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China's Rise: The Return of Geopolitics?

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Foreword

The “rise of China,” like hardly any other topic, feeds speculation about the future of the international system and its structures, the global economy, and energy security. Whether the ascent of the last couple of years can simply be extrapolated, and how strong China’s economy already is in comparison to other powers, may be matters of debate. But there can be no doubt that China’s increasing economic might, its political standing in Asia and other continents, and the possibility of superpower rivalry between China and the United States are of eminent significance for German and European politics and will not leave Europe’s relations with the United States untouched either.

The symposium on “China’s Rise: The Return of Geopolitics?” that was held on January 18, 2006 at the German Institute for International and Security Affairs (Stiftung Wissenschaft und Politik) focused on China’s reach into other regions of the world. China’s domestic development, in particular the questions of a possible end of the economic boom, problems that might arise through growing social inequalities, and whether one-party rule can be reconciled with a market economy in the medium term were not the subject of this event. Instead, we turned the spotlight on the international dimension of China’s growing importance, not least the new economic giant’s search for energy supplies, resources, and political influence.

We have issued the resulting papers in German and English without a great deal of editorial and academic reworking, in the interests of speed of publication. We would like them to be seen as a contribution to the debate and as a part of the SWP’s ongoing research program.

Volker Perthes

**China, USA, Europe:
Competition, Rivalry, Conflict?**

China's Energy Policies – Geopolitical Repercussions

Friedemann Müller

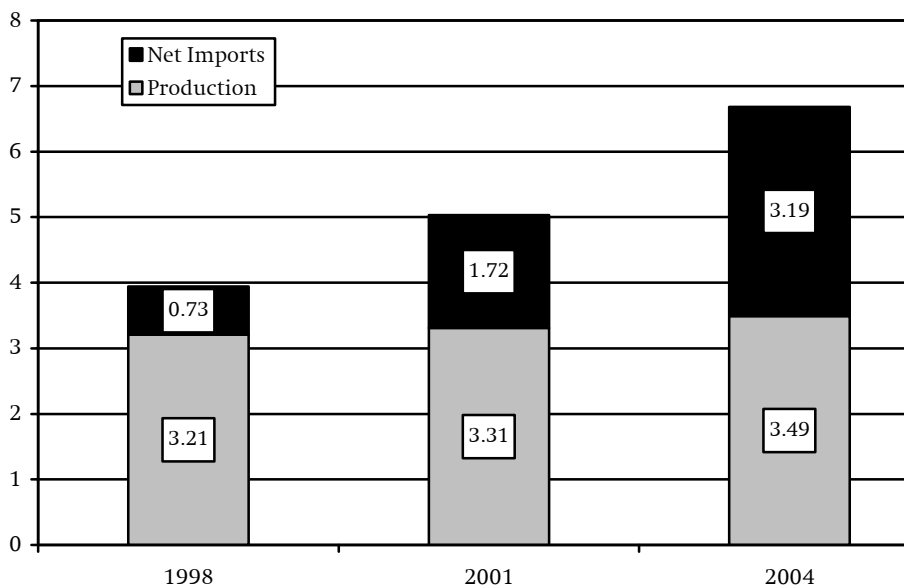
China's sudden emergence as a major player has created shockwaves in the international markets for oil and other raw materials. In fact, the People's Republic's rise to become the world's second-biggest oil consumer and third-largest importer should come as no surprise, because this corresponds to its economic and political weight. But the speed and magnitude of this transition has shattered the fragile equilibrium of the global oil market; China's shift from net exporter to become the world's third-largest importer has taken place within just ten years, and 35 percent of the growth in global demand for oil between 2001 and 2004 can be attributed to China alone. This jump in demand has naturally exacerbated the upward pressure on prices. Extrapolating this growth in demand would suggest price developments that would drive the developing nations into a new debt crisis and represent a serious burden for the global economy. In the following brief description of China's new role on the international energy markets the focus is on oil. Natural gas is also gaining importance for China, but global natural gas reserves are less scarce, and geographically (and geopolitically) less concentrated than oil reserves. Natural gas is also significantly more expensive to transport (per energy unit) than oil, and for that reason regional rather than global trading relations tend to form. Additionally, it will be some considerable time before China possesses the infrastructure that would allow it to give natural gas a significant share in its energy mix. According to estimates by the International Energy Agency, China in 2030 will be consuming only about one third as much natural gas as the European Union did in 2002.¹

1. Disruption in Global Oil Markets and Trouble for the OECD Countries

In 2004 China imported 3.2 million barrels of oil per day, four times as much as in 1998 (see Fig. 1, p. 10). This made its share of the global oil trade 6.6 percent. In view of the domestic production trend—currently stagnant and in the long term declining—and the expected rise levels of motor vehicle use, this trend of high import growth rates (the upper, black part of the columns in Fig. 1) can only continue.

¹ International Energy Agency (IEA), *World Energy Outlook 2004* (Paris, 2004), 130.

Figure 1
China's oil consumption and imports (million barrels/day)



Source: *BP Statistical Review of World Energy*, June 2005.

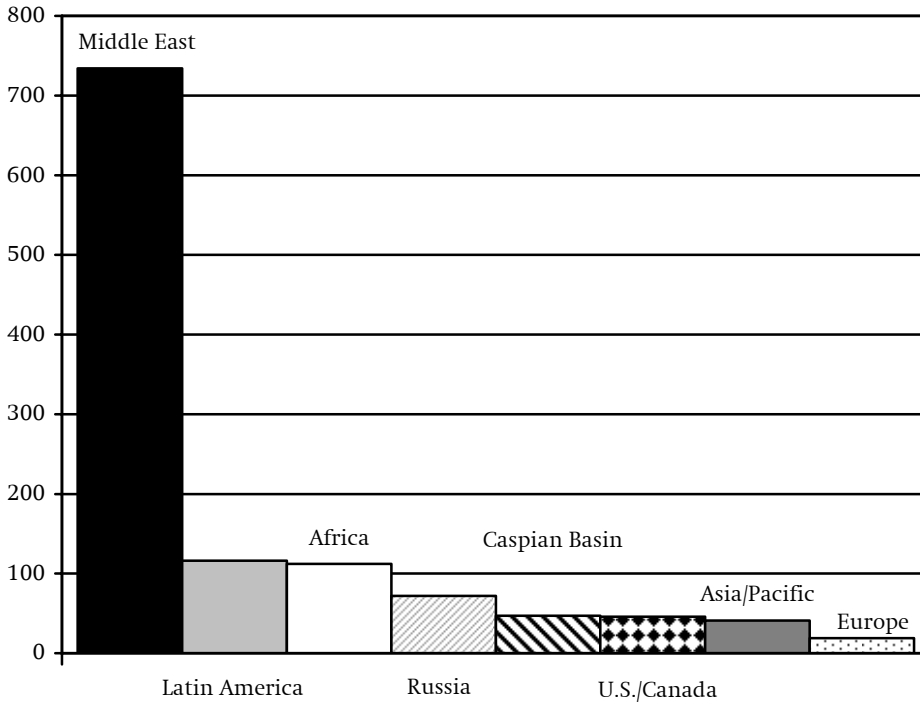
This shift has come at a time when the global market is particularly tight. From 1985 through 1999 the global oil market was characterized by a surplus of supply. As soon as the Organization of the Petroleum Exporting Countries (OPEC) cut production quotas to drive prices up, it lost market share to other suppliers. Since 1999 the OPEC cartel has started to bite again because other suppliers are no longer able to keep up with global growth in demand.

Until 2003 OPEC was able to control the global market by raising or lowering production quotas. Aware of its power—quota cuts had caused the oil price to triple between March 1999 and September 2000—OPEC introduced a price corridor of \$22 to \$28 per barrel. It managed to keep the price within this corridor until November 2003, when the oil price broke through the upper limit. It has not fallen below that intervention price since.

Figure 2 shows that reserves are so strongly concentrated in the Middle East that it is unavoidable that this region's share of world oil production will grow. The Middle East already exports two thirds of its production to East and South Asia, where enormous growth in demand must be expected (Figure 3).

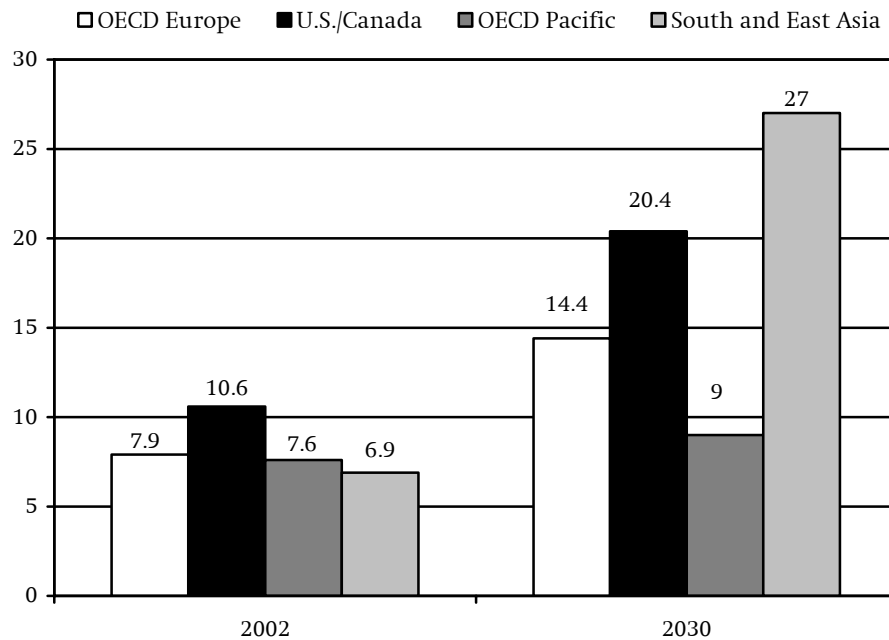
Whether the Gulf region will be able to satisfy the rising demand will depend above all on the three countries with the largest reserves: Saudi Arabia, Iran, and Iraq. There is potential for resource conflicts to arise here, because output is declining in North America and Europe (North Sea) and consequently in the Western countries demand is rising faster than production. Neither from Russia nor from Africa can supply possibly grow at the same rate as Western countries' demand, so they will have no alternative but to turn to the Gulf.

Figure 2
Concentration of oil reserves, 2004 (billion barrels)



Source: BP Statistical Review of World Energy, June 2005.

Figure 3
Major oil importing regions, net imports (million barrels/day)



Source: International Energy Agency (IEA), World Energy Outlook 2004, p. 82, 106.

2. The Latecomer's Challenge

For China itself, its rapid rise as a consumer in the global oil market has become a problem. This is not because of a lack of ability to pay (as in the case of the developing countries) but because supply flows are relatively stable and the market has to a great extent already been divided up through investments in oilfield development and oil transport. Thus 76 percent of exports from the American hemisphere (Canada, Mexico, Venezuela) go to the United States, 83 percent of exports from the former Soviet Union (Russia, Caspian Basin) go to Europe, as do two thirds of North African production, while two thirds of Middle Eastern production go to East and South Asia (including Oceania).² The factors behind this regionalization of the market are: length of transport routes, existing transport infrastructure, the market coordinates of the companies involved in exploitation, and traditional business relationships. It is not easy to break into these established market structures. The available options are paying over the market price for oil, overbidding for companies and exploration rights, and political maneuvering. China is making more intensive use of these options than any other country, and is not exactly welcomed with open arms by the established players.

One example is the conflict over the construction of a pipeline from the Siberian town of Angarsk to the Pacific coast, where China got its way against Japan in October 2005 after years of wrangling. Now a spur will be built from the Russian pipeline to Daqing in China, which will absorb 20 million tonnes annually—two thirds of the pipeline's total capacity. What tipped the balance here was that one of the three internationally operating Chinese oil corporations, China National Petroleum Corporation (CNPC), had provided the Russian firm Rosneft with a credit of \$6 billion, which allowed Rosneft to take over Yukos after it had been broken up in connection with the Khodorkovsky trial.³

China has invested significant capital in Sudan since 1997, when Washington prohibited American companies from developing oil reserves there because of the civil war. Today China draws five percent of its oil imports from this by no means major oil producer, and is said to maintain four thousand non-uniformed forces there to protect its oil interests.⁴

In Iran, China is attempting to dislodge the established economic power of Japan—which depends on the Middle East for 86 percent of its oil—as Iran's main partner in the oil and gas business. Several long-term agreements have been concluded, adding up to a volume of \$100 billion of Chinese investment in Iran.⁵ According to an agreement of October 2004,

² *BP Statistical Review of World Energy*, June 2005, 18.

³ *Petroleum Economist*, December 2005, 11.

⁴ David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* 84, no. 5 (September/October 2005): 25–38.

⁵ Flynt Leverett and Jeffrey Bader, "Managing China–U.S. Energy Competition in the Middle East," *The Washington Quarterly*, Winter 2005–6, 187–201 (191).

the China Petroleum and Chemical Corporation (Sinopec) alone will receive crude oil and natural gas worth \$70 billion from Iran.⁶

The way China operates to acquire access to oil resources has generated misgivings across the world. A series of incidents where Indian firms were outbid by Chinese in Africa, the Middle East, and the Caspian region led to irritation between the two Asian superpowers, which was resolved by an agreement of January 12, 2006, providing for cooperation when bidding in third countries.⁷ In the case of PetroKazakhstan, a company operating in Kazakhstan but based in Calgary, Canada, even though CNPC made the highest offer (in August 2005) the sale did not go through until October 2005, after CNPC agreed to sell one third of its shares in the state-owned Kazakh firm KazMunaiGaz.⁸ The attempt by the China National Offshore Oil Corporation (CNOOC) to purchase the American corporation Unocal for \$18.5 billion (\$900 million more than Chevron had offered) was thwarted by American mistrust, when Congress stopped the transaction on poorly-founded security grounds.⁹

For all the mistrust faced by China's internationally operating energy firms, it must be conceded that they actually generally obey the competition rules of the markets. But because they are state-owned operations receiving their orders from Beijing, it cannot be expected that their activities will be governed purely by business considerations. In 1997, Chinese Premier Li Peng and Kazakh President Nursultan Nazarbayev signed an agreement on what was then China's biggest ever foreign investment (totaling \$9.5 billion). It provided for Chinese capital to be used to develop the Uzen oilfield and other reserves near Aktobe in Kazakhstan's eastern Caspian region, and for the oil to be transported to western China through a 3000 kilometer pipeline with an initial capacity of 10 million tonnes/year, later rising to 25 million tonnes/year with long-term plans for 50 million tonnes/year.¹⁰ Construction of the pipeline was initially postponed for reasons of cost, but in 2005 work started after all. The 988 kilometer section from the Kazakh oil terminal at Atasu to the railhead at Alashankou is scheduled to start operation in 2008.¹¹ This pipeline project shows how expensive it is for China to create an alternative supply to the Persian Gulf without coming into conflict with other investors or oil importers. At a cost of \$4 billion, the pipeline is extremely costly, yet when it begins operation in 2008 its initial capacity of 10 million tonnes/year will cover only about 4 percent of China's import demand. Market economists are advising China to do without exclusive contractual ties with par-

⁶ Mehdi P. Amineh, "Die Politik der USA, der EU und Chinas in Zentralasien," *Aus Politik und Zeitgeschichte*, 2006, no. 4 (January 23, 2006): 11-18 (15).

⁷ *Financial Times*, FT.com, January 12, 2006.

⁸ *The Wall Street Journal*, October 17, 2005, 8.

⁹ N. J. Watson, "Feeding the Dragon," *Petroleum Economist*, December 2005, 10-16 (10-11).

¹⁰ Friedemann Müller, "Machtspiele um die kaspische Energie?" *Aus Politik und Zeitgeschichte*, 2006, no. 4 (January 23, 2006): 3-10 (7).

¹¹ *Asia Times*, February 10, 2005, reprinted in *Energy Bulletin*, <http://www.energybulletin.net/4295.html>.

ticular producer countries and instead to strengthen the position of those who favor the freest possible oil market.¹² But that would leave China exposed to the willingness of the United States, in particular, to refrain from exercising military control of oil flows from the Persian Gulf to East Asia.

3. The Security Implications

An article in *Foreign Affairs* points out that: “China [has] little room for morality.”¹³ China is looking for oil from Russia, Saudi Arabia, and other major producers, but the capacities they can offer are simply not enough. So it can come as no surprise that China is also working with states with poor reputations in questions such as human rights, corruption, and good governance. This applies to Sudan, Nigeria, and other African states, as well as to Iran and Uzbekistan. In the case of Sudan it is as plain as day that for China its oil interests take precedence over achieving consensus in the Security Council on how to deal with the warring parties. These priorities could play a particularly crucial role with respect to Iran. Although there are no signs yet of a fundamental blockade of the UN mechanisms, it is becoming clear that Iran could potentially become China's most important supplier, if an oil and gas pipeline was laid from Iran through Central Asia to China. Due to the geographical situation this would not be possible from any of the four other major Persian Gulf producers. Even if such a pipeline would not be absolutely invulnerable, it would free China from dependence on American benevolence for transport out of the Gulf. Against this background it would be no surprise if China was willing to pay a high price for a close strategic partnership with Iran.

¹² Zweig and Jianhai, “China's Global Hunt for Energy” (see note 4).

¹³ Ibid.

The Rise of a Trade and Technology Giant

Jens van Scherpenberg

Ironically summarizing the way Western perceptions of China's economic power oscillate between exuberance and panic, the title of one recent research paper from the American National Bureau of Economic Research asks: "Will China eat our lunch or take us out to dinner?"¹

The following chapter explores those hopes and fears and the underlying reality of China's role in the global economy, focusing first on China's rise as a trading power and its importance for the international division of labor, before moving on to outline the international balance of payments relationships and consider whether China is operating a mercantilist exchange rate policy. Subsequently, the issue of trade in technology with China—a bone of contention in transatlantic relations—is investigated. The international exchange of goods and services, and the associated financial flows, are of course by nature two-way processes, and Western perceptions are split on both China's roles as supplier and as consumer in the global market. Friedemann Müller's contribution on the energy policy implications of China's rise (see above, pp. 9) clearly outlines the problems associated with the country's emergence as a weighty new diner at the global economy's ever shrinking "energy lunch." Here we shift the spotlight to the opportunities that come with China's integration in the global economy.

