



EUROPE / ASIAN

in the CENTURY

Warsaw / October 8-9 / 2013

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EUROPE in the / ASIAN CENTURY

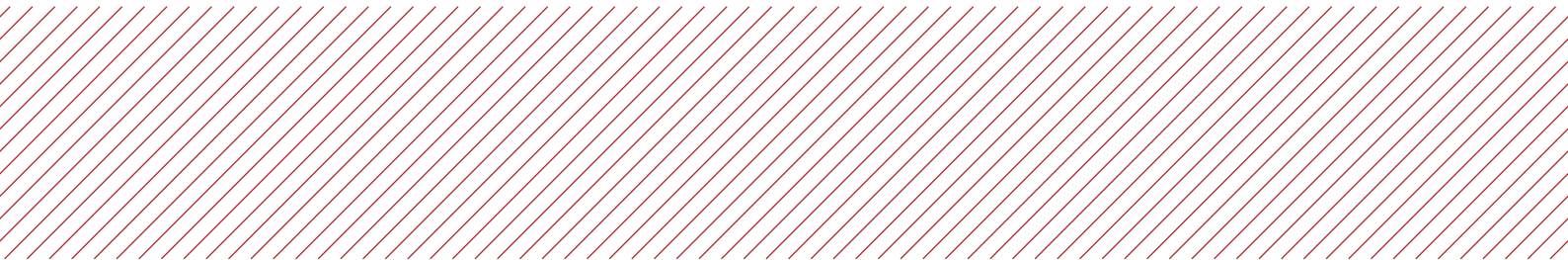
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PROCEEDINGS

of the joint seminar of demosEUROPA – Centre For European Strategy,
Friedrich-Ebert-Stiftung in Poland
and the Warsaw office of the European Council on Foreign Relations

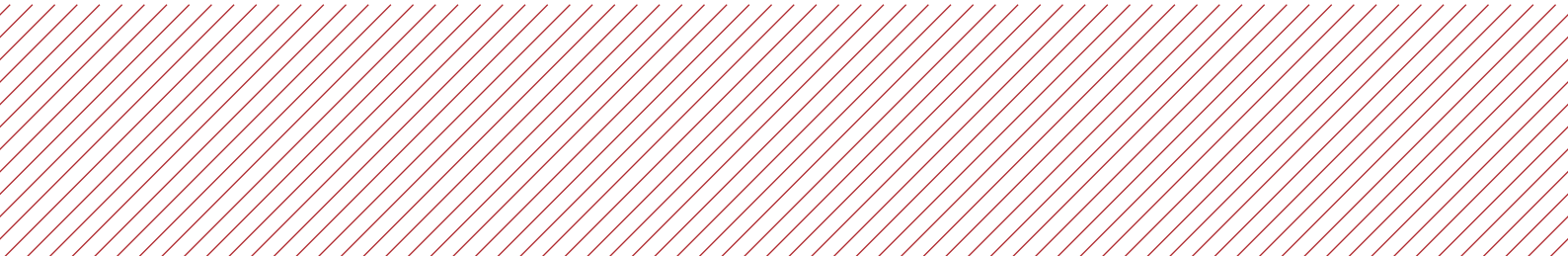
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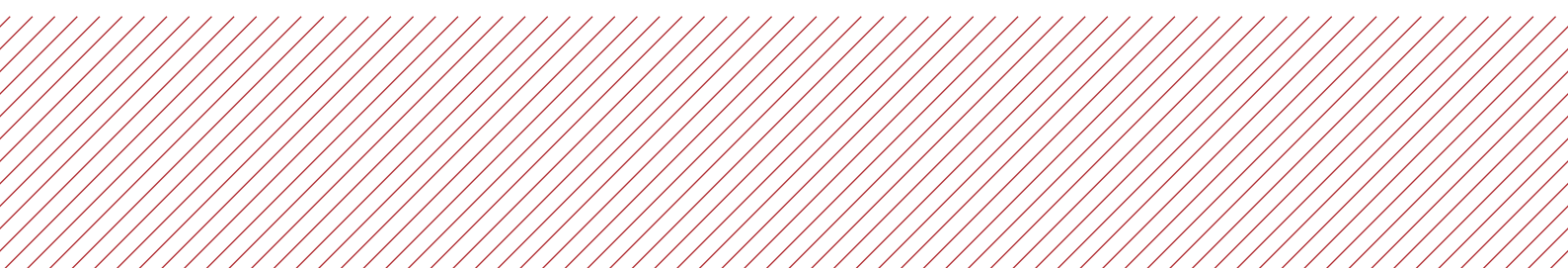
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If a military presence and the preparedness to protect and defend economic and trade interests with military force are, as policymakers in Washington typically argue, the preconditions for 'real' involvement in Asian security, then the EU arguably does not have such a role in the region. Of course, EU policymakers beg to differ and maintain that the EU's contributions to Asian security are 'real' and centred on developmental aid and technical assistance, and are backed up by robust trade and business ties in and with Asia. As it turns out, such EU policymakers do have a point. The Union's track record of 'soft power' security contributions to security, peace, and stability in Asia is not at all unimpressive. Indeed, over the last 10 years the EU has contributed to the stabilization of East Timor, financed and supervised the implementation of the peace agreement between Indonesia and the Free Aceh Movement, and continues to work on behalf of peace between the Muslim population in Mindanao and the central government of the Philippines. Moreover, after the lifting of Europe's economic sanctions, Brussels stands ready to resume large-scale economic and developmental aid to Burma/Myanmar.

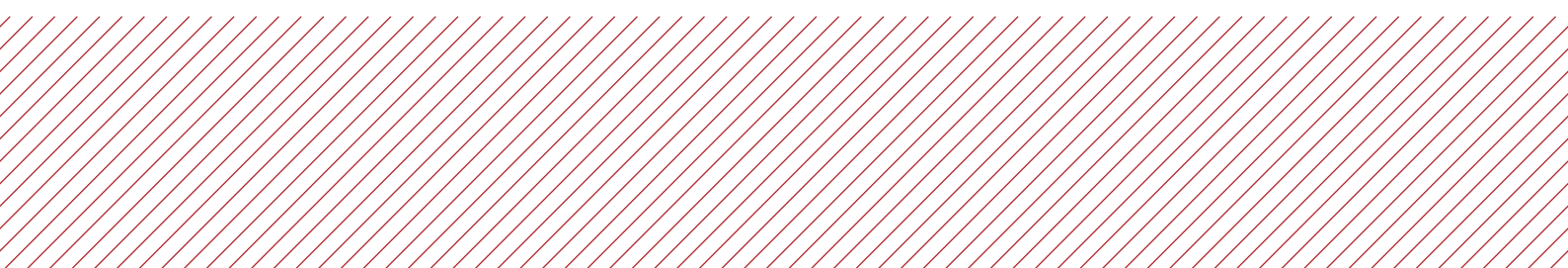
The EU and its member states remain the biggest donors of humanitarian and developmental aid to Asia. Between 2007 and 2013 the EU Commission allocated roughly 5.2 billion Euro of such aid to the region. While 80 percent of these funds are assigned to developmental assistance, the remaining 20 percent will be spent on regional assistance projects and on regional emergencies such as natural disasters. European weapons sales to Asia, on the other hand, somehow spoil the EU's soft power image in Asia. Weapons and weapons technology exports from EU member-state companies have a particularly visible market presence in South and South-East Asia, where European contractors are selling submarines, frigates, and jet fighters. Regardless of the EU weapons embargo imposed on Beijing in 1989, China continues to be an important market for the European weapons industry. European companies are selling weapons and weapons technology worth roughly 7% of China's defence procurement budget. Overall, Asian countries import roughly 20% of their armament from Europe (and 30% from the US).

INTRODUCTION BY AXEL BERKOFSKY AND KNUT DETHLEFSEN



As EU policymakers explain to those who have doubts about Europe's real impact on Asia's hard security, Brussels is equipped with the instruments and policies necessary to get involved in conflict mediation in the region. In contrast to the US, the EU's lack of military presence in East Asia, as EU policymakers again explain, is an advantage if Asian countries, for instance, request the EU to act as a neutral arbitrator helping to address and resolve some of Asia's ongoing territorial disputes. However, EU diplomacy and policies aimed at getting the protagonists of Asian territorial conflicts to negotiate with each other have yet to materialize. Apart from regularly expressing (verbal) support for peaceful solutions to existing Asian territorial conflicts in general, along with those involving an increasingly assertive China in the East and South China Seas in particular, the EU's actual influence on Asia's territorial conflicts is arguably very limited, if it exists at all. While this is especially true for territorial conflicts involving China (which continues to insist on the 'principle of non-interference' and refuses to accept any outside opinions and advice on its territorial disputes in the East and South China Seas) Brussels and its EU External Action Service (EEAS) are confident and optimistic that, through the annual 'EU-China High-level Strategic Dialogue' (set up in 2010), the Union has a certain influence on what China does in terms of regional and global security. However, the reality is that, instead of exerting any kind of actual influence on Chinese foreign and security policies through the above-mentioned dialogue with Beijing, Brussels in fact finds itself confronted with Chinese policymakers' suspicions that Brussels is ready to join Washington's China containment policies 'disguised' as the US 'pivot' to Asia. This is particularly true since the adoption of the EU-US Statement on the Asia-Pacific Region in July 2012 (for more see below).

The two-day conference 'Europe in the Asian Century' – jointly held by the Friedrich-Ebert-Stiftung, the Warsaw Office of the European Council on Foreign Relations (ECFR), and demosEuropa on October 8 & 9 2013 – brought together a group of leading European scholars, experts, and officials to discuss and assess the EU's role in and impact on Asian security. On this topic, conference participants in essence concluded that Europe should stick to



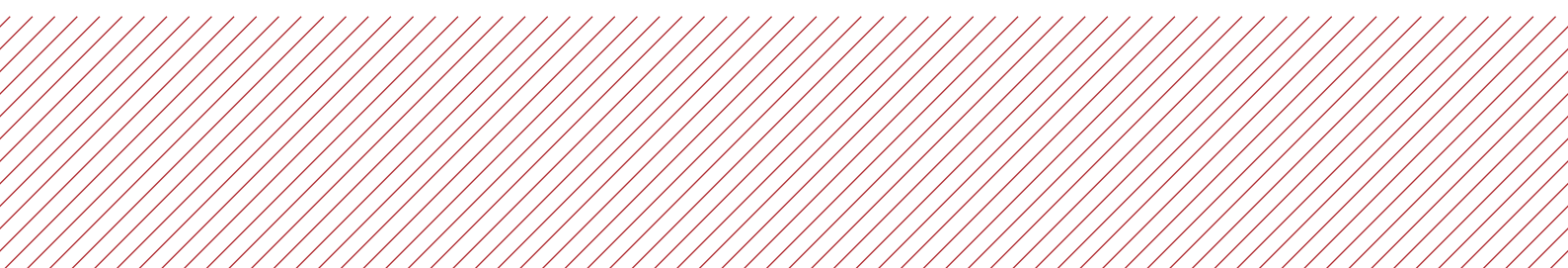
what it does best: pursuing the above-mentioned soft power policies while not allowing itself to be drawn into US-Chinese strategic rivalry in any form. Furthermore, the EU should continue to exert its influence as a normative power, by proposing its values to its Asian partners without lecturing them on democracy, human rights, governance, and so on. All of this is easier said than done, of course – not least because EU member states' individual policies towards Asia are not always in harmony with the policies of the European External Action Service (EEAS). This is particularly true for European policies towards Beijing, for many EU countries the most important trading partner in Asia. While it cannot be expected that smaller and economically less powerful EU member states have the same interests and stakes in China that the Union's bigger members do (e.g., Germany, France, and the UK), it can and indeed should be expected that individual member states' policies towards China at least do not contradict or impede the Union's China policies as adopted by the EEAS. This, however, is not always the case. Indeed, François Godement, the European Council on Foreign Relations (ECFR) China scholar, has concluded in his recent writings on EU-China relations that more often than not EU member states with significant business and investment interests in China adopt their very own China policies, ignoring what the EEAS wants the Union's China policies to look like. This continues to give Beijing a relatively free-hand to deal with EU member states individually, in line with its own interests, as opposed to dealing with EU institutions and agencies.

It therefore comes as no surprise that China and its domestic and foreign policies featured prominently as topics during both conference days. China is involved in many of Asia's ongoing and indeed intensifying territorial conflicts across the region, and its rapidly and continuously rising defence budget is of concern to countries inside and outside the region (above all for the US). As some of the conference participants argue in the short papers below, there are still many unanswered questions and uncertainties about the future of China as an actor in regional and indeed global politics, economics, and security. What is certain, on the other hand, is that Europe's involvement and role in Asian security will continue to depend largely on what China 'does' in terms of regional politics and security.

During discussions on the content and impact of the above-mentioned July 2012 joint EU-US Statement on the Asia-Pacific Region (adopted by then US Secretary of State Hillary Clinton and the EU's High Representative of the Union for Foreign Affairs & Security Policy Catherine Ashton) there was near-consensus amongst conference participants that the statement is counterproductive, as it adds nothing to (or even damages) the EU's credibility as a soft security actor and presence in the region. As was pointed out during the conference, for China the Ashton-Clinton statement was tantamount to nothing less than Brussels 'signing up' to US-driven containment policies towards China. Indeed, ever since signing the joint statement EU policymakers have found themselves charged with the task of explaining to their Chinese counterparts that the envisioned US-EU cooperation on: counter-piracy in Asia; joint efforts to work with Asian partners on increasing maritime security based on international law; transnational crime; terrorism and cyber-security issues with Asia-Pacific partners; and the joint promotion of democracy and human rights is not cooperation aimed at deterring China. To be sure, the efforts at explaining that Washington and Brussels are not ganging up on China to contain Beijing's rise in general, and its assertive regional foreign and security policies in particular, have turned out to be (very) unsuccessful and Beijing continues to perceive that the US and EU are pursuing containment policies against it.

