

**Transatlantic Working Group
"China's Rise: Diverging U.S. – EU Approaches and Perceptions"**

1st Colloquium, Washington DC, February 17-18, 2005
at CSIS

The following is a brief summary of the discussions of the meeting of the working group on February 17-18, 2005. The meeting was attended by participants from the government and academic institutions from the U.S. and Europe. Summaries of selected presentations from the meeting are also available at www.tfpd.org.

China from the Perspective of the United States Government

The United States presently enjoys good relations with China, in spite of the ongoing differences over China's human rights policy (still no ICRC office in China and a refusal to allow a visit from the U.S. Religious Freedom Commission) and its position on Taiwan (the Anti-Secession Law and the build up of missiles pointed at Taiwan). The consensus view, from both political parties as well as the general public in the United States, is that constructive relations with China are prudent and necessary. For this reason, relations with China were not made an issue during the 2004 election campaign. Even on issues of trade, where China enjoys a large surplus with the U.S., there is still widespread satisfaction given that the majority of U.S. businesses operating in China are profitable or expect to be in the near-term. The most troublesome issue remains the lack of enforcement of intellectual property rights. If the Chinese do not take enforcement more seriously, the U.S. Congress will eventually get involved and this would only complicate relations with China.

Going forward, the United States hopes that China will adopt more of a cooperative approach on global issues. But for now, China continues to be, for the most part, a "free rider" in the international community content to merely seek protection of its own interests, for example pushing forward on energy deals with Sudan in spite of the humanitarian crisis there. However, China has also shown some signs of maturing as a global power as demonstrated by its role in negotiations with North Korea.

There is some concern that China is pursuing a divide and conquer strategy with respect to Europe and the United States and wants to see how far it can get with its economic leverage. The United States has recently become more aware of this and is now ready to pursue a more serious dialogue with the European Union about China in order to establish more common ground. At present, the most serious divergence with the European Union is its impending decision to lift the arms embargo on China. The United States, particularly Congress, has expressed strong concerns over the possibility that European weapons and defense technologies could bolster Chinese military modernization and be used in a Taiwan conflict against U.S. forces, and that China has not made sufficient progress in human rights. The embargo question will certainly continue to receive significant attention from Congress and the Bush Administration, and could ultimately prove even more problematic in the months ahead.

Current Policy Approaches vis-à-vis China

The European Union and the United States share an interest in China's continuing prosperity. Consumers on both sides of the Atlantic have benefited from high quality/low cost goods from China and the hope is that, in turn, a more prosperous China will be a growing consumer of U.S. and European exports. China's entry into the WTO has facilitated this growth. In addition, both the European Union and the United States want to promote China's transition to democracy, a slow process that should continue over the next three to four decades, hopefully following the pattern of other nations that have made this difficult transformation. Part of this transition to democracy includes improvements in human rights. This is especially important because in the United States, and to a lesser extent in the European Union, the issue of human rights is relevant to managing domestic support for China policy. Although it is debatable how much external influence can stimulate change, there is a continuing need for both the European Union and the United States to emphasize the importance of human rights in their relations with China.

The U.S. government itself is still debating internally the proper policy approach towards China. The different approaches include: (1) focusing foreign policy on China and making it a preferred partner; (2) getting relations with existing allies in the best shape possible before engaging China; and (3) treating China as an enemy. Although the popularity of this latter view is declining, China is doing things that create vexing security and political challenges for Washington. Both the Bush Administration and Congress have been less focused on these challenges in recent years owing to strategic preoccupation with developments in Iraq, Afghanistan, and the Middle East, and because of the economic benefits which favor a continued strong relationship with China.

There are key differences on the issue of security in Asia because, in contrast to the United States, the European Union has no defense commitments in the region and thus tends to focus mainly on trade and investment. Washington wants European partners to take regional security into consideration in its relations with China and perhaps use some of its leverage to achieve outcomes favorable to U.S. interests. These outcomes include a peaceful resolution of differences across the Taiwan Strait, and, while not openly stated, keeping a vigilant eye on China's rise as a regional power in Asia. However, the European Union, while recognizing the importance of peacefully resolving the Taiwan issue, is less interested in helping the U.S. maintain regional supremacy. Instead, European policy favors a well-structured, balanced, and equitable international system, which would limit unilateralist powers and integrate both the United States and China more closely into the international community.

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The European Union aims to integrate China into the global system and world economy in order to ensure that China will be a peaceful partner. Less attention is paid to the trade deficit with China and the idea of “containing” China does not really exist in Europe. Instead, Europe is trying to figure out where to take the relationship in the next 5 – 10 years and how to take it there. Presently, however, the European Union lacks the institutional support and coherence to assure that commitments made to China can be fully achieved

The Europeans, and many Americans, would like to see more transatlantic consultation and cooperation on issues related to China. On issues such as China's internal governance problems (e.g. civil rights, rule of law, property rights) the United States and Europe could consult each other and seek a complementarity of approaches. However, in spite of the potential benefits of closer cooperation, some in the United States believe that most things do not require a great deal of coordination as long as Washington gets the results it wants without spending the time hammering out a common position. They do not necessarily see the benefit of a better-coordinated China policy with Europe.

Lifting the EU Arms Embargo on China: Interests and Implications

In this debate, the central question from the United States is “if Europe does not want to sell more weapons to China, why lift the arms embargo?”

In principle, the United States does not like the European Union making a decision that alters the security balance in the region because the Europeans have no security responsibilities there. Although most Asian countries see opportunities in China's economic rise, they are not comfortable with its growing military power. Given that the Chinese military complex is not very advanced, the United States is asking why the Europeans would want to help China increase its pace of modernization, particularly with regard to military technology that it cannot find in Russia, such as C4ISR systems. They believe that lifting the embargo could alter the military balance between China and Taiwan, and China and the rest of Asia.

Moreover, Washington believes that China's human rights record remains troubling and it should not be rewarded. If the embargo is lifted, the Chinese will inevitably interpret it as a confirmation of their human rights “improvements” and as a victory over the United States.

Some observers suggest that Europe is trying to “impress” China in order to get better commercial deals (aviation, rail, nuclear plants, etc.) and to open a new arms market, which would greatly help struggling European defense firms. These assertions are questionable given that (1) European firms already have excellent standing in the various

commercial sectors and (2) with the possible exception of United Kingdom defense contractors, most European defense firms have little to fear from U.S. retaliation because they do little or no business in the United States anyway. Some observers even suspect the European Union of wanting to make China a power center to counter-balance U.S. power and help the European Union challenge U.S. preeminence.

While from the American perspective, Europeans have failed so far to provide adequate explanations, apart from commercial ones, for lifting the arms embargo, the European Union argues that it is seeking a more normalized relationship with China that will enable partnership agreements and progress in many other areas. The existence of an embargo, which is in place with only a few other countries like Myanmar and Zimbabwe, is an obstacle to achieving this. Lifting the arms embargo is seen more as the removal of the last remnants of the 1989 sanctions and a return towards normalized relations and less as a reward for China's recent reform efforts.

At the summit in December 2004 the European Union declared that lifting the embargo should not lead to a qualitative or quantitative rise in the sales of arms to China. In addition, the embargo will not be lifted until the "Code of Conduct" of 1998, which provides European member countries with criteria regulating the export of arms, has been revised and strengthened. However, these assertions stand in contrast to a statement of the French Defense Minister, to increase sales to China when the embargo is lifted. These conflicting views reflect the fact that the EU foreign policy is still separate from the foreign policy of each of the member states and although the EU will do everything it can, the final decision regarding arms sales will remain in the hands of the member states.

From the American perspective, lifting the embargo would be helpful if it could produce positive movement on issues of concern to the United States such as: China ratifying the International Covenant of Civil and Political Rights; and the EU making more forceful statements against the use of force by China towards Taiwan. It would also be a positive step if it leads to engagement between the European Union and China which further embeds China into the international community of nations and "obliges" China to abide by the rules of world order.