1. China's Rise as a Trading Power

With its rise to become the world's third biggest exporter, after the United States and Germany but ahead of Japan, China is following a historical pattern. Almost all the great powers of the modern age initially gained international importance as trading powers before they began to affect the international balance of power in political and military terms too. The past 150 years have seen the rise of Germany, the United States, Japan, and in the last twenty years China. India will probably be next.

Each of these breakthroughs was accompanied by the integration of a large pool of new labor—and consumers—into the world economy. With each came significant advances in productivity thanks to the introduction of new technologies and manufacturing processes. And in each case these developments brought with them more than an increase in prosperity; for established powers and newcomers alike, they also caused an enormous

¹ Hans Fehr, Sabine Jokisch, and Laurence J. Kotlikoff, *Will China Eat Our Lunch or Take Us Out to Dinner? Simulating the Transition Paths of the U.S., EU, Japan, and China*, NBER Working Paper 11668 (Cambridge, Mass.: National Bureau of Economic Research, October 2005), <http://www.nber.org/papers/w11668> (accessed December 15, 2005).

acceleration of structural change in their economies, as the international division of labor shifted.²

In this process China has so far (unlike Japan in its time) played an almost textbook role. Beginning with the manufacture and export of labor-intensive products with low technological content, China has actively attracted foreign direct investment in important industrial sectors. Imports have also risen as a result; during the period from 1980 to 2001 they grew roughly in step with exports, thus producing a largely even current account balance. Only in 2002 did a significant current account surplus begin to appear (2004 \$70 billion, 2005 probably almost \$130 billion), but it is still way behind Japan's surplus (2004 \$172 billion, 2005 probably almost \$160 billion) and will probably surpass Germany's (2004 \$104 billion; 2005 approx. \$120 billion) for the first time in 2005.³

Furthermore, more than half of all Chinese exports are accounted for by shipments from Chinese subsidiaries to their foreign parent companies (intra-firm trade). Here, too, the development model is much more open than was the case in Japan or South Korea.

Although China displaced Japan from third place in the list of major exporters in 2004, it had already taken the position of third-largest importer a year earlier. In 2004 China's imports attained a share of 34 percent of GDP. That same year the figure for Japan rose above 9 percent for the first time in twenty years.

So is China running a mercantilist export policy, as some economists claim?⁴ The charge is hard to uphold in view of the data listed above, and the tough conditions that China accepted for WTO membership do not support it either. Nonetheless, the mercantilism argument is often advanced, especially in the United States, and backed up above all by accusations that China is unfairly distorting trade by keeping its currency undervalued vis-à-vis the US dollar.⁵ The latest data for Chinese currency

² For a historical assessment of China's rise to become an economic power, see also Gary Saxonhouse, *The Integration of Giants into the Global Economy*, Asian Outlook 2006, no. 1 (Washington, D.C.: American Enterprise Institute, 2006), http://www.aei.org/publications/pubID.23790/pub_detail.asp (accessed February 5, 2005).

³ The 2005 balance of payment figures for the three countries were not yet available when the manuscript was submitted. The figures used here are estimates based on extrapolation of the available monthly data for 2005.

⁴ For example, the statement by Robert A. Blecker Ph.D., professor of economics at the American University, Washington, D.C., on May 19, 2005, before the U.S.–China Economic and Security Review Commission, hearing on *China and the Future of Globalization*, 109th Congress, 1st session, 2005, http://www.uscc.gov/hearings/2005hearings/transcripts/05_05_19_20.pdf (accessed February 5, 2005).

⁵ For a critical discussion of the idea that China is pursuing a mercantilist exchange rate policy, see Joshua Aizenman and Jaewoo Lee, *International Reserves: Precautionary vs. Mercantilist Views, Theory and Evidence*, IMF Working Paper WP/05/198 (Washington, D.C.: IMF, October 2005), <http://www.imf.org/external/pubs/ft/wp/2005/wp05198.pdf> (accessed February 5, 2006), and Gunther Schnabl, *Der Festkurs als merkantilistische Handelspolitik – Chinas Währungs- und Geldpolitik im Umfeld globaler Ungleichgewichte* (Tübingen, February 2005), <http://www.uni-tuebingen.de/uni/w04/bibliothek/DiskBeitraege/291.pdf> (accessed February 25, 2005).

reserves, which grew to \$819 billion in 2005, would appear to confirm this argument. But Japan's currency reserves were greater still, at \$847 billion. And Japan's reserves originate exclusively from its trade surplus, while a large part of China's now come from speculative inflows of foreign capital. Although the growth of China's currency reserves accelerated enormously in the period 2001–04 in comparison to 1998–2000, 87 percent of this acceleration was accounted for by capital inflows not associated with direct investment (largely of a speculative nature); for 2004 alone these were estimated to amount to \$100 billion.⁶

China revalued the renminbi by 2.1 percent in July 2005 as a first step toward ending fixed parity with the dollar,⁷ and moved to peg it to a currency basket instead.⁸ This decision may well have had much more to do with fending off speculative capital inflows (in which it was, incidentally, successful) than with assuaging American accusations that the exchange rate was artificially low.⁹

Furthermore, in view of the structure of Sino-American trade it is questionable whether a marked revaluation of the renminbi against the dollar would actually have any lasting impact on China's trade surplus with the United States, which passed the \$200 billion mark for the first time in 2005. Japan provides an example for the persistence of high trade surpluses with the United States even after a significant revaluation of the currency, in this case the Yen.

In American political circles the exchange rate argument is deployed not only to cater to domestic protectionist interests but even more so to

⁶ Eswar Prasad and Shang-Jin Wei, *The Chinese Approach to Capital Inflows: Patterns and Possible Explanations*, IMF Working Paper WP/05/79 (Washington, D.C.: IMF, April 2005), <http://www.imf.org/external/pubs/ft/wp/2005/wp0579.pdf>. Although currency reserves grew by \$207 billion in 2004, only one quarter of this originated from the current account surplus. Of the remaining approx. \$150 billion, \$53 billion are accounted for by foreign direct investment. The remainder (of which only just under \$60 billion is included in the balance of capital transactions) probably represented speculative inflows ("hot money") coming in expectation of a revaluation of the renminbi. Such inflows are possible even under China's restrictions on international capital transactions, whether through pricing policies in foreign trade or by postponing the transfer of income earned in China (profits as well as remittances of salary payments) in expectation of a renminbi revaluation (not to speak of illicit transactions).

⁷ Currency-swap deals conducted by the Chinese central bank at the end of 2005 suggest that there will be another gradual revaluation of some 3 percent during the course of 2006. "China Bank's Currency-Swap Deal Signals Expectations for Rising Yuan," *Wall Street Journal Online*, November 25, 2005, <http://online.wsj.com/article/SB113291457296906507.html> (accessed November 26, 2005).

⁸ Following Singapore's example, the basket's composition will remain confidential in order to avoid handing any speculative leverage to financial markets. The currency policy measures of July 2005 actually closely correspond to what American experts had already proposed. See for example John H. Makin, *China: The Unplannable, Planned Economy* (Washington, D.C.: American Enterprise Institute, June 2004), http://www.aei.org/publications/pubID.20586,filter.all/pub_detail.asp (accessed February 5, 2006).

⁹ "Currency Reserves Held by Beijing Continue to Swell," *Wall Street Journal Online*, January 16, 2006, <http://online.wsj.com/article/SB113736681869747161.html> (accessed January 16, 2006).

fuel fears that China's huge dollar and treasury holdings expose the United States to the risk of economic and political blackmail. However, since China's huge reserves are overwhelmingly held in dollars and thus are subject to American sovereignty, China is at least as vulnerable. Economists and financial analysts, therefore, regard such concerns of China gaining political leverage from its currency reserves as unfounded. In this context one can at most speak of a delicate state of co-dependency.¹⁰

2. Trade Structure and Technology Exchange

In the textbook case of trade between a large developing country and an industrialized country, the latter mostly exports goods with high technology and knowledge content and imports low technology goods. Thus the industrialized country realizes its gain from trade: Through structural change, cheaper imports open the way to reallocate domestic production resources to knowledge-intensive high-technology products and to a broad spectrum of services.

China's trade with the European Union roughly matches that pattern. In the past ten years, machinery and equipment, electronics, and vehicles on average accounted for over 65 percent of EU exports to China. In the case of Germany the figure is even higher, at 72 percent.

The United States is quite a different matter. Only about 45 to 50 percent of its exports to China in the past decade (which anyway only add up to about 60 percent of the value of EU exports) were in the aforementioned high-tech product class.¹¹

The most important explanation for this transatlantic difference is probably US export control policy, the main target of which today is China. This reflects the prime importance that the US National Security Strategy gives to defending a clear technological advantage. One could say that technology export controls are one of the central elements of American containment policy towards China.

In view of the data cited above, this policy harbors a certain degree of tension for transatlantic relations, as we have seen clearly in the conflict over the EU arms embargo, as well as over technological cooperation between the EU and China (in particular, over Chinese participation in the European Galileo project to set up a high-precision satellite navigation system).

However, even in the United States the effectiveness of technology export controls is called into question. The Americans fear not only the direct loss of export opportunities, but also the additional stimulation of the Chinese high-technology sector and with it the premature loss of

¹⁰ Catherine L. Mann, "Breaking Up Is Hard to Do: Global Co-Dependency, Collective Action, and the Challenges of Global Adjustment," *CEifo Forum* 1 (2005): 16-28, <http://www.iie.com/publications/papers/mann0105b.pdf>.

¹¹ Calculation based on trade in goods in SITC Class 7 (Standard International Trade Classification); source for the American data: U.S. Census Bureau, *U.S. International Trade Statistics*, for the EU data: EUROSTAT.

American market positions in the high-tech sector. Similar considerations moved EADS co-CEO Tom Enders to advocate setting up Airbus production facilities in China—while maintaining control of the transferred technology know-how—despite political resistance from France.

In fact, the Chinese are already catching up fast in the field of high technology—with massive state support.¹² Ironically, this process is gradually improving the protection of intellectual property rights, because Chinese businesses are increasingly concerned to protect their own innovations.

In spending on R&D in 2004, calculated on the basis of purchasing power parity, China occupied third place internationally, with 11.8 percent of global R&D spending, behind the United States (32.7 percent) and Japan (13.0 percent) but ahead of Germany (5.6 percent).¹³ China's increasing integration in global technology developments as a research and development location, which is being actively cultivated by the big multinationals, will further enhance the country's technical know-how and technological potential. For example, China is already Microsoft's most important overseas development location. And European companies too are making increasing use of the huge supply of skilled workers whose training may not correspond to European standards but who make up with their creativity and their willingness to learn and to work hard.

Is this a development against which we should protect ourselves through technology containment? Even if it were possible to hold back China's intellectual potential and maintain an American and European technical advantage for a time—and in view of the complex web of trading and business links and accelerated diffusion of technology through modern information and communications systems this is basically a lost cause—the loss of global economic wealth caused by such a containment policy would be considerable. Technology export controls, therefore, should be restricted to those few highly sensitive purely military technologies for which there are already today—even between the Atlantic allies—extensive controls.

¹² Organization for Economic Cooperation and Development, "OECD Finds That China Is Biggest Exporter of Information Technology Goods in 2004, Surpassing US and EU," December 12, 2005, http://www.oecd.org/document/8/0,2340,en_2649_201185_35833096_1_1_1_1,00.html.

¹³ The European Union as a whole occupies second place with 24.6 percent. See "The State of Global R&D," *R&D Magazine*, September 2005, p. G1, <http://www.battelle.org/globalrd.pdf> (accessed February 5, 2006).

The Arms Trade

Carsten Klenke

The first part of this contribution looks at Chinese arms imports, examining the security and industrial policy motivations for Chinese imports, the restrictions on its access to the arms market, and the measures it takes to overcome them. It also investigates the potential for conflict between the United States and the European Union over the issue of lifting the EU embargo, and between China and the EU over technical support for the Chinese arms industry.

Chinese arms exports are the focus of the second part, which examines the main countries and regions to which they go and the strategic and security policies that stand behind them. Consideration is also given to the potential for conflict in relations with the United States and the European Union over arms exports to states subject to international arms export restrictions, and to the potential for Sino-American conflict stemming from Chinese efforts to secure resources and contain security worries in its region.

1. China as an Arms Importer

The Soviet Union supplied China with armaments and defense technology from 1949 until the Sino-Soviet split in the early 1960s. During the Cold War China continued to produce Soviet technologies,¹ but also imported weapons, weapons systems, and components from the West.² This changed fundamentally when an arms embargo was imposed following the Tiananmen incident.³ After 1990 Russia and Ukraine reappeared as China's main arms suppliers. Unless the embargo is lifted, they will retain that role for the foreseeable future because in certain high-tech fields China's defense industry is not yet capable of autonomously developing and manufacturing the weapons, weapons systems, and components that the country's armed forces need.⁴

There are, however, signs of intensified efforts to create an autonomous high-tech defense industry independent of imports from Russia and Ukraine through license production, and especially reverse engineering and adaptation of commercial off-the-shelf systems. This corresponds both

¹ Michael E. Brown, Owen R. Coté, Jr., Sean M. Lynn-Jones, and Steven E. Miller (eds.), *The Rise of China* (London, 2000), 76.

² Ibid. 84.

³ Eugene Kogan, *The European Union Defence Industry and the Appeal of the Chinese Market* (Vienna, 2005), <http://www.bmlv.gv.at/wissen-forschung/publikationen/publikation.php?id=262> (accessed December 15, 2005).

⁴ Brown et al., *The Rise of China* (see note 1), 92–96.

to the defense strategy developed since the 1980s,⁵ and to the current military planning parameters.⁶ The strategy calls for the Chinese armed forces to prepare for active defense, which means defending the country outside or directly on its territorial borders.⁷ Furthermore, since the late 1990s military planning has been working toward the ability to win two local high-tech conflicts on the country's periphery and at the same time be prepared for military (in other words violent) reunification with Taiwan, while minimizing vulnerability to external disruption (interruption of supplies of spare parts and munitions).⁸

Whereas until the early 1990s the development target for the Chinese armed forces was to complete the jump from exclusive concentration on people's war (massed infantry and guerilla tactics) to mechanization, the bar was raised after analysis of the second Gulf War. Now the Chinese are working on the second leap to informatization (network-centric warfare).⁹

The limits to the defense strategy and the associated armed forces development doctrine are to be found in the absolute priority allocated to national economic development,¹⁰ which on the one hand supplies the resources for the armed forces, and which they in turn are expected to promote actively. According to military officials,¹¹ the growth rates for the defense budget, which have been in double figures for years, are always a function of the overall budget and its annual growth rates. This also sets the limits for large-scale imports of expensive high-technology defense goods.

Another striking development initiated during the 1990s is the restructuring of the procurement process for defense goods.¹² Procurement is being simplified, the weapons system replacement cycle accelerated, and the innovative capacity of the armaments industry enhanced. The means for achieving this include expanding the product range to include civil-use systems and tapping the resulting synergy effects. The results of this process can already be observed in the shipbuilding industry.¹³

5 Swaran Singh, "Continuity and Change in China's Maritime Strategy," <http://www.spratlys.org/news/oct03/30.htm> (accessed November 15, 2005).

6 Xinhua News Agency, "China's Jiang Signs Order Promulgating New Regulations for Military Procurements," news release, November 1, 2002.

7 Xinhui, "The Political History of the Sino-Vietnamese War of 1979 and the Chinese Concept of Active Defense," http://www.china-defense.com/history/sino-vn_1/sino-vn_1-2.html (accessed 12 November 2005).

8 Discussion between the author and representatives of the general-staff-level General Armament Department of the Chinese People's Liberation Army (April 2004).

9 You Ji, "China's Emerging National Defense Strategy," *China Brief* 4 (November 14, 2004): 23.

10 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004* (Beijing, 2004), chap. 2, "National Defense Policy," <http://english.people.com.cn/whitepaper/defense2004/defense2004.html> (accessed November 28, 2005).

11 *China's Defense Budget*, <http://www.globalsecurity.org/military/world/china/budget.htm> (accessed January 12, 2006).

12 Tai Ming Cheong, "Chinese Defense Industrial Reform and the Navy," *China Brief* 5 (February 15, 2005): 4.

13 Hans Jürgen Witthöft, "Auf dem Weg nach oben," *Marine Forum*, 2005, no. 12: 17–19.

Overall it can be said that in the field of the arms trade the China–America–Europe triangle does not currently contain points of rivalry that are likely to erupt suddenly into conflict. But this could change very quickly if the EU were to lift its arms embargo unilaterally and unconditionally.

Reactions to the European Union’s declaration that it intends to lift the embargo in the foreseeable future—especially from the American Congress—have already given a foretaste of the potential for conflict in relations between America and Europe.¹⁴

Here China is interested less in complete weapons systems—as was the case with the destroyers, submarines, and aircraft obtained from Russia—and much more in the underlying technology, the know-how and in some cases also the plant required to produce the components for such systems. Comments made by representatives of the Chinese procurement body (the general-staff-level General Armament Department) clearly confirm that such efforts to gain autonomy are under way.¹⁵

This means that resuming arms sales to China would not only have repercussions on relations between Europe and the United States; it would also influence the Chinese defense sector’s chances of competing with its European rivals in the international market for high-tech defense goods. Civil shipbuilding provides a textbook example: after successfully absorbing the necessary technology China is making deep inroads into the global market with rising quality and falling prices, and is already beginning to challenge world leaders Japan and South Korea for their positions in this segment.¹⁶

2. China as an Arms Exporter

China’s arms exports can be classified and analyzed under three aspects.

Firstly, China’s exports serve a niche market. With its low production costs and technologically relatively unsophisticated products China is able to serve a clientele that does not possess the means to purchase expensive technologically advanced Western-style weapons systems. In the meantime, even Russian prices have risen close to Western levels in various defense procurement sectors.

