



UNTAPPED TRILATERALISM: COMMON ECONOMIC AND SECURITY INTERESTS OF THE EUROPEAN UNION, THE UNITED STATES AND CHINA

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Acronyms

ASEAN	Association of Southeast Asian Nations
ATT	Arms Trade Treaty
CD	Conference on Disarmament
CTBT	Comprehensive Test Ban Treaty
EFSF	European Financial Stability Facility
FTA	Free Trade Agreement
GDP	Gross Domestic Product
IPR	Intellectual property rights
MNC	Multinational corporation
NPT	Nuclear Nonproliferation Treaty
ODI	Overseas direct investment
P5	Permanent five members of the United Nations Security Council
SCO	Shanghai Cooperation Organisation
SOE	State-owned enterprise
TPP	Trans-Pacific Partnership
UNSC	United Nations Security Council
WHO	World Health Organization
WMD	Weapons of mass destruction
WTO	World Trade Organization

Foreword

Collectively, the EU, China and the US constitute over half of global GDP. They are the three great engines of the global economy, with a shared population of over two billion. They are central to import and export flows, flows of capital, and the trade of goods and services. They have all also, either presently or historically, been major sources of GDP growth.

Despite these tangible and crucial links, there are few comparative studies that examine the relationship between all three. Trilateral conferences are the exception, not the rule. And at an official level, the three never sit alone together in the same room. Bilateralism and multilateralism remain the key methods by which they interact.

Bates Gill and Andrew Small are two of the finest analysts of China's international relations. Bates Gill, through his former directorship of the Stockholm International Peace Research Institute (SIPRI), is an American who has worked in Europe for many years, with an excellent knowledge of China's foreign policy. Andrew Small, from the UK, lived in China before moving to Brussels to work for the German Marshall Fund. He is now based at their offices in Washington DC. Each of the authors therefore has an excellent vantage point to see how the EU, China and the US relate to each other, and to make suggestions about the areas where they might best interact more deeply in the future, and in which ways.

We know the challenges well, and they are spelt out in this paper. While the US and China are sovereign nations, the European Union is a collection of states; the ways in which they operate, and in which they conduct foreign policy and

trade, are thus very different. For both the US and China, the EU remains complex and diverse. While the former operate with unified foreign policy institutions and objectives, a multiple grouping like the EU faces a very different challenge.

The EU and the US both run separate high level summits with China and sometimes have competing objectives. The nature of the US as a security player is also very different to that of the EU, and this is something that China recognises in the way it formulates its foreign policy and places foreign powers in its diplomatic world view.

Even so, in an era of deeper globalisation, there are plenty of ways in which shared interests have increased, where systems of addressing them bilaterally or multilaterally have been superseded. On energy, the environment, many issues of international governance, security issues and finance, the EU, China and the US have more reason than ever before to explore new ways of talking to each other as a grouping. The language of G2, embracing China and the US, was rejected when it was first raised in 2009 during the G20 summit in London that year. But the notion of a G3, with the EU included, has been less explored.

This study at least starts to explore that possibility. It sets out the advantages of more trilateral engagement, but it also gives a realistic view of the many disadvantages. It maps out the areas of shared interest, but also the spaces where there are significant differences. For ECRAN, it is important to have two fine geopolitical thinkers with good links to the EU offering their insight and analysis. The issue of EU-China-US cooperation is likely to remain a very critical one in the years ahead, and this paper is offered as a constructive contribution to an important, but so far undeveloped, area of thinking.

Kerry Brown
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October 2012

Executive Summary

Untapped trilateralism

- **In many respects, we live in a tripolar world.** The European Union, the United States and China are the top three global actors in a range of measurements and indicators. They have an enormous, and in many ways a determinative, impact on the world's future. It is difficult to see how major global and regional challenges can be effectively met if the EU, the US and China are not working in concert – or at least are not in active opposition to one another in important areas.
- **In the light of those common challenges and interests, the three parties engage across an increasingly complex range of activities.** Transatlantic relations have a long-standing history of political, economic, allied military, cultural and people-to-people engagement. But the relationships between the EU and China, on the one hand, and between the US and China, on the other hand, have seen a particularly strong increase in interaction and interdependence in just the past decade or two.
- **In spite of these developments, a greater degree of joint purpose and collaborative response remains elusive.** This point becomes all the more important in today's world of shifting power dynamics between East and West, the global financial crisis and economic downturn, particularly for the EU and the US, and the rise of new players such as China. With these trends comes the diffusion of responsibility and capability for action, even as the agenda for action becomes more complex in nature, global in scope, and urgent in character .

Common economic and security interests

- **Not only are China, the EU and the US the world's three largest economic blocs, they are also highly interdependent and play a defining role in global economic management.** China has played a helpful role in dealing with the euro crisis by offering political and rhetorical support for the European Financial Stability Facility and issuing statements of confidence in various distressed European economies. It has also undertaken 'buying trips' in both Europe and the United States – a familiar practice in Chinese commercial diplomacy but now on a much grander scale. The mutual success of these three economies and the maintenance of the system that ensures their continued growth is a first-order goal for all sides. Economic interdependence even extends into the security realm: all three sides rely on the smooth functioning of international trade routes, the global energy market and the global information technology infrastructure, which facilitates rapid and reliable commercial and financial flows.
- **The economic agenda between China and the EU and between China and the US has a number of problems, and they are increasing.** Both Europe and the United States have a list of concerns that include violations of intellectual property rights (IPR), market access barriers to their companies, 'indigenous innovation' policies, state subsidies for Chinese companies, deliberate undervaluation of the Chinese currency and, as a result, spiralling bilateral trade deficits. Disputes over the valuation of the renminbi, market access, IPR theft and so on have been perennial sources of tension between China and its major economic partners, principally the EU and the US. But several factors, most importantly the global economic downturn, have combined to make these points of contention more of a problem than they were before. Taken together, both long-standing and current problems have begun to have a deleterious cumulative effect on EU-China and EU-US economic relations.
- **China has complaints of its own.** One is being subject to embargoes on arms exports from Europe and the United States and to a broader set of restrictions on dual-use technology exports. China also objects to being treated as a non-market economy, a status that enables anti-dumping charges to be brought against it more easily. (Under the terms of its World Trade Organization accession protocol, it will acquire market economy status automatically in 2016.) And Chinese policymakers also have their own critiques of US and European economic behaviour – from low savings rates in

the US to the seemingly limited willingness of the West to learn lessons from the Asian financial crisis of the late 1990s.

- **When defining shared economic interests, it is impossible to ignore the context of growing bilateral tension and the diminishing belief among policymakers that there is a genuinely shared agenda on global trade and economic issues.** For the EU and the US, the result is an economic policy agenda with China that is increasingly focused on problem management: much of the positive agenda, that is of further trade liberalisation, is now largely being constructed *around* China. At the same time, the benefits of economic cooperation are clear, and the EU and the US are calling for a reinvigorated agenda, however modest, to foster further mutually beneficial outcomes.
- **It has only been in just the past decade that US and European concerns about unstable regions have begun to overlap more significantly with those of China.** In recent years and on certain issues, Beijing's leaders have clearly come to recognise the benefits of becoming more open to and dependent on a globalising world. As a result, China has increasingly demonstrated a more constructive and active approach towards the global challenges of regional conflicts, instabilities and failing states and there has been more convergence with US and EU interests in a number of instances. This is seen in its support for certain armed interventions such as in Afghanistan and Libya, in its approach to counterterrorism, in its increased contributions to UN peacekeeping operations and in its participation in counterpiracy missions.
- **As China's global dependence grows and as risks increase to its economic and political stakes around the world, it will be in China's interest to leverage its power and influence in ways that protect and promote those stakes, even when they are far away.** This will include areas where the US, the EU and EU Member States also have significant economic, political and security interests, as in Africa, the Middle East, Southwest Asia and on the high seas. The challenge ahead is to broaden areas of cooperation while narrowing potential for confrontation.
- **From the mid-1990s to the present, the interests of the EU, the US and China have also converged considerably on issues of nonproliferation, but with a less clear alignment in relation to arms control.** Beginning in the early to mid-1990s, China has taken big steps away from past policies to embrace

important global nonproliferation norms and steadily adhere to them through commitments to international treaties, multilateral nonproliferation regimes and bilateral agreements (especially with the US) and through the implementation of domestic regulatory and enforcement mechanisms. However, serious concerns persist about its nonproliferation commitments, raising questions about the extent of shared interests between China, on the one hand, and the US and the EU, on the other hand, on a number of proliferation issues.

- **With regard to arms control, and particularly nuclear arms control, there has been in recent decades a general convergence of interest between EU Member States, the US and China, but significant differences remain, especially between China and the United States.** As members of the Nuclear Nonproliferation Treaty, the US, China and EU Member States are all committed in principle to nuclear disarmament, and there appears to be a genuine shared interest on all sides to see the world's nuclear arsenals shrink, to strictly limit the circumstances under which they might be used and to introduce more mechanisms and confidence-building measures among states with nuclear weapons to prevent their accidental or unauthorised use. But the strategic relationship between the United States and China, including the role of nuclear weapons and deterrence, remains uncertain and problematic, resulting in frequently divergent interests between the two on arms control matters. Differences in interests over arms control issues also exist between the EU Member States and the US, between the EU and China and among EU Member States too.
- **In the realm of conventional weapons, EU Member States have strongly supported the negotiation of a robust and enforceable arms trade treaty but China and the US have been much less enthusiastic.** In addition, the EU arms embargo on China exposes differing interests between the EU, China and the US. Despite past differences of opinion between the EU (and some of its Member States) and the US over whether or not to lift or modify the EU arms embargo, it appears that it will stay in place for the foreseeable future. However, it will remain a potentially problematic issue for EU-China relations and an ongoing case of contending security interests between the EU, the US and China.

Common action: imperatives and impediments

- **Powerful imperatives at the global level provide strong incentives for the EU, the US and China to recognise common interests and to work together in practical ways to build a common sense of purpose while cooperatively addressing mutually shared challenges.** And yet many impediments remain to the further deepening of common purposes and action. Some of those obstacles have been a part of the tripartite relationship for decades. Others are more recent and as yet are not fully defined. But whether old or new, they threaten to prevent cooperation among the EU, US and China precisely when the uncertainties of shifting geopolitical power dynamics, growing transnational risks and other national, regional and global challenges demand a greater degree of common purpose and action.
- **Some of the very forces that could drive greater trilateral cooperation, including the forces of globalisation and China's rise to global prominence, may have run their course as factors impelling common interests and actions between the EU and the US, on the one hand, and China, on the other hand.** A long-standing assumption in the EU and the US – that by fostering the forces of globalisation to engage and integrate a rising China, a more open, pluralistic and just China would one day emerge – has come increasingly into question. In addition to such potential concerns, the three bilateral relationships involved in this triangle, the EU-China, the US-China and the EU-US, all have their own impediments. These include contending strategic priorities, unmet expectations, negative perceptions and distrust, which will thwart a greater degree of common purpose and common action across the trilateral relationship. As well as with global-level and bilateral impediments, each of the three players must grapple with difficult substantial domestic challenges that will also constrain common trilateral action.

Ways forward for collective action

- **A mixed picture emerges about the common economic and security interests of the EU, the US and China.** There are strong imperatives and increasing convergence between the three parties on common economic and security interests. The difficulty is in identifying cooperative actions that they can genuinely and jointly embrace, implement and sustain together.

- **This contradictory and complex dynamic points to a cautious set of policy prescriptions.** These prescriptions recognise the fundamental need for the EU, the US and China to build up and act on their common interests and challenges. But they are firmly rooted in a realistic appreciation of the limits to trilateralism and of the power of bilateral ties for achieving meaningful results in promoting common economic and security interests.
- **The EU can play a linchpin role in fostering greater trilateral partnership, purpose and action on the global stage.** But to do so, it will need to substantially step up its engagement with the burgeoning power dynamic of the Asia-Pacific region.

Concluding recommendations

The EU must:

- Avoid the establishment of a formal trilateral structure and instead make better trilateral use of extant multilateral mechanisms.
- Focus on economic engagement as the most promising area for trilateral cooperation.
- Intensify the focus on economic ‘rebalancing’ and its benefits for China.
- Explore possibilities for alliances with progressive economic thinkers.
- Reinvigorate and elevate EU-US economic and security consultations on Asia and China.
- Devote greater attention in EU-US-China interactions to next-generation interests at the nexus of economics and security, with a priority on challenges related to energy, the environment, regional stability and cybersecurity.
- Invest much greater resources to strengthening its position in the trilateral dynamic, particularly on security issues.

1 Untapped Trilateralism

In many respects, we live in a tripolar world. The European Union, the United States and the People's Republic of China rank first, second and third respectively in gross domestic product (GDP) in the world, and together account for nearly 54 per cent of global GDP.¹ They are the three largest traders in the world and their total imports and exports account for 36 per cent of all global merchandise trade.² The members of the EU, China and the US account for more than 67 per cent of global military spending. In 2006–10, the US, China and just four EU countries (France, Germany, Greece and the United Kingdom) accounted for nearly 72 per cent of the global trade in major conventional weapons.³ The three parties' combined populations make up about 30 per cent

¹ This figure is for 2010 and is in purchasing power parity terms. International Monetary Fund, *World Economic Outlook Database*, September 2011 edition, accessed at: <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx> (27 December 2011).

² This figure is for 2010. World Trade Organization Press Release, *World Trade 2010, Prospects for 2011*, Press/621, 7 April 2011, accessed at: http://www.wto.org/english/news_e/pres11_e/pr628_e.htm (12 December 2011).

³ On their military spending, see *SIPRI Yearbook 2011: Armaments, Disarmament and International Security* (Oxford: Oxford University Press, 2011), Tables 4A.1 and 4A.2 (the figures are for 2010). On arms trade, see *SIPRI Yearbook 2011: Armaments, Disarmament and International Security* (Oxford: Oxford University Press, 2011), Tables 6A.1 and 6A.2.

of the world's 7 billion inhabitants. They are jointly the three largest emitters of greenhouse gases, with more than 56 per cent of total global emissions.⁴

These three global actors lead the world in many other categories and have an enormous, and in many ways a determinative, impact on the world's future. As leading players on the world stage, they have common interests in addressing the complex and interrelated global challenges that the international community faces today, among them human development, regional security, arms control and nonproliferation, financial stability, economic growth, resource scarcities, climate change and ecological sustainability. Indeed, it is difficult to see how these and other major global and regional challenges can be effectively met if the EU, the US and China are not working in concert or at least are not in active opposition to one another in these areas.

In the light of these common challenges and interests, the three engage in an increasingly complex range of activities, from summits to sectoral dialogues to intensive interaction among their respective business sectors, civil society institutions and private citizens. Although transatlantic relations have a long-standing history of political, economic, allied military, cultural and people-to-people engagement, the relationships between the EU and China, on the one hand, and the US and China, on the other hand, have seen a particularly strong increase in interaction and interdependence in just the past decade or two.