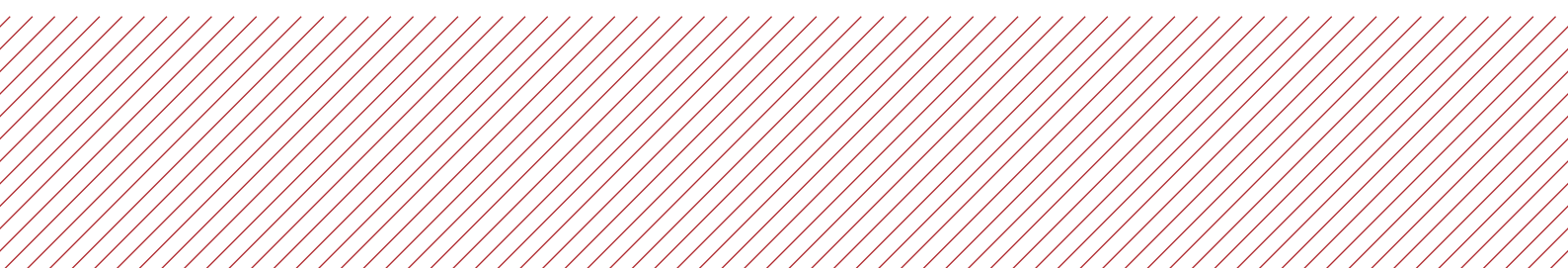
The European Union, it was concluded during the conference, has only a limited capacity to follow up with concrete, joint US-EU policies on the ground and should instead continue to do what it does best in Asia: press on with soft power policies as opposed to pursuing ambitions to develop the profile of a hard security policy actor alongside the US in the region. In other words: the Union is advised not to seek to become more like the US in terms of security contributions to Asia, as its strengths lie in non-military security contributions centred on financial, economic, and technical assistance in the region.

However, joint and coherent EU security policies towards Asia as adopted by the Union's EEAS have yet to materialize, it was concluded during the conference. There is no doubt that the Union's recent internal problems centred



around European sovereign debt and the Euro crises in 2011 and 2012 and 2013 have damaged the EU's profile and credibility in wielding normative power and being a role model for Asia on how to adopt and conduct joint economic, financial, and foreign policies. That said, it would be misguided to conclude that Europe's internal problems, the Euro crisis, and sluggish European economic growth are necessarily having an impact on the Union's ability to contribute to Asian peace and stability. In fact, the 'Guidelines on the EU's Foreign and Security Policy in East Asia' adopted by the Union in June 2012 are (at least on paper) evidence to the contrary. Brussels' policymakers cite the guidelines as an expression of increased and increasing EU willingness to get further involved in Asian security. The guidelines acknowledge the "needs of a more developed, coherent, and focused common foreign and security policy in East Asia."

The short papers below are summaries of the conference participants' presentations given on October 8 & 9, 2013. These short contributions do not of course cover all the issues that were discussed during the conference, but they nonetheless do provide an overview of how some of Europe's leading Asia scholars and policymakers from various European countries assess the EU's role and involvement in Asia against the background of the rise of China, of Asia's territorial conflicts, and Asian regional integration and governance.



PANEL DISCUSSION: THE ASIAN CENTURY AND “THE REST”: WHAT IS EUROPE’S PLACE?

EU POLICIES TOWARDS CHINA – WHAT AND HOW BY KERRY BROWN

China’s search for more strategic space is driven by an awareness of its increasing economic power and its ‘historic mission’ to strengthen a united country and ensure that the historic grievances from the last century and a half of decline, then invasion, war, and internal struggle do not get repeated. China is conducting this search in an environment where the US remains dominant and wary of China’s medium to long-term ambitions. China’s leadership has made attempts to spell out their core priorities and international strategy, but the values shaping China’s foreign policies remain poorly understood. While many argue that the Chinese are motivated largely by their own interests without real observance of principle, others maintain that they are sticking to the ‘Five Principles of Cooperation’ enunciated in 1955 and that they base their behavior on mutual respect, peaceful co-existence, and non-interference in the affairs of others. Neither of these positions fully captures the often contradictory complexity of China’s global role and its dynamism.

For the European Union (EU) there are many pressing challenges. There is a lack of shared consensus within the EU on what sort of power China is and how best to engage with it. The majority would seem to support giving privilege to economic relations with China, although it is clear that public opinion across EU member states is often quite confused about just how deep economic relations with China should go, and how open the EU should be to Chinese investment and trade. Political leaders in the EU have to take the lead in forming more consistent and stable public opinion about relations with China. In particular, politicians have to be well informed about the developments and changes underway in China, as well as about the particularities of the Chinese political and economic model, in order to be able to engage with Chinese leaders intelligently on a shared policy agenda. For both the EU and China, sustainability is an important issue of common interest, and one that requires them to take a global lead in addressing. There are also issues of social cohesion and of dealing with the development of civil society

and delivery of justice in society, regarding which, despite their differences in approach and clear differences in values and their priority, the EU and China have much common ground, both in terms of the problems they face and the ideas they may need to overcome them.

The governing elite in China is small, with some calculations claiming only three-thousand people occupy positions at the ministerial level and above across the country’s provinces and national ministries. China’s top-decision-making body, the Politburo Standing Committee (PSC) of the Communist Party, now consists of only seven people, down from nine before 2012. Access to this group of core decision-makers is key, and like the US, the EU leadership has to be very tactful in how it plans its discussions and formulates the key messages it wants to convey to this elite. The EU also has to understand Beijing’s preoccupation with domestic issues, and have some ability to address the EU’s interests and concerns while speaking within the terms of these domestic issues. High-ranking officials from the EU or its member states have to well consider to what degree they make their encounters with the highest level leaders of China transactional (i.e., promoting specific business agendas), and to what degree they concentrate on conveying a shared framework to address current problems. The EU should seek to create a more coherent and consistent message about its inward investment and its openness to Chinese investors. There is no reason why this cannot embrace the self-interest of EU member states and sub regions, and yet be predicated on a clear agenda of shared interests and strategic acceptance that some member states are better placed than others to attract investment in some sectors, and that a more cohesive investment offer by member states to Chinese partners would be in the interest of all.

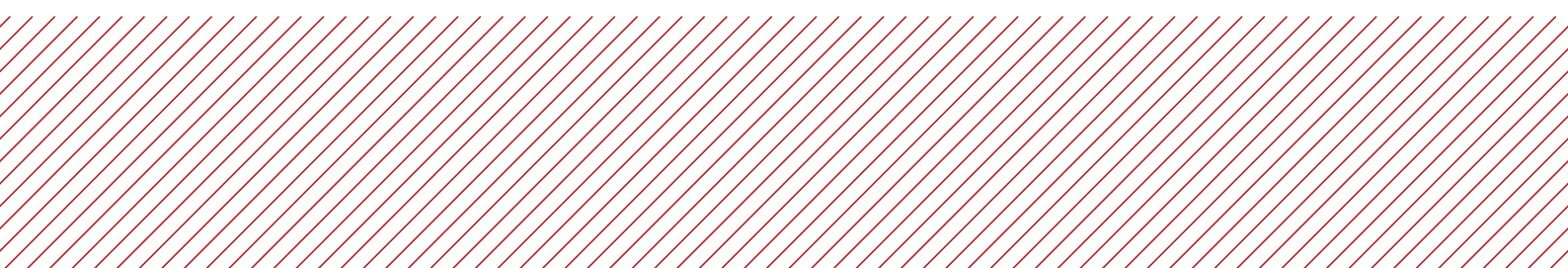
The EU should present itself in China as an extraordinary collection of diverse alliances, with a clear and shared agenda for creating prosperity and stability, just as the Chinese leadership often states as its own focus. The EU should also reduce its sometimes morally antagonistic and lofty language towards Chinese leaders with something that places the interests and awareness of

EU reform more at the centre. After all, the EU, like China, is a reforming entity that will need to focus on major transitions in the coming decade as much in the political as the economic arena as it seeks to create a stronger Union, but one respectful of the sovereignty of member states. For China, a phase of decentralization and of empowering provincial leadership is likely, with the need for the EU to leverage whatever local links it has in order to benefit from this complex and fragmented transition in China. The main conceptual framework for both is to be partners for growth. Growth of different types is needed in both polities. By upholding this shared objective as a consensus point, it would be easier to have more harmonious and more result-oriented political discussions.

EUROPE’S INVOLVEMENT AND ROLE IN ASIA BY JÜRGEN STETTEN

In Asia, as elsewhere, the member states of the European Union stand a better chance of making their voices heard when speaking and acting jointly. While this may sound like stating the obvious, in the case of Asia it requires more than overcoming the current inward-oriented crisis mood in European capitals and ironing out common positions when the interests of member states differ. Agreeing on a truly coherent approach towards Asia will be possible only if Europe embarks on a focused and fresh approach toward engagement with this vast and diverse region. The EU’s Asia policy needs to be broader, deeper, and more long-term than the status quo, which is dominated by two overlapping concerns – namely, trade and China.

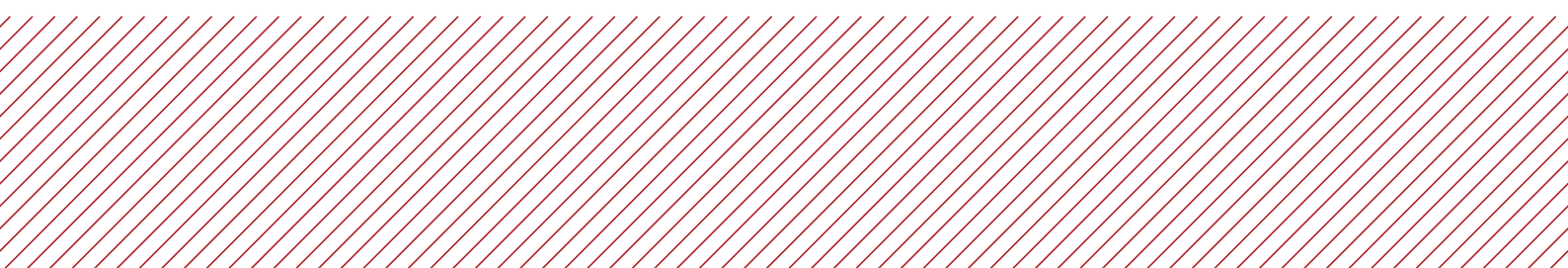
Admittedly, making Europe ready for the “Asian Century” will not be an easy task. While Europe’s relationships with Asia are driven neither by “neighbourhood factors” nor by strong historical roots, a rather opportunistic approach centring on economic and trade interests seemed to be the obvious choice for a long period of time. However, such a narrow approach may not be feasible in the long run because it neglects the increasingly complex political dynamics on the ground, a region plagued by today’s geostrategic shifts and yesterday’s epic rivalries. In addition, an approach wholly centred on



economic ties underestimates what Europe has to offer beyond trade, namely in the fields of diplomacy and conflict prevention, democracy and good governance, social justice, and the welfare state – to name just a few.

After the United States announced its “rebalancing” towards Asia and the Pacific in 2012, it was telling that the most spontaneous reaction in foreign policy circles in Europe was to discuss the likely (negative) implications this may have for the transatlantic relationship. Only in the small (but growing) community of “China watchers” was it asked how Europe’s rebalancing towards Asia might look. In fact, this question entails a number of intriguing elements: how does Europe define its role viz. the great powers in the region, most notably the US, China, Japan, and India? In particular, how can Europe overcome its strategic dilemma where, on the one hand, Asians perceive Europe as an extension of Washington and, on the other hand, Washington perceives Europe as a “mercantilist free rider” in Asia? Can Europe act as a mediator and diplomat and apply a collective security approach in a region where “realpolitik” is the dominant feature of foreign and security policy? How can Europe deal with the fact that one member state contributes almost half of EU exports to China and that Beijing pursues a “special relationship approach” towards this one EU member state?

The experience of the Friedrich-Ebert-Stiftung in Asia shows that Europe still commands a considerable “soft power potential”. In particular, the fast growing, export-oriented economies in Asia have a keen interest in understanding how Europe has been able to address the “magic triangle”, i.e., balancing social equity, economic growth, and environmental sustainability in modern societies. This is particularly true for China, South Korea, Vietnam, and more recently Myanmar. However, using Europe’s soft power requires a new approach, one through which Europe offers itself as a partner in jointly facing common challenges rather than as a model to follow. One of the biggest challenges remains the promotion of democracy in Asia. A dialogue approach, one that focuses on concrete policy issues, seems to be more promising than one highlighting the existing differences in our respective political systems.



EUROPE’S PLACE IN THE ASIAN CENTURY BY JAKUB WIŚNIEWSKI

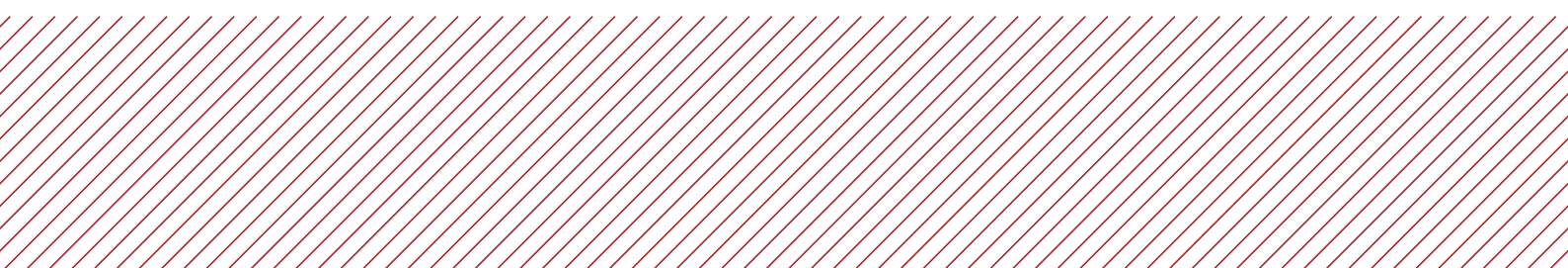
The history of humanity knows many more Asian centuries than European centuries. The very first civilizations emerged somewhere between the Middle East and India. Europe either adapted their achievements to local conditions or simply copied their sophisticated crafts, arts, irrigation systems, and so on. In the 13th century, the Mongol Empire stretched from Korea to the borders of Poland and Hungary. Russian dukes had to ask khans for a special decree, the *yarlyk*, in order to rule. The discovery of sea routes to America was one of the cornerstones of Europe’s prosperity in the 16th century. The 18th- and 19th-century growth and expansion of Europe would not have been possible without engaging in India and China.

What looms on the horizon?

According to the “World in 2050” study by PricewaterhouseCoopers, as soon as by 2030 China’s GDP will exceed that of the United States. Twenty years later, the gap will become only bigger. Worse still, out of today’s four EU states in the top 10, only two will remain there by mid-century. Others, like Spain or Poland, will feel the breath of South Korea, Indonesia, and Vietnam on the back of their necks. In 2000, the EU and US created half of the world’s GDP. In 2030, it will be no more than one-third. Is Asia’s gain Europe’s loss? Yes and No.

There are things that are a zero sum game – the number of seats at tables, voting rights, and influence in international institutions. Some resources are limited, like oil, gas, and precious metals. In 2009, China overtook the US as Africa’s main trade partner. In 2013, China’s trade with Africa accounted for \$200 billion. Roughly 85% is that of raw materials. In September 2013, President Xi visited Central Asia, described by some experts as a *tour de force*. He signed contracts worth \$51 billion, whereas hitherto Chinese investments in Asia had accounted for \$30 billion.