China achieves its low level of prices not only through its lower wage and production costs, but also by entering the international market with weapons systems produced in large quantities (for its own armed forces too). In a feedback effect, domestic research and development facilities are used to capacity and producers’ know-how is increased, which in turn benefits arms production for the domestic armed forces.

¹⁴ Wade Boese, “EU Retains China Arms Embargo” *Arms Control Today*, (January–February 2005), http://www.armscontrol.org/act/2005_01-02/EU_China.asp (accessed December 19, 2005).

¹⁵ Discussion between the author and representatives of the general-staff-level General Armament Department of the Chinese People’s Liberation Army (April 2004).

¹⁶ Witthöft, “Auf dem Weg nach oben” (see note 13), 17–19.

The niche China serves is defined not only by price segment, but also in terms of availability of weapons systems. Many of the countries supplied by China are subject to arms export restrictions imposed by the international community. Here China fills a gap. This often earns the country criticism, which it always rebuffs with reference to the principle of non-interference (sovereignty).¹⁷

Secondly, China's arms export policies must be seen in conjunction with its defense strategy. The priority given to economic growth affects not only the financing of China's defense sector; arms exports and military cooperation for their part are also used harnessed to boost the economy.

A reliable supply of raw materials is a fundamental precondition for China's rapid economic growth.¹⁸ The recipients of Chinese arms exports include crucial raw material suppliers and states located along major transport routes. This is sometimes described as China's "string of pearls" of military and diplomatic strategic bases.¹⁹ Arms exports very often come linked to military cooperation in guarding sea lanes, docking rights, or the use of military bases. In this way China creates dependencies that consolidate its energy and raw material security.

Above and beyond this, a linkage of solutions to economic and security problems can also be observed. After military assistance was granted to the Philippines, the Philippine foreign minister declared that the territorial dispute over the Spratly Islands had been resolved and announced that the oil reserves there would be developed jointly.²⁰

Last but not least, potential sources of conflict are isolated. If one considers China's defense cooperation with Pakistan and Bangladesh, it is easy to come to the conclusion that (notwithstanding a considerable relaxation) China's relationship with India is encircled by Chinese cooperation partners to strengthen Beijing's hand against New Delhi.

This brings us to the *third* aspect of arms exports: containment of security worries. China makes no secret that it feels encircled by the United States and restricted in its progress and development.²¹ Arms exports and defense cooperation are seen as means to counteract these containment efforts.

The Chinese defense strategy defines the first chain of islands off its mainland as the area where its navy, navy air wing, and air force must defend the integrity of the Chinese state.²² This area encompasses some of

¹⁷ Bill Gertz, "China Raps Sanctions for Iran Arms Sales," *Washington Post* (online), December 28, 2005.

¹⁸ See Friedemann Müller's contribution on energy supplies (pp. 9).

¹⁹ Hideaki Kaneda, "The Rise of Chinese 'Sea Power'," <http://www.project-syndicate.org/commentary/kaneda7/English> (accessed March 3, 2006)

²⁰ Report by the German Embassy in Manila, March 11, 2005; see also: Willy Lam, "Beijing's Strategy to Counter US Influence in Asia," *China Brief* 5 (December 6, 2005): 25.

²¹ "China Feels Encircled," *The Economist*, June 8, 2002, <http://www.iiss.org/conf/Pressmore.php?confID=4> (accessed January 19, 2006).

²² James Holmes and Toshi Yoshihara, "The Best Defense Is a Good Offense for China's Navy," *In The National Interest*, June 2005, <http://www.inthenationalinterest.com/Articles/June%202005/June2005HolmesPFV.html> (accessed December 6, 2005).

the countries with which China is striving to increase military cooperation and/or supplies with arms. The example of the Philippines shows that these efforts can provoke the expected responses from the United States. A few days after the aforementioned Sino-Philippine agreement was concluded, press reports appeared in the United States reporting a proposal by the White House to cut American military aid to the Philippines by almost 30 percent (the proposal was confirmed shortly thereafter by the White House).²³

An emerging conflict between the United States and China already seems to take on a clearer form in this context. On the one side is the American attempt to stay the growth of Chinese influence in the region, on the other the Chinese attempt to respond to this containment effort by successively expanding its influence in the region. It is not yet clear whether, and to what extent, the European Union can play a role here.²⁴

All in all, Chinese armaments policy is embedded in both the national defense strategy and the security-relevant areas of foreign and economic policy. It represents an expression of China's increasingly confident profile in the region and in geographical zones that China regards as important in the interests of maintaining its economic development. The way China uses arms exports and military cooperation to gain a foothold in these zones is particularly striking. Although China does not attempt to avoid conflicts altogether, it is always concerned to keep them on a controllable level.

²³ Report by the German Embassy in Manila, March 11, 2005.

²⁴ Lam, "Beijing's Strategy to Counter US Influence in Asia" (see note 20).

China's New Regional Presence

China and the Wider Middle East

Johannes Reissner

A brief historical review of the development of relations between the People's Republic of China and the wider Middle East quickly reveals the specific contours of recent trends. Israel was the only state in the region to recognize the People's Republic of China when it was founded in 1949. The Political Committee of the Arab League, on the other hand, voted to recognize Taiwan, largely because of the People's Republic's support for Arab liberation movements. The turning point came at the 1955 Bandung Conference, where the People's Republic and the Arab states reached a closer understanding in the spirit of common anti-imperialist struggle. This trend found its clearest expression during the Suez Crisis of 1956, where China supported Egypt and broke off relations with Israel. Thereafter, however, aside from arms exports and a Middle East peace plan of its own presented in 1988, China played no independent political role worth speaking of in the Middle East conflict proper.

Following the Sino-Soviet split of 1960, China's relationship to the region was defined above all by rivalry with the Soviet Union. Whereas Moscow supported established anti-Western and "socialist" regimes, especially Egypt under Gamal Abdel Nasser, Beijing threw its weight behind radical pan-Arabist movements and the Algerian war of liberation against France. At the same time, the People's Republic began establishing contacts with pro-Western countries in the region such as Lebanon, Turkey, and Iran, which led to official diplomatic relations being established after China was admitted into the United Nations in 1971.

Oil

The inauguration of diplomatic relations with the Arab Gulf states during the 1980s was followed by a dramatic increase in Chinese oil imports from the region beginning in 1993 (see table on page 28), which brought about a fundamental transformation of China's relations with this region. After the end of the Cold War economic interests replaced rivalry with the United States, and even more so the Soviet Union, as the decisive driving force behind Chinese development.

It is interesting that the volume of Chinese oil imports from the region is not disproportionately high in relation to the region's exceptionally large share of global oil reserves. The dominant importers are still clearly the OECD states. However, natural gas is beginning to gain additional importance for China's relations with the region. In October 2004, China and Iran signed a memorandum of understanding for the supply of 250 million tonnes of liquid natural gas over a period of thirty years beginning

in 2008.¹ At the same time, China acquired 51 percent of the natural gas produced from the Yadaravan fields in Khuzestan.² The value of the two agreements adds up to about \$100 billion. Earlier the same year, in March 2004, the Chinese corporation Sinopec had bought a concession to drill for natural gas in Saudi Arabia (as had the Russian Gazprom). This is significant development, given that Saudi Arabia does not permit foreign investment in oil production. Wide-ranging energy agreements were also signed during King Abdullah's three-day visit to Beijing in January 2006, but the details are not yet known.³

The volume of China's oil imports, 1990–2002 (millions of barrels)

Supplier	1990	1992	1994	1996	1998	2000	2002
Oman	6.00	22.34	24.58	41.28	42.29	114.32	58.73
Yemen	–	3.20	9.18	27.49	29.55	26.37	23.81
Iran	2.20	0.84	0.50	16.87	26.43	51.10	77.60
Saudi Arabia	–	1.37	1.07	1.68	13.19	41.83	83.15
Iraq	–	–	–	–	4.43	23.24	3.92
United Arab Emirates	–	1.71	0.48	–	3.76	3.14	–
Kuwait	–	–	–	–	2.06	3.16	7.81
Qatar	–	–	–	–	–	11.67	3.34
Egypt	–	–	–	–	–	0.88	–
Libya	–	2.15	–	1.01	–	0.95	–
Algeria	–	–	0.05	–	–	–	–
Total from Middle East	8.42	31.60	35.87	88.34	121.68	276.67	258.36
Total imports	21.33	2.91	90.13	165.10	199.45	512.94	506.67
Share from Middle East	39.47%	38.12%	39.79%	53.50%	61.00%	53.93%	50.99%

Source: Jin Liangxiang, "Energy First," *The Middle East Quarterly* 12, no. 2 (spring 2005), <http://www.meforum.org/article/694>.

¹ Rainer Rupp, "Jahrhundertdeal mit Iran," *Junge Welt*, January 29, 2005 (online subscriber edition). According to Iranian sources the final agreement is to be signed in January 2006, see *Iran Daily*, December 19, 2005 (online edition).

² Energy Information Agency (ed.), *Country Analysis Brief: Iran*, March 2005, <http://www.eia.doe.gov/emeu/cabs/iran.pdf>; and *Country Analysis Brief: China*, August 2005, <http://www.eia.doe.gov/emeu/cabs/china.html>.

³ Eric Watkins, "Saudis, Chinese Agree to Landmark Energy Accord," *Oil & Gas Journal online*, January 24, 2006.

Arms

Arms exports represent the second major component of China's material exchange with the region. During the 1980s China became the world's fifth-largest arms supplier, with a strong focus on the Middle East and North Africa.⁴ China did good business with both sides during the Iran-Iraq War of 1980 to 1988.

One spectacular deal was the sale to Saudi Arabia in the late 1980s of CSS-2 "East Wind" intermediate-range ballistic missiles with a range of approximately 2,800 km, after the Americans had refused to sell the Saudis missiles with such a long range. The Chinese missiles were intended to serve as a deterrent against Iran. The theory that the point of the exercise from the Saudi point of view was to use this lucrative deal to dissuade Beijing from supplying the missiles to Iran is certainly plausible. Although the Sino-Saudi deal does not by any means release the Saudis from dependency on American arms supplies, it did win the Kingdom leverage with respect to regional rivals and adversaries. And the Saudi missile purchase should not be regarded as a historical one-off. After all, the Chinese reportedly continue to service the bases, and the missiles are capable of delivering nuclear warheads, which could be significant if Iran were to actually acquire nuclear weapons. It is also believed that China could be cooperating with Egypt on nuclear technology.

New Room for Maneuver

Attention is currently focused on Iran and its nuclear program. In this context we must consider the extent to which China's growing role in the region could open up more room for Iran and other actors in the region to act in ways that run against the grain of Western interests. Iranian exports of oil and (in future) natural gas and Chinese arms supplies form the glue that holds the relationship together. It is unclear whether China—despite public denials—is still exporting nuclear technology to Iran.

Beijing's stance in the controversy over Iran's nuclear program has so far played to Tehran's advantage. Tehran had been counting on that, and still does, but the Iranians also know that for China relations with the United States will ultimately be more important. Iran's resumption of uranium enrichment led Beijing to join the other members of the Security Council in sending a warning letter to Tehran. But now Beijing has declared that it is still too early to refer the issue to the Security Council. As a major oil importer, China also has an interest in tolerable oil prices and consequently in Iran making concessions. China has become generally more sensitive to crises in the region that have repercussions on the oil

⁴ Barry Rubin, "China's Middle East Strategy," *Middle East Review of International Affairs* 3, no. 1 (March 1999), <http://meria.idc.ac.il/journal/1999/issue1/rubin.pdf>; Lillian Craig Harris, "The People's Republic of China and the Arab Middle East, 1948–1996: Arab Perspectives," in: *China and Israel, 1949–1998: A Fifty Year Retrospective*, ed. John Goldstein (Westport, Conn.: Praeger, 1999), 47–63.

price. And it should not be forgotten that China lost its entire investment in the Iraqi oil industry as a consequence of the Iraq War. Beijing certainly does not want to see that happen again through military action against Iran, where it owns a 51 percent share of natural gas production from the Yadavaran fields.

The example of Iran demonstrates very clearly how regional actors' perceptions of China alter their policies. Trade between China and Iran, whose volume has now passed \$10 billion, is an important element of the general Iranian strategy of diversifying its trade and technology relationships in Asia. The Iranian leadership exploits this strategy as best it can to propagate its general political vision of development autonomous of the West. After twenty-seven years of American sanctions, they resolutely promise the population, Iran would also survive European sanctions if the worst came to the worst.

Of course there is more to the Chinese presence in the region than guns and oil. Other interesting issues include the impact of the large number of Chinese workers in Algeria on the labor market there, and the audible complaints of local producers and consumers about the competition by cheap Chinese goods.

The effects of the Sino-American relationship on the wider Middle East are also important for the current political constellation. A large part of the "war on terror" is, after all, being conducted in this region. So in terms of security policy, it makes a considerable difference whether the United States regards China's growing role in the Middle East and North Africa as largely counter to American interests, as for example Dan Blumenthal from the American Enterprise Institute does,⁵ or as a manifestation of "normal" global competition. The belief that America's "war on terror" is being used as a smokescreen for American pursuit of hegemony is not only shared by Iran and many Chinese leaders, but also finds broad support in other countries in the region.

⁵ Dan Blumenthal, "Providing Arms: China and the Middle East," *The Middle East Quarterly* 12, no. 2 (spring 2005), <http://www.meforum.org/article/695>.

China and Africa

Denis M. Tull

Chinese Foreign Minister Li Zhaoxing spent January 11 to 19, 2006, visiting six African states, including Nigeria, Libya, Senegal, and Mali. The trip continued a series of frequent diplomatic exchanges that has included more than one hundred meetings between high-ranking Chinese and African politicians and business representatives in the past two years alone. This increase in traveling diplomacy is *one* indicator of the way the People's Republic's involvement in Africa has increased considerably during the past ten to fifteen years. Another expression of China's rapidly multiplying interests in Africa is the publication in January 2006 of Beijing's first public document outlining the central tenets of its Africa policy.¹

This contribution outlines China's Africa policy, spotlighting three aspects: China's goals and interests in Africa; its political and especially economic involvement in Africa; and finally, the consequences of Chinese engagement for the continent and for German and European policy toward Africa.

1. China's Interests and Goals in Africa

China's interests can be summarized under three headings:

- ▶ Geopolitical interests
- ▶ Economic interests
- ▶ Enforcing the one-China principle²

China's foreign policy has undergone a remarkable transformation over the past ten to fifteen years. Although there may be disagreement over the depth and exact character of the change, nobody would dispute that since the 1990s China has been actively seeking a much more active role in the international system. The country has expanded and deepened its bilateral relationships, joined regional economic and security alliances, and noticeably intensified its participation in multilateral organizations. As a consequence of these changes China's foreign policy as a whole is judged, both in Asia and on the international level, as being more constructive, more

A longer version of this paper is forthcoming as Denis M. Tull, "China's Engagement in Africa: Scope, Significance and Consequences," *Journal of Modern African Studies*, vol. 44, no. 3 (2006).

¹ "China's African Policy," *People's Daily Online*, January 12, 2006, http://english.people.com.cn/200601/12/eng20060112_234894.html.

² This is the only recognizably ideological motive in Chinese policy toward Africa. Because it is largely self-explanatory it is not dealt with any further here.

flexible, more confident, more responsible, and less confrontative than had been the case during the preceding decades.³

The two main issues driving China's foreign policy reorientation are the country's increasing integration in global economic processes on the one hand, and its international isolation following the massacre at Tiananmen Square on the other. China's unparalleled economic rise and its concomitant deep integration in global economic structures have more or less forced Beijing to put its (inter)national interests on a broader footing. The Asian financial crisis of the late 1990s must be regarded as a watershed in this process; a key event that accelerated the foreign policy realignment. Beijing came to realize that the gains China was reaping through its growing global economic interdependencies contained the potential to boomerang in the guise of economic vulnerability to exogenous shocks. Because foreign trade represents one of the main pillars of China's economic development, consolidating and expanding relations with bilateral trading partners, and also regional and international stability, have become strategically important considerations.⁴ As a result China has responded to these shifts in its interests in the international sphere by conducting a hard-headed reappraisal and realigning its foreign policy accordingly. In essence Beijing has come to regard an active, globally oriented foreign policy as the strategy with which it can best defend and enforce its national interests. That is also the wider context for understanding the expansion and intensification of its bilateral relations with states outside Asia, including the countries of sub-Saharan Africa.⁵

In terms of political power and influence on the international level, China's ambitions have increased in step with its enormous economic successes of the past two decades. Beijing wants to be accepted as a correspondingly important international player. A second motivation is found in the concept of a multipolar world, where Beijing aims to counter American hegemony, which it fears could set limits to its growth and room for maneuver.

As China pursues these two goals, the developing countries play an important role due to their numerical weight within international organizations. This first became obvious in 1989, when the West's unusually harsh criticism of the repression of the Chinese democracy movement led the government in Beijing to promote the developing countries to "cornerstones" of its foreign policy. This logic automatically grants the African

³ For a historical review see Kay Möller, *Die Außenpolitik der Volksrepublik China 1949–2004*, Wiesbaden 2005; Kay Möller, *Chinas Außenpolitik: Selektive Multilateralität*, SWP-Studie S 44/2003 (Berlin: Stiftung Wissenschaft und Politik, November 2003), available online at http://www.swp-berlin.org/common/get_document.php?id=493; Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs*, vol. 82, no. 6 (2003), 22–35.

⁴ Michael A. Weinstein, "China's Geostrategy: Playing a Waiting Game," *Power and Interest News Report*, January 7, 2005, http://www.pinr.com/report.php?ac=view_report&report_id=253.

⁵ Unless the Maghreb states are explicitly mentioned, the discussion here relates to sub-Saharan Africa.

countries a particularly important place, because they represent more than one quarter of the United Nations member states.

Another central goal for China is to defend its economic interests. At the international level—and thus also in Africa—the Chinese economy is characterized above all by a strong orientation on foreign trade, which has two dimensions: firstly the continued increase in exports of goods, which represents an important motor of the economic boom, and secondly China's immense demand for raw materials, which are required in order to consolidate the country's economic growth.