The annual EU-China summit, launched in 1998 and held 14 times since, is convened at the head-of-state or head-of-government level. With the adoption of the Treaty of Lisbon in 2010, the EU is represented by the president of the European Council and the president of the European Commission and is supported by the EU High Representative for Foreign Affairs and Security Policy. Since 2003, when the EU and China formally established a 'comprehensive strategic partnership', the two sides have created more than 50 sectoral dialogues covering the full spectrum of their bilateral relationship: trade and financial affairs, environment, energy, education, culture and language training, customs cooperation, food, consumer and labour safety, agriculture, civil aviation, space cooperation, domestic regional policy, employment and social affairs, and civil society. The EU Commission established the Policy Dialogue

⁴ This figure is based on data for 2005 and 2009. See World Resources Institute, Climate Analysis Indicators Tool, accessed at: <http://cait.wri.org/cait.php?page=yearly> and International Energy Agency, *CO₂ Emissions from Fuel Combustion: 2011 Highlights*, <http://www.iea.org/co2highlights/> (12 December 2011).

Support Facility between 2007 and 2011; it is intended to further strengthen exchanges between EU and Chinese officials across the range of policy dialogue issues.

Since the late 2000s, the EU and China have set up two senior-level forums: the High-Level Economic and Trade Dialogue (established in 2008) and the High-Level Strategic Dialogue (established in 2010). The former aims to address topics such as trade, investment, intellectual property rights and market access. It is chaired at the vice-premier level on the Chinese side; and in 2010, it was co-chaired on the EU side by EU Commission Vice President Joaquín Almunia, Commissioner for Economic and Monetary Affairs Olli Rehn and Commissioner for Trade Karel De Gucht. The latter covers questions ranging from climate change to nonproliferation to regional security and is co-chaired by the EU High Representative for Foreign Affairs and Security Policy Catherine Ashton and Chinese State Councilor Dai Bingguo. At the 14th EU-China summit in February 2012, it was announced that a ‘people-to-people dialogue’ would be established in order to complement the two dialogue mechanisms. In addition to these interactions, the EU and China engage in a range of regularised meetings of their respective political directors, officials and experts (and also at the ambassadorial level) on Asia-Pacific affairs, international security and nonproliferation.

The United States and China also engage in a wide range of official relations that have intensified and deepened with time.⁵ As well as official state-visit summits between the two sides, their bureaucracies engage in increasingly regularised and structured interaction across the full range of bilateral issues. Over the past decade, efforts have been undertaken to coordinate and give greater political weight and focus to these interactions by establishing dialogues that involve high-ranking participants from the two governments. The latest ones are the Senior Dialogue (on political and security issues), held six times between 2005 and 2008; the Strategic Economic Dialogue, held five times between 2006 and 2008; and the Strategic and Economic Dialogue, initiated by the Obama administration and held annually since 2009. The US and China have

⁵ A recent comprehensive look at contemporary US-China relations is Robert G. Sutter, *US-China Relations: Perilous Past, Pragmatic Present* (Lanham, Maryland: Rowan & Littlefield, 2010). For an overview focusing on US-China government-to-government and other policy community exchanges, see Bates Gill, *Meeting the Challenges and Opportunities of China's Rise: Expanding and Improving Interaction between American and Chinese Policy Communities* (Washington, DC: Center for Strategic and International Studies, 2006).

an ongoing but irregular set of military-to-military exchanges and dialogues between officials of their respective defence and armed forces establishments.

In addition, the EU, the US and China have intensive and intensifying trilateral or bilateral official interaction across the full range of international and regional multilateral institutions, from the United Nations and its institutions to organisations such as the World Bank, the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF), the Asia-Europe Meeting process, the Asia-Pacific Economic Cooperation forum, the G20 meetings and so on. Taking this diversity of official contact into account – not to mention the ever-growing degree of nongovernmental business, scientific, cultural and people-to-people exchanges among the EU, the US and China – the level of interaction and interdependence has never been greater in this triangular relationship.

Yet despite their leading positions and influence, despite their common interests and, in some cases, common action and intensifying interactions, a greater degree of joint purpose and collaborative response remains elusive. This point becomes all the more important in today's world of shifting power dynamics between East and West, the global financial crisis and economic downturn, particularly in the EU and the US, and the rise of players such as China. With these trends comes the diffusion of responsibility and capability for action, even as the agenda for action becomes more complex in nature and global in scope. In this more fluid and complex global scene, old questions gain a new, more pressing significance:

- How do China, the EU and the US define their common interests?
- What is the nature of their joint interests, especially their economic and security interests?
- What are the most significant impediments to trilateral collaboration?
- In what ways can the parties pursue deeper trilateral collaboration on common interests?

To address these questions, this study will first assess the range of interests shared by the EU, the US and China in the economic and political-military spheres and in increasingly important emerging transnational challenges to global and regional security. It will then assess whether and how the three sides have moved from recognising common interests to taking common action in pursuit of them. The concluding section will draw on these findings to put

forward recommendations for the deepening of trilateral cooperation but will also urge realistic expectations given the persistent impediments to EU-US-China collaboration.

2 Common Economic and Security Interests

2.1 Introduction

As major world players with a global presence, the EU, the US and China share a range of interests. Many of these shared interests they proclaim publicly, often in the form of joint US-China, EU-China and EU-US bilateral summit communiqués or in joint statements and documents emerging from larger multilateral forums of which they are members and/or observers, for example the United Nations and the ARF. These statements present joint interests in a very broad way, as in the case of the 12th EU-China summit joint statement of November 2009:

Leaders of both sides agreed that the international community faces serious challenges which call for a global response. Global issues such as climate change, financial crisis, energy and resource security, food security, the environment and public health security have been increasingly prominent. Non-traditional security threats, including terrorism, proliferation of weapons of mass destruction, transnational organised crime and major communicable diseases have become global concerns. The instability and uncertainties in the international landscape have posed challenges to world peace and development. It is becoming increasingly urgent for the international community to deepen cooperation and coordinate efforts in tackling these challenges.⁶

The joint press communiqué of the 14th EU-China summit in February 2012 stated:

[I]n an ever changing and increasingly inter-dependent world where their interests become more closely intertwined, [the EU and China] should strengthen their interaction and cooperation to better meet the

⁶ Council of the European Union, *Joint Statement of the 12th EU-China Summit, Nanjing, China*, 16845/09 (Presse 353), 30 November 2009. Since then, a 'joint press communiqué' has been issued for the 13th EU-China summit, in October 2010, and the 14th EU-China summit, in February 2012.

opportunities and challenges in the new bilateral, multilateral and global framework. This strategic cooperation will not only boost their sustainable economic and social development, but will also help address the common challenges the world faces.⁷

After the summit, the president of the European Commission, José Barroso, noted that the EU-China partnership 'is one of the most important in the world today', one that can be 'an anchor of stability and cooperation in a world facing multiple challenges.' At the summit, the two sides agreed to deepen dialogue and exchanges on global issues, including on cybersecurity and climate change.⁸

In strikingly similar themes, the joint US-China presidential summit statement of January 2011 declared:

The United States and China committed to work together to build a cooperative partnership based on mutual respect and mutual benefit in order to promote the common interests of both countries and to address the 21st century's opportunities and challenges....

The two sides believe that the United States and China have a common interest in promoting peace and security in the Asia-Pacific region and beyond, and agreed to enhance communication and coordination to address pressing regional and global challenges. The two sides undertake to act to protect the global environment and to work in concert on global issues to help safeguard and promote the sustainable development of all countries and peoples. Specifically, the United States and China agreed to advance cooperation to: counter violent extremism; prevent the proliferation of nuclear weapons, other weapons of mass destruction, and their means of delivery; strengthen nuclear security; eliminate infectious disease and hunger; end extreme poverty; respond effectively to the challenge of climate change; counter piracy; prevent and mitigate disasters; address cyber-security; fight transnational crime; and combat trafficking in persons. In

⁷ Council of the European Union, *Joint Press Communiqué of the 14th EU-China Summit*, Beijing, China, 6474/012 (Presse 50), 14 February 2012.

⁸ José Manuel Durão Barroso, President of the European Commission, *Statement by President Barroso following the 14th EU-China Summit*, Press point, Beijing, 14 February 2012, accessed at: <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/94&format=HTML&aged=0&language=EN&guiLanguage=en> (28 February 2012).

coordination with other parties, the United States and China will endeavor to increase cooperation to address common concerns and promote shared interests....

[They] recognized the vital importance of working together to build a cooperative economic partnership of mutual respect and mutual benefit to both countries and to the global economy.⁹

As these statements underscore, the list of areas in which the EU, the US and China purport to share common interests is lengthy and complex, as it should be. Given the numerous areas in which their interests overlap, this brief report cannot provide a comprehensive exploration of all relevant issues. Instead, it will examine three broad areas of joint interest – economic matters, political-security affairs and emergent transnational issues; and within each of them it will delve into prominent subissues, especially those in which Chinese activity has been particularly dynamic and interesting. In looking at common economic interests, the following pages will consider interdependence, financial stability and burgeoning trade and investment flows. Regarding security questions, the report will focus on regional conflicts, tensions and instability and on arms control and nonproliferation matters. Broader and emergent transnational issues of political, diplomatic and economic concern, such as energy, environmental security, cyberattacks and health security, will also be discussed. This report's conclusions will put forward recommendations for enhancing cooperation between the EU, the US and China on economic and security issues, with an emphasis on steps that the EU can take towards that end.

2.2 Common economic interests

2.2.1 Interdependence, financial stability and burgeoning trade and investment

China, the EU and the US are the world's three largest economic blocs and are also very interdependent. Although China has been the only one of the three to maintain strong economic growth through the global financial crisis, this was

⁹ The White House, Office of the Press Secretary, *US-China Joint Statement*, 19 January 2011, <http://www.whitehouse.gov/the-press-office/2011/01/19/us-china-joint-statement> (29 December 2011).

not a result of any 'decoupling'.¹⁰ China is at the centre of a network of supply chains in Asia that performs a vital role for all three economies.¹¹ Trade flows have burgeoned – from US\$121.5 billion in bilateral trade with the US and US\$77.6 billion with the EU when China joined the World Trade Organization (WTO) in 2001 to US\$456.8 billion and US\$480.9 billion respectively in 2010. The explosion of the Chinese consumer market, increasing by US\$300 billion in 2010 and potentially by as much as US\$500 billion in 2012, has also turned it into a major new source of export growth for leading European and US industries.¹² More recently, Chinese overseas direct investment (ODI) has started to play an important role of its own, and is projected to run as high as US\$2 trillion in Western economies by 2020.¹³

The three sides also play the defining role in global economic management. Several changes have placed China at the heart of decision-making processes that were once the preserve of the Western powers. Among the most important of them are the shift of the locus of decision-making from the G8 to the G20; the beginning of a readjustment of both the voting shares and the allotment of senior positions at international financial institutions; and the

¹⁰ For an exhaustive look at the continued interdependence of China and its Western trading partners, see Prema-chandra Athukorala, 'Production Networks and Trade Patterns in East Asia: Regionalization or Globalisation?', Asian Development Bank papers, no. 56, August 2010, accessed at: http://aric.adb.org/pdf/workingpaper/WP56_Trade_Patterns_in_East_Asia.pdf (15 March 2012) and Soyoung Kim, Jong-Wha Lee, and Cyn-Young Park, 'The Ties that Bind Asia, Europe, and United States', Asian Development Bank papers, no. 192, February 2010, accessed at: <http://www.adb.org/Documents/Working-Papers/2010/Economics-WP192.pdf> (15 March 2012).

¹¹ For analysis of the growing centrality of China to Asian supply chains, see, for instance, Adil Mohommad, Olaf Unterberdoerster and Jade Vichyanond, 'Asia's supply chain: implications for rebalancing', *Vox EU*, 12 June 2011, accessed at: <http://voxeu.org/index.php?q=node/6637> (3 March 2012).

¹² Gordon Brown, *Beyond the Crash: Overcoming the First Crisis of Globalisation* (London: Simon & Schuster, 2010), p. 152.

¹³ Rhodium Group, 'An American Open Door? Maximizing the benefits of Chinese Foreign Direct Investment', 4 May 2011, accessed at: <http://www.rhgroup.net/reports/an-american-open-door-maximizing-the-benefits-of-chinese-foreign-direct-investment> (15 March 2012). It should be noted, however, that the US and Europe are each other's number one destination and source of foreign direct investment by far and that the level of Chinese ODI in the US and Europe pales against the levels of transatlantic direct investment flows, which reached more than €2 trillion by 2010, compared, for example, to the two-way investment stocks between the EU and China of about €64 billion in 2009. *European Union – Background: EU-US Summit*, Washington, DC, 28 November 2011. See also Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2011: Executive Summary* (Washington, DC: Johns Hopkins University School of Advanced International Studies, 2011).

prominent role occupied by China in the Doha Development Round of negotiations at the WTO.

Nevertheless, these institutional adjustments still lag behind the reality of Chinese economic power. With more than US\$3 trillion in foreign exchange reserves and a growing ability to deploy resources during a period when much of the Western world is going through a painful period of debt reduction, the weight of China's position at the top table far outstrips its formal role.

China has also played a helpful role in dealing with the euro crisis. It has offered political and rhetorical support for the European Financial Stability Facility (EFSF) and issued statements of confidence in various distressed European economies. Many observers have suggested that China would or should be a major purchaser of bonds issued by the EFSF; but while China has made purchases, it has not invested on a large scale.¹⁴ China has also undertaken 'buying trips' in both Europe and the United States – a familiar practice in Chinese commercial diplomacy but now on a much grander scale. Deals amounting to some €16 billion were signed during Hu Jintao's visit to France in November 2010,¹⁵ and US\$45 billion dollars worth of deals were concluded during his state visit to the United States in January 2011.¹⁶ China's apparent willingness to make large investments in EU Member States during austerity conditions, whether the purchase of Greek ports or an offer from China's sovereign wealth fund to put money into UK infrastructure projects,¹⁷ has received much publicity.

The image of China supporting Europe in its hour of need is a potent one, especially as the US has so far been unwilling to provide additional financing to the EFSF through the International Monetary Fund. But its support has still largely been on the margins – Chinese investment in the EU amounts to around

¹⁴ Testimony to the U.S.-China Economic and Security Review Commission, 'China, the eurozone crisis and transatlantic cooperation', 19 April 2012, p2, accessed at: http://www.uscc.gov/hearings/2012hearings/written_testimonies/12_4_19/Small.pdf (25 October 2012).