EU trade with China alone is worth more than \$1.3 billion per day, second only to trade with the US. In 1975, the annual trade volume between the EU



and China amounted to only \$2.4 billion. In 2012, the annual trade volume reached an astounding \$546 billion. However, EU exports to China are just 35% of this sum.

Is Europe bound to lose?

Yet simple extrapolation of today’s and tomorrow’s trends seldom works. Asian growth will not be as rapid tomorrow as it is today. China grew by approximately 7.5% in 2013. This is a notable slowdown in comparison with the previous years (when it grew by 10% and more). Some economists argue that China has to address growing infrastructural and social problems – otherwise, growth higher than 5-6% is not likely to happen.

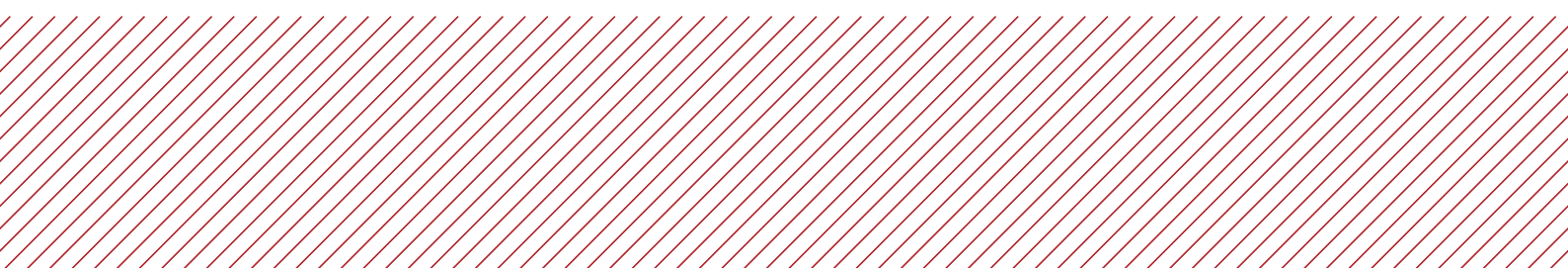
Europe is not as much in decline as many believe. Navel-gazing and talk of European crisis seem unduly fashionable today. Europe is still the most attractive place to live. According to the Where to Be Born Index 2013, of the 10 top countries, 5 are in Europe. The remaining 5 are closely linked to Western culture and lifestyle.

Europe has around 4,000 higher education institutions, with over 19 million students and 1.5 million staff. The universities of Oxford, Cambridge, and the Swiss Federal Institute of Technology Zürich have been among the best in the world for long years.

Europe is also still the most innovative continent, according to the Global Innovation Index 2013 (14 of the top 25 countries listed there are European). Over 1.6 million immigrants come to Europe every year. Every tenth citizen in Europe comes from an immigrant family background. Every sixteenth has non-European immigrant roots.

What should Europe do?

Developments in Asia over the last 30 years are a valuable lesson to Europe. They expose our weaknesses, but there is still time to confront and overcome them, and forge them into strengths.



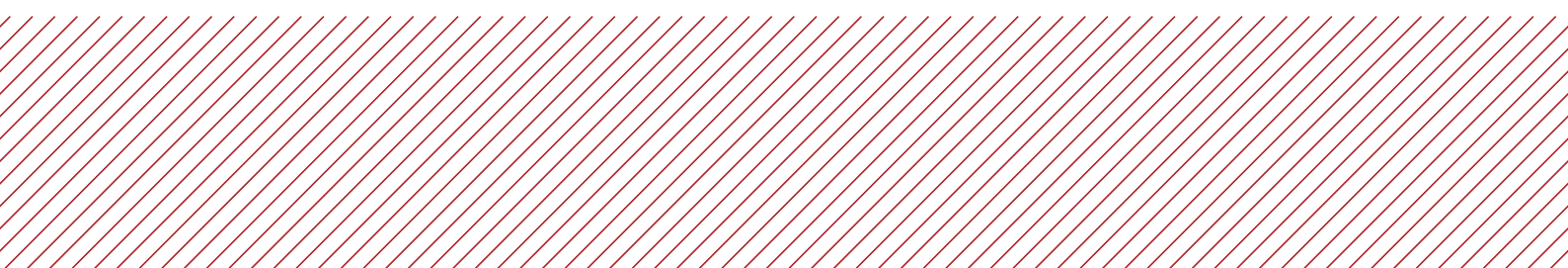
There can be no doubt but that we need to reform the welfare state model we have developed. By 2050, due to ageing, the EU will have lost 48 million people of working age (15- to 64-year-olds) and will have 58 million more pensioners (65 years and older). In 2004, four working-age people supported each pensioner. This ratio will drop to two to one by 2050. Europe spends some 27% of GDP on social welfare, in strong contrast to the US (15%) and Japan (17%). The Centre for Economic Policy Research (CEPR) suggests that the EU’s economy could benefit by €119 billion a year – equivalent to €545 for the average EU household – and the US’ by €95 billion a year through a reform of the welfare state.

Asia’s rise is also one of the main arguments in favour of further and deeper integration of both Europe and the West as a whole. Only a strong, united European Union can be an equal partner. Even 80-million strong Germany means little in comparison to nations of over 1 billion people. If we want to limit our growing dependency on trade with Asia, we need to end the limits in EU-US trade.

Where are we as Poland?

We are the China of Europe – low-cost suppliers of simple components and foodstuffs. Our economy still lacks the technological advancement that would allow us not only to produce, but to design cutting-edge IT equipment.

We are relative latecomers to the world stage, and thus have only a few global companies. PKN Orlen ranks 297th among the biggest 500 companies in the world, and it is the only Polish company on that list. We are a country where business and public administration are still learning how to cooperate with each other effectively. Polish Public-Private Partnership (PPP) accounted only for 1.7% of overall EU PPP in 2000-2009. We sometimes seem to lack ambition, not necessarily resources.



What should Poland do?

For the last 25 years, Poland’s reference point has been Western Europe. But given the recent economic turmoil, might it not be more appropriate to compare Poland with fast-developing countries like Thailand, Vietnam, and Malaysia – and search for inspiration there?

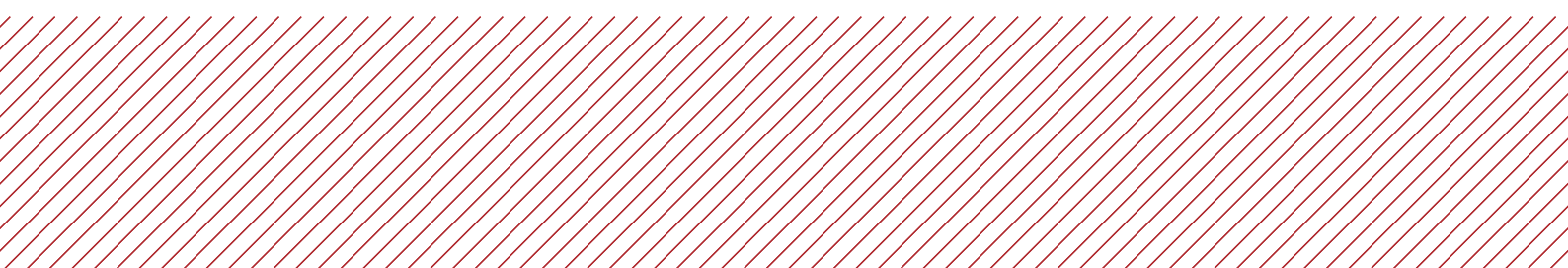
Beginning in the late 1980s, Thailand managed to attract IT investors. This helped its economy shift from dependency on agriculture to a balanced mix of various export groups which do not exceed 15% of the Thai trade balance. Similarly, Vietnam’s doi moi (‘renovation’) economic policy laid the foundations for that country’s rapid economic growth, starting from 1986, and did so without causing social unrest.

Conclusion

The rapid growth of many Asian economies has meant that Asia does not have to catch up with the West. In some respects this process has changed to competition between partners. However, this does not signify that Europe has done everything wrong. Similarly, Asia has not done everything perfectly, as we see with the degradation of the natural environment and the social situation of millions of poorly paid workers. Indeed, the striking contrast between the rich and the poor is of huge concern to Asia governments.

Europe has a lesson to learn from Asia. But some things are essential to the Western model and are non-negotiable and non-changeable: universal human rights, democracy, anti-corruption measures, and freedom of expression. The 2012 Nobel Peace Prize was awarded to the EU for “having over six decades contributed to the advancement of peace and reconciliation, democracy, and human rights in Europe”.

Even if Asia is on the rise, Europe is not in decline. Rather than shifting from a European to an Asia century, today we are moving towards a global century.

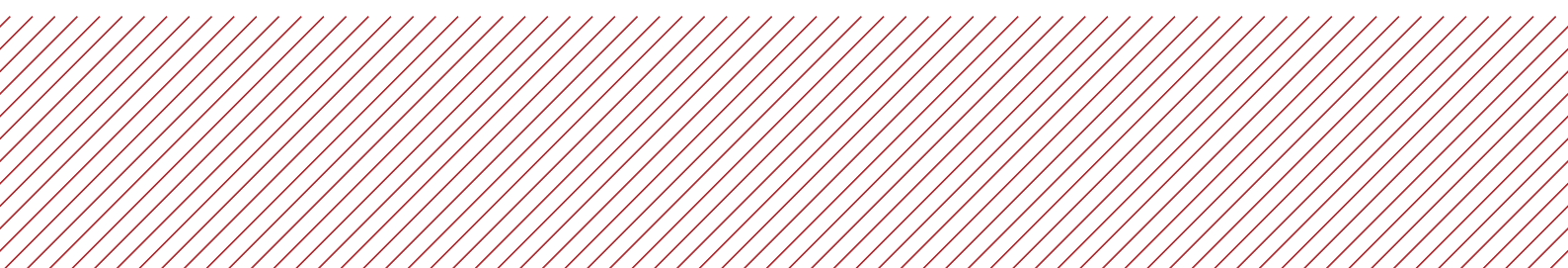


THE MEANING OF CHINA’S WAVE OF “SECOND REFORMS” BY BOGDAN GÓRALCZYK

In an April 2012 paper for The European Council on Foreign Relations, François Godement wrote that “China is at the crossroads”. His words have even more value today – in the autumn of 2013. China’s previous developmental model (Zhongguo Moshi), never properly defined, seems to be coming to an end. Since 2010, as the Chinese domestic debate on this issue has shown, there is no longer a consensus on the relevance of the approach towards international politics. Instead, there is a debate in China on whether Deng Xiaoping’s toanguang yanghui (“conceal our capabilities, avoid the limelight” - commonly interpreted as a strategy to “keep a low profile, while gathering strength”), formulated and introduced in the early 1990s by Deng in the “Strategy of 28 Chinese characters” (28 Xianfa), should still be China’s approach towards international relations. Controversy notwithstanding, the main features of China’s previous developmental model, and which was accompanied by more than three decades of economic reforms (from 1978-2010), were:

1. steady and strong economic growth (close to 10 percent),
2. export as the main engine of growth,
3. harsh exploitation of the country’s enormous labour reserves, especially in the countryside (some 250 million of liudong renkou, which migrated to urban areas to work hard without any social security net),
4. FDI on a large-scale floating into China after 1992.

Those were the main pillars of the system formally known as “Socialism with Chinese characteristics”, which especially during Zhu Rongji’s premiership and management of economy in the 1990s took the form of export-based state capitalism, combined with political repression and strong authoritarian rule. However, the side effects and high costs of this model burden China today: corruption, social stratification (China’s Gini coefficient is already higher than 0.5); inequitable distribution of resources; a quickly deteriorating envi-



ronment; the costs and consequences of the country’s one-child policy and the ageing of society; the dismantlement of the country’s social security net; and many other unsolved problems. These phenomena have led to frequent social unrest and local upheavals and have brought about a lack of political consensus on how to tackle the above-mentioned problems (as demonstrated, for instance, by the Bo Xilai affair).

As a consequence, the idea of a wave of “Second Reforms” (*di er ci gaige*) has emerged. More and more Chinese scholars (albeit not necessarily high-ranking Chinese policymakers) are coming to a single conclusion: China is moving to the next stage of its development and must change quickly if it wants to avoid major, 1989-style social upheaval. Once again, there is no consensus (whether in academic or policymaking circles) on the shape and quality of the envisioned “Second Reforms.” However, there is some consensus that these reforms should:

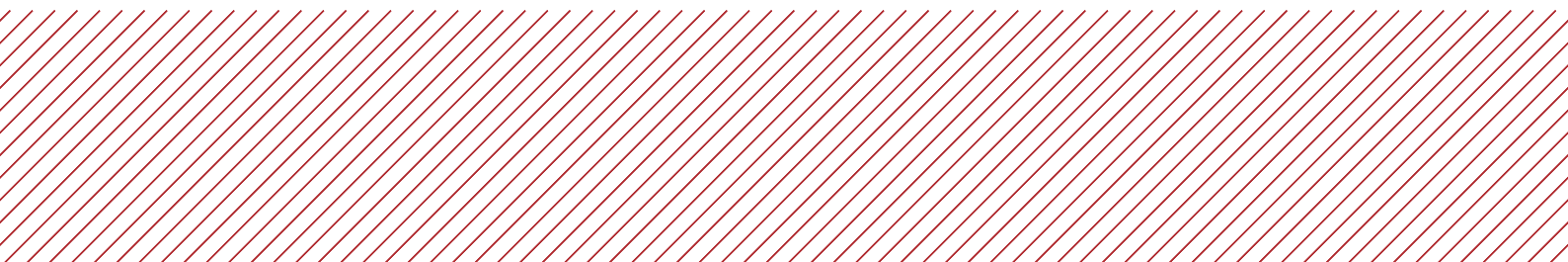
1. lead to sustainable development,
2. promote a green (non-carbon) economy,
3. be accompanied by consumption-led economic growth,
4. promote an innovative society,
5. promote a society rich in public services and well-developed social security net.

Readjustments must be made and – as announced by Beijing in the run-up to the plenary session – will be made in November this year during the crucial Third Plenary Session of the Central Committee of the CCP. Is the November Plenary Session another turning-point in China’s development? – another, as some suggest, “historical” Third Plenum, like the one of December 1978, which brought about the successes of the Deng Xiaoping reform era? Of course, no one knows the answer yet. However, we already see visible changes in the attitudes of the top leaders of the Fifth Generation. While Xi Jinping is actively promoting the nationalistic idea of a “Chinese Dream” combined

with the rhetoric of what he calls “The Great Renaissance of Chinese Nation”, technocratic Prime Minister Li Keqiang is engaged in preparing to implement the above-mentioned wave of “Second Reforms.”