**China's most important African trading partners, 2004
(by imports)**

<i>China's imports from Africa</i>	<i>In US dollars (millions)</i>	<i>In percent</i>
Angola	3,422.63	27.4
South Africa	2,567.96	20.6
Sudan	1,678.60	13.4
Republic of the Congo (Congo-Brazzaville)	1,224.74	9.8
Equatorial Guinea	787.96	6.3
Gabon	415.39	3.3
Nigeria	372.91	3.0
Algeria	216.11	1.7
Morocco	208.69	1.7
Chad	148.73	1.2
Total	11,043.72	88.4

Source: International Monetary Fund, *Direction of Trade Statistics*, Washington, D.C., May 2005.

The significance of Africa for both dimensions is immediately obvious. On the one hand, with a population of nearly one billion, Africa is an interesting market for cheap Chinese exports. On the other, Africa is rich in raw materials sufficient to satisfy a considerable portion of Chinese demand. The importance to China of securing and importing supplies of crude oil and other raw materials is reflected in the fact that nine of the ten biggest African exporters to China are oil producing and/or resource-rich states.

2. A Brief Stocktaking of Chinese Involvement

China's growing interest in Africa is reflected in a wide range of indicators and policy fields:

- ▶ Diplomacy and foreign policy
- ▶ Economic and trade policy
- ▶ Development policy and debt relief
- ▶ Recently also in peacekeeping operations in the UN framework

The following remarks concentrate on economic and trade policy, which clearly stands at the heart of China's Africa policy.

The volume of trade between China and Africa is still very moderate, representing just 3 percent of China's overall foreign trade, but growth rates are exceptional. Over the past decade the volume of trade has grown between 30 and 50 percent every year, to reach a level of \$27 billion in 2004. In the first ten months of 2005 it grew by another 39 percent to \$32.2 billion (exports \$15 billion, imports from Africa \$16.92 billion).⁶ That means that the magnitude of Sino-African trade is already more than half the volume of African-American trade (2004: \$44 billion). Although the trade balance is almost even, this conceals a situation where the overwhelming majority of African states run large deficits in trade with China, which are only balanced out by the surpluses of the raw-material-exporting states.

Two results of this development can already be identified: (1) In 2005 China probably replaced Great Britain as Africa's third largest trading partner (after the United States and France) and (2) China's share of Africa's foreign trade is now about 7 percent. That is not irrelevant for the African states, especially given that, as mentioned above, this is an extremely dynamic development.

China's imports from Africa consist above all of raw materials, especially crude oil. With a share of almost 30 percent (2003: 25.2 percent) Africa already makes a considerable contribution to China's oil imports.⁷ And massive investment by Chinese oil corporations in Angola, Sudan, and recently also Nigeria will cause this share to grow further.⁸ China has purchasing, exploration and production agreements with eight other countries. By comparison, the United States currently obtains 15 percent of its oil imports from sub-Saharan Africa, and this share is forecast to rise to 20 to 25 percent over the coming decade.⁹

So what factors explain China's success in opening up raw materials supplies in Africa? One explanation is certainly that since the end of the Cold War Africa has—in relative terms—lost importance for the Western states. A second explanation is to be found in Chinese strategies designed to exploit comparative advantages over (Western) rivals.

One significant advantage is without doubt that Chinese oil companies are state-owned entities whose overseas activities and investments are massively supported by the government (measures such as soft credits,

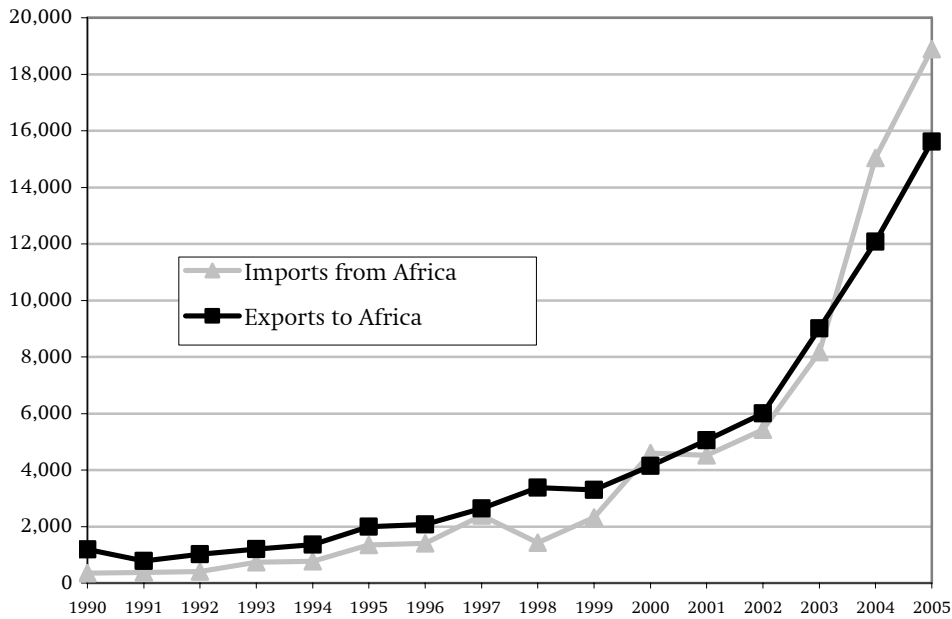
⁶ "China-Africa Trade Jumps by 39%," *BBC News*, January 6, 2006, <http://news.bbc.co.uk/2/hi/business/4587374.stm>.

⁷ The most important oil suppliers are Angola (13 percent) and Sudan (7 percent).

⁸ The Chinese corporation CNOOC recently purchased a 45 percent share of a new offshore oilfield in Nigeria for \$2.3 billion. The oilfield will contribute 9 percent of overall Nigerian production. "CNOOC Is Buying a 45% Stake in Nigerian Offshore Oil Field," *Wall Street Journal*, January 9, 2006.

⁹ Between 2001 and 2030 investments totaling \$360 billion are planned to flow into the African energy sector.

Sino-African trade, 1990–2005* (million US dollars)



* A Total for 2005 extrapolated from data for first eight months.

Source: International Monetary Fund, *Direction of Trade Statistics*, Washington, D.C., May 2005.

development aid, etc. tailored to gain the political goodwill of African governments). Reflecting the strategic importance of raw materials, China's energy security and foreign policy are closely intertwined. One consequence of this is that Chinese oil corporations are much less tightly bound by profitability criteria than their Western rivals.

Furthermore, the principle of non-intervention that China continues to defend so vehemently turns out to be a major advantage. This aspect has become even more significant recently, as Western states and organizations take an increasingly interventionist stance, for example with respect to transparency of resource management in oil-producing states. This makes China an interesting partner for African governments that insist on asserting their sovereignty—especially given that African oil states are not generally democratically governed.

And finally, major Chinese involvement can be observed in extremely problematic states such as Sudan, where China has exploited the absence or sanctions-related withdrawal of Western companies to gain access to oil. A similar mechanism also took effect last year in Angola, Africa's second-largest oil producer. After the International Monetary Fund tied its approval of a new loan to improvements in financial and fiscal transparency and the corrupt Angolan government rejected this demand, China stepped into the breach. In return for a loan of \$2 billion granted by the state-owned China Eximbank, the Chinese oil corporation Sinopec received oil concessions. Given that Angola's production is forecast to double by 2008, its share of China's oil imports will probably rise too (currently 13.1

percent, 1999: 3.7 percent).¹⁰ As well as securing oil concessions, the Chinese loan offered another advantage. Its was tied to the condition that 70 percent of the contracts it was used to finance—in this case infrastructure projects—had to be awarded to Chinese firms. Current developments in Chad, a new and very promising oil producer—could well follow a similar trajectory.¹¹ China is already present there even though Chad is one of only five African countries that recognize Taiwan.

3. Summary and Consequences

China's involvement and influence in Africa have grown considerably in the past ten years. And there is much to suggest that this trend will continue for the foreseeable future. Africa is definitely no longer the exclusive sphere of influence of the Western states (France, Britain, United States).

This raises the question of whether intensified efforts on the part of both China and the United States to expand their oil imports from Africa will lead to serious rivalry (Japan and India could be potential candidates here too). If this were to become the case it would certainly have serious repercussions for Africa's political and economic development.

China's successes are based on the fact that Beijing is in almost every respect—politically and economically—an extremely attractive partner. While the positive and negative economic consequences of China's return to Africa currently balance each other out, it must be feared that the political consequences for democracy, human rights, and conflict prevention will be overwhelmingly negative. In contrast to the approach of all other donor states (apart from Libya) that have appreciable activities in the region (i.e. the United States, the European Union, and Japan) promoting democracy has no place among the goals of Chinese foreign policy. That would be precluded by Beijing's culturally relativistic interpretation of personal liberty, which is systematically subordinated to the interests of the state. Even more important are the Chinese regime's own tangible interests, which make the idea of measures to promote democracy abroad simply unthinkable. If it were to do so, the Chinese leadership would inevitably undermine its own legitimacy at home. That is precisely why Beijing adheres so stubbornly to the dogma of non-intervention in internal affairs. African governments resisting internal and external (i.e. Western) calls for democratization are among the beneficiaries who can count on diplomatic and material support from Beijing. China's steadily growing involvement is therefore almost bound to lead to a collision of interests with the Western states, because the logic of its activities undermines the goals of German and European Africa policy—especially but not only in problem states like Sudan, Angola, and Zimbabwe.

¹⁰ "Angola: Booming Economy Brings Change of Track on Transparency Issue," *SouthScan*, January 28, 2005.

¹¹ "Chad: World Bank Freezes Loans, Government Urges Rethink," *IRIN News*, January 9, 2006.

China and Latin America

Günther Maihold

Since Chinese leader Deng Xiaoping extolled the “Pacific century” during his 1988 trip to Latin America,¹ Sino-Latin American relations have become a model for South-South cooperation. Although the volume of trade only grew from \$1.3 billion to \$1.8 billion during the 1980s, the political slant that had dominated China’s Latin America policy until then gave way to a more strongly economically accentuated course.² The phase of indifference where China had restricted itself to a weakly developed cultural diplomacy and selective contacts to revolutionary forces was over. However, the overriding importance of the United States for the Americas as a whole placed limits on any expansion of the Chinese presence, and the dominance of authoritarian regimes in the region also hindered the initiation of more comprehensive relations.³ During the 1950s—not least under the sway of US hegemony over the continent—broad support for Taiwan had become established in Latin America, so consequently developing relations with the People’s Republic of China was not on the agenda. Following the Cuban Revolution of 1959 China promised the new regime its “revolutionary solidarity” in the anti-imperialist struggle, but the relationship remained insular, and as Castro came to concentrate on the Soviet Union as his strategic partner, even Cuba dropped off China’s radar.

China’s growing international recognition following rapprochement with Washington and admission to the United Nations in 1971 also re-invigorated its relations with the states of Latin America. Since 1970 the People’s Republic of China has put massive effort into establishing diplomatic relations with the countries of Latin America. Chinese support in central questions of international law and diplomacy suited Latin American political interests. This applied to the establishment of the two hundred nautical mile exclusive economic zone, to the transfer of sovereignty over the Canal Zone to the government of Panama, and to the ban on nuclear weapons in Latin America.⁴ To that extent, China’s “opening-up” that began in 1978 also represented a turning point in relations with Latin America, in the sense that it ushered in the turn to export-led devel-

I would like to thank Jörg Husar for his assistance in the research for this article.

¹ Xu Sicheng, “La larga marcha Sur-Sur: China vis-a-vis América Latina,” *Foreign Affairs en español* 3 (2003) no. 3, 99.

² Stefanie Mann, “China and Latin America,” in *Latin America and East Asia – Attempts of Diversification. New Patterns of Power, Interest and Cooperation*, ed. Jörg Faust, Manfred Mols, and Won-Ho Kim (Münster, 2005), 139f.

³ Frank O. Mora, “Sino-Latin American Relations: Sources and Consequences, 1977–1997,” *Journal of Interamerican Studies and World Affairs* 41 (1997) no. 2, 91–116 (94).

⁴ Frank O. Mora, “The People’s Republic of China and Latin America: From Indifference to Engagement,” *Asian Affairs: An American Review* 24 (1997) no. 1, 35–58 (42).

opment of the Chinese economy and the associated growing dependency on imports. During the 1990s Beijing worked to build closer relations, especially with those Latin American states that strongly defended the notion of non-intervention in internal affairs. Latin American governments were reserved in their condemnation of Beijing's repression of the pro-democracy movement on Tiananmen Square in 1989, and this restraint offered a welcome diplomatic lifeline to the internationally isolated Chinese regime. During this phase China sought dialogue with the Rio Group and improved its relations with the Caribbean states in particular, one formal expression of which was its joining the Caribbean Development Bank (CDB).

To this day the Caribbean Basin and the Central American Isthmus continue to represent one of the main concerns of China's political diplomacy, given that twelve of the twenty-six countries that continue to maintain diplomatic relations with Taiwan are located in this region.⁵ The Caribbean also represents a crucial bridgehead for Chinese investments, because from here China can exploit existing preferential access agreements to gain access to the US market.⁶ Also during the 1990s, China stepped up its presence in the South and Central American regional organizations, gaining observer status at the Inter-American Development Bank (IDB), the Latin American Integration Association (ALADI), the Economic Commission for Latin America and the Caribbean (ECLAC), and the Association of Caribbean States (ACS).

Motives of Chinese Latin America Policy

In recent years China and Latin America nursed hopes that they could turn out to be ideal partners at the levels of both the global economy and international diplomacy. In economic terms they seemed to complement one another perfectly: Latin America possesses those reserves of raw materials that China needs for its booming economy, while Latin America hopes for Chinese capital to bolster its peripheral position in the ranking of recipients of international direct investment.⁷ Chinese President Hu Jintao's participation in the APEC summit in Santiago de Chile in October 2004 and his state visits to Brazil, Argentina, Chile, and Cuba immediately before and after the summit fostered expectations that China could become a new partner for the region. However, it quickly became clear that putting flesh on the bones of grand pronouncements and ambitious agreements is a tricky business, and that the Chinese side is not shy to state its own regional interests absolutely clearly.

Security of supply through trade. The prime motive for China's turn to Latin America is its own security of supply. One reason for this can be seen

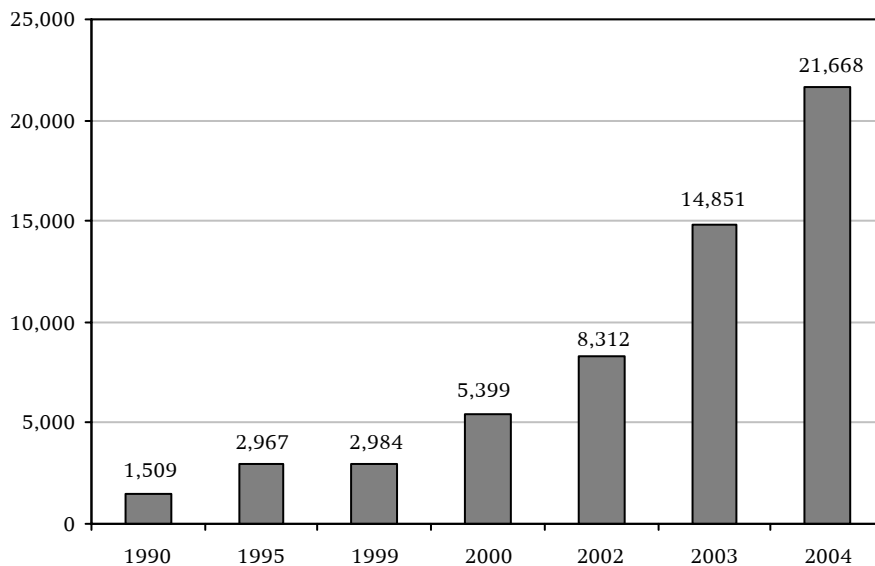
⁵ In South America only Paraguay maintains diplomatic relations with Taiwan.

⁶ Mann, "China and Latin America" (see note 2), 136.

⁷ Thomas Pohl, "Die Wirtschaftsbeziehungen zwischen China und Lateinamerika: Mehr als große Hoffnungen?" *Brennpunkt Lateinamerika*, 2005, no. 10 (May): 117–128 (119).

in the fact that 80 percent of Chinese imports from the region are raw materials, drawn largely from Brazil, Peru, Chile, and Argentina. Although still very marginal in the context of Chinese foreign trade as a whole, trading relations with Latin America are developing very fast. Latin America's share of Chinese foreign trade rose from 2.7 percent in 1999 to 3.5 percent in 2004, putting it only slightly higher than Africa's. However, the recent boom experienced by China's imports from Latin America is more dynamic than the strategy for Chinese exports to Latin America, so currently—in contrast to the 1990s—the Chinese trade balance with the region remains in the red. Latin America will only be able to put that to its advantage if it succeeds in diversifying its range of export goods for the Chinese market.

Chinese imports from Latin America and the Caribbean 1990–2004
(million US dollars)



Source: CEPAL, *Panorama de la inserción internacional de América Latina y el Caribe, 2004 Tendencias 2005* (Santiago, 2005), 159.

On the road toward setting up bilateral cooperation in the high-technology sector, Brazil and China have made their first successful steps in the field of air and space technology, to the point where they have already been able to launch joint satellites. It also would appear that the Chinese side is primarily interested in technology transfer by leap-frogging development stages. At least that is the impression gained if one considers the cooperation with the Brazilian aircraft manufacturer EMBRAER, which was initially focused on trade but relatively quickly give rise to a major manufacturing joint venture in China.

Security of supply and market presence through investment. Alongside trade, Chinese firms are also interested in lucrative investment projects in

Latin America. Attention centers in particular on strategic sectors that serve China's own resource needs and the associated infrastructures. Top of the list are opening up new mineral deposits through joint ventures, prospecting for oil in Latin America and China, and investing in infrastructure development in Latin America, above all in improving transport systems (railroads, ports) but also in housing construction projects. Just in 2003, China invested one billion dollars in Latin America, bringing its total investments to \$4.6 billion, thus already surpassing Korea's cumulative investments in the region.⁸ Given that further major investments were agreed in 2004 and 2005, this already dynamic acceleration is bound to step up another gear or two.