¹⁵ 'French firms seal lush deals during visits by China's Hu', France 24, 5 November 2011, accessed at: <http://www.france24.com/en/20101104-chinese-sign-trade-deals-with-french-giants-sarkozy-jintao-paris-areva-total-airbus> (10 March 2012).

¹⁶ 'China agrees to \$45 billion in US export deals', Voice of America, 19 January 2011, accessed at: <http://www.voanews.com/english/news/Hu-Faces-Day-of-Rich-Ceremony-Tough-Talk-114193599.html> (15 March 2012).

¹⁷ 'China eyes UK infrastructure investment to boost growth', British Broadcasting Corporation, 27 November 2011, accessed at: <http://www.bbc.co.uk/news/business-15914102> (27 February 2012).

0.2 per cent of total inflow – and to date, the reaction in both the United States and Europe has been ambivalent. Although there has been enthusiasm about China bailing out failing companies, such as Sweden’s Volvo, there has also been suspicion about state-subsidised firms taking public procurement contracts and purchasing European companies being used as a back-door method of acquiring technology, as well as objections to the absence of greenfield investments.

Notionally then, the list of shared economic interests is very extensive, and the mutual success of the three economies and the maintenance of the system that ensures their continued growth are first-order goals for all sides. Economic interdependence even extends into the security realm: all three parties rely on the smooth functioning of international trade routes, the global energy market and the global information technology infrastructure, which facilitates rapid and reliable commercial and financial flows.

To be sure, the economic agenda between China and the EU and China and the US has a number of problems, and they are increasing. Both Europe and the United States have a list of concerns, among them violations of intellectual property rights (IPR), market access barriers for their companies, ‘indigenous innovation’ policies, state subsidies for Chinese companies, the deliberate undervaluation of the Chinese currency and, as a result, spiralling bilateral trade deficits. On the multilateral front, the shared commitment to addressing genuine crises in a constructive way was very much in evidence through the worst moments of the financial crisis.¹⁸ But the G20 has since struggled to reach substantive agreements and the WTO has been virtually deadlocked. China’s policies are far from the only reason for this – note the failed green room talks in Geneva in 2008¹⁹ and disputes over rebalancing issues in Seoul in 2010 – but it has tended to act as a blocking force rather than as one of the powers seeking to drive agreements forward.

For the EU and the US, the result is an economic policy agenda with China that is increasingly focused on problem management; and much of the positive agenda, of further trade liberalisation, is now largely being constructed *around*

¹⁸ See, for example, Henry M. Paulson, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System* (New York: Business Plus, 2010), pp. 18, 273.

¹⁹ Paul Blustein, ‘The Nine-Day Misadventure of the Most Favored Nations: How the WTO’s Doha Round Negotiations Went Awry in July 2008’, The Brookings Institution, 5 December 2008, accessed at: http://www.brookings.edu/articles/2008/1205_trade_blustein.aspx (26 February 2012).

China. The Trans-Pacific Partnership (TPP), the United States' principal trade initiative in Asia, has been explicitly conceived as an effort to forge a 'high-quality' agreement encompassing behind-the-border issues, for example regulatory standards and IPR protection, where China falls short. The EU's trade agenda in the region has privately been dubbed 'Asia-minus-one' by some officials. Almost all major economies bar China are in negotiations of various stages of advancement. The EU-Korea free trade agreement (FTA) and the EU's FTA negotiations and talks with India and Japan are among the most notable ones. Transatlantic coordination in dealing with China in the economic field, especially on trade issues such as joint cases at the WTO, has grown remarkably in recent years. And increasingly the problems that advanced economies have faced with China are leading them to deepen ties with each other.

China has complaints of its own. It is still subject to embargoes on arms exports from both Europe and the United States and to a broader set of restrictions on dual-use technology exports. Companies such as Huawei have faced hearings by the Committee on Foreign Investment in the United States on its high-tech acquisitions in the US, and other companies have suffered more openly politicised obstacles. Cases such as the China National Offshore Oil Corporation's failed attempt in 2005 to acquire Unocal continues to be mentioned in China. It also objects to being treated as a non-market economy, a status that enables anti-dumping charges to be brought against it more easily, even though under the terms of its WTO accession protocol it will acquire market economy status automatically in 2016.²⁰ It has successfully brought WTO cases itself, notably against the US imposition of both anti-subsidy and anti-dumping duties. And Chinese policymakers have also made their own critiques of US and European economic behaviour – from low savings rates in the US to the seemingly limited willingness of the West to learn lessons from the Asian financial crisis of the late 1990s. But ultimately, in view of the balance of trade being so heavily in China's favour and the relative openness of the US

²⁰ This has been challenged in a recent article. See Bernard O'Connor, 'Is China a Market Economy?', *Vox EU*, 27 October 2011, accessed at: <http://www.voxeu.org/index.php?q=node/7345> (1 March 2012). But most experts consider the 2016 deadline to be real. Note, for example, Christian Tietje and Karsten Nowrot, 'Myth or Reality? China's Market Economy Status under WTO anti-dumping law after 2016', *Policy Papers on Transnational Economic Law*, December 2011, accessed at: <http://telc.jura.uni-halle.de/sites/default/files/telc/PolicyPaper34.pdf> (25 February 2012).

and European economies, those objections have come much more strongly from China's economic partners.

2.2.2 Long-standing problems

Disputes over the valuation of the renminbi, market access, IPR theft and so on have been perennial sources of tension between China and its major economic partners. But several factors have combined to make them more of a problem than before. First, the business climate for international companies has worsened. In the past, foreign companies were afforded a degree of leverage as a result of China's need for ODI, but the power balance has shifted decisively in recent years. China's need to pull in foreign investment has diminished and its disposition towards tilting the playing field in favour of state-owned enterprise (SOE) champions has become further entrenched, much to the detriment of both its own private sector and Western companies. US and European companies were willing to put up with the difficulties of operating in China in the hope that they would be able to reap the dividends of the world's largest market further down the line. But in a number of sectors, this has begun to look like a false promise.

Second, the theft of intellectual property is becoming an increasing threat to the core business and competitive advantage of Western companies. In practice, many US and European businesses had reached an accommodation with low-value IPR violations. The luxury goods sector, for instance, was not necessarily losing market share as a result of Chinese imitations that were purchased by an entirely different economic demographic to its usual customers. Yet forced technology transfer arrangements and intellectual property theft at the higher end poses a threat to Western companies not only in the Chinese market but also in other overseas markets, including the home market for some of the companies in question. High-speed rail is one highly visible example: European and Japanese companies now face new competition from Chinese companies whom they accuse of stealing their core technologies.

A third long-standing concern has been the call for China to 'rebalance' its domestic economy in the direction of greater consumption. This has two intertwined components: internal and external balances. Externally China has run large and rising surpluses, becoming a major creditor to indebted countries and accumulating vast currency reserves. Internally its economy is disproportionately dependent on investment and exports and it has excessive

savings levels and the lowest share of private consumption of any major economy. But rebalancing has been on the table in China for so long, at least since 2004, that there are serious questions as to whether the Chinese government possesses the political will or the wherewithal to push through the necessary measures. That it is in China's greater economic interest – and sits squarely in the ostensible Hu-Wen political agenda, with a prominent place in the 12th Five Year Plan²¹ – does not mean that the government is prepared to enact the relevant measures given the resistance of powerful vested interests.²²

Some of the factors contributing to the current atmosphere are short to medium term in nature. The fragility of the global recovery has undoubtedly added to the tensions with China: Europe and the United States had more scope to be magnanimous during a time of robust economic growth. The drag on the global economy that Chinese economic policies represent is harder to compensate for with expansionary fiscal and monetary policies when most countries are under pressure to reduce budgets and interest rates are near zero. The current election season in the US is another near-term factor influencing economic and trade relations with China. The Republican primaries featured China in at least a modest role,²³ by comparison to its near absence in the 2008 US presidential election campaign. Recent measures announced by President Obama, such as the China-focused 'trade enforcement unit',²⁴ can be seen at least partly in this light.

But the problems have had a cumulative effect. The liberalising trajectory that China appeared to follow in the 1990s has stalled and there has even been a sense that China is looking to roll back some of its WTO commitments. The global economic crisis has reinforced these tendencies, weakening the hand of China's economic reformers (who were hardly in the ascendancy anyway) and

²¹ See *Full Text: Report on the Work of the Government, NPC and CPPCC 2011, March 15, 2001, Main Objectives and Tasks for the Twelfth Five-Year Plan Period*, accessed at: [http://www.china.org.cn/china/NPC CPPCC_2011/2011-03/15/content_22143099_2.htm](http://www.china.org.cn/china/NPC_CPPCC_2011/2011-03/15/content_22143099_2.htm) (24 March 2012).

²² See, for example, Nicholas R. Lardy, *Sustaining China's Economic Growth: After the Global Financial Crisis* (Washington, DC: Peterson Institute for International Economics, 2012), pp. 137–55.

²³ Oliver Palmer and Michael Swaine, *Mitt Romney's China Policy*, Carnegie Endowment for International Peace, 30 January 2012, accessed at: <http://carnegieendowment.org/2012/01/30/mitt-romney-s-china-policy/99lb> (19 March 2012).

²⁴ 'Obama, eyeing China, creates trade enforcement unit', Reuters, 28 February 2012, accessed at: <http://www.reuters.com/article/2012/02/28/obama-trade-enforcement-idUSL2E8DS6GS20120228> (1 March 2012).

prompting a stimulus package that has further entrenched the role of the state in China's economy.²⁵ In the near to medium term, economic reform seems unlikely, not least owing to the current leadership transition in China, which will not fully unfold and settle for at least another year or more.

The impact of these developments extends beyond the economic realm. Business lobbies in the US that previously played a major part in keeping the US-China relationship on track, not least by moderating the protectionist measures advocated by certain pockets of the US Congress, are professedly no longer willing to play that role.²⁶ Debates in the US about broader China policy do not have that buffer any more.

Moreover, there are new factors coming into play in the economic realm that will further change the nature of the debate, notably the sheer scale of the new wave of Chinese investment that may come on stream. The policy challenge will be to ensure that the benefits of the existing economic relationships are not undermined and that the worst-case scenarios of trade wars or a fatal weakening of the WTO are avoided while trying to address the most serious and persistent structural problems. The upside is that the changes required are overwhelmingly in China's economic interest, even more than in the interest of the countries that are currently demanding them. The downside is that this has long been true; and in the absence of reform, a fraught relationship between China and its major economic partners is inevitable.

In sum, when defining the shared interests of the EU, the US and China in the economic realm, it is impossible to ignore the context of growing bilateral tension and the diminishing belief among policymakers that there is a genuinely shared agenda on global trade and economic issues. At the same time, the benefits of economic cooperation are clear, and they call for a reinvigorated agenda, albeit modest, to foster greater mutually beneficial outcomes. The concluding sections to this report will explore the opportunities and limits of this approach.

²⁵ Michael Pettis, 'Chinese Consumption and the Japanese "Sorpasso"', *China Financial Markets*, 10 August 2010, accessed at: <http://www.carnegieendowment.org/2010/08/10/chinese-consumption-and-japanese-sorpasso/b04> (15 February 2012).

²⁶ 'China to lose ally against US trade hawks', *Financial Times*, 21 March 2010, accessed at: <http://www.ft.com/intl/cms/s/0/97b29e4e-351c-11df-9cfb-00144feabd0.html#axzz1phNYQU8C> (22 March 2012).

2.3 Common security interests

2.3.1 Regional conflicts, tensions and instability

For most of the seven decades of the post-Second World War era, the US and its European partners have consistently shared a broad set of common interests regarding regional conflicts and instability. Only in the past decade have US and European concerns with regional instability begun to overlap more significantly with those of China. One reason for this is that China did not begin to exert a global reach, and also to become more deeply concerned with its economic and security interests abroad, until the late 1990s and early 2000s. But what is most important, China's willingness and ability to actively respond in defence of its interests in unstable regions far from its shores were previously constrained by its traditional views regarding sovereignty and intervention.

Overall, Beijing remains a strong proponent of traditional understandings of sovereignty and the sanctity of the internal affairs of states. It typically opposes outside intervention by members of the international community without a mandate from the United Nations Security Council (UNSC), permission from the government of the country where the intervention is to take place and a commitment to restraint in the use of force by the intervening forces. These views arise from China's historical experience of colonialism and from contemporary national self-perceptions fed by its economic success in recent years. They remain deeply held by Chinese leaders and strategists and profoundly shape Beijing's interests and actions regarding regional conflicts, instability and tension.²⁷

Nevertheless, Beijing's leaders have clearly come to recognise the benefits of becoming more open to and dependent on a globalising outside world, on certain issues, in recent years. This recognition is in spite of the risks and the compromising of long-held principles that might be involved in such an approach. In particular, this tendency has increasingly led China's leaders to recognise the importance for its interests of stability in areas around its periphery and farther afield. As a result, China has come to demonstrate a more

²⁷ On Chinese approaches to issues of sovereignty and intervention, see Allen Carlson, *Unifying China, Integrating with the World: Securing Chinese Sovereignty in the Reform Era* (Palo Alto, CA: Stanford University Press, 2005); Allen Carlson, 'China's Approach to Sovereignty and Intervention', in Alastair Iain Johnston and Robert Ross (eds), *New Directions in the Study of China's Foreign Policy* (Palo Alto, CA: Stanford University Press, 2006), pp. 217–41; and Bates Gill, *Rising Star: China's New Security Diplomacy* (Washington, DC: Brookings Institution Press, revised edition, 2010), especially Chapter 4.

constructive and active approach towards the global challenges of regional conflicts and instability and of failing states, and in the process there has been more convergence of its interests with those of the US and the EU in a number of instances.

China has come to accept a more prominent role for the UNSC and region-based multilateral security organisations in dealing with failing states and regional instability. It has also become more active itself in placing men and materiel in harms' way in order to help mitigate regional security challenges, and it increasingly has done so by developing a less rigid approach to questions of sovereignty and intervention.

