stability of the political system is paramount to successfully tackling difficulties as they arise, which in turn is contingent on the government’s ability to adapt to a changing environment. A ‘collapse’ of the Chinese economy and/or government would generate serious consequences for the State, its people, the region and the rest of the world, including the EU.

China’s competitiveness edge has relied on the expansion of labour-intensive industries, financed through massive FDI that has generated considerable export capacity and market access to the world markets. The main negative consequences of this industrial policy are that China has become increasingly dependent on foreign technologies to maintain its high economic growth, unless it is able to create its own internal capacity to generate innovation and technology.

The Chinese government has long been aware of this weakness of its development strategy and has been trying to improve its own technological capacity through investments in basic research, innovations and the application of new technologies, utility models and designs.

One of the pillars of the Chinese government technology policy has been to make strategic investments in the national research institutes and research-oriented universities⁴, encouraging also research and innovative activities in large and medium size enterprises. A second approach has been the access to patents and new technologies from all over the world, especially from the most advanced economies in North America, Japan and Europe.

A basic reality is that China is still an agrarian economy with an agricultural labour force accounting for over half of the nation's total. In the foreseeable future, the biggest challenge on China is its ability to create enough non-agricultural jobs so that its economy can be fundamentally transformed from that dominated by agriculture to that dominated by industries and services.

...the industrialization and modernization process may take another 30 to 50 years

...

This industrialization and modernization process may take another 30 to 50 years, and over this period of rudimentary industrialization, China's development focus will still have to concentrate on the labour-intensive industrial sectors. The development of high-technology and capital-intensive industries is important but it cannot be the mainstream of the development process in

the medium term.⁵

Furthermore China, the inequalities generated by the reforms in the last two decades have been increasing. As a result, the unequal regional and sectoral impact of development associated with the growth-maximisation strategy, has given rise to increasingly severe social and economic tensions and contradictions. The threats to political stability posed by these developments remain, for the time being, potential more than real. But the damage which they have caused to the social, economic and environmental fabric of China is already evident.⁶

- The profligate use – often waste - of resources has generated serious shortages of water, arable and forested land, and has been accompanied by a severe deterioration in their quality.
- Imbalances in population growth have emerged, with high birth rates in rural - especially western - regions contrasting with an increasing recognition by urban couples of the advantages of one-child –even 'DINK' (double income, no kids) households.

... the ethos of growth maximization... has also fostered a tendency towards excessively high rates of investment...

- The pace of China's economic growth has placed unsustainable pressure on basic natural and economic resources. The ethos of growth maximisation is reflected in rapid industrial expansion. But it has also fostered a tendency towards excessively high rates of investment, which in turn has placed

⁴ A number of national initiatives such as the Torch Programme, the 973 Programme and the latest 985 Programme have been launched over the last 15-20 years. Huge investments have been made to the Chinese Academy of Sciences, through the so-called 'Hundred, Thousand and Ten Thousands' Plan in order to attract as many top scientists as possible from home and abroad to concentrate their research in China. Similar investments have been made through the 211 Programme for 100 top universities and the latest 985 Plan on 38 key universities in order to make them as competitive as the world's leading research-oriented universities by 2020-2030.

⁵ Quoted from Shujie Yao, see Volume II, p. 234.

⁶ Quoted from Robert Ash, see Volume II, pp. 117-134

enormous strains on energy, raw materials and physical infrastructure.

China's development still lacks of policy coherence and consistency inherent in a situation in which functions and responsibilities of the centre and 'locality' remain unclear. The efficiency consequences of resource waste, stockpiling of excessive inventories and construction duplication are self-evident.

Of greatest concern to Chinese policy-makers is the widespread social malaise - even social anomie - that has increasingly characterised urban and rural society in China. The main critical facts are

- i- the rise in urban unemployment, both de facto and concealed, that has accompanied the halting restructuring programme among state-owned enterprises (SOEs);
- ii- in the massive reservoir of underemployment that affects at least 130 million farmers; in the absence of even basic social security provision for the sick, the unemployed and the old;
- iii- in the highly differentiated access to education.
- iv- the pervasiveness of corruption and its destructive impact on the normative framework that usually regulates human economic and social behaviour; this has undermined the authority of the ruling party and government.

All these factors threaten to break the social contract between state and individual in China.

Further, diversification of the rural and farm economies has progressed much more rapidly in eastern China than in the west. By 1995, rural industry already accounted for two-thirds of rural value-

output in coastal areas, compared with one third in western China. Rural construction and service activities were similarly more advanced in the east. East-west differences have not only characterised the degree of rural diversification. Within agriculture 'proper' the contraction of crop cultivation in favour of fishing, husbandry, forestry and fruit farming has been less pronounced in many western regions. Such structural changes highlight two important findings: the first is that in the Chinese West, fewer rural workers are today engaged in industry and other high-return, non-farming jobs in the rural sector than in eastern China. The second is that among that larger share of the western workforce engaged in agriculture, more are dependent for a living on branches of farming that offer relatively low incomes.

...these factors threaten to break the social contract between state and individual in China...

Inadequacies of China's natural resource endowments

The land-use problems

China's arable area contracted steadily since 1957, but the rate of decline has accelerated since 1978. Average per capita availability of farmland is now less than 40 percent of the world average and below the FAO's warning line (0.05 ha). The situation is especially severe in the fertile Lower Yangtze and the Pearl River Delta Regions, once major grain-surplus areas. In the countryside, the creation of new cities and towns has also resulted in reallocation of land from farming to non-farm uses (factory, house and road construction, even car ownership¹). Shifts in land use from crop farming to animal husbandry, fisheries, fruit farming, etc. have taken a heavy toll, exacerbating arable land loss. Transfer of farm land to non-agricultural use is supposedly governed by strict legislation. But overzealous industrialisation and urbanisation have led to widespread flouting of such laws (in some villages half of all farmland has been requisitioned), with dispossessed farmers receiving little or no financial compensation. In 2003, 160,000 cases of illegal and arbitrary land requisition were uncovered, and

'blind' construction activities encroached on 35,000 sq.km – equivalent to Taiwan's entire surface area. Urbanisation causes 2-3 million farmers to lose their land each year, reducing their income by almost 50 percent. In autumn 2004, new legislation was enacted to prevent rent-seeking behaviour and offer proper compensation for officially requisitioned land.

The shortage of water

An even more critical resource constraint is the shortage of water, which threatens to undermine the maintenance of China's growth momentum. Since the 1950s, the area of lakes has contracted by 15 percent, while the wetland area has shrunk by just over a quarter. Gross water usage has, however, risen between four and five times (industry's share in total consumption rising from 2 percent to more than a quarter); per capita use has more than doubled. China ranks fifth in the world; but such is the pressure of population that on a per capita basis it ranks among the least well endowed of all countries (per capita availability is about 25 percent of the world average). There is also a qualitative dimension to the problem. Well over half of major lakes are severely polluted, and only 38 percent of river water is drinkable; only 20 percent of the population has access to unpolluted drinking water, and almost a quarter regularly drink water that is heavily polluted. There is evidence that pollution is causing high rates of cancer along some rivers. In 2003, 68 billion tons of sewage - twice as much as in 1980 - were discharged into waterways. Industrial waste is the main source of polluted water in cities; agricultural pollution, caused by the leaching of fertiliser nitrates into groundwater supplies, is the major problem in the countryside.

The growing energy demand-supply gap

China has accounted for a major share of the explosive rise in Asian demand for primary energy that has occurred in recent years. But there has been no matching increase in its energy production (especially of oil and gas). Despite high absolute levels of output and reserves, China is an energy-scarce economy, with per capita endowments that are far below the world average. Its unusually high dependence on coal will persist, as, for the time being, will related problems of transport, processing for industrial use and environmental impact. China has only succeeded in providing sufficient energy to drive growth through a rapid increase in net imports of crude oil – from 2 billion (1996) to 117 billion tons (2004). Its oil trade deficit (crude + refined) exceeded US\$20 billion in 2003. A high degree of import reliance for oil will continue in the foreseeable future, and 50 percent import dependence by 2020 is entirely feasible.

From: Robert Ash, The Long-Term Outlook for Economic Reform in China: Resource Constraints, Inequalities and Sustainability, Volume II, pp 129-130.

As the International Energy Agency's concluded in the executive summary of its authoritative "World Energy Outlook 2004", the question of energy security - which connects such disparate issues as economics, national security, and the environment - could become one of the major global challenges of the 21st century. It implies an increasing importance of geo-political factors for the EU's and Asia's future energy security, the energy demand of China as well as Asia, and the resulting geopolitical and security challenges for the future energy security of the EU and consequences for the future interregional EU-Asian relationship.⁷

The issue of ensuring international energy supply in the short- and medium-term lies less in the finiteness of crude oil and natural gas reserves than (1) in the accumulation of regional crises and domestic political stability of the countries producing crude oil and natural gas; (2) in surplus production capacity that has been steadily diminishing since the 1990s because of global competitive pressure; (3) in an underestimated surge in global oil demand; and (4) in a huge need for investment in new exploration, refineries, pipelines, and other infrastructure elements. The European Union, China, India and other great powers may compete for the same energy resources in the Middle East, Russia and Central Asia.

⁷Drawn from Frank Umbach; he also observes that China's energy strategies on oil and gas imports from abroad have major implications for Beijing's foreign and security policies in a regional and global context. For an in-depth analysis see his paper in Vol II, pp. 193-224

Last, but not least, the lack of a universal social safety net for the Chinese population that is dispersed over a vast territory with poor and neglected social infrastructure represents a fundamental challenge to China's future growth and stability. China's 'catching-up' in terms of economic growth has been key to improving the general income levels of the population, however, this growth is not sustainable without a modern social security system that creates stable and quality conditions for employees and the population in general. The costs of building such a system will have an impact on the wage-costs but it cannot be avoided if China is to pursue further integration into world markets.

The provision of adequate pension and healthcare facilities would need to be encompassed in such a social security system. The conception of a nation-wide pension system must be brought about quickly amidst a slowdown of China's demographic growth. Furthermore, failure to contain the spread of the SARS virus highlighted the need for better medical services. Whether the social safety system will be largely or only partially public, will require intense evaluation. Policymakers must consider financial constraints at the central, local and provincial levels in terms of budgets as well as the living conditions of the Chinese population and their low purchasing powers.

'growth is not sustainable without a modern social security system that creates stable and quality conditions for employees and the population in general...'

The EU's Role in Promoting the 'Rise of China'

Promoting stability within China as the country undergoes domestic transition will be pivotal to the EU's future engagement with China and the region at large. For the time being, China and the EU perceive themselves to be complementary global actors with a shared vested interest in pursuing a stable world order and a commitment to effective multilateralism. China's desire to strengthen links with Europe, which some suggest may spring from its perceived need to dilute US hegemony, puts the EU in a unique position to support transitional reform. However, the EU does not always have a clear understanding of China from the institutional, as well as political, perspective. Moreover, according to one American expert 'there is a tendency in Europe, especially in France, to roll out a red carpet for China. The EU should be more active in using its influence on China'. The opportunity exists for the EU to utilize its relationship with China to aide and even push for a stable and sustainable 'rise of China'.

The EU could serve as a good example of how to pursue a policy of social and economic cohesion.

A necessary first step for the EU will be to understand the pace and sequence of domestic economic and political reforms, which China is prepared to undertake, and assist them in this process. The EU needs to improve and enlarge the type of cooperation it pursues with China and reinforce an open dialogue, without hurting the other's national sense of pride and territorial

integrity. From its own perspective, China wants to preserve its traditions whilst pursuing an economic development path. Europe has in this field a relevant experience that could be

better utilized than at present. The EU could serve as a good example of how to pursue a policy of social and economic cohesion.

Chinese policy makers are fully aware of the challenge represented by the reform of the social security system and need to review options and suggestions in order to build a new model. The myriad of local provisions and the prudent piloting of new systems in the richest provinces need to give way to a comprehensive and coherent restructuring of the social security system on a national scale. The ‘European’ approaches to social security may not be suitable for the Chinese situation, since the levels of contribution of EU employers and workers seem to be too high for China. Chinese policy makers may prefer an eclectic approach, building their own ‘Chinese’ model by combining different elements and adapting them to the Chinese context.⁸ In that context the challenge represented by social security reform in an ageing society cannot be captured by demographic analysis only. If demographic accounts may give a quantitative picture of the ageing process, they do not give answers to complex questions emerging from the need to provide care in a transitional economy and rapidly changing society. In order to make a valuable contribution to Chinese transition, EU advisors need to undertake an in-depth multidisciplinary analysis of Chinese society, culture and institutions.

The EU can also play a stronger role by calling for ‘justice, equity and social cohesion’ within China.

The EU can also play a stronger role by calling for ‘justice, equity and social cohesion’ within China. China needs to be supported in its process of modernisation, but following stricter rules including a progressive softening of the political power of the CCP. The European policy and institutional experience can be an asset in helping

China to upgrade its own institutional capacity. EU engagement with China should further the process of democratisation, in contrast to pushing for full democracy, by focusing on the creation of a dialogue on legal issues, social systems etc. As one American expert notes: ‘China’s role will be shaped by the accountability of the Chinese political system. However, China doesn’t have to be a full democracy in order to be a responsible actor’.

In recent years, China has taken a vivid interest to learn from Eastern European countries in transition by following and analysing economic reforms, privatisation programs as well as economic and social impacts. Here exists an opportunity for the EU to share its vast experience in functional areas of transition. A precondition would be the strengthening of respect for Intellectual Property Rights (IPR), an issue that has become increasingly problematic for both sides. China also looks to Europe to strengthen cooperation with it in the field of science and technology. It is in this sector where the EU, more than the US, can take the lead through scientific and technological transfer. Because China is in need of scientific and technological transfer, such a development can build stronger and closer ties between the EU and China. This process can further a virtuous circle as European technology in exchange for Chinese manufacture will balance the current trade deficit.

⁸ See Roberta Zavorotti, ‘Family-Based Care for China’s Ageing Population – A Social Research Perspective’. Volume II of this report, pp. 97-116.

The key to EU assistance, and the way it is received, will be the manner in which Europe engages its counterpart. Symbolism and the importance of gestures should not be underestimated in dealing with the Chinese authorities. Issues such as the Arms Embargo, Market Economy Status, trade barriers and protectionism are complex and must be handled delicately. Scholars in China feel that ‘Europe maintains too many trade barriers – it is too protectionist’ and that this inhibits Chinese economic development, whilst western countries argue that ‘the tariffs on China are the lowest amongst developing countries; as China liberalises within the WTO, it makes sense to push towards liberalisation on a bilateral level’.

An EU Member State official noted that granting China MES would signal a commitment, on the part of the EU, not to discriminate and that not granting MES ‘doesn’t make any sense’. The circumstances are difficult: While China is a developing country in need of assistance China is as well a current competitor and perhaps even a rival of the future. Disagreements will always persist, but choosing one’s battles carefully will further constructive cooperation.

The key to EU assistance, and the way it is received, will be the manner in which Europe engages its counterpart.

China in the Region and the World

‘The role of China, its behaviour, will be critical in the emergence of an East Asian political and economic grouping’.

China’s growing maturity and engagement with its neighbours in the East Asian region and other global powers will significantly impact the future of regional, interregional and international relations. The approaches that Beijing chooses to regional integration and cooperation will greatly influence the kind of regional entity that will eventually arise in East Asia. As one European commentator expresses it, ‘the role of China, its

behaviour, will be critical in the emergence of an East Asian political and economic grouping’. It is in the interest of all external actors that China’s foreign policy and practice is being shaped in a manner that can serve as an example for the Asian region. The government’s responsible behaviour during the 1997 Asian financial crisis is a case in point. It demonstrated the willingness and capacity of China’s government to act as a force for regional stability. Furthermore, as China progresses from ‘débutante’ status to assume a more active and prominent role within the WTO, its regional credibility will hinge on the extent to which it pursues absolute (‘win-win’) or relative gains.

As China begins to pursue a more prominent external role, its Northeast Asian neighbours begin to question their own position vis-à-vis China and their respective role within the new regional set-up. One South Korean government official explains: 'China is a huge market. However, the 'rise of China' does raise some concerns of instability as other players, notably the U.S. and Japan, position themselves. Northeast Asia is still in transition'. This process is illustrated by Sino-Japanese relations. While the relationship looks back on a sad history of wars the recent flare-ups may indicate that factors other than historical legacies need to be taken into account when assessing the bilateral relationship. In that context one Japanese expert opines: 'China and Japan meet each other on an equal footing. For the Chinese this is OK. But we cannot get accustomed to that reality. Either they are weak or we are weak'.

Politics of Northeast Asian Integration

Serious obstacles impede smooth progress in the emergence of regional integration in East Asia. Foremost negative factor is the long-time cold, and more recently hostile political relationship between the two major powers in the region, China and Japan.

China has its FTA with ASEAN ready and has positive relations with South-Korea. South-Korea has its own negotiating relationship with ASEAN and Japan, and Japan is negotiating with ASEAN and Korea as well, but the big missing link is between China and Japan.

The Chinese are globalists, eclecticists, pluralists, multipolarists and multilateralists. With their 15 neighbors, their foreign relations are omnidirectional. They are deeply dissatisfied with the United States over its duplicity and regular incitement of Japan and Taiwan against China. But they know they are too weak to challenge the US now. China's overwhelming priority is economic development and growth and these would be severely affected without full access to the American market. The Chinese want to learn from the European experience with multilateral diplomacy, how to counter the US-Japanese scheme to freeze the Cold War status quo in East Asia and how to advance their "core interest", the peaceful reunification with Taiwan on the basis of some vague, flexible long-term formula.

The Koreans describe themselves as a "medium power in between two great powers", China and Japan. They have a very rapidly expanding trade relationship with China and a more or less satisfactory political relationship.

Source: Willem van Kemenade, 'The Political Economy of Northeast Asian Integration'. Volume II of this report.

In that context a lifting of the European arms embargo against China will have a considerable impact on the relations within North East Asia, the sub-region's relations with the U.S. and US-EU relations. China is modernizing its military focusing on high technology, which it can only get from the EU or the U.S. Many European observers opined that the embargo will be lifted before the end of the year 2005. But the Code of Conduct needs to be strengthened – if not become legally binding. Furthermore, European experts hold the view that 'there needs to be a formal dialogue between the EU and China on hard security once the arms embargo is lifted'. The EU should understand that 'China will only cooperate militarily when it suits them', as one British insider commented.

Yet, Chinese officials insist that one should not overestimate the speed and consequence of the so-called 'rise of China' since there is the question of China's ability and willingness to assume the role of a regional hegemon in a future East Asian grouping. A senior Chinese think-tanker elaborates: 'I don't believe China can play the role of a great military and economic player that will exert pressure on the U.S. and Japan within the next 20 years'. An EU Member State official holds the same view: According to him 'it would be wrong to overestimate the problems between China and Japan. Japan will have a technical lead over China for the coming 2-4 decades'.

Chinese and Japanese officials are in agreement that neither party 'is interested in damaging economic ties because of political disputes'.

Chinese and Japanese officials are in agreement that neither party 'is interested in damaging economic ties because of political disputes'. On the contrary 'a systematic diplomatic and strategic dialogue is needed to agree on eventual goals in order to resolve China-Japan tensions'. Furthermore, Chinese and Japanese officials can envision the EU

taking a more active role in resolving disagreements: 'The EU has friendly relations with both countries. China doesn't consider Europe pro-Japan, nor does Japan consider the EU pro-China. Europe can advise and persuade both sides. Both, China and Japan, can learn a lot from the European processes of post-war reconciliation and integration'.

However, according to a Japanese political commentator, if a future Asian regional grouping or bloc was 'to move closer to Europe, it is possible that Japan wouldn't go with it. Instead Japan could sign an FTA with the U.S'. The current Japanese government has a strong interest in strengthening the US-Japanese alliance. According to a Japanese expert such a policy bears the advantage that 'China will have no alternative but to be peaceful and friendly with everybody'. Some observers in both Japan and the U.S. see a strong China as an adversarial

'South Korea will not play a leading role, but one of a balancer or facilitator'.

Sino-US Relations: Implications for the EU

The decisive conceptual question within the future framework of Sino-US relations will be how the foreign policy of the USA will deal with the challenge of regionalization processes in East Asia and the increasingly leading role that China plays within them. After having failed to realise and operationalise the potential and strength of multilateral institution building on the regional level in Asia the US administration is challenged to adjust to two different but interrelated developments: the rise of China and the rise of an East Asian regionalism. Because of Europe's experience in the politics of interregional relations this issue area should become part of the EU-US Strategic Dialogue on East Asia. Whichever policy the US chooses, China will hold the key to Asian regionalism.

Because of the relevance of the Taiwan issue in US-China relations a convergence of a European and an American policy on China affairs is of most importance as the example of the intended lifting of the EU arms embargo against China shows. It is a direct consequence of the US-China relationship that a European policy vis-à-vis China needs to take place in a institutional framework that enables the US and the EU to coordinate their respective interests.

Within this evolving new systemic context the EU's interregional relations with Asia and especially the ASEM process offer examples of how the EU and its member countries can take part in the moulding of the international system. Thereby Europe can exert soft power in the Asian region by co-defining the norms and rules that facilitate the integration of the dominant Asian power China into a new world order in which regional communities and unions are becoming actors in their own rights.

Source: Sebastian Bersick, 'Strategic Considerations in the US-China Relationship: A Role for European Soft Power?'. Volume II of this report.

competitor. They would therefore like to uphold the fundamental dynamics and architecture of the U.S. security structure in Asia. In that context a senior researcher from the U.S. formulates: 'China takes an indirect approach by quietly developing economic and political leverages. This is a long-term challenge. A Chinese-led grouping would be a fundamental change as the region might have to build up its military capabilities'. Also an EU Member State official points to the risks attached to such a development: 'The tenses the relations between the actors in the region, the more

reluctant China might be to continue with its domestic reforms, relating ‘to the capacity and willingness of the government to reform the political system, e.g. to democratize’.

The other major player in Northeast Asia is the Republic of Korea. The South Korean government is promoting positive economic relations and stable political and security relations with both Japan and China. South Korean economists see tremendous possibilities for synergy between the three economies, since ‘China and Korea share a complementary industrial and trade structure’ and ‘China is now Korea’s first trading partner and biggest destination for Korean FDI. It is estimated that major Korean industries will maintain relative competitiveness vis-à-vis China for the next ten to twenty years’. Nor do they consider Japan a future rival in managing North East Asian affairs: ‘South Korea will not play a leading role, but one of a balancer or facilitator’. However, for the time being the South Korean government remains cautious about concluding an FTA with China as domestic producers ‘fear increased import of agricultural products’. The Japanese government, on the other hand, has an interest to push for a China-Japan-South Korea investment treaty because such an agreement ‘would improve conditions for companies investing in China (more transparency, stronger dispute resolution, foreign investment restrictions relaxed etc.)’.