Seeking partners and support for Chinese positions in international diplomacy. Now that China has abandoned its claim to speak for the "third world," it can exercise greater freedom in shaping its diplomatic cooperation with Latin America. China looks first of all to its strategic partner Brazil, for example promising it support for its efforts to obtain a permanent seat on the United Nations Security Council. With China and the Latin American states voting identically in UN bodies 80 percent of the time, it would seem that their positions are very close.⁹ It is plain that China is working to ensure broad Latin American support for its own international role through diplomatic cooperation. On the one hand, this applies to the promotion of multilateral arrangements in global politics and on the other to joint negotiating strategies in the Doha round, through the framework of the G-20 group. Now that China has joined the WTO, agreements formally recognizing it as a "market economy" as defined by the WTO are especially significant, because that is the precondition for China to avoid antidumping measures and demands for compensation. Ten Latin American countries (including Argentina, Brazil, Chile, Peru, and Venezuela) have already granted this recognition, even though the major Latin American countries are among the ten countries that most often initiated anti-dumping measures against China between 1995 and 2005.¹⁰

China's participation in stabilization operations in the region. The UN peacekeeping mission to bring order to Haiti (MINUSTAH) is the first time China has participated actively in tackling a crisis in the region. Previously it had regularly blocked UN-mandated operations, for example in Guatemala (1997) and Haiti (1996), on the grounds that both these states maintained diplomatic relations with Taiwan. Even though, with about 130 police officers, the contribution to the Haiti mission is relatively small, the

⁸ Comisión Económica para América Latina y el Caribe (CEPAL), *Panorama de la inserción internacional de América Latina y el Caribe, 2004 Tendencias 2005* (Santiago, 2005), 163.

⁹ Mora, "From Indifference to Engagement" (see note 4), 48.

¹⁰ Patrick Messerlin, "China in the WTO: Antidumping and Safeguards," in *China and the WTO: Accession, Policy Reform, and Poverty Reduction Strategies*, ed. Deepak Bhattasali, Shantong Li, and Will Martín (Washington, D.C., 2004), 29–47 (30).

new quality of this Chinese engagement in the region should not be underestimated, especially given that this is the first such operation to be led by the Latin American states themselves.¹¹

Squeezing out Taiwan. China works hard at all levels of its relations with Latin America to reduce Taiwan's influence in the region. In clear competition with offers of development cooperation made by Taipei to the states of Central America and the Caribbean, China has itself presented the various countries with offers whose financial terms are generally better than Taiwan's.¹² By means of this "dollar diplomacy" Beijing has already succeeded in persuading two Caribbean states to break off relations with Taipei. China also has an interest in gaining a foothold in the financial centers of the Cayman Islands and Panama and in the Panama Canal itself.

Overall, however, Chinese activities in Latin America conspicuously respect the specific interests of the United States in the region. So China is not setting up a systematic competition to the United States. This is reflected, for example, in relations with Venezuela, whose fiery Bolivarian president, Hugo Chávez, declared revolutionary solidarity with the People's Republic to be the foundation for expanding bilateral relations. The Chinese have almost always left it to their Latin American partners to publicly pluck the political/ideological strings of the respective relationship. So it was when Bolivia's new President, Evo Morales, spoke of China as an "ideological ally" during his visit to Beijing in January 2006. Nonetheless, fears are growing in the American Congress that China's new presence could usher in a new era in the region, where the "Chinese card" would allow the countries of South America to put even more distance between themselves and the United States. There are even fears that Washington risks "losing Latin America."¹³

Latin America's Interest in Deepening Relations with China

For China's Latin American partners the new dynamism of the Pacific dimension expands their opportunities to develop a new strand of external relations alongside those with the United States and with Europe, where they had initially concentrated their diversification efforts. They hope in particular that expanding geoeconomic ties will allow them to loosen their one-sided concentration on the United States. Latin America regards the budding Chinese interest as the amalgam that could fill the gap left in recent years by Europe's lack of interest. Although the European Union has concluded bilateral global agreements with Mexico and Chile, subregional units like Mercosur, the Andean Community (CAN), and the Central

¹¹ See <http://www.un.org/Depts/dpko/missions/minustah/> (accessed February 4, 2006).

¹² Thomas Cieslik, "China sucht nach mehr Einfluss in Lateinamerika – Taiwan kämpft um die Aufrechterhaltung seiner diplomatischen Anerkennung," *China aktuell* 33 (2004): 1115f.

¹³ According to Peter Hakim, "Is Washington Losing Latin America?" *Foreign Affairs* 85, no. 1 (January/February 2006): 39–53 (45f).

American Integration System (SICA) are still waiting for the possibility to initiate negotiations for free trade agreements with the European Union.

The majority of Latin American states have slipped, often without serious analysis, into the old role of raw material supplier to the global economy that is reinforced on a long-term basis by China's interest in raw materials.¹⁴ The predominant economic interests demonstrated so far by China do not appear likely to do anything for the Latin American initiatives to expand their value-added chain toward products with greater manufacturing content. On the other hand, few of the states of the region have yet made any serious efforts to enlarge their range of exports for the Chinese market in such a way as to expand their manufacturing capacities.

Alongside immediate economic interests, the expectation that expanding trade with China will attract more investment to the region and lead to intensified non-economic cooperation also plays a role for Latin America. From the Latin American perspective, relations with China should not only help to integrate the region in the international raw materials markets, but also ensure that China is permanently tied in to Latin America's development efforts in a "trade-cooperation nexus" that would generate cooperation over and above the current trading relationship and open up a joint dimension in the design and organization of development projects. That would allow a further diversification away from the United States and European Union in this field too.

Conflicts on the Continent through China's Active Latin America Policies

China's arrival has caused worry not only in the US Congress, although on balance the various hearings in the Senate and House of Representatives have shown that most academic and government experts see no immediate threat to the United States' position. At the same time, clear reservations have been voiced in the United States, based on close scrutiny of Chinese activities associated with supply of chemical precursors for narcotics production and Latin American states' expanding military cooperation with China. On a more general level, the increasing dominance of Chinese economic interests is also regarded as a restriction of US options, especially in view of China's growing pressure on the hemisphere's energy resources, which in the past were clearly marketed along the continents' north-south axis.¹⁵ Natural gas is playing an ever-growing role alongside oil, especially given that China's first liquid natural gas conversion plant will come on stream in 2007.

¹⁴ Jörg Husar and Günther Maihold, "Konfliktstoff Erdgas – Südamerika wird wieder Rohstofflieferant: Innen- und außenpolitische Implikationen der Ressourcenpolitik in Bolivien und Argentinien," *Brennpunkt Lateinamerika*, 2005, no. 11 (June): 129–145.

¹⁵ Kerry Dumbaugh and Mark P. Sullivan, *China's Growing Interest in Latin America*, RS22119 (Washington, D.C.: Congressional Research Service, April 2005).

Mexico in particular is struggling with Chinese competition in the US markets. For ten crucial products that make up 85.7 percent of Mexico's exports and 52.7 percent of China's, there is a situation of direct competition in the US market.¹⁶ As a result NAFTA partner Mexico had to fear for its position as the United States' second most important trading partner, which it had only gained in 2000. Indeed, in December 2004 China toppled Mexico from that position and has since then consolidated its ranking in US foreign trade. This development is also very tangibly reflected in the *maquiladora* (export-processing) sector, with whose products Mexico and above all also Central America are present in the US market. Even though subject to double the tariffs, Chinese textiles and garments represent serious competition for comparable Mexican products because labor costs in China are only one fifth of those in Mexico. This produces considerable competitive disadvantages for Central American producers in particular, who are obliged to use more expensive fibers supplied from the United States.¹⁷

In the case of Mexico, attention should also be drawn to the importance of electronic products and automobile parts, which are imported on a huge scale from China for use in the manufacture of automobiles for the US market. Mexico is unable to balance its trade deficit with China because a large portion of its imports are destined for a third market after passing through the manufacturing process in Mexico. The country has so far been unsuccessful in establishing corresponding exports of raw materials or manufactured products to China in exchange for these components. In this light, Mexico's role as a manufacturing platform for final assembly for the US market dependent on international imports appears rather disadvantageous, and a balanced trade relationship seems rather unlikely.

For all the countries of the region—and above all for those who have recognized China as a “market economy”—it is going to be difficult to use quotas and antidumping measures to keep cheap Chinese ceramics, electronic goods, toys, shoes, suitcases, bicycles, and mopeds out of their own domestic markets. In the medium term this could lead to a return of the distinct trade surplus in China's favor, as was the case in the 1990s.

Ultimately, both sides are competing internationally for foreign direct investment, which is increasingly flowing not to Latin America but to China, largely due to the high growth rates there. This source of capital is indispensable for the region in view of its low domestic savings rate and is absolutely crucial for countries, such as Brazil, that continue to suffer under a very high level of debt. The decisive factor will probably be whether Latin America succeeds in offering better access and guarantees of good governance and stability than its Asian rival.

¹⁶ Enrique Dussel Peters, *Implications of China's Recent Economic Performance for Mexico* (Bonn: Friedrich-Ebert-Stiftung, 2005), 5f.

¹⁷ Mechthild Minkner-Bünjer, “Zentralamerikas ‘China(alb)träume’: Herausforderungen und Zukunftsaussichten,” *Brennpunkt Lateinamerika*, 2005, no. 17 (September 15): 17, 197–208 (200ff).

Accelerating Developments

Sino-Latin American trade flows have been expanding at a high rate since 2000, and there is no other region where Latin America registers such high growth rates: the volume of foreign trade with China rose from \$2.4 billion in 1991 to \$12.6 billion in 2000, before reaching \$40 billion in 2004.¹⁸ Altogether China's share of Latin American foreign trade has risen from 1.2 to 4 percent (although the increase is concentrated in just a few countries, including Brazil, Mexico, Chile, and Argentina), while the composition has shifted somewhat from agricultural to mineral products. Labor-intensive products make up 86.3 percent of China's exports to Latin America, while exports in the opposite direction are 76.1 percent raw materials and 23.9 percent industrial goods. NAFTA member Mexico, which exports primarily electronics to China, must be regarded as a special case. The volume of Sino-Latin American trade is forecast to reach \$100 billion by 2010. That would represent a more than doubling of trade between the region and its new Asian partner.

In the ranking of China's cumulative foreign investment Latin America has reached fifth place, but only three Latin American countries are among the twelve largest recipients: Peru at seven (not least due to the priority given to iron production), Mexico at nine (largely the consequence of the construction of a Chinese textile plant), and Brazil at twelve. Over the coming years billions of dollars of Chinese investment are expected to be directed into various raw materials sectors: copper (Chile and Peru), iron and steel (Brazil), nickel (Cuba), and aluminum (Jamaica), and the energy resources of crude oil and natural gas. In terms of agricultural products, China's foremost interests are in soybeans and in gaining access to Brazil and Argentina for Chinese products.

Political Assessment

The dominance of the Chinese resource security strategy has brought with it an additional incentive to restructure the corresponding sectors in the countries of Latin America. Just as the external trading entities for the Chinese side are state-owned companies, the leading Latin American operators in the raw materials sectors are also increasingly companies that have returned to state ownership. That means that joint ventures are generally based on cooperation between state-run enterprises, which gives them an immediately political character. The options for state control that this opens up, and conversely the economic vulnerability involved, give these ventures a direct intergovernmental dimension. The same applies to the appropriation of the respective returns. This is grist to the mill of domestic clientelism and bilateral diplomatic machinations. Closely associated with this is the question of the future development trajectory of

¹⁸ Here and below cf. CEPAL, *Panorama de la inserción internacional de América Latina y el Caribe* (see note 8), 151ff.

such cooperative schemes, because once the “China hype” has died down, the Latin American side will have to achieve a substantial diversification of export products for the Chinese market if it is to enjoy a secure future.

The very limited success to date in making Latin America economically competitive and the fact that rent-seeking is embedded in the structures of the state,¹⁹ gives little grounds for hope in the future. Whether Sino-Latin American cooperation will take on a long-term character will probably depend decisively on the extent to which Latin America succeeds in diversifying the economic and political agenda and expanding into fields outside raw material exports. If, however, its efforts fail, it will have missed yet another rare opportunity.

19 According to Andreas Boeckh, “Entwicklung im Zeitalter der Globalisierung: Befunde und Fragen mit Blick auf Lateinamerika,” in *Globalisierung und Regionalismus: Bewährungsproben für Staat und Demokratie in Asien und Lateinamerika*, ed. Peter Birle, Jörg Faust, Günther Maihold, and Jürgen Rüländ (Opladen, 2002), 230–54.

China Becomes Asia's New Economic Center

Hanns Günther Hilpert

China's growing political, economic, and cultural presence is felt particularly strongly in East Asia. Consequently, China's rise is of even greater significance for the neighboring Asian and Pacific regions than for other parts of the world. And conversely, relations with its immediate neighbors are of outstanding relevance for China. For China the states of Asia are much more than markets and raw material suppliers; they are preferred partners in joint security, stability, and economic development efforts. Thus China's geopolitical strategies reveal themselves first and foremost in its Asian policies. The official diplomatic doctrines, such as priority for economic development and technological modernization, caution in international questions, and striving for superpower status are particularly visible in Beijing's policies toward the rest of Asia.¹

China faces a double challenge in the region: to establish good or at least tolerable relations with the countries of the region and escape the kind of political isolation it suffered during the Mao era, while also avoiding giving its neighbors the impression that they are paying for its rising power. Meeting this double challenge has both political and economic dimensions for China. The decisive political imperatives remain:²

- ▶ Caution in foreign and security policy. China refrains from over-exposing itself in international questions, but does support the Asian developing countries through its diplomacy. In the bilateral context it explicitly emphasizes the principle of the sovereignty of the nation-state and avoids any criticism of internal conditions or authoritarian political structures.
- ▶ Confidence-building measures: These include, in particular, joining the ASEAN Treaty of Amity and Cooperation, signing a joint declaration on the conduct of parties in the South China Sea, and settling territorial disputes.

¹ On China's diplomatic and security maxims see Shiping Tang and Yunling Zhang, *China's Regional Strategy: An Interpretation*, Center for Regional Studies Working Paper No. 1 (Beijing: Chinese Academy of Social Sciences, 2004), 2–11.

² China's relations with South-East Asia are discussed in Hanns Günther Hilpert and Gerhard Will, *China und Südostasien: Auf dem Weg zu regionaler Partnerschaft*, SWP-Studie S 21/2005 (Berlin: Stiftung Wissenschaft und Politik, August 2005), 15–22, available online at http://www.swp-berlin.org/common/get_document.php?id=1367. On China's Asia policy in general see David Shambaugh, "China Engages Asia, Reshaping the Regional Order," *International Security* 29 (2004), no. 3: 64–99 (67–89); Robert Sutter, *China's Recent Approach to Asia: Seeking Long Term Gains*, NBR Analysis vol. 13, no. 1 (Seattle: The National Bureau of Asian Research, 2002).

- ▶ Membership of and increasingly active participation in regional multi-lateral forums and institutions for the purposes of confidence-building and extending influence.
- ▶ Expanding bilateral relations with other states on the political, economic, cultural, and occasionally also military level.
- ▶ Taking on burdens and responsibilities. For example, when Beijing refrained from devaluing the yuan in 1997–98, this represented a decisive contribution to calming the turbulence on the financial markets and overcoming the regional economic crisis.

However, diplomacy and foreign policy alone will not be sufficient to secure China's enhanced acceptance, status, and goodwill in the region. China also needs Asian public opinion and Asia's elites to take a positive attitude toward its economic rise and industrial success. It needs its neighbors to perceive the economic structural shifts associated with its rise as a gain, rather than a burden or part of a zero-sum game. This raises the question of whether, and to what extent, Asia benefits from China's rise. A differentiated analysis of the economic implications of China's growth and industrialization reveals three significant developments: firstly, a shift of the center of gravity toward China; secondly, changes in price relationships and the regional division of labor; and thirdly, the emergence of new dependencies and altered national development perspectives.

Economic Center of Gravity Shifts Toward China

In terms of trade, China is already the dominant force in Asia. After becoming the most important destination for direct investment (in Asia, if not globally) in the course of the 1990s, China advanced between 2002 and 2004 to become the continent's biggest importer and exporter too. Today, China is already by far the biggest export market for both South Korea and Taiwan. In the medium term, China will probably advance to become the top export destination for the ASEAN states, Japan, India, and Australia, too, although for the foreseeable future Japan will remain nominally Asia's largest economy. Even after the recent data revision the value of China's GDP amounts to just 42 percent of Japan's.³ If current growth trends continue it will probably be at least another ten years before China's economy is larger than Japan's in absolute terms, and catching up in per capita income and technological potential will require a considerably longer period. But the relations are shifting already. China's weight in Asia is growing while Japan's is decreasing in relative terms. Taken as a whole, the speed, dynamism, and quality of China's growth in foreign trade and its domestic economy would suggest that it is on the road to becoming Asia's industrial heart and its new economic center.

³ Comparisons based on Chinese and Japanese official statistics on the basis of the respective current exchange rates.

A New Regional Division of Labor

China's growing presence in the world markets is bringing with it a general shift in price relationships in international trade. On the one hand expanding Chinese exports have caused a global fall in prices for labor-intensive industrial goods. On the other, expanding Chinese demand has triggered relative price increases for energy, raw materials, and capital- and technology-intensive goods on the world markets. Especially in Asia, these opposing price trends are causing changes in foreign trade structures and requiring readjustments of the regional division of labor. The observed shifts cause two contradictory effects for China's neighbors:⁴

- ▶ On the one hand, Chinese industrial exports squeeze the competing products of other Asian suppliers fully or partially out of their traditional markets, while at the same time industrial production is relocated to China.
- ▶ On the other, the volume of imports sucked in by the Chinese domestic market stimulates export-led growth in the Asian economies. The rapid expansion of final assembly operations in China requires imports of plant and machinery, as well as constant supplies of raw materials, consumables, and components. Within East Asia a pronounced triangular structure has developed: Japan and the East Asian newly industrialized countries (NIEs) supply investment goods and spare parts, and above all semifinished industrial goods and components that are assembled in China before finding their way as finished products onto the world markets, first and foremost in the industrialized countries of the West.