For example, Beijing supported the international community's approach to addressing instability in East Timor and in Afghanistan in 1999 and 2001 respectively, even though the initial and decisive responses were not undertaken by the United Nations but by multinational forces under national flags. In the case of Afghanistan, China voted in favour of UN resolutions sanctioning the US-led use of force against the Taliban regime following the 9/11 attacks in 2001 against the US and it consistently voted to extend UN approval for the operations in Afghanistan in subsequent years. More recently, Beijing voted in favour of UNSC resolutions in early 2011 that imposed sanctions upon Libya and then did not oppose UNSC resolution 1973, which ultimately authorised 'Member States ... acting nationally or through regional organizations or arrangements ... [to] take all necessary measures ... to protect civilians and civilian populated areas under threat of attack' in Libya.²⁸

In addition, Beijing has taken positions on counterterrorism since the late 1990s and early 2000s that are more broadly convergent with those of the US and Europe. As with other challenging security issues, official claims by the EU, the US and China, including through joint statements, profess to share common interests in combating threats of violent extremism such as terrorism, and the parties have cooperated in a range of activities. Indeed, official Chinese positions and policies have evolved from support for groups associated with insurgencies and terrorist activities in the 1970s to conducting activities to counter extremist violence and terrorism both at home and abroad since the

²⁸ United Nations Security Council, S/RES/1973 (2011), 17 March 2011. China, along with Brazil, Germany, India and Russia, abstained on this resolution.

late 1990s.²⁹ A part of this shift can be explained by the fact that China itself has become the target of violent extremist activity, including incidents widely viewed as terrorist action, both outside and inside China. For example, three Chinese citizens died in the destruction of the World Trade Center towers in September 2001; and between 2001 and 2004, a further 56 Chinese civilians were killed in suicide bombings and other terrorist acts in nine separate incidents in Israel, Kyrgyzstan, Sri Lanka, Pakistan, Laos and Afghanistan.³⁰

China has also faced violent extremist activity within its own borders. By the early to mid-1990s, it had already begun to crack down on what it saw as a terrorist challenge, especially targeting violent separatist activities among Uighur groups in its far western province Xinjiang. In January 2007, the Chinese government announced that it had raided a terrorist facility in Xinjiang operated by the East Turkestan Independence Movement (ETIM), killing 18 suspected militants and seizing weapons and ammunition. In the months prior to the 2008 Beijing Olympics, China claimed to have disrupted several terrorist plots; and in August that year, two Uighur men, suspected of links with ETIM, attacked police officers in Kashgar, killing 16. Attacks credited to ETIM in Hotan and Kashgar, Xinjiang, both in July 2011, left more than 40 persons dead, including civilians, security forces and attackers.

Seeing links between Islamic separatist movements and groups outside China, Beijing took steps in the late 1990s and especially the early 2000s to cooperate bilaterally and multilaterally with other governments. In June 2001, for example, China joined Russia and four Central Asian states, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, in establishing the Shanghai Cooperation Organisation (SCO). Its founding charter declared the intention to combat the 'three evil forces: terrorism, separatism and extremism'. In the early 2000s, China also moved to establish cooperative counterterrorist ties with the US as well as the EU. This cooperation has included regular consultations, intelligence sharing, disruption of terrorist financial networks and unified positions as

²⁹ See Bates Gill and Melissa Murphy, 'China's Evolving Approach to Counterterrorism', *Harvard Asia Quarterly*, vol. 9, Winter/Spring 2005, pp. 21–32.

³⁰ This data is revised and updated from David M. Lampton and Richard Daniel Ewing, *The U.S.-China Relationship Facing International Security Crises: Three Case Studies in Post-9/11 Bilateral Relations* (Washington, DC: Nixon Center, 29 January 2004), accessed at: <http://www.cftni.org/index98ce.html?action=publications> (15 February 2012).

expressed in UNSC resolutions and as co-signatories of UN conventions and other international agreements aimed to counter terrorist activities.³¹

China has also sent 10 separate missions of escort ships to the Gulf of Aden since early 2009 in order to cooperate with (but to operate formally independent from) established multinational counterpiracy operations in the region. Those operations include the European Naval Force Somalia – Operation ATALANTA (EU NAVFOR – ATALANTA) and Combined Task Force-151 (CTF-151), which includes naval forces drawn from the 25-state coalition Combined Maritime Forces based in Bahrain.³² According to Chinese sources, in the three years of this involvement, Chinese naval vessels have escorted some 4,411 Chinese and foreign commercial vessels while providing protection as well to World Food Programme shipments.³³ There are regular communication and exchanges between the independent Chinese naval task forces and their counterparts in the Gulf of Aden region, including with the EU ATALANTA mission and with CTF 151.

Furthermore, China has stepped up its peacekeeping- and peace operations-related support to multilateral regional security organisations such as the African Union and the SCO. It has also established military-to-military exchanges concerned with peacekeeping with more than a dozen countries, including Australia, Bangladesh, Canada, India, Mongolia, New Zealand, South Africa, Switzerland and Thailand as well as with the EU Member States Estonia, France, Germany, Hungary, Ireland, Italy, Sweden and the United Kingdom.

³¹ For example, see Office of the Spokesman, US Department of State, 'U.S.-China Counterterrorism Sub-Dialogue', 22 September 2009, accessed at:

<http://www.state.gov/r/pa/prs/ps/2009/sept/129485.htm> (15 February 2012); Council of the European Union, *10th China-EU Summit, Beijing, 28 November 2007, Joint Statement*, 16070/07 (Presse 279), Brussels, 28 November 2007. But in the joint press release of the 13th and 14th EU-China summits, in 2010 and 2012 respectively, there is no mention that countering terrorism was discussed. Council of the European Union, *13th EU-China Summit Joint Press Communiqué*, 14577/10, Presse [267], Brussels, 6 October 2010 and Council of the European Union, *Joint Press Communiqué of the 14th EU-China Summit*, Beijing, China, 6474/012, Presse 50, 14 February 2012.

³² On EU NAVFOR ATALANTA, see the operation's website, <http://www.eunavfor.eu/about-us/mission/> (28 January 2012). CTF-151 draws from the Combined Maritime Forces, which includes participation by the United States, Australia, Bahrain, Canada, Japan, Pakistan, Saudi Arabia, Singapore, South Korea, Thailand, Turkey and numerous European states. See <http://combinedmaritimeforces.com/ctf-151-counter-piracy/> (28 January 2012).

³³ 'Chinese naval escort squads to Somali waters escorted 4,411 vessels in three years', Xinhua, 11 January 2012, accessed at: http://eng.chinamil.com.cn/news-channels/china-military-news/2012-11-01/12/content_4766489.htm (22 January 2012).

One of the most interesting demonstrations of Beijing's more flexible and constructive approach to questions of regional conflict, instability and tension is its growing support of UN peacekeeping operations. China's participation in peacekeeping activities began to expand and diversify in the late 1990s and early 2000s. Its contribution to UN peacekeeping remained between 50 to 100 peacekeepers from 1993 to 2002 but then expanded rapidly to 2009 to reach its present level of about 2,000 personnel deployed. Most Chinese troops deployed with UN peacekeeping operations provide engineering, transport or medical support. But China began to deploy police (to East Timor) in 1999; and as of 31 December 2011, it had 71 police deployed in Haiti, Liberia, South Sudan and Timor-Leste. It also had 40 military experts in seven UN missions.³⁴ According to China's defence white paper published in 2011, Chinese peacekeepers have 'built and repaired over 8,700 km of roads and 270 bridges, cleared over 8,900 mines and various explosive devices, transported over 600,000 tons of cargo across a total distance of 9.3 million km, and treated 79,000 patients'. The white paper notes that as of the end of 2010, China had sent 17,390 military personnel to 19 UN peacekeeping operations, nine of whom had lost their life in the line of duty.³⁵

Another area where China's approach to regional conflicts and instability is changing concerns the protection of Chinese citizens abroad. According to recent research, the number of Chinese citizens working abroad hovered at around 5 million in 2011, a number that will continue to grow. Moreover, the number of Chinese travelling abroad as tourists or on other short-term travel has grown from only 10 million in 2000 to 60 million in 2012. It will reach some 100 million by 2020. The issue of protecting its nationals took an especially high profile in 2011 and 2012: China evacuated a total of 48,000 of its nationals from Egypt and Libya during the uprisings there in 2011 and from Japan after the March 2011 tsunami and nuclear disaster, a number five times larger than the total evacuations of Chinese citizens in the previous 30 years. Thirteen Chinese merchant sailors were murdered on the Mekong River in northern Thailand in October 2011, some two dozen Chinese workers were kidnapped by Sudanese rebels in late January 2012 and about the same number of Chinese workers were reportedly kidnapped in the northern Sinai about a week later.

³⁴ UN Department of Peacekeeping Operations, 'Troop and Police Contributors', accessed at: <http://www.un.org/en/peacekeeping/resources/statistics/contributors.shtml> (22 January 2012).

³⁵ *China's National Defense in 2010* (Beijing: State Council Information Office, March 2011), section IV.

The evacuation from Libya and neighbouring countries was the largest such operation ever undertaken by Chinese authorities.³⁶ And in December 2011, after the Mekong River murders, China joined with three of its Southeast Asian neighbours, Laos, Myanmar and Thailand, to deploy joint protective police patrols in order to restore the flow of shipping and to assure the safety of vessels, crew and cargo along the river.³⁷ These developments are prompting a vigorous debate in China on the decision-making process and logistics involved in citizen protection overseas and will probably demand a more adaptable response by Beijing to the dangers posed to its nationals by the instability of states and regions abroad.³⁸

In sum, as China's global dependence grows, and with it growing risks to Chinese economic and political stakes around the world, so it will be increasingly in its interests to leverage its power and influence in ways that protect and promote those interests, however distant. As this trend continues, Beijing is likely to see its concerns deepen towards matters of regional conflict, instability and tension, particularly in areas where significant Chinese economic, political and security interests are at stake. This will include areas where the US, the EU and EU Member States also have significant economic, political and security interests, as in Africa, the Middle East, Southwest Asia and on the high seas. As such, the three sides will experience both conflict and convergence on matters of regional security. In a current example, China's continuing reluctance to support tougher measures against Syria reflects Beijing's persistent wariness about intervention, particularly when led by the West. The challenge ahead is to broaden the areas of cooperation while narrowing the potential for confrontation. The concluding section of this study will discuss the possibilities and pitfalls of doing so.

³⁶ '35,860 Chinese evacuated from unrest-torn Libya', Xinhuanet, 3 March 2011, accessed at: http://news.xinhuanet.com/english2010/china/2011-03/03/c_13759456.htm (22 January 2012).

³⁷ 'China launches joint patrols along Mekong River with neighbors', Xinhuanet, 10 December 2011, accessed at: http://news.xinhuanet.com/english/china/2011-12/10/c_131298679.htm (22 January 2012).

³⁸ On the issues and challenges of protecting Chinese nationals abroad, see Mathieu Duchatel and Bates Gill, 'Protecting Chinese Citizens Abroad: What Next?', PacNet Newsletter, 6 February 2012, accessed at: <http://csis.org/publication/pacnet-9-protecting-chinese-citizens-abroad-what-next> (15 February 2012) and Andrew Erikson and Gabe Collins, 'China's New Challenge: Protecting Its Citizens Abroad', Wall Street Journal, 10 February 2012, accessed at: <http://blogs.wsj.com/chinarealtime/2012/02/10/chinas-new-challenge-protecting-its-citizens-abroad/> (15 February 2015).

2.3.2 Arms control and nonproliferation

From the mid-1990s to the present, the interests of the EU, the US and China have converged markedly on issues of nonproliferation but with a less clear alignment in relation to arms control. Beginning in the early 1990s, China took the biggest steps away from its past policies to embrace important global nonproliferation norms and steadily adhere to them through commitments to international treaties and multilateral nonproliferation regimes, through bilateral agreements, especially with the US, and through implementation of domestic regulatory and enforcement mechanisms. Since the early 2000s – and especially as greater attention was paid to the spectre of terrorist actors gaining access to and unleashing a weapon of mass destruction – China has worked closely with American and European partners to strengthen and implement joint commitments on nonproliferation as expressed in bilateral communiqués, in cooperation within nonproliferation mechanisms and in support for nonproliferation measures under the auspices of the United Nations and the UNSC. It appears that through a gradual process of engagement, particularly with its counterparts from the US and the EU, Beijing came to see a common interest with the majority of the international community in working to stem the proliferation of weapons of mass destruction (WMD)-related materials, technologies and systems and to prevent the emergence of new nuclear-armed states.³⁹ Perhaps the most prominent example is the cooperation of the EU High Representative for Foreign Affairs and Security Policy with the Permanent Five (P5) members of the UNSC (China is a member) and Germany to engage Iran in an effort to assure its nuclear nonproliferation commitments.⁴⁰

China's efforts to promote nonproliferation have been demonstrated most clearly by its own national policies. At the global, bilateral and domestic levels, often in stark contrast to its policies in the 1970s, 1980s and early 1990s, China has taken significant action to support, implement and adhere to international nonproliferation norms and commitments. At the global level, China acceded to the Convention on Physical Protection of Nuclear Material in 1989, joined the

³⁹ China's changing policies and practices regarding nonproliferation are documented and analysed in Evan S. Medeiros, *Reluctant Restraint: The Evolution of China's Nonproliferation Policies and Practices, 1980–2004* (Palo Alto, CA: Stanford University Press, 2007); Wendy Frieman, *China, International Arms Control, and Nonproliferation* (London: RoutledgeCurzon, 2004); and Gill, *Rising Star*, especially Chapter 3.

⁴⁰ See, for example, 'Statement on Iran by EU High Representative Catherine Ashton on behalf of the E3/EU+3', European Union A 369/11, 21 September 2011.

Nuclear Nonproliferation Treaty (NPT) in 1992 and has since joined or sought membership in the major supply-side nonproliferation regimes: the Zangger Committee (joined in 1997); the Nuclear Suppliers Group (joined in 2004); the Missile Technology Control Regime; and the Wassenaar Arrangement. China joined with other UNSC members in April 2004 to unanimously endorse resolution 1540, which obliges Member States to 'to refrain from supporting by any means non-State actors from developing, acquiring, manufacturing, possessing, transporting, transferring or using nuclear, chemical or biological weapons and their delivery systems'.⁴¹

Through a series of bilateral agreements with the United States in the mid to late 1990s, China cut off or significantly curtailed its missile- and nuclear-related cooperation with Iran and Pakistan. At Washington's urging, and in recognising the potential vulnerability of its ports to destabilising commodity flows, especially nuclear weapons and related materials, China also joined the US-led Container Security Initiative (CSI) in 2003. CSI is operational in three Chinese ports, Hong Kong, Shenzhen and Shanghai, and involves US-China cooperation in the identification of high-risk containers, the prescreening and evaluation of containers and the use of non-invasive technologies to screen containers moving from Chinese to US ports.⁴²

At home, China also took steps beginning in the late 1990s to strengthen domestic regulatory and enforcement measures – at times in consultation with the US, the EU and many of its Member States – to prevent the flow of proscribed, militarily sensitive goods and technologies, including conventional weapons, nuclear weapons-related materials, chemicals, dual-use biological agents, missiles and related technologies. In some cases, China also took steps to come into de facto adherence to certain non-universal regimes, such as the Missile Technology Control Regime and the Australia Group (a supply-side regime concerned with preventing the development of chemical and biological weapons), even though it was not a member of those organisations.

To be sure, concerns persist about China's nonproliferation commitments, and there are questions about the extent of shared interests between China, on the one hand, and the US and EU, on the other hand, on a number of proliferation

⁴¹ From the website of the UNSC Resolution 1540 Committee, accessed at: <http://www.un.org/sc/1540/> (22 January 2012).