Looking further afield, China is also beginning to extend its influence throughout the wider Asian region. A U.S. expert reasons: ‘Within the last five years the perception of China in the Asian region, especially Southeast Asia, has changed. The region is looking to China as a source of ideas. That is new’. The close relationship shared by China and ASEAN works to their mutual benefit. So far, the relationship has worked quite well; ASEAN is careful not to disrupt China and China takes care not to dominate ASEAN. Although both parties demonstrate outward respect towards each other, everybody knows that China assumes a leadership role.

‘The region is looking to China as a source of ideas. That is new’.

‘China follows a global economic strategy and a regional political and security strategy’

The ASEAN-China relationship is based on economics and trade, however, China is keen to further develop regional integration with ASEAN as part of its strategy to counterbalance the US. A U.S. expert

observes that ‘China follows a global economic strategy and a regional political and security strategy - in that respect the China-ASEAN FTA is more of a diplomatic instrument than an economic tool’. This can be witnessed by looking at investment patterns; whilst Japanese investment in ASEAN has been slowing down, Chinese companies are becoming big investors in ASEAN. For the time being, China is the pre-eminent power in Southeast Asia, however, ASEAN countries appreciate the significance of maintaining good relationships with both China and the U.S. – the latter retaining an important economic and political influence within the region. Furthermore, there is a danger that the attraction capacity of China will favour a concentration of investment within one single ASEAN country, rather than dispersal amongst ASEAN countries. Such a development may lead to possible tensions within the region in the future.

Relations between China and India are also evolving for the better as India begins to develop more international influence. However, China continues to remain 'better friends' with Pakistan, whilst India continues to have lingering suspicions with regards to China. India sees China as both a competitor and a partner. Complementarities exist, with the Chinese actively seeking collaboration in software development. But competition in basic labour intensive manufacturing will remain. To insure collaboration both sides have shown a keenness to bury the hatches over border disputes in Kashmir, Sikkim and Northeast India. This was publicly reaffirmed during the May 2005 visit of the Chinese Prime Minister to New Delhi.

EU-Russia Relations and China

Europe can play at different levels in its foreign and trade policies, looking at the positive long term perspective that might emerge from a stable and non-conflicting relationship between these two large countries.

Europe could be a catalyst between the two countries, exploiting its privileged relations with Russia through the newly acceded Member States, and developing more focused and deeper cooperation agreements with China.

On the other side, Europe might also be more attentively interested in helping Russia in dealing with the economic and social decline of its Eastern regions, Siberia and the Far-East, because stability and improvement of the local conditions might also be an important factor that could help to stabilise the entire area, slowing down the possible excessive tensions that might emerge on the border with China.

Source: Roberta Benini, 'China-Russia Economic and Strategic Relations: Between Rivalry and Co-operation'. Volume II of this report.

The China-Russia relationship is very good and getting better. At the same time it remains complicated and different viewpoints are held. One German expert noted that "It is more in the interest of Russia to cooperate with Japan than to cooperate with China." However, an American expert points to the importance of EU-Russia relations: "Russia is no match for a rising China. It would look to Europe and to India to balance China."

Europe therefore needs to elaborate a global strategy where both large countries – Russia and China - are foreseen and their peaceful and stable relations is also in the primarily interest of Europe, beyond the European individual strategic interests with each of them separately.

The Emergence of East Asia as a Dynamic Regional Entity

The growing intensity of East Asian interaction and dialogue is strengthening the voices of those who herald the rise of a dynamic regional entity. Processes of Asian intraregional cooperation and integration are complex and shaped by numerous internal and external factors. The interests of individual Asian states, be they convergent and concerns or divergent, will shape the form and function of future regional structures. Current negotiations undertaken by East Asian governments will, at the very least, lead to a more autonomous East Asia; in which regional partners know each other better, coordinate their actions more widely, determine common goals and form common positions. Tremendous progress has been achieved in this direction over the past few years. New rules are being discussed in East Asia and even if the outcome remains an open process, external actors will find it more difficult to capitalize on regional divisions in the future through a 'divide and rule' strategy.

However, the extent to which East Asian integration is successful will also be contingent on the interests and the involvement of external actors. In that context U.S. commentators do not

East Asian Cooperation and Economic Integration: A Background

Prior to the 1997-98 financial crisis, integration efforts in East Asia were far more loosely institutionalized than in most other regions of the world, in particular Europe. The only formal body of integration was the Association of Southeast Asian Nations (ASEAN) which had been established in 1967, primarily for political reasons. A more daring project was launched in 1992, with the ASEAN Free Trade Area (AFTA) which aimed at realizing a free trade area within 15 years starting on January 1, 1993.

In contrast to what is generally believed, there is a long history of financial and monetary cooperation in Southeast and East Asia at large, yet with a low degree of commitment. In particular, Central bank officials have been meeting regularly at ASEAN, as well as at the East Asian or even Asia-Pacific, level since the early 1960s. Yet these various bodies and initiatives were merely instruments of consultation which did not prove significant in practical terms. At the broader East Asian level, there was no apparent interest in cooperative schemes in the form of free trade agreements (FTAs) for instance. In particular, Japan maintained a tradition of privileging participation in multilateral schemes.

The first real attempt at an institutionalized economic integration was not the result of an East Asian initiative but came from the US in the late 1980s. This is what finally gave rise to the Asia Pacific Economic Cooperation (APEC). Malaysia's proposal of an 'East Asian Economic Caucus' in 1991 met strong objections from Washington and was torpedoed as a result.

Despite the fragmentation of regional cooperation efforts highlighted above, and despite the quasi absence of institutionalized regionalism, economic interactions have kept deepening throughout East Asia since the early 1980s. The interactions between trade and direct investment flows account for the deepening of economic linkages in the region. In particular, growing outward direct investment from Japan*from the mid-1980s) as well as from the East Asia NIEs (from the 1990s) to the rest of the region have increased the flow of raw materials and intermediate goods within the manufacturing networks of Asia, fuelling a rise in intra-regional trade.

Rising labour costs in Japan and the NIEs, as a result of the strengthening Yen in the wake of the 1985 Plaza Agreement, in parallel to ASEAN's relatively low labour and production costs, helped to divert FDI flows toward ASEAN core countries. A number of pull factors also played a role, in particular a stable macroeconomic environment and the increased liberalization of ASEAN economies.

Source: Françoise Nicolas, 'East Asia Economic Integration: Past Experience, Current State of Play and Future Prospects'. Volume II of this report.

North East Asia, but East Asia, including South East Asia or Asia-Pacific, like APEC', another South Korean official adds that the region is still far from forging a common identity. An EU expert reasons that 'the three participants of the ASEAN+3-process pursue their own ASEAN policy' and asks how the region can work to define common interests whilst major players are going in different directions? To the expert the question 'whether an East Asian regional organisation will come into existence without a guardian of the agreements, like the European Commission in the case of the EU' is of utmost importance.

negate the importance of regionalism as a stabilizing factor. At the same time they are sceptical and consider it an important 'litmus test' whether or not the U.S. will be invited to participate in shaping said *open* regionalism. A senior American academic highlighted this by noting that 'the US doesn't like ASEAN+3 and FTAs because it is excluded. Core economic and security issues need to be dealt with in regional organizations of which the U.S. is a party. It will not accept regional organizations that are exclusively designed to balance or contain American power.' Thus, if East Asian governments decide to pursue an exclusive form of regionalism, the U.S., and even the EU, might wish to intensify its diplomatic energy to influence the regionalization process towards an open, i.e. inclusive, outcome.

Added to this are questions of how best to integrate all the different regional initiatives already in existence. According to one Chinese expert, 'if you have too many forums and organisations, their effectiveness will be questioned'. Whilst a senior South Korean Ministry official upholds that 'there is common ground for institutionalised cooperation not confined to

The starting point for East Asian regional integration will be, and already is, activities and agreements in the sphere of trade and economic cooperation. An EU Member State official comments that ‘it is important to get rid of bilateral FTAs, as they are only needed on a bi-regional level, e.g. between Asia and Europe’. If Asia can agree to some form of economic zone, then the region will gain the competitive edge that it lacks today. To quote a South Korean official, ‘a regional trade agreement will take time, but eventually bilateral arrangements will be transformed into more regional arrangements’. At the same time, the belief is that ‘out of economic cooperation a security dimension will develop’.

China is looking to develop a new neighbourhood policy ‘based on win-win security interests’.

The prospects for advanced military security cooperation seem distant for the moment; however, voices within China would like to see Asian countries ‘focus on cooperation and co-ordination across borders and in different spheres of security to strive for ‘comprehensive security’. A new approach to security cooperation that focuses more on ‘soft’ or human security than ‘hard’ could prove to be a new avenue from which to encourage positive interaction. To this end, China is looking to develop a new neighbourhood policy ‘based on win-win security interests’, according to one Chinese government official.

However, ‘hard’ security stumbling blocks do exist on the path to a dynamic East Asian region, notably the dilemma of North Korean nuclear proliferation and tensions in the Taiwan Strait. South Korea is keenly aware that ‘for regional security, North Korean integration is also essential’. China does not want a collapse of the North Korean regime and will thus only apply limited pressure on the North Korea. On the other hand, it has expressed willingness to

Will the East Asian Summit go the Chinese Way?

Once perceived and acknowledged as a formidable principle, the so-called “ASEAN way” could, to a certain extent, be on the verge of being substituted by what would be labelled as a “Chinese way”; indeed, as it has been suggested, China could hold clout and influence in the new grouping, asserting its rules and norms, thus putting at risk the benefits of ASEAN for Southeast Asia.

Seven years after the launching of the ASEAN + 3 formula and without much fruition, negotiations are open to replace it by the so-called “East Asian Summit” (EAS) to be held in Kuala-Lumpur in November 2005. As EAS was initiated by China during the 10th ASEAN Summit meeting in Laos, the intention and purposes of EAS should be understood as a new “Asian approach” for the management of regional relations, most inspired by the Chinese way.

The EAS is expected to forge a longer-term Asian economic, social, cultural and political community so as to “balance” the US, Europe and other groupings in the future.

To a certain extent, ASEAN has effectively gained a certain degree of influence in the process of deciding who is going to lead and manage the leadership in East Asia’s regionalisation.

It is already understood that the inaugural EAS in Malaysia will be followed by a second Summit to be held in China, thereby placing Beijing within the fundamental “core group” of the East Asian integration process. By hosting the second East Asian Summit in 2006, it could then affirm the group’s agenda, scope, goals and even institutions in a more decisive way; and here the basic question is the extent to which China will press for its national interest or will be ready to compromise with the constraints of region-building: to what extent will China pay attention to ASEAN’s experience?

China’s aspiration to be the leader of the EAS will not go unnoticed in the near future. It will continue to rely on all diplomatic means till it accomplishes this end. Its “global” pressure on ASEAN will continue. China intends to pursue a more active diplomacy around its Southern periphery in Southeast Asia.

Source: Sophie Boisseau du Rocher, ‘Can ASEAN Support Northeast Asia’s Pressure? Stakes and Implications for the European Union-ASEAN Partnership’. Volume II of this report.

‘welcome EU inclusion in the Six-Party Talks, if the EU could convince the DPRK to return to the table’. Nor would the U.S. shun EU involvement in the Six-Party talks in some shape or manner.

The EU’s role in Promoting East Asian Regionalism

The EU has a strategic interest in promoting the rise of East Asian regionalism. The emergence of a strong regional player will entail both challenges and opportunities for the EU. If approached correctly, ‘the EU will benefit economically and politically from the rise of an East Asian regional grouping’, according to one U.S. observer. Thus, Asian experts are cautioning the EU to ‘monitor changing regional power structures – for they can have tremendous ramifications for Europe’. However, Europeans need to realise that their own perceptions and experiences of regionalization will differ from developments in East Asia. As it is the case with the U.S., Europeans have a strong interest in the evolution of an open, rather than exclusive, regionalism in East Asia.

If the European Union intends to take part in East Asian integration processes, it must first familiarise itself with the complexities of the region. Currently, East Asia is going through dramatic changes, yet the European Union doesn’t seem to pay sufficient attention to the fundamental evolutionary processes at work. For all these reasons, the level of expectation towards the European Union is rather low. Especially in Southeast Asia high expectations have only generated frustrations with the EU. The EU is therefore now considered to be in the second circle of influence (the first one being composed of East Asian countries and the United States). However, as one Asian expert puts it, there is an opportunity for the EU to make amends as ‘all countries that need an additional player in the region want the EU to play a bigger role’. This is why ‘Europe can be a strong, independent and most of all credible voice in the region – if it can decide to speak up!’

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Asia does not want instruction on what to do but rather how to do it.

Asian experts point to a striking lack of visibility of the EU in the region. Especially in ASEAN countries the EU suffers from the poor image of being too complicated, too bureaucratic and too legalistic. This is partly due to a deficit of communication between European and Asian actors which inhibits Asian actors to understand what the EU is and how it works. It is also partly due to the EU’s poor records and performance. Furthermore, an absence of clear positions has impeded a lasting influence, particularly in Southeast Asia. A Singaporean academic observes that though the European Union has the legitimacy to generate a productive debate on integrative policies it doesn’t utilize it. Instead ‘Europe always gives advice without being well informed. Asia does not want instruction on *what* to do but rather *how* to do it.’ Another Singaporean expert notes that officials of the European Union operate a ‘take it or leave it strategy’, without leaving room for negotiation or taking country specific circumstances into account. The EU should strive to undertake a learning process of the region; send more experts and generate wider debates.

Added to this is the EU's perceived lack of credibility as a united and coherent actor. An expert opines that 'the EU is simply not credible and Asian people are very pragmatic: they believe what they see, and the successive delegations of the EU or the individual member states to Asia are not really convincing'. The EU needs to develop a more united foreign policy and common positions on symbolic fronts. For example, the dramatic effect of the European division during the Iraq war will take a long time to overcome. On Myanmar, Europe has certainly lost ground in Southeast Asia. This is, firstly, because the Europeans refused to accept that their policy hasn't brought positive changes to the political and, secondly, because the EU is putting ASEAN in a delicate diplomatic position. The EU policy position on Myanmar, which is perceived as 'stubborn' by several Southeast Asian observers, has certainly reinforced the mutual lack of understanding and distrust between ASEAN and the EU. Furthermore, the EU's "double standards policy in East Asia" (one for ASEAN, one for China) has undermined its very credibility in the region.

To some Asian observers the European Union doesn't even appear serious in its ambitions to implement political principles. In Southeast Asia, for example, the EU's perceived assets are its experience in processes of reconciliation, its technical experience on specific fields of functional cooperation and integration (establishment of a free-trade zone, a monetary union, a free-movement of people zone etc.), its ambitions of being a welfare space, its successes in multilateral diplomacy and the emergence of compatible identities. Not withholding this track record an Indonesian observer points out that much of these European soft assets are negated by the EU bureaucracy which is perceived by some as arrogant, technocratic and paternalistic. EU bureaucracy is often thought of as being too conceptual when people ask for pragmatic solutions, lacking internal basic cohesion, influence and persuasive power, and any conviction towards the Southeast Asian sub-region as a whole. An ASEAN official opines that the EU must increase the visibility of its actions since, for instance, too often aid is distributed through the governments of European member countries 'who reap the recognition'. The expert asks: 'How are Asian nations supposed to respond to EU aid, when not even the EU delegations defend their own programs?'

East Asia, therefore, constitutes a test case for the EU's ability 'to be and act as a major power' as a U.S. experts comments, adding that 'a major player should have responsibilities'. In that context an EU expert concludes: 'the more politically active the EU becomes outside of its political sphere, the more it needs to consider the perceptions and consequences of its actions'.

'...the more politically active the EU becomes outside of its political sphere, the more it needs to consider the perceptions and consequences of its actions'.

Thus, Europe must 'define its interests in East Asia and take a greater interest in strategic and political aspects of the Asian region'. The EU needs to appreciate and promote its own assets – 'it is wrong to look only at the CFSP; in economy, trade, international competition policy, climate policy and International Court of Justice, the EU is already a major player'. Furthermore, 'the EU should focus on honing and promoting its soft power approach by establishing policies that emphasise European values and basic norms'.

The EU often underestimates the influence of ASEAN while it tends to overvalue the weight of China.

On the regional level, Europe could move to reinvigorate its involvement in East Asia through a revitalization of ASEM, which often seems rather neglected by the EU (for instance, by sending higher-ranked delegations). Within ASEAN, one Asian observer suggests that the EU should

‘concretely support the reinforcement of ASEAN - if ASEAN is weak, external partners will play the divisions. Help ASEAN to shape its future’. The EU could also aid ASEAN in strengthening its legal infrastructure, by pushing for the signing of UN Conventions such as the Convention on Transnational Crime. All the while, the EU should be responsive to what an Indonesian expert characterizes as ‘playing the China card to the detriment of other Asian partnerships’. According to this official the EU often ‘underestimates the influence of ASEAN while it tends to overvalue the weight of China’.

In this context an American expert suggests that the European Union ‘can help to build institutions in East Asia and Asia, like the OSCE since Asian institutionalism is only beginning to grow’. In addition, the EU could share its expertise on monetary and fiscal policy with the region. In the field of competition policy the EU could also offer relevant lessons to ASEAN countries. Share experience on functional issues such as environment, climate change and financial stability (where the EU is perceived as more efficient than the US), potentially by setting up joint expert groups in these areas. Develop more concrete socio-economic projects with an attractive offer in terms of reduction of poverty. Social actions are always appreciated as the EU can give without asking (unlike the US).

According to an EU Member State official the EU must begin to integrate its economic engagement with a more visible political presence. In order to do this the EU ‘should utilise ASEM and ARF more constructively. The EU should be active on such issues as security, NPT, anti-terrorism. The Asians look for concrete results’. In that regard Europe should, according to a Thai academic, ‘implement mechanisms to develop its influence and power as a decisive actor of global equilibria’. A US expert comments that the European Union has strategic *economic* interests in China and East Asia. Yet, the EU does not, for the time being, seem to have “real” security or political interests in Asia. ‘The EU has a role to play in economic affairs and *not* in security affairs as security affairs will put the EU in a very difficult position (the NATO legacy remaining an unsolved question)’ the expert explains.

...the EU must begin to integrate its economic engagement with a more visible political presence.

A Chinese expert notes that ‘EU involvement in East Asian security matters is increasing as commercial interests spill into the strategic field as the EU arms embargo against China indicates.’ Therefore, a security dialogue, between the EU and East Asia and between the EU and China in particular, is needed. Another Chinese analyst observes that China and other East Asian countries ‘would support increased EU cooperation and engagement in the field of comprehensive security.’ According to the expert, the governments of those countries are particularly interested in ‘East Asia targeting two major areas of cooperation, namely anti-terrorism and cross-border criminal activities. The EU could become an active partner in that.’ Furthermore, the EU could be most instrumental in the development of a security architecture and a security mechanism for the region as ‘Asians would like to learn from the European experience’. According to the analyst the EU can ‘aid in the establishment and

development of a permanent security cooperation mechanism'. A respected Indonesian journalist encourages the EU to push for 'a concerted action on Aceh, the Southern Philippines or Southern Thailand, because Southeast Asia 'expects more from Europe than individual initiatives'. Such a policy could raise the diplomatic or political prestige of the EU in the region.

In that context one EU researcher reasons: 'The EU needs to come up with answers to new questions, e.g.: Is there an EU position on the Japanese request for a seat in the UN Security Council? What would we say if Japan went nuclear? We are following a policy of principles, for instance, India and Pakistan must sign the NPT. Such a policy shows a lack of fantasy of the Europeans. There is no – or too little – conceptual support of the EU. A new positioning of the EU's interests in Asia is necessary. The handling by the Europeans of the arms embargo against China demonstrates that'.

'The EU needs to come up with answers to new questions...'

The Impact of a Dynamic China and East Asian Regionalism on the EU

The rise of a more organised and coherent East Asian regional grouping will create future strategic challenges for the EU. All contacted experts, regardless of their geographic base, argue that China has far more long-term strategic views on its long-term needs and interests than Europe does. At the moment, many Europeans view EU foreign policy as being very weak. The experts highlight the fact that China is exploiting bilateral relations to the detriment of the EU. This is why the EU needs to wake up to the necessity of elaborating a strategic vision that goes beyond a 5-10 year period.

China has far more long-term strategic views on its long-term needs and interests than Europe does.

As competition from East Asian actors increases, Europe must adapt to changing circumstances and remain on the forefront of technological advances. Eastern Europe, for example, provides new markets for Chinese manufacturers. According to an East European expert the EU needs to take serious steps to find a compromise on curbing the penetration of Chinese goods exported by multiple means (including illegal export and export through transit countries). Moreover, acquisition of technology and technological processes, coupled with a rise of corporate acquisitions, reflect an increasing Chinese interest in the region. Joint ventures are often created as a temporary means to acquire information and know-how, and then subsequently bankrupted.

At the same time, it is vital that the EU pursues greater access to Asian markets. Trade is, by definition, a two-way street. An American expert reasons that 'China uses trade for political purposes and is mainly interested in gaining technology from the EU. IPR infringement constitutes a great loss for the EU. With the deepening of China's relationship with Southeast Asia, Europe runs the risk of being frozen out'.

A perception, expressed by several European experts, is that increasing flows of Chinese immigrants (legal and illegal) seem to reflect a long-term strategy on the part of the Chinese

government to make use of China's abundant labour resources and position itself for the future.

Other analysts point to the long-term implications of East Asian regionalism and assess that: 'The relative weight of Europe to Asia will decrease. Overall, the weight of the EU will decrease while that of Asia and the U.S. will increase.'

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Chapter II: Scenario Analysis: China, East Asia and the EU

Introduction

Scenario analyses about developments within East Asia reflect judgements and insights held by experts and are therefore necessarily subjective. Although experts may sometimes be willing to indicate what they perceive as ‘most’ or ‘least’ likely, these subjective Bayesian priors should not be taken too literally. The scenarios are best understood as exercises in lateral thinking about future processes.⁹

This study identifies several intra-regional processes which are particularly important as ‘shaping factors’ for East Asia over the next five to ten years.¹⁰ These relate to the geo-political flashpoints (in particular DPRK, Taiwan, South China Sea) and to intra-regional tensions (especially the Sino-Japanese ones). The broader issues raised by the ongoing process of institutionalisation of multi-lateralism across East Asia give rise to another set of scenarios.¹¹ And of course, the relationship between East Asia and the US is a major shaping factor for the region’s future and thus also for the EU’s possible engagement and cooperation with it. Given the focus of this study on the particular role of China within East Asian cooperation, several economic and political scenarios for China’s future are given a central role in the present analysis.

The present chapter of this study therefore analyses the political and economic scenarios for China, their impact on regional growth and integration and a cluster of ‘shaping factors’ of regional cooperation in East Asia, all of which involve China as a significant player. For these scenarios, impact and implications for the European Union will be drawn out.

Scenarios and Shaping Factors for China and East Asia

The scenarios elaborated here will focus in particular on the future of Chinese political and economic development as one of the key shaping factors for the development of East Asia as a whole.

⁹ Qualitative scenario analysis is a useful and informative tool to stimulate the thinking of the reader about the possible sequences of major events which may take place sometime in the near or distant future. However, political or economic scenarios do *not* attempt to provide a forecast of the future because a quantifiable likelihood to the specific sequences of events which they describe can not be assigned. They merely map out the space within which insiders expect events to unfold.

¹⁰ The time-frame for the scenarios is up to 2010 (short to medium term) unless otherwise indicated.

¹¹ The European Commission sponsored a study on *‘East Asia by the Year 2000 and Beyond – Shaping Factors’*, edited by Wolfgang Pape, first published in 1998. The study identified five important shaping factors. First, it mentioned the ‘cultural base’ of East Asia; second, the success (or failure) of political reform in Japan; third, the tensions within the Korean peninsula; fourth, the emergence of China and tension within the Greater China and fifth the political and economic development within the ASEAN countries.

Economic scenarios for China

The economic growth outlook for China is an outcome of domestic political processes, as well as intra- and inter-regional responses to it. In this sense, it is a ‘dependent’ variable; however, as emphasised below, economic performance is itself a key determinant of political stability within China.

Economic performance is itself a key determinant of political stability within China.

Three scenarios will be distinguished for the outlook of Chinese economic growth over the next five to ten years:

- Sustained high-growth economic development, continuing the long high-growth period since the early 1980s (characterised as ranging between 8-10 per cent);
- A slight deceleration of economic growth performance, but commensurate with the ambitious long-term growth targets which President Hu Jintao elaborated at the NPC. These would require a medium to long term growth rate of approximately 7 per cent over the period 2005 until 2020;¹²
- A substantive slow-down of growth, possibly with a growth performance similar to (if not below) those common for mature economies such as the US, Europe and Japan. High growth years will be interspersed with years of stagnation and negative growth due to macro-economic imbalances and business cycles.

The authors of this study identify several clusters of factors which may lead China away from the ‘naïve’ or ‘optimistic’ scenario of sustained high economic growth to the scenario of deceleration of growth or, possibly, the third scenario of a substantive slow-down of growth. The shaping factors which will determine which of these economic performance scenarios is most likely to evolve relate to five profound impediments to the ‘return of the dragon’ – China’s emergence as a major trading state.¹³

1. Domestic political instability in China due to weakening legitimacy of the central government and, in particular, the Communist Party of China (henceforth referred to as CCP). Several domestic political processes may engender this outcome, in particular a failure to effectively respond to popular demands for good governance, improved transparency and vigorous anti-corruption campaigns. Moreover, there will be demands for political, social and economic rights, only partially responded to at this time. Domestic political instability may take a variety of forms, for example as

¹² President Hu reportedly said:

“Sustainable development means promoting harmony between man and nature, achieving coordination between economic development and population, resources and environment, and persistently following the civilized development road of developed production, affluent living standards, and a benign ecology, to ensure sustained development down the generations” (Hu Jintao, 4 April 2004). For a more detailed discussion see Prof Robert Ash’s paper in Volume II of this study, in particular pp. 131-133.

¹³ For a further analysis of the impact of China’s emergence as a major trading state see Wing Thy Woo’s in Volume II of this study (pp. 135-168).

attrition of political power of the CCP through an increasingly damaging battle between pro-reformers and conservatives.¹⁴ The socio-economic context is particularly important with urban-rural bias and growing income differentials as a major cause for political instability. The resulting rise in income inequality will be exacerbated by growing urban unemployment, reflecting the increasing pressures upon people to move from the rural to the urban centres, further reinforcing the already severe regional disparity.

2. *Ecological and environmental barriers* may also prove a formidable barrier, with the availability of adequate clean drinking water to all persons as a first obstacle, but with it the constraints of air-pollution and increased incidence of respiratory diseases and other related public health hazards. The need for enforcement of environmental

Enforcement of environmental regulation will impact on China's industrial competitiveness.

regulation will impact on China's industrial competitiveness. The environmental hazards are closely linked to rapidly growing natural resource demands, in particular energy, and their impact on global markets.

3. *Macroeconomic mismanagement* in the Chinese economy, in particular through weak management of the monetary and credit policies, coupled with growing fiscal deficits at the central government level. Such policy failures lead to a significant erosion of the presently strong balance of payments position of China. The recent decision of the Bank of China to realign its currency away from a peg to the dollar to a peg with a basket of currencies may help to reduce risks of artificially low inflation (even deflation) coupled with excessive credit expansion.

4. *Increasing protectionism in OECD markets*, due to increased pressure from interest groups of producers and employees in sectors and enterprises threatened by a perception of growing competitiveness in the Chinese (and East Asian) economy.

5. *Any occurrence of external military conflict* involving the People's Republic of China will directly and significantly reduce the scope for economic growth. Although 'confined' conflicts may reduce economic growth only to a limited extent, the main conflict zones with widespread repercussions are Taiwan and Cross-Strait relations, the nuclearisation of North Korea and, possibly, maritime conflicts linked to islands in the South China Sea.

Political Scenarios for China

The political scenarios for China, in an open-loop feedback with economic performance, are simultaneously shaping factors as well as outcome variables.

¹⁴ Such a battle could result in an 'LDP-style' outcome in which the reformers are essentially locked in stalemate with the anti-reform groups, leading to a status quo in which neither of the two sides find much solace. Another possible outcome, more worrying from the CPC-perspective, is a 'Soeharto-style meltdown' with the largest party finding its historical power base crumbling within a time-span of only a few months.

Elaborating three political scenarios for this study, Zhang Wei Wei distinguishes between:

- fully-fledged “one-man-one-vote” democracy;
- gradual political reform; and, finally,
- collapse of the political regime.¹⁵

He argues that of the three scenarios, the ‘gradual’ political reform scenario is the most likely outcome and the most desirable. The reasons for this are manifold, but two compelling reasons are as follows. First there is the importance of performance-legitimacy; in this respect there can be little doubt that China’s record in improving living standards since the Deng Xiaoping reforms of 1978 is unsurpassed. Second, there is the weight of China’s historical experience which has shown that during the nearly 140 year period following the first Opium War of 1840 to the Deng’s reforms ‘...the longest peace China enjoyed lasted no more than 8 years’.¹⁶ Anarchic instability, war and external aggression, inexcusably misguided policies such as the ‘Great Leap Forward’ or the ‘Cultural Revolution’ and other self-imposed ideological campaigns are amongst the reasons for this. Zhang argues that the Chinese people are willing to accept that gradual reform is more likely to ensure the desired outcome of improved prosperity, transparency and social justice than either a move to a fully-fledged “one-man one-vote” democracy or, of course, a collapse of the system with the impending risk of anarchy and fragmentation.

***‘The longest peace
China enjoyed lasted
no more than 8 years’.***

***Regime collapse is
bound to be costly
and risky in terms of
economic growth...***

Assessing the impact of three political scenarios of full democracy, gradual change or regime collapse, Zhang notes that a ‘full democracy’ scenario has largely positive benefits in terms of political and civil rights as well as (international) relations, with Taiwan, US, EU and others. However, the impact on economic performance could be mixed, with demands for sharply increased allocations towards

social welfare, limiting the scope for investment in economic infrastructure and thus reducing growth prospects. Thus it also poses a risk for the economic and political ties with the neighbouring countries. Although there may be potential benefits in terms of civil and political rights, the benefits for ties with Taiwan, the US relations and the EU relations are at best moderate and in any case quite uncertain. Zhang expects that the ‘gradual reform’ scenario is most likely to ensure the best economic performance, while it can also deliver substantial benefits in terms of civil and political rights, as well as for the relations with Taiwan, the US and the EU. Zhang’s subjective assessment of the possible risks involved in the gradual reform scenario, is that these

¹⁵ See the sections 3 and 4 of the paper by Wei Wei Zhang on the long-term outlook for China’s political reform and the possible impact and costs of the scenarios (Volume II of this study).

¹⁶ See Zhang Wei Wei, ‘The Long-term Outlook for China’s Political Reform, with special reference to the European interests in these reforms’ Volume II, pp. 7-30.

are less in all domains than either of the two more ‘radical’ scenarios towards full democracy or regime collapse.¹⁷

Intra-regional Geo-political flashpoints

Korean Peninsula. The success or failure of the Six-Party Talks aiming at persuading the DPRK to submit to a credible and verifiable adherence to a non-nuclear proliferation regime is a critical process for China. After a period of over a year during which the Six-Party Talks stalled, the DPRK agreed to resume the talks during the week of July 25, 2005, following the conclusion of bilateral talks in New York

The Six-Party Talks are resuming and will be the most important instrument to achieve a durable resolution.

between the US and the DPRK. The Republic of Korea (South Korea) expressed the hope that the ‘...participating parties should engage in serious and substantial negotiations to achieve real progress for the resolution of the North Korean nuclear issue’.¹⁸ Independently but simultaneously, an agreement was reached on a number of North-South economic cooperation activities.¹⁹ Hence, at the time of completion of this study (July 27, 2005), it would seem that the six party talks are resuming and will be the most important instrument to achieve a durable

resolution of the present insecurity within the Korean Peninsula.

For this study we identify three possible scenarios for the outcomes of the Six-Party Talks mechanism in the short-to-medium term.

- A framework agreement with the DPRK on non-proliferation of nuclear weapons and an agreement for credible verification of its nuclear programmes.
- Living with a nuclear DPRK following a failure of the Six-Party Talks to reach any substantive agreement, leading to the DPRK eventually conducting a nuclear test, implying that the region, including China and the US, have to live with it.²⁰

¹⁷ See section 4 of Zhang Wei Wei, Volume II of this study, pp. 18-19.

¹⁸ Statement of the Ministry of Foreign Affairs and Trade, July 10, 2005.

¹⁹ Simultaneously, the Committee for the Promotion of Inter-Korean economic cooperation, holding its tenth meeting in Seoul from July 9-12, 2005 agreed that the South will provide the North with inputs for the production of urgently needed goods such as garments, footwear and others. Moreover, the South will invest to develop Northern mineral resources for export to the South as well as develop coal energy resources for use in the North. Furthermore; South and North will (i) develop infrastructure for the Gaeseong industrial complex; (ii) embark on fisheries cooperation ‘in a way that helps establish peace in the West Sea’; (iii) construct boundary stations and install technical equipment for the Seoul-Shinuijoo railway line as well as for the Donghae (East Sea) railway line; (iv) take preventive measures to limit damage caused by flood from the Imjin river. The economic cooperation will be implemented through working level committees and reviewed at the next meeting of the Committee, scheduled for September 2005 in Pyongyang.

²⁰ The parallel with the Indian and Pakistan nuclear test of 1998 may be drawn; despite intense political pressure, the newly elected BJP/NDA government decided to move ahead with the tests. A key-difference is that both India and Pakistan are committed to multi-lateral engagement through a host of agreements, whereas DPRK is presently outside of any of these multilateral frameworks.

- Regime collapse in the DPRK, perhaps because internal opposition overthrows the regime or, alternatively, through an external military intervention in the country.

These three scenarios are bound to have very different implications for China, the East Asian region and the EU, to be discussed below.

China-Taiwan Cross-Strait relations. The economic and political implications of an open military conflict between China and Taiwan are bound to be far greater than the impact of military action against the DPRK, for two fundamental reasons. First and foremost, both China and Taiwan are important destinations for foreign investors from the EU, US and Japan, amongst others. Hence, the high probability of asset values dropping sharply in the context of an escalating conflict will seriously affect virtually all large multinational corporations, with knock-on effects throughout the international production networks and therefore also on global stock-exchanges. Second, the Taiwan Relations Act implies a security involvement of the United States, either as suppliers of military hard- and software or possibly even in direct naval combat. The prospects of a line-up with China and the US appearing on the same side in a conflict situation, which one would expect to be the case if the Six-Party Talks fail and the DPRK regime engages in aggression, would be less worrisome than a conflict situation which one would find the US and China on opposite sides of the fence. Therefore, a China-Taiwan conflict could easily escalate, with other parties being drawn in, such as Japan.

The three scenarios which are distinguished regarding the outlook for China-Taiwan relations reflect the three broad options of

- Peaceful Unification;
- Continued status quo; or
- *De jure* independence.

Each of these China-Taiwan scenarios will need to be carefully qualified. First of all, the term ‘unification’ has a great deal of different connotations attached to it. Unification may refer to very considerable differences in the status and privileges of the constituent parties and the processes through which ‘unification’ is achieved can vary substantially. Similarly, the notion of ‘status quo’ is not at all static and will greatly be influenced by the changes within China and Taiwan and their implications for the different sides. Finally, even though the notion of *de jure* independence is quite clear, its durability and acceptance will depend on the process through which it has been realised. If independence were to be achieved by peaceful means and with consent of the Chinese central government, then its stability and durability would be secure in the long term. However, this would certainly not be the case if the declaration of independence is unilateral and leads to (or results from) an open military conflict between China and Taiwan, possibly drawing in other players such as the US or even Japan.²¹

²¹ In a recent statement PLA Major-General Zhu Chenghu, quoted in the Financial Times, July 15, 2005 said ‘ If the American draw their missiles and position guided ammunition on to the target zone on China’s territory, I think we will have to respond with nuclear weapons’.

The European Union has put on record its desire to see a peaceful resolution of the present tensions across the Taiwan Strait, to be achieved through dialogue and mutual consent and in ways which maintain the democratic progress

The European Union has put on record its desire to see a peaceful resolution of the present tensions across the Taiwan Strait...

which has been realised in Taiwan's policy decision making since the late 1980s. This approach was particularly emphasised by the EU at the time when China adopted its anti-secession law in March 2005. In a candidly worded statement, the Luxembourg Presidency recalled '... its opposition to any use of force'. It also expressed the EU's view that

'... relations between the two shores must be based on constructive dialogue and the pursuit of concrete progress, and [reiterated] its conviction that this is the only approach likely to benefit both parties and to lead to a peaceful resolution of the Taiwan question'.²²

Sino-Japanese relations. Most experts on the East Asian region hold the view that the relationship between China and Japan will be *the* major determinant of the process of integration for East Asia. Will the Sino-Japanese relationship be characterised by antagonism and destructive competition, or will it be one of constructive engagement and partnership? Three scenarios may be noted:

- Good Neighbours;
- Status Quo with current tensions; and,
- Further deterioration of the relationship and tensions mounting.

Good Neighbours. This scenario becomes a distinct possibility if Japan and China both fully recognise that they need each other, albeit for different reasons. Japan's weak record in economic liberalisation, reflecting an anti-reform sentiment in business and political circles, implies that outsourcing of manufacturing and business processes to China remains a critical part of the global competitiveness strategy of Japanese businesses. Hence, the much sought after resurgence of the Japanese economy would demand continued closer integration between the two leading players in the region, especially through foreign investment from Japan into China and trade from China to the rest of the world, in particular the EU and the US. Such trade combines Japanese intermediate inputs plus Japanese technology with Chinese management capability and low-wage manufacturing as a winning combination for global competition. Economic partnership will dictate that a 'stable match' between the two sides – both know that they are better off than in other coalitions: China needs Japan's technology, which it has difficulty to obtain from ASEAN, the EU or US and Japan needs lower production costs which it can not realise within its own jurisdiction. The 'grand bargain' would thus be a mutually agreed non-divorce pact and a willingness to draw a line under the recriminations over the historical legacies of the war-torn past.

²² Declaration by the Presidency on behalf of the European Union concerning the adoption of the "anti-secession law" by the National People's Congress of the People's Republic of China; date of issue Brussels, March 18, 2005.

Status Quo with continuing tensions.

The second scenario envisages a continuation of present tension,

without any serious attempts at healing old wounds or finding a new way forward to move beyond the present situation of ‘*hot economics, cold politics*’.²³ This scenario would also depend on the profiles and policies of future Japanese administration, i.e. after the present government under Prime Minister Koizumi completes its second term (expected in 2008).

‘*Hot economics, cold politics*’

Deteriorating Sino-Japanese relations. A third scenario for the outlook of Beijing – Tokyo relations would foresee a further deterioration of the Sino-Japanese relationship. Growing ultra-nationalist sentiments, envy as well as resentment over the close US-Japan security alliance, a refusal by China to back the so-called ‘G-4 bid’ by Brazil, Germany, India and Japan for membership of the UN Security Council will boil over to the economic domain with intensifying competition and policy measures which seek to limit mutual market access and lead to defensive measures in the trade and investment domains. Each of these three scenarios will have distinctive impact on the shape and progress of East Asian regional cooperation and direct implications for the EU involvement in the region.

Sino-US relations as a Shaping Factor for EU-East Asia

The future of East Asia depends critically on the relations within the region, as detailed above, but also on the political and economic relationship between China and the United States. Three broad scenarios may be distinguished:

- Closer partnership,
- Hedged engagement, or
- Deterioration as compared with the present situation.

Closer partnership would require a change of insecurity perception held by dominant political players in the United States, including those within the present administration.²⁴ The US approach towards China would revert to one of engagement, rather than of containment or encirclement and the US administration would have to consult and coordinate with China, amongst others, about its alliances within the region and its military presence within the region.

... *The US administration would have to consult and coordinate with China, amongst others, about its alliances within the region and its military presence within the region.*

Furthermore, closer Sino-US partnership would also entail a change of approach within the economic domain. Prior to China joining the World Trade Organisation, the US House of Representative would annually vote on the renewal of the status of China as a ‘normal’ MFN trade partner.

²³ See van Kemenade’s analysis of the political obstacles to cooperation between Japan and China in Volume II of this study (pp. 51-84).

²⁴ See Bersick, “Strategic Considerations in the US-China Relationship: A role for European Soft Power?”, Volume II of this study (pp. 85-96).

Since China's membership of the WTO in 2001, the policy decisions have moved to the use of instruments allowed within the framework of the WTO, most importantly anti-dumping measures and safeguard measures. Furthermore, political bodies appointed to monitor the relation with China, such as the Congressional-Executive Commission on China (CECC) as well as the US-China Economic and Security Review Commission (USCC) have consistently expressed concern about China compliance to the WTO regimes it has committed itself to. Closer partnership would require that these concerns are addressed through frequent consultation and mutually agreed inspection and verification. Finally, closer partnership would also require that several others of the current stumbling blocks to Sino-US relations (such as the arms export control regime and the issue of granting market economy status) are dealt with in mutually agreed ways.

Hedged Engagement has been the chosen terminology for describing the present relationship between the US and China.²⁵ It indicates that carrots and sticks are kept ready for use and that the policy approach does not rule out the use of either of them, depending on the context and the domestic political pressures within the United States of America.

Finally, a *deteriorating* Sino-US relationship would be characterised by repeated open and continuous disagreement between the US and China within several domains of global importance, most notably trade and investment; environment and international security. This scenario would become more likely if pressures for global trade protectionism were to increase within the US.

Multilateralism in East Asia as a Shaping Factor for EU-East Asia

A further scenario elaborated for this study, develops the possible forms which multilateralism may take within East Asia (possibly involving other parts of Asia, notably India and Central Asia). The three scenarios identified refer different degrees of institutionalisation of (sub)-regional cooperation:

- Full institutionalisation;
- Shallow institutionalisation; and
- Faltering institutionalisation.

If (sub)-regional institutionalisation is 'open' or 'inclusive', the opportunities for other Asian countries to participate in it through economic or political partnership agreements would be considerable.

Full institutionalisation refers to effective multi-level governance at national and supra-national levels, underpinned by political, legal and economic institutions which have an

²⁵ For a recent analysis see Lampton, David 'U.S. Security Interests in Asia and the Implications of a Stronger China' in Kivimaki and Delman (eds.), *The Security Situation in Asia: Changing Regional Security Structure? The Opportunities of the EU to Play a Role in Asian Security Politics*, Danish Ministry of Foreign Affairs, Copenhagen, June 2005. Lampton argues that 'Americans would welcome the EU playing a larger role in virtually all of the 'soft power' instruments', but in the 'hard power' area Americans would be more cautious.. (p. 41)

authority to act in their own right. Decisions and ruling made by the supra-national institutions will have implications for the Member States, as they are legally bound to adhere to the rulings and implement the regulations. In short, full institutionalisation refers to integration à la European Union, sometimes referred to as the ‘Europeanisation’ of (East) Asia. If (sub)-regional institutionalisation is ‘open’ or ‘inclusive’, the opportunities for other Asian countries to participate in it through economic or political partnership agreements would be considerable. However, if the character of the institutionalisation were to be ‘closed’ or ‘exclusive’, the opportunities for others to be part of it would be substantially reduced. This would not only affect other countries within Asia, but also the EU and the US.

Shallow institutionalisation refers to a situation where regional cooperation in East Asia continues to operate through an informal and non-binding consultative process. The organisations which may be created primarily have a secretarial or administrative mandate, but are not empowered to propose any binding regulations beyond those which countries already agree at the global multilateral level (e.g. at the United Nations or the World Trade Organisation). Shallow institutionalisation is therefore an appropriate characterisation of the ASEAN+3 process. However, the ten Member States of ASEAN may be considered as having moved somewhat beyond ‘shallow’ institutionalisation, especially in the agreement of an ASEAN Free Trade Area as well as through the creation of an ASEAN regional forum to consult on issues of regional security. The proposals, articulated through the Bali Concord of 2003, to develop economic, security and socio-cultural communities for Southeast Asia could also be considered as moving beyond shallow institutionalisation.

The Bali Concord of 2003...could also be considered as moving beyond shallow institutionalisation.

Faltering institutionalisation would describe a situation in which the present institutional framework for regional cooperation fails to develop further and the present limited arrangements for regional cooperation would atrophy or enter a state of systemic paralysis.

Impact of the Scenarios: China, East Asia and the European Union

We now turn to an analysis of the impact of the multitude of scenarios on China, the East Asian region and the European Union. We discuss these in the order introduced above, i.e. starting with Chinese economic growth and political development, moving to the scenarios distinguishing possible developments in the DPRK, China-Taiwan, Sino-Japanese relations, Sino-US relations and finally, multilateralism in East Asia.

Chinese economic and political scenarios

‘Sustainable high growth’ in China will mean that the CCP regime stability will be quite secure and that social issues can be managed. High growth will mean that the resources for redistributive social justice can be appropriated through fiscal measures and allocated through targeted subsidies to selected regions, sectors and social groups.

It will ensure that poverty reduction programmes can be financed, that social infrastructure will be further improved and that economic infrastructure can continue to develop fast, although not necessarily at the breathtaking speed which has characterised recent performance.

‘Sustainable high growth’ in China will mean that the CPC regime stability will be quite secure and that social issues can be managed.

A ‘slight deceleration’ of Chinese growth – judged most likely by the team of authors of this study in view of the formidable constraints the country faces – does not in itself endanger the Chinese political regime, even though its performance-based legitimacy will be reduced. Nevertheless, even a slight decline will mean that social tensions, which have already been rising sharply over the past ten years, will be exacerbated further.

A ‘substantive slow-down’ of Chinese economic growth performance will certainly lead to a significant decline in the legitimacy of the CPC-regime. However, the apparatus of the Chinese state appears strong and stable and is expected to withstand shocks and challenges. Nevertheless, a substantive slow-down would increase the likelihood of an early succession of the present fourth generation leadership, coupled with alternative centres of political power emerging within the party as well as through the emergence of alternative quasi-independent parties. In this scenario, one would expect to see major political reform to emerge although most likely only to come to full fruition in the post-2010 era.

The *impact on the East Asian region* of the three scenarios may be distinguished as follows. High growth will mean strong regional growth for the other countries but it

High growth will mean strong regional growth for the other countries but it will also imply a further increase of their economic (inter)-dependence on China.

will also imply a further increase of their economic (inter)-dependence on China. A slight decline will not fundamentally alter this outlook, although the increase of intra-regional trade and FDI will also slow down. Indeed, social and economic tensions within the region are likely to increase, with a finite supply of East Asian resources (land, labour, natural resources, managerial capability) facing a slower growth on the demand side.

A substantive slow-down of growth in China will have several positive and negative effects, the net sum of which is difficult to assess in general terms. Some countries which compete directly with China for labour intensive exports to third markets would stand to gain; Vietnam may be a case in point. But those players which have already realised a high degree of integrated production networks with China would stand to lose (for example, Japan, Taiwan, Singapore and Hong Kong).

The *impact on the EU* of sustained high growth in China – or a slight deceleration – will imply that EU-China trade deficits in goods and services will continue to grow further. Trade frictions will remain, and will take the forms of imposition of safe

guard measures, anti-dumping duties or ad-hoc agreements on capping trade flows for specific sectors or products.

However, a substantive slow-down of Chinese growth performance may imply that EU trade deficits with China remain closer to their present levels. Trade with East Asia would be rebalanced to some extent, because imports from competing countries would be growing faster than in the other scenarios.

The assessment of the authors of this study is that the ‘slight decline’ scenario is the most likely, in view of the manifold challenges which need to be addressed by China to realise a sustained high growth scenario.

DPRK scenarios

The *impact on China* of different outcomes for the DPRK and the Six-Party Talks will be far reaching. An agreement would undeniably be a victory for China’s ‘new diplomacy’.²⁶ Indeed, it would secure China a stable periphery at its North Eastern borders, addressing problems of forced migration from DPRK, etc. Moreover, if the Six-Party Talks succeed, the mechanism could form the embryonic basis for further East Asian regional security cooperation and would have the potential of developing into a mechanism such as the OSCE. In sharp contrast, ‘living with a nuclear DPRK’ would leave China’s periphery insecure, while the need for aid and subsidised energy supply and infrastructure would continue.

An agreement would undeniably be a victory for China’s ‘new diplomacy’.

Finally, a regime collapse in the DPRK, brought about with or without external military pressures, would be seen as a failure of Chinese diplomacy, nor would it secure its North Eastern border periphery.

The *impact on East Asia* of any of these three scenarios would be quite different. An agreement would lead to opening-up of the DPRK and facilitate its integration in the East Asian economy and regional cooperation. Indeed, the prospect of a peaceful reunification of North and South Korea would be looming on the horizon, although with only within a long-term time frame, perhaps like 25 to 50 years. In sharp contrast, ‘living with nuclear DPRK’ would be a formidable challenge for regional and global players alike. A nuclear DPRK would inevitably carry the risk, perhaps even a near-certainty, of further proliferation of nuclear technology and materials.²⁷ In this context, ‘security dilemma’s would persist in North East Asia, intensifying the tension which marks the present situation. In this scenario, the probability of military

In sharp contrast, ‘living with nuclear DPRK’ would be a formidable challenge for regional and global players alike.

²⁶ For a descriptive analysis of China’s new diplomacy, see Madeiros ... in Foreign Affairs, Vol....

²⁷ Amongst the likely responses to a declaration of nuclear capability, evidenced by nuclear tests, would be a similar response from the Republic of Korea and possibly even Japan.

involvement of the US is bound to increase, possibly through increased military presence of the US in Korea and Japan.

A DPRK regime collapse would in effect result in a ‘failed state’ on China’s border, forced migration problems and incontrovertible evidence of a failure of Chinese diplomacy to deliver an agreement towards a peaceful resolution. This scenario, undesirable from a Chinese point of view, would present also a high-risk context for the other regional players, most notably South Korea. Therefore, this scenario may prompt initiatives towards a speeding-up of North-South unification, facilitated by external aid from the multilateral institutions (esp. Asian Development Bank and the World Bank) as well as bilateral development assistance from Korea, Japan and perhaps the European Union.

The *impact on European Union* of these three scenarios is bound to be quite different. An agreement with the DPRK would open-up demands, but also opportunities, for very active involvement of the European Union in the context of reconstruction and economic reform of the North Korean economy, in addition to a continued role as a provider of humanitarian and technical assistance. If however the scenario of ‘living with nuclear DPRK’ emerges, making an agreement leading to a peaceful resolution quite unlikely, then it would be difficult for the EU to engage effectively in the process. Indeed, the EU would not be well-advised to involve itself in the failing Six-Party Talks and would largely remain outside the process, except a continuing role as an impartial provider of humanitarian assistance.

Finally, the regime collapse would provide the EU with the opportunity and challenge of providing reconstruction, not unlike its role in the first scenario.

China-Taiwan scenarios

With regard to the impact on China, a unification on mutually agreed terms, securing the consent of the people of Taiwan through a democratic process as well as the backing of the central government of China will undoubtedly be a win-win situation for both sides. Even the continuation of the present situation, from the Chinese point of view, will be a win-win situation, simply because the economic dependency of Taiwan on the mainland is steadily increasing. In this sense, the context of the status quo is moving in favour of the mainland; the authors of this study thus hold the viewpoint that ‘time is on the side of the PRC.’²⁸

Even the continuation of the present situation, from the Chinese point of view, will be a win-win situation...

If however a unilateral declaration of *de jure* independence of Taiwan were to take place, one would expect the impact on China and Taiwan to be a lose-lose scenario,

²⁸ This is of course predicated on the viewpoint expressed above that mainland China will be benefiting from a medium-to-high growth scenario with political stability. If however this were not to be the case, than the resulting decline in legitimacy of the CPC would also undermine its position on unification with Taiwan.

especially if military exchanges between both sides were to take place and draw other parties into the conflict.

The *impact on East Asia* will also differ greatly amongst the scenarios. An effective and lasting agreement between China and Taiwan will significantly add to the stability of the region and effectively contribute to the acceptance of the notion of the ‘peaceful rise’ of China across the region. Continuation of the status quo will imply that the latent insecurity in the East Asian region will remain. Furthermore, the already severely constrained diplomatic and public space for Taiwan will be further eroded, in view of the region’s continued adherence to the one-China policy.

In contrast, the lose-lose scenario of independence-cum-military confrontation will also engulf the East Asia region. In particular, the disruption of commerce and shipping will affect growth prospects and asset-values within the region very considerably. Furthermore, the existing military alliances within the region will be severely disrupted and put to a formidable test, most notably that between the US and Japan.

The *impact on the European Union* will also differ a great deal depending on which scenario will unfold. The EU’s position on China-Taiwan has been articulated recently by the Luxembourg Presidency, emphasising dialogue and peaceful resolution.²⁹ Nevertheless, a continuation of the status quo will be tolerable to the European Union.

In sharp contrast, a contested independence will be intolerable for the EU: it will mean immediate loss of assets and profitable trade and investment. Moreover, there is little to suggest that the situation would quickly reverse in the medium to longer run, i.e. beyond the 5 year time horizon of our present exercise.

...a contested independence will be intolerable for the EU.

Sino-Japanese scenarios

The scenarios on Sino-Japanese relations will impact on China to different degrees in the key aspects of populist nationalism and regime legitimacy. An emergence of good neighbourly relations will be seen as a victory for Chinese diplomacy, with economic gains and improved regime legitimacy in its wake. However, a continuation of the

An emergence of good neighbourly relations will be seen as a victory for Chinese diplomacy, with economic gains and improved regime legitimacy in its wake.

current tensions will further encourage a narrow and populist nationalism in China. Even though this might contribute to regime legitimacy in the short-to-medium run, the present tensions are bound to spill-over in the economic domain, therewith affecting regime legitimacy negatively. A scenario of a further deterioration of Sino-Japanese relations is bound to increase nationalism in China further, but would have uncertain

²⁹ See the quote of the EU Luxembourg Presidency on China-Taiwan above.

implications for the CCP-regime in the short to medium run.

The *impact on East Asia* of the different scenarios will range considerably. A good neighbourly relationship between Japan and China will contribute to regional cooperation and integration, with Japan as a normal neighbour. In contrast, the present status quo will be a major political obstacle to North East Asian integration and therewith slow down integration throughout the region.³⁰ Any further deterioration of the Sino-Japanese relationship would be perceived as the consequence of China's assertive stand, therewith reducing its soft power, while its image would deteriorate.

As for the *impact on the European Union*, any kind of 'grand bargain' between Japan and China will mean a relative decline in the global influence of the EU. Nevertheless, the EU does not have an option but to wait-and-see how the tensions will unfold, with only limited influence on its resolution. In the present situation, characterised by a lack of predictability, it is essential for the EU to retain flexibility in order to respond with as

...any kind of 'grand bargain' between Japan and China will mean a relative decline in the global influence of the EU.

few constraints as possible at a later moment in time. Nevertheless, an exercise will need to be undertaken to achieve a comprehensive inventory for a comparison and assessment of the EU interests in China and Japan, because a further deterioration of China-Japan relations may force the EU to 'take sides'.

Sino-US scenarios

A comprehensive partnership, including the economic and security domains, between China and the US will offer positive gains to China and it is hence to be expected that China will continue to strive to achieve this outcome. However, the present 'hedged engagement' is judged to be the most likely outcome, with the US position remaining ambivalent, seeing threats before opportunities. In this scenario, the modernisation of the PLA will continue unabated and the CCP regime will continue to gain legitimacy from its projection of a genuine US threat to its sovereignty and the integrity of its territory.

Any deterioration of US-Chinese relations would only further intensify the extent of modernization of the PLA and therewith also further increase the CPC regime legitimacy.

Any deterioration of US-Chinese relations would only further intensify the extent of modernisation of the PLA and therewith also further increase the CPC regime legitimacy. Nationalist populist sentiments would be on the increase, with considerable scope for political manipulation. However, the soft power and diplomatic space of China would tend to decrease, partly reflecting the global importance of the US but also because a

deterioration of Sino-US relations would amount to a failure of China's 'new diplomacy'.

³⁰ See the paper by van Kemenade in the volume II of this study (pp. 51-84).

The *impact on the East Asia region* will also greatly vary across the three scenarios. A comprehensive Sino-US partnership will be a stabilising force across the region. However, the ‘hedged engagement’, continued from the present situation, will continue to be a divisive element in the region’s make-up. Whereas some countries will benefit from their alliance with the US, such as Japan, others will remain excluded, such as China. The medium-to-long term implications could potentially be to divide the region into two sides: those following China, with independence from the US and those following Japan, closely aligned to the US. In general, the ‘hedged engagement’ implies that a seed of division is planted within the region.

A scenario of a deterioration of Sino-US relations would make it necessary for other countries in the region to express a clear ‘either-or’ choice in favour or against the US.

Regarding the *impact for the European Union*, a comprehensive partnership between China and the US would have uncertain consequences. There is the risk that the EU would become a second order partner of China, similar to its present status vis-à-vis Japan. In contrast, the ‘hedged engagement’ of the US appears to offer an opportunity of continued improvements of EU-China relations, given the need of China to have a ‘strategic partnership’ with, at least, the EU.

...a comprehensive partnership between China and the US would have uncertain consequences.

Interestingly, a deterioration of Sino-US relations would not significantly alter the impact on EU-China relations.

Multilateralism in East Asia

The ‘full’ institutionalization scenario would effectively constrain China’s power and its freedom to maneuver.

The ‘full’ institutionalisation scenario would effectively constrain China’s power and its freedom to manoeuvre. In contrast, shallow institutionalisation would leave ample scope for China to take on a regional leadership role. Interestingly, a scenario of faltering institutionalisation would increase the power and autonomy of the country even further. Moreover, in such a context, there would be a high probability that China would invest

more energy into its economic and political bilateral relations in order to engage individual East Asian member states directly.

For the East Asian region, full institutionalisation would likely to lead to a security cooperation, economic cooperation and increasing use of non-traditional security mechanism. Shallow institutionalisation would only offer continuation of the present confidence building measures, whereas faltering institutionalisation would mean a return to diversity and insecurity within the region.

On the vital issue of the impact on the EU, full institutionalisation could lead to even stronger competition for the EU. In that sense, shallow institutionalisation would offer greater opportunities for the EU to actively project its soft power.

...shallow institutionalisation would offer greater opportunities for the EU to actively project its soft power.

Finally, faltering institutionalisation would mean that the status quo remains, but that there will be increasing demand (and opportunities) for developing bilateralism across the domains in which the EU is active.

Political Scenarios for East Asia in Six Major Policy Areas (by the year 2010) and their Impact on China, East Asia and the European Union Respectively* <i>(The most likely scenario in each policy area has been shaded and italicised)</i>			
	China	East Asia	European Union
1. Chinese Economic Growth			
▪ Sustained High	Regime stability, social issues managed	Increasing dependency on Chinese economy, strong regional growth	Increasing trade deficit, tensions, dumping
▪ <i>Slight Decline</i>	<i>Regime Stability, exacerbated social tensions</i>	<i>Decreasing intra-regional trade and FDI, increasing social/economic tensions across region</i>	<i>Increasing trade deficit, tensions, dumping</i>
▪ Deterioration	Decline in regime legitimacy but strong state, increased likelihood of succession	Good for other economies, but not all (Japan).	Rebalance trade
2. DPRK and Six-Party Talks			
▪ Agreement	Victory for Chinese diplomacy, stable periphery	Economic opening, integration in EA order, 6Party Talks → NEA mechanism, N/S unification?	Reconstruction
▪ <i>Living with Nuclear DPRK</i>	<i>Insecure periphery, subsidies</i>	<i>Proliferation, “security dilemma” in NEA, increasing US military involvement</i>	<i>Outside the process</i>
▪ Regime Collapse/ Overthrow	Refugees, insecure periphery, failure of Chinese diplomacy	Failed state, unification of N/S, external aid	Reconstruction
3. China – Taiwan			
▪ Unification	win/win	Stability, peaceful rise of China	Preference for mutually agreed
▪ <i>Status Quo</i>	<i>win/win, increasing Taiwanese economic dependency on PRC</i>	<i>Narrowing diplomatic space for Taiwan, latent insecurity</i>	<i>Tolerable</i>
▪ Independence	lose/lose (in case of War scenario)	Lose/lose, disruption of commerce and shipping, disruption of alliances	Intolerable
4. Sino – Japanese Relations			
▪ Good Neighbours, towards Grand Bargain	Victory for Chinese diplomacy, economic condominium?	Japan as a normal neighbour	Relative decline in global influence
▪ <i>Current Tensions, Status Quo</i>	<i>Nationalism, regime legitimacy</i>	<i>Major source of instability, slow integration</i>	<i>Lack of predictability, retain flexibility</i>
▪ Deterioration	Increasing nationalism, uncertain implications for CCP	Reduced soft power and deterioration of China’s image	Forced to choose on priorities
5. Sino – US Relations			
▪ Partnership	win/win	Stabilizes region	Uncertainty

▪ <i>Hedged Engagement</i>	<i>Continued military modernization, regime legitimacy, opportunities for regional diplomacy</i>	<i>Increasing regional engagement with China, splits region into pro and anti US</i>	<i>Continued improvement of EU – China relations</i>
▪ Deterioration	Increasing military modernization, increasing regime legitimacy, increasing nationalism, decreasing diplomatic options	Other countries forced to choose	Continued improvement of EU – China relations
6. Multilateralism in Asia			
▪ Full Institutionalization	Constraint of Chinese power and actions	Security community, economic growth, increasing use of non-traditional security cooperation, etc.	Much stronger competition
▪ <i>Shallow Institutionalization</i>	<i>Diplomatic opportunities for regional leadership</i>	<i>CBM, some economic benefits</i>	<i>Opportunity for soft power</i>
▪ Faltering Institutionalization	Increasing Chinese power and autonomy, increasing bilateralism	Return to diversity and insecurity, increasing security differences	No appreciable impact, status quo, increasing bilateralism

Likelihood of the Scenarios: Outlook and Implications

The above most likely scenarios have been selected by the team of authors of the study, drawing on their expertise and knowledge about political and economic developments in East Asia. However, insights gained from the interviews conducted globally as well as the outcomes of the focus-group questionnaire were used as an independent check to see whether these corroborated or differed from their expert opinion.³¹

The focus-group respondents considered the following developments most likely:

- ***Continued medium to high growth in China*** with 57 out of 96 respondents rating this as highly or very highly probable, whereas a slow-down of Chinese (and Japanese) growth was considered unlikely by 52 out of 96 respondents. Nevertheless, nearly one out of three respondents held a neutral view (or did not know).
- ***While a further deepening of ASEAN integration*** was seen as highly likely by 37 out of 96 respondents, the same number of respondents was neutral or did not know. However, a faltering of ASEAN integration was seen as unlikely by a majority of the respondents (49 out of 96).
- ***Whether East Asian regional integration will have an inclusive or exclusive character*** is an issue of divided opinion amongst the respondents. While one out of three respondents was neutral (or did not know), a substantial share of respondents (41 out of 96) attached a low or very low probability to the emergence of an *inclusive* East Asian integration process. However, a slightly higher number of respondents (49 out of 96) expressed the opinion that an *exclusive* East Asian integration was unlikely. It would seem that neither of the two forms of integration, describing opposite poles of a continuum, are deemed highly likely, perhaps indicating that a mixed or *hybrid form* of East Asian integration is seen as most likely to emerge.
- ***On the vexed question of continued political stability within China***, a ‘neutral’ or ‘don’t know’ perspective appears to dominate (43 out of 96), with the low and high probabilities quite evenly distributed. While 28 out of 96 indicated a ‘low’ or ‘very low’ probability, a nearly similar number of 25 indicated a ‘high’ or ‘very high’ probability. Whether or not growing political instability in China was likely also attracted mainly ‘neutral’ or ‘don’t know’ answers (41 out of 96) with the high and low probabilities nearly evenly divided.
- ***Evolutionary or revolutionary change in the Democratic People’s Republic of Korea*** (DPRK or North Korea) proved another issue on which opinions were quite divided. While evolutionary change in DPRK was seen as unlikely by 45 out of 96 respondents, revolutionary change was not seen as very likely (40 out of 96) either. Nevertheless, the likelihood of revolutionary change was perceived as more likely than evolutionary change, with only 14 out of 96 respondents indicating evolutionary change as likely, compared with 27 indicating a high or very high likelihood of revolutionary change.

³¹ Question 21 requested the respondent to indicate the probability of a number of hypothetical developments concerning the growth outlook in China, the future of the ASEAN integration process, the nature of East Asian regionalism, the outlook for political stability in China, the speed and character of change in the DPRK, the tensions in China-Taiwan relations and the outlook for Sino-Japanese relations.

- ***Increased tensions in China-Taiwan cross-strait relations*** were perceived as ‘highly’ or ‘very highly’ probable (47 out of 96), while reduced cross-strait tensions were assigned a ‘low’ or ‘very low’ probability by 46 out of 96. Only 7 respondents assigned a ‘high’ probability to reduced tensions, whereas not a single respondent considered this ‘very highly’ probable. However, those indicating ‘neutral’ or ‘don’t know’ were quite numerous (43 out of 96).
- ***Improved Sino-Japanese relations*** were seen as highly probable by just 9 out of 96 respondents, with a significant number indicating that they consider this unlikely (44 out of 96).
- ***With regard to the outlook for the crucial Sino-US relationship***, most respondents held a ‘neutral’ perspective (42 out of 96) whereas just a few more respondents assigned a low or very low probability to a deterioration of US-China relations (28 out of 96) as compared to those expressing a high or very high probability to such a deterioration (23 out of 96). See also Bersick’s analysis of Sino-US relations for this study.³²

The ‘most likely’ scenario articulated by the epistemic community of EU-East Asia specialists that responded to the EIAS-NOMISMA questionnaire is one of continued growth in China with political stability, ASEAN integration deepening further and East Asian integration emerging as a mixed-form one. The regional outlook is a status quo of the present regime in DPRK, while tensions in China-Taiwan relations increase further and Sino-Japanese relations are unlikely to improve. Sino-US relations are bound to remain in their present sensitive state, because deterioration or an improvement is unlikely.

This ‘most likely’ scenario is remarkably convergent with the perceptions held by the team of authors of this study, with two noticeable differences of emphasis. The authors believe that the challenges to Chinese economic growth are quite formidable and therefore hold the view that a deceleration of the growth rate somewhat below the post 1980 historical trend is most likely (around 7 percent). Furthermore, the team also holds a somewhat more upbeat view on China-Taiwan cross-strait relations in view of the momentum towards a peaceful resolution created by the historical visit of the KMT Chairman, Lien Chan, to Beijing and the exceptional reception granted to him by the Secretary General of the CPC, President Hu Jintao. However, granting visits to opposition leaders can not be seen as a sufficient effort to secure peace in the volatile region – the duly elected President of Taiwan would have to be an integral part of the process.

³² Sebastian Bersick, Vol. II of this study (pp. 85-96).

Chapter III: Recommendations for the European Union

The *EIAS – Nomisma* Consortium presents the following recommendations to the European Commission based upon the findings and analysis of its Lead Team of Experts, commissioned expert papers, global interviews, focus-group questionnaire data, and consultation with the Commission during its Brainstorming Workshop.

The first section of this chapter consists of recommendations pertaining to security, followed by recommendations on political issues. Economic and social recommendations make up the second part of this chapter. In the final section, socio-cultural recommendations are put forward to the Commission.

Security & Political Recommendations:

Security Recommendations

Security is often thought of as a dichotomy. But measures within the hard and the soft dimension of security are not mutually exclusive. A foreign security policy needs to conceptualise international security as something more than the military dimension of state security and the military defence of state interests and territory.³³ Such a conventional realist's view on security merely concentrates on military threats to the security of states: The concept of National Security names the military as the source of a security threat and the state as the object of security. In contrast to this concept, the concept of Human Security names military and/or non-military security threats as a source of a security threat and societies, groups and individuals as the object of security.³⁴ The concept of Human Security is therefore better suited to serve as a security paradigm than the concept of National Security.

The means with which a foreign security policy should be accomplished need to be founded on both soft security and hard security tools since they complement each other. The EU has a comparative advantage in the dimension of soft security because of its experience in, inter alia, preventive diplomacy, economic and development cooperation and intra- as well as interregional cooperation of which especially the latter two are based on the principles of regionalisation and multilateralism. In that context, the European Security Strategy (ESS) reveals the nexus between hard and soft security on a strategic level: As outlined in the ESS, the concept of effective multilateralism does not preclude the use of force as a last resort.

Without the military capabilities to project 'hard' security, the EU should continue to focus on non-military security interests such as illegal migration, trafficking, organised crime, WMD proliferation etc. Soft security issues where the EU has a comparative advantage and a certain 'moral authority' over the US may serve as a counterweight to

³³See: Booth, Ken, 'Introduction to Part 1', in: Booth, Ken (ed.), *Critical Security Studies and World Politics*, (Boulder, Colorado: Lynne Rienner Publisher, 2005), p. 23.

³⁴See: Paris, Roland, 'Human Security. Paradigm Shift or Hot Air?' in: *International Security*, Vol. 26, No. 2 (Fall 2001), p. 98.

ambiguous feelings towards the US and enhance the EU's profile within the region. Europe has important security interests in East Asia. The geopolitical flashpoints in East Asia, from the Korean Peninsula to the strait of Taiwan to the South China Sea and its vital sea-lanes of communications, if not properly managed, could jeopardise Europe's economic interests in the region. This rationale alone justifies calls for at least a similar, if not higher, level of Europe's engagement in East Asia as in the Middle East. The recommendations on security issues are therefore located within a general conceptual framework that makes use of soft power, hard power and of Human Security:

- The stability of the Chinese political system, Sino-Japanese relations, Sino-US relations, events in the Taiwan Strait and on the Korean Peninsula are all factors that can impact the stability of East Asia, and indeed, the entire globe. The EU therefore needs to formulate *clear* positions and strategies to pre-empt and prevent an escalation of tensions within the region.

Formulate clear positions and strategies to pre-empt and prevent an escalation of tensions...

- Europe should use its soft power to protect its vast interest in East Asia thereby contributing to the stability of the region. One way of doing so could be a change in the institutional format of the ARF. The EU could send a permanent representative (instead of the troika). Furthermore the ASEM coordinators should meet at the ministerial level. This could strengthen the interregional dimension of the ASEM process, as more legitimacy will be delegated to the institution of the coordinators.
- Europe should focus more on its soft power vis-à-vis East Asia than on its hard power, which the US controls to a greater extent than Europe. Yet, the absence of hard power, especially an absence of European military presence in East Asia, may be an advantage rather than disadvantage, as it may give Europe's soft power more credibility. Because Europe has no conflict of security interests with East Asian countries, Europe possesses unique assets, such as its credibility, in terms of promoting peace and stability in the region.

Capitalise on the informal nature of the ASEM process.

Cooperation between European and East Asian military personnel should be institutionalised. Asians and Europeans could establish a common dialogue on the strategic cultures of participating actors. To achieve this objective, it would be useful to capitalise on the informal nature of the ASEM process. The process offers the institutional mechanism to meet on an interregional level. By doing so, the EU can make use of its soft power and function as an external facilitator for East Asian regionalisation processes in the security realm. If conditions are ripe the OSCE and NATO could be granted observer status in ASEM.

- Europe should enhance its dialogue with East Asia both bilaterally, with countries like China and Japan, and multilaterally through the ASEM process in the field of comprehensive security. This development should cover both hard and soft security

issues. The EU may consider supporting a future-oriented joint research project to be carried out by leading think tanks from Europe and East Asia on the desirability and feasibility of establishing an East Asian security cooperation mechanism.

- With the impending resumption of the “Six Party Talks” on the North-Korean nuclear issue, the European Union should explore ways to join the talks as a seventh party, so as to contribute to their greater effectiveness.

Explore ways to join the talks as a seventh party.

Individual EU Member States who have diplomatic channels with the Democratic People’s Republic of Korea should intensify their efforts to persuade Pyongyang to abandon its nuclear programme.

- Having solid relations with both China and Japan, Europe could play a more positive role in helping to reduce tensions between the two states by supporting a reconciliation process, the institutionalisation of confidence-building measures and of a common energy community. The European Union should consider adding an independent voice to historical disagreements and recommend the German experience as a model for solving outstanding issues.
- With regard to the dispute between Beijing and Taipei, the EU could play a more proactive role by offering suggestions and opinions, drawing on Europe’s soft power and by sponsoring conferences and seminars on the track-two level aimed at defusing tensions between the two sides. If conditions are ripe, Europe may conduct diplomacy to this end and serve as a facilitator or even a mediator. In this context, the EU could be part of a monitoring regime if a Framework Agreement, as has been proposed by Kenneth Lieberthal, were to come into existence. A *peaceful* resolution of the Taiwan question is in the interest of all involved parties as well as the EU.

A peaceful resolution of the Taiwan question is in the interest of all involved parties as well as the EU.

- As the heated debate surrounding the EU’s stated intent to lift its Arms Embargo on China demonstrated, the EU’s actions in relation to China could have grave repercussions on the Sino-US relationship. It is therefore necessary that the reactivated strategic dialogue between the USA and the EU on East Asia be deepened. Whilst the EU should work towards building its *own* identity as a global actor, it should not dismiss the importance of US consultation in a region traditionally considered to be the US’s backyard. Consultation through the strategic dialogue is an important first step; it is paramount that third nations are prevented from exploiting disagreements by playing allies off against one another.

- The US and the EU need to start a dialogue on models and modes of regional integration. It is in the interest of both actors (and individual EU

Promote the concept of open regionalism.

Member States) to develop a common approach to the challenge of supporting/developing an inclusive, i.e. open, regionalism in East Asia. From this follows the need for the European Union to promote the concept of open regionalism

as a normative and institutional basis of its interregional relations with East Asia. A transatlantic working group on the Comparative Studies of Regionalisation should be set up that informs the official EU-US Strategic Dialogue on East Asia.

- It is in the interest of the EU that a solution is found to the problem of how to guarantee China's energy supply and other questions concerning energy resources, if negative global impacts on environmental and security policies are to be avoided. The constructive cooperation between the European Commission and Chinese counterparts in the fields of trade, energy and environment will need to be further intensified. The safer China feels regarding its energy problems, the safer its neighbours and the rest of the world will be. This requires knowledge, which to date seems rather weakly developed in Europe, about the geo-economic and geo-political interdependencies of China's international energy policy, their impact on its individual foreign and security policies, as well as upon regional and global political stability.³⁵

Political Recommendations

In concert with its security interests, the EU also has strategic political interests in East Asia. The promotion of such concepts as 'rule of law', 'good governance' and

The EU can focus on creating win-win initiatives by sharing its knowledge and expertise in these spheres – in a constructive, not 'condescending' manner.

'democratisation' will play an important role in strengthening individual East Asian states and, by extension, encourage regional cooperation, integration and stability in East Asia. The EU can focus on creating win-win initiatives by sharing its knowledge and expertise in these spheres – in a constructive, not 'condescending' manner:

- The promotion of rule of law, good governance, human rights and democracy will remain a hallmark of Europe's approach to East Asia. In the interest of more effective results, the EU should present these concepts, not from a high moral ground, but from the angle of good governance and public administration, with focus on how, in concrete terms, the European way may better tackle the multiplying social, economic and political challenges that these societies encounter. Human rights concepts can be mainstreamed into the EU's aid projects. For instance, in HIV/AIDS projects, efforts should be made to cultivate the idea of protecting the privacy of individual patients. This approach may be more effective in promoting human rights in East Asia.
- There are potentially huge areas of cooperation between Europe and China/ASEAN in the field of domestic political reforms. In view of the fact that some of the

³⁵ Frank Umbach observes: In this light, the EU and its member states need to take the importance of geopolitical factors more into account for their own future energy security. Therefore, the organisation of security for oil and gas supplies can no longer be entrusted solely to the European industry. Whereas this separation of economics from politics has made sense for the internal EU market due to the existing common understanding of the overall importance of market forces, energy policies determined outside of Europe are still defined by including the strategic interests of national foreign and security policies (particularly in Russia, China, OPEC-countries, USA and others). (Volume II pp. 193-224).

governments in East Asia harbour suspicion of the West’s intention to undermine their political systems, Europe should have a long-term vision in its support for political reforms in these countries. It may consider focusing on political reform projects in those areas that these countries themselves have identified as priorities, such as establishing the rule of law and fighting corruption in China, good governance in Vietnam. This demand-driven approach may better assist these countries’ political reform and eventually create mutual trust for greater cooperation in the field of political reform.

- Various Member States of the EU have experienced transitions from dictatorships to democracies, transitions that have been accompanied by a modernisation of their economic, social and political structures. This experience should be perceived as an asset in the promotion of EU-East Asian political dialogue and exchange, and should be given special attention.
- Europe’s leading schools of public administration should be encouraged to develop joint programmes in public administration such as MPA with East Asia’s leading universities, and eventually establish a few European schools of public administration

Develop joint programmes in public administration.

in East Asia, along the format of the very successful Shanghai-based China-Europe International Business School (CEIBS).

- Furthermore, the EU could offer young Asian scholars or diplomats a ‘training period’ at the European institutions in Brussels and/or provide scholarships or grants to conduct research on the European integration process, going beyond the present initiatives of offering internships. One could even set up a ‘European Union Institute of Democracy’ in Southeast Asia or China where positions could be explained and debates could generate mutual understanding.

- It is advisable to encourage East Asia to draw on Europe’s rich experience in building regional institutional frameworks, as this region is now engaged in or will soon start various regional institution-building initiatives such as ASEAN + 1, ASEAN + 3, regional security arrangements, regional energy communities, and regional financial initiatives. Institution building is widely regarded in East Asia as a main source of Europe’s soft power.

Encourage East Asia to draw on Europe’s rich experience in building regional institutional frameworks.

- Europe should enhance party-to-party exchanges with various political parties in East Asia, especially those more authoritarian political parties like the Chinese Communist Party and the Vietnamese Communist Party by inviting their leaders, in particular those of the younger generation at all levels to visit or study in Europe or even take internships in European public services. This may help deepen their knowledge of how modern political parties function in a market economy and pluralistic society, and this will eventually facilitate the modernisation of these parties and societies. It’s also necessary to encourage more exchanges at all levels between Europe and East Asia: students, young political leaders, civil society groups and intellectual leaders, in order

to enhance mutual understanding and develop long-term networks in the long-term interest of both Europe and East Asia.

- It is recommended that Europe and some East Asian countries like China, Vietnam, Laos, and even North Korea and Burma, jointly explore, through concrete projects, ways and means to promote and protect all human rights, including encouraging best practices, giving due consideration to local social and cultural conditions. This joint approach will help these countries to “own” human rights initiatives and also facilitate Europe’s greater understanding of these complex societies.
- It is necessary to reflect on the format of ASEM or other high-level meetings between Europe and East Asia. This is also one effective way to push and even help shape, however modestly, the trajectory of East Asian integration. For instance, while

Three heads of state or foreign ministers from each side should be sufficient for a given meeting

continuing the existing format of dialogue, the EU could promote a new format with regard to the level of participation with emphasis on greater efficiency and reciprocity in such undertakings as ASEM (e.g. the

EU could propose that in the interest of greater efficiency and reciprocity, three heads of state or foreign ministers from each side should be sufficient for a given meeting, thus encouraging East Asian nations to conduct consultations among themselves to form their team). This is also in part to tackle the frequently-heard criticism concerning ASEM and other similar meetings, such as one side snubs the other side because of low turn-out and that summits are no more than photo opportunities for leaders.

- EU’s support for civil society in China and East Asia should be enhanced. In China there are growing initiatives from the civil society especially in the non-political domains. Private and semi-private enterprises often take the initiatives. For instance, some Chinese companies are sponsoring a Sino-European forum aimed at promoting Sino-European business and other dialogues and sponsoring such activities as organising Chinese mayors to visit European public and private institutions. The EU may consider supporting such projects, utilising its civil society grant instruments.
- The EU should consider more common actions and give substance to collaboration/coordination on international political issues, including UN reform. Here, the EU has the opportunity to consult with its Asian partners on building a stronger organisation committed to multilateralism. Maintain a polite and firmly principled stance, but above all coherency in EU policies. The EU has been perceived to be ‘back-tracking’ on a number of critical issues, which diminishes its credibility as a global actor.

- In EU-East Asia cooperation, emphasis should be given to Europe's soft power: institution building, good governance and the rule of law, experience in building social safety nets, ideas and expertise in building democratic and humane society. However, it is also likely that China's soft power will increase, and its model of development may generate

A future China-driven East Asia association may not be a community of democracies like the EU, but based on some sort of Chinese or East Asian soft power.

a lot of interest especially among the developing countries. A future China-driven East Asia association may not be a community of democracies like the EU, but based on some sort of Chinese or East Asian soft power. Europe should be open-minded enough to try to understand and assess this kind of new approach. This could be the subject of cultural and civilisational dialogues between Europe and East Asia.

Economic & Social Recommendations:

Cooperation with China

China's approach to economic policy must be understood in the context of its reform processes and the contradictory balance between economic liberalization and social pressures. Rapid growth rates do not conceal the structural imbalances and constraints that China faces today. Thus, the EU should always consider the multiple objectives of various economic interventions when regulation or liberalization programmes are implemented.

Europe does not always understand the complexity of the Chinese approach, which combines pragmatic, soft and dynamic elements with inflexible positions. The EU needs to have a longer-term view of its strategic interests toward China beyond the present contingencies. The agreement on textiles reached between the EU and China needs to be understood as a compromise that China was ready to make, although this implies a direct cost in terms of lost market share and revenue. China was willing to compromise because its strategic long-term perspective is one of growing capability and competitiveness, and a need for continued market access.

- The EU needs to adopt a broad and coherent approach to economic reform in China that sees economic issues as being closely linked to institutional and cultural issues. 'Competition rules' and 'intellectual property rights' are examples of concepts traditionally absent in Chinese legislation, and acceptance of such notions and rules will require a 'learning' process before they can be put into practice. The political willingness and commitment of Chinese institutions, public and private, to undertake said learning process is essential for addressing sensitive economic issues and demonstrating a readiness for broader dialogue. Europe must understand the constraints on the Chinese government, whilst maintaining steady pressure on China to reform. Several sectoral dialogues are going on and it is important that the EU seeks greater sustainability and coherence of these dialogues, inter alia, through providing high-level and high-quality inputs from public and private experts.

- The EU, in the process of tackling its own socio-economic problems, can be an ally and partner to China in helping to elaborate a *sustainable model* for a Chinese social security system; a system, that would try to balance social targets with financial constraints.

The EU...can be an ally and partner to China in helping to elaborate a sustainable model for a Chinese social security system.

- In China, the increasing regional gaps are an important constraint to growth and a threat to its social stability. The EU needs to be actively involved in assisting China to face these challenges, supporting the formulation and implementation of appropriate regional and local development policies. The EU has a long standing experience through its ‘*European Regional Policy*’, covering a wide range of typologies and cases, including rural development problem areas, economic regions in decline, urban regeneration and social distress areas. Most pertinently, the recently acceded Eastern European countries have infused new experiences to the EU: in dealing with economies in transition from “*Plan to Market*”; regarding the building of new regional institutions; and for the formulation and implementation of regional strategies, in ways which are coherent with their national development strategy. The search for a more socially acceptable balance between “*growth*” and “*cohesion*”, that the new EU Member States are engaged in, represents a highly relevant experience to be shared with China. Learning about the “*best practices*” in the field of regional policies and identifying the conditions for their successes and failures could bring enormous benefits to China, helping her to redress the heavy institutional and economic legacies of the centralised system and to reduce the trade-off between growth and regional inequality. The EU should fully exploit this opportunity, considering that regional policy offers “*European value-added*”, as distinct from the USA. The sectoral dialogue in this functional policy field may be expected to be very constructive for improving EU-China economic and political relations in a broader sense.
- The unclear legal status of local authorities in China is a serious issue, especially in a context of spreading corruption and where such bodies face financial problems. As far as local authorities are entrusted with the collections of financial contributions, the EU should assist the Chinese government to put in place monitoring systems to ensure that such funds are not misused.

- The slow path of privatisation of China’s large SOEs is related to the high cost, in terms of high unsustainable unemployment rates that dismantling and closure would entail, as well as the political legacies of SOE

The development of SMEs can serve as an alternative to SOE employment.

– CCP connections. An active industrial policy that would help to advance restructuring and privatisation of these large companies, needs to be accompanied by related policies that create better conditions for the re-allocation of human resources and facilitate alternative job-creation. In this sense, the development of SMEs can serve as an alternative to SOE employment, thereby softening the impact of SOE closures. The EU has rich and diverse experience, in both Western Member States and

more importantly in the Eastern European Member States, of implementing privatisation and private sector development programmes. The relative success or failure of these programmes can serve as textbook examples of ‘lessons to be learnt’ for China.

- The EU needs to clearly state that the exploitation of workers (reflecting a disregard for basic human rights and labour safety conditions) is unacceptable to European businesses and/or consumers. Such a stance may give rise to political confrontation with China; nonetheless, the EU must be resolute and steadfast when discussing said issues.
- The integration of migrant workers into social security schemes should be thoroughly implemented in every sector of the Chinese economy and monitored by the authorities, possibly with the support of EU expertise.
- Professionalism is needed in public and private agencies involved in the administration and delivery of social security. The EU could train administrators and social care professionals, both in and outside China. In addition, the development of a sound regulatory system and the setting of nation-wide standards in service provision are needed if private care providers are to play a role in the reform of the social security system. The EU could draw on its experience in order to assist China in these tasks.
- The fuelling of China’s economic miracle requires increasing degrees of energy consumption, which are having a detrimental impact on the environment. The negative impact of air, soil and water pollution is extremely high, but financial constraints mitigate against China sophisticated clean technologies. Active support from the EU in the field of sustainable energy and environment would be beneficial in aiding China’s economic development in a more environmentally sustainable manner. For example, Chinese scientists could be invited to collaborate on cutting-edge research in the field of alternative energy resource development. Europe could also move to share developments and breakthroughs in clean technology.
- The EU is today a quality producer of technology (including incorporated technology through trade) and scientific cooperation for China. Technological and scientific cooperation between the EU and China can evolve into a productive synergy, in contrast to the US, which has a more cautious approach to technology transfer to China. The EU should strive for close and mutually beneficial cooperation in many different technological and scientific fields, building *ad hoc* scientific cooperation agreements, including the improvement of academic (university) dialogues for implementing common research projects and exchanges of scientists and academics.

Active support from the EU in the field of sustainable energy and environment would be beneficial.

Cooperation with Southeast Asia

- For Southeast Asia, a strategic move towards negotiations on trade and investment

The EU should contemplate market access for Asian producers who feel that they are always in a relation of bargaining rather than constructive confidence.

would ‘prove’ European engagement and support for the region. The EU should contemplate market access for Asian producers who feel that they are always in a relation of bargaining rather than constructive confidence. The EU should

assist with its expertise on a free trade area so that Southeast Asia is ready for the complete implementation of AFTA in 2010.

- The EU should offer coordinated and consistent advice on regional economic integration policies, migration policies and social policies in order to tackle growing geographical inequalities.

The interconnectedness of the global economy means that Asian producers and markets are having an ever greater impact on the EU. The following recommendations should be considered as prophylactic measures to ensure the future viability of the European economy:

- If the EU is to maintain its economic status and high standards of living, it must be able to adapt and evolve to the dynamics of global competition. The EU should give higher priority to innovative research and investment to ensure that Europe remains on the cutting edge of science and technology. In economically developed countries in Asia, for example South Korea, governments and corporations are currently making a concerted effort to enhance their technological capabilities, out-spending the EU in the field of Research and Development R&D.
- The EU should take serious steps to find a compromise on curbing the penetration of Chinese goods exported through illegal channels and exports diverted through transit countries, breaking agreements on rules of origin.
- In order to reap future benefits, European companies should be encouraged to become more involved and pro-active in current reorganisation efforts arising from the implementation of the China – ASEAN FTA.

Socio-Cultural Recommendations:

The impact of socio-cultural issues on interregional relations in all spheres of interaction should not be underestimated. The concept of “culture”, with all of its implications for social, economic and foreign policies, should be expanded in the framework of sectoral

dialogues and special attention should be paid to sensitive issues that may jeopardise closer cooperation:

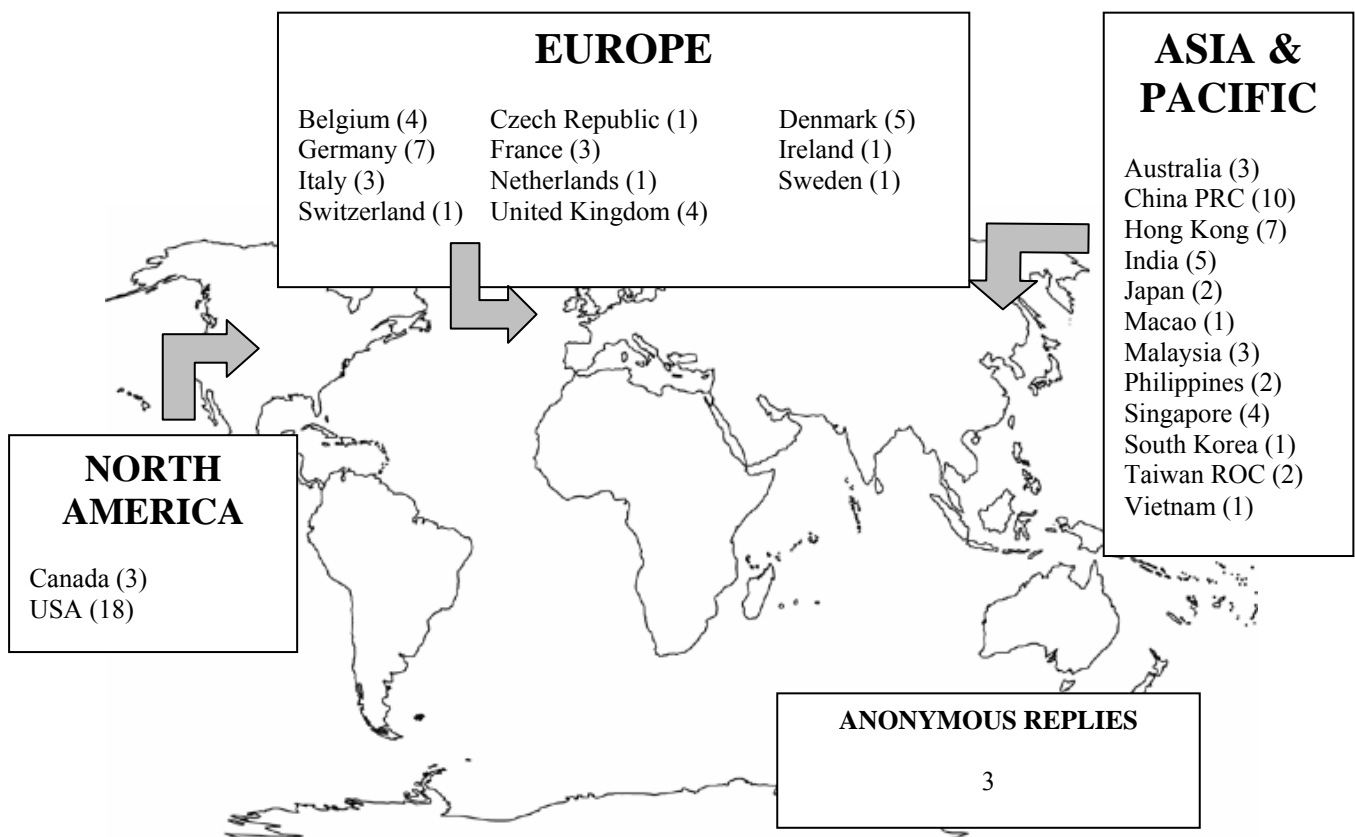
- The EU should strive to develop communicative and rhetorical strategies that demonstrate “parity of esteem” while staking out or discovering new areas of common ground that will encourage both sides to converge upon common rules for the creation of civic discourse.
- Develop communicative and rhetorical strategies that demonstrate “parity of esteem”.***
- The role of the Asian communities resident in the EU in furthering EU-East Asian relations should not be underestimated and efforts should be made to integrate these communities into the process of cross-cultural dialogue in order to build more solid links and networks of interpersonal relationships (*guanxi*) between both sides.
 - Educational programmes in both Europe and Asia should give priority to Cross-Cultural Studies and the training of Cross-Cultural Mediators in order to enhance mutual understanding and provide support for professionals in both regions who have to operate in cross-cultural situations that are unfamiliar. These programmes can be implemented from an early age, and should focus on integrating the Asian communities of Europe mentioned above.
 - Special attention should be given to the Culture Industry, both in terms of its economic dimension and in terms of its role in raising the profile of the EU in East Asia, and vice-versa. The European Union and its process of regional integration is a process unknown by the majority of Asian people. The EU should have a communication campaign on its evolution and potential.
 - For Southeast Asian countries, Europe is still perceived as merely an addition of individual countries. The EU’s ‘home-grown’ identity crisis has been projected onto our East Asian partners, especially through the French and Dutch constitution ‘no’ votes. A concerted public relations effort to promote EU values and undertakings may earn back some of the respect it seems to have lost recently.
 - Encourage social and cultural exchange through simple initiatives such as the launch of a ‘European cultural week’, ‘EU business week’, ‘EU summer school’, or even something as basic as flying the EU flag.
 - Europe should enhance the frequency and substance of visits by the EU HR, or future minister of Foreign Relations. The importance of symbolism should not be underestimated, and putting a ‘face’ to the concept of ‘the EU’ will project strength and coherency, and above all, give states a person to turn to when in need. The lack of visibility and clear policy direction leaves weaker states in question as to where to look for assistance and stronger states in a position to exploit EU indecision.

- Civil Society has not yet consolidated itself in all of East Asia, especially in countries like China and Vietnam, which means that very often the intelligentsia (*literati*, intellectuals, advisers, consultants, opinion-makers, strategists, policy-makers and academics) in those countries have become a kind of Civil Society by default, influencing the creation of paradigms and policy-making. Efforts should be made to promote cooperation and collaboration between the “default Civil Society” of East Asia and the intelligentsia in Europe through the establishment of a permanent Forum. This Forum could promote and coordinate collaborative research on some of the key areas and terminology of inter-regional dialogue, such as democracy, governance, human rights, terrorism, sovereignty, transparency, etc., and could serve to construct the common civic discourse necessary for the convergence of common values. The intelligentsia of East Asia and the EU should be identified and involved in regularly held expert meetings.
- Coordinate collaborative research on some of the key areas and terminology of inter-regional dialogue, such as democracy, governance, human rights, terrorism, sovereignty, transparency, etc.***
- While civil society organisations may require concessions in terms of civil liberties, they are likely to be the most effective brokers for the new social security system. In an increasingly unstable and differentiated society, the EU should assist the Communist Party to address its need to negotiate with different social groups, including not only the elites, but also those who so far have been the ‘losers’ of market transition. The EU should provide China with legal and political expertise in order to design a new ‘social contract’ that strikes a balance between meritocracy, equal opportunity in access to basic services and education, and guarantees for those who have not and cannot profit from the transition to a market economy.
 - Social consensus, representation and legitimacy will not be reached without engaging all social parties, including Trade Unions, ACWF, private sector employers as well as NGOs. The EU should assist China in engaging with and improving its relationship with such parties. A more open dialogue with grassroots and informal civil society groups may be the most effective way of pursuing forms of democracy that are viable, relevant and sustainable in a Chinese cultural context.
 - A Social Pillar needs to be added to the ASEM process, in accordance with the *Recommendations from Civil Society On Asia-Europe Relations Addressed to the ASEM Leaders*, published in the Barcelona Report as a result of the meeting entitled *Connecting Civil Society* organised under the auspices of the Asia-Europe Foundation in Barcelona (16-18 June 2004).

Annex I: Focus-Group Questionnaire

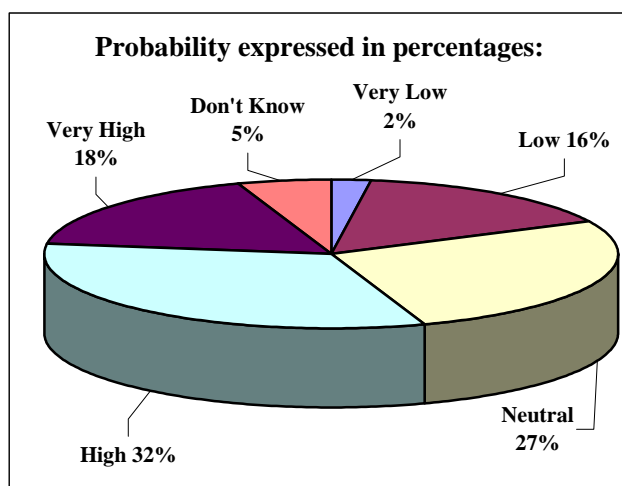
An integral part of this Study has been the dissemination of a focus-group questionnaire, designed to elucidate the expert-opinion of leading scholars, officials and policy makers on a global scale. Of the 96 questionnaire replies compiled, 58 were completed by senior academics/researchers, 18 by senior officials/diplomats and 20 by representatives of the press/media, civil society organisations, business leaders etc. The questionnaire has provided valuable input to the Study as it ensures coverage of a wide diversity of viewpoints on a range of issues. This affords the reader an opportunity to gain a critical outlook on the strategic issues at stake for the European Union and its Member States.

Below is a map detailing the geographical diversity of the respondents invited to complete the questionnaire. Following this, is a synthesis of data from the 21 questions with comments highlighting noteworthy results. In depth analyses of specific questions have been integrated elsewhere in the report.



Q1: Probability that EU-East Asia relations will be a decisive factor in global relations in the next 20 years:

Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
2	15	26	31	17	5	96	17 – 48



Comments: Half of all the respondents assess the probability that EU-East Asia relations will be a decisive factor in global relations in the next 20 years as high or very high. 27% declare themselves as being neutral, while only 18% hold the view that the probability is very low or low. This is quite an amazing outcome considering the use of the strong term 'decisive'. The majority of the respondents assess EU-East Asian relations as a defining element of international politics within the coming 20 years.

Q2: Importance attached to the following policy statements regarding relations between East Asia, the European Union and other major global powers:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
An Enhanced Framework for EU-Asia	6	10	23	35	9	13	96	16 – 44
A Secure Europe in a Better World	1	15	25	34	6	15	96	16 – 40
A New Partnership with South East Asia	2	12	29	30	10	13	96	14 – 40
A Maturing Partnership EU-China	1	11	17	44	13	10	96	12 – 57
China's EU Policy Paper	4	12	23	35	7	15	96	16 – 42
The National Security Strategy of the US	1	2	18	39	28	8	96	3 – 67
ASEAN's Bali Concord II	5	16	35	11	8	21	96	21 – 19

Comments: For this question it becomes clear that not all respondents are familiar with the aforementioned policy statements (as witnessed by the large number of replies in the 'don't know' category). Interestingly, only 7 people did not know the National Security Strategy of the US was, whilst 20 people did not know what ASEAN's Bali Concord II was and 14 people did not know what 'A Secure Europe in a Better World' and 'China's EU Policy Paper' was.

Q3: Importance of the following domestic reforms as a pre-condition for the emergence of East Asia as a global actor in the long term:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Economic	0	2	8	47	39	0	96	2 – 86

Annex I: Focus Group Questionnaire

Social	1	6	21	45	23	0	96	7 – 68
Justice & legal	1	7	16	42	29	1	96	8 – 71
Human rights	4	14	25	36	17	0	96	18 – 53

Comments: Although all four types of reforms are rated as ‘high’, it would seem that human rights reform appears less significant than the others, whilst economic reform is predominant.

Q4: Importance of the following factors in China as a pre-condition for the emergence of East Asia as a global actor in the long term:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Political Reform	0	10	21	33	31	1	96	10 – 64
Economic Reform	1	2	12	46	35	0	96	3 – 81
Social Reform	0	6	20	46	24	0	96	6 – 70
Justice & Legal Re.	0	6	16	42	32	0	96	6 – 74
Human rights	3	19	22	34	17	1	96	22 – 51

Comments: As with the previous question, human rights reform seems less important than the others. Political reform is also less prioritised. The rationale would appear to be that human rights violation and political mismanagement thus far has not limited China’s rise, so reform in these fields will not be a pivotal factor in the future. The key would appear to be stability in the Chinese system as a whole.

Q5: Importance attached to the following policy fields regarding enhancing regional co-operation within East Asia:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Good governance	0	6	15	42	33	0	96	6 – 75
Promotion of democratization	3	14	36	25	18	0	96	17 – 43
Political & civil rights	1	12	28	37	18	0	96	13 – 55
Econ. social & cultural right	1	8	30	38	19	0	96	9 – 57
Environment	1	11	17	45	22	0	96	12 – 67
Public health	1	11	28	34	21	1	96	12 – 55
SARS, avian flu, etc.	3	7	21	37	27	1	96	10 – 64
Rule of law	0	7	21	41	27	0	96	7 – 68
Human trafficking	4	11	34	39	8	0	96	15 – 47
Combating terrorism	6	16	31	28	15	0	96	22 – 43
Conflict prevention	1	11	21	41	22	0	96	12 – 63
Trans-national crime	2	12	37	37	6	2	96	14 – 43
Trade & investments	0	1	13	52	29	1	96	1 – 81
Financial markets	0	2	21	48	24	1	96	2 – 72
Gender	14	25	41	12	3	1	96	39 – 15
Academic / Education	1	7	30	45	12	1	96	8 – 57
People-to-people exchange	3	10	32	44	6	1	96	13 – 50

Comments: Trade & Investments and Financial Markets would appear to be the most important policy fields for future regional cooperation closely followed by Good Governance and Rule of Law. In addition, tackling

such issues as the environment, the spread of epidemics and conflict prevention will also be a key factors in enhancing regional cooperation.

Q6: Importance attached to the following policy fields regarding EU-China co-operation:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Good governance	1	4	19	42	28	2	96	5 – 70
Promotion of democratization	3	13	27	32	19	2	96	16 – 51
Political & civil rights	3	8	23	40	20	2	96	11 – 60
Econ social & cultural right	2	7	26	41	18	2	96	9 – 59
Environment	1	6	17	40	30	2	96	7 – 70
Public health	2	15	24	34	19	2	96	17 – 53
Rule of law	1	6	21	37	29	2	96	7 – 66
Illegal migration & human trafficking	3	11	34	39	7	2	96	14 – 46
Combating terrorism	9	16	33	27	9	2	96	25 – 36
Conflict prevention	3	7	31	35	18	2	96	10 – 53
Trans-national crime	4	14	33	34	9	2	96	18 – 43
Trade & investments	1	2	15	44	32	2	96	3 – 76
Financial markets	1	3	19	48	22	3	96	4 – 70
Gender	16	21	39	15	3	2	96	37 – 18
Academic / Education	2	7	29	42	14	2	96	9 – 56
People-to-people exchange	5	8	33	40	8	2	96	13 – 48

Comments: Again, Trade & Investments and Financial Markets are key areas for EU-China cooperation followed by Good Governance, Rule of Law and the Environment. This may be because many of the participants see the EU primarily as an economic entity, secondarily as a soft power in functional areas, and lastly as a weak actor in areas of security cooperation.

Q7: Do you believe strengthened cooperation in functional areas will lead to a deepening of integration in East Asia?

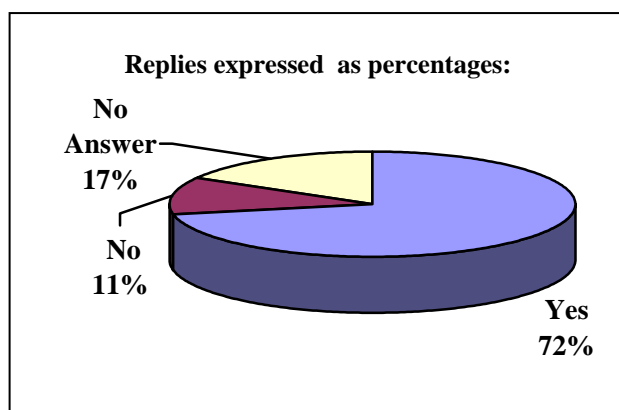
Yes: 69	No: 11	No Answer: 16
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Majority Statements (YES):

- Pragmatism prevails in the context of regional relations. Cooperation in functional areas will increase the comfort level, setting the stage for more ambitious political integration.
- Only if long-term and basic interests of participatory states are addressed.
- Strengthened cooperation will be a positive sum game. Cooperation should concentrate on building global competitiveness of each individual partner.
- European experiences of European integration will have to be adapted to East Asian specificities and the degree of consensus that is achievable. East Asian integration has its own dynamic and hopefully self-sustaining driving force.

Minority Statements (NO):

- There are too many mutual concerns and rivalries between states in East Asia to lead to any substantive integration in the region. States within Asia will continue to look to external powers – I have in mind here the US – to make sure that China acts as a responsible actor in the region.
- It provides the conditions, but will not in itself lead to deepening integration, which mostly depends on domestic preferences and institutions of the countries involved.
- I don't believe in Mitrany's 'form follows function' theorem, especially in the East Asian context with its deep-rooted historical/political animosities.



Comments: 72% of the respondents hold the view that strengthened cooperation in functional areas will lead to a deepening of integration in East Asia. However, it should be noted that this deepening integration will not necessarily follow regional integration patterns similar to the EU.

Q8: Importance attached to the shaping factors of the dynamic relationships between East Asia and major global powers:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
European Union and East Asia								
Political	3	8	17	46	21	1	96	11 – 67
Security	4	13	22	37	19	1	96	17 – 56
Terrorism	8	13	32	34	8	1	96	21 – 42
Finance and trade	1	2	9	45	38	1	96	3 – 83
Investments and markets	1	2	13	44	35	1	96	3 – 79
Human resources	2	7	31	42	12	2	96	9 – 54
Natural resources	3	9	30	35	17	2	96	12 – 52
Culture and values	5	15	46	17	11	2	96	20 – 28
United States and East Asia								
Political	0	3	11	43	37	2	96	3 – 80
Security	1	2	5	32	54	2	96	3 – 86
Terrorism	2	6	12	40	33	3	96	8 – 73
Finance and trade	0	1	8	43	42	2	96	1 – 85
Investments and markets	0	4	9	40	41	2	96	4 – 81
Human resources	3	7	34	36	14	2	96	10 – 50
Natural resources	2	14	29	31	18	2	96	16 – 49
Culture and values	4	19	33	28	10	2	96	23 – 38

Annex I: Focus Group Questionnaire

Russia and East Asia								
Political	8	16	30	24	14	4	96	24 – 38
Security	4	11	25	32	20	4	96	15 – 52
Terrorism	5	22	24	29	12	4	96	27 – 41
Finance and trade	9	13	31	32	7	4	96	22 – 39
Investments and markets	5	18	33	28	8	4	96	23 – 36
Human resources	12	26	39	12	4	3	96	38 – 16
Natural resources	4	11	19	33	26	3	96	15 – 59
Culture and values	18	28	33	9	5	3	96	46 – 14
India and East Asia								
Political	3	10	28	34	19	2	96	13 – 53
Security	0	8	20	38	28	2	96	8 – 66
Terrorism	4	17	34	29	10	2	96	21 – 39
Finance and trade	0	11	24	43	15	3	96	11 – 58
Investments and markets	0	12	33	35	13	3	96	12 – 48
Human resources	6	21	42	14	10	3	96	27 – 24
Natural resources	7	15	39	20	12	3	96	22 – 32
Culture and values	10	26	33	20	4	3	96	36 – 24

Q9: Relevance attached to political dialogue at the following levels:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
ASEM process	3	13	34	24	9	13	96	16 – 33
EU-ASEAN dialogue	4	11	28	42	6	5	96	15 – 48
ASEAN Regional Forum (ARF)	2	7	28	35	20	4	96	9 – 55
EU-China/EU-Japan Summits	2	11	20	39	20	4	96	13 – 59
Bilateral dialogue	3	6	18	40	27	2	96	9 – 67
Track-Two dialogue	1	12	26	36	9	12	96	13 – 45
Civil Society	7	18	31	25	13	2	96	25 – 38

Comments: Quite a high proportion of the respondents were not familiar with the ASEM process and those who were responded with ambivalence to its importance. Bilateral dialogues remain prominent in the eyes of many. There is no clear-cut majority opinion on the relevance of civil society.

Q10: Success of political co-operation between the EU and East Asia in the following policy fields:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Good governance	4	31	34	14	3	10	96	35 – 17
Promotion of democratization	15	29	31	9	2	10	96	44 – 11
Political & Civil Rights	10	25	34	17	2	8	96	35 – 19

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Economic Social and Cultural Rights	9	18	41	16	3	9	96	27 – 19
Environment	4	21	37	24	1	9	96	25 – 25
Public Health	2	23	33	22	3	13	96	25 – 25
Rule of Law	4	20	38	21	2	11	96	24 – 23
Illegal migration & human trafficking	4	27	36	17	3	9	96	31 – 20
Combating terrorism	10	25	30	19	2	10	96	35 – 21
Conflict prevention	9	23	36	16	2	10	96	32 – 18
Trans-national crime	7	20	39	15	1	14	96	27 – 16
Trade & investments	1	6	17	52	14	6	96	7 – 66
Financial markets	1	7	30	42	9	7	96	8 – 51
Gender	20	29	31	8	0	8	96	49 – 8
Academic/Education	1	11	35	37	5	7	96	12 – 42
People-to-people exchange	6	12	36	29	5	8	96	18 – 34

Comments: This is the first time that results in the table shift markedly to the left, indicating a cautious approach to the EU's endeavours in East Asia. American respondents seem to be the most negative. Undeniably, success in the economic sphere is highly rated amongst the majority. Also noteworthy is the relative success of cooperation in the fields of education and people-to-people-exchange.

Q11: Importance of the following political shaping factors for the emergence of East Asia as a global actor by 2020-25:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Further deepening of ASEAN integration	2	7	22	44	19	2	96	9 – 63
ASEAN+3 process	1	10	16	38	27	4	96	11 – 65
APEC process	5	18	40	27	3	3	96	23 – 30
ASEM process	5	15	40	19	3	14	96	20 – 22
Stability of the Chinese political system	0	3	9	35	47	2	96	3 – 82
China-Japan relations	1	5	9	28	51	2	96	6 – 79
China-US relations	0	2	7	28	57	2	96	2 – 85
South China Sea issue	2	8	25	42	17	2	96	10 – 59
Cross-Strait relations	0	4	15	29	45	3	96	4 – 74
Stability on Korean peninsula	0	2	18	26	48	2	96	2 – 74

Comments: Bilateral relations between countries, respectively China-US and China-Japan relations, are seen as the most important political shaping factors for the emergence of East Asia as a global actor by 2020-2025. By contrast, multilateral institutions like the ASEM or APEC processes are thought of as being less important. Yet, a majority of the respondents attach high importance to the ASEAN+3 process.

Q12: Do you believe that the EU has a strategic political interest in East Asia?

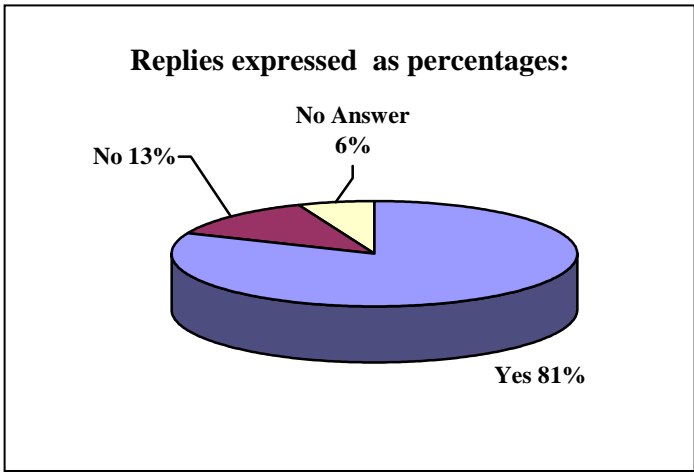
Yes: 78	No: 12	No Answer: 6
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Majority Statements (YES):

- It is axiomatic in the emergent capabilities and roles of the EU as a political and strategic actor.
- Insofar as East Asia is capable of emerging as a global pole, then it could shift the global balance-of- power. Of course Europe has a strategic interest in such developments. If Europe has any kind of political ambition for itself, then it ought to have a strategic political interest in East Asia.
- Arms race, war or social disintegration can upset international order and generate serious consequences for the EU. Stable political regimes are in the interest of securing the EU’s economic interests.
- Too achieve a multi-polar world, effective multilateralism, and as a counterweight to US political interests.
- EU has a great stake in multilateralism and a multipolar international order. In this light, EU has a strategic political interest in improving and strengthening its relations with governments in East Asia.

Minority Statements (NO):

- The EU should only be concerned with economic interests in East Asia and not be shaping Asian political matters – just as East Asia has no business shaping EU political issues.
- The EU is not really an integrated unity in international relations. Every EU member has its own interests and acts upon them only.
- I don’t think that Europe has any political will to be a problem solver. The EU has words, but if an issue requires action they are incapable of responding.
- The driving force of the EU and its member states remains trade and commerce. The degree of political interest is contingent on the level of economic stakes. Unlike the United States, the EU does not view China as a potential threat or rival except in economic terms. The inherent constraints and disparate views amongst member states of the EU makes it extremely difficult for the EU to be viewed as a credible actor despite a common political interest in curtailing American unilateralism and hegemony in world affairs. Inherent constraints of CFSP in a more diverse and heterogeneous.



Comments: 81% of respondents hold the view that the EU has a strategic political interest in East Asia. This is a remarkable majority and would seem to indicate that the EU’s strategic interests, primarily regarded as being economic in the past, are moving into other areas.

Q13: Indications of what the EU should do to enhance political cooperation with East Asia (Taken directly from text – NOT the project’s final recommendations):

- The most important issues in East Asia are “rule of law” and “democratization”. The EU must be coherent in its policies; focus on dialogue and creating win-win initiatives. It should first of all define clearly its framework of political cooperation through a thorough interaction between the Europeans. Perhaps a non-governmental roundtable would be a first step.
- Strengthened cooperation will be a positive sum game. Cooperation should concentrate on building global competitiveness of the individual partner in the cooperation.

- The European model that combines growth with social equity represents an ideal towards which Japan, South Korea and Taiwan seem to lean. An evolution of China in that direction, if this means reduction of inequalities, would be good for global stability.
- The only geostrategic issue worth worrying over these days is China and India's increasing appetite for oil. Given that Europe is one of the few areas where oil consumption is growing slowly, Europe doesn't have to worry as much as the US about China and India's oil demand. Russia is worried that China might expand its sphere of influence to Central Asia to get oil, but Europe again has Russia as a buffer. So Europe can basically enhance economic ties with China with very little to worry about.
- The EU has strategic interest in promoting steady transition toward democracy in PRC especially, preserving Taiwan's democracy and fostering better protection for human rights and economic, social and civic rights.
- IF Europe wants to play a bigger role in world politics, then it's economic, normative and security interests in Asia are high. That said, I would rate the current level of EU-Asian interaction as relatively low. There is a lot of room for progress. My impression is that the Europeans (unlike the Americans) are too caught up in their European projects, which (admittedly) are huge (for example, integrating Russia and Turkey into Europe, EU expansion).
- It is important to promote the European social and economic framework and values also in Asia to avoid dumping and downward competition, fight against poverty through promotion of employment programs.
 - More track II and bilateral dialogues.
 - EU should create a military force sufficient for it to have an independent foreign policy.
 - Less lecturing, more concrete action to foster open markets. A large middle class is the best hope for good governance and democracy.
 - In fact, Europe's main problem is employment, so it should make every political compromise with Asia, esp. China, in order to get more employment. I think Airbus, VW and Siemens have done a good job in this regard.
 - Encourage students from EA to study at EU institutions and joint academic and other projects to develop networks of professionals to lay foundation for long-term cooperation.
 - First of all, avoid getting embroiled in China – Japan/US tension/frictions. Second, acquire ability for power projection (mainly economic) to influence behavior of East Asian governments – without impact no beneficial cooperation.
 - Strengthen social security, civil society and rule of law in China through grant aid and development, education exchange, and strong, resilient pressure and public criticism.
 - Cooperate with the US and Japan to promote political and social changes; to build the foundation for an East Asian community; to invest in the peace and stability in East Asia.
 - Engage in more active political dialogues on human rights, etc. with China; reject zero-sum rejection of contacts with Taiwan, including government and focus on maintaining peace as a key value in region.
 - More should be done to enhance interaction. In some sense ASEF plays this role, but there are many networks that require to be tapped, especially in individual Asian countries. Intellectual leaders and initiatives are required, and funding made available in larger amounts, disbursed over a larger range of institutions.
 - Increase security ties to the Asian region. The Asians need to feel that the Europeans are ready to stand up and be counted by taking a larger role on the Korean peninsula issue. It is commendable that the Europeans are willing to speak frankly on the abuses in Myanmar. We need such a proactive role on China. The Europeans should assist the US in Working for a stable Asia in the 21st Century. There is great scope for US-EU cooperation on that issue. The EU and the US need to work on a position on how to deal with the admittedly difficult issue of how to integrate China into the international system. The China issue could potentially be a big obstacle to better EU-US relations.
 - It would benefit from better research capability to understand the trends in East Asia. The EU countries are weak in terms of their analytical capabilities. This affects policy-making. It should broaden the framework for collaboration beyond the formalistic meetings that deliver little of substance.
 - Promote fair trade and trade rules based on sustainable development, employment, promotion of fundamental rights at work is of key interest for the European economy and people.
 - Much more private and government funding is needed for establishing research facilities (both within existing organizations and new ones) that provide competing services/advice for the preparation/implementation of EU policies/relations with East Asia.

- Recommend some attention be paid to ‘backdoor’ issues, peripheral questions that could have sudden internal effects on legitimacy in China, such as Central Asian and Inner Asian frontiers, ethnic minority unrest, and growing internal wealth gap.
- EU can enhance its involvement with East Asia through various inter-regional and international forums and arrangements, focusing on specific cooperation projects with regional countries.
- Integrate trade union issues into the process and economic and social policies as well.

Q14: Relevance of strengthened co-operation in the future between the EU and East Asia in the following policy fields:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Diplomacy	0	5	23	39	25	4	96	5 – 64
Illegal migration and human trafficking	1	9	31	45	7	3	96	10 – 52
Combating terrorism	4	12	32	32	11	5	96	16 – 43
Military cooperation	11	19	34	20	8	4	96	30 – 28
Conflict prevention	0	11	19	39	23	4	96	11 – 62
Trans-national crime	1	11	29	41	10	4	96	12 – 51
Sharing intelligence information	3	14	35	25	13	6	96	17 – 38

Comments: The relevance of future cooperation in fields pertaining to hard security, such as military cooperation, and sharing intelligence information are rated lower than the others. This could mean that respondents feel the EU should steer away from these issues, or, simply that they can't envision such cooperation taking place with the current mechanisms available.

Q15: What is the greatest security threat to regional stability in East Asia (A synthesis of replies -NOT in rank order)?

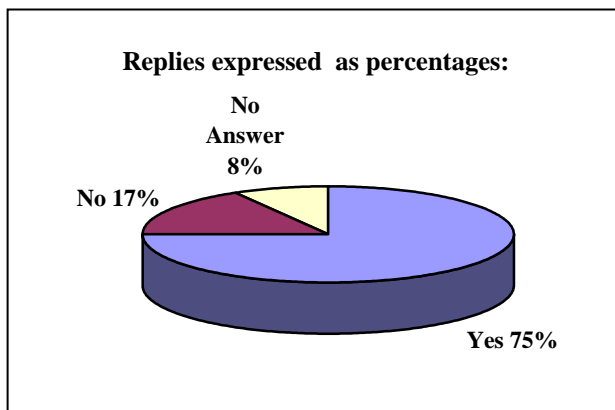
- Domestic political and social unrest in China caused by growing social inequalities. The collapse of the Chinese economy and fall of the communist part would lead to massive instability.
- An escalation of tensions in the DPRK.
- A deterioration of Sino-Japanese relations. It is difficult for both governments to control and is hard for the US to intervene.
- The United States. Changing power relations and military consequences of economic growth are important. The US role in this regard is critical, as it is unlikely to relinquish its pre-eminent position at present.
- Accelerated military development in the absence of credible institutional arrangements to inhibit potential conflict.
- Terrorism
- Environment and natural disasters.
- Diverging international interests of different intensity.
- Hard-line regimes with growing power and little multilateral constraint.
- China's and India's ferocious appetite for oil.
- In the short term, loss of control in the Korean situation; in the medium term, conflict over Taiwan.
- US-N. Korea confrontation over proliferation; China/Japan projecting each other as expansionist, and taking military and other measures in anticipation (including territorial/EEZ issues); potential isolation of China.
- An escalation of Cross-Straits relations.
- Japan's militarist revival.
- Lack of distribution of wealth, inadequate democratic institutions, lack of good governance.
- Outbreak of war/armed conflicts in the South China Sea disputes.

Q16: Does the EU have a strategic security interest in East Asia?

Yes: 72	No: 16	No Answer: 8
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Majority Statements (YES):
<ul style="list-style-type: none"> ▪ Without displaying an effective security role versus E.A. the EU will be ignored by countries representing the vast majority of the global population. The EU should consider taking security policies with a positive effect for itself and E.A. ▪ Instability in E. Asia would deprive us of a partner to solve global problems as well as a profitable economic relationship. ▪ Again, there is the global balance of power issue. Just as important, are the developing linkages in an interdependent world. It will be difficult to isolate security threats in one linkage, especially one as heterogeneous as East Asia. ▪ A European interest in encouraging regional centers of strength that might distract the United States. ▪ Human security: global warming and spread of communicable diseases e.g. SARS and bird flu. Instability in East Asia will severely affect the economy of the EU. ▪ Non-military security interests (i.e. illegal migration, organized crime etc.), international terrorism.

Minority Statements (NO):
<ul style="list-style-type: none"> ▪ No - because the EU is divided. ▪ EU has not strategic security interest in East Asia because it neither has troops stationed there nor is its security directly threatened by unwholesome developments in the region in the event of Chinese adventurism, should it occur. At any rate, given the high stakes in the economic relationship, the EU response can at best be muted. ▪ EU has its own security problems, e/g/ Balkans, separatist armed movements etc. They should get their own house in order first. ▪ The EU is self-absorbed and comfortable. No one is going to attack it. It can always obtain desired goods from somewhere, so instability in East Asia has little impact on the EU. <p>(Many of the Americans did not think that the EU should be involved in any shape or form in Asian security matters)</p>



Comments: 75% of the respondents hold the view that that the EU has a strategic security interest in East Asia. Whilst this figure is not as high as for the EU’s strategic economic and political interests, it is still noteworthy considering the fact that, in the past, Europe has not projected a profile as being a major global security actor. Compounded to this is the fact that Europe has not traditionally been seen to have major, if any, security interests in the Asia Pacific region. There are two obvious explanations; firstly, security problems can no longer be isolated to a specific geographic location or region, and secondly, the concept of

security is evolving to encompass not only ‘hard’ or military security, but also ‘soft’ security issues. It is primarily on these ‘soft’ security matters that the EU can be said to have a strategic interest.

Q17: Should the EU focus its security cooperation on hard security or soft security?

Hard: 9	Soft: 63	Both: 4	Don’t Know: 20
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Majority Statements (SOFT):

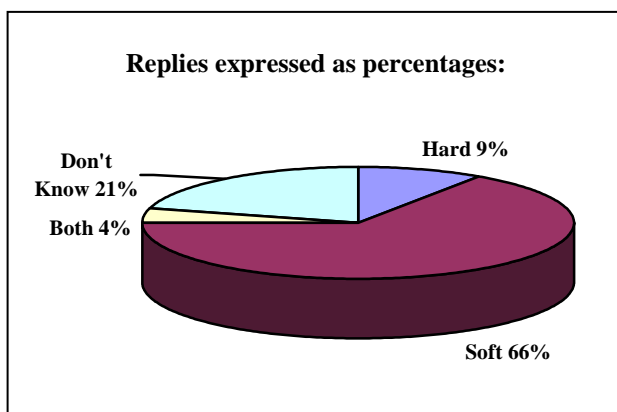
- Soft. It is essentially a question of the hearts and minds of the people – tough measures breed tough responses, you deepen social tensions rather than easing them through tough security.
- Soft. Knowledge and similar other parameters are going to be important in the future in these regions because of their high economic attainments but political diversities.
- Soft. The EU is a brilliant counterweight to Chinese people’s ambiguous feelings towards the United States. As such, it has a lot of ‘capital’ to spend in China.
- Soft. The US can best take care of hard security. This does not mean that there is no role for the EU, but the EU should focus on soft security issues where it can have more moral authority and is more likely to impact.
- Soft. Because a) it does not have the muscle for the hard security and b) Europe's credibility and effectiveness is higher in negotiating settlements.
- Soft. Because realistically the EU has little capability for hard power projection in East Asia, given the dominance of the US.
- Soft. Because the EU does not have the means to focus on hard security. Only the US and Japan can. A division of labor and a coordination should therefore be worked out with the US and Japan.

Mixture (BOTH):

- Both, but in an integrated manner; the more tools there are on the palette, the better.
- Both. EU has no hard security forces outside the US umbrella.

Minority Statement (HARD):

- It should ignore the security issue entirely.
- Hard. The EU needs to have the ability to project military power if it wishes to help deter war in East Asia.



Comments: 66% of respondents hold the view that the EU should focus its security cooperation on soft security where it has a perceived comparative advantage. The relatively high percentage of respondents answering ‘Don’t Know’ reflects, in part, uncertainty as to the terminology ‘hard’ and ‘soft’.

Q18: Importance attached to the following economic shaping factors for the emergence of East Asia as a global actor in the long term:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Continued economic growth in China	0	0	8	30	56	2	96	0 – 86
Resurgence of Japanese economic growth	0	3	26	35	30	2	96	3 – 65

Annex I: Focus Group Questionnaire

North-East Asian economic integration	2	11	31	35	12	5	96	13 – 47
Continued high FDI to East Asia	0	4	21	51	17	3	96	4 – 68
ASEAN+3	2	8	36	31	14	5	96	10 – 45
Continued dollar recycling from East Asia	1	9	30	28	13	15	96	10 – 41
China-ASEAN Agreement implementation	1	12	31	30	14	8	96	13 – 44
Scientific & technology co. (Gallileo)	1	18	32	28	9	8	96	19 – 37
Continued EU enlargement (esp. Turkey)	17	28	36	8	3	4	96	45 – 11
Monetary cooperation within East Asia	2	12	28	38	13	3	96	14 – 51
Conclusion of the Doha Dev. Agenda	3	19	19	31	13	11	96	22 – 44

Comments: Continued economic growth in China (coupled with a resurgence of Japanese economic growth) is paramount to stability and the emergence of East Asia as a global actor, as is continued high FDI to East Asia. Respondents were less familiar with the concept of dollar recycling or the content of the Doha Development Agenda. Continued EU enlargement (esp. Turkey) does not seem to matter much either way.

Q19: Does the EU have a strategic economic interest in East Asia?

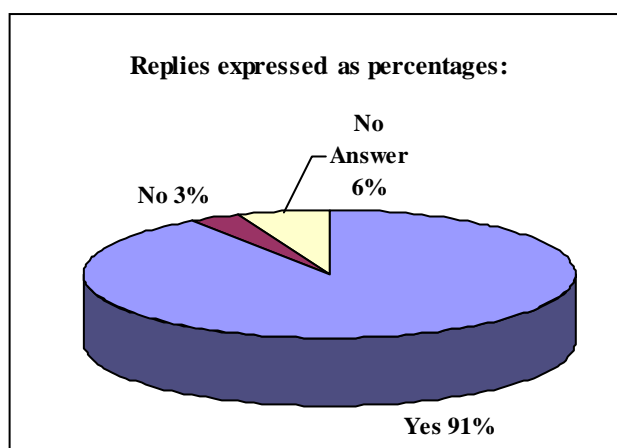
Yes: 87	No: 3	No Answer: 6
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Majority Statements (YES):
<ul style="list-style-type: none"> ▪ As the fastest growing consumer markets, China and India will play a big role in the European economy in the next few decades. Europe is in a good strategic position in that it doesn't have to worry about security issues in Asia and can focus solely on trade with China and India. It should take full advantage of it and generate more employment, which is the biggest issue for Europe. ▪ All countries have an economic interest in Asia. Once China is fully unleashed on the global economy, Europe is going to have to get busy and create barriers to them. ▪ East Asia is now an important engine of growth for the global economy and is also an important destination for EU equity and portfolio investments. ▪ In order to survive as an (economic) power in competition with the US, cooperation with E.A., SE Asia and S. Asia is essential, especially mid- and long term. ▪ As the policeman asked the thief why he had robbed the bank: "Because that's where the money is!" ▪ Economic instability in Asia (particularly China) will destabilize the entire globe e.g. the 1997 financial crisis. ▪ Mainland East Asia above all is an ideal market for European industrial and consumer goods. ▪ EU-Chinese ties have become too important to the EU. It needs China to continue to grow, but in a positive way - not through IPR infringement. ▪ Certainly, not only as an industrial competitor, but that trade and investment are supportive of national economic and social policies aiming at sustainable development and wellbeing of their people. ▪ Given the high level of trade and FDI of EU member states in East Asia, this is undoubtedly THE most important dimension of continuing high interest in East Asia though an underlying process of encouraging political transition, democratization, reinforcement of political reform, somewhat like

the policies pursued during the 1970s vis-à-vis the former Soviet Union and its allies might gradually and over the long term bring some tangible results.

Minority Statements (NO):

- None given.



Comments: A whole 91% of respondents believe that the European Union has a strategic economic interest in East Asia.

Q20: Importance attached to the following policy issues with regards to co-operation between the EU and East Asia:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Eradicate extreme poverty	5	13	18	26	17	1	80	18 – 43
Public health and hygiene	3	10	19	31	16	1	80	13 – 47
Climate change	4	7	17	29	22	1	80	11 – 51
Sustainable development	2	2	13	38	24	1	80	4 – 62
Energy	2	3	10	31	32	2	80	5 – 63
Technology	2	1	18	39	19	1	80	3 – 58
Achieve universal primary education	4	10	21	36	8	1	80	14 – 44
Promote gender equality	7	18	32	18	4	1	80	25 – 22
Reduce Child Mortality	7	7	32	25	8	1	80	14 – 33
Improve maternal Health	6	9	31	24	9	1	80	15 – 33
Combat HIV/AIDS, malaria and other	3	4	19	33	19	2	80	7 – 52
Ensure environmental sustainability	3	3	10	29	32	3	80	6 – 61

Comments: Sustainable development, Energy, Technology and Environmental Sustainability would seem to be the most important fields for cooperation. Promoting Gender Equality, Reducing Child Mortality and Improving Maternal Health less so.

Q21: Probability, on a scale of 1 to 5, of the following hypothetical developments:

	Very Low	Low	Neutral	High	Very High	Don't Know	Total	Low-High Split
Continued economic growth of China	1	6	28	46	11	4	96	7 – 57
Slowdown of Chinese & Japanese growth	13	39	24	13	4	3	96	52 – 17
Deepening ASEAN integration	4	17	35	36	1	3	96	21 – 37
Faltering ASEAN integration	13	36	30	13	1	3	96	49 – 14
Inclusive East Asian integration	12	29	28	22	1	4	96	41 – 23
Exclusive East Asian integration	14	35	26	11	2	8	96	49 – 13
Continued political stability in China	6	22	37	23	2	6	96	28 – 25
Growing political instability in China	3	23	34	25	4	7	96	26 – 29
Evolutionary change in DPRK	14	31	31	13	1	6	96	45 – 14
Revolutionary change in DPRK	8	32	24	22	5	5	96	40 – 27
Increased tensions in Cross-Strait relations	4	10	31	36	11	4	96	14 – 47
Reduced Cross-Strait tensions	15	31	38	7	0	5	96	46 – 7
Improved Sino-Japanese relations	14	30	40	8	1	3	96	44 – 9
Deteriorated Sino-US relations	4	24	42	20	3	3	96	28 – 23

Comments: The Cross-Strait tensions questions may be slightly skewed as many questionnaires were filled out amidst talk of China's Anti-Secession Law which was forthcoming.

Annex II: Summaries of Expert Papers in Volume II (in alphabetical order)

- Prof. Robert Ash, Professor of Economics with reference to China and Taiwan, School of Oriental and African Studies, University of London, London

“The Long-Term Outlook for Economic Reform in China”

In China, the inequalities generated by the reforms in the last two decades have been increasing. As a result, the unequal regional and sectoral impact of development associated with the growth-maximisation strategy, has given rise to increasingly severe social and economic tensions and contradictions. The threats to political stability posed by these developments remain, for the time being, potential more than real. But the damage which they have caused to the social, economic and environmental fabric of China is already evident. The main critical facts are: the rise in urban unemployment, both *de facto* and concealed, that has accompanied the halting restructuring programme among state-owned enterprises (SOEs); ii) in the massive reservoir of underemployment that affects at least 130 million farmers; in the absence of even basic social security provision for the sick, the unemployed and the old; in the highly differentiated access to education; iii) the pervasiveness of corruption and its destructive impact on the normative framework that usually regulates human economic and social behaviour has broken the social contract between state and individual.

Economic and social polarisation associated with China’s growth-maximisation strategy has become the single most important domestic issue facing the Chinese government. Recent emphasis by senior officials on a new **“people-centred” development strategy** highlights the urgency of this problem. When added to the pressures of resource shortages and environmental degradation, the case in favour of *shifting from growth-maximisation to sustainability* appears to be unanswerable. These are the concerns that have prompted government leaders and officials to question China’s existing development strategy and to formulate a *“scientific” concept of sustainable development*.

The most authoritative explanation of the new strategy was articulated by Hu Jintao in a speech he made in May 2004, which has recently been republished in the Party’s leading theoretical journal (*Qiushi*). In it, Hu demanded a radical change in China’s growth model from one characterised by “high input, high consumption, high pollution, and low efficiency” to a *new* approach, based on “high science and technology contents, good economic benefit, low resource consumption, less environmental pollution, and full exploitation of human resource advantages.” This change in emphasis was designed to help resolve “prominent contradictions”, such as the excessive pace and scale of fixed-asset investment, which threatened not only to exacerbate resource shortages, but also to generate inflationary pressures attendant on excessive expansion of credit.

- Dr. Roberta Benini, Consortium Leader, Scientific Co-ordinator, Economic Analysis Department of NOMISMA, Bologna
“China-Russia Economic and Strategic Relations: Between Rivalry and Co-operation”

China and Russia’s economic relations are at present based on a complementary division of labour in the world economy, base on *inter-industrial trade pattern*, that have however different implications for each of them. Russia strategic position vis-à-vis China, has structural weaknesses, since it is primarily based on a *rent-seeking* position based on a raw material specialisation- foremost energy -that by definition does not have a high economic growth potential in term of growth dynamics. But even if Russia may not be able to make major shifts toward high-technology and high value-added goods or services for the world markets, its capacity to keep its role as a simple raw material supplier to world markets is also seriously undermined by its present technological constraints in the energy sector. Therefore, either Russia will be able to attract foreign investments into its strategic sectors, accompanied by further liberal economic reforms, bringing competition within the highly monopolised internal markets, or will slowly loose its advantages in this sector over the long term.

China, on the contrary, has its strongest advantages in its manufacturing capacity, gaining increasing world market shares at the expense of other middle- and low-income countries in the region, in labour intensive goods. More importantly, China is rapidly increasing the share of higher value-added export goods, like electronics devices, indicating the new path that China is taking. Thus, given the present conditions, the Chinese potential growth remains extremely strong and this represents the major difference between China

and Russia. It may even be increasing in a long term perspective, at the disadvantage of Russia. At present, Russia can still play on its technological advantage in some specific sectors, like military equipment, but these advantages might also erode, in particular in light of the growing catching up of the Chinese technology and innovation capability.

- Dr. Sebastian Bersick, Political Scientist and Research Fellow, European Institute for Asian Studies, Brussels
“Strategic Considerations in the US-China Relationship: A role for European Soft Power?”

This paper analyses strategic considerations within the conceptual, the policy and the systemic dimension of US-Sino relations. Furthermore, the role of the EU’s soft power in the context of US-China relations will be assessed. It will be argued that current US-China relations are mainly a function of the current US foreign policy towards China, which doesn’t take into account that an engagement policy towards China needs to be paralleled by an engagement policy towards the East Asian region. A functional equivalent of the EU’s soft power and its approach of bilateral and multilateral engagement of East Asian actors is a missing element in US-China relations.

The thinking on China affairs in the USA can be broadly structured into two different schools of thought. On the one side there are those who favour an engagement policy vis-à-vis China. The engagement school argues that bilateral and multilateral cooperation with China needs to be intensified. Traditionally members of this school are found in the Department of State and the Bureau of the US Trade Representative. On the other side there are those who think of China as a threat that needs to be contained. The politicians and experts that belong to the threat school (e.g. in the Heritage Foundation and the American Enterprise Institute) emphasize their fears of China’s future role on the regional and global level. Though China has supported the US’s “war on terrorism” after the attacks of 9/11, Beijing’s increasing military budget, its neglect of non-proliferation agreements (e.g. in its relations with Pakistan) and its behaviour within the Six-Party Talks are taken as examples of the China threat.

Security policies do not solely determine the relationship between the USA and China. The US China policy is a function of both the US’s economic and security interests. This explains why Washington follows a dual policy of simultaneous engagement and containment, i.e. a policy of hedged engagement. But the current state of affair of the Sino-US relationship does not reflect the rise of China as a de facto hegemon of an East Asian community. Since Beijing holds the key to Asian regionalism, China should be the main target of European soft power in Asia by exporting the principles of regionalism and multilateralism to Asia. To what extent the EU and its model of intraregional cooperation and integration can influence the objective and trajectory of Asian regionalism will demonstrate partly the extent of Europe’s soft power in the international system.

- Dr. Sophie Boisseau du Rocher, Associate Researcher, Centre Asie, Institut Français des Relations Internationales (IFRI), Paris and Sciences Po, Paris
“Can ASEAN Support Northeast Asia’s Pressure? Stakes and Implications for the European Union-ASEAN Partnership”

During the immediate aftermath of the 1997 ASEAN crisis, instead of promoting a further “deepening” of the integration process, ASEAN has preferred enlarging its membership and has opened up to its Northeast Asian partners, Japan, China and South Korea. The mounting economic trade flows among those actors necessitates a coherent creation of effective regional structures. China in particular, among the three mentioned countries, has come to the fore with its diplomatic strategies concerning the regional architecture.

As results of these recent changes, the structure of power and the nature of the regional system are altering and ASEAN is going through a decisive transition. Taking into consideration the speed of the evolving framework with the enlargement of an *East Asian Community*, ASEAN would need a new political vision for the region, for the redefinition of its internal balance of power and for the elaboration of a clear approach toward external partners. Crucial problems affect the entire area such as deficit of democracy, wide development gaps among the East Asian countries, the widespread need for economic liberalisation and need for new human and regional security policies. The EU would play a fundamental role in addressing these problems and avoiding to consider South-east Asia as just a mere periphery of China.

- Prof. Seán Golden, Full Professor of East Asian Studies, Universitat Autònoma de Barcelona (UAB), Barcelona
“Socio-Cultural Aspects of the Relationship Between the EU and East Asia, with Particular Reference to China”

This paper presents a comparative study about words and about sovereignty; about the ancestry of the words that construct the discourse of sovereignty in the context of China; about the analysis and interpretation of the civic discourse and the rhetoric that construct Chinese sovereignty in the field of international relations and foreign policy, and about the consequences of this analysis and interpretation for the formulation of EU foreign policy with regard to East Asia, especially China, and the United States, as well as the feedback that notions of sovereignty have on the construction of Chinese civic discourse.

For many contemporary Chinese thinkers, China should modernise without repeating the process of modernism, should leap over the system of values established by the Enlightenment that seemed to justify imperialism, and develop an economy and institutions that would serve to create wealth and to raise the standard of living of the population, without imposing values that are advantageous to a “West” that is already wealthy. They have identified a cultural dissidence within developed societies that advocates the values of postmodernism as a way of rejecting the values of modernism. In this context, they advocate the possibility of modernising their society without having to accept the imposition of values that originated in societies that have already begun to question them. In this way, China could reach postmodernism in a relatively short period of history without having to pass through the traumas that characterised the development of modernism in the “West” over a period of centuries (it would be difficult not to discern echoes of Mao Zedong’s “Great Leap Forward” in this Chinese versions of the postmodernist paradigm).

The communicative strategy to be adopted by the EU in the rhetorical construction of its dialogue with China should be fully cognizant or and sensitive to the criteria of China’s moral order as outlined in this study and specified in the Five Principles (mutual respect for sovereignty and territorial integrity; non-aggression; non-interference in each other’s internal affairs; equality and mutual benefit; and peaceful coexistence), the Spirit of Shanghai and the ASEAN Way, with special emphasis on mutual recognition, parity of esteem, and mutual benefit. Any other discourse will be perceived semiotically as unilateralist and exploitative. Respect for diversity is paramount, and the ability to harmonise diversity is a major function of Chinese political and cultural thought. “Harmony” and “peace” are the same word in classical Chinese: 和 *hé* (和平 *héping* is the modern word for “peace” and 和聲 *héshēng* is the modern word for “harmony”). As a result, any practice that produced harmony, such as music or cooking, was a form of training for maintaining peace, social cohesion and solidarity in society (or among nations).

- Willem van Kemenade, China Analyst and Consultant in Politics and Economics of China and (South-) East Asia, Beijing
“The Political Economy of Northeast Asian Integration”

The overarching question is how the dynamics of Sino-Japanese relations should be understood in the context of the emerging new 21st century world order. The classical paradigm of neo-realist competition for a shift in the balance-of-power is inadequate due to deeply-rooted nationalist sentiment and unique cultural factors. In contrast to historical analogies such as the rise of Germany and Japan in the early 20th century, one could characterize the current shift a return to normalcy rather than a cyclical rise of a new power or a renversement des alliances. As Japanese management-guru Kenichi Ohmae aptly put it in his book *China Impact*, a few years ago: “Over the last 4.000 years of history, Japan has been a peripheral country to China, with the exception of this one last century. In the future, Japan will be to China what Canada is to the United States, what Austria is to Germany, what Ireland is to Britain.”

Serious obstacles impede smooth progress in the emergence of regional integration in East Asia. Foremost negative factor is the longtime cold, and more recently hostile political relationship between China and Japan. While China was a self-reliant, underdeveloped, mostly sleeping communist giant during the Mao-era, Japan emerged as the economic avant-garde during the 1970s and 1980s but it lost ground to China during the 1990s. Now, during the first decade of the 21st century, China is the regional and also global engine of economic growth and it imports more from the smaller regional economies than Japan does.

China’s overwhelming priority is economic development and growth and these would be severely affected without full access to the American market. The Chinese want to learn from the European experience with multilateral diplomacy, how to counter the US-Japanese scheme to freeze the Cold War status quo in East

Asia and how to advance their “*core interest*”, the peaceful reunification with Taiwan on the basis of some vague, flexible long-term formula.

- Dr. Françoise Nicolas, Senior Researcher, Institut Français des Relations Internationales (IFRI) and Assistant Professor in Economics, Université de Marne la Vallée, Paris
“East Asian Economic Integration – Past Experiences, Current State of Play and Future Prospects”

Major changes have taken place in East Asia over the past few years, with far-reaching implications in terms of regional economic integration. First, while East Asia had manifested little interest in formal regional integration (regionalism), both the 1997-98 financial crisis and the economic rise of China have contributed to trigger a change of the mindset in the region and rekindled interest in such schemes. At the same time, private sector-led economic regionalization has deepened further over the past decade or so, primarily under China’s pressure, thus creating relatively new, and possibly more favorable, conditions for the pursuit of formal regional cooperation. As a result of its open-door policy, China has been increasingly integrated with the global trading system and has risen as the fourth largest trading nation worldwide.

The recent China-ASEAN Free Trade Agreement (CAFTA) is the most dramatic example of China’s new regional policy, also sending a shockwave throughout Japan. This in turn has pushed Japan to start actively considering other FTAs within the East Asian region. At the same time, bilateral initiatives from Japan, as well as from Korea, with countries within as well as outside the region (Japan-Thailand, Japan-Philippines, Japan-Malaysia, Korea-Chile, Korea-Mexico, etc.) are developing. *Defensive regionalism* is still the rule in East Asia and this does not provide a strong basis for deeper economic integration. The driving forces behind the various regional and bilateral FTAs are loosely related to regional integration. As a result, the emergence of East Asia as a well-structured regional grouping is still a long way off.

- Frank Umbach, Resident Fellow, Head of the Asia-Pacific Program, German Council on Foreign Relations (DGAP), Co-Chair European Committee, Council for Security Co-operation in Asia-Pacific, Berlin

“Global Energy Security and its Geopolitical Consequences to EU-Asian Relations”

As the International Energy Agency’s (IEA’s) executive summary of its “World Energy Outlook 2004” has concluded, the question of energy security - which connects such disparate issues as economics, national security, and the environment - could become one of the major global challenges of the 21st century. The objective of this paper is to analyse the global energy developments, the increasing importance of geopolitical factors for the EU’s and Asia’s future energy security, the energy demand of China as well as Asia, and the resulting geopolitical and security challenges for the future energy security of the EU and consequences for the future interregional EU-Asian relationship. Special attention will be given to China’s energy strategies on oil and gas imports from abroad and the implications for Beijing’s foreign and security policies in a regional and global context. Finally, I will also discuss the importance of potential energy resources in the Middle East, Central Asia and Russia for China’s growing energy consumption and analyse the question to which extent it may influence the future bilateral EU-China and interregional EU-Asian relationships (competition or cooperation). This analysis comes to the following conclusions:

1. In the age of fastening globalization processes, the re-emergence of geopolitical factors will increasingly determinate energy policies and supply security worldwide.
2. The different approaches of energy security (geopolitical/strategic factors versus market forces) should not be considered mutually exclusive but rather as complementary strategies in global energy security.
3. The issue of ensuring international energy supply in the short- and medium-term lies less in the finiteness of crude oil and natural gas reserves than (1) in the accumulation of regional crises and domestic political stability of the countries producing crude oil and natural gas; (2) in surplus production capacity that has been steadily diminishing since the 1990s because of global competitive pressure; (3) in an underestimated surge in global oil demand; and (4) in a huge need for investment in new exploration, refineries, pipelines, and other infrastructure elements.

4. The EU, China, India and other great powers may compete for the same energy resources in the Middle East, Russia and Central Asia. In this regard, whether they follow a “market strategy” or a “strategic approach” may ultimately answer the question whether they are able to cooperate for regional and global energy security or whether they will increasingly compete. The latter may lead to strategic rivalries, resource conflicts or even open and violent conflicts. Competition over resources, for instance, is already heating up in Asia - especially between China, Japan, India and the U.S.A.

5. In this light, the EU and its member states need to take the importance of geopolitical factors more into account for their own future energy security. Therefore, the organisation of security for oil and gas supplies can no longer be entrusted solely to the European industry. Whereas this separation of economics from politics has made sense for the internal EU market due to the existing common understanding of the overall importance of market forces, energy policies determined outside of Europe are still defined by including the strategic interests of national foreign and security policies (particularly in Russia, China, OPEC-countries, USA and others).

6. The Western aim of encouraging China’s integration into the international global cooperation structures, while insisting, in return, that Beijing abide the same rules as everyone else, will remain the major strategic goal and challenge for the years to come.

7. But on the EU side, a more critical discussion of the global efforts of de-nuclearizing Iran in the framework of China’s energy and resource diplomacies, for instance, is overdue. Another example is China’s and India’s attempts to engage “states of concern” (such as Myanmar, Sudan, and Zimbabwe) in order to access their energy resources. Those Chinese and Indian policies are undermining attempts by the U.S.A. and the EU to isolate these regimes economically and politically. It highlights one of the major challenges and dilemmas of the EU’s policies vis-à-vis China at its foreign policy front in the next decade: To protect EU and Western security interests without driving China into political linkages with pariah states.

- Prof. Wing Thyee Woo, Department of Economics, University of California at Davis
“The Return of the Dragon: Scenarios of the International Impact from China's Emergence as a Major Trading State”

China’s rapid growth since 1978, emerging from the self-imposed isolation in the 1949-79 period, allowed a fast convergence with the advanced economies. The China's emergence as a major economic power is marked by its accession to the World Trade Organization (WTO), that greatly enhances China’s economic security and gives unconditional, permanent, multilateral rights to trade with other WTO members. The removal of uncertainty and barriers can contribute greatly to China’s market access and increase its reliability as a supplier. These changes have a direct impact on the ASEAN-4 (Indonesia, Malaysia, Thailand and the Philippines) since the latter may lose their FDI attraction capacity, given China’s enhanced competitiveness. Taking into consideration this changed framework, the paper develops three scenarios on the base of three different assumptions, analysing the consequences of China’s WTO membership on the ASEAN-4: i- the standard *naive analysis* of a unilateral cut in China's effective tariff rates. The result is a redirection of labour and capital away from China's importable goods sector toward its exportable goods sector, causing China to import and export more. ii- The second *FDI Diversion analysis* level, add to the tariff cuts, the removal of the market access threat to China would likely lower the risk required for investing in China iii- The third *analysis of the diversion of FDI with technological spillovers* pointing out that FDI would not only increase the domestic capital stock, but also increase technological transfers to the whole economy and improve the access of more Chinese goods to foreign markets.

The analysis suggests that the full integration of China's huge labour force into the international division of labour could cause the ASEAN-4 to face the possibility of de-industrialisation. However, this dismal outcome is by no means inevitable. It will come about only if the ASEAN-4 economies allow the drop in FDI inflow to lower the rate of technological diffusion to their economies. If the ASEAN-4 can prevent themselves from falling behind technologically, then they can also find lucrative niches in the lengthened production chains in manufacturing activities. This finding suggests that the ASEAN-4 must give the highest priority in deepening and widening their pools of human capital by speeding up the diffusion of new knowledge.

- Prof. Shujie Yao, Chair of the Economics Department, Middlesex University, President, Chinese Economic Association, United Kingdom

“Building a Strong Nation, How Does China Perform in Science and Technology”

A common perception is that China has relied on the expansion of labour-intensive industries and flooded the world market with cheap but low to medium level technology products. Although it has become the third largest exporting nation, China has failed to create a large number of big businesses that can compete with the world’s leading multinational companies (Nolan, 2004). The Chinese government has long been aware of the weakness of its development strategy and has been trying to improve its own technological capacity through investments in basic research, innovations and the application of new technologies, utility models and designs. China’s strategy on science and technology can be best described by the so-called ‘walking with two legs’ principle. The first leg is based on building up domestic research and innovative capacity. This is through investments in research institutes, universities and LMEs. China’s second leg has been to build up its technology capacity through its open policy and attracting FDI and technology.

China has made significant advances in the following areas regarding science and technology.

- Research and innovative activities have been encouraged and supported by the central and regional governments.
- More research and innovative activities are encouraged in the LMEs.
- HEIs have become increasingly important for research and innovative activities.
- The export-push strategy and encouragement of FDI inflow are two important venues for importing advanced foreign technologies.

China also has a number of weaknesses in science and technology.

- Research expenditure has not kept up with economic development.
- There are not enough big businesses that are highly innovative and cannot compete effectively with the world’s largest multinational enterprises.
- China is weak in the key industries that are intensive with advanced technologies, computer software, aircraft, automobile and electrical appliances, etc.
- Most of the LMEs are state-owned and are renounced for their inefficiency and loss-making.
- China has greatly depended on foreign technologies for its economic development.
- China’s expenditures on science and technology have been low by international standards and low compared to its fast economic growth.
- China’s economic growth has been heavily dependent on investments and labour and not so much on technological progress and efficiency improvement.

- Roberta Zavoretti, MA China Studies, Venice and MA School of Oriental and African Studies, University of London, London, EIAS affiliate

“Family-Based Care for China’s Ageing Population: A Social Research Perspective”

The occupation-based social security system in urban China came in need of reform as the market transition gathered pace, and a growing proportion of the population began to work outside the public sector. One of the greatest challenges for the reform is caring for an ageing workforce, and both the Chinese government and the World Bank see the revival of Confucian family values as being key to success. This paper seeks to conceptualise the Chinese intergenerational contract and contextualise it in order to verify the validity of this approach.

Despite the persistence of intergenerational support in reforming China, this paper maintains that due to the shrinking size of Chinese urban families and the increasing insecurity related to the market transition, these expectations are not realistic. The Chinese leadership needs to face this urgent issue not only to ensure a more balanced and sustainable economic development, but also in order to re-gain legitimacy among its ‘people’, thus securing the country’s political stability. The European Union may provide China with valuable assistance in this process, as recommended at the end of this paper.

- Prof. Wei-Wei Zhang, Senior Research Fellow, Modern Asia Research Centre, Geneva, and Professor at Fudan University, Shanghai
“Long-term Outlook for China’s Political Reform (With special reference to the European interests in these reforms)”

China’s post-1978 economic reform is generally acclaimed as success, for the Chinese economy has expanded nine-fold in a matter of 25 years and the country rose from the world’s 34th largest trading nation in 1978 to the 3rd largest in 2004 ahead of Japan. Interestingly, the Chinese experiment is often described in the West as “economic reform without political reform”. This begets the question: how could a politically un-reformed system be able to deliver such an economic miracle? In reality, China has conducted, by its own standards, major political reforms since 1978. Though far short of the Western expectations, the Chinese experience since 1978 should better be described as “great economic reforms with lesser political reforms”, without which China’s economic success would be inconceivable. China’s “lesser political reforms” have reduced country’s opportunities for greater political change, thus alienating many reform-minded intellectuals. Nevertheless, it may also have helped China avert the possible economic and social upheavals which could have resulted from rushing too fast into a radically different economic and political system.

There is a strongly held belief, especially among the more ‘ideological’ observers of Chinese affairs that unless there were a radical political reform, perhaps tantamount to a revolution, to rid China of its “oppressive” Communist Party, the Chinese system would inevitably collapse just like what had happened in the USSR and Eastern Europe. As the party has been in power, China had been predicted to face collapse in the aftermath of the Tiananmen crisis of 1989, the Soviet Union’s disintegration of 1990, the death of Deng Xiaoping in 1996, and the Asian financial crisis of 1997 and the 2003 outbreak of SARS. Yet all these forecasts turned out to be wrong and the track record of the China doomsayers over the past twenty years is indeed poor.

Will China become a democracy through its political reform in 20 years? Indeed, a full democracy could be the best scenario for China, the region and beyond, but it is difficult to give a definitive answer, which will, to a great extent, depend on how to achieve democracy in China, i.e. the costs/risks involved, as well as what kind of ultimate shape such a democracy will take.

If full-fledged democratisation will take more time, the pressure for a more accountable government and more democratic society is growing, and this trend will continue with the rise of China’s middle class and civil society. Therefore, the most likely scenario for China in the coming two decades is that China will continue its own approach to political reform, and the relative successful experience of China’s economic reform may well set a pattern for China’s political reform in the years to come.

As part of Europe’s general approach towards China’s political change, it is in Europe’s interest to assist, in line with the view of most Chinese, gradual reform rather than revolution or ‘regime change’, which could produce hugely negative consequences for China itself, Sino-European relations and European interests in China and even East Asia.