The decisive consideration for the Asian industrialized countries and NIEs is that the jump in Chinese imports is the dominant effect. China's Asian trading partners generate a high and growing surplus in their trade and commerce with China, and export-led growth strongly stimulates their domestic economies.⁵ Even Japan's trade in goods with China is more or less balanced. The triangular structure outlined above is also clearly reflected in China's balance of trade. Whereas China generates a high and growing surplus with the United States and the European Union, its trade relations with Asian countries are increasingly in deficit.

⁴ Comprehensive discussion of the implications of Chinese developments for world trade and the global economy can be found in: David Roland-Holst and John Weiss, "People's Republic of China and Its Neighbours: Evidence on Regional Trade and Investment Effects," *Asian Pacific Economic Literature* 19 (2005), no. 2: 18–35; United Nations Conference on Trade and Development, ed., *Trade and Development Report 2005: New Features of Global Interdependence* (Geneva: UNCTAD, 2005), especially chapters 2 and 3; Yongzheng Yang, *China's Integration into the World Economy: Implications for Developing Countries*, IMF Working Paper 03/245 (Washington, D.C.: International Monetary Fund, 2003).

⁵ In particular Holst and Weiss, "People's Republic of China and Its Neighbours" (see note 4), 33–34. For empirical evidence see Barry Eichengreen and Hui Tong, "How China Is Reorganizing the World Economy," *The Asian Economic Policy Journal* (forthcoming), 1–41.

Center/Periphery Relationships

What new dependencies and what new perspectives does China's economic rise and the associated regional integration bring with it for the Asian developing countries and NIEs? Our analysis must differentiate between foreign trade, economic growth, and exchange rate policy.

- ▶ In foreign trade, center/periphery relationships arise between China and its neighbors. In view of China's dominant presence in the industrial sector, its neighbors will be well advised firstly, to identify the niches where they can still compete with China (concentrating on knowledge- and technology-intensive fields); secondly, to develop complementary strengths (specializing on resource-based industries and on services); and thirdly, to integrate themselves more strongly in the region's production and supply chain.⁶ These kinds of structural adjustment are naturally easier for the more advanced NIEs to make than the poorer developing countries. For the latter, economic development and industrialization has become much more difficult as a consequence of China's dominance in the labor-intensive sector. This could cause the economic disparities within Asia to become even more marked in future.⁷
- ▶ China is today East Asia's locomotive of economic growth. Even a soft landing for the Chinese economy would have negative repercussions on domestic growth in Japan and the Asian NIEs. The political and economic risks of China's transformation represent an even greater worry for Asia's businesses and households. So China's neighbors have a genuine self-interest in the Chinese economic and political reforms progressing as smoothly as possible, not only for security reasons but also from the economic perspective.
- ▶ The relationship between the yuan and the dollar has become the decisive exchange rate in Asia. Because the East Asian production and export capacities are either sectorally similar or vertically interconnected, and consequently there is intense export and investment competition between the countries, China has become the decisive exchange rate player in Asia. Until a regional exchange rate system is established in East Asia the currency policies of the other NIEs will depend on the external value of the yuan.⁸ The other Asian NIEs cannot easily be ex-

⁶ Holst and Weiss, "People's Republic of China and Its Neighbours" (see note 4), 28-34; Eichengreen and Tong, "How China Is Reorganizing the World Economy" (see note 5), 8-24.

⁷ Eichengreen and Tong, "How China Is Reorganizing the World Economy" (see note 5), 25-27.

⁸ On the question of coordinated action in Asian currency policy see Ronald McKinnon, "The East Asian Dollar Standard," position paper for the ANEPR conference "Asia in Search of a New Order," session I: "Asian Regional Economy in a Multilateral Setting," Tokyo, January 16-17, 2004; Eiji Ogawa, "Beyond De Facto Dollar Pegs: Exchange Rate Regimes for Asia," paper for the Deutsches Institut für Japanstudien's symposium "Regional Monetary Cooperation: Is East Asia Following the European Model?" Tokyo, December 7, 2001.

pected to permit a revaluation against the dollar until China itself revalues.⁹

Differentiated Reactions to China's Rise

It would of course be a great surprise if the trade and growth effects emanating from China were to have identical effects in all the subregions and countries of the Asia-Pacific region. The different perceptions and reactions in politics and business in Japan, South Korea, South-East Asia, India, and Australia are shaped by the interaction between the overall political and economic situation and the specific profile of each national economy.

Japan is the obvious loser of the economic changes and the increasingly central position of China in Asian trading relations. Even if Japan's economic welfare benefits like almost no other Asian country from China's industrialization, from a more general perspective the country is sliding back to its traditional, precolonial position on the periphery. Nonetheless, due to their economic complementarities Japan and China profit extraordinarily from one another: China's industrialization and development process receives powerful and sustained impetus through imports of Japanese machines and equipment, through the foreign exchange revenues from exports to Japan, through Japanese transfers of capital and know-how, and through infrastructure construction projects partially funded by Japanese development aid. Conversely, growing integration with China allows the Japanese export sector to improve its international competitiveness. The position of Japanese multinationals in the world markets is strengthened by their ability to have final assembly of more labor-intensive products carried out in China and to source cheap inputs from China. Importing low-priced consumer goods from China directly increases the real income of Japanese households. Therefore the escalating deterioration in relations between the two countries must have political rather than economic roots. The trouble is that each side feels threatened by the other: Japan by China's economic success, China by Japan's efforts to play a greater and more active role in regional politics and security. Rivalry over leadership positions and status is exacerbated by deeply rooted mutual prejudices and mistrust in both societies, domestic political instrumentalization of these prejudices, and the emergence of a new generation of political leaders who give too little priority to reconciliation.¹⁰

⁹ Morris Goldstein, "Renminbi Controversies," paper prepared for the Conference on Monetary Institutions and Economic Development, Cato Institute, November 3, 2005, Washington, D.C.: Institute for International Economics, 4.

¹⁰ On the relationship between China and Japan see Hanns Günther Hilpert and Gudrun Wacker, *China und Japan: Kooperation und Rivalität*, SWP-Studie S 16/2004 (Berlin: Stiftung Wissenschaft und Politik, May 2004, available online at http://www.swp-berlin.org/common/get_document.php?id=850).

The industrial nation of South Korea has expanded economic relations with China even more massively than Japan. China is now South Korea's most important export market and investment destination. At the same time the current Chinese boom is viewed with skepticism in South Korea. Very soon, the Koreans fear, Chinese industry will close the gap on its Korean competitors in key sectors and then squeeze them out of global markets through lower wage costs and prices. They fear that their own industries will end up in an unpalatable geoeconomic sandwich, squashed between a technologically more competitive Japan and a China able to manufacture industrial products of equal quality at considerably lower prices. Due to its comparatively narrow scientific and technological base and its historical focus on directly marketable innovations in a limited number of industrial sectors, the South Korean economy is indeed very much more vulnerable than the Japanese.¹¹ But unlike Japan, South Korea has improved and intensified its political relations with China in recent years. In the current conflict over North Korea's nuclear ambitions, the South Korean positions are closer to China than to Japan or the United States.

Bilateral relationships between South-East Asian states and China are greatly influenced by the contradictory trade effects emanating from China: pressure to compete and adapt on the one side, enormous imports and dynamic growth on the other. But the benefits and burdens are not evenly distributed within the region. The relatively developed southern ASEAN states profit most from China's market, while development perspectives have tended to worsen for ASEAN's poorer northern members in Indochina. In the long term there is a risk that the development and income disparities between the northern and southern ASEAN states will grow still wider. The free trade agreement concluded between China and ASEAN is likely to further amplify these general tendencies, despite the longer transitional periods granted to the northern ASEAN members. Alongside growing economic relations, political and cultural relations between China and the states of South-East Asia have progressed by leaps and bounds over the past decade (in quality and frequency), to the point where China today speaks of model relations. Through its policy of non-confrontative involvement, Beijing has succeeded in lessening the widespread mistrust that existed in South-East Asia and gaining broad acceptance among the elites of the region.

As a supplier of raw materials (iron ore, minerals, natural gas), food-stuffs, modern industrial products, and services (tourism, English-language universities, business services), Australia benefits more than almost any other economy from China's expanding demand and the changed price relationships in world trade, and the two countries have opened negotiations on a free trade agreement. However, Australia's ever closer

¹¹ Peter Gey, *Südkorea: Herausforderungen für das 21. Jahrhundert*, FES-Analyse (Berlin: Friedrich-Ebert-Stiftung, October 2004), <http://fesportal.fes.de/pls/portal30/docs/folder/worldwide/asien/berichte/fes-analyse+korea1004.pdf> (accessed January 25, 2006).

economic ties with China indirectly strain its security relations with the United States in the scope of the ANZUS treaty.

Trade between China and India has absolutely exploded since about 2003 (albeit starting from an extremely low level), and involves more than just an exchange of Indian services for Chinese goods. Instead, we observe a differentiated exchange of goods and services between two sizable economies. In step with India's growing economic interest in China, political relations between the world's two most populous countries have also improved, with the two sides coming closer to resolving their border disputes. India has also integrated itself in the ASEAN cooperation process and has become an observer in the Central Asian Shanghai Cooperation Organization (SCO). China in turn has been granted observer status by the South Asian Association for Regional Cooperation (SAARC).

China's Economic Rise—A Gain for the Region

All in all, the actors in the region see China's apparently unstoppable rise as a gain, despite the pressures and risks involved. The decisive positive factors are the rapidly growing exports to China and the boost to domestic growth that this brings with it. Of course, China is not seen merely as a gain for the region's growth and development. The developing countries and NIEs find themselves joined with China in pursuing economic growth and other shared interests. This coalition is about continuing the economic growth process, managing the growing regional interdependency in foreign trade, maintaining access to Western markets, and securing the financial and currency markets against turbulence. Thus economic regional cooperation promises to yield much more immediate and concrete results than regional security collaboration, which is aimed above all at confidence-building and conflict prevention.

Of course political qualms about China exist in Asia, but nonetheless China's economic strategy in the region seems to be paying off. As long as economic relations with China bring economic benefits to its trading partners in Asia, China can credibly argue that an identity of interests prevails and that its own rise is to the good of the whole region.¹² If the Chinese quietly slip into a leadership role rather than loudly demanding it, this will be accepted as long as it brings with it economic benefits. And China's standing and reputation have indeed improved in recent years in all the countries of the region—with the important exception of Japan. Today China can build on that success to play a much more active role in regional forums, and has recently even started exerting decisive influence. China's partners in the region, on the other hand, are primarily interested in participating economically in China's growth.

¹² Hilpert and Will, *China und Südostasien* (see note 2), 28–29; Shambaugh, "China Engages Asia" (see note 2), 99.

Strategic Consequences

China's Grand Strategy

Gudrun Wacker

The term “grand strategy” designates the vision and internal logic connecting a country's paramount goals to its diplomatic, security, economic, and military strategies for deploying means and resources, taking into account the possible responses of other actors. An overarching vision of this kind need not necessarily be published or even explicitly formulated in writing.¹ It can also be an external attribution, a discussion and assessment of different strategic options, or an *ex post* rationalization of foreign policy actions.

In the case of China we can speak of a grand strategy largely determined by the goals of internal modernization.² The aim is to develop the country's economy without disrupting its internal stability (which from the point of view of the political leadership means maintaining the Communist Party's monopoly of power), in order to make China a regionally and internationally recognized major power (again). Although this goal has remained largely unaltered since the communists took power, the methods and strategies used to approach it have changed dramatically.

This continuity of aims over decades stems from China's historical experience. Behind it stands the massive loss of economic, political, and cultural standing that China suffered during the century of “national humiliation” that began in 1840, when the country was first entered by the Western imperialist powers and ultimately also by Japan. The scale of the decline is revealed by the figures for China's share of global economic output, which was almost 33 percent in 1820 but had fallen to just 5.2 percent by 1952.³ After the communist victory in the civil war, leading China

1 For more on the term itself see Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford, CA: Stanford University Press, 2005), 17ff.

2 As well as Avery Goldstein, whose book provided important background for this piece, the following authors also discuss the question of a Chinese grand strategy: Gu Weiqun, “China's Grand Strategy,” *The Pacific Review* 3, no. 1 (1990): 46–54; Gaye Christoffersen, “China and the Asia-Pacific: Need for a Grand Strategy,” *Asian Survey*, 36, no. 11 (November 1996): 1067–85; Michael D. Swaine and Ashley J. Tellis, *Interpreting China's Grand Strategy: Past, Present, and Future* (Santa Monica, CA: Rand, 2000); Michael D. Swaine, “Does China Have a Grand Strategy?” *Current History* 99, no. 638 (September 2000): 274–79. The subject has also been taken up by Chinese authors, for example Ye Zicheng, *Zhongguo de da zhanlüe/China's Grand Strategy* (Beijing: Zhongguo Shehui Kexue Chubanshe, 2005).

3 Data from the Chinese translation of Angus Maddison, *Chinese Economic Performance in the Long Run* (Paris: OECD, 1998), quoted from *Zhongguo xiandaihua baogao 2005* [China's Modernization Report 2005] (Beijing: Beijing University Press, 2005), 149. Further figures: China's share in 1870 was 17.3 percent; 1900, 11 percent; 1952, 5.2 percent. The figure started rising again gradually after the beginning of economic reforms at the end of the 1970s: 1980, 5.2 percent; 1990, 7.8 percent; and 2001, 12.3 percent (the figure for the United States in 2001 was 21.4 percent).

out of backwardness and dependency was therefore priority number one. The strategy pursued in the subsequent decades bore isolationist traits (pursuit of economic autarchy) and foreign policy concentrated on forming alliances to block or contain whichever power was considered the “main enemy” at the time. During the 1950s this strategy meant joining forces with the Soviet Union against the United States, while from the 1970s friend and foe were exchanged—with the Americans against the Soviets.⁴

On the Genesis of China's Present Grand Strategy

The reforms launched by Deng Xiaoping pushed the economic modernization of China to the very top of the agenda. Along with the new reform policies came a gradual opening to the outside world. Well aware of the fundamental tension between China's economic weakness and the enormous challenges of modernization, Deng Xiaoping issued the maxim of “be good at maintaining a low profile; never claim leadership” for foreign policy. That line still holds today, although in recent years it has been gradually augmented by a stance that, although still cautious, is more proactive.⁵

The end of the Cold War forced China, like other countries, to reorientate and adjust to the new international situation. For Beijing, however, this involved a particular complication. The political developments in Eastern Europe and the Soviet Union turned China from the pioneer of socialist reform into the tail end of history. The violent repression of the pro-democracy movement in June 1989 isolated China to such a degree that in the early 1990s Beijing had its work cut out with damage limitation abroad and continuing the economic reforms at home.

Two factors were central in shaping the axioms of Chinese foreign and security policy:

Firstly, by the mid-1990s the economic reform course had been consolidated and its successes were gradually becoming felt beyond China's borders.⁶ Even these—from the Chinese perspective modest—advances fed

⁴ The intervening decade, the 1960s, was characterized by isolation (from China's perspective the international situation was dominated by the confrontation of the two super-powers). The phase from the early 1970s through to the second half of the 1980s was the time of the “strategic triangle” of the United States, China, and the Soviet Union. See also Goldstein, *Rising to the Challenge* (see note 1), 20ff.

⁵ Deng Xiaoping formulated his “24 character” strategy in 1991: “Observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile; never claim leadership.” Later “make some contributions” was added to reflect the more proactive approach. Office of the Secretary of Defense, *Annual Report to Congress: The Military Power of the People's Republic of China 2005*, 7, 11, <http://www.dod.mil/news/Jul2005/d20050719china.pdf>.

⁶ In 1993 the World Bank published GDP calculations for various countries using purchasing power parity rates. These showed China unexpectedly in third place behind the United States and Japan.

fears, especially in the neighboring region, that China's rise would pose a security risk (the "China threat").

Secondly, various events and developments—including the demonstration of American military-technological superiority in the 1991 Gulf War, and the American economic boom of the 1990s—forced the leadership in Beijing to realize that any hopes it had held that the United States would withdraw quickly from the Asia-Pacific region were not going to be fulfilled, nor was the last remaining superpower going to lose its dominance any time soon. A swift transition from a unipolar to a multipolar world order in which China represented one of the poles was not therefore to be expected.

The Chinese leadership has a relatively realistic idea of its own capabilities and resources. Although China has undeniably made enormous strides in the quarter century since the reforms were launched, and although it has come to occupy leading positions in global comparisons—third largest trading nation and, after the recent upward corrections of GDP, the world's sixth or second largest economy—China still occupies fairly low-ranking places in indicators such as per capita income.⁷ On top of the numerous problems it has been dealing with, the country now suffers from enormous disparities of wealth and development between different regions, between the cities and the countryside, and between rich and poor.

The Main Characteristics of the Chinese Grand Strategy

In the second half of the 1990s, recognizing its own weaknesses and limitations and convinced of the necessity to prepare for several decades of American global supremacy, China's political elite developed a broad consensus on fundamental strategic goals. This general understanding did not represent a complete break with earlier approaches, but can be seen as a modification and refinement of them.⁸ Deviations from the consensus do exist, for example among the neo-left and inside the military, but they have not to date been able to prevail politically.

China's grand strategy is not one of the "classical" strategies—hegemony, isolationism, balancing, or bandwagoning—at least not in their pure form. While hegemonic ambitions promise little success in view of China's weakness and would endanger the country's modernization goals, diplomatic isolationism would be difficult to square with trade opening and increasing integration in the global economy. The idea of forming a broad alliance to counterbalance the United States stands little chance of success, especially where Western powers like the European Union are concerned, and anyway, setting up formal alliances would reduce China's own flexibility and room to maneuver. China uses the strategy of bandwagoning in

⁷ International Monetary Fund, *World Economic Outlook Database*, <http://www.imf.org/external/pubs/ft/weo/2005/02/data/index.htm>.

⁸ Goldstein, *Rising to the Challenge* (see note 1), 119.

the economic sphere, for example in the WTO, but not—or only selectively—in the context of its diplomacy.