⁴² See the website for the Container Security Initiative, accessed at: http://www.cbp.gov/xp/cgov/trade/cargo_security/csi/ (22 January 2012).

issues. These questions arise from two important sources. First, Chinese individuals and companies allegedly continue to engage in proliferation activities in contravention of Chinese law and China's international commitments. According to US intelligence sources, for example, 'entities ... in China continue to sell technologies and components in the Middle East and South Asia that are dual use and could support WMD and missile programs.' In addition, 'Chinese entities – including private and state-owned firms – continue to engage in WMD-related proliferation activities. ... Chinese entities continue to supply a variety of missile-related items to multiple customers, including Iran, Syria, and Pakistan.'⁴³

Second, many questions persist about China's commitment to preventing the emergence of new nuclear-armed states, particularly North Korea and Iran. Chinese leaders and authoritative policy documents state clearly its opposition to a nuclear-armed North Korea or Iran. For instance, Premier Wen Jiabao declared during his January 2012 visit to Saudi Arabia and other Gulf states that China 'adamantly opposes Iran developing and possessing nuclear weapons'.⁴⁴ Beijing has also lambasted North Korea for its nuclear explosions and in response has voted in favour of sanctions against Pyongyang under UNSC resolutions 1718 (2006) and 1874 (2009).

However, Beijing has been criticised for not doing enough to prevent North Korea from acquiring and testing a nuclear device and for not agreeing to even tougher measures against Teheran. Beijing has also been criticised for continuing significant trade with and investment in Iran and North Korea, including a marked intensification of economic and also political relations with North Korea in 2010 and 2011, some of which could contribute to sanctions-evading activities by North Korea.⁴⁵ There also appears to be growing distance between the US and EU positions regarding Iran and that of China. In January 2012, for example, in response to Teheran's announcement that it had begun to

⁴³ *Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions Covering 1 January to 31 December 2010*, March 2011, accessed at: <http://www.fas.org/irp/threat/wmd.htm> (22 January 2012).

⁴⁴ Michael Wines, 'China Leader Warns Iran Not to Make Nuclear Arms', *New York Times*, 20 January 2012, accessed at: <http://www.nytimes.com/2012/01/21/world/asia/chinese-leader-wen-criticizes-iran-on-nuclear-program.html> (22 January 2012).

⁴⁵ See Bates Gill, *China's North Korea Policy: Assessing Interests and Influences*, United States Institute of Peace Special Report, July 2011, accessed at: <http://www.usip.org/publications/china-s-north-korea-policy> (22 January 2012).

enrich uranium at its underground facility at the Fordow military base, the EU agreed to impose tougher economic sanctions on Iran, including the prohibition of oil imports from the country. But the Chinese foreign ministry said that this was ‘not a constructive approach’.⁴⁶

With regard to arms control, and particularly nuclear arms control, there has been a general convergence of interest among EU Member States, the US and China in recent decades, but important differences remain, especially between China and the United States. As members of the NPT, the US, China and the EU Member States are all committed in principle to nuclear disarmament, according to Article 6 of the treaty. There appears to be a genuine shared interest on all sides to see the world’s nuclear arsenals shrink to a smaller size, to strictly limit the circumstances under which they might be used and to introduce more mechanisms and confidence-building measures among nuclear-armed states in order to prevent accidental or unauthorised use of nuclear weapons. The US and the European nuclear weapons states France and the United Kingdom have steadily made official pronouncements that narrow the circumstances under which they might use nuclear weapons. These statements amount to ‘hedged’ no-first-use declarations and come close to (but still fall short of) China’s long-standing declaration of an unconditional no-first-use policy for nuclear weapons. The United States, China, France and the United Kingdom are all signatories of the Comprehensive Test Ban Treaty (CTBT); but of these four, only the latter two have also ratified the treaty. Nonetheless, all four have abided by a de facto moratorium on nuclear testing, even though the treaty has not formally entered into force.⁴⁷ EU Member States, the US and

⁴⁶ ‘China says EU ban on Iran oil not “constructive”’, Reuters, 26 January 2012, accessed at: <http://www.reuters.com/article/2012/01/26/china-iran-idUSL4E8CQ46H20120126> (28 January 2012). It was later reported that Chinese oil imports from Iran had decreased in late 2011 and early 2012, but primarily as contractual leverage to secure better commercial terms from Iran. See for example, Guy Chazan and Javier Blas, ‘China cuts Iranian oil imports, says IEA’, *Financial Times*, 10 February 2012, accessed at: <http://www.ft.com/intl/cms/s/0/a9fcc826-53d4-11e1-9eac-00144feabdc0.html#axzz1mXW6zBgQ> (16 February 2012) and Judy Hua and Alex Lawler, ‘China buys up Saudi, Russian oil to squeeze Iran’, Reuters, 7 February 2012.

⁴⁷ The United Kingdom’s last nuclear test was in 1991. The United States last tested a nuclear weapon in 1992. France suspended testing between late 1991 and late 1995, but carried out its last round of nuclear tests between September 1995 and January 1996. China was the last of the Permanent Five members of the UNSC to conduct nuclear tests. Its last one was in July 1996, just before the conclusion of negotiations for the CTBT. (The Soviet Union conducted its last test in 1990, and the Russian Federation has not conducted any tests since then.)

China are also signatories of the Chemical Weapons Convention and the Biological and Toxin Weapons Convention.

But the strategic relationship between the US and China, not least concerning the role of nuclear weapons and deterrence, remains uncertain and problematic. It results from frequently divergent interests between the two on arms control matters. For example, the 13-year stalemate at the Conference on Disarmament (CD) – the world’s most representative multilateral disarmament body and one that can point to a number of successes in the mid-1990s, such as concluding the Chemical Weapons Convention and the CTBT – is traceable to continuing differences between the US and China. The impasse was initially over the negotiation of a fissile material production cutoff treaty (FMCT), which the US (and European states) favours, and the negotiation of a treaty to prevent weapons in outer space, which China favours. Today, progress on an FMCT is stymied by procedural issues raised by Pakistan and Iran. These in effect block the start of formal negotiations. Some analysts note that Beijing will not work to resolve these procedural issues and that it has raised procedural concerns of its own that have further delayed progress towards negotiations.⁴⁸

At bottom, Beijing’s concerns about further nuclear disarmament measures, such as ratifying the CTBT or negotiating a binding FMCT, are rooted in its fundamental interest in maintaining a viable retaliatory capability for its nuclear arsenal in the face of what it views as the overwhelming nuclear and conventional strike capability of the US (and, to a lesser degree, that of Russia). It is this concern about the reliability of its nuclear deterrent that generates Beijing’s opposition to strategic missile defences on the part of the US and its allies – another significant difference between the two on fundamental arms control matters. Thus although President Barack Obama’s April 2009 call in Prague for a nuclear-weapons-free world, and some subsequent disarmament steps by the US, were greeted with widespread enthusiasm in Europe, they received only a tepid and sceptical ‘wait-and-see’ response from China.⁴⁹

⁴⁸ Paul Meyer, ‘Breakthrough and Breakdown at the Conference on Disarmament: Assessing the Prospects for an FM(C)T’, *Arms Control Today*, September 2009, accessed at: http://www.armscontrol.org/act/2009_09/Meyer (28 January 2012).

⁴⁹ On recent Chinese approaches to nuclear arms control and disarmament, see Bates Gill, *China and nuclear arms control: current positions and future policies*, SIPRI Insights on Peace and Security, no. 2010/4 (April 2010), accessed at: <http://www.sipri.org/research/security/china/research/nuclear> (28 January 2012).

Differences in interests over arms control matters also exist between the EU Member States and the US, between the EU and China and among EU Member States as well. For example, according to its official policy, the EU strongly endorses the early entry into force of the CTBT and continues to urge those countries that have yet to ratify the treaty, including the United States and China, to do so (France and the United Kingdom have ratified the treaty). Through official channels, the EU urges parties to the CD to enter into negotiations for a verifiable FMCT and also to begin work at the CD on nuclear disarmament and the prevention of an arms race in outer space. Issues such as the stationing of US tactical nuclear weapons in Europe and the US initiative for missile defence deployments in Poland and Romania remain controversial within parts of Europe, within NATO and in broader transatlantic relations. With two EU members, France and the United Kingdom, as nuclear weapon states, they will be particularly sensitive to and cautious about disarmament. Meanwhile other EU Member States, such as Sweden and Ireland, are among the most vocal in their calls for nuclear disarmament.⁵⁰

In the conventional weapons realm, the EU Member States strongly supported the negotiation of a robust and enforceable arms trade treaty (ATT), but China and the US were initially much less enthusiastic. In the December 2006 UN General Assembly vote on resolution 61/89, *Towards an Arms Trade Treaty: establishing common international standards for the import, export and transfer of conventional arms*, China abstained, the United States voted against and all EU Member States voted in favour. With the advent of the Obama administration, the US has engaged constructively in the preparatory committee (PrepComm) and the ad hoc intergovernmental meetings in advance of the July 2012 UN conference to negotiate an ATT. China has also become more active in these meetings.

During the July 2011 PrepComm, the P5 members of the UNSC issued a joint statement. It suggests increasing convergence between the US, China and two of the largest arms exporters in the EU (the UK and France) on the need for an ATT to focus on the 'illicit trafficking and uncontrolled proliferation of conventional arms on a global scale'. But an ATT should not lead to a 'disarmament treaty nor should it affect the legitimate arms trade or a state's

⁵⁰ On these points, see, for example, Judy Dempsey, 'No Excuses for EU on Disarmament', *New York Times*, 28 April 2010, accessed at: <http://www.nytimes.com/2010/04/29/world/europe/29iht-letter.html> (28 January 2012).

legitimate right to self-defence'. The statement also concluded that the final treaty could only be adopted 'strictly on the basis of consensus'.⁵¹ The statement also suggests greater solidarity among the positions of the US, China and some EU Member States. But although all EU Member States would like China and the US to sign and ratify an ATT, there is concern in some quarters that the price for Chinese agreement will be too high: a watering down of criteria and the adoption of a narrow scope with regard to arms and activities to be covered by an ATT. Furthermore, US insistence on the treaty being adopted by consensus has also been seen as an opportunity for sceptical states to prevent the treaty text from being agreed for adoption, and then there is the prospect that US ratification of even a limited ATT would be likely to face overwhelming opposition in the US Senate. Even within the EU, there is disgruntlement among some members with France and the UK for negotiating on the P5 statement.

Finally, the EU arms embargo on China exposes differing interests among the EU, China and the US. The embargo was imposed in response to the Chinese crackdown on demonstrators in Tiananmen Square in June 1989. It remains in place, in part on human rights grounds but also as a result of pressures from both outside and inside the EU not to take measures that could assist in China's military modernisation. As such, it is a matter of ongoing contention and sensitivity between China and the EU, as well as between the EU and the US and within the EU itself. The US has made clear that it opposes lifting the EU arms embargo. On the other hand, China has consistently insisted that the embargo is unfair, belittles the concept of a 'strategic partnership' between the EU and China and needs to be lifted. According to European reports, High Representative Catherine Ashton presented a foreign and security policy strategy paper at the December 2010 EU summit that stated that the 'current arms embargo is a major impediment to developing stronger EU-China cooperation on foreign policy and security matters' and that the EU 'should assess its practical implication and design a way forward.'⁵² No concrete steps

⁵¹ 'P5 Statement at the 3rd Preparatory Committee on an Arms Trade Treaty', 12 July 2011, accessed at: <http://www.un.org/disarmament/convarms/ATTPrepCom/Documents/Statements-MS/PrepCom3/2011-July-12/2011-July-12-Joint-P5-E.pdf> (29 January 2012). For a formal Chinese position on the ATT, see the Chinese Ministry of Foreign Affairs website, <http://www.fmprc.gov.cn/eng/wjb/zzjg/jks/kjlc/cgikwt/t410759.htm> (29 January 2012).

⁵² See Andrew Rettman, 'Ashton pragmatic on China in EU foreign policy blueprint', *EU Observer*, 17 December 2010, accessed at: <http://euobserver.com/884/31538> (29 January 2012).

have since been taken in this direction, in part owing to opposition from within the EU and from the United States. But despite differences in opinion in the past between the EU (and some of its Member States) and the US over whether to lift or to modify the EU arms embargo, it appears that for the foreseeable future it will stay in place but will remain a potentially problematic issue for EU-China relations and an ongoing case of contending security interests among the EU, the US and China.

In considering the common interests of the EU, the US and China on matters of nonproliferation and arms control, a very mixed picture emerges. At the high level of official declaratory policy, in opposing proliferation, for example, or in calling for complete nuclear disarmament, there appears to be a strong convergence of interests. But on closer examination of near-term tactical interests and policies, the three often have divergent approaches. A trilateral convergence of interests seems strongest on the principle of preventing the emergence of new nuclear weapons states or non-state actors armed with nuclear weapons, of diminishing and securing current arsenals of nuclear weapons and of deterring or preventing their use. But differences arise quickly on how those and related goals should be achieved. This study's closing section will address how the three might leverage their common interests more effectively in order to strengthen nonproliferation and arms control at the global, regional and national levels.

3 Common Action: Imperatives and Impediments

3.1 Imperatives for common action

The range of shared economic and security interests described above between the EU, the US and China arise from a mix of at least three underlying forces at work in the world today, all of which are likely to continue in the medium to long term as a largely positive impetus towards common interests and action. First, the forces of globalisation – advances in communications that richly facilitate interaction and create enormous mutual benefit for millions of persons from the EU, the US and China as a result of travel, commerce and enhanced connectivity – generate real interdependences and a greater degree of shared economic and security interests.

Second, the remarkable trajectory of China over the past three decades has in itself been a force for bringing the EU, the US and China closer together on economic and security issues. Chinese leaders, in seeking to realise China's reemergence as a major power, have recognised that to do this successfully requires a stable internal and external environment in order to access the much-needed inputs of capital, technology and know-how. And that in turn demands a constructive and peaceable approach to the outside world – in short, a China that seeks to accommodate itself within the existing world order rather than to overturn it.

For their part, the leaders of the EU and the US recognised early on the strategic value, both from an economic and a security perspective, of seeking to integrate, not isolate, a waking China, even when it was relatively weak and just starting its ascendance to the world stage. Many government and nongovernmental observers of relations with China have encouraged the emergence of a more constructive role for China or, in the well-known words of the then US deputy secretary of state Robert Zoellick, a China that is a 'responsible stakeholder'.⁵³

More recently, and especially in the past decade, China's growing presence in world affairs, economically, politically, militarily and diplomatically, has only accelerated the process of its integration into the international system and with it a greater overlap in shared interests among the EU, US and China. China's continued economic growth and financial wherewithal became an even deeper shared interest of these three players in the wake of the global financial crisis and economic recession in the late 2000s.

Third, and most recently, globalisation's downsides – the ways in which its benefits may be undermined by the very openness and free flows of commercial and social activity that are its hallmark – are another factor that has generated a greater sense of common economic and security interests among the EU, the US and China. To put it another way, the sides are all more

⁵³ Robert B. Zoellick, 'Whither China: From Membership to Responsibility?', remarks to the National Committee on U.S.-China Relations, 21 September 2005, accessed at: <http://www.ncuscr.org/recent-remarks-and-speeches> (22 February 2012). See also Thomas J. Christensen, 'The Advantages of an Assertive China', *Foreign Affairs*, vol. 90, no. 2 (March/April 2011), pp. 54-67; Bates Gill and Michael Schiffer, 'A Rising China's Rising Responsibilities', in Michael Schiffer and David Shorr (eds), *Powers and Principles: International Leadership in a Shrinking World* (Lanham, MD: Lexington Books, 2009), pp. 99-124.

dependent on, and also increasingly vulnerable in, a more borderless world. The economic and security challenges posed by mobile, violent extremism, including terrorism, or by illicit trafficking of weapons have been of concern for many years. But newer and urgent challenges, including potential pandemics, cyberattacks and well-organised transnational criminal activity, have become more and more problematic in a globalising world. These types of challenge, some new, some less so, are all the more problematic as they are facilitated by the very openness of a globalised world even as they threaten to disrupt the stable functioning of the global flows of people, goods, technologies, information and services that underpin and sustain the modern world.⁵⁴

These three forces provide a powerful impetus for the EU, the US and China to recognise common interests and to work together in practical ways to build a common sense of purpose while cooperatively addressing shared challenges. As the preceding pages have described, the relationships between China, on the one hand, and the EU and the US, on the other hand, have seen over the past 40 years a remarkable record of converging interests and cooperative action. And yet many formidable impediments remain to a further deepening of common purpose and action among the three parties. Some of these obstacles have been a part of this tripartite relationship for decades. Others are more recent and as yet not fully defined. But whether old or new, these impediments threaten to forestall and perhaps foreclose cooperation among the EU, the US and China precisely when the uncertainties of shifting geopolitical power dynamics, growing transnational risks and other national, regional and global challenges demand a greater degree of common purpose and action.

3.2 Impediments to common action

3.2.1 A changing world

What are some of the most important impediments to a common trilateral approach in the future? Some of the forces described above, including globalisation and China's rise to global prominence, may have run their course as factors creating common interests and impelling actions between the EU and

⁵⁴ Dr Tomas Ries writes of 'flow security' and the need for 'protecting and supporting our critical global economic and technological flows' as one of the greatest security priorities for governments and societies in the coming decade. See his *The Global Security Environment 2030 and Military Missions* (unpublished manuscript), Department for Strategic and Security Studies, Swedish National Defence College, 17 October 2010.

the US, on the one hand, and China, on the other hand. A long-standing assumption in the EU and the US – that by fostering the forces of globalisation to engage and integrate a rising China, a more open, pluralistic and democratic China will one day emerge – has come increasingly into question.

This has been especially true as Chinese authorities in the past five years have stepped up their efforts to stifle political and religious discontent while seeking to tighten access to independent sources of information. For many Chinese leaders, the interflow of people, information and ideas that comes with globalisation has not necessarily been a good thing to the degree that it contributes to delegitimising one-party rule in the country. It is also increasingly clear that globalisation and China's rise have disproportionately benefited some and not benefited others, as evidenced by the growing income gap between rich and poor, between the cities and the countryside and between China's coastal east and its inland provinces. On the other hand, for many citizens in the EU and the US, and particularly those hard hit by recession, a rising China in a globalising world is seen not as an opportunity but as a challenge and even a threat.

The mutual vulnerabilities arising from globalisation, the 'dark side' of more open and interconnected societies, would seem to be a fertile area where the EU, the US and China could work together in pursuit of common interests. But even in this relatively new area for potential cooperation, impediments soon appear. In some high-profile and troubling cases, China appears to be a source of problems rather than solutions. Late 2011 and early 2012 saw a number of statements from very senior US officials pointing for the first time in a public way to China as major source of illicit and hostile cyberactivities. In late October 2011, the US Office of the National Counterintelligence Executive, under the Office of the Director of National Intelligence, outlined in an extensive declassified document how 'Chinese actors are the world's most active and persistent perpetrators of economic espionage.'⁵⁵ This point was soon underscored by the director of the Central Intelligence Agency, who told Congress that among state actors posing cyberthreats to the US, 'China and

⁵⁵ Office of the National Counterintelligence Executive, *Foreign Spies Stealing US Economic Secrets in Cyberspace: Report to Congress on Foreign Economic Collection and Industrial Espionage, 2009–2011*, October 2011, p. i, accessed at: http://www.ncix.gov/publications/reports/fecie_all/index.html (22 February 2012).

Russia are of particular concern.⁵⁶ In a *Wall Street Journal* opinion piece, three recently retired and high-ranking US officials went further, saying that the 'Chinese government has a national policy of economic espionage in cyberspace.'⁵⁷ There are numerous reports of China-sourced hacking, thievery and disruptions against US and European government and corporate facilities.⁵⁸ Tens of billions of dollars worth of intellectual property, as well military-technical secrets, are said to be taken from Europe and the US (and others) by Chinese cyberthieves and cyberspies. Whether or not these exfiltrations can be ultimately attributed to official Chinese policy, cybersecurity will become an increasingly contentious issue in US-China and EU-China relations.

In a more open and globalised world, concerns also arise about China as a source of other problems, such as infectious outbreaks of disease regionally and around the world. The most troubling instance to date involved the severe acute respiratory syndrome outbreak, starting in Guangdong province in China. The Chinese government initially sought to cover it up, but it eventually resulted in 8,096 illnesses and 774 deaths worldwide.⁵⁹ The possible spread of other infectious diseases from China (and elsewhere), such as avian and swine influenza subtypes, to which humans may have little to no immunity, continues to worry the global community. Avian influenza A (H5N1) – its first outbreak

⁵⁶ In this testimony on major threats to the United States, cyberthreats appeared after terrorism and proliferation. See James R. Clapper, *Unclassified Statement for the Record on the Worldwide Threat Assessment of the U.S. Intelligence Community for the Senate Select Intelligence Committee*, 31 January 2012, p. 7, accessed at: <http://www.dni.gov/> (22 February 2012).

⁵⁷ Mike McConnell, Michael Chertoff and William Lynn, 'China's Cyber Thievery is National Policy – and Must Be Challenged', *Wall Street Journal*, 27 January 2012. McConnell was director of the National Security Agency (1992–96) and Director of National Intelligence (2007–09); Chertoff was Secretary of Homeland Security (2005–09); and Lynn was Deputy Secretary of Defence (2009–11) and Undersecretary of Defence (1997–2001).

⁵⁸ See an abbreviated compilation of open-source examples in Jamie Metz, 'China and Cyber-Espionage', December 2011, accessed at: http://asiasociety.org/policy/strategic-challenges/china-and-cyber-espionage?gclid=CLGD_ZOWg60CFRDHKgodAllaTA (22 February 2012). On a major intrusion, attributable to China, into thousands of secret files related to the US F-35 Joint Strike Fighter programme, see David Fulghum, Bill Sweetman and Amy Butler, 'Internet Hacking Drives Up Pentagon Costs: F-35 and classified programs victimized by network intrusions', *Aviation Week & Space Technology*, 6 February 2012, p. 30.

⁵⁹ Deaths from SARS occurred in Canada, China, France, Malaysia, the Philippines, Singapore, South Africa, Taiwan, Thailand and Vietnam. In addition, non-fatal cases were diagnosed Germany, India, Indonesia, Italy, Kuwait, Mongolia, New Zealand, Ireland, Romania, Russia, South Korea, Spain, Sweden, Switzerland, the United Kingdom and the US. See World Health Organization, 'Summary of probable SARS cases with onset of illness from 1 November 2002 to 31 July 2003', accessed at: http://www.who.int/csr/sars/country/table2004_04_21/en/index.html (22 February 2012).

affecting humans was in Hong Kong in 1997; and since 2003, it has killed 346 persons in 15 (mostly Asian) countries – has recently reappeared in China, causing two known deaths in late 2011 and early 2011.⁶⁰ In China, tuberculosis (TB) is the number one cause of death by infectious disease. Some 1.5 million suffer from it, presenting the second-largest tuberculosis caseload in the world after India and accounting for about 17 per cent of all TB cases worldwide. Of particular and increasing concern in China is the growing prevalence of multidrug-resistant and extensively drug-resistant TB.⁶¹ Inadequate health conditions, preventive measures and treatments in China contribute to this problem, and they all require greater investment from the Chinese government, even as major Western donors are curtailing their development assistance to China. In the meantime, as China integrates more deeply with a globalising world, its health problems become problems for its neighbours and for countries around the world, including the EU and the US.

As China has become more globalised, broadly considered a positive development for it and the world, so problems have arisen regarding it as a transit point for illicit and destabilising transactions and commodity flows. For example, in March 2007, a bank in the Chinese territory of Macao, Banco Delta Asia, was identified by the US Department of the Treasury as facilitating financial transactions, including money laundering and passing counterfeit US currency, for North Korea. US companies and financial institutions were ordered to sever relations with the bank. Also worryingly, a 2011 report by the UNSC committee established to monitor compliance with resolutions 1718 and 1874 found that a ‘neighbouring third country’, widely understood to be China, served as a transshipment point for ballistic missile-related items between North Korea and Iran.⁶²

⁶⁰ Deaths reported to the World Health Organization (WHO) resulting from H5N1 infection in 2011 and early 2012 also occurred in Bangladesh, Cambodia, Egypt, Indonesia and Vietnam. See World Health Organization, ‘Cumulative number of confirmed human cases of avian influenza A(H5N1) reported to WHO’, accessed at: http://www.who.int/influenza/human_animal_interface/H5N1_cumulative_table_archives/en/index.html (23 January 2012).

⁶¹ World Health Organization, ‘Global Tuberculosis Control 2011’, accessed at: http://www.who.int/tb/publications/global_report/en/index.html (23 January 2012).

⁶² See *Report of the Panel of Experts Established Pursuant to Resolution 1874 (2009)* (May 2011), p. 40, accessed from the website of the National Committee on North Korea: www.ncnk.org/resources/publications/55808872-UN-Panel-of-Experts-NORK-Report-May-2011.pdf (22 January 2012).

Also, the economic conditions that facilitated economic cooperation among the three sides have undergone important changes in recent years. The previous framework for trilateral economic relations for much of the past 20 years was premised on the following expectations: fairly robust growth in Europe, the United States and China; China as largely a recipient of ODI; a list of the world's top multinational corporations (MNCs) overwhelmingly Western; a set of global institutions dominated by the G8 powers; and a trade negotiations framework conducted mostly through the WTO. But now there is a still-tentative recovery in Europe and the United States; a China that now has 61 companies in the Global 500 and is a major source of ODI in its own right; a shift to the G20 as the principal economic conclave; and a shift away from the WTO framework towards bilateral and multilateral trade deals.

This context changes things in several ways. Chinese companies seeking to become global MNCs risk facing market access and investment restriction issues of their own, largely as a result of conditions in their home market. China will be dealing with countries that, although they have a greater need for external injections of capital, also have a more acute focus on economic 'fairness' and reciprocity than when there was a rapidly growing economic pie.

The trade game is changing too. There has long been a danger that the WTO would be weakened if it went two decades without concluding a new round, and none of the 'new' issues that have emerged in global trade since the Uruguay round have been incorporated into WTO mechanisms. China has a greater stake than most countries in ensuring that disputes continue to be managed through the WTO and in holding off the threat of protectionism. But there is a growing risk that the WTO's authority will be eroded in the coming period. The US and the EU are starting to move towards a framework in which the trade agenda is once again driven by deals between the advanced economies. This is epitomised by the new trade arrangements being envisaged (or in some cases actively agreed) between members of the old General Agreement on Tariffs and Trade 'quad' of the EU, the United States Canada and Japan. It is evident in the TPP and in the EU's web of new FTAs in Asia – the EU-Korea FTA is the most comprehensive trade deal that Europe has ever concluded – and it is also the main thread in proposals for a multilateral deal on services among a broader group of developed economies. If China thought that its accession to the WTO in 2001 meant that it was now 'in the club', it could

find that frustration with how the club is working means that newer, more exclusive ones will emerge.

China is in a vastly stronger economic position than it was in the 1990s, and there is little prospect of replicating the incentives that led Beijing to push through such substantial reforms and to lock in such a tough accession agreement. But the establishment of a trade architecture that includes not only the advanced economies but also the other major developing countries, such as India, would be costly to China over time. This would be in part for reasons of direct trade and investment diversion but perhaps even more because China would be excluded from what will be an extensive round of standard-setting and from rigorous agreements on areas such as the trade in services and IPR. The benefits of being able to bring China into these agreements at a later date would be substantial. By way of comparison, the eight countries that are part of the initial TPP talks have two-way trade with the United States totalling US\$171 billion. And Japan, which is hoped to become a member, has US\$181 billion in trade with the US. China has US\$457 billion. But the disadvantages of being a latecomer are clear: it would again be a rule-taker rather than a rule-maker.

3.2.2 Bilateral ties

In addition to such potential global-level impediments and concerns, the three bilateral relationships involved in this triangle – EU-China, US-China and EU-US relations – all retain their own internal impediments that will constrain a greater degree of common purpose and common action across the trilateral relationship. Perhaps the greatest impediments will arise in US-China relations, but the other bilateral ties have persistent problems too.

The EU-China relationship has made significant strides in the past decade, declaring a ‘strategic partnership’ in 2003, expanding interaction to some 50 sectoral dialogues, establishing a high-level security and foreign policy dialogue in 2010 and becoming critically important trading partners of one another. But it still struggles to realise greater potential and it lacks strategic momentum. A decade ago, Chinese leaders and strategists valued the EU as an economic powerhouse, as a potential political and diplomatic counterweight to the US and, possibly, as a sociopolitical compass for domestic opening and reform. However, the EU, as it struggles in the wake of the financial crisis, has not cohered as a strategic actor. And as China’s domestic political reforms remain stalled, these expectations have increasingly come into question in Beijing. Nor

have expectations in the EU about relations with China met their hoped-for promise. Indeed they may have diminished in recent years. China has fared poorly in a range of issues that matter to European politicians, publics and the private sector: respecting human rights and religious freedoms, addressing environmental degradation and climate change, promoting fair trade and protecting intellectual property.

This is reflected in polling data in Europe, which indicate a downturn or steady state over time of favourable views towards China since the mid-2000s (with a slight improvement in the past two years, for which see Table 1).