What will the final results of the up-coming Plenary Session be? How much of the “Second Reforms” and how much of the Chinese Dream can we expect? Knowing China, we will probably get a mixture of nationalistic policies centered on the ‘Chinese dream’ together with technocratic approaches and economic reforms. The proportion between Beijing-promoted nationalism and meaningful reforms is crucial. More “Chinese dream” policies will mean a more assertive China in international politics, while a more technocratic China will mean more “Second Reforms” and less economic growth at all costs and less social robbery of many strata of society. Whatever the final outcome will be, the door is open to adopt further economic and political reforms. China will enter into the next phase of development, though still under the banner of “Socialism with Chinese characteristics”.

The Communist Party wants to stay in power as a “collective Emperor” in the era of “Second Reforms.” Thus, many crucial issues like the ill-gotten wealth of the CPC, rule of law vis-à-vis rule of the Party, and the leadership’s obsession with stability will remain unresolved. Is another era of economic liberalization and political repression on the horizon? If that is the case, then, as David Shambaugh has recently observed, China will remain a “partial power”. Maybe a modernizing China will emerge, but not modernized enough for today’s international politics and economics in the era of global challenges and not yet ready to play the role of a “responsible stakeholder”, which Robert Zoellick in 2005 wanted China to play in international politics.



THE US PIVOT TO ASIA VERSUS BEIJING'S 'STRATEGIC PARITY' – EUROPE'S POSITIONS AND REACTIONS BY FILIP GRZEGORZEWSKI

The US has been present in the Western Pacific for decades. The term "Washington Treaty" should not only be associated with the North Atlantic Treaty of 1949. Indeed, it is also an outcome of the Washington Conference 1921-22, which was the result of growing US security concerns about Japan and China. The era of 'Ping-Pong diplomacy' with Maoist China was evidence that Washington unmistakably recognized the strategic importance of Asia before the end of the Cold War.

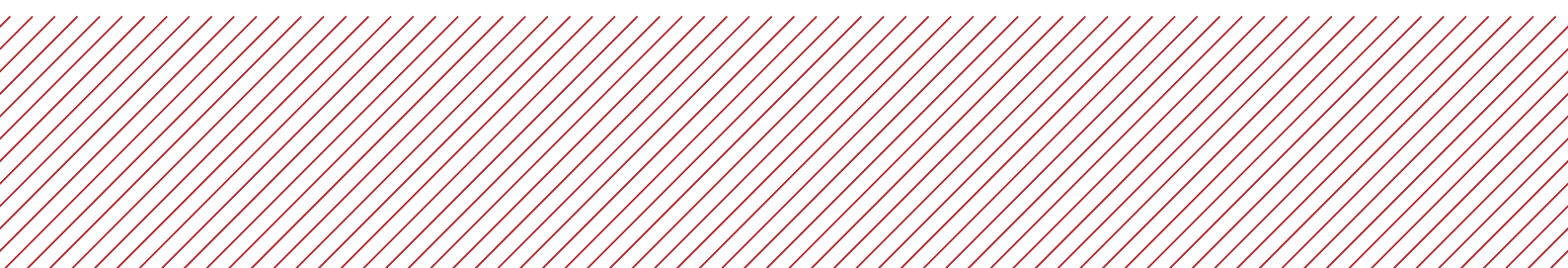
The term "Asian Century" has its roots in the mid-1980s when Paul Kennedy predicted the shift on the global chessboard in favour of China. The importance of Asia in US foreign policy thinking and US policies is not a new phenomenon. 9/11 redirected the picture for a decade, but it hasn't stopped the trend of a growing focus on the Asia-Pacific in US global policy strategies, and indeed in world affairs. Washington's 2012 Asian pivot is not a radical turn, but rather a gradual shifting that had arguably lost some of its relevance after 9/11 with the US focus on its global war against terrorism.

During the recent global economic slowdown and crisis the Asia pivot may mean the following: "We must reduce our engagement everywhere in the world – excluding the Western Pacific". Furthermore, the Asia pivot announced by the US administration in 2012 is also meant to strengthen the confidence of US allies in the region and it is without a doubt also a reaction to the rise of China. Indeed, many experts on China believe that the Asia pivot is a US tool to contain China (with Cold War overtones).

From Beijing's perspective, the US Asian pivot is hampering China's major policy goals and objectives:

- to achieve more strategic flexibility in the East and South China Seas;
- to better integrate economically with the region and avoid the risk of being excluded (the historical pattern of Chian's "encirclement" may apply here);

SESSION 1: THE US PIVOT TO ASIA AND XI'S "STRATEGIC PARITY" IN THE PACIFIC: IMPLICATIONS FOR EUROPE



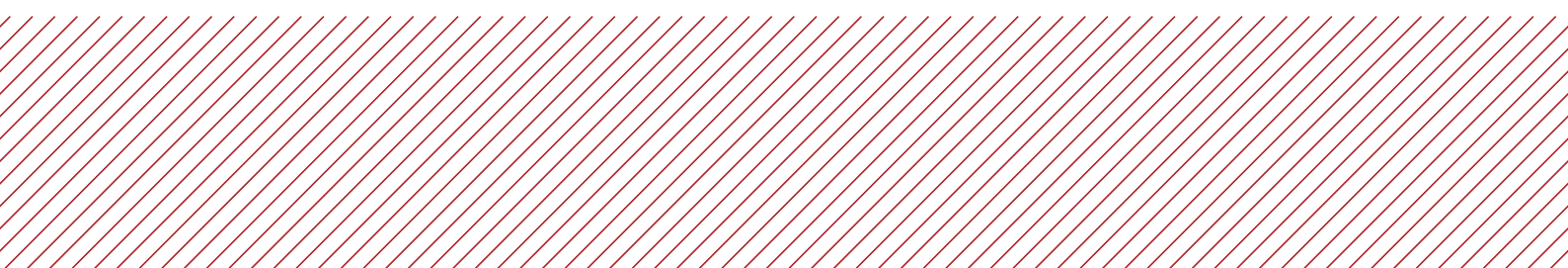
- to sustain internal stability supported by robust economic growth
- and to use regional foreign policy (and the Chinese diaspora) as one of the instruments for attaining these objectives.

Xi managed to consolidate power within China faster than many analysts predicted – after the period of standstill we are currently experiencing a more active Chinese approach towards regional and global politics and security. 'Active', however, does not necessarily stand for more assertive. China would rather keep its strategic ambitions limited – they are still less important than domestic policies aimed at securing internal stability. Military expenditures are indeed growing, but at the same pace as general economic growth. Moreover, the share of the defense budget in proportion to GDP is still relatively low (1.9%).

The EU

The EU is not perceived as a strategic player in Asia. In the eyes of the East Asian powers Brussels lacks political will and real capabilities. However, there is one noteworthy exception: trade policy. The EU has started working on TTIP (Transatlantic Trade and Investment Partnership) with the US and has adopted a FTA with South Korea, both of which events were observed in Beijing with some concern. The risk of being excluded from trade-priority networks has motivated China to direct more attention to the EU (including the pressure to launch FTA talks with the EU). However, we do not expect any major breakthrough when it comes to issues of concern to Poland and the EU as a whole – problems such as the equal treatment of companies on the Chinese market; fewer non-tariff barriers; better economic judiciary; etc. will persist.

In security matters, the EU's interests are in sync with the interests of most regional players in the Western Pacific: terrorism, non-proliferation, and freedom of navigation. This insight has triggered a cynical approach in Europe: "It is good not to be in the strategic center; there is no need to engage, because the others do the job in the above matters". We disagree with this approach,



though the solution is not to be found in Beijing, but in Brussels and the 28 European capitals. We would like the EU to be assertive in many China-related matters (esp. the rule of law in economic relations), while at the same time we would like the EU to be engaged in the Asia-Pacific. This engagement will be different than that of the US – it must rely on the potential of the EU's soft power and its experience in sustainable development policies and conflict-prevention diplomacy.

The strategies of both the US and China are a challenge for Europe. The challenge is of a different nature than in previous decades. Not being in the centre of world affairs, Europe might easily choose to opt out. However, opting out is a one-way street – a path straight to irrelevance. If we want China to behave like a "responsible stakeholder", we must set the example of a responsible player on the strategic chessboard. In this sense the implications for Europe are serious, although not as tangible as during the Cold War. The EU must influence the Western Pacific's dynamics via its strengths: the rule of law, social cohesion, soft power diplomacy, and credible crisis prevention/management tools. These are EU policies which, without a doubt, are more beneficial for the region than the Sino-US geo-strategic rivalry.

THE EU-ASIA RELATIONSHIP – ISSUES AND PRIORITIES BY JAN ROWIŃSKI

The growing role of Asia in international relations is inevitable. Firstly, I will discuss the need for further analysis of EU-China relations – and secondly, EU politics in Asia in a broader context. Along with China's growth, European political decision-makers should closely analyze China's tactics towards the European Union in order to:

- understand the positioning of the European Union in China's foreign policy goals and intentions, especially in the context of great power relationships: China's relations with the United States, Russia, Japan, and its neighbourhood within the traditional "first and second cycle". These two cycles are

divided into North-East Asia, South-East Asia, and Central Asia, and further in the "third cycle" - the rest of the world (tianxia wai): Australia and Oceania, the Middle East, Africa and South America.

- observe Chinese policy and tactics towards major powers and smaller countries in the European Union, as well as regional Chinese policies towards the EU and its neighbourhood countries (like Belarus and Ukraine, Moldova and Georgia).
- analyze Chinese interests and activities in the neighbouring EU countries of North Africa; China's goals, tools and mechanisms, such as FDI to European countries.
- assess Chinese foreign policy effectiveness and assess the scope and quality of Chinese policies towards investments in Europe.
- define the consequences for Europe, and the changes and challenges of Chinese policy towards European countries, in an effort to assess how to react to China's policy towards Europe.

In conclusion, the European Union should adopt clear and coherent policies towards Beijing and use a range of tools and instruments to achieve its policy goals and objectives.

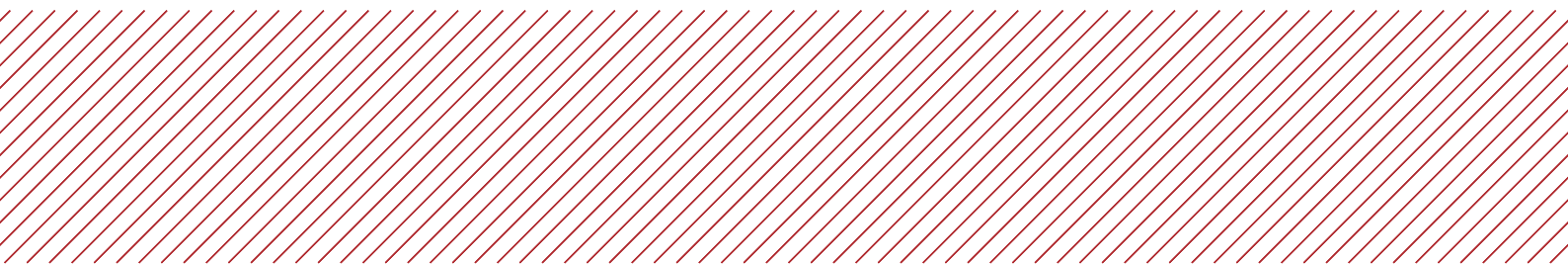
The second point I would like to raise is that European policies towards Asia should not only focus on China. Otherwise Europe will "imprison" itself in its relationship with China. Additionally, such would be read as a "carte blanche" for China's foreign policy activities, especially in its relationships with other Asian countries. We need to remember the complexity of the relationships between China and its neighbours – and both their positive and negative aspects. The positive aspect of China's relations with its neighbours is economic interdependence and the positive influence of Chinese culture. The negative aspects of growing Chinese involvement with its neighbours in the region are that China is increasingly behaving like a regional hegemon seeking to expand its dominant position and "teach lessons" to its neighbours, this arguably

being a traditional part of Chinese foreign policy behaviour in the region. Against this background the EU should clearly position itself to strengthen its relations and cooperation with China's neighbouring countries, such as Russia, Japan, South Korea, as well as the ASEAN countries, India, and the Central Asian countries. In addition, Mongolia should be treated as an important democratic partner.

Due to the lack of strategic interest in East Asia, the European Union maintains a positive image amongst Asian states. Moreover, to some extent, this might also have an impact on US policies towards Asia. While the presence of the European Union in Asia will be perceived in a positive manner, the European presence and policies need to be viewed against the background of Sino-American cooperation and competition in the region. Given that Central Asia is of geostrategic interest to Europe, Europe should seek to maintain political influence in the region even if and when it decides together with the United States to withdraw its military presence from the region (Afghanistan). Moreover Europe should acknowledge the importance of Russia and China as partners for building a stable region. However, while Europe is perceived as a "colonial power" in Asia, Asia's elites also consider Europe to be an engine of Asian modernization and appreciate its role in building modern states.

Europe's future relations with Russia are an important point for further discussion. I am convinced that in the years ahead Russia will turn more towards Europe than towards China. Both powers have similar global aspirations deeply rooted in their respective histories and political systems. China's modernization programme acts as a solid basis for comprehensive global state power (zonghe guoli) with hard, soft and first of all smart power conceptually supporting the unchangeable principle of yi zhong wei ti, yi wai wei yung (Chinese learning for substance, Western learning for practical application). Russia, on the other hand, in maintaining its old, anachronistic system will continue to stand in the way of China increasing its global influence. Chinese ambitions and growing global aspirations may inevitably lead to conflict and tensions. While China may not be able to establish a "pax sinica", this does not mean that China will not want to dominate Asia.

The European Union should support more open and cosmopolitan Chinese elites which promote the "Global China" concept along with the principles of equality, rather than cooperate with more conservative nationalists who promote the "China's World" vision. We need a China that is more integrated and cooperative with the outside world in order to promote global development and prosperity.



If you talk about Asia's 'arrival' in Europe, one means above all – if not exclusively – China. Japan has already been present in the EU for decades with considerable investment stocks here. The presence of other Asian countries has not changed dramatically and is unlikely to do so in the years ahead. The main developments as regards investments from Asia concern China.

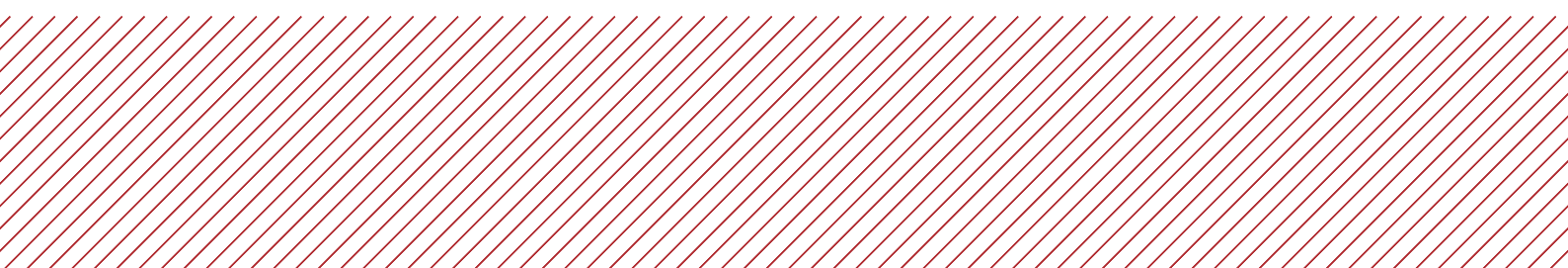
What we are currently experiencing is the significant increase of Chinese investment in Europe. The import of Chinese goods has in fact declined since 2011, whereas EU exports to China have been increasing. This has led to a reduction of the EU's trade deficit with China (EUR 146 billion in 2012).

China's outward investment has increased considerably: in January, 2013 Chinese ODI exceeded FDI for the first time. The EU was the main destination in both 2012 and the first half of 2013, followed by Australia. 85% of Chinese ODI goes to the energy sector, followed by the transport and equipment sectors. Almost 80% of investment is done by SOEs (or 'national champions' – companies which claim to be private but receive massive government financial assistance for going global), and most of the investment is in mergers and acquisitions (whereas FDI to China are mainly greenfield investments). This trend of increasing outward investment from China to Europe is likely to increase in the coming years.

What conclusions can we draw from this and how can we prepare ourselves? Europe is characterized by an open investment environment, and there are no plans to change that. Some EU member states' parliaments are debating the possibility of scrutinizing FDI on national security grounds, and EU member states are free to do so, provided that national security is interpreted in compliance with the EU treaties.

Europe welcomes more Chinese investments in Europe. What is extremely important for the long-term competitiveness of the EU, however, and even more important for our ability to remain at the forefront of trade in the future, as well, is our ability to protect our intellectual property. This is increasingly important in view of Chinese "takeovers", and in cases of non-majority

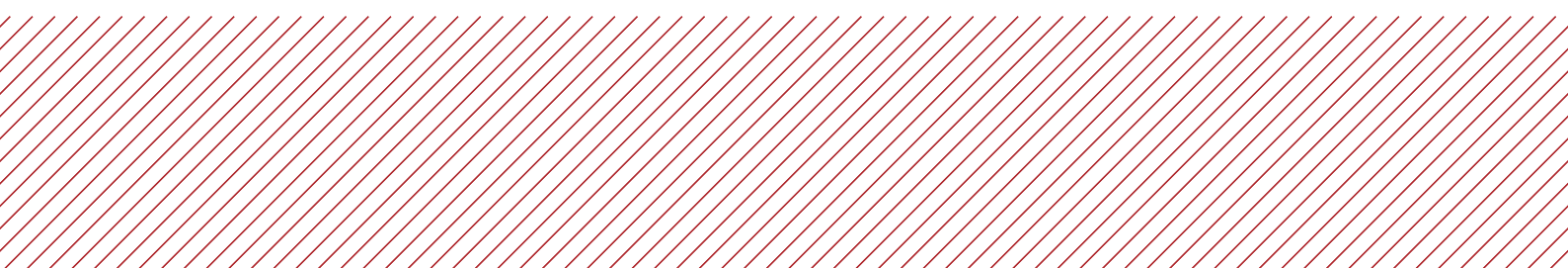
**DINNER DISCUSSION:
ASIA'S ARRIVAL IN
EUROPE AND CHINA'S
NEW EXPORT
AMBITIONS: WHAT
DO WE NEED TO
PREPARE FOR?
BY MARJUT
HANNONEN**



takeovers. Of course, this is up to companies to do, governments cannot do it for them, but large companies are not naïve and understand the importance of this. A recent study conducted by the European Patent Office and Alicante Trademark Office has concluded that 35% of EU jobs depend on IPR while 39% of all EU economic activity arises from IPR. Chinese companies are apparently very interested in IPR when they take over stakes in EU companies and the fact that mainly SOEs buy themselves into European companies is making these takeovers problematic. The problems related to IPR protection in China together with the trade theft cases in the country are reportedly on the rise. Hence, protection of IPR and not being naïve on Chinese intentions is essential.

A word on trade in goods. I mentioned that Chinese imports to the EU have been decreasing, but the amounts are still significant. How this picture will develop in the future will also depend on whether China will be able to rebalance its economy away from capital-intensive investment and exports towards an economy characterized by increased services and consumer spending. If the rebalancing of the Chinese economy is in fact not taking place while the country continues to support industries that suffer from massive overcapacities, we will most likely be confronted with the dumping of these products onto European markets, and thus would trade frictions likely increase. We will obviously need to act against such imports. I am saying this because regardless of the wealth of assurances that China's rebalancing is taking place, it seems that China is not prepared to let economic growth drop below 7%, but will start capital investment to avoid this, as soon as there are relevant economic indications. We have seen this development again since this summer, when capital investment seemed to have experienced another boost. Hence, we can conclude that the rebalancing is not (at least for the time being) taking place – and this is worrying.

The financial/economic crisis of 2008 changed the established order and “balance of power” in the world economy: Western liberalism was seen as having failed, while Asia seemed to have coped rather well, mainly due to the pull of the Chinese economy, which was invigorated by a massive stimulus.



These were days that Europe cannot be very proud of. This is also the time when China started growing more assertive in many areas, with China being seen as a role model by many countries in Asia.

Some may argue that Japan and South Korea also grew by using state capitalism, which would indicate that state capitalism is not something unique to China. While this is true, the world was also different then – and the world order was much less liberal then. We did not have the WTO, or the WTO rule-book then, which would have prevented the use of some of the measures used in those times. We have also seen that the policies associated with state capitalism did not prove sustainable in Japan.

Fortunately the days of state capitalism seem to be over now. And while problems in the Chinese economy caused by the model of state capitalism have started to surface, China's leadership has repeatedly stated that the current growth model is not sustainable. Hence, other countries that still seemed tempted by China's success seem now to have realized that state capitalism is not the way to go.

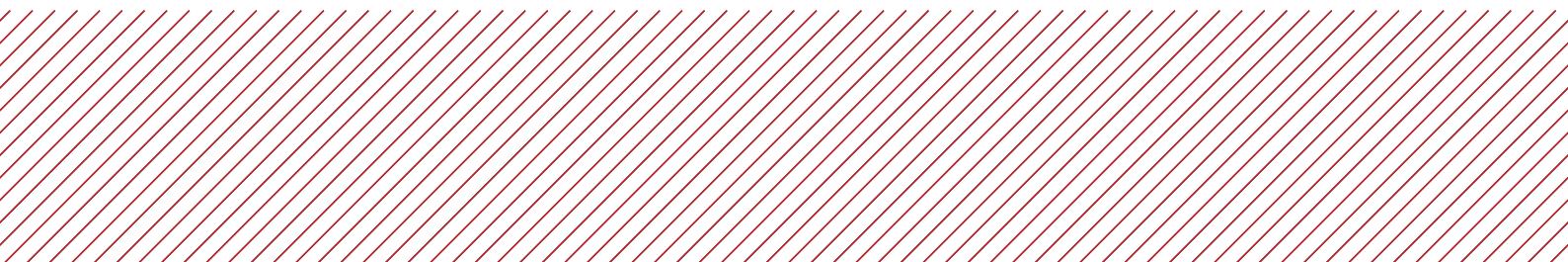
However, one aspect of the "Chinese model" has unfortunately become very popular since the crisis, and this trend seems to be on the increase: the use of forced localization requirements and other forms of local content requirements that demand domestic production or technology in order to be able to invest or to participate in public procurement tenders.

The EU Commission's annual report on protectionist measures May 2012-2013 lists 155 new measures raised during this one-year period, while listing only 19 that were abolished. The total number of protectionist measures amounts to 689. In particular, restrictions in public procurement in China have continued to increase in total share, and many of these are linked with business localization requirements. Some Asian countries, including Indonesia and India, are among the main culprits in these areas, together with Argentina, Brazil, and Russia. But it is clear that the Chinese success with such policies, including forced joint-ventures and forced technology transfers, is still a role model for other countries.

It is noteworthy that China's great success as an export nation has been possible because of the liberal global trading system. Recently, however, China seems to be abusing this liberal order to the extent that it has started to hamper its own success: China is dumping the products of massive domestic overproduction onto foreign markets and thereby forces others to act against it, which creates trade friction and gives China a negative image, attested by public opinion polls in many countries. Indeed, the recent GMF Transatlantic Trends survey of autumn 2013 concludes that 62% of US and 46% of EU respondents agreed that China is rather more a threat than an opportunity. The rise in protectionism in Asia since the crisis is mainly targeted at curbing Chinese imports (any ASEAN country can confirm this in bilateral discussions), so China is actually undermining the basis of its own success by turning the world protectionist. Consequently, the liberal world that served China so well is turning less liberal because of China's own actions – and this hurts China, too.

One more point that should be mentioned in this context is China's use of massive export financing under terms that are not compatible with the market economy benchmarks and the OECD arrangement on officially supported export credits that bind most Western but also Asian countries.

This is an area which is very difficult to reconcile with the liberal order and where instruments to tackle this – in particular when it concerns financing in third country markets like Africa or Latin America – are very limited. In this area, fortunately, no other country has been able to copy China, as no other country today has the tightly controlled and state directed financial systems that we find in China. Hence, here we have a clash which is very difficult to resolve. Multilateral discussions are underway to get China to agree on horizontal disciplines on export financing, but these have just started and it is not clear whether China's real intentions are those of process only. Whether Beijing is ever going to agree on anything meaningful in the area of export finance in the foreseeable future is an open question.

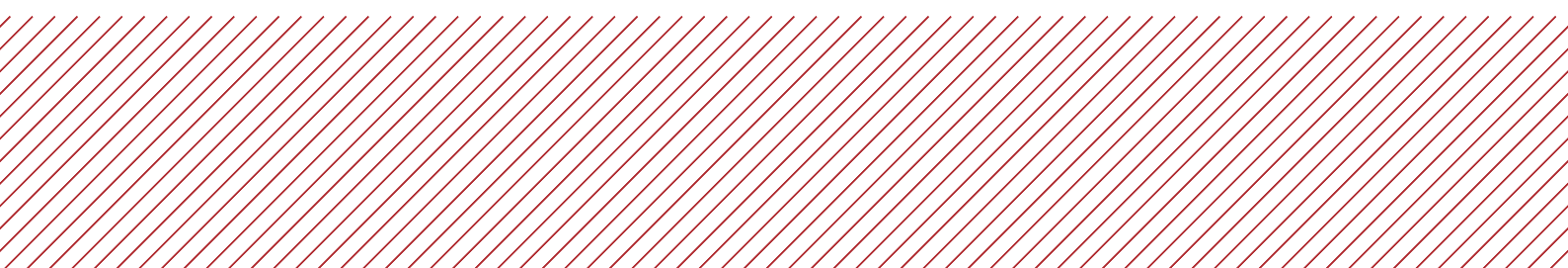


TPP AND TTIP: THE BEST WAY TO DEFEND LIBERAL TRADE? BY GUDRUN WACKER

When speaking of Asian state capitalism, the country meant by this is the People's Republic of China (PRC). State capitalism in Singapore or Vietnam is hardly considered a challenge to the liberal order in the global economy. Europe's perception of China as a "threat" has gone through several different phases over the last 10-15 years, and most of them have little or nothing to do with state capitalism: relocation of employment, intellectual property rights, and technology transfer, China absorbing global resources (energy and raw materials), China as an investor abroad ('buying up Europe') – to name a few. However, the fact that the Chinese state strongly interferes in the economy does play a certain role in this perception: Chinese state-owned enterprises (SOEs) are indirectly subsidized by the Chinese party-state because they have access to cheap land, cheap energy, and – most importantly – cheap capital. China has transformed from relatively marginal status in global trade as recently as the early 1990s to one of the biggest trading nations and the very biggest exporter in the world today.

The European Union jumped onto the train of Free Trade Agreements relatively late, but has by now either concluded or started negotiating FTAs with several Asian countries. More importantly, there was the decision in 2012 to pursue a FTA+ with the United States, the Transatlantic Trade and Investment Partnership (TTIP). Even before then, the US had been seeking to quickly adopt a Pacific basin agreement, the Trans-Pacific Partnership (TPP), based on an agreement in 2005 between Brunei, Singapore, Chile, and New Zealand. At the same time, China has been pursuing its own FTA projects – most importantly in the Asia-Pacific region (with the Association of Southeast Asian Nations ASEAN, with Australia, New Zealand, with South Korea and Japan, and the Regional Comprehensive Economic Partnership [RCEP] including all ten ASEAN States as well as China, Japan, Korea, India, Australia and New Zealand). China has pursued similar ends in other parts of the world, as

SESSION 2: COMPETITIVE LANDSCAPES: ASIAN STATE CAPITALISM AND THE LIBERAL ORDER IN THE WORLD ECONOMY

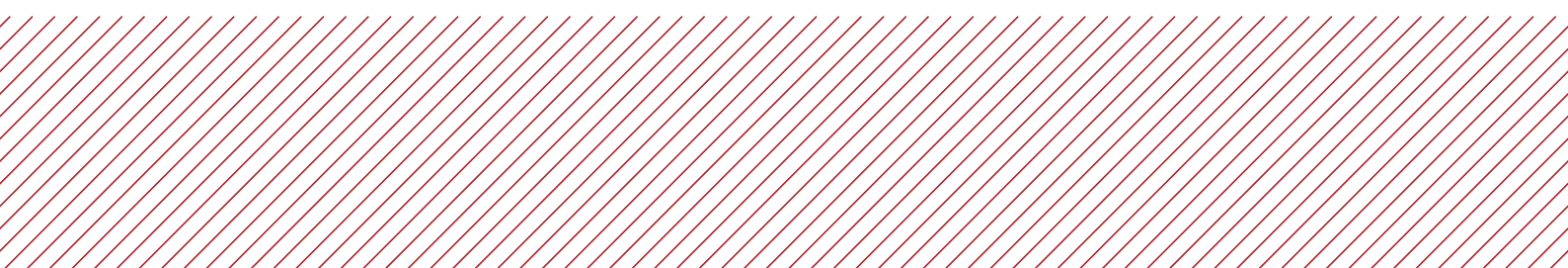


well. Beijing is also interested in starting FTA negotiations with the European Union, and has successfully concluded or is exploring agreements with small countries alongside the EU like Iceland, Switzerland, and Norway.

China considers the TPP, from which China had originally been explicitly excluded as a possible member, to be the economic pillar of the US pivot or rebalancing to Asia. From the Chinese perspective it is thus the most challenging part of this US strategy. TTIP also, more or less by definition, would exclude China. If both agreements were to be successfully concluded without China (and that's a big IF), there would be danger that global trade would be divided again into rival trading blocks along political-strategic lines – in other words, a system that did not work very well back in the 1930s.

With everyone engaged in negotiating bilateral or regional FTAs, the prospects for advancing the WTO, and especially for concluding the Doha round, have become very dim. However, the WTO is indispensable for defending the liberal trade order. It is the only system with global reach that can: 1. offer a unified set of rules; 2. guarantee implementation in a transparent manner; and 3. de-politicize trade disputes. Trade policy is almost the only area where multilateral cooperation is functioning at a global level. If the TPP, TTIP, and maybe RCEP go forward, several caveats have to be considered: these preferential agreements will be discriminatory by nature, there will be economic losers, and – as mentioned above – they might lead to a division of world trade into Western and China-dominated trading blocks. China as the biggest trading nation would not be involved in developing international trade rules. While China's balance sheet in the WTO is mixed, it is still the only mechanism that China has respected and endorsed, including the decisions adopted by the conflict settlement mechanism in the WTO.

It would therefore make better sense to put more effort into getting out of the deadlock in the WTO than negotiating FTAs which will lead to further fragmentation in global trade and at worst to more protectionism and trade conflicts. There is still some hope that the WTO Ministerial Meeting in Bali in December 2013 will achieve progress on trade facilitation. If such progress were to be made, WTO members could redirect some of the attention back to the global trading order.



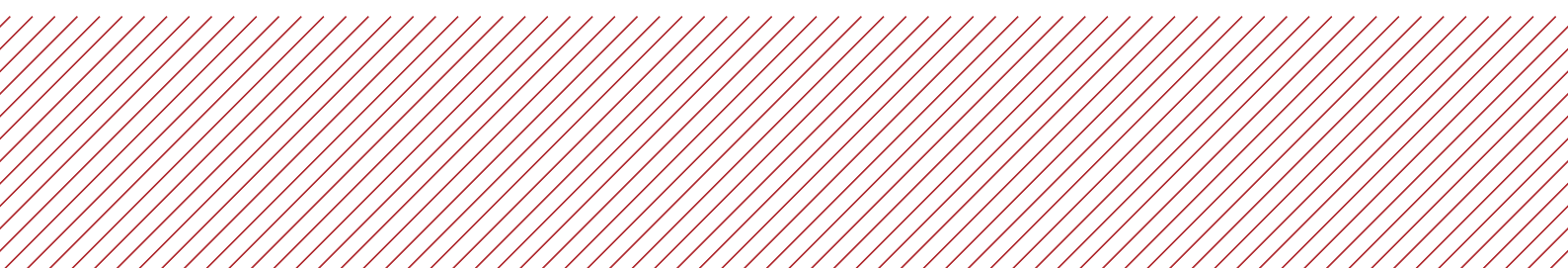
QUESTIONING CHINA'S REBALANCING BY JONATHAN HOLSLAG

Somewhere in the autumn of this year, China's Central Committee will gather for a session that will shape the outlook for the global economy. As the world increasingly relies on China for growth, everyone hopes the meeting will announce a major overhaul that balances China's huge investments with more consumption. This would create huge export opportunities for other markets and prevent China from squandering more money on congested factories. But guess what? A serious rebalancing strategy is not even on the table.

The reason is that Beijing does not find the large share of investment in its GDP all that exceptional. Recent analyses produced by bodies like the State Council, the National Development and Reform Commission, and the Ministry of Industry and Information Technology all recognize that the current growth pattern is unsustainable and that rebalancing is key. But they also reckon that it is natural for an industrializing country to have a high investment rate and that this will last longer in the case of a large country like China. In the same way, it is also considered inevitable that China will continue having to rely on exports to keep its infant industries upright.

Rebalancing from investment to consumption is an endeavour for the long run, after the process of industrialization is accomplished. Chinese officials usually speak of a decade or so. Within that decade, the rebalancing that is considered takes place from resource-intensive industries to labour- and capital-intensive industries. Indeed, despite rising wages, labour-intensive industries remain a priority, especially to create jobs in the hinterland. Meanwhile, the main aspiration is to upgrade the industrial sector, which means reorienting investments toward high-end industries. Those are to allow China to vie for the lucrative slices of the market, to reduce its dependence on foreign competitors, and to close some of its more polluting factories.

Experts in government departments argue that only sustained investment in advanced industry will allow China to make the efficiency gains that will get it over the middle-income trap. Policy papers and studies of the last half-

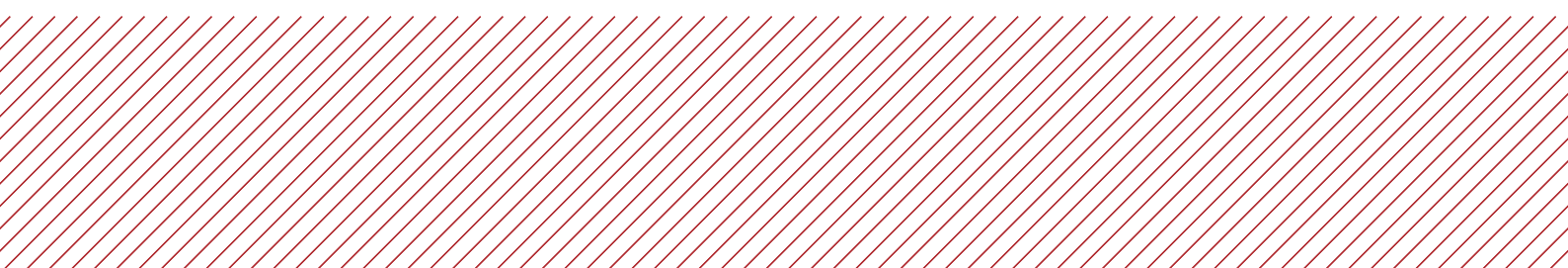


year give us a clue on how China will work towards this so-called upgrading of the industrial base. First of all, China will make an effort to diversify the financing of the manufacturing sector. Second, it will accelerate the creation of strategic emerging industries, i.e., important national players that can go global. This involves more mergers, better management, higher standards, and so forth. Third, China will invest heavily in strengthening its technological knowhow. Fourth, overcapacity in so-called backward industries will be cut.

But by refocusing its industrial policy, China of course also risks relocating its overcapacity problem to more advanced sectors. The Ministry of Industry has already warned that about a quarter of China's manufacturing capacity is idle. For that reason too, decision-makers in Beijing have found a solution: more exports of manufactured goods. The Ministry of Commerce and other departments came up with new policies for trade development. This entails a major push for free trade agreements, an effort to position Chinese companies favourably along international supply chains, better branding, and assisting small and medium-large companies in joining the scramble for new markets. These documents also stress the need to shift trade away to developing countries and to balance these growing export flows by increasing imports of raw materials and tourism services.

Furthermore, China is set to provide greater export credit. These credits are already an important tool for winning over customers abroad. Last year, about 8 percent of Chinese exports were covered by some sort of credit, together totaling to US\$ 153 billion. In response to growing criticism from the United States and the European Union, Beijing promised to limit this form of trade support, but no policy documents confirm this. The contrary is true. Plans are being made to provide more export credit in support of smaller exporters. China is also more frequently using Western banks to provide the credit with Chinese sovereign guarantees. Other countries do that as well, but the sheer scale of China's lending remains exceptional.

We should thus expect more of the same. But the Chinese government will probably not get another decade to push its industrial policy to the limits.



Households are less and less willing to foot the bill. This is not surprising: China's economic system has transferred about US \$4 trillion of their savings to the corporate and government sector, for which they fetch hardly more than 2.5 percent in interest – just enough to compensate for inflation. Moreover, the government already spends almost as much on export rebates as on social security. The renewed push for industry also brings new risks of bubbles.

Most of all, such a strategy is poised to draw China into fierce economic competition with other countries. While industrialized markets are becoming increasingly concerned about unfair Chinese competition, developing countries grumble that they are being pushed deeper into a commodity trap and that exports to China should be diversified. If China indeed thinks that it needs another ten years to become a fully-fledged industrial power, putting at risk both the savings of its households and the future of manufacturers in other countries, it might be heading into a turbulent decade.

COPING WITH CHINESE CENTRAL-LOCAL CAPITALISM BY DOMINIK MIERZEJEWSKI

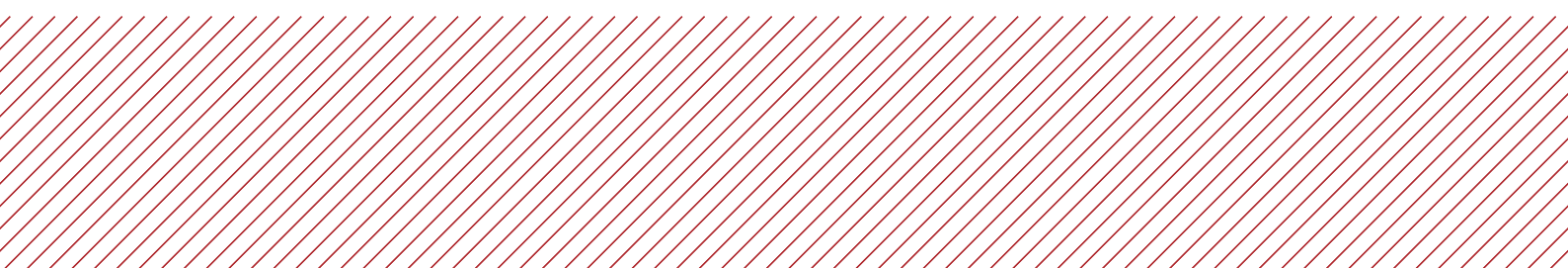
Although China's economy is mainly driven by Chinese entrepreneurship from small- and medium-sized enterprises, state-owned enterprises (SOEs) are still perceived as a power within China's global economic strategy. The most prominent feature of China's state capitalism is the central role of about 100 large SOEs. These SOEs are controlled by bodies of the national government in strategic industries such as steel, telecommunications, and transportation. However, the European Union should nonetheless focus on local development in China. The dynamics of the relationship between central and local governments should be perceived as crucial for the EU's economic activities in China.

Initially, local governments used the investment from national champions to boost their own local economies. However, with the central groups expanding their influence, the local governments increasingly perceived such invest-

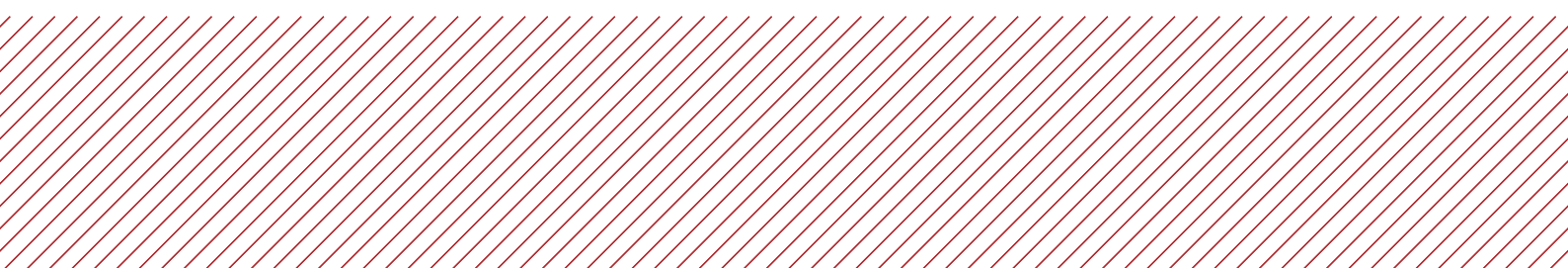
ments as a competitive threat to local business communities. That led to an increase of local protectionism in order to promote the creation of so-called local “provincial champions”. Although research has concluded that the global financial crisis has strengthened the relationship between local and central governments in China, and local governments view central inflows as a cure for the recovery of provincial economies, local governments are still caught having to straddle the middle. This is best described by the Chinese saying “shang you zhengce, xia you duice 上有政策下有对策” (“central authorities have their policies, while local authorities have counter policies”). To be sure, it is not only the relationship between the central and local authorities that should be perceived as crucial for the EU’s China policy. The growing competition between provinces, cities, and even counties should also be taken into consideration by European authorities and institutions – and not solely at the EU level, but also at the national and local levels of European countries. Taking Sichuan province as an example, we can conclude that the role of local authorities will grow and that they will play a more active role in shaping the decision-making processes of China’s foreign economic policy.

In August 2013, Sichuan introduced plans to construct four railway lines connecting Neijiang, Zigong, Yibin, and Luzhou in the southern part of the province. These railway lines are scheduled to be completed by 2030 and are aimed at boosting the local economy. Purely by chance the local government declared that it would establish a local company to construct these railway lines. The national champion of the China Railway Corporation was not accepted as the contractor for the local infrastructural project.

Against this background, the European Union should expand its ties with China at the provincial level. A good example is the establishment of the EU Project Innovation Centre (EUPIC) in Sichuan Province of Chengdu. Since 2006 the project has promoted and supported business cooperation between the EU and western China. EUPIC has built a successful network for business people as well as for local authorities from European countries. Western China could be an interesting case study for developing the EU-China relationship.



According to recent data and estimates, western China will enjoy double-digit economic growth rates over the coming decade, underlining the region's importance and attractiveness for investors from European countries. To be sure, the central government will remain important, but due to a possible new period of Chinese economic reforms to be announced at the Third Plenum of the 18th Central Committee of the Communist Party in November 2013, the role of local authorities is bound to increase. Against this background the European Union should strengthen its ability to operate on the provincial level in cooperation with local authorities. The rail lines from Chongqing to Duisburg and from Chengdu to Łódź in Poland should be used to the fullest extent in order to boost economic cooperation and increase European exports to China. The European Union should support regional cooperation between Europe and China in order to bring about improved conditions for overall bilateral EU-China trade relations.



SESSION 3: WHAT TO HEDGE AGAINST, WHOM TO COURT? SECUR- ITY DILEMMAS IN EAST ASIA

EAST ASIAN SECURITY BEYOND MODELS AND POLAR ORDERS? BY BERNT BERGER

The regions and countries of East Asia are confronted with a range of bilateral conflicts and uncertainties about general security trends in the region. In fact, the number of potential risks and actual incidents are on the rise. At the same time, a certain bipolarity and overlapping of areas of influence seem to be looming in relations between the US and China.

However, the region is experiencing multiple simultaneous trends in economics, security, and diplomacy, with most countries in the region hedging on the US military presence in order to deal with their security dilemmas vis-à-vis China as a rising power. While China has repeatedly made clear its intentions, its maritime security agencies have repeatedly created facts in disputed territories and thereby altered the status quo and the consensus to shelve conflicts. In so doing, China has suffered a considerable loss of trust, particularly with littoral states in its neighbourhood.

Nonetheless, most governments in the region would agree that there is no alternative to diplomatic solutions to regional conflicts. This is in no small respect due to shared interest in stability and shared trade zones and gradual market integration, along with a traditional suspicion towards international alignments. The key question for the countries in the region is how to overcome the prevailing uncertainties in security affairs. The existing practice of a de facto consensual status quo has proven to be interference-prone and thus unreliable. This was particularly the case after the US government in 2012 decided to pivot towards Asia by addressing shelved regional conflicts. Since the early 2000s more formalized models of regional security have proven impossible to implement in Asia. Nor have attempts to bring forward cooperative security in the context of the ASEAN Regional Forum (ARF) made great process, with confidence-building as the major stumbling stone. But what are the alternatives?

Bipolarity – an Unsuitable Image

A range of trends has helped to elevate the image of China and the US as the central players in East Asian security affairs. China's military modernization and, as a consequence, its ostensibly greater military power projection have raised mistrust about Chinese intentions among states on the Pacific Rim. Whereas the military's main task is to maintain and defend the status quo, other Chinese maritime agencies have been involved in incidents at sea. The US for its part has engaged in a rhetorical buildup in the region by reaffirming existing alliances, stating core interests, and boosting economic and political relations. A bipolar system in security affairs does not, by definition, have only two centers of power contending for greater influence, but also evinces a considerable military build up to back up spheres of influence. Yet regional affairs and US-China relations have evolved into a more diverse set of relations. Regional organization necessitates more subtle and issue-focused solutions for cooperation in order to meet the need of all countries to guarantee conflict-free development of the region. If bipolarity materialized in the region, smaller countries would have to make choices or spend considerable resources on hedging and balancing their foreign relations.

Multiple trends

For the time being the region has been subject to a range of trends.

Bilateral trends:

- Besides the objective of bolstering influence in the Asia Pacific, US policy is to set the stage for China to complement its rising capabilities and influence with a responsible role in the region. This policy of persuasion has often been interpreted as containment.
- The US-China strategic dialogue involves a considerable security component that involves a range of common security issues.
- The PLA's modernization also involves the professionalization and capacity-building of army personnel. This, again, has led to greater confidence in

dealing with foreign counterparts. Today there is a rising interest on the part of PLA institutions to engage in confidence-building, military-to-military relations, and dialogue on critical issues.

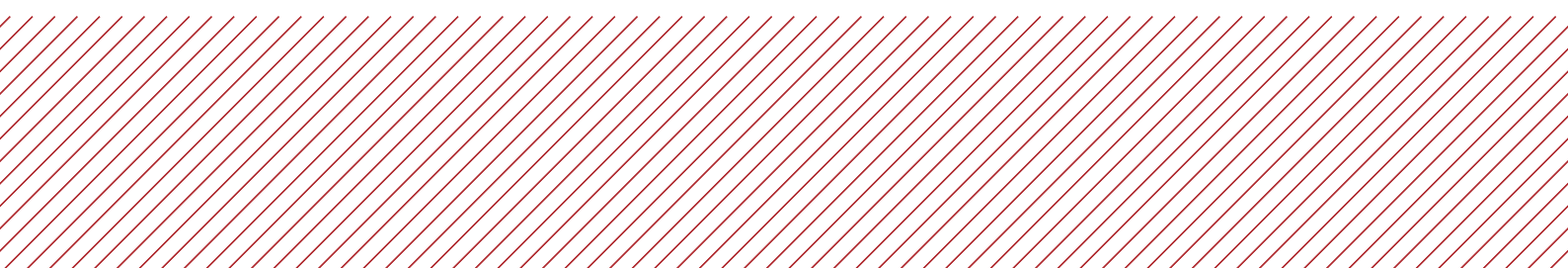
Regional trends:

- Economic integration across Southeast Asia is progressing. Whereas the ASEAN countries have set out on a lengthy and gradual process of economic integration, bilateral FTAs are in place with China, and the US has pushed forward its version of a (so far not all-inclusive) Trans-Pacific Partnership (TPP).

Alternative Ideas or More of the Same?

Comprehensive models of regional security that could guarantee greater stability, certainty, and commitment to take concrete steps forward (such as mechanisms for CBMs, early warning, monitoring, and control regimes) have yet to gain currency in the Asia-Pacific region. In particular, the concept of cooperative security that underlies the ARF process has not made great progress. Although individual mechanisms have been installed, greater institutionalization and binding commitments are not in sight. The outlook of regional players is too different, sovereignty is still paramount, and recent security trends have not improved that situation.

In the foreseeable future the region will not develop any consensus based on common security architecture. Rather, the status quo of shelved conflicts, vaguely defined codes of conduct, and joint economic activity will most likely continue to lay the basis for regional security. For the time being China in particular is focusing on improving its neighbourhood relations and will increase its engagement with neighbouring countries. The question remains whether it will find ways to go beyond its dated modus operandi of mutually beneficial relationships and pay greater attention to existing political issues. All countries will need to stop creating facts where territorial conflicts are concerned and develop greater skills in containing domestic nationalisms.



... and Europe

Since the Asia-Pacific region might already need resources to balance two self-interested players, Europeans are well advised not to assign too much attention to their role in the grand scheme of Asian security affairs. Soft and non-strategic security issues such as economic security, resource security, non-proliferation, conflict mediation, and the role of the European arms industry in Asia's rapid military build-up are items to consider in order to beef up Europe's limited engagement so far.

In terms of greater engagement and making good on neglected areas of engagement, an upgrade of EU cooperation with ASEAN and deeper economic partnership on the inter-regional level in Southeast and Northeast Asia would offer economic and political assets.

THE EU'S ROLE AND NON-ROLE IN ASIAN SECURITY BY AXEL BERKOFSKY

While Washington wants Europe to do more in Asian security, Beijing complains that Europe is 'interfering' in China's internal affairs by endorsing US-driven containment policies towards China embedded in Washington's 'pivot to Asia' announced in 2012. "Damned if you do, damned if you don't" for Brussels' policymakers in Asian security, it seems. But EU policymakers typically counter by insisting that Brussels is a soft power making soft power contributions to the region's peace and stability. While not producing the same front-page newspaper coverage as e.g., US-Korean military manoeuvres or the deployment of a jointly developed US-Japan missile defence system, the Union's developmental aid and the expansion of trade and business ties with Asia have been promoting Asian peace and stability over decades, EU policymakers point out.

European soft power alone, however, is not good enough as far as Washington is concerned. "From an EU perspective it may be desirable to develop a more direct presence in the Asia Pacific to help ensure that the US remain

committed to the alliance's security interests in other regions that are traditionally perceived as more vital to European security", the US scholars Erickson and Strange wrote in a paper for the EU Institute for Security Studies. That of course is only one (gentle) way of expressing Washington's discontent with the level of EU (non-)involvement in Asian 'hard' security. Yet another is the (fairly common) US suggestion that the EU is a security 'free-rider' in Asia profiting from the US military presence that protects European trade and business.

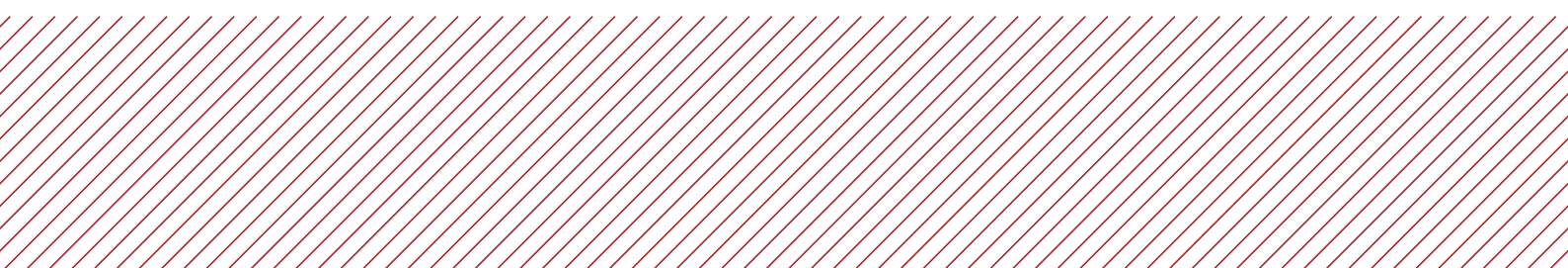
Doing Pretty Well on the Ground

The track record of EU soft power security contributions to Asian security on the (Asian) ground is in fact impressive. For instance, over the last decade Brussels has contributed to the stabilization of East Timor and financed the implementation of the peace agreement between Indonesia and the Free Aceh Movement. Furthermore, the Union continues to work on behalf of peace between the Muslim population in Mindanao and the central government of the Philippines. The EU and its member states remain the biggest donors of humanitarian and developmental aid to Asia. From 2007 to 2013 the EU Commission has allocated roughly 5.2 billion Euro of developmental aid to the region.

European weapons sales to Asia, on the other hand, spoil the EU's soft power image in Asia. Weapons and weapons technology exports from EU member-state companies have a particularly strong market presence in South and South-East Asia, where European contractors are selling submarines, frigates, corvettes, as well as jet fighters. Regardless of the EU weapons embargo imposed on Beijing in 1989, China too continues to be an important market for the European weapons industry.

Even More Engaged (on Paper)

In June 2012, the European Union decided to update its (on paper) ambitions to get more engaged in Asian security. The "Guidelines on the EU's Foreign and Security Policy in East Asia" promises to intensify exchanges with the



“region’s key players”, declaring that the EU should make “full use of its strategic partnerships in the region, including bringing to bear the potential of the ‘High-Level Strategic Dialogue’ and the ‘High-Level Economic and Trade Dialogue’ with China, deepening its strategic dialogue on East Asia with Japan.” The guidelines also call for an intensification of its political dialogue with South Korea on North Korea’s clandestine nuclear program and call for increased military-to-military exchanges between Asian and EU member states’ militaries. It is noteworthy (but not necessarily surprising) that a significant part of the guidelines deal with China and the limits and problems of EU-China cooperation in regional politics and security. The list of problems related to China is long and among other matters features human rights, the rule of law, and fundamental freedoms (or the lack thereof in China). Furthermore, the guidelines point out more than once that China’s integration in regional and global structures of economic and political governance is still insufficient.

An EU Pivot to Asia?

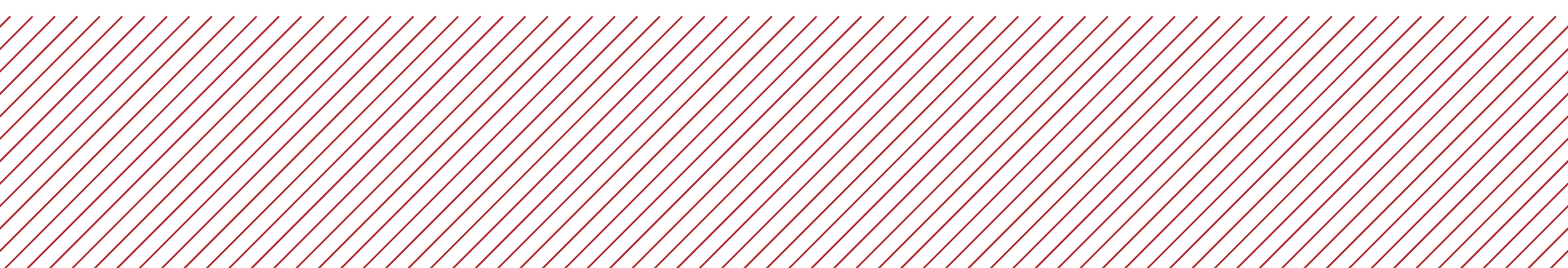
Washington’s plans to rebalance its security policies towards Asia announced in 2012 (commonly referred to as the US ‘pivot to Asia’) are from a Chinese and increasingly also a non-Chinese perspective primarily aimed at containing China. The US ‘pivot’ to Asia and the debate on the implications for US security policies in Asia triggered a European debate on whether EU policies towards Asia also deserve the label ‘pivot’. Nicola Casarini from the Paris-based European Institute for Security Studies (EUISS) thinks so when he argues that the EU’s involvement in Asian politics and security over the last ten years clearly stands for a European ‘rebalancing’ towards Asia: “There is a widespread belief that the EU lacks the necessary capabilities – as well as the political unity – to engage effectively in this distant but increasingly important part of the world”. However, closer examination shows that the EU and its member states already began their own rebalancing towards Asia roughly a decade ago. While the EU ‘pivot’ to Asia is not supported by military alliances and is therefore not aimed at any country, EU policymakers are

nonetheless confronted with the energy-consuming task of explaining to Chinese colleagues why an alleged EU rebalancing towards Asia does not stand for the EU allying itself with the US to contain China.

Beijing Smelling Containment...

Regardless of the assurances of Brussels' policymakers to the contrary, Brussels jumping aboard the 'pivot to Asia' train, from a Chinese perspective spells Brussels' endorsement of US-driven China containment policies. Catherine Ashton's first-time participation at the ASEAN Regional Forum (ARF) in July 2012 – which resulted in a joint statement with then US Secretary of State Hillary Clinton announcing joint US-EU policies dealing with various traditional and non-traditional Asian security issues – has further confirmed for Beijing policymakers that Brussels is ready to gang up with Washington against China. Or, as Chinese officials typically complain, that the EU is ready to join US-driven attempts to contain China's political and economic rise. While Brussels insists that the declaration does not stand for any of this, Beijing today continues to wonder why Catherine Ashton didn't say so.

In sum, as outlined in the introductory notes above, Brussels is probably best advised to stick to what it does best in Asia: adopt soft power policies contributing to Asian peace and stability through developmental aid and financial and technical assistance.



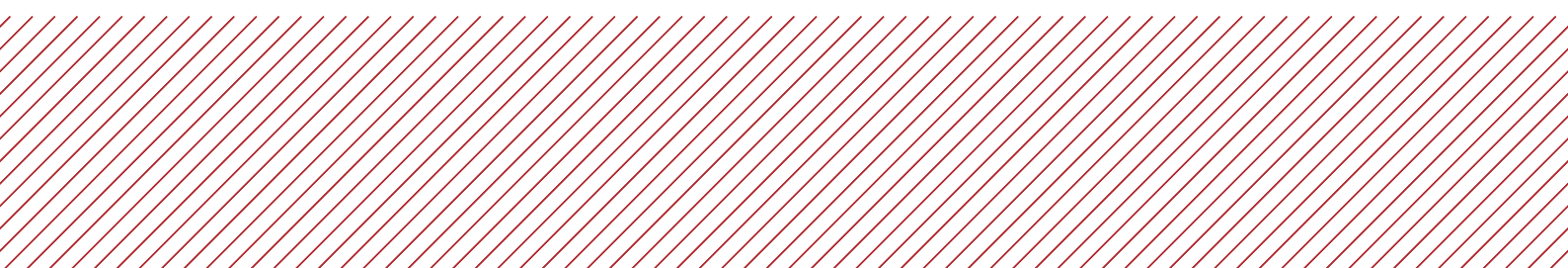
GLOBAL GOVERNANCE –THE NEED TO REINFORCE DIALOGUE BETWEEN THE EU AND ASIA BY SHADA ISLAM

The good news is that both Asia and Europe are rethinking what global governance means in a complex and rapidly changing, globalized 21st century. The EU-Asia conversation on global governance is a slow but steady work in progress. The changing international environment and the compelling necessity of cooperative rather than confrontational attitudes to deal with complex 21st-century challenges are driving the EU and Asia to surmount traditional differences and engage in a more meaningful exchange on global rule-setting.

First, the EU-Asian discussion on global governance is still weak, limited, and not always immediately visible. It is being undertaken in myriad fora, including in bilateral meetings at the highest level (summits) among leaders, as well as in discussions among ministers and policymakers, through smaller sectoral dialogues and in international gatherings such as the G20, the United Nations, the World Trade Organization, and within the Asia Europe Meetings (ASEM). The recent financial and economic crisis has helped foster the still-fledgling EU-Asia rapprochement underway as both sides acknowledge their rising economic interdependence.

Second, while the seeds of cooperation exist, the conversation needs to be reinforced, and become more inter-active and less adversarial. The traditional style of dialogue in which the EU gives lessons on human rights, democracy, and the rule of law to Asia has to give way to a real exchange of ideas and interests. For this to happen, old-fashioned perceptions and stereotypes have to change and be replaced by new realities on the ground. The hitherto unproductive EU-Asia discussions on climate change are a case in point. Many Asian countries, including China and India, may not agree with the EU's emphasis on a legally-binding treaty on combating climate change, but they are working hard on the domestic front to cut greenhouse gas emissions and chart a green growth scenario for future development.

SESSION 4: THE EU'S AND ASIAN VIEWS ON GLOBAL GOVERNANCE. SEEING EYE TO EYE ONE DAY?

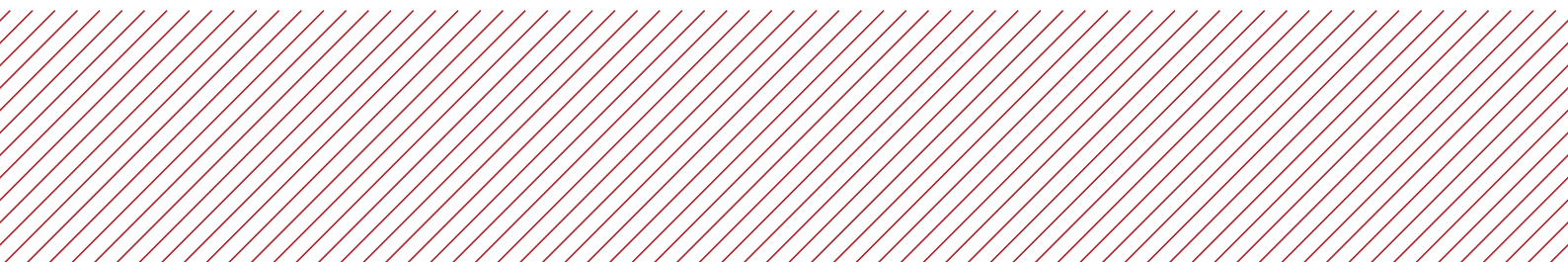


Third, to get results, we need to use existing structures more efficiently. Existing structures such as ASEM, the EU's strategic partnerships, and comprehensive partnership agreements need to be used more actively for real dialogue and exchanges – rather than being mere photo opportunities and ritualistic communiqués.

Although the public perception is one of EU-Asia discord and disagreement on global governance, with the EU and US pressing China and others to become “responsible stakeholders” in the system, and Asia continuing to be reluctant to assume a leadership role, the reality is different. True, the Asian style is consensual, with countries averse to interfering in others' internal affairs.

However, slowly but surely, Indonesia is encouraging and promoting human rights protection and democracy in other ASEAN states and beyond, China is becoming more cautious as regards its engagement with some of Africa's more dictatorial regimes, and India is taking a tougher line towards countries like Sri Lanka. This is no surprise. Asian views on global governance are evolving as the region becomes more prosperous and acquires a stronger stake in global and regional stability. There is also recognition that the ability to manage internal problems increasingly requires engagement at the international level.

Clearly, Asian countries, like other emerging countries, want more seats and a stronger voice in multilateral institutions and are considering creating their own BRICS Bank. Nonetheless, they have not rocked the multilateral boat, but played a constructive role in global efforts to contain the fall-out from the economic slowdown in the US and the Eurozone. Europe and Asia have to move from clichés, historical prejudices, and static judgments to a view of the world and their relationship as a rapidly evolving one. For the EU this crucially means distancing itself from a view of itself as a special partner to the US and discarding old, quasi-colonial prejudices. For Asians, it also requires ditching out-of-date colonial antagonisms in dealing with Europe, taking a fresh look at Europe in all its facets, political as well as economic, and becoming more willing to take on global responsibilities.



THE POLITICAL ADDED-VALUE OF THE EU FOR ASIA'S SECURITY **BY NICOLA CASARINI**

The EU does not have troops stationed in Asia and does not maintain military alliances in the region. However, some EU member states have retained a certain level of military involvement in the area. Great Britain is still a member of the Five-Power Defence Arrangements (FPDA), a military consultation agreement with Australia, Malaysia, New Zealand, and Singapore. France has an operational military presence in the Indian Ocean and the South Pacific, through which troops can be deployed in Asia at relatively short notice. EU member states collaborate with US Asian allies such as Japan and South Korea within a NATO framework; some EU member states – in particular France, the United Kingdom, and Germany – have also developed security and military ties with China, including the training of Chinese military officers, exchanges of high-level visits and – in the case of London and Paris - joint naval search and rescue exercises.

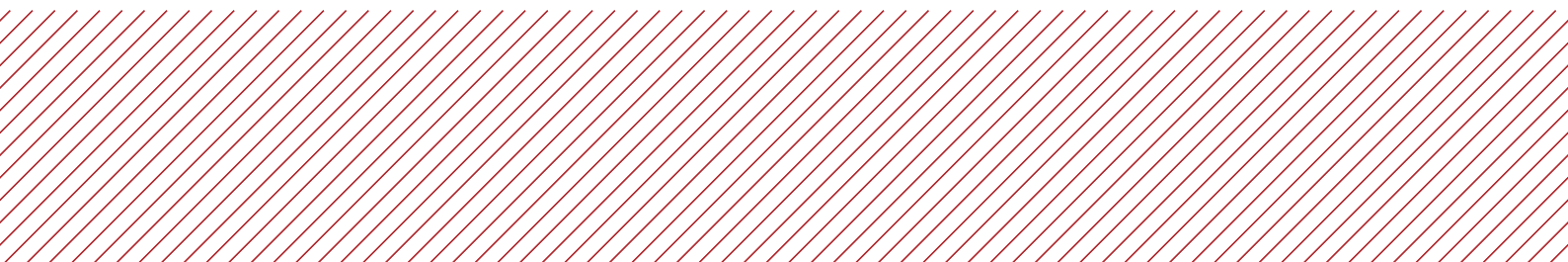
The EU cooperates on space technology and satellite navigation with some of Asia's major space powers. The EU signed an agreement with China in 2003 and with South Korea in 2006 for the joint development of Galileo, the EU-led global navigation satellite system. Galileo is scheduled to be operational sometime between 2015 and 2016. The satellite network's ground stations are currently being developed across the Asia-Pacific in EU territories (mainly French Polynesia), while discussions are underway with the Asian partners in the Galileo project for building joint ground stations and receivers. In addition to the commercial dimension, Galileo is a way to promote the EU's own civilian-controlled satellite network that could continue to operate even in the case the GPS (which is Pentagon-controlled) is switched off. This form of cooperation allows the Union to establish a foothold in the region's evolving space relations, together with the related security implications.

The European Union contributes to Asia's security mainly through support for multilateral fora. With the establishment of the Asia-Europe Meeting (ASEM) in 1996, a 'track-two' inter-regional dialogue has been initiated which also

includes multilateral security dialogue on various levels between the EU and Asia. In 1997, the EU – through the European Commission – became a member of the Korean Energy Development Organization (KEDO), created to implement the denuclearization of the Korean peninsula. The EU invested around €100 million in the KEDO project. From December 2013, the EU – through the EUISS – is to become a member of the Council for Security Cooperation in the Asia-Pacific (CSCAP), which provides an informal ('track-two') mechanism for scholars, officials, and others to discuss the political and security issues and challenges the region is confronted with.

Since the entry into force of the Lisbon Treaty on December 1, 2009 and the creation of a new institutional mechanism to deal with foreign and security affairs – i.e. the European External Action Service (EEAS) – the EU has actively engaged Asia's major powers and ASEAN in political and strategic dialogues. Since 2010, there has been the EU-China High-Level Strategic Dialogue between VP/HR Ashton and the Chinese State Councillor responsible for foreign affairs. Beginning in 2011, there has also been regular dialogue between VP/HR Ashton and the Chinese Defence Minister. Since 2011, there has been EU-Korea High-Level Political Dialogue between Helga Schmid, EEAS Deputy-Secretary General, and South Korea's Vice Foreign Minister. As for Japan, the Strategic Partnership Agreement (SPA) currently under discussion also includes the upgrading of EU-Japan political and security cooperation. With regard to South-East Asia, on November 18-20, 2013 the first ASEAN-EU High Level Dialogue on Maritime Cooperation will take place in Jakarta, Indonesia. This High Level Dialogue serves as a follow up to the 19th ASEAN-EU Ministerial Meeting held in Brunei Darussalam in 2012 whereby the Foreign Ministers agreed to add maritime cooperation as one of the main areas of dialogue and cooperation to the evolving EU-ASEAN relationship.

In conclusion, the EU today is equipped to engage in political and security affairs with Asia's major powers and ASEAN. The Union does not have binding military alliances in the area and is a neutral actor vis-à-vis the region's outstanding territorial and maritime disputes. It is, in fact, above all perceived as a trading and civilian bloc endowed with a whole range of soft power capa-



bilities. On the one hand, these elements make the EU ineffective at playing power politics in the region; on the other hand, however, the same elements make the Union a well-suited actor to promote confidence-building measures and contribute to regional security – through mediation, dialogue, and capacity-building. The EU represents a formidable example of political reconciliation among former foes. Asia could, indeed, benefit from a regional multilateral security organization such as the Organization for Security and Co-operation in Europe (OSCE) and/or the Western European Union (WEU) as a primary instrument for early warning, conflict prevention, crisis management, and post-conflict rehabilitation. This is arguably the real political added-value of the EU for Asia's security.

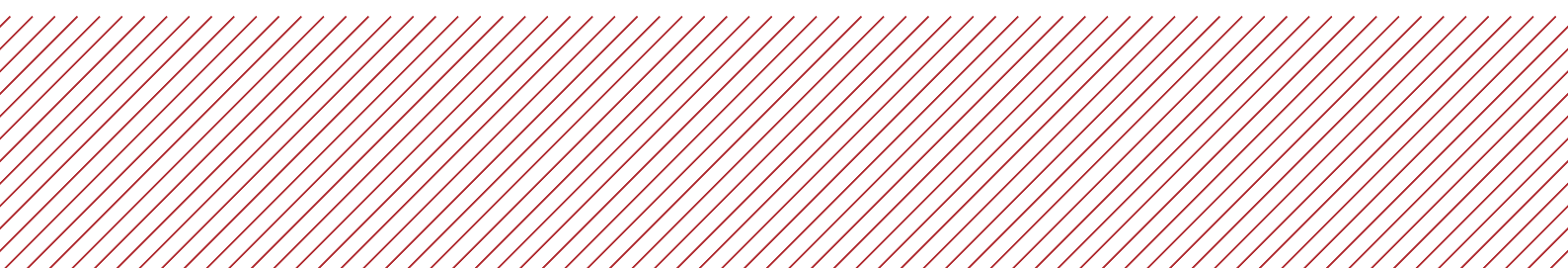
EUROPEAN INVOLVEMENT IN ASIAN SECURITY BY NIELS ANNEN

Obviously Europe is not an Asian power, but its economic prosperity and welfare increasingly depends on peace and stability in the region. Overall European reaction towards the US pivot to Asia has been rather negative and was initially influenced by the fear that America would turn its back on its European allies. This response, however, has not been based on a careful study of the US pivot to Asia and consequently it soon had to be adjusted. It has to be said that so far Europe has been a major beneficiary of Asia's economic success story and therefore has a strong interest in keeping the region stable. This is especially true for Germany's steadily increasing exports to the region in general, and those to China and India in particular. The US political and military presence in the Pacific theatre since the end of World War II has helped to keep the region remarkably stable in spite of a variety of unresolved conflicts and ongoing tensions. In Europe it is often forgotten that the United States has been a Pacific power since the days of the Spanish-American war and entered the Second World War because of the Japanese attack on Pearl Harbor. It has been the dominant naval power ever since.

The pivot, however, has been challenged and the Western concept of democracy, human rights, and free trade is no longer the only game in town. With the economies of countries like China rapidly growing, the established international liberal order has come under pressure. The unfolding regional

disputes, e.g., between China and Japan, are indications of a revival of geopolitical rivalries amongst some regional actors. A tendency that unfortunately can also be observed within some parts of the American political spectrum is the perception of China as a threat and foe that has to be contained.

European policy towards the region should avoid the trap of thinking in zero-sum terms. Europeans should instead develop a more sophisticated and differentiated attitude and cease thinking in zero-sum terms and scenarios. For the very reason that the existing order has been so successful and beneficial for our economic interests in the region, Europe should be willing to invest more political capital to defend an order, that - with all its deficiencies - has also helped over the last decades to spread our values, such as human rights and democracy. But this is not to say that we should ignore the fact that not everybody has been granted a seat at the table and that power among international institutions is still not sufficiently equally distributed. As the saying goes, the international order has been "difficult to build, easy to join, hard to overturn". However, without adjustments within that system, its legitimacy will come under threat, especially in times when non-democratic countries like China seem to offer alternative and successful models for poverty-reduction and economic growth.



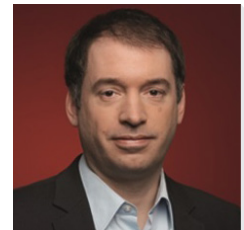
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