The two key aspects of the foreign and security policy consensus that has determined China's actions since the end of the 1990s are avoiding confrontation with the United States and preventing the formation of a united front or alliance against China—especially in the neighboring region.

Both of these aims are defensively motivated, designed to allow China to exploit the possibilities available under the prevailing conditions of a “unipolar world order” to implement its own development and modernization plans with the greatest possible degree of flexibility. The following measures are involved:

- ▶ To support its goals China has not only normalized and then systematically improved bilateral relations with its neighbors, but has also increasingly been committing itself multilaterally, wherever the benefit attained outweighs the loss of sovereignty involved.
- ▶ China is running a systematic program for modernizing its armed forces and has increased military spending by more than 10 percent every year. However, these outlays continue to remain within an order of magnitude that does not endanger China's wider development goals.⁹ This is a lesson that China drew from the demise of the Soviet Union—avoid entering an economically ruinous arms race with the United States.
- ▶ Last, but not least, China has established partnerships of varying intensity with powers like Russia, the European Union and its most important member states, and the United States. However, these are not formal alliances that could restrict China's flexibility. China has also greatly improved its relationship with the rising power of India in recent years. The notable exception is Japan, where bilateral relations have tended to deteriorate despite ever-growing economic ties.

On the Sustainability of and Challenges to China's Grand Strategy

The grand strategy outlined above is still fairly young and is designed for a transitional phase; it represents a compromise between hard and soft foreign and security policy approaches.¹⁰ So far it has turned out to be relatively successful, if we take into consideration the attraction—no longer only economic—that China exercises on its neighbors, and also China's relations with the United States, which have remained fairly stable since the end of the 1990s even under the Bush administration, and

⁹ The focus here is on efforts to increase the cost to the United States of military intervention in the case of a military confrontation in the Taiwan Straits. See also the contribution by Carsten Klenke (pp. 20ff).

¹⁰ See Swaine and Tellis, *Interpreting China's Grand Strategy* (see note 2), 151ff; Swaine, “Does China Have a Grand Strategy?” (see note 2), 275; Goldstein, *Rising to the Challenge* (see note 1), 39ff.

despite a series of incidents.¹¹ However, it is possible to imagine developments that could call into question the Chinese strategy.

Domestic factors: The goal of keeping the Communist Party in power causes the leadership to restrict reform of the political system to absolute necessities, out of fear of a social and/or political destabilization. In the long term the party's co-optation strategy—the relevant catchwords are “three represents” (*sange daibiao*) and “harmonious society” (*hexie shehui*)—will only work if the economic dynamism can be maintained. The political elite's consensus on domestic, foreign and security policy could fall apart, for example through major unrest and social destabilization, growing nationalism, loss of political control by the leadership, or external events that endanger China's “peaceful rise.”

Three examples of such *external factors* that could make it difficult to maintain the present strategy are:

- ▶ *Taiwan:* Although neither China nor Taiwan, nor the United States or the rest of the region can have any interest in a military escalation, such a development cannot ultimately be ruled out. China's political leadership has so firmly committed itself to respond with military means to any de jure declaration of independence by Taiwan that it is difficult to imagine it backing down.
- ▶ *Unintended side-effects of China's economic and political rise:* China has launched a series of efforts to comply with international rules, for example of the WTO. To rewrite or discard these rules cannot be in China's interests, at least not for now. However China's economic activities, for securing markets and resources, especially energy, are increasingly provoking critical reactions similar to those already seen during the mid-1990s. So far China has not come up with a sufficiently comprehensive response. There is not yet a Chinese “global strategy” for reacting to the charge of neomercantilism, or worse neoimperialism.¹² But following the massively hostile reaction to the Chinese attempt to purchase an American oil corporation in 2005, China seems to be drawing initial consequences.¹³
- ▶ *United States:* So far China's grand strategy has turned out to be particularly robust in the Sino-American relationship—despite a series of incidents and a number of long-term irritations.¹⁴ Ultimately, China's

¹¹ See also the contribution by Peter Rudolf (pp. 61ff).

¹² See for example William R. Hawkins, “China Pursues ‘Manifest Destiny’ through Mercantilism and Imperialism,” *American Economic Alert*, February 3, 2005, http://www.americaneconomicalert.org/view_art.asp?Prod_ID=1246; Glenn Kessler, “U.S. Says China Must Address Its Intentions,” *Washington Post*, September 22, 2005, A16.

¹³ The Chinese trade ministry has urged Chinese corporations to “keep a low profile when trying to buy a foreign firm,” see “Chinese Firms Told to Be Low-key,” *BBC News*, January 13, 2006, <http://news.bbc.co.uk/2/hi/business/4609924.stm> (accessed April 5, 2006). China has also begun defining its relations with other parts of the world in strategy papers; see “China's African Policy,” *Ministry of Foreign Affairs website*, January 12, 2006, <http://www.fmprc.gov.cn/eng/zxxx/t230615.htm> (accessed January 16, 2006).

¹⁴ The ways in which various crises in Sino-American relations since the end of the 1990s were resolved—for example the bombing of the Chinese embassy in Belgrade in 1999 or

growing international weight, and its activities in Asia, Africa, and Latin America will throw up the question of what role the United States is willing to concede China not only economically but also in military and security terms. Unlike Japan a few decades ago, China is not only perceived as a potential economic peer by the United States, but could also emerge as a political alternative to Western liberal democracy.¹⁵

Finally, the question arises as to what will come after the current transitional strategy if China actually succeeds in using the “strategic window of opportunity” that its leadership believes has opened for the coming decades.

the crisis over the emergency landing of an American spy plane on the island of Hainan in early 2001—underlined this nonconfrontational course. The same applies to China's response to September 11, 2001.

15 Authors like Joseph Nye point to China's growing soft power and the popularity of the “Beijing consensus” that might eventually replace the “Washington consensus”; see Joseph S. Nye, Jr., “The Rise of China's Soft Power,” *The Wall Street Journal Asia*, December 29, 2005.

China's Rise and the United States: Perception and Strategy

Peter Rudolf

1. China's Rise as a Geopolitical Challenge

For the United States, managing the economic and military rise of the People's Republic of China is *the* major geopolitical challenge of the coming decades. US strategy toward China is being formulated under conditions of great uncertainty. America has to assess China's capabilities and their future development, and identify and evaluate Beijing's intentions. But how will these intentions change as its capabilities grow? Will China turn into a revisionist power as its strength increases?

Simply extrapolating current trends does not suffice to make prognoses; "theory," in the form of fundamental assumptions about the factors determining foreign policy, inevitably comes into play.¹ If the premise that states always try to maximize their power and strive for dominance—as postulated by one strand of the "neorealist" thinking in international relations in the United States—then Sino-American hegemonic conflict in Asia is unavoidable: China will attempt to elbow the Americans out. Those realists who recognize that states do not necessarily (have to) strive for the greatest possible power, but can instead guarantee their own security by less aggressive ways and means, tend to take a less pessimistic view of future Sino-American relations. In the American debate, optimistic expectations are widespread among proponents of a liberal view of international relations, who place their faith in the peace-promoting effects of economic interdependence, international institutions, and the democratic transformation of China. But even from a liberal perspective, less peaceful consequences of China's rise to power must be taken into consideration. Especially during the democratization process, states where institutionalized self-control mechanisms are lacking or weak may tend to follow aggressive foreign policies, namely, when elites instrumentalize nationalism directed against external enemies in order to mobilize domestic political support.²

The only certain thing is that the reconfiguration of power relations in Asia unleashed by China's rise is *the* major geopolitical transformation the United States is faced with.³ Analogies fall flat here. Unlike Nazi Germany

¹ See the debate between Zbigniew Brzezinski and John J. Mearsheimer, "Clash of the Titans," *Foreign Policy* 146 (January/February 2005): 46–49.

² On the expectations that result from different theories see Aaron L. Friedberg, "The Future of U.S.–China Relations: Is Conflict Inevitable?" *International Security* 30, no. 2 (fall 2005): 7–45.

³ Francis Fukuyama, John Ikenberry, and Thomas Wright, *Report of the Working Group on Grand Strategic Choices* (The Princeton Project on National Security), September 2005, 14.

or the Soviet Union in their time, China is not an expansive power founded on an ideology. The expansion of its military capabilities progresses hand in hand with policies carefully crafted to allay the disquiet of its Asian neighbors, such as initiatives to establish multilateral institutions in Asia. But American security officials have to plan for the eventuality that a strong future China will be “communist, authoritarian, and nationalistic.”⁴

At the same time, the United States maintains close economic relations with China, which is its third-largest trading partner, second most important source of imports, and fifth most important export market.⁵ From the American perspective, whatever form China's rise actually takes, its growing demand for energy will lead to changes in the geopolitical constellation, especially in the Middle East but not only there. China's growing energy needs push it into an active global role.⁶

2. The Strategic Approaches

For the United States, one strategic option for dealing with a rising China is simply not on the table: acceding to Chinese hegemony in Asia, accepting that states in the region will increasingly bandwagon with a more powerful China—with the consequence that American influence in the region will wane. Nor is preventing the Chinese rise a strategic option, because that is not in America's power. But how then, can the United States achieve its traditional geopolitical goal of preventing the hegemony of any other power over the resources of East Asia? By preserving a regional balance of power and by maintaining the American military presence and alliances in Asia, runs the conventional answer.⁷ Beyond this common strategic core, three specific approaches in dealing with China can be distinguished:⁸

- ▶ *Firstly*, the policy of *engagement*. Economically this approach focuses on fostering trade relations and on integrating China in the “Western” economic system, politically on intensifying bilateral relations and including China in multilateral structures, and militarily on establishing contacts between the armed forces of the two states. Such an approach is based on two causal hypotheses:
 - On the one hand, the expectation that China's integration in the international system will have a socializing effect on Chinese leaders,

⁴ Ibid., 16.

⁵ Wayne M. Morrison, *China–U.S. Trade Issues*, Washington, D.C.: Congressional Research Service Issue Brief, updated August 4, 2005.

⁶ David Zweig and Bi Jianhai, “China's Global Hunt for Energy,” *Foreign Affairs* 84, no. 5 (September/October 2005): 25–38 (37).

⁷ Robert S. Ross, “Engagement in US China Policy,” in *Engaging China: The Management of an Emerging Power*, ed. Alastair Iain Johnston and Robert S. Ross, 176–206 (181ff) (London and New York: Routledge, 1999).

⁸ Zalmay Khalilzad, Abram N. Shulsky, Daniel Byman, David T. Orletsky, David A. Shlapak, and Ashley J. Tellis, *The United States and a Rising China: Strategic and Military Implications* (Santa Monica, CA: Rand, 1999), 63–75.

who will internalize norms directed at the stability of the international system.

- On the other hand, the expectation that economic growth and modernization will—by creating a middle class – trigger a democratization process.

Both these expectations are rooted in the “liberal” theory of international relations.

- ▶ It is, however, by no means certain that the positive long-term expectations will be fulfilled. The only certain thing is that policies of this kind contribute to the economic, technological and militarily strength of a country that, from a “realist” perspective, will emerge as global peer competitor. From this point of view, the *second* strategic option is the the appropriate one: a policy of containment, based on the assumption that China’s rise will inevitably lead to a hegemonic conflict between the United States and China, at least in East Asia. Democratization in China would not counteract such a development, on the contrary: especially in a democratization process a Chinese government under nationalist pressure might pursue an expansive, risk-taking foreign policy. Pursuing a policy of containment would entail subjugating all aspects of American policy toward China to the goal of preventing, or at least slowing China’s rise to power.
- ▶ A *third* strategic option is based on the premise that it is impossible to forecast the future development of a strong China with any degree of certainty, and that consequently the only thing to be done is to make it absolutely clear to the Chinese leadership what alternatives it has—cooperating within the framework of the American-led international system or challenging the US leadership role. This is a policy that attempts to combine the advantages of engagement and containment: hoping for long-term positive developments while still reckoning on the eventuality that China will pursue a course of confrontation with the United States. Such a policy of “congagement” would continue efforts to integrate China, while at the same it would prepare for the possibility of a hegemonic conflict and structure the international constellation in such a way that rational cost-benefit calculations guide the Chinese leadership into taking the path of integration and cooperation. Depending on the way China developed, such a strategy of congagement could be transferred into a strategy of either containment or partnership.

3. The Strategy of the Bush Administration

The traditional strategic orientation in dealing with China can be described as “hedged integration.”⁹ Being the predominant approach over the past decades, it includes integrative elements without taking its eye off the importance of maintaining the American military presence in East

⁹ David M. Lampton, “Paradigm Lost: The Demise of ‘Weak China’,” *The National Interest* 81 (fall 2005): 73–80 (75).

Asia. In other words, there has always been a mixture of liberal and realistic elements. However, as the perception of China as a rising power has grown, so has the element of hedging in the Bush administration's policy, which is inspired by the idea of conengagement and pursues a two-track approach.¹⁰

The possibility of a return to hegemonic rivalry is counted in, but it is to be prevented if at all possible; the unique international position of the United States is to be maintained for as long as possible, and other major powers are to be integrated in a concert under American leadership. A strong, prospering, peaceful China is welcomed, but its creation is seen as a process going hand in hand with China's democratic development, a development that is by no means certain.¹¹

From the perspective of the Bush administration, the existing policy of integration must be adapted to new circumstances.¹² It is no longer only about integrating China in the international system, but also about the question of whether China will become a "responsible stakeholder" in this system. China must be given a clear message that the United States is an Asia-Pacific power and that the American armed forces will remain the guarantor of peace and security in the region.¹³ And it is being said very clearly that the United States is not basing its policies on any assumption that China's rise is automatically bound to follow a peaceful course.

This uncertainty is reflected in the assessments produced by the Defense Department, which by its nature has to plan for worst case scenarios. According to the Pentagon's interpretation in the 2005 annual report on China's military power required by Congress, China is at a "strategic crossroads."¹⁴ It is an open question, according to the report, which road the Chinese leadership will choose as its power resources, especially the military, continue to grow: that of "peaceful integration and benign competition," regional predominance based on economic and military might, or concentration on domestic challenges.

The second track of the American strategy boils down to developing and strengthening security relations with states in the region. This intensification of security relations with regional powers is not solely—and publicly certainly not primarily—explained in terms of China, and serves other goals too. For example, security cooperation with Singapore has been

¹⁰ On the following see Jay Solomon, "U.S. Increasingly Pursues Two-Track China Policy," *The Wall Street Journal*, November 17, 2005, A1.

¹¹ The White House, *The National Security Strategy of the United States of America*, September 2002, 27.

¹² Robert B. Zoellick, Deputy Secretary of State, *Whither China: From Membership to Responsibility? Remarks to National Committee on U.S.–China Relations*, New York City, September 21, 2005.

¹³ Christopher R. Hill, Assistant Secretary for East Asian and Pacific Affairs, *Emergence of China in the Asia-Pacific Region: Economic and Security Consequences for the United States*, *Statement*, June 7, 2005.

¹⁴ Department of Defense, Office of the Secretary of Defense, *Annual Report To Congress: The Military Power of the People's Republic of China 2005*, 7. This report is required by the National Defense Authorization Act, Fiscal Year 2000.

intensified, and Thailand and the Philippines received the status of “major non-NATO allies” in 2003.¹⁵ The following initiatives from last year (2005) belong in the same context:

- ▶ A new security agreement with Japan on the stationing of an aircraft carrier and Patriot anti-missile systems (a joint statement in February 2005 explicitly linked the American-Japanese alliance to security in the Taiwan Straits for the first time).
- ▶ The agreement with India on cooperation in the fields of civilian nuclear technology and space research and the lifting of restrictions on the sale of weapons systems.
- ▶ An agreement on including Vietnamese military personnel in an American training program.
- ▶ The resumption of military cooperation with the Indonesian armed forces and the lifting of all human-rights-related restrictions on arms exports.
- ▶ The first visit by an American president to Mongolia, military assistance for modernizing the Mongolian armed forces (\$20 million annually), and joint American-Mongolian exercises with the aim of achieving interoperability in peacekeeping missions.

A proposal for an alliance of democratic states in the Asian region, built on ASEAN and modeled on NATO, does crop up in American discussions, but a formal coalition against China is too controversial in the region. The United States will probably continue to focus instead on a “network of overlapping strategic relationships”.¹⁶

4. The Domestic Political Dimension

Given America’s interests and the uncertainties and imponderables associated with China’s rise, the two-track strategy represents a rational approach that seems to be backed up by a consensus within the Bush administration, whose China policy has been subject to strikingly little criticism in Congress and the public sphere. There are a number of reasons for this:¹⁷

- ▶ After China was granted normal trading status at the end of Bill Clinton’s presidency (2000), the annual vote on extension of most-favored nation status fell away—and with it the central lever for China-critical lobby groups and congressmen to influence public discussion.

¹⁵ Evan S. Medeiros, “Strategic Hedging and the Future of Asia-Pacific Stability,” *The Washington Quarterly* 29, no. 1 (winter 2005–06): 145–167 (147ff).

¹⁶ The expression “less formal and more loosely integrated network of overlapping strategic relationships” is taken from Aaron Friedberg, quoted in James Kitfield, “Foreign Policy – Asian Anchors Shift,” *National Journal*, November 12, 2005.

¹⁷ Kerry Dumbaugh, *China–U.S. Relations: Current Issues and Implications for U.S. Policy*, Washington, D.C.: Congressional Research Service Report, updated July 8, 2005, 2f; Michael Kolkman, *Die Chinapolitik der USA: Konzepte–Erfahrungen–Perspektiven*, SWP-Studie S 9/2005 (Berlin: Stiftung Wissenschaft und Politik, April 2005), available online at http://www.swp-berlin.org/common/get_document.php?id=1241.

- ▶ With his policy of stronger support for Taiwan—while at the same time warning Taipei not to change the island's status unilaterally—President Bush took the wind out of the sails of the influential Taiwan lobby in Congress.
- ▶ Also the “war on terror” moved other issues higher up the agenda than China. “Unified government” has without doubt done its bit to foster Congress's restraint.