Table 1: Favourable views towards China in EU countries, 2005–11 (per cent)

Country	2005	2007	2009	2011
Britain	65	49	52	59
France	58	47	41	51
Germany	46	34	29	34
Poland	37	39	43	51
Spain	57	39	40	55

Source: Pew Global Attitudes Project, accessed at:

<http://www.pewglobal.org/database/?indicator=24&survey=9&response=Favourable&mode=chart> (24 February 2012). Question asked: 'Please tell me if you have a very favourable, somewhat favourable, somewhat unfavourable or very unfavourable opinion of China.' 'Favourable' combines 'very favourable' and 'somewhat favourable' responses.

A poll by the German Marshall Fund taken in mid-2011 shows a similar but somewhat more diversified degree of favourable and unfavourable opinion towards China in EU Member States. On average in 12 EU Member States, less than half the respondents (47 per cent) had a favourable opinion of China, and a roughly similar proportion of respondents saw China as an economic threat (41 per cent) versus an economic opportunity (46 per cent).⁶³

US-China relations face an even more difficult set of impediments to identifying bilateral, let alone trilateral, common interests and action. While the two sides readily acknowledge the importance of their relationship and the need to maintain stable and constructive ties, a persistent sense of strategic mistrust pervades US and Chinese views of one another. Since the mid-1990s in a range of security questions, for example, US official policy, elite views and public opinion have entertained increasing worries about China, whether in relation to Taiwan, weapons proliferation, espionage, cyberattacks and Chinese relations

⁶³ German Marshall Fund of the United States, *Transatlantic Trends: Key Findings 2011*, Charts 8 and 11, accessed at: <http://trends.gmfus.org/transatlantic-trends/key-findings/> (22 January 2012).

with regimes of concern to the US from Iran to North Korea to Zimbabwe. The Chinese too have worries, about US military and security policies in the world and with regard to China in particular. Chinese leaders, strategists and citizens forcefully express their views about US 'hegemony', 'bullying' and 'containment' of China and about the US undermining Chinese security through its support for Taiwan and other activities such as conducting military surveillance missions close to Chinese shores.

There are also strong differences between the two sides over economic issues and political questions, which generate a divisive and zero-sum-game competitiveness. An abiding concern among Chinese leaders and elites, that the US seeks to delegitimise the Chinese Communist Party and ultimately foster political change in China through 'peaceful evolution', has become all the more acute as a range of political grievances come to the fore in China in the context of a broader political awakening of citizenries around the world. These long-standing issues of mistrust between the two sides have only deepened as China has grown in economic and military strength and as the US has worked to reinvigorate its alliance relationships and presence in the Asia-Pacific, most recently cast in terms of a 'pivoting' towards the region.

US-China relations are deepening in many respects, and the political leaderships are seeking to build more constructive ties, but those relations appear to be strategically ambivalent at best and, at worst, they risk veering into a more confrontational relationship in the longer term. This ambivalence is expressed in polls taken both in the US and in China. Polling by the Gallup organisation in early 2012 found that although about two-thirds of those Americans polled would term China either as 'friendly' or an 'ally', only 42 per cent were prepared to give a favourable opinion of China. And of those adults who said that they closely follow the news about China, 54 per cent had an unfavourable view of the country. Opinion leaders who were polled in this survey were similarly ambivalent: 40 per cent had unfavourable views and 10 per cent had neither favourable nor unfavourable views.⁶⁴

Another Gallup poll released in early 2012 showed similar results, and noted that favourable US views of China had remained in the low- to mid-40 per cent

⁶⁴ 'Americans, Opinion Leaders see U.S.-China Ties as Friendly', Gallup Politics, 14 February 2012, accessed at: <http://www.gallup.com/poll/152618/americans-opinion-leaders-china-ties-friendly.aspx> (22 February 2012).

range for more than a decade.⁶⁵ The German Marshall Fund survey noted above found that 63 per cent of American respondents found China to be ‘more of an economic threat’ than an opportunity. On the question of China as a military threat, those surveyed were closely divided: 49 per cent said that China does not pose such a threat and 47 per cent said that it does.⁶⁶ In a 2012 Gallup poll commissioned by the China Daily, almost 80 per cent of Americans surveyed said that ‘lack of trust’ was the biggest obstacle to improved US-China relations.⁶⁷

Polling in China gives similar data. According to polling conducted by the BBC World Service in 2011, when opinion around the world towards the US was improving, China was the only country that registered an increase in negative views, with 53 per cent of Chinese respondents expressing a negative opinion towards America, up by 9 percentage points from 2010. In another survey over this period, Chinese who felt that the US took Chinese interests into account fell from 76 per cent to 57 per cent.⁶⁸

A survey carried out in seven major Chinese cities in February 2012 found that a large majority of Chinese believe that relations with the US are important, but ‘hegemony’ by it and other countries was a major factor in generating negative impressions of the US. By a large margin in this poll, ‘hegemonism’ is the first thing to come to mind to Chinese respondents when talking about the US. More than half of those surveyed in this poll felt that US-China relations were ‘bad’ or ‘very bad’; and in the same poll, the favourability ratings of the US continued to drop from peak levels in 2008–09. About 63 per cent of Chinese respondents said their impression of the United States had worsened owing to the NATO intervention in Libya in 2011 and to stepped-up Western pressure on Syria in late 2011 and early 2012; and 42 per cent said that their impression of the US

⁶⁵ Gallup, ‘Americans Give Record-High Ratings to Several U.S. Allies: Iran has the lowest favourable rating; China’s declines’, 16 February 2012, accessed at: <http://www.gallup.com/poll/152735/Americans-Give-Record-High-Ratings-Several-Allies.aspx> (21 March 2012).

⁶⁶ *Transatlantic Trends*, Charts 11 and 12.

⁶⁷ See Cheng Guangjin and Chen Weihua, ‘Survey reveals positive public attitudes’, *China Daily*, 10 February 2012.

⁶⁸ ‘Views of US Continue to Improve in 2011 BBC Country Ranking Poll’, *BBC World Service Poll*, 7 March 2011, accessed at: http://www.worldpublicopinion.org/pipa/articles/views_on_countriesregions_bt/680.php (22 February 2012) and ‘US Consideration of Other Countries’ Interests’, *Pew Global Attitudes Project*, accessed at: <http://www.pewglobal.org/database/?indicator=4&country=45> (23 February 2012).

had worsened owing to the US-led 'global war on terrorism'.⁶⁹ According to polling by the Pew Research Center, the favourability rating of the US in China has remained at below 50 per cent in six of the seven years from 2005 to 2011, and it stood at 44 per cent in 2011.⁷⁰

EU-US relations have improved very much since the early-2000s, when transatlantic ties suffered setbacks in the wake of US policies regarding the war in Iraq and the broader global fight against terrorism. Today, the transatlantic partnership remains strong, but frustrations on both sides, including about China-related issues, as well as broader shifts in global power dynamics, impede the possibilities for more robust bilateral and trilateral cooperation. Long-standing questions persist in both the EU and the US about the EU's abilities as a unitary actor on the international stage. For many observers in the US, the EU's internal bureaucratic struggles have yet to properly empower the High Representative for Foreign Affairs and Security Policy or to establish a fully effective European External Action Service. The eurozone crisis, which has festered and threatened the EU's unity and global financial stability since at least the end of 2009, is another source of weakness in its international dealings, not least with the US. These political and financial challenges raise questions in the US about the effectiveness of the EU as a partner. And the EU has its share of frustrations as America struggles with internal divisiveness and paralysis on the economic and political fronts, which constrains its ability to act abroad and weakens its political will to engage with its European partners more effectively.

The movement of the centre of world economic and political gravity towards Asia, and specifically China, also presents challenges to the future of the transatlantic partnership, including EU-US relations. Despite the wars in Iraq and Afghanistan, US strategic attention has been shifting from Europe towards Asia at least since the end of the Cold War, and the most recent indication of this was the declaration in late 2011 of a US 'pivoting' towards Asia. It reflects a long-standing recognition of the growing importance of Asia, the shifting power balances in the region, the growing economic, political and military influence of

⁶⁹ This data is drawn from a *China Daily*-Horizon Research Group poll taken in late 2011. It was reported in Cheng Guangjin and Chen Weihua, 'Survey reveals positive public attitudes', *China Daily*, 10 February 2012.

⁷⁰ Pew Research Center, *China Seen Overtaking US as Global Superpower*, Global Attitudes Project, 13 July 2011.

key countries in the region such as China, India, Indonesia and others and their impact on the US as a Pacific nation. Meanwhile, the EU and its Member States also increasingly look to Asia and China for greater engagement, including for economic and financial partnerships. In 2011, 49 per cent of those surveyed in Spain, 48 per cent in Germany, 47 per cent in the UK and 47 per cent in France said that China is the world’s leading economic power – figures up significantly in 2009.⁷¹ Perhaps reflecting this view of China’s economic status, the upturn in 2010 to 2011 of its favourability ratings in five large EU Member States compares with a relative downturn in favourability ratings for the US among those countries at that time (see Table 2).

Table 2: Favourable views towards China and the US in EU countries, 2010–11 (per cent)

Country	2010	2011	Per cent change	2010	2011	Per cent change
Britain	46	59	+13	65	61	-4
France	41	51	+10	73	75	+2
Germany	30	34	+4	63	62	-1
Poland	46	51	+5	74	70	-4
Spain	47	55	+8	61	64	+3

Source: Pew Research Center, *China Seen Overtaking US as Global Superpower*, Global Attitudes Project, 13 July 2011.

The fact that the EU and its Member States do not have the same strategic and military stakes in the western Pacific as the US can also be a source of tension in EU-US relations, particularly in relation to China and its growing regional power. Recurrent misgivings and suspicions have arisen between Washington, on the one hand, and Brussels and some European capitals, on the other hand, over the possibility of lifting the EU arms embargo on China. The distance between the US and the EU concerning Asia and China is partly reflected by the absence of regularised, official senior-level discussions between the EU and US on the region and on China in particular.

Overall, views in the EU and the US about one another are good but not overwhelmingly favourable. For example, the 2011 German Marshall Fund survey noted above found that EU and US respondents were of similar minds when looking at the state of EU-US relations. Of those surveyed in 12 EU Member States, more than 45 per cent felt that relations were ‘good’, compared to 42 per cent in the US. But in both places, more respondents – 46

⁷¹ Pew Research Center, *China Seen Overtaking US as Global Superpower*, Global Attitudes Project, 13 July 2011.

per cent in the EU and 49 per cent in the US – saw relations as ‘mixed’. In the EU, 4 per cent said relations are ‘bad’, compared to 5 per cent who said so in the US.⁷²

3.2.3 Domestic concerns

In addition to these global and bilateral impediments to common action, the EU, the US and China each has difficult substantial domestic challenges to grapple with. Some of these problems will need to be addressed, in part, through more meaningful and constructive engagement with foreign partners, not least within the EU-US-China triangle. But these domestic challenges will cause the three players to be predominantly inward-looking in the near to medium term and to be constrained by these challenges from undertaking bold, cooperative international action.

China faces the greatest domestic challenges, and they have been described in detail elsewhere.⁷³ Those problems arise in many respects from the country’s very economic success, but they are further exacerbated by a brittle political system fearful for its legitimacy and often unresponsive to heightened socio-economic demands and expectations. Resource problems, such as air, water and soil pollution and other environmental degradation, water shortages and deforestation, pose growing threats to people’s health and livelihood. Endemic corruption and growing income gaps between rich and poor, between urban and rural residents and between the country’s east and its inland provinces foster disgruntlement and nagging questions among the disenfranchised about China’s future. Unrest and popular dissatisfaction across a spectrum of issues – land use, labour rights, product and industrial safety, ethnic and religious identity, and political dissent – is on the rise. Ethnic and religious tensions and violence in Xinjiang and Tibet are particularly volatile. The ability of disaffected persons to voice their protest has increased with the spread of new communications and media technologies, aggravating local and national authorities’ worries about social stability and how to maintain it.

At a fundamental level, China’s long-term growth and sustainability will depend on tough choices about how to transform its growth model from investment to consumption and from energy-intensive use to cleaner and more efficient

⁷² *Transatlantic Trends*, Chart 5.

⁷³ See, for example, Susan Shirk, *China: Fragile Superpower: How China’s Internal Politics Could Derail its Peaceful Rise* (Oxford: Oxford University Press, 2008).

energy use, all the while absorbing and meeting the needs of tens of millions of persons flocking to burgeoning new urban areas. These and many more challenges will unfold and intensify as the country goes through a major political change under the so-called Fifth Generation of leadership in 2012 and beyond. The Chinese leadership's focus will be primarily on its internal landscape and on doing what it can to secure continued development and to retain political legitimacy for the Chinese Communist Party.

Leaders in the EU and the US confront less daunting but nonetheless arduous long-term problems that will keep their focus on the home front as well. In early 2012, there were signs of financial stability in the eurozone, but avoiding any future meltdown of the currency and assuring stricter financial oversight and fiscal responsibility in the EU will rightly consume much time and energy in the years to come. The EU's internal political and bureaucratic coherence remains problematic as well. Other internal concerns – such as integrating new Member States, immigration, demographic trends such as ageing, and enhancing societal security and resilience within EU borders – will remain of pre-eminent importance to its leaders.

Likewise, American leaders will be preoccupied with economic and fiscal recovery, but in a context of political divisiveness and stalemate beyond the 2012 elections. Basic socio-economic and sociopolitical challenges for the US – fiscal deficits, unsustainable social benefits, developing smarter and greener energy sources, a weakening infrastructure, healthcare reform, renewed investment in education for a twentieth-century workforce and a sensible immigration policy – will demand a serious readjustment of political and financial priorities in order to focus on domestic affairs.

These imperatives for the EU and the US will not exclude proactive policies on the international scene: indeed, many solutions to internal challenges must be found through international engagement. But those challenges will vitiate the willingness and ability of EU and US leaders to engage with each other and with China, as well as to take bold trilateral initiatives.

4 Conclusions: Ways Forward for Collective Action

The preceding pages paint a mixed picture of the common economic and security interests of the EU, the US and China. There are strong imperatives and increasing convergence among the three sides on common economic and security interests. The EU's president José Barroso could have been speaking for all three when he said at the conclusion of the fourteenth EU-China summit in February 2012 that 'we can today send a message regarding our resolve to be jointly an anchor of stability and co-operation in a world facing multiple challenges. On this we share indeed a strategic consensus.'⁷⁴

However, the difficulty is in identifying cooperative actions that the three can genuinely and jointly embrace, implement and sustain together. The constraints on common action are often exacerbated by the very global challenges that the world's major powers should be jointly addressing, creating wedges rather than bridges between them. The remarkable and rapid transformation of China is in itself both a force for bringing the EU, the US and China together as well as one that can drive them apart. The current and near- to medium-term internal economic and political conditions of the EU and the US, and especially of China, are likely to limit bilateral as well as trilateral momentum towards deeper cooperation, even as the challenges that they face, both at home and abroad, will demand constructive global partnerships in order to address them effectively.

This contradictory and complex dynamic points to a cautious set of prescriptions that recognise the fundamental need for the EU, the US and China to build and act on their common interests and challenges. These recommendations are rooted in a realistic appreciation of the constraints on such trilateralism and of the power of bilateral ties – EU-US, US-China and EU-China – to achieve meaningful results in promoting common economic and security interests. The EU can play a critical linchpin role in fostering greater trilateral partnership, purpose and action on the global stage. But to do so, it will need to substantially step up its strategic engagement with the burgeoning power dynamic of the Asia-Pacific region.

⁷⁴ José Manuel Durão Barroso, *President of the European Commission, Statement by President Barroso following the 14th EU-China Summit*, Press point, Beijing, 14 February 2012, accessed at: <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/94&format=HTML&aged=0&language=EN&guiLanguage=en> (28 February 2012).

The EU must:

- **Avoid the establishment of a formal trilateral structure and instead make better trilateral use of extant multilateral mechanisms**

There may be some temptation within the EU to establish a formal EU-US-China trilogue mechanism, but it would probably not find support in either China or the US. The Chinese have been traditionally wary of participation in multilateral institutions in which they are uncertain of playing a formative and prominent role. Given the deep and abiding transatlantic partnership, it would be difficult for Beijing to see such a trilateral grouping as something less than ‘them against us’. China is more likely to engage actively in multilateral institutions such as the SCO, the emergent BRICs* process, the East Asian Summit, the G20 group or the UNSC. It is also likely that the US would not embrace a formal trilateral process with the EU and China, preferring in the first instance to work more directly with China on a bilateral basis. Even so, some trilateral discussions between the EU (as well as EU Member States), China and the US should be fostered when it makes the most sense to do so within established multilateral channels such as the UNSC, the G20 and the ARF. The critical challenge for the EU is to be taken more seriously as a principal player by China and the US in Asia and on other regional and global issues.

- **Focus on economic engagement as the most promising area for trilateral cooperation**

All three sides share common defensive interests: averting an upsurge in protectionism; maintaining the centrality of the WTO and its dispute-settlement mechanisms; and, perhaps most important, keeping an open door to investment. There are also a number of areas where ongoing constructive cooperation needs to be sustained and deepened: supporting global financial stability and further strengthening close cooperation between central banks; identifying and expanding areas of economic and development cooperation in third areas, such as the ‘New Silk Road’ strategy for Afghanistan; coordinating to address threats to global energy markets; and expanding China’s role in and contribution to international financial institutions.

* Brazil, Russia, India and China.

- **Intensify the focus on economic ‘rebalancing’ and its benefits for China**

A qualitative shift in the direction of building a consumption-led economy in China would make a significant contribution to global growth and would help as well to remedy a series of other problems, from China’s heavy-industry-dominated energy consumption to an assortment of domestic social challenges. This will not provide a magic bullet solution to all sources of tension between China and its partners – IPR problems and government procurement issues, for instance, are not attributable to rebalancing alone – but it would take much of the heat out and potentially even open up the possibility of a more serious joint plan of action for revitalising the global economy led by the EU, the US and China. Discussions at the G20 have been stalled by disagreements on currency valuation, and nervousness about an influx of Chinese imports has been one of the main sources of reluctance on the part of developing countries to negotiating further trade liberalisation through the WTO mechanisms rather than in bilateral or multilateral contexts.

The most important measure is not the frequently mentioned, and genuine, need to provide a more effective social safety net, thereby reducing the need for private citizens to save so much. Studies indicate that its impact would still be relatively modest.⁷⁵ Much more important is a systematic effort to readjust the way that capital and resources are allocated in the Chinese economy: reforming banks’ lending practices (notably, negative real deposit rates for households), reducing SOEs’ ability to retain earnings; and changing the whole financial system, which funnels vast support to SOEs rather than to the more efficient private sector. Although other measures, such as the renminbi’s appreciation and internationalisation, have been put in motion and should be continued, the financial crisis has, if anything, heightened the problems of capital allocation in the Chinese economy.

- **Explore possibilities for alliances with progressive economic thinkers**

The most recent period of intense economic reform in China, the 1990s, was notionally driven by Beijing’s desire to join the WTO. But the WTO

⁷⁵ Jonathan Woetzel et al., *If you’ve got it, spend it: unleashing the Chinese consumer*, McKinsey Global Institute, August 2009, accessed at: http://www.mckinsey.com/Insights/MGI/Research/Financial_Markets/Unleashing_the_Chinese_consumer (24 March 2012).

accession process was also used by reformers in China to push forward an agenda that they believed was in China's economic interest regardless of WTO membership. Today the EU's and the US's bilateral approaches to China should visibly establish and reinforce a sense of common cause with the beneficiaries and advocates of reform in China itself. The most important battles will be domestic ones in China, and US and European actions should be tailored to reward reformist choices. It has been hard to point to any process in recent years, but the new leadership in China, and the growing appreciation of the urgency of breaking from the past several years of drift, may open up new opportunities once that leadership is established. Realistically, however, the coming years could as easily resemble the recent period: new trade initiatives cannot be expected to change China's approach in the short term; internal political obstacles in the three parties have not gone away; and although new WTO cases and direct bilateral pressure are likely to increase, the basic pattern of relations may nevertheless persist.

On the positive side, the World Bank's China 2030 report,⁷⁶ which lays out an ambitious roadmap for structural reform, green development, innovation and reform of the fiscal system, was devised in close collaboration with the Development Research Center of China's State Council and Ministry of Finance. It indicates the kind of detailed reform agenda that some leading figures in the Chinese government are prepared to pursue with their international partners. External encouragement from the US and Europe should be combined with support of efforts of this sort, and should be careful not to undermine it.

- **Reinvigorate and elevate EU-US economic and security consultations on Asia and China**

Official transatlantic dialogue on Asia and China, which enjoyed a brief period of relatively senior-level activity in the mid-2000s, has drifted and become less consequential. Given the continuing shift of global economic and political gravity to the Asia-Pacific and Europe's deepening interest in

⁷⁶ *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*, The World Bank and the Development Research Center of the State Council, People's Republic of China, 27 February 2012, accessed at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/02/28/000356161_20120228001303/Rendered/PDF/671790WP0P127500China020300complete.pdf (2 March 2012).

the region, the US and the EU should commit themselves to reinvigorating those consultations on security and especially economic issues. A renewed effort in this direction made in talks between US and EU officials in January 2012 is a welcome step and should be sustained at a high level.

Those discussions would include closer coordination on economic and trade strategy between the EU and the US vis-à-vis China. Public differences over issues such as the renminbi's valuation have undermined the chance to take an effective common position on essentially shared interests; and coordination over the launch of the TPP or other elements of EU and US trade policy in East Asia, for instance, has been minimal. Tactical coordination on China trade policy is good and continues to improve, but the shared long-term agenda has been at best inchoate.

Any approach could be pursued in parallel with a form of economic hedging. This would involve expanding and deepening EU and US ties with other 'like-minded' countries in their relationships with China and constructing an international economic and trade architecture that is robust enough to deal with a problematic Chinese stance but attractive enough for China to want to be a part of it. To achieve this, it is important that Europe and the US should work together to ensure that their trade policies in Asia are mutually reinforcing. In practice, the dual opportunity of access to the European and US markets makes the rewards for countries willing to make the necessary trade-offs and reforms all the greater. Negotiations on the United States-Korea FTA substantially shortened the time required for the EU to reach a similar agreement, and an analogous benefit may be anticipated for the prospect of Japanese membership of the TPP following free trade negotiations with the EU.

But while there are certainly 'competitive liberalisation' benefits that will accrue anyway from the two sides' efforts in the region, the web of European free trade negotiations and the TPP negotiating effort would benefit considerably from closer transatlantic coordination. Much of the discussion in the TPP, for instance, is about agreeing rules, including on SOEs, standards, the environment and IPR, that China would have to adhere to if it joins at a later stage. This would be much stronger if an EU-US agreement could be reached on these issues, difficult though the negotiations would be. More basically, trade agreements in Asia will be stronger if both the United States and the EU actively work to ensure that

their agreements incorporate shared provisions and avoid conflicting ones. The net result – a strong set of complementary bilateral and multilateral agreements with China’s neighbours – will have a substantial impact on China’s own choices. As President Obama stated: ‘We’re organizing trade relations with countries other than China so that China starts feeling more pressure about meeting basic international standards’.⁷⁷

Another form of EU-US leverage will come through coordinating access to markets and contracts. As Chinese companies seek to invest in Western markets rather than simply to sell goods there, consultation over respective approaches will be essential. A recent successful example of this is the new EU reciprocity clause. This can bar access to European public procurement contracts to bids from countries that deny access to European companies. This clause is intended almost entirely for China, but could have elicited objections from the United States, which has a smaller portion of its public procurement market open internationally than the EU. In practice, effective transatlantic coordination has helped to pre-empt these concerns.

This applies not only to purely commercial issues but also to augmented joint efforts to guard against problematic or illicit Chinese access to sensitive technologies. The EU does not have an equivalent of the US Committee on Foreign Investment, an interagency committee that reviews the national security implications of foreign control of US businesses, and there is no legal basis for it to be established at an EU level (some individual Member States do have like-for-like bodies). But a non-legally binding mechanism could act both to support Member State efforts and to facilitate closer international cooperation.

However, closer transatlantic consultations on these and other security and economic issues should avoid the impression that they are intended as part of ‘ganging up’ on China. Taken to such an extreme, the consultations could easily result in Chinese responses that could negate the outcomes that they aim to achieve. In the end, it is clear that a more regularised, more senior-level and more sustained transatlantic dialogue on Asia and China is needed and that it should be encouraged at the highest political levels on both sides of the Atlantic.

⁷⁷ Transcript, Third Presidential Debate, 22 October 2012, accessed at: <http://www.npr.org/2012/10/22/163436694/transcript-3rd-obama-romney-presidential-debate> (accessed on 25 October 2012)

- **Devote greater attention in EU-US-China interactions to next-generation interests at the nexus of economics and security, with a priority on challenges related to energy, the environment, regional stability and cybersecurity**

In the security realm, some of the greatest challenges facing the EU, the US and China are those threatening the global commons and the open, productive flows of goods, capital and information that support and sustain modernising societies. Chinese leaders and policymakers already recognise the problems such challenges present, especially as their country becomes more globally open and integrated. For example, the EU, the US and China have a joint interest in assuring that China does not become a source for infectious diseases that could spread globally. Moreover, as China progresses economically and scientifically, the three sides should look to work with China as a *contributor to*, not a consumer of, global health resources, improvements and discoveries. Likewise, the three have a very strong interest in coordinating and combining resources to address environmental and energy resource challenges not only in China but also around the globe. A particularly encouraging development in this regard is the deepened counterpiracy cooperation among the EU, the US and China, as in the Gulf of Aden. Concerted efforts to deepen cooperation in this area would probably be welcomed in Beijing.

Cybersecurity, and particularly the problems of China as a source of cyberattacks and cybertheft, has risen quickly on the international agenda, and particularly on the US-China and EU-China agendas. The EU and the US share a common interest in exchanging notes and practices for dealing with China-sourced cyberthreats. But they also should work in concert, and with China, to underscore trilaterally shared interests as increasingly wired societies and economies to combat cyberfraud, larceny, intellectual property theft, child pornography, human trafficking and other abuses of cyberspace. The three sides will struggle to find the right balance between 'openness' and 'security' and to develop productive forms of cooperation across their respective government and private sectors.

- **Invest much greater resources to strengthening its position in the trilateral dynamic, particularly on security issues**

For any form of productive trilateral cooperation to work, the EU must strive to become a much greater part, in terms of economics, politics and even security, of the burgeoning power dynamic of the Asia-Pacific, and it must become (and be seen in the region as) a positive contributor to it. This requires a further deepening of its engagement in the region and a more consistent, regularised and high-level presence there. Of especial importance are its relationships with China but also with Australia, India, Indonesia, Japan, South Korea and Taiwan and its institutional relationships with ASEAN and the ARF. Establishing FTAs with regional partners beyond South Korea to include India, Malaysia, Singapore, Vietnam and even Japan and the United States would be another component of a greater EU engagement with the Asia-Pacific.

In addition, positioning the EU more advantageously and co-equally within an EU-US-China dynamic will demand a deft and well-coordinated policy that plays to EU strengths in ways that the US and China will – at times separately, at times together – find beneficial. For China, the EU remains an attractive partner for trade, investment and technology transfer and it is a potential source of pragmatic advice and assistance in addressing many of Beijing’s growing domestic challenges such as environmental degradation, corruption and possibly political reform. For the US, the EU can be an even more attractive partner in relation to China through closer transatlantic coordination and stronger contributions of political encouragement and technical assistance to address concerns with China such as arresting environmental degradation, opening markets, fostering political reform, the rule of law and human rights and contributing to global public goods.

But the EU should also step up its role on security issues of concern to China and the US, both in Asia and in areas closer to its borders. China and the US will generally look favourably upon effective EU action, including in the military sphere, to help bring greater stability to regions around Europe’s periphery, particularly in sub-Saharan Africa and the Horn of Africa. To the extent possible, the EU and its Member States should consider enlarging the use of their naval experience and assets to include regions around the Asian periphery that face maritime threats. The EU’s experience and capacity in promoting security through civilian assistance in post-conflict and post-

disaster situations is another valuable asset that can be leveraged in various cooperative ways to enhance security cooperation with China and the US.

Positioning the EU more advantageously within the trilateral relationship will also mean greater its investment in the fundamentals of understanding China: resources for independent and authoritative research and analysis, education in Chinese language, history, culture and contemporary affairs, and official and nongovernmental policy dialogues and exchanges. An overemphasis in EU-China relations on government-to-government ties needs to be balanced by other, nongovernmental forms of exchange and understanding. The announcement at the February 2012 EU-China summit of a people-to-people dialogue, to complement the existing Economic and Trade Dialogue and the Strategic Dialogue, is a welcome step in this direction.

Juggling the EU's relationship with the US and China in ways that they both appreciate and that promote EU interests will not be easy or always successful. But choosing one side or the other would certainly be contrary to EU interests as well. As a collection of Member States, the EU already faces enormous challenges in putting forward coherent EU-wide policies that promote bilateral EU-US and EU-China relations and meet EU interests but also promote the possibilities for trilateral cooperation. Nevertheless, the pragmatic and effective pursuit of such policies, while challenging, would place the EU in a much stronger position as a principal actor on the global stage.



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