China and Economic Globalization: Impact on U.S. and European Economies

The predominant attitude in the United States seems to be one of concern about China's economic growth whereas in the EU the attitude seems to be more one of opportunity and engagement. The truth is that the economic growth of China will force the United States and the European member states to restructure their labor forces and economies to take advantage of what China has to offer in the global economy. Jobs and profits in many sectors will be hurt but there will also be new opportunities as exports increase. However,

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China itself faces major adjustment challenges, too, with regard to urban development and labor displacement.

One of the key explanations for the difference in attitudes is the fact that the United States has a much larger trade deficit with China than does Europe. The popular perception in the United States is that the trade deficit is due to Chinese trade policy and an overabundance of cheap imports from China. In fact, however, it is likely that U.S. technology export controls as applied to trade with China are responsible for a large part of the deficit because technology exports are the largest and most valuable, in dollar terms, exports from the United States to China. Thus, to the extent that technology exports are restricted, overall exports to China will suffer. In contrast, European high technology exports to China are much stronger, thus counterbalancing to a greater extent the rising imports from China.

From an academic perspective, China can be a new source of understanding about economics. The Cold War simplified economics and academics stopped thinking about “second best” systems and what can work in the absence of a full-fledged market economy. In China, many interesting and original ad hoc solutions are to be found that could well have wider significance. For example, China uses public funds for infrastructure in a way that stimulates private sector development. China, unlike others, encouraged Foreign Direct Investments (FDI) but in its own way. More countries will try to improve their investment climates to increase FDI as China has done.

A “G-8 plus” role for China is not appropriate at this point because although China has some well-advanced capabilities, policy challenges for the overall economy show that it is clearly poor and developing. Calculated on a PPP basis, China’s future economic ranking position in the world is greatly exaggerated. In terms of GDP per capita, by 2050 China’s economy is expected to reach the level of Spain’s at the start of 2000. In any event, the Chinese are not interested in the G-8 because that would mean it is no longer considered a developing country and that would have negative implications for China.

China’s Regional Initiatives – U.S. and EU Reactions

China has been playing an ever greater regional role recently, due not only to its economic growth but also to an increasingly proactive diplomacy. China is now more active in multilateral security and economic institutions, in building strategic bilateral partnerships and in regional military diplomacy (defense exchanges, exercises, regular dialogues). Its growing economy is rapidly becoming a center of gravity for the region and is the most important feature of China’s emergence. Among business elites in Asia there is a widely held perception that their economic future is tied to the development of China’s economy.

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China's development in the region can be viewed either as a normal and benign phenomenon that promotes regional stability and economic development, a function of China's historical and cultural influence and proximity whereby increasing Chinese influence does not necessarily push out U.S. influence. Or China's influence can be seen as rising while U.S. influence in the region wanes, thus "soft-balancing" the United States. In this latter interpretation, China is opportunistically taking advantage of the gaps left behind by the United States. Washington believes that the European Union is not particularly concerned by the weakening American role in the region. The European Union, on the contrary, does care about the U.S. position in Asia. But presently this does not cause major concern because China is not perceived as a threat.

Since the European Union is itself the most prominent example of a regional, multilateral initiative, it generally sees regional multilateral initiatives in a positive light because of their implications for economic cooperation and stability. Thus, the European Union is supportive of China's regional policy to the extent that it could accomplish similar goals. In contrast, the United States looks rather suspiciously at China's efforts in the region, particularly those to build multilateral regional institutions that exclude the United States. Other countries within the region are also concerned and appreciate China's economic and diplomatic engagement, but still want the United States closely involved. Moreover, many Asian countries are feeling overlooked and are concerned that China is taking a dominant role in EU-Asia relations. There is the potential for a greater tension between the United States and the European Union if the latter's support of China's regional initiatives should contribute to a weakening of the U.S. position in the region.

The United States is constrained in its discussions with China because of U.S. security commitments in Asia and Taiwan. However, Europe and the United States could consult more closely in understanding and responding to China's emergence as a global power. For example, the European Union could consult with China on issues of global governance (WMD, counter-narcotics, transnational crime, regional stability, etc.) in addition to the existing dialogues on trade, political issues, and security. The European Union, like Australia, could help the United States see relations with China from a more balanced and constructive perspective.