For two reasons, however, dealings with China could come to the fore again—and become more controversial—in the remaining years of the Bush administration:

- ▶ Economic relations are exposed to a number of strains—the growing trade deficit, insufficient protection of intellectual property rights, trade barriers, and Chinese exchange rate policy. American business leaders seem less enthusiastic about intensifying relations than they were during the 1990s: smaller firms worry about Chinese competition and product piracy while American big business, the driving force behind economic involvement in China, wonders anxiously how far China will actually open its markets.
- ▶ China's global political and economic expansion and competition in the fields of energy resources and defense modernization strengthen those who would like to see containment playing a stronger role in American policy. The reaction in Congress to the proposed purchase of Unocal (not a heavyweight among the American energy corporations) by a subsidiary of the state-owned Chinese oil firm CNOOC showed how quickly a danger for American national security can be perceived.

As long as the Administration continues to present a relatively cohesive China policy it does not need to fear any serious challenge from Congress.¹⁸ But under a different domestic political constellation, Congress might conceivably become more assertive, especially if the mixture of cooperation and conflict in the Sino-American relationship were to shift more strongly toward conflict.

5. Transatlantic Consequences

China's rise also represents a challenge for the political management of transatlantic relations. If China is to be successfully integrated in the international order led by the United States and the West, a coordinated Western approach will be required over the coming decades. For the Bush administration, the strategic dialogue on China's rise, the development of a “strategic consensus” with Europe on policy towards China, has

¹⁸ Robert Sutter, “Congressional Pressures and U.S.–China Policy,” *Foreign Service Journal*, May 2005: 24–29; see also the assessment of the domestic situation by Michael D. Swaine, “How Is the U.S. Responding to China's Growing Influence and Capabilities?” Remarks, CEIP-CRF Conference “U.S. Policy Toward China: Is it Changing?”, Beijing, November 16, 2005, http://www.carnegieendowment.org/files/CEIP-CRF_11.16.05%20Swaine.pdf.

become a central concern.¹⁹ European policy follows the “liberal” approach and appears to share the optimistic expectations on which it is based. But it should be sensitive to the “realistic” fears (by no means unfounded) on the American side and for that reason agree to engage in thorough consultation and heed American worries in those fields that touch on fundamental American security interests.

19 R. Nicholas Burns, Under Secretary for Political Affairs, “A Renewed Partnership for Global Engagement,” Remarks at the European Institute Annual Gala Dinner, Washington, D.C., December 15, 2005, <http://www.state.gov/p/us/rm/2005/58488.htm>.

Europe's Policy: Neither Multipolar Nor Multilateral

Kay Möller

In China there has been an ongoing debate since the late 1980s about whether the unipolar world will be superseded by a multipolar one, where the European Union is seen as a potential pole alongside the United States, Russia, and Japan.¹ Among the European leaders only French President Jacques Chirac has so far adopted the concept himself, earning open criticism from British Prime Minister Tony Blair and an indirect reproach from the then German foreign minister, Joschka Fischer.² The European Union Commission was forced into an intellectual tightrope act, in the course of which it ended up blurring the differences between Beijing's multipolar vision and its own multilateral one.³

This confusion of the actor and system levels has been heightened by the Bush administration's fundamental disinterest in multilateral solutions to strategic problems and by the multilateral rhetoric of the Chinese, although in terms of political system and strategic culture the United States would of course be better qualified than China for wide-ranging institutional cooperation. In this respect the European Union works on the assumption that the People's Republic will evolve peacefully,⁴ an expecta-

¹ Michael Pillsbury, *China Debates the Future Security Environment* (Washington, D.C.: National Defense University Press, January 2000), <http://www.fas.org/nuke/guide/china/doctrine/pills2/index.html>.

² "China, France to Actively Support Multilateral Actions," website of the embassy of the People's Republic of China, Washington, D.C., October 12, 2004, <http://www.china-embassy.org/eng/xw/t164141.htm>; "Chirac Responds to Blair: 'World Is Multipolar'," *The Shanghai Star*, May 1, 2003, online; "We will definitely not send troops to Iraq": Fischer," *The Hindu*, July 21, 2004, <http://www.hindu.com/2004/07/21/stories/2004072105520100.htm>.

³ In 2003 EU Commission President Romano Prodi agreed to cooperate with China in building a "multipolar world structure" ("China, EU Stride into Maturing Partnership," Xinhua, October 28, 2003, http://www.chinadaily.com.cn/en/doc/2003-10/28/content_276315.htm). At the same time, in a strategy paper produced in connection with world trade negotiations, the EU Commission claimed that Beijing was seeking to promote "a multipolar world governed by multilateral rules" (*A Maturing Partnership – Shared Interests and Challenges in EU-China Relations*, Brussels: Commission of the European Communities, September 10, 2003, 16, http://europa.eu.int/comm/external_relations/china/com_03_533/com_533_en.pdf). In 2005 EU Foreign Affairs Commissioner Benita Ferrero-Waldner declared in a speech marking the 30th anniversary of the inauguration of official relations with Beijing: "For the EU, however, it is not the number of poles which counts, but rather the basis on which they operate. Our vision is a world governed by rules created and monitored by multilateral institutions. And I know China shares this approach." (*The EU, China, and the Quest for a Multilateral World*, Brussels: Commission of the European Communities, July 4, 2005, http://europa.eu.int/comm/external_relations/news/ferrero/2005/sp05_414.htm.)

⁴ *A Maturing Partnership* [see note 3].

tion that is not shared in the Pentagon,⁵ and not without caveats in the Bush administration as a whole.⁶ Washington and Beijing not only define their relationship in overwhelmingly bilateral categories, but also regard it as the “most important in the world,”⁷ which implies rejection of both multipolarity and multilateralism.⁸

Because, however, in view of diverging capabilities and ambitions, the multipolar world does not actually exist in reality, China, the European Union, and others have chosen instead the makeshift solution of “strategic partnerships,” where the partners may be dissatisfied in theory with the unipolar world but draw no immediate consequences from this dissatisfaction, apart from symbolic debates such as the one over the lifting of the EU arms embargo of 1989.⁹ In response to the unsatisfactory course of this discussion for Beijing and the general imponderability of the European unification process, China has announced bilateral “strategic partnerships” with the most important EU member states.¹⁰

The main reason why the EU does not draw more far-reaching consequences from this approach is that Europe and the United States both see themselves confronted in similar ways by worrying side-effects of China's rise, which have led to calls for more transatlantic coordination.¹¹ The most important of these relates to Chinese export offensives and continuing obstacles to access to the Chinese market, where the responses—but not their intensity—are similar on both sides of the Atlantic. One reason for this is that the American trade deficit with China is twice as large as the European, but also the political influence of American states appears to be in inverse proportion to their competitiveness (what will become of French influence after the “non” to the EU constitution remains to be seen, but as far as its competitiveness is concerned France is still in middle of the European table). So Beijing can still play off Europeans against

⁵ *China's Military Power*, Washington, D.C.: Department of Defense, July 2005.

⁶ *The National Security Strategy of the USA*, Washington, D.C.: The White House, September 2002.

⁷ Wen Jiabao, “US-China Relations Most Important in World,” Cable News Network, December 12, 2003.

⁸ Some Chinese experts are already predicting the long-term emergence of bipolarity with Beijing and Washington as the poles. See Yan Xuetong, “Guoji gejud bianhua qushi” [Changing trends in international structures], *Xiandai guoji guanxi* 10 (2005): 5–7 (7).

⁹ The embargo is a political declaration of intent and has been applied very flexibly in practice. The engines in Chinese *Song* class submarines and type 054 frigates are reportedly of German and French origin respectively. At the end of the 1990s Britain sold China radar systems for navy airplanes and France exported *Crotale* ship-to-air missiles and launchers. See Evan S. Medeiros and Seth G. Jones, “Heading off European Arms to China,” Rand Commentary, March 2, 2005, <http://www.rand.org/commentary/030205TH.html>.

¹⁰ Ding Yuanhong, “Xianru weijide Oumeng” [The EU in crisis], *Guoji wenti yanjiu* 5 (2005): 49–51.

¹¹ See for example *Resolution 338 on Forging a Transatlantic Policy toward China*, Copenhagen: NATO Parliamentary Assembly, 2004. The United States and the European Union initiated a “Strategic Dialogue on East Asia” in 2005 in response to this and other demands.

Americans (and sometimes Europeans against Europeans) when negotiating major deals, but no longer as successfully as during the 1990s.

At the same time, the European Union, the United States, and China form the three corners of a financial strategic triangle (or square if Japan is included) on whose smooth functioning the stability of the global economy depends. Put simply, America lives from the savings of the others and in so doing reduces their incentives to move from export-led growth to a more domestically oriented economy (a development, it must be borne in mind, that would still run up against demographic limits in Europe and Japan, and limits inherent to the political system as well as demographic, ecological, and other obstacles in China). At the same time, the present system is not viable in the medium term, so a gradual transformation appears to be inevitable.¹²

One knock-on effect of this system is that both the Europeans and the Americans still believe the renminbi to be undervalued even after the revaluation of July 2005.¹³ Indeed, Europe has borne the lion's share of the burden resulting from the fall of the dollar, and consequently, like its American and Asian competitors before it, seen whole industries relocate to China. This increases the Chinese demands on investors for technology transfers and increases the pressure applied by European investors on European politicians to ensure that China opens still further and brings order to its markets. For want of any alternative, the EU—unlike the United States—has drawn the practical conclusion of actively promoting technological spillover (which it regards as inevitable) and linking this as far as possible to microeconomic, legal, and environmental programs. This bilateral approach turned out to be problematic as soon as questions concerning human rights and Taiwan arose (for example in the field of defense and dual-use exports). The Communist leadership regards these as non-negotiable (which is why for example undemocratic China was able to negotiate better rights in connection with the Galileo satellite navigation system than democratic India).¹⁴ At the same time, bilateral European-Chinese dialogues covering the spectrum of “new risks” from terrorism to energy have remained noncommittal. In view of this unsatisfactory state of affairs, there are occasionally calls within the EU to start returning to multilateralism in the arms sales and human rights complexes (along the

12 Nouriel Roubini and Brad Setser, “The Sustainability of the US External Imbalances: The Sustainability of the US External Deficit,” *CESifo Forum* 6 (2005): 1, 8–15.

13 Hugh Bayley and John Boozman, *An Emerging China and the Transatlantic Economy*, Copenhagen: NATO Parliamentary Assembly, 2004. Beijing's future exchange rate policy is unclear. When the dollar rose in the second half of 2005 China allowed the renminbi to rise in step even though the formal dollar tie has been cut. See Brad Setser, “Renminbi Hits Multi-Month Highs v. Euro, Yen,” Brad Setser's Weblog, <http://www.rgemonitor.com/blog/setser/106842> (accessed November 23, 2005).

14 Ian Anthony, *Military Relevant EU-China Trade and Technology Transfers: Issues and Problems*, conference on “Chinese Military Modernization: East Asian Political, Economic, and Defense Industrial Responses,” Washington, D.C.: Center for Strategic and International Studies, May 19 and 20, 2005, 5.

same lines as trade questions), but for this there is little sympathy in Washington and none at all in Beijing.¹⁵

The debate here is about nothing less than the European thesis mentioned at the beginning that for China multipolarism and multilateralism are merely two sides of the same coin and that the “strategic partners” are united above all by a shared understanding of the “key role of multilateral organizations and systems.”¹⁶

If this thesis were true, Europe would have unnecessarily allowed itself to be additionally marginalized through the far-reaching bilateralization of its China policy, because for want of effective foreign and security policy instruments the European Union can hardly expect to be taken as seriously as the United States by Beijing. The United States for its part regards Europe more as a troublemaker than a partner in the Pacific. And a “strategic triangle” based on increasingly divergent reciprocal perceptions destabilizes more than it stabilizes (a fundamental problem that is not solved by embedding the “triangle” in loose multilateral formats either).¹⁷

However, because China—in contrast to the transatlantic “community of values and institutions”—remains the great unknown, an alternative perspective deserves attention; one that lies roughly in the middle between the Brussels vision of peaceful evolution and the Pentagon scenario of non-peaceful non-evolution. According to this theory, China’s membership of the World Trade Organization is the (itself imperfect) exception rather than the rule and China’s other “multilateralism” (for example in North

15 Arms sales: Since the planned lifting of the EU arms embargo against China in 2004 had to be withdrawn largely due to American objections, this question and the plans to tighten the EU Code of Conduct on Arms Exports of 1998 have been inextricably bound up with one another. That the new Code of Conduct has not yet been passed is apparently less due to differences of substance than because of the French demand to lift the embargo first. See *MPs Briefing: Arms Control and the UK's EU and G8 Presidencies*, October 2005, <http://www.saferworld.org.uk/publications.php?id=153>.

Human rights: The European Union has been conducting a bilateral human rights dialogue with China since 1995 and has since 1996 refused to vote for draft resolutions condemning China in the United Nations Human Rights Commission (and since then no EU member state has proposed such a resolution either). Criticism of the effectiveness of this strategy from the Commission, individual member states, and European public opinion led the Council of the European Union in 2002 to decide that although it would adhere to the line of not introducing its own initiatives it would consider voting for one proposed by another country. See *EU Policies for 58th Human Rights Commission, Including China*, Brussels: Commission of the European Communities, March 11, 2002. Three years later they were still keeping open the option of representing the European position “in an appropriate manner” at the Commission in Geneva. See *Press Release, 2649th Council Meeting*, Brussels: Council of the European Union, March 16, 2005.

16 *A Maturing Partnership* [see note 3], 7.

17 The examples of this kind of destabilization included, in March 2004, one-sided critical comments by the French President and the German Chancellor on Taiwan’s policies, which appeared rather cheap in view of the lack of anything more than rhetorical commitment on the part of their countries for maintaining the status quo in the Taiwan Strait. See “French President Chirac Reiterates ‘One China’ Stance,” *People’s Daily Online*, March 15, 2004; “Germany Opposed to Taiwan’s Referendum,” *People’s Daily Online*, March 13, 2004.

Korea or in questions of nuclear proliferation) represents nothing other than the attempt come to terms with the superpower on an issue-by-issue basis where there is a minimum consensus concerning maintenance of the status quo (whereby the transpacific consensus on questions involving the environment or international criminal justice sometimes already threatens to come at the expense of European policies, so the EU also needs to watch out for deals being cut on the side in energy and proliferation questions).¹⁸ In trade policy, too, the United States and China are increasingly exhibiting bilateralist tendencies, although not yet in relation to one another. Such a fundamentally defensive character of Chinese foreign and security policy would be an expression of dwindling power of the state as a consequence of systemic contradictions.¹⁹

Such a scenario throws up two conceivable problems: (1) It is unstable and harbors the risk of nationalistic escalation, and (2) even if it remains stable for the moment it makes it more difficult to tackle global questions (multilaterally).

Accordingly, the Americans are right to put their doubts about China's peaceful evolution on the table, but not to infer an overall Chinese strategy of expansionism. Europe is wrong to play down conflictual Taiwan scenarios, and for lack of instruments of its own should not attempt to play the role of mediator. For the same reason Europe cannot promote Beijing's multilateral learning process using bilateral instruments. The European Union should concentrate on remultilateralizing its China policy and in the process seek the greatest possible agreement with the United States.

Multilateral and transatlantic dialogues will not be able to eliminate the differences of potentials and interests that exist in this context, but they might be able to help reduce them. Attempts to discuss American problems like the current account deficit in such formats would be unrealistic, at least as long as the main parties continue to come to terms with the situation politically. Only when Washington itself decides to change tack will the other actors be called on to discuss and adapt their macroeconomic policies.

Transatlantic cooperation appears more promising in fields where Europe and the United States unanimously regard Chinese policies as latently problematic. That means questions of trade, but also, above all, militarily relevant technology exports to China. Europe need not necessarily itself adopt American proposals for joint "blacklists,"²⁰ but should in general—and in particular in the field of dual use—foster transparency and make the greatest possible use of multilateral mechanisms such as the Australia Group, Nuclear Suppliers Group, the Missile Technology Control Regime, and the Wassenaar Arrangement.

¹⁸ Ian Bremmer, "China and America's Common Energy Interests," *Financial Times*, March 16, 2005, 15.

¹⁹ Kay Möller, "Chinas Außenpolitik: Der Beijing Bluff," *Welttrends* (2006) 2, i.p.

²⁰ Medeiros and Jones, "Heading off European Arms to China" [see note 9].

Multilateral mechanisms should also be at the forefront where “new risks” are concerned, from environmental and energy problems to terrorism. Here Beijing and Washington have both tended to disguise their own unilateralism behind cooperative rhetoric and to instrumentalize development aid. Transatlantic cooperation within the trade, human rights, and non-proliferation regimes appears to be the most promising. That would not rule out taking up open questions of environmental and legal policy (possibly in an interregional context) with Far Eastern partners.

Generally speaking, China's neighbors deserve more attention from Europe, because they have already progressed further down the road to good governance than China and thus are better candidates for qualitative multilateralism. In this vein, the EU should support the integration efforts of regional powers wherever these are compatible with important international regimes and are not simply designed to obscure shifts in the balance of forces. In all these questions Europe should attempt—in substance and procedure—to formulate its own Pacific and global agendas, without skating rhetorically over the obvious risks.

Abbreviations

ACS	Association of Caribbean States
ALADI	Latin American Integration Association (Asociación Latinoamericana de Integración)
ANEPR	Asian Network of Economic Policy Research
ANZUS	Australia, New Zealand, United States (Treaty)
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
IDB	Inter-American Development Bank (Banco Interamericano de Desarrollo)
CAN	Andean Community (Comunidad Andina)
CDB	Caribbean Development Bank
CEIP	Carnegie Endowment for International Peace
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CRF	China Reform Forum
DIJ	German Institute for Japanese Studies (Deutsches Institut für Japanstudien)
ECLA	Economic Commission for Latin America and the Caribbean
EU	European Union
IEA	International Energy Agency
IMF	International Monetary Fund
Mercosur	Common Market of the South (Mercado Común del Sur)
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
SAARC	South Asian Association for Regional Cooperation
SCO	Shanghai Cooperation Organization
SICA	Central American Integration System (Sistema de la Integración Centroamericana)
SINOPEC	China Petroleum and Chemical Corporation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization