

CURRENT POLITICS AND ECONOMICS OF ASIA

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Guest Editor: *Amy Verdun*

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CURRENT POLITICS AND ECONOMICS OF ASIA

Asia is entering the 21st century as an economic superpower and is, therefore, inevitably becoming a political superpower as well. This evolution is the subject of *Current Politics and Economics of Asia and China*. Included in the scope of this scholarly periodical is the entire spectrum of contemporary politics and economics of Asia. The coverage is intended to deal with Asia, its political dynamics, economic policies, institutions and its future.

The journal contains original articles as well as public documents. Topics include: foreign policy; domestic policy; treaties; monetary and fiscal policies; foreign economic aid; conference results; military policies; employment patterns; inflation news; security affairs; government; environment; elections; political parties and their activities; trade balance reports; energy policies; aging; pensions and insurance.

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WHAT ROLE FOR THE EUROPEAN UNION IN ASIA? AN ANALYSIS OF THE EU'S ASIA STRATEGY AND THE GROWING SIGNIFICANCE OF EU-CHINA RELATIONS

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ABSTRACT

This article analyzes the main themes and initiatives that have characterized the development of the Asia policy of the European Union (EU) in the post-Cold War period. It argues that the current role and presence of the EU in Asia goes well beyond trade relations to include a security dimension which has political and strategic implications for the region's major powers. Particular attention is devoted to two issues that have attracted the attention – and concern – of the United States (US) and its Asian allies: China's participation in the EU-led Galileo satellite system and the proposal to lift the EU arms embargo on China. These initiatives have contributed to making the EU an additional factor in East Asia's strategic balance and are an indication that the EU's China policy needs to be increasingly accommodated with the broader EU Asia strategy as well as with the traditional transatlantic alliance and the EU-Japan partnership.

INTRODUCTION

This article¹ analyzes the main themes and initiatives that have characterized the development of the Asia policy of the European Union (EU) in the post-Cold War period. The aim is to provide the reader with a better understanding of the current role and presence of the EU in Asia. It begins with an examination of the economic dimension which has always been considered the backbone of EU-Asia relations. Subsequently, the article analyzes the involvement of the EU and its member states in Asian security affairs. The EU's contribution to regional peace and stability has traditionally focused on participating to the region's multilateral security activities and on supporting peace-keeping operations and monitoring missions in the area. The EU continues to provide humanitarian assistance to war-torn societies in the area and support for the protection of human rights and the spreading of democracy, good governance and the rule of law. Moreover, the EU increasingly cooperates with Asian countries to address non-traditional security issues such as climate change, migration and terrorism. In recent times, however, the EU and its member states have upgraded the level of their engagement in Asian security affairs both in quantity and quality. The establishment of partnership agreements for the development of Galileo (the EU-led global navigation satellite system alternative to the American GPS – Global Positioning System) with some of Asia's major powers, growing advanced technology transfers and arms sales in the region all reflect the EU and its member states' increasing interest in acquiring market shares of the region's aerospace and defence markets and in countering a perceived United States (US) dominant position in these sectors. This also indicates that the EU's current role and presence in Asia goes well beyond trade relations to include a security dimension which has wider political and strategic implications for the region's major powers.

The second part of the article analyzes the recently established EU-People's Republic of China (PRC, or simply China) strategic partnership. In particular, it focuses on two issues that have attracted the attention – and concern – of the United States and its Asian allies: China's participation in the Galileo satellite system and the proposal to lift the EU arms embargo on China. It is argued here that with these initiatives the EU and its member states seek to establish a security-strategic linkage with the PRC in order to take advantage of China's market and, at the same time, help maintain Europe's global competitiveness and

political autonomy from Washington. However, the security-related elements of the EU's China policy have the potential to affect the evolving security perceptions of the region's major powers. The Chinese arms embargo issue, in particular, has contributed to making the EU an additional, and for some irresponsible, actor in East Asia's strategic balance, raising the question as to whether the EU is capable, and willing, to assume a security role in the region. In sum, by piecing together the analysis of the EU's Asia policy and the EU's China policy of the last few years this article aims to provide the reader with a better understanding of the EU's current role and presence in Asia.

THE DEVELOPMENT OF THE EU'S ASIA STRATEGY IN THE POST-COLD WAR PERIOD: THE SIGNIFICANCE OF THE ECONOMIC DIMENSION

The rise of Asian economies over the past decades, the end of the Cold War, and the stated desire of the EU to emerge as a global actor have created the conditions for EU policy-makers' adoption of a distinctive European strategy towards the Far East. In 1993, Germany became the first EU member state to elaborate a strategy towards Asia. In the *Asien Konzept der Bundesregierung*, the German government outlined the new significance of the Asian markets for Europe. This new importance had become evident since 1992, when the EU trade with Asia overtook EU-US trade for the first time. The German concept paper stated that Germany, and Europe as a whole, had to face the challenge of an economically thriving Asia and 'strengthen economic relations with the largest growth region in the world' (Government of the Federal Republic of Germany 1994: 2). Following up on Germany, French Foreign Minister, Hervé de la Charette, announced in 1995 that Asia would receive special attention as the *nouvelle frontière* of French diplomacy. In the same period, also the UK, Italy, and the Netherlands started to devote more energy and resources to the development of relations with Asian countries.

Concurrent with initiatives by individual EU member states, in 1994 the European Commission released its Communication *Towards a New Asia Strategy*, with the aim to strengthen the Union's economic presence in Asia, contribute to the stability of the region, promote economic development, and the consolidation of democracy and respect for human rights in Asia (European Commission 1994: 2). The 1994 Commission's paper covers 26 countries grouped according to three geographic regions: the eight countries and economies of East Asia (China, Japan,

¹ Material for this article comes in part from interviews conducted in Europe (Brussels, London, Paris, Berlin, Rome), China (Beijing, Shanghai), Japan (Tokyo), and the United States (1999).

North and South Korea, Mongolia, Taiwan, Hong Kong and Macao); the ten countries of South-East Asia (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Vietnam, and Burma/Myanmar); and the eight countries of South Asia (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, Maldives and Afghanistan). The rationale that the Commission gives for the EU's new engagement towards this vast and complex region is very clear: 'To keep Europe in its major role on the world stage it is imperative to take account of the emergence of these new Asian powers... It is therefore essential that the Union develops the capacity to play its proper role in the region' (European Commission 1994: 6). The New Asia Strategy (NAS) also urged the Union to adopt more proactive strategies towards Asia.

The further upgrading of EU-Asia relations came into being in 1996, with the establishment of an institutional mechanism: the Asia-Europe Meeting (ASEM). The first ASEM summit took place in Bangkok in 1996 with the participation of 25 countries: on the European side, the 15 EU member states (plus the Presidency of the European Commission). On the East Asian side, ten countries. The 7 countries of ASEAN (Association of Southeast Asian Nations): Thailand, Malaysia, Singapore, Philippines, Indonesia, Brunei, and Vietnam plus China, Japan and South Korea (the so-called ASEAN+3). As a result of the enlargement of the EU in May 2004, the ASEM 5 summit in Hanoi in October 2004 decided to enlarge ASEM to include the ten new EU member states, as well as three new ASEAN countries (Cambodia, Laos and Burma/Myanmar) that were not yet part of the process.

Over the years, ASEM has become the most important inter-regional forum for discussion and cooperation between the EU and East Asia. Although the ASEM process includes three main pillars (political, economic-financial, and cultural-intellectual), ASEM's paramount objective has always been the enhancement of economic exchanges between the two regions. In 2005, the ASEAN countries accounted for 43 per cent of global trade and produced 52 per cent of global output (*Il Sole 24 Ore* 2006: 1). From a European perspective, ASEM is used to strengthen Europe's economic presence in Asia in order to take advantage of the region's markets with the overall aim to protect the Union's global competitiveness and its economic security (Casarini 2001: 7).

The Asian region as a whole currently accounts for 56 per cent of the world's population, 25 per cent of world Gross National Product (GNP), and 22 per cent of the world's international trade (European Commission 2007: 1). Along with inter-regional initiatives, the EU has also deepened and widened bilateral relations with Asia's major regional grouping (ASEAN) and powers (China, Japan, and India). The EU considers ASEAN a key economic and political partner for overall

EU-Asia relations. In July 2003 the European Commission released *A New Partnership with South East Asia*, reaffirming the growing importance of the relationship and recognizing that the EU-ASEAN partnership is a 'dialogue between equals' (European Commission 2003a: 2). As part of the new South-East Asia strategy, in 2003 the EU launched the *Trans Regional EU-ASEAN Trade Initiative* (TREATI) and agreed, at the ASEM 6 summit in Helsinki in September 2006, to push forward negotiations for comprehensive bilateral partnership and cooperation agreements with Thailand and Singapore, which could pave the way for a wider EU-ASEAN free trade agreement (ASEM 2006: 2).

With regard to Japan, the 16th EU-Japan summit held in Berlin in June 2007 underlined the good shape of the relationship, in particular on economic matters. Japan is currently the EU's fifth largest export market and the EU is Japan's second largest export market. Japan is a major investor in the EU: in 2004, 5 per cent of the stock of EU inward Foreign Direct Investment (FDI) came from Japan, while almost 2 per cent of the stock of EU outward FDI went to Japan. Since 2001, the EU and Japan have decided to develop and enhance their relationship by adopting an Action Plan which has resulted, so far, in the agreement on the Investment Framework in 2004 aimed at fostering growth in two-way direct investment, in the joint participation in the scientific ITER (International Thermonuclear Experimental Reactor) project in 2005 and in the signing of a Japan-Euratom agreement in 2006.

The EU and its member states have also become increasingly interested in further exploiting opportunities arising from strengthening the ties with India, the second most populous country in the world. Since November 2004, the EU and India have established a strategic partnership, launched an Action Plan with the aim to boost economic and trade links and agreed on the terms and conditions for India's participation in the Galileo satellite network. At the 6th EU-India summit in October 2006 the two sides have also converged on a set of concrete areas to enlarge the scope of their economic and political cooperation.

It is with regard to the People's Republic of China, however, that EU policymakers have been increasingly attracted over the past years. According to interviews conducted by this author, since the late 1990s China has been the Asian country which has received most of the attention (and resources), both from the European Commission and the EU member states. China is currently the EU's second largest trading partner (after the US) and, according to China customs, the EU has become China's largest trading partner – ahead of the US and Japan. If current trends continue, Beijing is poised to become the Union's most important commercial partner. In October 2003, the two sides established a strategic partnership and signed an agreement for the joint development of Galileo and

other space technologies. At the 9th EU-China Summit held in Helsinki in September 2006, the two sides agreed to launch negotiations on a new Partnership and Cooperation Agreement (PCA) which will encompass the full scope of their growing bilateral relationship.

Asia as a whole accounts for around 21 per cent of the EU's external exports and has become a major destination for European investments. A growing number of European companies have been relocating activities to Asia (especially China and India) in order to profit from its cost advantage. In the 2004 *European Competitiveness Report*, the European Commission argues that success in the Asian markets – particularly in China – does not only generate growth, but economies of scale which are even more important for large enterprises to protect their strategic position against their international competitors (European Commission 2004: 353-354). Since it is generally assumed that an increase in European exports, as well as the success of European companies abroad would be translated into the creation of more jobs within the EU, it follows that securing market outlets and fair competition for European industries in Asia has become an important element for protecting Europe's economic security. Given the growing significance of Asia for Europe's socio-economic welfare, EU policy-makers have over the past years started to pay attention not only to economic matters but also, and increasingly so, to political and security issues that could affect regional stability.

THE EVOLUTION OF THE EU'S ASIA STRATEGY: THE EMERGENCE OF A SECURITY DIMENSION

In September 2001, the European Commission released its paper *Europe and Asia: A Strategic Framework for Enhanced Partnership*, with the aim to provide EU member states with a more updated, coherent and comprehensive approach to EU-Asia relations (European Commission 2001). The area covered as Asia is broadened: it includes all the countries in South Asia, South-East Asia and North-East Asia that were covered in the 1994 NAS (bearing in mind the change of status of Hong Kong and Macau after their return to China in 1997 and 1999 respectively) plus Australia and New Zealand. In the document the European Commission argues that the economic prosperity of Europe may be jeopardized not only by economic turbulences in the Asian region – as during the financial crisis of 1997/98 – but also by political instability. Among the occurrences in Asia that could have a bearing on Europe's interests there are disturbances in the

economic and political climates of Japan and China (which are currently the world's second and fourth largest economy respectively), tensions in the area that may destabilize the sea lines on which Europe's trade with the region depend, and any instability in Kashmir, the Korean Peninsula or in Cross-Strait relations (i.e. between China and Taiwan) – which would likely involve the United States and other Asian powers. Growing European concerns for Asia's stability have also been included in the *European Security Strategy* (ESS) paper adopted by the European Council in Brussels on 12 December 2003. The ESS states that 'problems such as those in Kashmir [...] and the Korean Peninsula impact on European interests directly and indirectly [...] nuclear activities in North Korea, nuclear risks in South Asia...are all of concern to Europe' (European Council 2003a: 11). In the same vein, in a speech in July 2005, the EU Commissioner for External Relations, Benita Ferrero-Waldner, stated that 'security in the Far East is a topic of direct concern to European interests. It is part of the overall global responsibility for security and stability that lies at the heart of the EU's role in foreign policy' (Ferrero-Waldner 2005: 1). But what have the EU and its member states done, in practice, in order to promote peace and security in Asia?

Europe's involvement in Asian security affairs dates back to the early 1990s and has intensified in recent times. For instance, the EU is a member of the multilateral security activities of the ASEAN Regional Forum (ARF) and the Council for Security Cooperation in Asia Pacific (CSCAP). The ARF as 'track-one' represents the governmental level (in particular, diplomats from the foreign ministries), CSCAP as 'track-two' involves regional experts of think tanks and universities, as well as government officials in private capacity. With the establishment of ASEM in 1996, a 'track-two' has been initiated which also includes a multilateral security dialogue on various levels between Europe and Asia. In September 1997, the EU through the European Commission has also become a member of the Korean Energy Development Organization (KEDO), created to implement denuclearization of the Korean peninsula. Since their establishment all the above inter-regional security cooperation activities have been widened and deepened. Moreover, a number of bilateral security and military cooperation agreements between EU members and Asian countries have been initiated.

The EU and its member states have also contributed to peace and security in the region by assisting the establishment of democratic governments in Cambodia, East Timor and Afghanistan. Moreover, the EU has been instrumental in ensuring the implementation of the peace agreement between the Government of Indonesia and the Free Aceh Movement (GAM), which fights for the independence of the Indonesian province of Aceh. Although Europe has no permanent military forces

deployed in Asia after the return of Hong Kong to China, Great Britain is still a member of the Five-Power Defence Arrangements (FPDA), a military consultation agreement with Australia, Malaysia, New Zealand and Singapore. In addition, France has an operational military presence in the Indian Ocean and the South Pacific, with thousand of troops which can be deployed in Asia in a relatively short time.

The EU contributes to regional peace and stability by supporting the protection of human rights and the spreading of democracy, good governance and the rule of law in the region. The European Commission has been instrumental in building global partnerships and alliances with Asian countries in international fora to help address the challenges of the globalization process. In particular, the EU cooperates with Asian countries to address non-traditional security issues like climate change, migration and terrorism. The EU and its member states also provide substantial humanitarian assistance to Asia, in particular in Afghanistan, Timor, North Korea and Indonesia, and in 2005 a major effort was made for the victims of the Tsunami in South-East Asia.

The EU and its member states have also engaged Asian countries in the more traditional security and military spheres. Europeans continue to sell arms and weapons systems in the region. In recent years, Asia has become an increasingly important market for the European defence and aerospace sectors, which depend more and more on exports for the bulk of their revenues. The Asian region, driven mostly by China, India and South-East Asian countries, has emerged as the largest developing world market for arms sales, accounting for almost half of all global purchases made in the period 2001-2004 (Tellis 2005: 27). In addition, the demand for aerospace products (both civilian and military) over the next 20 years is projected to arise outside the US or Europe's markets and come mainly from Asia and, in particular, China and India. In this context, the EU has invited China, India and South Korea to collaborate on the development of the EU-led Galileo satellite system. This entails important European advanced technology transfers (including dual-use technology) in the region. These initiatives represent huge commercial opportunities for Europe's defence and aerospace sectors and reflect an upgrading of Europe's presence in the region. With Galileo, the EU's strategy in Asia is moving beyond trade relations to include a security-strategic dimension with wider implications for the region's major powers. However, the EU has not yet elaborated a clear and comprehensive political vision of Asia and the role that the EU could play in it.

According to Benita Ferrero-Waldner: 'over the medium-term future, three major policy issues will dominate the political agenda in East Asia: (i) how to respond to the rise of China; (ii) ensuring stability on the Korean peninsula; and

(iii) a peaceful resolution of tensions between China and Taiwan. The proper handling of all these issues will have major implications both for regional and wider security' (Ferrero-Waldner 2005: 2). With regard to the Korean issue, though the European Commission is a member of KEDO, the absence of the EU from the '6-Party Talks' is a serious hindrance to Europe's capacity to play its proper role. As to the third, although Taiwan does feature in the EU-China Strategic Dialogue meetings, the EU has tended to shy away from the Taiwan issue, maintaining un-official economic links with the island. The EU and its member states abide by the official 'one China' policy and have preferred to ignore the question of the cross-Straits strategic balance. The latter is the responsibility of the US, who is committed to assisting the island under the Taiwan Relations Act which also specifies the quality and quantity of weapons that the US can export to the island. Any strain in cross-Straits relations could presage tensions between Washington and Beijing, as well as between Beijing and Japan (since American troops will come from Okinawa). To complicate matters, political relations between China and Japan continue to be a matter of concern, notwithstanding the buoyant commercial relations and the 'friendly' visit of Wen Jiabao, the Chinese Prime Minister, to Japan in April 2007. The EU cannot but recommend intensification of dialogues between the two Asian powers and serve as a model for reconciliation between two regional foes (France and Germany). The European model of economic and political integration is increasingly studied with interest by Asian scholars. China's rise is often compared to Germany's threatening rise and challenge to the international system at the end of the 19th century and with it the extent to which Beijing may or may not be of similar nature. In this vein, Ferrero-Waldner's first issue – i.e. China's rise – remains the most important issue and the one which has attracted EU policy makers' attention since the mid-1990s.

THE EU'S RESPONSE TO CHINA'S RISE: FROM CONSTRUCTIVE ENGAGEMENT TO STRATEGIC PARTNERSHIP

The EU's China policy has evolved considerably since the mid-1990s, both in economic and political dimensions. In the context of the New Asia Strategy, in July 1995 the European Commission adopted its new China policy by declaring that 'relations with China are bound to be a cornerstone in Europe's external relations, both with Asia and globally' (European Commission 1995: 1). The

point of departure of the Commission's document is the 'rise of China', seen as an unprecedented event since World War II. While the analysis concentrates on China's economic upsurge and the potentialities of its market for European business, the paper lays down a strategy of 'constructive engagement' for integrating China into the world community. Over the years, Europe's policy of engagement with China has consistently aimed at promoting the fullest possible Chinese involvement in the international arena, whether in the economic, social, political, security or military dimensions, with the underlying belief that this approach would lead, over time, to greater opening up of the country, political liberalization and promotion of human rights.

Behind a firm engagement policy, there is Europe's enthusiasm for the Chinese market and its seemingly limitless opportunities. With annual average growth rates around 10 per cent since the open-door policy began, China has become the fourth largest economy and the second largest exporter of goods. For the Chinese leadership, enhancing relations with European countries is viewed as a highly strategic goal, in particular for obtaining advanced technology needed for China's modernization. Since 2004, China has become the EU's second biggest trading partner (after the US) and, according to China customs, the EU has become China's biggest trading partner – ahead of the US as well as Japan. In 2006, two-way trade totalled €254.8 billion. Imports from China rose by 21 per cent to €191.5 billion and EU exports to China rose by 23 per cent to reach €63.3 billion (Eurostat 2007; Atkins 2007: 4). As a result of these increases, China has displaced the US as the largest source of EU imports. If current trends continue, Beijing is poised to become the European Union's most important commercial partner.

At the political level, since October 2003 the EU and China have acknowledged each other as 'strategic partners'. This strategic partnership is based on the idea that relations between the EU and the PRC have gained momentum and acquired a new strategic significance (European Commission 2003b: 1; Solana 2005: 1). The declaration of strategic partnership has been accompanied by two substantial moves: the signing of the agreement allowing China to participate in the Galileo global navigation satellite system and the promise by EU policy-makers to their Chinese counterparts to initiate discussions on the lifting of the EU arms embargo on China. In the context of increasing EU-China cooperation on security and defence matters, since 2004 France and Britain have also undertaken military exchanges and joint manoeuvres with the People's Liberation Army (PLA). More precisely, France and China held joint military exercises in the South China Sea in March 2004 (just before the presidential elections in Taiwan and during the debate on the proposed lifting of the arms

embargo), the first ever naval manoeuvres to take place between China and a Western country.² Following France, in June 2004 the UK held joint maritime search-and-rescue exercises with the PLA (Stumbaum 2007: 68).³ While this form of cooperation is part of European efforts aimed at engaging China at all levels and in all dimensions in order to help the country's insertion in international society, China's participation in the Galileo project and the proposal to lift the arms embargo have raised concerns in Washington and Tokyo on the grounds that these initiatives may contribute to China's military modernization and potentially tilt East Asia's strategic balance in Beijing's favour in a situation where there could be future tensions in US-China and Japan-China relations over Taiwan (but not exclusively).

EU-CHINA SPACE AND SATELLITE NAVIGATION COOPERATION

Galileo is a Global Navigation Satellite System (GNSS), alternative to the dominant US Global Positioning System (GPS) that will offer both civilian and potential military applications once it becomes operational in 2010-12 (Lindström and Gasparini 2003; Bounds 2007: 13). On 30 October 2003, an agreement was reached for China's cooperation and commitment to finance 200 million euros (out of an estimated total cost at that time of 3.2-3.4 billion euros) of Galileo, making China the most important non-EU member country in the project. According to this agreement, the main focus of Chinese participation will be on developing applications, as well as research and development, manufacturing and technical aspects of the Galileo project (European Community 2003: 1; Casarini 2006: 26-27). EU-China cooperation in Galileo and, more generally, aerospace, must be seen as an answer to the perceived US primacy in the sector. In Europe, since the early 1990s, an independent aerospace capability has been perceived as having a key role for European industrial and technological development and it has begun to be closely associated with concepts of European security and political autonomy.

Sino-European space cooperation will boost the two sides' business interests. European industries are eager to collaborate with Chinese companies in space

² France and China have established a strategic dialogue and held annual consultations on defence and security matters since 1997, complemented by the training of Chinese military officers. The UK has, since 2003, started an annual strategic security dialogue with the PRC and has also been training PLA officers.

technologies and, more generally, aerospace. Galileo will facilitate European firms' entry into the promising Chinese market while it will allow Chinese companies to acquire know-how and advanced space technology from Europe. In this context, building a strategic partnership with China is perceived as being important for acquiring shares of this market and, as such, maintain Europe's global competitiveness. Analysis estimate that Beijing has now become the second largest market for aerospace, behind the US. This makes China the most important battleground between Boeing and Airbus and, more generally, between American and European aerospace companies. For instance, in November 2005, during the state visit of Wen Jiabao to France, the Chinese Prime Minister started his four days tour in Toulouse, at the headquarters of Airbus. On that occasion, the Chinese Premier committed his government to buy 150 aircraft of the type Airbus A320 (worth US\$ 9.3 billion), the biggest ever order for the Airbus conglomerate. Thanks to this order, Airbus regained a large share of China's market and by the end of 2005 the European constructor had surpassed Boeing in terms of 'contracted orders' from China: 804 for Airbus, against 801 for Boeing (Fouquet 2005: 6). In the same vein, the visit of Hu Jintao, the Chinese President, to the US in April 2006 started in Seattle at the headquarters of Boeing, demonstrating the extent to which China has become the most contentious battlefield between the two constructors. In this context of global competition, Airbus sales to China and the EU's offer to Beijing to participate in the Galileo project must be seen as part of increasing EU efforts to acquire market shares of the global aerospace sector in order to counter a perceived American dominance in the market and, at the same time, increase political autonomy from Washington.

China's participation in the Galileo project entails a significant political and strategic dimension. The decision to allow China play a prominent role in the development of the Galileo satellite system must be seen as the logical extension in the security-strategic dimension of the policy of constructive engagement which has characterized Europe's approach towards China since the mid-1990s. Furthermore, EU-China cooperation over Galileo reflects the different conception between the EU and the US regarding the use of space. In essence, Washington places an emphasis on space power and control, while Europe stresses that the space should be used peacefully (Giegerich 2005: 5). Thus, while the US concentrates on leveraging the space to provide America and its allies an asymmetric military advantage, the EU is more concerned in creating useful – i.e. commercial – space applications for European peoples and industries. For EU policy-makers, Sino-European cooperation is meant to boost commercial activities while the US looks at space from a different angle, i.e. the protection of its global interests and primacy in world affairs. The current Bush administration

has curtailed cooperation in space activities with Beijing that was initiated by the Clinton administration. The US appears to believe that space technology should not be disseminated (The President of the United States of America 2006: 2). The Europeans, on the other hand, seem to view space-related activities (technology included) as a medium for international cooperation. It is important to stress that according to EU policy-makers, EU-China cooperation in Galileo and other space applications is not meant to isolate the US, or balance against it. Nor it is meant to increase the proliferation of space technologies that would be used for anything other than peaceful aims. For EU policy-makers, Galileo is intended to build trust with China. Unlike the Bush administration, EU policy-makers do not view China as a possible military threat or as a future peer competitor. In addition, it is widely perceived in some European capitals that the EU-China cooperation in Galileo is a reaction of the isolationist space policies of the US in the last years. The US has committed itself to the control and militarization of space, adversely impacting international space cooperation through draconian export regulations. As a result, other space-faring nations such as China and Europe have been pushed to cooperate among themselves.

Beijing views co-operation with the EU over Galileo as an additional initiative aimed at promoting China's space programme. The *White Paper on China's Space Activities* released in November 2000 states that Beijing is intent to industrialize and commercialize space to advance 'comprehensive national strength' in the areas of economics, state security and technology (The Information Office of the State Council of the People's Republic of China 2000: 3). In recent times, China's space programme has become a major political symbol of Chinese nationalism, contributing to fostering both the economic and military sectors. Since November 1999, with the launch of the *Shenzhou 1* (China's unmanned spacecraft), Beijing has made important technological progress, carefully monitored by the US (Meteyer 2005). China's space aspirations pose significant security and strategic concerns for Washington. Although most of China's space programs have mainly commercial and scientific purposes, improved space technology has the potential to significantly improve Chinese military capabilities (Murray and Antonellis 2003: 645).

Washington increasingly views Beijing as a space competitor and it is concerned that through Galileo and related space technology cooperation, the EU is contributing to the modernization of China's space program. Furthermore, the Bush administration seems to be worried that China's participation in the Galileo project will boost the PLA's ability to acquire the expertise that allows armed forces to be integrated for today's increasingly digital warfare, in particular the most advanced early-warning systems and recognition satellites that would put

China in a position to counter Taiwanese arms systems imported from the US. In the 2004 *White Paper on Defense*, Chinese military planners make it clear that the use of advanced information technology is a top priority in efforts to make the army a modern force. According to American critics of Galileo, China's participation in the European satellite system is a major setback to US efforts to limit China's access to advanced space technology with potential military uses.

EU officials have rejected suggestions that China could gain a military advantage from Galileo. The European Commission argues that the Public Regulated Service (PRS) will be withheld from China and any other non-EU participants in the system. The PRS is an encrypted signal, meant to guarantee continuous signal access in the event of threats or crisis. Unlike other Galileo signals, the PRS will be accessible even when the other services are not available, making it suitable for security and military-related uses. The European Commission and Chinese officials recognize that EU-China cooperation over Galileo and other space applications will go through 're-adjustments'. Galileo is part of the development of a strategic partnership with China and as such the final content and mechanism of China's participation in Galileo will eventually be determined by the evolution of EU-China political relations. Hence, there is still a fair amount of unpredictability as to what China will be able to use – or not to use – in the end. However, research work on Galileo will assist China – in any case – in fostering the development of its own, independent satellite navigation system (the *Beidou*).

Galileo is also linked to the arms embargo issue. Since high-precision satellite guidance equipment is considered dual-use, it is subject to special licenses before export to China is permitted. It is precisely because of the dual-nature of space technology that the existence of an arms embargo has become a serious hindrance for the further development of EU-China relations in security and defence matters.

THE PROPOSAL TO LIFT

A few months after the signature of the agreement on the terms and conditions of China's participation in the development of the Galileo satellite system (October 2003), France and Germany officially proposed to start discussions on the lifting of the EU arms embargo on China. At the time, all EU member states agreed, in principle, to initiate discussions on the issue (European Council 2003b: 1). At the European Council in Brussels in June 2005, however, the decision was taken to postpone the issue. This was mainly due to a series of factors that had occurred in the meantime: (i) strong opposition from the US; (ii)

increasing uneasiness in many national parliaments and within the European Parliament; (iii) China's failure to provide clear and specific evidence on the improvement of its human rights record; (iv) the passing of China's anti-secession law; (v) the new German government of Angela Merkel (that reversed the previous policy of Gerhard Schröder); and (vi) the accession of 10 new, and more Atlanticist, members to the EU. In a final move, at the 8th EU-China Summit in September 2005, the two sides agreed to set up a Strategic Dialogue to exchange views on North-East Asia's security. Initiated in December 2005, it is meant to complement the EU-US and EU-Japan Strategic Dialogues on North-East Asia (the first initiated in May 2005 and the latter in September 2005). These newly established consultative mechanisms serve the purpose to move forwards EU-China relations after the impasse over the arms embargo and, at the same time, take into account American and Japanese concerns vis-à-vis a rising China (Casarini 2006: 37).

The question of the lifting of the embargo remains, however, on the agenda of the EU-27 (General Affairs and External Relations Council 2006: 6; European Commission 2006: 11). It reflects the distinctive approach of the EU to a rising China. The EU and its member states do not view China in the same way as the US or its Asian allies such as Japan and Taiwan. Contrary to the US, the EU does not regard China as a possible military threat or strategic peer competitor. This largely explains Europe's invitation to Beijing to join in the development of Galileo, the proposal to lift the arms embargo and the continuation of European arms and defence technologies sales to China. The US, instead, increasingly considers China as a possible future peer competitor. In this context, the proposal to lift has become a contentious issue in transatlantic relations and raises the question as to whether the US and its Asian allies' legitimate concerns regarding China's growing military capabilities can be reconciled with the legitimate interests of the EU in furthering security and strategic links with China.

The European advocates of an end to the arms embargo claim that China has changed since the 1989 Tiananmen Square crackdown on students and that, as such, a reward should be made. Moreover, they argue that the EU Code of Conduct on arms sales and normal national arms export policies and controls will still apply, thereby preventing abuses when it comes to exporting arms to China. The lifting would principally serve to show that the EU does not discriminate against Beijing but treats it on a par with nations such as Russia. However, the Nordic countries, the European Parliament and some national parliaments voiced their criticism with regard to the lifting. For instance, in the 2005 *Annual Report on the CFSP*, with 431 votes in favour and 85 against, the European Parliament urged the Council of the EU not to lift the arms embargo until greater progress is

made in the field of human rights and arms exports controls in China and on Cross-Strait relations (European Parliament 2006).

The opponents to the lifting argue that, once the embargo is lifted, China may be able to acquire weapons systems from Europe, especially advanced early warning capabilities as well as surface-to-air and air-to-air missile systems, that could significantly affect the military balance across the Taiwan Strait in Beijing's favour and thus affect American and Japanese interests in the area. Washington, in particular, has voiced its opposition, threatening retaliation in EU-US industrial and defence cooperation in case the arms embargo is lifted. The US maintains that the human rights situation in China has not improved to the point where it merits lifting the ban. Moreover, the US has concerns about EU export controls and the ability to protect sensitive technology from being transferred to China since Washington has obligations and interests in maintaining a balance between Taiwan and China and ensuring that Taiwan can defend itself. In response to US criticism, EU officials have asserted that the lifting of the arms embargo would be mainly a 'symbolic gesture'. In other words, the lifting would be a political act that does not suggest that the EU member states seek to sell arms or defence technologies (which the embargo also covers) to China. EU members have clarified that the lifting is neither meant to change the current strategic balance in East Asia, nor to increase arms exports to China 'neither in quantitative nor qualitative terms'. In December 2004, the EU member states stressed that a revised, and stricter, Code of Conduct will be put in place. This new Code of Conduct will amend the one adopted in 1998 and establish criteria for EU arms sales worldwide. According to EU officials, the provisions contained in the EU Code of Conduct are aimed at ensuring mutual political control among member states as well as transparency and accountability.

Notwithstanding official declarations and the commitment to a revised Code of Conduct, some European governments continue to sell arms and weapons systems to China. The Council of the EU in its *Eight Annual Report of the EU Code of Conduct on Arms Exports* published in October 2006 declares that a number of EU member states have partially sidestepped the embargo by supplying China with components for military equipment. Among the EU-25, France accounted for the largest share of exports, followed by the UK and Germany (Council of the European Union 2006: 265-266; Casarini 2007: 377-378). Thus, despite the embargo, some EU governments, and their arms manufacturers, have been able to circumvent it by selling components for arms or dual-use goods (with both military and civilian applications) to China. EU arms producers are very keen on entering into the promising Chinese market. Once the embargo is lifted EU companies might be able to sell to China components or subsystems that

could greatly contribute to the modernization of the PLA and fill critical technology gaps, particularly in such areas as command and control, communications and sensors. This includes communications gear, hardened computer networks and night-vision cameras, as well as the most advanced early-warning systems and recognition satellites that could contribute to China's military modernization and put Beijing in a position to counter Taiwanese arms systems imported from the US. In sum, EU arms producers will profit from the lifting of the arms embargo, since it would open the way to arms sales from China's procurement budget, the second fastest growing in the world after the US.

The problem facing industrialists wanting to enter the lucrative Chinese market is that European defence companies are still largely dependent on US cooperation on defence technology, not to mention the importance of the US market for some of them. American retaliation could take the form of target sanctions at specific defence contractors that sell sensitive military-use technology or weapons systems to China. Based on national security concerns, EU companies could be restricted from participating in defence-related cooperative research, development, and production programs with the US in specific technology areas or in general.⁴ Washington is adamant in preventing its advanced defence technology, currently shared with the EU allies, from ending up in Chinese hands. The hope in Brussels is that informal consultations with the US on what the EU member states sell to China would prevent sensitive technology transfers and defuse a serious transatlantic dispute. However, this underestimates US opposition to the lifting. Washington complains that the EU is acting irresponsibly towards Asia, an area where the Union has few real strategic interests, but where the US is robustly committed to its security.

Both the Republicans and the Democrats have argued that the proposal to lift the arms embargo is a cynical ploy to open doors for the European defence industry and that, even if arms sales remain limited, the EU is tossing aside more than a decade of human rights concerns for economic gains (Bork 2005: 2). American criticism gathered pace at the beginning of 2005, when all commentators were expecting that the EU would lift the 16-year old arms embargo to coincide with the 30th anniversary of the establishment of diplomatic relations between the EC and the PRC in 1975. On 2 February 2005, the US House of Representatives voted unanimously (411-3) to pass a resolution condemning the EU's moves toward lifting its arms embargo on China. The resolution alleged that lifting the embargo could destabilize the Taiwan Strait and put the US Seventh Fleet at risk. 'It is in this context that the EU's current

⁴ US Code, Title 41, Chapter 1, Section 50.

deliberations on lifting its arms embargo on China are so outrageous' declared Tom Lantos, at that time the senior Democrat on the House of Representatives' International Relations Committee (United States Congress 2005). In sum, what compels US opposition is, firstly, that the EU code of conduct is not legally binding and, secondly, that the embargo is interpreted differently by the 27 member states of the EU. What worries the US more is the possible transfer from the EU to China of advanced technology and weaponry that would put China in a position to counter Taiwanese arms systems imported from the US (Fisher 2004). The US is therefore concerned about Europe's enmeshing – largely unplanned and lacking any clear political vision – in East Asia's strategic balance.

ENMESHING INTO EAST ASIA'S STRATEGIC BALANCE

East Asia is a region in flux. China's ascendancy is reshaping Asia's economic and political power relations in a context where the US remains the security linchpin for Asia while the US-Japan alliance serves as the cornerstone of the US security strategy in the region (Cossa 2005). According to Wang Jisi, Dean of the School of International Studies at Peking University and Director of the Institute of International Strategic Studies at the Central Party School of the Communist Party of China, 'the general trend in Asia is conducive to China's aspiration to integrate itself more extensively into the region and the world, and it would be difficult for the United States to reverse this direction' (Wang 2005: 43). The US-China relationship is crucial for the maintenance of regional stability. At the economic level there seems to be an implicit bargain with Beijing: Washington tolerates China's surging exports to the US and the resulting bilateral trade surplus for China, but China recycles its new wealth by helping to finance the US budget deficit. Economically, therefore, China and the US are more and more interlocked. At the political level, though, things are different. In the last years, the debate has resurfaced in the US as to whether China has the potential to challenge Washington's dominant position in Asia (Christensen 2006).

In the 2002 *National Security Strategy*, the Bush administration stated that the US 'welcome[s] the emergence of a strong, peaceful, and prosperous China' (The President of the United States of America 2002: 27). However, the US also believes that China's declared 'peaceful rise' cannot be taken for granted and that the lack of democratisation and political liberalisation in China could presage tensions in future US-China relations. The Taiwan issue continues to loom large on US-China relations. At the beginning of his first mandate in 2000, President Bush dubbed China a 'strategic competitor'. Bush himself has declared his firm

commitment to the defence of Taiwan. The Bush administration is worried that China's fast-growing economy and the country's rapid industrialization are giving Beijing previously unimaginable financial and technical resources to modernize its armed forces (Perkins 2005). Blocked by the EU arms embargo and Washington's refusal to authorize arms sales to the mainland, Beijing has depended largely on Moscow as a supplier in recent years (Makienko 2003).

Estimates of the real China's military budget are, however, difficult to assess. During the annual session of the National People's Congress in March 2007, Beijing announced a 17.8 per cent increase in its official defence budget, to about US\$ 45 billion (The Economist Special Report 2007: 5). In 2005, the RAND Corporation concluded that China's total defence expenditures (based on 2003 data) were between 1.4 and 1.7 times the official number (Crane, Cliff, Medeiros, Mulvenon and Overholt 2005: 133). The US and its Asian allies are concerned that China's military spending is growing both rapidly and in a sustained fashion precisely at a time when there is no pressing external threat to China.

The US Department of Defence *Report on the Military Power of the People's Republic of China* (MPPRC) concludes that the modernization of the PLA has gone beyond preparing for a Taiwan scenario and is likely to threaten third parties operating in the area, including the US (United States Department of Defence 2005). While Chinese leaders insist that their country is engaged in a 'peaceful rise' and 'harmonious development', the US says that China is focusing on procuring and developing weapons that would counter US naval and air power, especially in the Taiwan Strait. The US is committed to assisting the island under the Taiwan Relations Act, the 1979 law that accompanied the US switch of diplomatic recognition from Taipei to Beijing.⁵ Chinese leaders have always maintained that they reserve the right to use violence at home to keep China intact – and they stress that Taiwan is part of the Chinese territory. China's National People's Congress passed the anti-secession law in March 2005 reiterating the 'sacred duty' for the PLA to take military action if Taiwan takes a decisive step toward declaring independence.

Taiwan is a thorny issue in US-China relations and, more recently, also in Japan-China relations. Tokyo has recently identified China as a potential threat. In February 2005, the US and Japan held top-level security talks at which they agreed to set new common security objectives to deal with what they called 'unpredictability and uncertainty' in East Asia. Following up on the February talks, in October 2005 Tokyo and Washington jointly assented to long-pending changes in bilateral security collaboration. The renewal of the US-Japan security

⁵ Section 2(b)(6), The Taiwan Relations Act, P.L. 96-8, approved April 10, 1979.

alliance reflects a growing anxiety about the increasing capability of China's armed forces and it clearly signals that Japan has decided to adopt a more assertive stance toward Beijing. In the last few years, the Japanese governments have reiterated worries of an escalation in Cross-Strait relations, since should a war between the US and China break out, American troops will come from Okinawa, thus bringing Tokyo in the conflict.

For the EU and its member states, Taiwan is not an issue of immediate concern. However, any confrontation between the US and China, with the likely involvement of Japan, over the island will inevitably disrupt regional stability and thus jeopardize Europe's interests in the area. In this context, recent European initiatives aimed at establishing a security-strategic linkage with Beijing impact on Sino-US relations and Sino-Japanese relations. This explains the strong opposition of the US and Japan against the lifting of the arms embargo and the need to obtain reassurances that China will not be allowed to access the encrypted features of the Galileo satellite system. In sum, EU-China cooperation in security and defence matters is perceived in Washington and Tokyo as an unwelcome (and disturbing) factor for East Asia's strategic balance.

CONCLUSION:

WHAT ROLE FOR THE EU IN ASIA?

The security elements of the EU's China policy indicate that Europe's presence in Asia is changing. It goes, in fact, beyond the traditional trade relations to include security and strategic factors. As discussed earlier, the EU's involvement in Asian security affairs has traditionally focused on contributing to the region's multilateral security activities (ARF, CSCAP, KEDO) and on supporting peace-keeping operations and monitoring missions in the area (Cambodia, East Timor, Aceh, Afghanistan). Moreover, the EU continues to contribute to regional peace and stability by providing humanitarian assistance to war-torn societies and support for the protection of human rights and the spreading of democracy, good governance and the rule of law. Alongside the above initiatives, the establishment of partnership agreements for the development of Galileo with some of Asia's major powers (China, India, South Korea), growing advanced technology transfers, and arms sales in the region indicate that the EU and its member states are increasingly becoming enmeshed in the region's strategic balance. Recent initiatives aimed at establishing a security-strategic

linkage with China – in particular, the proposal to lift the arms embargo – have made the EU an Asian power and raised concerns in Washington and Tokyo.

A more robust EU presence in Asia in the security and defence spheres provides EU policy-makers with a crucial – and double – challenge. On the one hand, EU policy makers need to find ways to combine the different strands of the EU's Asia strategy into an integrated and coherent whole underpinned by a clear political and strategic vision of the EU's interests in Asia. On the other hand, EU policy makers should seek to find ways to reconcile the US and its Asian allies' legitimate concerns regarding China's growing military capabilities with the legitimate interests of the EU in furthering security and strategic links with China. In sum, the EU and its member states should seriously work on a common strategic vision that will accommodate the EU's China policy with the broader EU Asia strategy as well as with the more traditional transatlantic alliance and the EU-Japan partnership. The EU's presence in Asia is changing and this raises the question as to whether the EU is willing, and capable, to acquire a security role in the area and whether this will be welcomed – and to what extent – by the region's major powers.

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RIDING THE ASIAN TIGER? HOW THE EU ENGAGED CHINA SINCE THE END OF THE COLD WAR

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ABSTRACT

This article examines the China-European Union (EU) relationship after the end of the Cold War. It argues that the EU uses a 'benign Wilsonian' foreign policy style and is committed to a Wilsonian worldview that is couched in promoting normative values and principles of democracy, the rule of law, freedom of people, free markets and open access to international economic markets. Brussels tries to 'entice' and engage Beijing to follow and adopt European values and principles. However, despite Europe's normative posture, the EU is not hesitant to pursue its own interests.

In this article, the theoretical 'benign Wilsonian' construct will be applied in order to examine particular components of the China-EU relationship: the push for political and social reforms, the human rights issue, economic relations, and geopolitical visions of the nature of the international system.

INTRODUCTION

European security interests in Asia were evident throughout the Cold War and subsequently expanded in line with the post Cold War diversification of the security agenda. However, it was not until 1994 that the European Commission's policy paper 'Towards a New Asia Strategy' developed potential European Union