

**CHINA IN THE BALANCE**  
**TOWARDS A MATURE RELATIONSHIP**

No. 55, April 2007

## **Members of the Advisory Council on International Affairs**

<b>Chair</b>	F. Korthals Altes
<b>Vice-chair</b>	Professor F.H.J.J. Andriessen
<b>Members</b>	A.L. ter Beek Professor G. van Benthem van den Bergh Ms A.C. van Es Professor W.J.M. van Genugten H. Kruijssen Dr P.C. Plooij-van Gorsel Professor A. de Ruijter Professor A. van Staden Ms H.M. Verrijn Stuart
<b>Executive Secretary</b>	Dr R.J. van der Veen

P.O. Box 20061  
2500 EB The Hague  
The Netherlands

Telephone + 31 70 348 5108/6060  
Fax + 31 70 348 6256  
E-mail [aiv@minbuza.nl](mailto:aiv@minbuza.nl)  
Internet [www.aiv-advice.nl](http://www.aiv-advice.nl)

## **Members of the joint committee on China**

<b>Chair</b>	Professor A. van Staden
<b>Vice-chair</b>	Professor G. van Benthem van den Bergh
<b>Members</b>	Professor F.H.J.J. Andriessen Dr A. Bloed Lieutenant-General (ret.) G.J. Folmer Dr P. van Ham F.D. van Loon Rear Admiral (ret.) R.M. Lutje Schipholt Professor L.B.M. Mennes Professor N.J. Schrijver Professor B.A.G.M. Tromp General (ret.) A.K. van der Vlis E.P. Wellenstein
<b>Executive secretary</b>	J.M.D. van Leeuwe

## Table of contents

	<b>Foreword</b>	
<b>I</b>	<b>A mature relationship with China</b>	<b>7</b>
	<b>I.1 A responsible stakeholder</b>	<b>7</b>
	<b>I.2 Containment or engagement</b>	<b>8</b>
	<i>I.2.1 Containment</i>	<i>8</i>
	<i>I.2.2 Engagement</i>	<i>9</i>
	<b>I.3 Association as a general principle</b>	<b>9</b>
	<b>I.4 The need to strike a proper balance</b>	<b>9</b>
	<b>I.5 Finally</b>	<b>11</b>
<b>II</b>	<b>China's economic growth and societal problems</b>	<b>12</b>
	<b>II.1 China must keep growing</b>	<b>12</b>
	<b>II.2 A shock to the world economy</b>	<b>13</b>
	<b>II.3 China and globalisation</b>	<b>14</b>
	<i>I.3.1 Trade surpluses and deficits</i>	<i>14</i>
	<i>II.3.2 The WTO</i>	<i>15</i>
	<b>II.4 Trade between China and the EU (and the Netherlands in particular)</b>	<b>16</b>
	<b>II.5 China's growth potential</b>	<b>18</b>
	<b>II.6 Problems with economic growth</b>	<b>19</b>
	<b>II.7 China's policy</b>	<b>22</b>
	<b>II.8 To sum up: China's main challenges are sociopolitical</b>	<b>22</b>
<b>III</b>	<b>China: some domestic political developments</b>	<b>24</b>
	<b>III.1 Interaction between domestic and foreign policy</b>	<b>24</b>
	<b>III.2 The Chinese Communist Party</b>	<b>24</b>
	<b>III.3 China's cautious move towards human rights</b>	<b>25</b>
	<b>III.4 Potential for a more nationalistic course</b>	<b>27</b>
	<b>III.5 Parliamentary democracy is a long way off</b>	<b>28</b>
<b>IV</b>	<b>China and the Asian region</b>	<b>29</b>
	<b>IV.1 China's soft power</b>	<b>29</b>
	<b>IV.2 Geopolitics</b>	<b>29</b>
	<b>IV.3 China's influence in the region</b>	<b>30</b>
	<b>IV.4 The position of the US in the region</b>	<b>30</b>
	<b>IV.5 Regional organisations</b>	<b>31</b>
	<b>IV.6 Taiwan</b>	<b>33</b>
	<b>IV.7 North Korea</b>	<b>34</b>
	<b>IV.8 Japan</b>	<b>35</b>

<b>V</b>	<b>China at global level</b>	<b>36</b>
<b>V.1</b>	<b>China's growing presence on the world political stage</b>	<b>36</b>
<b>V.2</b>	<b>The system of global governance due for review</b>	<b>36</b>
<b>V.3</b>	<b>China's role within the United Nations</b>	<b>37</b>
	<i>V.3.1 Responsibility to protect</i>	<i>38</i>
	<i>V.3.2 Reservations about UN intervention</i>	<i>38</i>
<b>V.4</b>	<b>Nuclear policy</b>	<b>39</b>
<b>V.5</b>	<b>Non-proliferation and arms control</b>	<b>40</b>
<b>V.6</b>	<b>Raw materials, energy and Africa</b>	<b>41</b>
<b>VI</b>	<b>China's military reforms</b>	<b>43</b>
<b>VI.1</b>	<b>Lack of transparency</b>	<b>43</b>
<b>VI.2</b>	<b>China's domestic security</b>	<b>44</b>
<b>VI.3</b>	<b>China's external security</b>	<b>44</b>
<b>VI.4</b>	<b>Strategy</b>	<b>44</b>
<b>VI.5</b>	<b>Improvement of military capabilities</b>	<b>45</b>
<b>VI.6</b>	<b>Military cooperation with China</b>	<b>46</b>
<b>VII</b>	<b>External influence on China: the Netherlands, the EU and NATO</b>	<b>48</b>
<b>VII.1</b>	<b>Opportunities to exert influence</b>	<b>48</b>
<b>VII.2</b>	<b>Bilateral channels</b>	<b>48</b>
	<i>VII.2.1 How the Netherlands can help reduce uncertainties in Chinese society</i>	<i>49</i>
	<i>VII.2.2 Implications for the Netherlands' armed forces</i>	<i>49</i>
<b>VII.3</b>	<b>The EU as a channel for influence</b>	<b>50</b>
	<i>VII.3.1 EU-China policy requires better coordination</i>	<i>50</i>
	<i>VII.3.2 Even so, China neither can nor wants to ignore the EU</i>	<i>51</i>
	<i>VII.3.3 How the EU can help reduce uncertainties in the Chinese society</i>	<i>52</i>
	<i>VII.3.4 Need for common criteria</i>	<i>52</i>
	<i>VII.3.5 The EU and China in Africa</i>	<i>52</i>
	<i>VII.3.6 The arms embargo</i>	<i>54</i>
<b>VII.4</b>	<b>NATO as a channel for influence</b>	<b>56</b>
	<i>VII.4.1 NATO's 'Contact Countries'</i>	<i>57</i>
<b>VII.5</b>	<b>Joint action by the EU and the US/NATO</b>	<b>58</b>
<b>VIII</b>	<b>Summary</b>	<b>60</b>
<b>Annexe I</b>	Request for advice	
<b>Annexe II</b>	List of abbreviations	

## Foreword

On 13 October 2006, the government asked the Advisory Council on International Affairs (AIV) to produce an advisory report on the significance of the rise of China for foreign policy (see Annexe I). The government wishes to draw on this report as it develops its policy on China, particularly when evaluating the *China policy memorandum: shaping our bilateral cooperation relationship with China over the period 2005-2010*.<sup>1</sup>

The structure of the report is as follows. A general introduction on the main subject of the report – how to foster a mature relationship with China – is followed by an analysis of China's current economic and social situation. Subsequent chapters examine a number of factors that determine the country's foreign and security policy, China's relationship with other Asian countries and its performance on the world stage. There is also a discussion of China's military reforms. Finally, the report explores ways of influencing China's sociopolitical transformation and – in connection with this – of integrating China into international institutions. The European Union is seen as a key channel for such influence.

The report is mainly confined to the subjects of the twelve specific questions in the government's request for advice. Although the request does not mention human rights in China, this issue is addressed in the report, for in the AIV's view it is inextricably bound up with the concept of responsible stakeholderhood in the world and also has implications for security policy. The AIV sees this report as a first step from his side in drawing more attention to the rapid changes now taking place in the region.

The report was prepared by a joint AIV committee chaired by Professor A. van Staden. The other members were Professor G. van Benthem van den Bergh (vice-chair), Professor F.H.J.J. Andriessen, Dr A. Bloed, Lieutenant-General (ret.) G.J. Folmer, Dr P. van Ham, F.D. van Loon, Rear Admiral (ret.) R.M. Lutje Schipholt, Professor L.B.M. Mennes, Professor N.J. Schrijver, Professor B.A.G.M. Tromp, General (ret.) A.K. van der Vlis and E.P. Wellenstein. Administrative liaison was provided by W.A.C. Palm, Ms K.S. van Stegeren and Ms G. Willems on behalf of the Ministry of Foreign Affairs and Captain C.L. Turnhout on behalf of the Ministry of Defence. The executive secretary was J.M.D. van Leeuwe, assisted by trainees B. Groothuis, Ms M.A.M. Suijkerbuijk and T. Schut.

In preparing the report, the committee spoke to the following people (in alphabetical order): Ambassador D.J. van den Berg (the Dutch ambassador in Beijing), Professor P.P. Bottelier (Professor of China Studies at Johns Hopkins University in the United States), O.T. Genee (Ministry of Foreign Affairs), Professor S.R. Landsberger (Professor of Contemporary Chinese Culture at the University of Amsterdam), Ms Lilly Li (Asia/Pacific regional advisor at Shell International B.V.) and P.A. Menkveld (Ministry of Foreign Affairs). The committee also had a special exchange of views with China's ambassador to the Netherlands, Ms Xue Hanqin, and her staff. Furthermore, all four of the AIV's standing committees – the European

1 Letter of 13 June 2006 to the House of Representatives of the States-General (Parliamentary Papers 2005-2006, 29 234, No. 48).

Integration Committee, the Human Rights Committee, the Development Cooperation Committee and the Peace and Security Committee – were involved in producing the report. In March 2007, the executive secretary also attended a four-day international conference on China's growing international security and diplomatic role at Wilton Park in the United Kingdom.

The AIV is grateful to those consulted for their contribution.

The report was adopted at the AIV meeting on 13 April 2007, in accordance with the government's wish to receive it not later than April.

Everyone now knows that China is important. No one knows where it will end up.<sup>2</sup>

# I A mature relationship with China

## Key propositions

- No one knows how the rise of China will continue or what the world will be like twenty years from now.
- The rest of the world, and the Netherlands in particular, must therefore do all it can to ensure that China takes part in international frameworks.
- In this connection, the AIV calls for a strategy of engagement, but not without reservations.

### I.1 A responsible stakeholder

The significance of China's rapid rise can hardly be overestimated.<sup>3</sup> It is changing both global and regional relations and structures. However, there are two sides to this. The first is an encouraging one: economic growth has reduced the number of very poor people in China by more than 500 million in the last 25 years. This is an impressive achievement by any standards. The rise of China has also been good for the rest of the world. There has been a vast increase in mutual trade and investment. Global inflation has been kept in check by the import of cheap goods from China, the 'workshop of the world'. The Netherlands, and especially Dutch consumers, have benefited from this.

However, there is another side to the rise of China, namely the societal problems associated with the country's tempestuous economic development. What, for example, is the environmental impact of China's growth? And will the Chinese Communist Party (CCP) manage to accomplish the political reforms necessitated by economic change, thus avoiding the risk of widespread domestic unrest? Such unrest could have major implications for the rest of the world, since the CCP may then feel compelled to pursue a more aggressive – or at least more assertive – foreign policy.

Moreover, as economic power shifts from the North and West to the South and East over the coming decades, countries such as China and India, which are rooted in ancient civilisations, will become increasingly self-confident. There will also be a shift in cultural influence. Rising countries such as China are now projecting their own ideas about such concepts as democracy, freedom and the rule of law.<sup>4</sup> It is important to note here that China is making increasing efforts to help shape the international agenda, rather than merely follow it (whether or not under external pressure). It has repeatedly declared itself in favour of an international order that is not based on the hegemony of any one country.

2 Mark Leonard, 'The road obscured', *Financial Times*, 11 July 2005.

3 One should strictly speak of China's 'resurrection' rather than its 'rise'. In 1820, for example, China had a greater share of world product than any other nation. For more on this, see Angus Maddison, *Chinese economic performance in the long run*, Paris, OECD, 1998.

4 Mark Leonard, 'The geopolitics of 2026', from *The World in 2006*, published by *The Economist* in 2005.

### *Fundamental uncertainty*

No-one knows how the rise of China will continue or what the world will be like twenty years from now. As this report will make clear, China faces great problems whose outcome is uncertain. However, all the parties involved, including China itself, the United States and the countries of Asia and Europe, acknowledge the importance of China's development as a stable, peaceful nation. In this connection, the former US Deputy Secretary of State, Robert Zoellick, has introduced the concept of a 'responsible stakeholder'.<sup>5</sup>

In its request for advice dated October 2006, the government states that it wants its foreign and defence policy to contribute to a 'stable, responsible, prosperous and sustainable' China. The AIV sees this as part of the answer to the question of how the rest of the world, and the Netherlands in particular, can encourage China to work within internationally agreed frameworks and abide by their rules. That is the subject of this report.

In this connection, it is important that China should act as a responsible stakeholder at all three of the levels that can be identified when analysing its position: national, regional (Asian) and global. It is inconceivable that China can act responsibly at global but not at national or regional level, for the three levels are interconnected. Even though the request for advice does not specifically mention democratic developments and human rights in China, the AIV will address these issues here, for they are inextricably bound up with the notion of a responsible stakeholder.

## **1.2 Containment or engagement**

There are two strongly contrasting schools of thought in the Western approach to the rise of China: (a) containment and isolation, and (b) engagement and integration. Both strategies are based on certain assumptions that cannot automatically be considered valid, but can nevertheless claim a certain degree of plausibility.

### **1.2.1 Containment**

The containment strategy is in line with the tenets of power realism, which assume that the traditional rivalry between great powers will continue. An economically powerful China will not be a status quo country, but will seek expansion and at least attempt to acquire regional hegemony. It will not necessarily do so with malevolent intentions, but for structural reasons. The international anarchy resulting from the lack of central authority in the world is making countries feel insecure and distrustful of one another. Power realists claim that this view is also applicable to China, despite (or regardless of) its exceptional size, its specific history and its geographical location. In order to survive, China will feel compelled to strengthen its position in relation to what for the time being is the most powerful country in the world: the US. China can only feel secure from a position of strength and relative superiority.<sup>6</sup>

5 He did so in a speech to the National Committee on US-China Relations entitled *Whither China: from membership to responsibility?* (New York, 21 September 2005). The question of what responsible international conduct entails can, of course, be answered in various ways. America's view is not the only one. In the AIV's opinion, it chiefly means acting in accordance with generally accepted international principles and legal norms.

6 See, for example, John J. Mearsheimer, *The tragedy of great-power politics*, New York, W.W. Norton, 2001, p. 402 and, by the same author, 'Better to be Godzilla than Bambi', *Foreign Policy*, January/February 2005.

### **1.2.2 Engagement**

The engagement strategy – i.e. the deliberate establishment and strengthening of ties with a country – can be seen as part of the ‘liberal’<sup>7</sup> view, which is the antithesis of the power realist view. It assumes that, as countries become more democratic, they will establish closer economic ties with other countries and play a greater part in international institutions, will confine the use of force to exceptional emergencies and will pursue a peaceful foreign policy aimed at constructive cooperation.

If these conditions are fulfilled, China will be incorporated into the existing international order and will not embark on a geopolitical confrontation with the US based on the use or threat of force. Our part of the world therefore has an interest in supporting the process of political and economic change in China, further integrating the country into the global economy and involving it in international consultations as much as possible. The goal should be to associate China with Western countries, rather than dissociate it from them.<sup>8</sup>

### **1.3 Association as a general principle**

The AIV is decidedly more in favour of the second approach to dealing with China’s growing power than the first. In the interests of world stability, the AIV believes it is vital that China’s diplomatic status, position and influence be brought into line with the country’s growing economic and military power. Historical experience seems to show that rising countries are very likely to rebel against the established international order if they are denied what they perceive to be their rightful place within it. Incorporating China into the international order seems the best way to escape the destructive logic of great-power rivalry.

In this connection, it should not be forgotten that there are major cultural differences between China and the West. Loss of face, for example, has far greater implications from the Chinese point of view – including foreign policy implications – than is generally assumed in the West. It is essential to show respect under all circumstances, and this must be reflected in the tone and phrasing of foreign policy goals. Potential loss of face has hampered efforts to find a solution to the Taiwan question: neither party is willing to admit ‘being in the wrong’ in any way.

### **1.4 The need to strike a proper balance**

The AIV’s call for an approach that focuses on cooperation rather than confrontation with China is based on a number of specific considerations and arguments:

1. There is no radical anti-Western ideology in China or any aspiration to encourage or support the violent overthrow of political regimes in other countries.
2. The Chinese leadership needs to fulfil the expectations that have been aroused among China’s citizens regarding their share in the country’s growing prosperity.

7 This term is used, in a non-party-political sense, to designate a group of authors who draw on an idealistic tradition dating back to Immanuel Kant’s thinking on international relations.

8 For a presentation of this ‘liberal’ view of China’s development, see Martin Wolf, ‘China’s rise need not bring conflict’, *Financial Times*, 14 September 2005. See also Zbigniew Brzezinski, ‘Make money, not war’, *Foreign Policy*, January/February 2005.

3. China has extensive financial and economic links within the international system, and global interdependence is a fact.
4. There will be little support in Asia for a policy of containing and isolating China.
5. A policy of confrontation may generate an irreversible momentum.
6. The ominous prediction by power realists that armed conflict is very likely to break out during power transitions within the international system (the 'sitting' hegemon being supplanted by the rising challenger) appears to have been largely invalidated by the risk of nuclear war.<sup>9</sup>

However, especially given the uncertainty as to whether China's goals and aspirations will change as the country grows more powerful, and if so in which direction, the AIV does not feel that a policy of rapprochement with China should be pursued unconditionally or unreservedly. It therefore believes that the guiding principle for Dutch policy towards China should be 'hedged integration'. This has been defined as follows:

This posture acknowledges the desirability of engaging China in the interests of economic benefit and in the hope that China will become attuned to the norms and conventions of the international community. At the same time, however, it calls for vigilance and regard to the possibility of alternative, less benign outcomes, and recognises that China's ultimate strategic designs and trajectory, to the extent that they are not still evolving, are unknown.<sup>10</sup>

The challenge to Western governments in pursuing policy towards China is to strike a proper balance between the 'hedged' and 'integration' elements. 'Too explicit a hedge would preclude broad integration; too weak a hedge would leave only unconditional engagement'.<sup>11</sup> What this means in practice is that an engagement policy should always be assessed in the light of:

1. The development of the domestic situation in China (including the degree of respect for human rights);
2. The nature of China's relations with other countries in the Asian region;
3. China's behaviour at global level, especially in international forums, the most important of which is the United Nations.

The possibility of a domestic implosion due to economic stagnation or general social malaise, as well as rekindling tension in China's relations with other countries in Asia and elsewhere, should never be ruled out. These factors will also be discussed in more detail in the following chapters.

9 Interestingly, the influential chairman of the China Reform Forum, Zheng Bijian, has stated that the goal of his country's foreign policy is 'to transcend the traditional ways for great powers to emerge' (see his article 'China's "peaceful rise" to great-power status', *Foreign Affairs*, September/October 2005).

10 See Chapter 8 ('Asia') of the *Strategic Survey* published by the International Institute for Strategic Studies (IISS), London, Vol. 106 (1), 2006, p. 270.

11 *Ibid.*

## **I.5 Finally**

This report should be seen as a plea to establish a 'mature relationship' with China. What the AIV means by this is a relationship based on equality and mutual respect, in which it is also possible to call each other to account for ways of acting that run contrary to each other's expectations.

## II China's economic growth and societal problems

### Key propositions

- *In the short term, China will continue to pursue a policy aimed at rapid growth.*
- *To do this China will need the rest of the world, and this is an important factor in the direction and nature of its foreign policy.*
- *However, China is increasingly confronted with potentially destabilising societal problems.*
- *These would appear to be solvable if the right policies are pursued, but it is not clear whether China's leaders are willing and able to make the necessary institutional changes.*

### II.1 China must keep growing

Since the communist ideals of a classless society and social equality have gradually faded from view, partly as a result of economic reform, the Chinese Communist Party (CCP) has mainly derived its legitimacy from its efforts to ensure greater prosperity for all. In exchange for this, it trusts that people will be prepared to accept the absolute hegemony of the party. This explains the Chinese government's strong emphasis on growth and the need to create at least 24 million new jobs a year.

If economic growth is insufficient, or if sections of the population do not benefit from it sufficiently, this may have a major impact on social cohesion and equilibrium in China. Social unrest is one of the greatest threats to political stability in China.<sup>12</sup> It should be noted here that growth patterns – whether sectoral or regional – have so far not led to sufficient additional employment or poverty reduction.<sup>13</sup>

In the light of all this, it is not surprising that at least in the immediate future – over the next five years – China will continue to pursue a policy based on a very high rate of economic growth: approximately 9% of gross domestic product (GDP) a year. This matches the country's annual rate of growth over the past quarter of a century.<sup>14</sup> In 2006 the economy actually grew by 10.4%, and in 2007 growth is again expected to reach approximately 10%, even though Prime Minister Wen Jiabao himself set a target of around 8% at the National People's Congress (NPC) in March.<sup>15</sup>

One side effect of China's sustained, rapid economic growth and its impact on the world economy is an increase in national self-confidence. China is increasingly acting

<sup>12</sup> *China country report*, The Economist Intelligence Unit, February 2006.

<sup>13</sup> Pieter Bottelier, *The impact of China's growth on the poor and excluded*, Rockefeller Foundation, New York, 14 July 2005, p. 6.

<sup>14</sup> Shahid Yusuf and Kaoru Nabeshima, *China's development priorities*, World Bank, Washington DC, 2006, p. 35; Shubham Chaudhuri and Martin Ravallion, *Partially awakened giants: uneven growth in China and India*, World Bank Policy Research Working Paper 4069, World Bank, Washington DC, November 2006, p. 2.

<sup>15</sup> IMF Country Focus, 'To sustain rapid growth, China needs to rebalance its economy', *IMF Survey*, Vol. 35, No. 22, 11 December 2006, pp. 350-351.

as a major political power and is viewed as such by other countries.<sup>16</sup>

## **II.2 A shock to the world economy**

Because the rapid growth in China's economy since 1978 has mainly been export-driven, it has had a shock effect upon the world economy. Since 2000, China's share of global growth in goods and services has exceeded that of the United States. China is now the fourth largest economy in the world, and if it continues to grow at its present rate it will be the second largest in ten years' time, after the US.<sup>17</sup>

Other Asian countries, such as Japan, South Korea, Vietnam, Singapore, Malaysia and Thailand, have experienced periods of relatively rapid growth due partly to increased exports. However, China differs in three respects:

1. Its size. Owing to China's immense size (it has 1.3 billion inhabitants), economic changes there have a profound impact on the rest of the world. This factor is reinforced by the next one, which is:
2. The openness of its economy. The Chinese economy is remarkably open for its size. The sum total of its imports and exports of goods and services is about 75% of GDP. The equivalent figures for Japan, India and Brazil are 25-30%.<sup>18</sup>
3. The length of its period of rapid growth. An unbroken 27-year period of very rapid growth, as experienced by China, has not been seen anywhere else in the last century.

China has a labour force of almost 800 million, which is more than that of all 30 OECD countries put together. China's rise and entry into the global market economy have increased the market economy's labour force by more than half. This has boosted the world's growth potential, it has (as already mentioned) helped curb inflation and it has led to changes in the relative prices of labour, capital, goods and assets. In particular, the relative decrease in the price of labour has forced more developed countries to make what are sometimes painful adjustments.

Another relevant factor is the rise in the prices of raw materials such as copper, tin and oil, which China needs for its economic growth. Since China's per capita oil consumption is still only one fifteenth of that of the US, Chinese demand for and imports of energy are bound to increase considerably in the future (although it is unlikely – and extremely undesirable from an environmental point of view – that China's 1.3 billion inhabitants will ever equal the American population's per capita oil consumption).

Since there are still some 200 million people in rural areas of China who are not working full-time, Chinese economic growth will continue to affect the rest of the world for some time to come.<sup>19</sup>

16 'Special report: China and the world economy', *The Economist*, 30 July 2005, pp. 65-67.

17 According to calculations based on purchasing power parity, China is already the second-largest economy in the world and will overtake the US within a few years.

18 *The Economist*, 30 July 2005.

19 *Ibid.*

## **II.3 China and globalisation**

China's sustained rapid growth has been partly due to the rapid, extensive integration of the Chinese economy into the world economy through increasingly large flows of trade and investment. An important conclusion for this report and for Dutch policy towards China is that, if this process is to continue, China depends on the maintenance and consolidation of an open global system of trade and investment.

China's obvious interest in the continuing integration of the world economy is therefore a major contributing factor to the direction and nature of its foreign policy. In fact, China is now making increasing efforts to influence the multilateral system in accordance with its own needs.<sup>20</sup>

### **II.3.1 Trade surpluses and deficits**

China's growth has had major implications for the scale and structure of world trade. Although China's total trade surplus was no more than 3% of GDP in 2005, its distribution over the world is remarkably skewed.<sup>21</sup> China's large and increasing trade surpluses with the US and the EU more or less equal its trade deficits with Asian countries, especially Japan, South Korea and Taiwan.

Trade between China and the US is a particularly serious problem. In 2006, China's trade surplus with the US exceeded USD 220 billion.<sup>22</sup> This led to strong American pressure on China to reduce the surplus, in particular by revaluing the Chinese currency, the renminbi (RMB), in order to stimulate both domestic consumption and imports. This pressure has increased since the more protectionist-minded Democratic Party's victory in the November 2006 elections gave it a majority in both houses of Congress. American estimates that the RMB is now undervalued by 40% against the US dollar must be set against the cumulative appreciation of the Chinese currency by 6.5% since June 2005.<sup>23</sup> In any case, Beijing cannot afford to allow rapid major adjustments, for these could cause too much domestic social upheaval. Changes in the exchange rate could have a considerable impact on both export and import prices, and hence on the economy as a whole.

To paint a complete picture, it should be noted that China's financial and macroeconomic policy is generally satisfactory. Government finances are in order: in 2006 the budget deficit was 1.3% of GDP and public debt was less than 25% of GDP. Over the period 2000-2005, inflation was just over 3% a year.

What does need to be looked at – apart from the size of the surplus on China's balance-of-payments current account and the resulting upward pressure on the

20 Jonathan Holslag, *Globalisering met Chinese karakteristieken* ('Globalisation with Chinese characteristics'), Brussels Institute of Contemporary China Studies, Vrije Universiteit Brussel, December 2006.

21 *World Development Report 2007: development and the next generation*, World Bank, Washington DC (Selected world development indicators, Table 4, Economic activity, p. 294).

22 Morris Goldstein, *Testimony before the hearing on 'risks and reform': the role of currency in the US-China relationship*, Peterson Institute, 28 March 2007.

23 *Ibid.*

exchange rate of the RMB – is the question of how China's steadily expanding foreign exchange reserves (at the beginning of 2007 almost USD 1.1 trillion) can be more effectively invested without destabilising financial markets.<sup>24</sup> It should be noted here that in March 2007 the NPC decided to place part of these reserves in what is said to be a USD 200 billion investment fund.<sup>25</sup>

### **II.3.2 The WTO**

#### **Government question 3: What is the AIV's assessment of China's position in the WTO, and China's adherence to WTO requirements?**

China's admission to the WTO in 2001 has undoubtedly helped it prosper on world markets – its exports have more than tripled since it joined. Chinese membership of the WTO has been a success, particularly from Beijing's point of view. In general, China has fulfilled its obligations to reduce import and investment barriers at national level.

However, it has done far less to comply with its obligation to bring legal systems and legislation at lower levels into line with WTO standards. A recent European Commission study supervised by Commissioner Peter Mandelson<sup>26</sup> reports that European exporters and investors are faced with a complex system of behind-the-border protection.<sup>27</sup> In particular, little or nothing has been done in practice to fulfil the obligations arising from enforcement of the Intellectual Property Rights (IPR) system.

This is due to the high degree of decentralisation in the Chinese party hierarchy, in which obligations incurred at central level are not complied with fully, or indeed at all, lower down.<sup>28</sup> However, effective action to deal with piracy is essential if China is to develop, or attract through foreign businesses, the knowledge it needs to continue its rapid growth with the help of higher-value-added goods and services (see also Section II.5).

The enforcement of IPRs can be expected to improve gradually as emerging Chinese brands also start to suffer from piracy. However, this will probably not happen quickly enough for the West's liking. In April 2007, the US announced it would submit two matters for adjudication by the WTO: what it sees as China's inadequate protection of

24 These reserves far exceed what would be required for monetary stability. Since they mainly appear to be invested in US government securities, the real return on them is very low. The income that could be generated by more diversified investment is said to equal 1.85% of the ten largest reserve countries' combined GDP (see Lawrence Summers, *Reflections on global account imbalances and emerging markets reserve accumulation*, 24 March 2006). See also 'Keep growing', in 'Balancing act: a survey of China', *The Economist*, 25 March 2006, p. 9.

25 However, for the time being this fund is expected to invest in a very conservative, diversified manner (unlike hedge funds). See for example Stephen Green, 'China's new FX fund: great white or basking', *Standard Chartered*, 21 March 2007.

26 European Commission, *Future opportunities and challenges in EU-China trade and investment relations 2006-2010*, Brussels, February 2007.

27 *Ibid.*

28 Pieter Bottelier, 'China's economic boom: what does it mean for the rest of the world?', Johns Hopkins university journal *Saisphere*, 2006, pp. 13-15.

IPRs, and restrictions on access to the Chinese market for American media products such as films, books and music. In response, Commissioner Mandelson said that the EU does not support these American complaints.

Other forms of protection, such as grants to state enterprises, restrictions on shareholdings in Chinese businesses, a selective system of government purchasing and so forth, are also very much in evidence. The European Commission has estimated the value of lost export opportunities for European exporters of manufactured goods at EUR 12.5 billion in 2004 alone.<sup>29</sup>

#### **II.4 Trade between China and the EU (and the Netherlands in particular)**

**Government question 4: What is the AIV's assessment of the changes in China's relative global economic weight, not only as the 'workshop of the world' (due to low labour costs), but also, increasingly, as an investor and high-tech researcher? How can the EU and the Netherlands respond to these changes?**

In September and November 2006, the Netherlands Bureau for Economic Policy Analysis (CPB) published two partly overlapping studies on existing and potential economic ties between China and the European Union (the fifteen countries that were members before the recent enlargements), and more specifically the Netherlands.<sup>30</sup>

In 2006, China overtook the US as the leading exporter to the EU. Total exports from the EU to China were already greater than those from any non-EU country.<sup>31</sup> China's share of total imports to all the EU countries (including trade between the member states) is about 5%.<sup>32</sup> The equivalent figure for the Netherlands is rather higher: 7.7%.<sup>33</sup> This is because two thirds of Dutch imports from China are re-exported, due to the Netherlands' function as a transit country. Between 1980 and 2000, the share of primary products (raw materials and low-value-added manufactured goods) in Chinese exports to the EU fell from 26% to 7%, the proportion of labour-intensive products (mainly produced by low-skilled workers) fell from 42% to 38%, and the proportion of technology-intensive products rose from 11% to 36%.

EU exports to China are growing fast, but not as fast as imports from China. China's share of total exports (not including services) from the EU is still low: 1.7%. The equivalent figure for the Netherlands is not even 1%.

29 European Commission, *Future opportunities and challenges in EU-China trade and investment relations 2006-2010*, p. 11.

30 Wim Suyker and Henri de Groot (eds), *China and the Dutch economy: stylised facts and prospects*, CPB Document No. 127, The Hague, September 2006; Gerard van Welzenis, *Report AIECE Working Group on Foreign Trade*, CPB Document No. 126, The Hague, November 2006.

31 See <[http://ec.europa.eu/trade/issues/bilateral/countries/china/index\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/countries/china/index_en.htm)>.

32 Gerard van Welzenis, November 2006, p. 27. If imports between EU member states are disregarded, the stated percentages rise considerably, since trade between member states accounts for between two thirds and three quarters of the EU's total foreign trade (goods only).

33 *Ibid.*

### *Limited competition for Dutch businesses*

In general, China has comparative advantages in the production of manufactured goods, particularly labour-intensive, standardised products for which competition is mainly based on differences in cost, such as textiles, clothing, footwear and toys. In other sectors where Chinese producers and exporters are already competitive, such as machinery, motor vehicles, ICT (manufacture) and chemicals, they can be expected to become even more so, especially in ASEAN, South American, Middle Eastern and African markets.<sup>34</sup> Unexpectedly, however, almost 40% of Chinese exports consist of human-capital-intensive and technology-intensive products. According to the CPB, this is probably due to the large amount of foreign direct investment (FDI) in China. No less than 58% of exports come from businesses that are entirely or partly in foreign hands.

Dutch trade with China provides about 23,000 jobs in the Netherlands. The low prices of imports from China are estimated to have reduced Dutch inflation by 0.2% a year. Goods of which China is a major exporter are a relatively unimportant part of Dutch businesses' product range – not only goods produced using a large amount of unskilled labour (textiles, footwear and toys), but also technology-intensive electronic goods, which in most cases are only assembled in China. In short, says the CPB, Dutch businesses generally face only limited competition from China. However, there are of course specific businesses and sectors that do face fierce competition from China, such as the Dutch iron and steel industry.

### *Foreign direct investment*

China is a major recipient of foreign direct investment (FDI): USD 60 billion in 2004 and 2005, and USD 63 billion in 2006, mainly from the Hong Kong special administrative region (one third), South Korea and Japan. This has been estimated to contribute some 2.5% to Chinese GDP. What is also striking is that China is one of the few developing countries that is a net exporter of capital.<sup>35</sup> The outflow of FDI from China totalled USD 12 billion in 2005 and USD 16 billion in 2006, with Hong Kong and the Cayman Islands heading the list of destinations and energy and natural resources (oil, gas and minerals) as the foremost investment category. The volume of this Chinese FDI seems likely to increase considerably in the coming years as Chinese businesses expand their global activities and foreign assets are diversified. Plans of this kind were announced at the session of China's NPC that opened on 5 March 2007.

The amount of Dutch direct investment in China is remarkably small: in 2005 it was EUR 264 million, a mere fraction of total Dutch FDI in that year (EUR 96 billion). This brought the Netherlands' FDI stock in China to EUR 1.7 billion, which is no more than 0.3% of its total FDI stock. The amount of Chinese FDI in the Netherlands is likewise negligible: EUR 5 million in 2005.

### *Missed opportunities?*

This raises the question for the AIV whether current levels of trade and investment between China and the Netherlands are well below what might be expected in view of the two countries' position in international trade and investment. This in turn raises the question of why this is so, and whether opportunities to develop the Dutch

<sup>34</sup> European Commission, February 2007, p. 8.

<sup>35</sup> Capital exports include not only FDI, but also loans to third parties, acquisition of foreign companies and purchases of bonds and other debt instruments.

economy may have been missed. For an answer to the second part of government question 4 – the first part is answered in this report – the AIV refers readers to the forthcoming advisory report on the relative competitiveness of the EU and Asia, in which that subject will be dealt with in a broader, more appropriate context.<sup>36</sup>

#### *Potential shocks to the Chinese economy*

The CPB has also worked out a number of scenarios concerning the impact of three potential shocks to the Chinese economy: (1) rising inflation due to higher prices for energy and agricultural produce, (2) revaluation of China's currency and (3) problems with Chinese banking. Probably to many people's surprise, the CPB concludes that their impact on both China and the rest of the world economy would be small.<sup>37</sup> In particular, the relevant simulation models indicate that depreciation of the US dollar against the RMB would have little effect on the world economy. Nonetheless, an event such as the temporary collapse in share prices on the Shanghai stock market in February 2007 may cause some panic in Western countries.

#### *Imbalances in the world economy*

The AIV strongly emphasises that the CPB's simulation models do not take sufficient account of the impact of a shock to the Chinese economy on the major imbalances that have existed in the world economy for many years. These imbalances reflect a change in international money movements, whereby the net flow of capital now runs from south to north rather than the other way round. The deficit on the US current account is thus being financed by China's reserves and those of other Asian surplus countries.<sup>38</sup> Whether these imbalances are mainly due to the US savings deficit or to the savings surpluses (or lack of investment) in the surplus countries does not really matter.

What does matter is that the imbalances should gradually be corrected (and, in particular, that the US dollar should make a soft landing) to prevent potentially serious disruption of global financial and money markets (see also the final comment in the next section).

## **II.5 China's growth potential**

Economic growth is the result of an accumulation of human and physical capital and productivity growth. Factor accumulation and productivity growth depend in turn on a country's geographical location, the extent to which it participates in international trade and capital flows and, above all, the quality of its governance and policies, i.e. of its domestic institutions.<sup>39</sup>

So far it has mainly been accumulation of capital (including the technical progress

<sup>36</sup> See the AIV's Work Programme for 2007, dated 4 September 2006, in which the government announced it would request such a report in 2007 (*Parliamentary Papers 2005-2006*, 30 300 V, No. 149).

<sup>37</sup> Wim Suyker and Henri de Groot (eds), September 2006, pp. 70-71.

<sup>38</sup> And now, once again, the oil-exporting countries.

<sup>39</sup> AIV, *Private sector development and poverty reduction*, Advisory Report No. 50, The Hague, October 2006, p. 19.

inherent in investment) that has enabled China's GDP to grow.<sup>40</sup> However, although China's level of investment can be expected to remain high, the investment rate will probably fall. In the future, therefore, growth will depend a good deal more on productivity increases than in the past. Research and development (R&D), use of information technology and foreign investment will be essential. The share of exports in China's GDP is also expected to grow more and more slowly.

China's greatest growth potential lies in increased domestic consumption. Not only is the current level of consumption as a percentage of GDP relatively low, but a rapid increase in consumption will bring China various other economic and political (including foreign policy) benefits: rapid poverty reduction, more imports and hence less upward pressure on the exchange rate, and a shift from investment and employment in processing industries and agriculture to the service sector.<sup>41</sup> There will also be greater emphasis on controlling demand in relation to supply. China can still do a great deal in this area, for example with regard to energy efficiency.<sup>42</sup> It is expected that this will gradually remedy the imbalances in the world economy.

## **II.6 Problems with economic growth**

However, efforts to boost growth may be hampered by a number of interrelated social issues that are a source of uncertainty:<sup>43</sup>

- Growing income inequality. Since China embarked on its economic reforms in 1979, income inequality has greatly increased. Growth is unequally distributed over provinces (faster in urban areas than in rural ones), sectors (faster in the secondary and tertiary sectors than in the primary sector) and households (faster in wealthier households than in poorer ones).<sup>44</sup> The real per capita income of the poorest 10% of the population is actually said to have fallen by 2.4% between 2001 and 2003, when the economy as a whole was growing by nearly 10% a year.<sup>45</sup> The main focus

40 Two comments need to be made here. The first concerns the quality and reliability of statistics. The sources quoted in this chapter all make use of official Chinese statistics. These should be treated with caution; the adjustments made in 2004-2005, when China's GDP was increased by 17%, are a case in point. Secondly, the future growth rates indicated in this chapter are taken or deduced from the sources quoted. They are therefore certainly not predictions, but simply projections and, furthermore, projections in a specific direction. They are based on probabilities which need not be great in themselves, but must be greater than ones that would yield different growth rates.

41 See, for example, Yusuf and Nabeshima, *China's development priorities*, p. 35; Chaudhuri and Ravallion, *Partially awakened giants*, p. 2; Louis Kuijs and Tao Wang, *China's pattern of growth: moving to sustainability and reducing inequality*, World Bank Policy Research Working Paper 3767, Washington DC, November 2005; Assar Lindbeck, *An essay on economic reforms and social change in China*, World Bank Policy Research Working Paper 4057, Washington DC, November 2005; Pieter Bottelier, 'Is China investing and saving too much while consuming too little?', *China Business News*, 6 January 2006; *World Development Report 2007*.

42 Yusuf and Nabeshima, p. 22.

43 'Keep growing', in 'Balancing act: a survey of China', *The Economist*, 25 March 2006, pp. 9-13.

44 Chaudhuri and Ravallion. See also Lindbeck, p. 39.

45 *Financial Times*, 22 November 2006.

of China's future policy must therefore be on raising poor people's incomes ('pro-poor growth').<sup>46</sup>

- Conditions of ownership. The fact that agricultural land belongs to the state rather than farmers is one of the main causes of local unrest in China. In 2005 the official state media reported 86,000 disturbances involving more than 100 people. In most cases the reason was the reassignment of agricultural land for building purposes.<sup>47</sup> This was one of the issues raised at the annual Congress in March 2007 (see next section).
- Demographic trends. Since 1945, the average number of births per household has fallen from 6 to approximately 1.5 and life expectancy has risen from 35 to 72 years. The initial effect has been to increase the share of the labour force (people from 15 to 59 years of age) in the population, which has had a favourable impact on economic growth. In the long term, however, the result will be an ageing population, which China's healthcare and pension systems are not equipped to cope with. This problem has been aggravated by the effects of the one-child policy,<sup>48</sup> including a marked surplus of males (118 for every 100 females – the normal figure is 103). The Chinese government has now promised to relax the one-child policy.
- Risks created by mass migration to the cities. Mass migration from the countryside to the cities has helped fuel economic growth; however, there are risks associated with it, including lack of infrastructure, housing and social services, as well as environmental problems.<sup>49</sup> According to a recent report by Amnesty International there are between 150 and 200 million people, who are treated as 'second-class citizens', living in appalling conditions on the outskirts of cities.<sup>50</sup> With Chinese representatives stressing the importance of fundamental economic and social rights in the international debate on human rights, this social reality cannot be viewed as anything other than a serious indictment of the regime.
- Corruption. China's economic system is based not so much on the rule of written law – particularly the protection and enforcement of contracts by legislation and binding pronouncements by the courts – as on informal conventions and networks. Social rules of cooperation, traditions and community institutions in which local politicians are involved play a crucial role, and corruption of various kinds is rife. Despite some progress, China still has a long way to go in the fight against corruption.

46 See AIV, *Private sector development and poverty reduction*, Advisory Report No. 50, October 2006, pp. 22-24.

47 Lindbeck, pp. 11-12; 'Fat of the land', in 'Balancing act: a survey of China', *The Economist*, 25 March 2006, pp. 5-9.

48 Lindbeck, pp. 47-49.

49 Yusuf and Nabeshima, pp. 47-60.

50 Amnesty International, *People's Republic of China. Internal migrants: discrimination and abuse. The human cost of an economic 'miracle'*, March 2007.

- Energy. China is both the second-largest consumer and the second-largest producer of primary energy (coal, oil, gas and nuclear and hydroelectric power) in the world. Between 2000 and 2006, energy consumption in China rose by 60%, almost half of the increase worldwide. Although China is more than 90% self-sufficient for energy, it imports nearly half of its oil.<sup>51</sup> When it comes to energy security, there will be growing tension with other countries regarding the operation of market forces and government intervention – witness the recent behaviour of energy supplier Russia.<sup>52</sup>
- Environmental problems in general. Environmental problems are largely connected with the main goal of China's political and economic policy, which is to reduce the poverty of hundreds of millions of people as quickly as possible through economic growth. This has led to serious air pollution, mainly because some 70% of China's energy needs are met by coal-fired power stations using increasingly obsolete technology. As a result, sixteen of the world's twenty most polluted cities are in China. Moreover, China's car density (which is still low) is set to increase rapidly, making air pollution even worse.
- Water shortage in particular. In 2000, the available amount of water per head of China's population was a quarter of the world average, and 22% less than the amount available in 1980. The problem is aggravated by poor water quality: some 40% of China's river water is seriously polluted. In 2004, about half of the country's population had polluted water supplies. Furthermore, water consumption is extremely inefficient. China's water is also very unequally distributed: the south of the country has much more than the north. Continuing urbanisation is making matters worse.<sup>53</sup>
- Failure to reform the financial sector.<sup>54</sup> The main incentive for further reform of the financial sector is the realisation that a combination of rapid growth and smaller differences in income can only be achieved if more jobs are created in efficient, profitable private businesses, and not only in the export sector. Although more than this is needed (innovation policy, research, infrastructure, legislation and so on), a financial sector geared to finding and supporting such businesses can play a key role here. Much has been done in recent years to reform this sector, but the problems are still far from being solved.<sup>55</sup> Further financial reform is being obstructed because it

51 Erica Downs, *Foreign Policy Studies Energy Security Series: China*, The Brookings Institution, Washington DC, December 2006, pp. 8-12.

52 See also AIV/AER, *Energised foreign policy: security of energy supply as a new key objective*, Advisory Report No. 46, The Hague, December 2005.

53 Yusuf and Nabeshima, pp. 24-25.

54 All the institutions, businesses and organisations that act as financial brokers, i.e. the central bank, supervisors, commercial banks, insurance companies, payment organisations, savings banks, non-bank financial organisations (such as credit unions, credit cooperatives and micro-finance organisations) and financial markets. In the informal economy, money changers, savings groups, tontines and other informal brokers are also part of the financial sector.

55 See, for example, Pieter Bottelier, 'Reform of China's financial system is accelerating', *Jamestown China Brief*, Vol. VI, Issue 24, 6 December 2006; Diana Farrell, Susan Lund and Fabrice Morin, *How financial system reform could benefit China*, McKinsey Global Institute, September 2006.

affects the balance of political and economic power between the central government and the provincial and municipal authorities.

## **II.7 China's policy**

The results of the March 2007 National People's Congress mentioned above have made clear that the Chinese party leadership is well aware of these problems. The NPC adopted a ground-breaking law which, for the first time since the country embarked on its economic reforms more than a quarter of century ago, establishes the right to private property (mainly land and housing). It also decided that foreign and Chinese businesses would henceforth be taxed at the same rate, whereas foreign businesses had previously been at an advantage. The pension system will be reformed, there will be more money for education and health care and the country will invest in sustainable growth. It was also agreed that IPRs would be enforced more effectively.

After the NPC, Prime Minister Wen was unusually frank about developments inside China. For example, he spoke of a 'hidden crisis' threatening the Chinese economy, which he described as 'unstable, unbalanced, uncoordinated and unsustainable'. Democratic changes 'with Chinese characteristics' would continue, but only at local level. The Prime Minister also said that more must be done to help the poor and that corruption must be tackled more forcefully.<sup>56</sup>

This last comment, which was mainly aimed at regional and local party officials, hit the nail on the head. Although at central level many things are dealt with properly on paper, there are often problems with implementation at lower levels (an example being the WTO obligations mentioned above). Apparently China's local authorities still behave in accordance with the ancient saying 'The mountains are high and the emperor is far away'. Implementation of the measures referred to, and hence control of local unrest, will therefore depend on the extent to which the central government succeeds in getting local authorities to act.<sup>57</sup> A typical example of the way things work is the recent *appeal* to local authorities in the Communist Party journal *Study Times* not to treat demonstrators and protesters so roughly.<sup>58</sup>

## **II.8 To sum up: China's main challenges are sociopolitical**

Given China's growth potential, it seems very likely that its economy can continue to grow by around 9% a year over the next five years. Although there are a large number of problems that may have an adverse impact on this process, the CCP is well aware of them, and the country appears to have the financial and economic means to solve them.

<sup>56</sup> Press conference by Prime Minister Wen Jiabao on 16 March 2007 (quotes from the *International Herald Tribune*, 17 March). See also Prime Minister Wen's opening speech to the NPC on 5 March 2007 entitled 'Report on the work of the government'.

<sup>57</sup> See, for example, Benjamin van Rooij's doctoral dissertation *Regulating land and pollution in China: lawmaking, compliance and enforcement; theory and cases*, Leiden, Leiden University Press, 2006.

<sup>58</sup> *NRC-Handelsblad*, 24 March 2007.

However, the AIV believes that the main problems facing China's leaders are sociopolitical (institutional) rather than financial and economic (policy-related). The political system must be reformed so that decisions taken by the central government are actually implemented lower down in the hierarchy. A reliable legal system must also be introduced, so that citizens have equal access to the courts to assert their rights where necessary (the rule of law). In the absence of such changes, all kinds of essential measures in the fields of environmental protection, social services and investment cannot be properly implemented.

It is questionable whether the current leadership is willing and able to carry out a radical overhaul of governmental practices that have subsisted in China for millennia. Nevertheless, the AIV is convinced that there are opportunities for Western countries, particularly the European Union, to help China tackle its social problems by means of targeted cooperation programmes. These will be discussed in the remainder of the report.

## III China: some domestic political developments

### Key propositions

- *China's independence, sovereignty and territorial integrity (the one-China policy) are crucial factors.*
- *The CCP's power is not currently a subject of debate.*
- *Over the past twenty years, China has been gradually moving towards accepting international human rights standards.*
- *The possibility that China's foreign policy may become more nationalistic because of domestic factors cannot be ruled out.*
- *Parliamentary democracy is still a long way off in China.*

### III.1 Interaction between domestic and foreign policy

Foreign policy is largely the outcome of an interaction between domestic policy developments and the international balance of forces. In matters of foreign policy, China's independence, sovereignty and territorial integrity (the one-China policy) are undoubtedly crucial factors. The CCP is also striving to shape a propitious international environment for China's development and modernisation, in the realisation that economic growth is necessary for the country's social stability.<sup>59</sup>

As the previous chapter has shown, China faces major domestic problems whose outcome is uncertain. The AIV has concluded that the CCP is capable of dealing with the financial and economic problems themselves; however, if they get so far out of hand as to cause widespread social unrest that threatens the party's legitimacy, this will undoubtedly have serious repercussions on Chinese foreign policy. In this chapter the AIV will briefly examine some important domestic political developments that are taking place in China, before proceeding in subsequent chapters to discuss the country's actual foreign policy.

### III.2 The Chinese Communist Party

Although the People's Republic of China has long ceased to be the totalitarian state it was under Mao Zedong, the CCP's monopoly on power still remains essentially unchallenged.<sup>60</sup> The current discrepancy between economic and political freedom and control, as reflected in the country's unyielding political system and the legitimisation of the party, has its roots in the development of the Chinese Empire, which was based not on nation-building but on the systematic exercise of power. The events in Tiananmen Square in 1989 once again made clear that the armed forces will if necessary be used to preserve domestic security. At the slightest threat of organised opposition the authorities will intervene, as they did with Falun Gong, which initially had government approval. This is why the internet is also subject to controls.<sup>61</sup>

59 C. Fred Bergsten et al., *China: the balance sheet*, Public Affairs, New York, 2006.

60 Strictly speaking, the People's Republic has never been a one-party state. A number of smaller parties have always been represented in the NPC alongside the CCP, including the so-called Democratic Party.

61 'Chinas KP soll das Internet "säubern"' ('China's CP to "purge" the Internet'), *Frankfurter Allgemeine Zeitung*, 25 January 2007.

As a result, no nationwide dissident movement has ever really emerged. All there have ever been are separate, relatively isolated groups and individuals appealing for democracy and human rights, freedom of expression or regional autonomy. It may be that a combination of greater prosperity and less repression has made the opposition seem less attractive.

To those (including members of the CCP) who had pinned their hopes on a *perestroika* scenario for China, the events in Tiananmen Square were a dreadful disappointment. This 'victory' sidelined reform-minded leaders for many years – an effect enhanced by what the CCP saw as the disastrous outcome of Gorbachev's reform policy, which led within a matter of years to the downfall of the Soviet Union and its Communist Party.

The CCP is currently going through a changing of the guard under President and General Secretary Hu Jintao. The fourth generation of CCP leaders, headed by Jiang Zemin, is making way for a new generation which is generally well educated and less doctrinaire than its predecessors. However, what little information is available on the subject suggests to the AIV that the new party elite is no less convinced than the previous one that any drastic change in the political system is out of the question even in the coming generation.<sup>62</sup>

The Soviet Union's Communist *nomenklatura* disintegrated at the end of the 1980s essentially because it ceased to believe in the legitimacy of its own policy and power. It seems unlikely that anything of the kind will happen in the People's Republic in the near future – if only because, in stark contrast to the Soviet Union at the time, China is doing well both economically and in the international political arena.

The CCP is threatened by another danger, namely corruption. However, the leadership is not blind to this, and the cohesion of the party is at no immediate risk. Although CCP officials certainly have opportunities to line their pockets (within limits), 'excesses' are publicly denounced and the culprits punished. At the same time, internal party 'democracy' – i.e. mutual supervision and supervision from above – is being increased. The decision to allow multi-candidate elections within the party at village level and in other small local communities – democratisation with Chinese characteristics – can also be seen in this light.

### **III.3 China's cautious move towards human rights**

After the period of lawlessness under Mao, China has begun to acknowledge human rights. It has not done so with a great leap forward, but in gradual stages, with a relapse every now and then. At first China mainly focused on a number of economic and social rights, as well as women's and children's rights. It was relatively early in ratifying the UN human rights conventions in these areas. Since the mid-1980s, with a break of several years after the events in Tiananmen Square (1989), China has cautiously started to pay more attention to civil and political rights and has not steered clear of the international debate on the subject.<sup>63</sup>

62 Things may become clearer at the 17th party congress in autumn 2007, when President Hu is expected to designate his successor.

63 See, for example, the Minister of Foreign Affairs' letter of 11 January 2007 to the House of Representatives on the Dutch human rights ambassador's visit to China on 11-15 December 2006 (*Parliamentary Papers* 2006-2007, 30 800 V, No. 59).

China faces an immense challenge in protecting civil and political rights, for this is at odds with ancient, ingrained practices. These include the curbing of individual freedoms, the lack of proper legal safeguards when applying the death penalty, the power of the political authorities to imprison people (and at one time even send them to re-education camps) without a court order, and restrictions or bans on non-governmental organisations (NGOs). Particularly in China, such organisations have a key part to play in denouncing violations of human rights and therefore deserve full support.

Yet for some time now there have been signs of change, suggesting a cautious improvement in the human rights situation. A degree of self-criticism has also been observed, even at the NPC. With the Olympic Games due to be held in Beijing in 2008, China's leaders may also have an extra incentive to show the 'human face' of Chinese society to the outside world.

One important sign of this development is China's signature of the International Covenant on Civil and Political Rights (ICCPR) in 2001 and the inclusion of a general reference to human rights in the revised constitution of 2004.<sup>64</sup> However, partly because of the need to amend national legislation, the Covenant is not expected to be ratified for several years.

Another recent milestone, mentioned above, is the acknowledgement in 2007 of the right to private property (mainly land and housing), alongside state and collective property. Individual freedoms such as freedom of expression, association and religion are still by no means fully acknowledged and upheld in Chinese law, let alone in practice, but the Chinese authorities do appear to be gradually adopting a somewhat more open attitude towards them. In response to criticism both abroad and, increasingly, at home, the Chinese government has also announced that it will provide more safeguards in applying the death penalty by making assessment and approval by the Supreme People's Court mandatory. At the same time, new legislation on civil society organisations (known in Chinese parlance as 'social organisations') will gradually create some latitude for NGOs, although the government will maintain close supervision of their establishment and activities, among other things by requiring them to be registered.<sup>65</sup> On the other hand, both Chinese rule over Tibet and the human rights situation there are still virtually taboo subjects for the time being.

Formally speaking, China is now a party to five of the seven main international human rights instruments.<sup>66</sup> It is also party to all four of the Geneva conventions in the field

64 See Yuwen Li, 'Grondwetsherziening in China: spiegel van politiek en samenleving?' ('China's revised constitution: a reflection of politics and society?'), *Internationale Spectator*, Vol. 58 (2004), pp. 350-355.

65 See, for example, R. Peerenboom, *China's long march toward the rule of law*, Cambridge, CUP, 2002, and Y. Li (ed.), *Freedom of association in China and Europe: comparative perspectives in law and practice*, Leiden, Brill, 2005.

66 The Convention on the Elimination of all Forms of Racial Discrimination, the Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of all Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment and the Convention on the Rights of the Child. Apart from the ICCPR China is not yet party to the Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. By contrast, the Netherlands is

cont. footnote on p. 27>>

of international humanitarian law. China has been prepared, though often reluctantly, to receive special UN rapporteurs. In 2006, after years of entreaty, the UN Special Rapporteur on Torture was at last allowed to visit China.<sup>67</sup> The country will undoubtedly attach various reservations and declarations to its ratification of the ICCPR already referred to, and is most unlikely to sign the Optional Protocols on individual communications and abolition of the death penalty. Nevertheless, the signature of the Covenant by the world's most populous country can be seen as a major step forward.

Apart from the gradual acceptance of human rights, the establishment of the rule of law is of great importance. As indicated elsewhere in this report, the CCP still has the country and the people in an iron grip, and pluriformity is scarcely permitted. Legislative, executive and judicial powers are still interwoven via the party. However, the NPC voices its opinions more than it used to, and is no longer the rubber stamp it once was. Efforts are being made to strengthen the courts and public prosecutors offices, improve their training and increase their integrity, for instance through bilateral development cooperation programmes with countries including the Netherlands. One problem here is how to tackle corruption in the courts.

#### **III.4 Potential for a more nationalistic course**

Developments in the human rights situation give cause for cautious optimism. However, the growing social inequality and dislocation described in the previous chapter, due to rapid but very unequal and geographically uneven economic development, is a major structural problem. This is creating a chasm that has already led to a great increase in local unrest and protest. As indicated above, the CCP leadership is aware of this danger and is trying to keep the problems under control. However, it must be reiterated that there are many obstacles on this path, and the outcome is uncertain.

If the CCP fails to overcome these disruptive forces by means of timely policy changes, one cannot rule out the possibility that it will use its monopoly on power to distract attention from the country's domestic problems with the help of radical nationalism. Until now, Chinese nationalism has focused mainly on what China considers its inalienable historical territory, particularly Taiwan and Tibet. It has also proved a useful means of intimidating autonomy movements in western border areas inhabited by peoples that are not Han Chinese. However, as a number of recent anti-Japanese demonstrations have shown, it can also be mobilised for foreign policy purposes.

The AIV's provisional conclusion is that China's foreign policy could become more nationalistic in response to domestic factors. As experience has shown, playing on nationalist sentiment may release forces which, once unleashed, may prove difficult to rein in and often have unintended consequences. This risk is certainly present in a multi-ethnic society such as China, in which there are strong centrifugal tendencies.

>> cont. footnote from p. 26

party to six of the seven (but not the last-mentioned) and the United States is party to three. See also Office of the UN High Commissioner for Human Rights, *Status of ratifications of the principal international human rights treaties*, 16 June 2006.

67 See his extensive report in UN Doc. E/CN.4/2006/6/Add.6, 10 March 2006.

### III.5 Parliamentary democracy is a long way off

Another conclusion that the AIV has drawn is that expectations of possible changes in China's political system should not be unrealistic. Although it is reasonable to assume that an increasingly well-educated population will lead to a reduction in political repression, it is unlikely that anything resembling parliamentary democracy will be introduced in China within the next generation. It would be a great step forward if the Chinese system were to approximate that of Singapore, a democracy with highly autocratic features, or – to put it more pessimistically – an autocracy with democratic features.<sup>68</sup> However, the chance that even this will happen is probably not very great.

Nonetheless, in the AIV's view, the fact that democracy and political stability need not be at odds with one another should be stressed in contacts with Chinese representatives, for example in the six-monthly EU-China Human Rights Dialogue,<sup>69</sup> as well as in talks on the subject with EU member states such as the Netherlands. Indeed, as the examples of South Korea, Taiwan and possibly also Indonesia go to show, continuing political repression in an otherwise modernising society will eventually create uncontrollable tension.

68 See, for example, Ben Knapen, 'Democratie op z'n Aziatisch' ('Democracy, Asian style'), in *NRC-Handelsblad's* monthly supplement *M*, February 2007; 'Hong Kong's make-believe election', *The Economist*, 17 March 2007; Joseph Kahn, 'Among China's elite, talk of "democracy"', *International Herald Tribune*, 20 April 2007.

69 This dialogue began in 1995 – at China's instigation, surprisingly enough – and has continued ever since, except for a period in 1997 after Denmark and nine other EU member states (including the Netherlands) had submitted a resolution to the UN Human Rights Commission in Geneva condemning the Chinese government's actions with regard to human rights in its own country.

# IV China and the Asian region

## **Key propositions**

- *China wants to be recognised as a major regional power once more.*
- *It is therefore pursuing a policy of 'peaceful development'.*
- *In doing so, it mainly makes use of its soft power.*

### **IV.1 China's soft power**

The path to global power runs via regional power. If we assume that China does indeed aspire to become a global player at some point (see next chapter), the Chinese leadership will first want China to become a major regional power. This aspiration may primarily be expressed not in military terms, even though the country has been making great strides in that area over the last ten years (see Chapter VI), but in economic and cultural ones. Recently, China has increasingly displayed its soft power, which has been defined as follows:

China's soft power [is] its ability to influence by persuasion rather than coercion. This attractiveness can be conveyed through various means, including culture, diplomacy, participation in multinational organisations, businesses' actions abroad and the gravitational pull of a nation's economic strength.<sup>70</sup>

This chapter will look more closely at China and the Asian region, making a distinction between China's neighbours and the regional role of the US. It will also discuss the importance of regional organisations for China's foreign and security policy.

### **IV.2 Geopolitics**

Since Mao Zedong's death in 1976, Chinese foreign policy has ceased to be dominated by ideological conflict. Nor, since 1989-1991, has China been in ideological competition with the Soviet Union over the question of which country is the leader of the world communist movement. Now that these key foreign policy factors no longer exist, more traditional geopolitical themes have come to the fore, in most cases determined by China's location and involving past or present disputes over land and sea borders. They mainly affect relations with Russia, Japan and India, as well as China's neighbours around the South China Sea. The predominant issue, however, is Taiwan (see below). As China's economy has developed, the question of how to secure supplies of raw materials and sources of energy has also become very important.

<sup>70</sup> Joshua Kurlantzick, 'China's charm: implications of Chinese soft power', *Carnegie Endowment*, June 2006.

This is an expanded version of Joseph Nye's original definition of 'soft power', which did not include investment, development aid and official diplomacy (Nye saw these more as part of a country's 'hard power').

### **IV.3 China's influence in the region**

**Government question 8: What is the AIV's assessment of China's influence in the region, including how it relates to the US? Should shifts be expected?**

In reply to the government's question, it can be said that China's regional influence is unmistakably increasing and is already causing major political, economic and cultural shifts.<sup>71</sup> However, the AIV has assumed that the government's question refers to *potentially destabilising* shifts.

Things have not yet reached this stage. However, the development of regional forms of cooperation in which China is actively involved does require Beijing to distance itself from the tradition whereby imperial China, the 'Middle Kingdom', expected subservience from neighbouring peoples. The main thrust of Chinese diplomatic rhetoric is clearly in this direction. China takes every opportunity to emphasise that, as its power develops, its goals are 'peaceful development' and 'peaceful coexistence' with its neighbours.<sup>72</sup>

### **IV. 4 The position of the US in the region**

As well as being the world's only superpower, the US is the leading regional power in the Pacific. It has given security guarantees to Japan, South Korea and Taiwan, and has a strong military presence in the region. Unlike the EU, which for a long time mainly saw the rise of China in economic terms, the US also sees China as a strategic security problem. These differing perspectives explain the difference in approach on the two sides of the Atlantic.<sup>73</sup>

Enlightened self-interest indicates that China and the US have much to gain from developing of a constructive relationship. Although China is too preoccupied with domestic affairs to pose a direct political, economic or military threat to American domination of the region in the near future, 'Washington will also need to be prepared psychologically for the impact China's rise may have on the relative power and influence of the US in East Asia and beyond.'<sup>74</sup>

That China's leaders are not prepared to bow to US military superiority – at least not in every respect – was made clear on 11 January 2007, when China used a ballistic missile to destroy one of its own weather satellites. This sent important political and military signals. The political signal was that China is not prepared to acquiesce in America's claim to hegemony in space.<sup>75</sup> The military signal was that Beijing is demonstrably capable of striking at other countries' space capabilities, especially those of the US.

71 Kurlantzick, June 2006.

72 At first (from 2003 onwards) China used the term 'peaceful rise', but in 2005 this was replaced by 'peaceful development' and 'peaceful coexistence', as 'rise' was still perceived to be too threatening.

73 For instance, America's National Security Strategy states that the US 'seeks to encourage China to make the right strategic decisions for its people, while we hedge against other possibilities' (*The National Security Strategy of the United States of America*, March 2006, p. 42).

74 C. Fred Bergsten *et al.*, p. 159.

75 See the US National Space Policy adopted by President Bush on 31 August 2006, which made no bones about America's claim to hegemony in space.

## IV.5 Regional organisations

### **Government question 10: What role do regional organisations such as the Shanghai Cooperation Organisation (SCO) and the ASEAN Regional Forum (ARF) play in China's foreign and security policy?**

Given China's emphasis on 'peaceful development', other countries in the region are watching with interest how it attempts to enforce its territorial claims in the East and South China Seas. The conflict with Japan over the Senkaku/Diaoyutai Islands is still completely unresolved, but in the case of the Spratly Islands (which are the subject of conflicting claims by China and several other states) a joint code of conduct prescribing that the conflict will be settled peacefully has been in place since 2002. The relevant declaration was confirmed in January 2007 at a summit conference between the ten ASEAN countries<sup>76</sup> and China in Cebu, the Philippines.

The AIV stresses the importance of a peaceful settlement, and believes the West should continually urge China to reach one. It wonders whether international mechanisms for settling disputes, such as the International Court of Justice or the procedures established by the UN Convention on the Law of the Sea, may be of service here. Shared sovereignty, with joint exploitation of resources, may eventually prove to be the best conceivable solution. China has already made proposals to Japan to end the dispute over the boundary between their exclusive economic zones in the East China Sea by jointly extracting the natural gas that is found there (see Section IV.8).

Yet another aspect of the Cebu conference showed just how much China is currently investing in a constructive relationship with its neighbours: a further step was taken to expand trade through an agreement on trade in services (just eighteen months after a similar agreement had been reached on the reduction of tariffs on trade in goods).<sup>77</sup> The backdrop to all this is a Chinese plan for an eventual China-ASEAN free trade area. Other delegates called for a much wider circle of countries, including (say) Australia. The conference also adopted a proposal, endorsed by Japan and other countries, to reduce the region's dependence on fossil fuels, for which purpose Japan promised USD 2 billion worth of funding.

Such developments are beginning to overshadow the achievements of APEC,<sup>78</sup> the association for economic cooperation between (most of) the Pacific Rim states. Yet it is hard to avoid the impression that the ASEAN countries' attitude towards China is somewhat ambivalent. On the one hand they fear being dominated by the 'Giant Dragon of the East', but on the other hand they are keen to reap the economic benefits:<sup>79</sup> in 2005 and 2006,

76 The ASEAN countries are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

77 See Roel Lindingin and John Burton, 'China in key deal with ASEAN on services', *Financial Times*, 14 January 2007.

78 The members of APEC are Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, the United States and Vietnam.

79 Strikingly, Japan's claim to permanent membership of the Security Council during the debate on UN reform was not backed by any other East Asian country except Singapore. China is known to be opposed to the idea of a permanent Japanese seat.

Chinese trade with ASEAN again grew spectacularly (by almost a quarter) and China made massive loans to ASEAN countries.

It should also be noted here that the ASEAN countries, together with China, Japan and South Korea, form the Asian pillar of the Asia-Europe Meeting (ASEM), the forum for political talks with the EU. In the AIV's view, this forum could be used more often as a means of encouraging China to act as a 'responsible stakeholder' and promoting peaceful development in East and South-East Asia<sup>80</sup> – particularly now that issues such as strengthening of the multilateral system and forms of regional cooperation (based on exchange of experience) are starting to be discussed. A good opportunity to discuss new proposals will be the next ASEM summit, to be held in China in October 2008.

#### *The Shanghai Cooperation Organisation and the ASEAN Regional Forum*

Two organisations in which regional security is a key issue are the Shanghai Cooperation Organisation (SCO)<sup>81</sup> and the ASEAN Regional Forum (ARF).<sup>82</sup> The AIV feels the EU should strengthen its ties with both organisations in order to give the regional security debate more substance. The EU recently paid its first official visit to the SCO; it was already in dialogue with the ARF. However, even though China is working actively in the SCO and the ARF to pursue its policy and realise its aspirations as an expanding regional power, the two organisations have only a limited impact on regional security for the time being.

In particular, Western countries should not overestimate the SCO's importance as a regional security organisation. Their tendency to do so may be due partly to the fact that there are no Western members. When the organisation was set up, its focus was admittedly on increased regional security and stability, but the principal concern was to keep border conflicts and cross-border crime under control. Although the member countries regularly hold joint military exercises, the SCO is not – unlike NATO – a military organisation. Nor will it become one, for the differences between the members are too great.

The two leading members of the SCO, China and Russia, each have their own priorities within the organisation. China is especially concerned to defend its interests in Central Asia in order to ensure the stability of the region and protect its energy sources there. Russia also has an interest in a stable Central Asia, and seeks to regain the influence it once had in the former Soviet states. It is therefore trying to limit American influence in the region. At the same time, however, it wants to stop China becoming the dominant power in Central Asia.

Although relations between China and Russia are better than ever – Russia is now a major supplier of energy to China and its largest supplier of weapons – this does not mean they have a broad range of interests in common. It is already apparent that their relationship is increasingly being skewed by China's rapidly growing economy. The rise of China may

80 The Asia-Europe Foundation (ASEF), a platform for cooperation between EU member states and Asian countries (including China) that was set up by the ASEM, also plays a useful background role.

81 The members of the SCO are China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan, with India, Iran, Mongolia and Pakistan as observers.

82 The ARF has twenty-five members: Australia, Brunei, Cambodia, Canada, China, East Timor, the European Union (represented by a 'troika'), India, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, New Zealand, North Korea, Pakistan, Papua New Guinea, the Philippines, Russia, Singapore, South Korea, Thailand, the United States and Vietnam.

eventually pose a strategic threat to Russia, which has only a small – and now shrinking – population in Asia.

The ARF is the only regional organisation in which regional security is regularly discussed and which has Western countries among its members (including the US and the EU, represented by the troika). Although, like the SCO, it is not a military organisation and only has one brief ministerial meeting a year, there are regular meetings at lower levels in which the focus is on security. The ARF therefore appears to be the only platform where agreements can be reached on confidence-building measures in East Asia, more or less along the lines of the OSCE in Europe.

Such measures could be a step towards a process of cooperative security in which countries take account of each other's legitimate security interests, for example by exchanging information on military capabilities, announcing military exercises in advance and admitting observers to such exercises. Currently there is also a debate within the ARF on whether the organisation's security goals should be drastically expanded to include such areas as peacekeeping forces and mediation in incipient conflicts. The EU might usefully look at ways of encouraging such a development, which could greatly enhance stability in the region. However, things have not yet reached this stage. In the absence of a full-fledged regional security organisation, the US will continue to be the guarantor of regional security.

#### **IV.6 Taiwan**

The Taiwan issue remains the main source of political uncertainty in the East Asian region, especially in view of China's military reforms (for more on this, see Chapter VI). The Chinese law of March 2005 justifying the use of force against Taiwan in the event of the island declaring itself independent (the Anti-Secession Law) is hardly conducive to a climate of mutual trust.

However, tension between Taiwan and mainland China recently appears to have decreased somewhat. The Chinese leadership may have moderated its tone in the expectation that Taiwan's parliamentary elections in December 2007 and presidential elections in March 2008 will produce gains for the current opposition party, which pursues a more moderate course on the subject of national independence. The fact that Washington has now repeatedly told Taipei that the island cannot expect military assistance if it declares independence unilaterally may also be factor here.<sup>83</sup> The US policy on this is one of 'dual restraint', in which China is deterred from using force against Taiwan, and Taiwan is discouraged from taking unilateral steps towards independence.<sup>84</sup>

Although the political situation is not entirely comparable, the AIV sees the Hong Kong and Macau model ('one country, two systems') as a serious way of finally settling this dispute, particularly since public support in Taiwan for the idea of national independence has waned considerably and also because this model has Beijing's backing. However, the AIV also realises that this solution can be envisaged in the case of Taiwan only after a considerable political transformation has taken place on both sides.

<sup>83</sup> *The Economist*, 6 January 2007.

<sup>84</sup> Richard I. Armitage, Joseph S. Nye, *The US-Japan alliance: getting Asia right through 2020*, Center for Strategic and International Studies (CSIS), Washington DC, February 2007.

#### **IV.7 North Korea**

Another issue that warrants close attention is North Korea, with which China has a special relationship. If China had not intervened in the Korean War (1950-1953), the communist regime in Pyongyang would most probably not have survived. The two countries are heirs to the same ideology, but have interpreted it politically in very different ways. They are neighbours, and North Korea is greatly dependent on China for a number of its basic resources. China accounts for an estimated 60% of North Korean foreign trade. As a sign of China's close commitment, Beijing hosts the 'six-party talks' on North Korea.<sup>85</sup>

It seems likely that China's policy towards North Korea is guided by two separate concerns. The first is to prevent a collapse of the North Korean regime that would lead to utter chaos, followed by a mass exodus of the population to China. This concern is clearly also shared by South Korea's leaders. In any case, the possibility of a reunified Korea certainly cannot be ruled out in the long term.<sup>86</sup>

China's second concern is to control the build-up of nuclear capability, which could also give Japan a reason to cross the nuclear threshold. China shares this interest with many other countries, but sets limits to the sanctions it is prepared to support, apparently because it feels they conflict with its first concern. However, in response to North Korea's missile test in July 2006 and its allegedly successful underground nuclear test in October 2006, China did agree to limited sanctions.<sup>87</sup> At the same time, China continues to insist that the US holds the key to persuading Pyongyang to abandon its nuclear weapons programme.

Nevertheless, it is clear that China played an important part in reaching the nuclear agreement with North Korea in February 2007 during the six-party talks. Of course, it remains to be seen whether the agreement – which requires North Korea to shut down its nuclear power station in Yongbyon and admit IAEA inspectors in exchange for oil supplies and emergency aid – will eventually result in actual destruction of the nuclear weapons that the country presumably does possess.

If the six-party talks prove successful, this formula may – for want of anything better – be the start of a regional security organisation.<sup>88</sup> However, it should be remembered that the EU is not involved in the talks. For this and other reasons, the AIV believes that EU policy should be aimed at becoming more closely involved in them. In this connection, it recalls that the EU provided financial support for the then Clinton administration's policy.<sup>89</sup>

85 The six parties are China, Japan, North Korea, Russia, South Korea and the US.

86 Indeed, the bipartisan report by Armitage and Nye (February 2007, p. 7) speaks of the 'inevitable transition to a unified Korea'.

87 See Security Council Resolution S/RES/1718, 14 October 2006.

88 See Armitage and Nye, February 2007.

89 Under the terms of agreements reached in the 1990s, the EU helped pay for the construction of a light-water reactor in North Korea through the Korean Peninsula Energy Development Organisation (KEDO). Payments were halted after North Korea withdrew from the Non-Proliferation Treaty in 2003, and in 2006 it was decided to terminate the project.

## IV.8 Japan

Apart from a satisfactory settlement regarding North Korea's nuclear energy programme, another crucial factor in East Asian stability is quite clearly the relationship between China and Japan. Relations between the two countries have been under considerable pressure in recent years.<sup>90</sup> However, last year's change of government in Japan has helped thaw the ice. The new Japanese Prime Minister's first visit abroad was to China. Of course, China must also contribute to a further improvement in relations. An important step in this direction was Prime Minister Wen's visit to Japan in the first half of April 2007. In an address to the Japanese Diet, the Chinese leader spoke in favour of joint Sino-Japanese exploitation of gas fields in the East China Sea, which he said should become 'a sea of peace, friendship and cooperation'.<sup>91</sup>

With all due respect for historically based anti-Japanese feelings in China, it is hard to avoid the impression that the Beijing leadership sometimes stirs these up artificially to distract attention from domestic problems. As mentioned above, the main source of the Chinese regime's legitimacy – besides economic performance – is nationalism. This is why Sino-Japanese relations form the greatest risk to the region after Taiwan. The AIV also refers here to its conclusions in Chapter III on domestic developments.

A recent and, in this context, not insignificant development is the signature of a military cooperation agreement between Japan and Australia on 13 March 2007. The agreement does not provide mutual security guarantees – the US already does this for both countries – but may help increase these two prosperous democracies' influence in the region.<sup>92</sup> At the same time, both countries have called for strengthening the trilateral strategic dialogue with the US, launched last year to increase cooperation between the three allies. Tokyo and Canberra deny that their military cooperation is directed against any other country. Yet how is Beijing to interpret it except as a response to China's military expansion?

The AIV emphasises that it is vital to avoid the creation of two camps which countries would have to choose between. If that happened, some Asian countries would side with the US and Japan, but most of them would probably prefer to observe strict neutrality or else ally themselves with China. The result would be a polarised political constellation reminiscent of the Cold War.<sup>93</sup> Good relations between Japan and China on the one hand and the US and China on the other are therefore of cardinal importance. An EU capable of turning its international aspirations into deeds could eventually play a positive supporting role here (see Chapter VII).

90 Willem van Kemenade, *China and Japan: partners or permanent rivals?*, Clingendael Diplomacy Papers, No. 9, November 2006.

91 *De Volkskrant*, 13 April 2007.

92 'Asia's democratic alliances', *The Wall Street Journal*, 15 March 2007.

93 Armitage and Nye, February 2007, p. 14.

## V China at global level

### **Key propositions**

- *China seeks recognition as a global power.*
- *China is aiming for a multilateral system as an alternative to a unilateral approach.*
- *China is attempting to secure resources for its economic development.*

### **V.1 China's growing presence on the world political stage**

China's economic rise has been made possible by increasing globalisation. However, another effect of this shrinking world is that China's political presence is also increasing. This is partly because China is doing more to defend its national interests. At the same time, the world is calling on China to become more politically involved, for example in international humanitarian issues such as the civil war in Sudan or in the field of nuclear non-proliferation, the most notable case being North Korea.

### **V.2 The system of global governance<sup>94</sup> due for review**

The rise of China offers one more opportunity to stress the fact that the present system of global governance does not provide enough room for emerging economic powers and is therefore due for structural reform. However, this can only happen gradually. Experience with China's membership of the WTO since 2001 has already been discussed in Chapter II.

Other key issues are China's position in relation to the G8 and its membership of the IMF and the World Bank.<sup>95</sup> In line with its call for China to be incorporated into the international political and economic system, the AIV believes that the composition of the G8 is due for review and that the time has come to discuss the possibility of Chinese membership. This forum can claim the right to run the world's economic affairs only if it includes all the truly major economic players.

As for China's position within the IMF, it should be noted that the annual meeting of the Fund in Singapore in September 2006 decided to adjust member states' voting strengths. The votes of economically powerful countries carry considerably more weight than those of weak ones. The adjustment reflects changes in the world economy, particularly due to the rise of low-income countries such as China. The adjustment is due to be completed at the IMF's annual meeting in September 2007 or, at the latest, 2008.

The main unresolved problem is the new quota formula for IMF voting. It has yet to be decided which variables will be included in it and how much weight they should have. In all likelihood, the new formula will be based on population size, purchasing power parity

94 The concept of global governance refers not only to formal but also to informal mechanisms that can be used as regulatory bodies and to achieve common goals: not only international organisations but also international regimes, informal consultations and networks and public-private partnerships.

95 The AIV's March 2007 report on the future of the Organisation for Economic Cooperation and Development (OECD) also discusses the possibility of closer ties between China and that organisation (*The OECD of the future*, Advisory Report No. 54, The Hague, March 2007).

(rather than official exchange rates) and demand for IMF resources.<sup>96</sup> The growing importance of low-income countries will inevitably undermine the established position of countries such as the Netherlands. Nevertheless, the AIV feels that the Netherlands, as the leader of a constituency comprising a large number of countries, should as a matter of course support further adjustments to voting strengths, in order to ensure a more accurate reflection of the new international balance of power. The AIV also favours a similar change at the World Bank.

The rest of this chapter will focus on China's role in the United Nations.

### **V.3 China's role within the United Nations**

**Government question 1: What is the AIV's assessment of China's position within multilateral forums, with particular reference to China's position as one of the five permanent members of the UN Security Council? What are the implications of this for, in particular, the functioning of the UN and UN Security Council?**

Here there are unmistakable signs of a positive change. For many years – after China's UN seat was transferred to the People's Republic in 1971 – China was a passive, rather defensive member which was seldom prepared to help set the agenda and often abstained on sensitive issues. Nowadays it is more self-confident and assertive. In the past China opposed the imposition of sanctions, but in October 2007, for example, it supported Resolution 1718, clearing the way for sanctions against North Korea following the nuclear test that the country had in all probability carried out. Beijing had already joined the worldwide condemnation of North Korea's missile launches in July 2006, which were deemed provocative, and in March 2007 China again voted for sanctions against Iran's nuclear enrichment programme.

China seems to have abandoned its former leader Deng Xiaoping's motto *taoguang yanghui* (hide your ambitions and disguise your claws). It seeks a leading role in the international organisation and is also prepared to accept more responsibility for peacekeeping and security in the world. It is now ranked thirteenth on the list of countries that contribute troops to UN peace missions, and contributes a greater number of troops than the other permanent members of the Security Council. Not only have Chinese soldiers been sent to Africa (including the Democratic Republic of Congo, Liberia and southern Sudan), but Chinese riot police have been deployed in Haiti to help control unrest there. Particularly striking was the Chinese government's offer in early November 2006 to send one thousand peacekeeping troops to southern Lebanon – under the UN flag, and despite the widespread mourning in China for a number of Chinese UN soldiers killed in the Israeli bombing raids on southern Lebanon in July of the same year.

China should clearly be encouraged to increase its commitment to UN tasks, in the field not only of international security but also of economic development. One way to do this is to gradually rectify China's under-representation in the UN apparatus.<sup>97</sup>

<sup>96</sup> *IMF Survey*, Vol. 36, No. 4, 26 February 2007, pp. 52-56. See also <[www.imf.org](http://www.imf.org)>, especially 'IMF Board of Governors approves quota and related governance reforms', Press Release No. 06/205, 18 September 2006.

<sup>97</sup> The appointment of the Chinese physician Dr Margaret Chan as Director-General of the World Health Organisation (WHO) on 1 January 2007 can be seen as evidence of China's increased interest in the performance of the international organisation as a whole.

### **V.3.1 Responsibility to protect**

In themselves, these changes can help the UN Security Council function more effectively. However, the AIV warns that expectations in this area should not be too high. Given China's traditionally intransigent position on national sovereignty and non-intervention, the fact that in September 2005 the country's leaders endorsed the concept of 'responsibility to protect' can be seen as a breakthrough. The essence of this concept is that governments have a primary responsibility to protect their citizens from 'genocide, war crimes, ethnic cleansing and crimes against humanity', and that, if governments are unable or unwilling to do so, the Security Council has a duty to assume this responsibility and take appropriate action, if necessary under the terms of Chapter VII of the UN Charter.<sup>98</sup>

### **V.3.2 Reservations about UN intervention**

However, China clearly still has great reservations about the practical application of the concept of 'responsibility to protect'. It continues to interpret the concept of 'threat to the peace' (Article 39 of the UN Charter) in a highly restrictive manner. This article effectively stipulates that coercive measures can only be taken if the Security Council decides there is a threat to or breach of international peace. When there are mass human rights violations that would justify humanitarian intervention, the question arises whether such violations are truly a threat to international peace and whether other states are entitled to take matters into their own hands in humanitarian emergencies.<sup>99</sup>

It is hard to tell whether China's reservations about far-reaching UN intervention are due to a deep-rooted historical fear of encroachments upon its national sovereignty, or rather to economic interests or questions of political self-preservation. In this connection, the AIV refers not only to the old question of Tibet, but also to the position of Muslim groups (especially the Uigurs, the Kazakhs, the Tajiks and the Kyrgyz, who are related to the Turkic peoples of Central Asia) living mainly in north-western China (Xinjiang).

Various developments now indicate that China is prepared – at least in areas geographically remote from its territory – to endorse international interventions in what until the 1990s it considered purely internal affairs. Turning points were China's acceptance (in 1991) of Security Council Resolution 688 on the protection of the Kurds and Shi'ites in Iraq and (in 1994) of Security Council Resolution 940, which cleared the way for UN intervention in Haiti to restore the democratically elected President Aristide to power.

In the case of the much less remote state of Myanmar, however, China has recently again proved completely unwilling to condemn a regime that is the target of widespread international criticism. On 12 January 2007, together with Russia, it vetoed a draft Security Council resolution on the subject.<sup>100</sup> Quite apart from this specific context, it seems that, even when China supports sanctions against a UN member state (as with North Korea and Iran), it is not inclined to extend them to the use of military force under Article 42 of the UN Charter. Nor is it alone in this – Russia and numerous non-Western countries take the same line.

98 See *World Summit Outcome*, UN Doc. A/RES/60/1, 24 October 2005, Paragraph 138-139.

99 See also the AIV's/CAVW'S reports *Humanitarian intervention*, Advisory Report No. 13, The Hague, April 2000, and *Failing states: a global responsibility*, Advisory Report No. 35, The Hague, May 2004.

100 Remarkably enough, South Africa also voted against the resolution.

#### V.4 Nuclear policy

China is one of the five nuclear-weapon states acknowledged as such in the Non-Proliferation Treaty (NPT), together with France, Russia, the United Kingdom and the United States. Nuclear deterrence is one of the main pillars of China's security strategy. Stable deterrence requires a nuclear-weapon state to have an invulnerable second-strike capability that other states (nuclear or otherwise) cannot ignore. Incidentally, China has issued a 'no first use' declaration.

One feature of China's nuclear policy is an even greater degree of secrecy than that observed by the other nuclear powers. Clearly a modernisation programme has been under way for some time and that China is expanding its arsenal of nuclear weapons, but estimates on this vary considerably. According to SIPRI,<sup>101</sup> China has some 130 operational nuclear weapons, plus a small number in storage – figures that fall far short of those for the US and Russia. In this connection, mention should be made of China's current efforts to strengthen its position in space and even to put a Chinese on the moon within fifteen years. The rocketry required for this is, of course, a dual-use technology.

China's nuclear policy and the size of its arsenal are mainly determined by its relations with the US. The guiding principle is minimum deterrence. Apart from the fact that China must modernise its largely obsolete systems simply to maintain credible deterrence, this modernisation is connected with the 'New Triad' presented in America's *Nuclear Posture Review* (January 2002). The New Triad consists of (1) both nuclear and conventional attack systems (this leg comprises the 'old triad' of land-based intercontinental ballistic missiles, submarine-launched ballistic missiles and long-distance nuclear bombers), (2) active and passive defence (this leg comprises the Ballistic Missile Defence (BMD) programme in, among other countries, Japan) and (3) a revitalised defence industry that is able to deliver new capability on time.<sup>102</sup> China is concerned that this American policy will undermine its military position.

A nightmare scenario from the Chinese point of view is a conventional missile or other attack by the US that would wipe out most of China's nuclear arsenal in one go. The small number of Chinese nuclear weapons that survived this strike would then be intercepted by the American BMD in Japan, eliminating the guaranteed possibility of nuclear reprisal and hence destroying the basis of China's deterrence. Another question here is how realistic nuclear reprisal would be in the event of a conventional attack that caused relatively little damage.<sup>103</sup>

By modernising and expanding its nuclear arsenal, China is increasing its second-strike capability. What the Chinese leadership is in fact doing is protecting itself against the American 'hedge' (or vice versa). In any case, the risk of a renewed nuclear arms race has now increased. All this underlines the importance of an effective dialogue on nuclear weapons between China and the US.

101 SIPRI Yearbook 2006, p. 657.

102 *Nuclear Posture Review*, 8 January 2002.

103 See, for example, Brad Roberts, *China, dissuasion and the New Triad*, lecture at Tufts University, US, 2003, <<http://fletcher.tufts.edu/news/2004/02/china.shtml>>.

## V.5 Non-proliferation and arms control

**Government question 7: How can the Netherlands encourage China to behave as a constructive partner on the world stage in terms of peace and security, including arms control and non-proliferation? Which new or existing initiatives could help?**

Basically, China is doing a great deal to prevent proliferation of nuclear weapons, less to prevent proliferation of biological and chemical weapons and virtually nothing in the case of conventional weapons. As China becomes more successful economically, there are increasing calls for the country to shoulder its responsibilities in the field of non-proliferation and arms control. Beijing very much favours a multilateral approach, and is therefore most unhappy about unilateral US initiatives like the March 2006 nuclear deal between the US and India, which Beijing sees as an example of American double standards.<sup>104</sup>

Apart from the fact that the deal undermines the multilateral non-proliferation regime, China questions America's motives, since there is the theory in Washington that India's position must be strengthened as a regional counterweight to the rise of China. In any case, China still has to approve the US-Indian agreement in the Nuclear Suppliers Group (NSG),<sup>105</sup> where it has a veto. The topic is due to come up on the NSG agenda in the course of 2007. As a member of the NSG, the Netherlands must also take a position on the matter.

At international level, in any case, China must constantly be urged to sign, ratify and comply with relevant multilateral non-proliferation and arms control treaties. For example, it must be encouraged, along with the other nuclear-weapon states, to do more to reduce the number of its nuclear weapons in accordance with Article VI of the Non-Proliferation Treaty (NPT). Like (for example) the US, China has not yet ratified the Comprehensive Test Ban Treaty (CTBT).

Furthermore, China is not a member of originally Western forums such as the Missile Technology Control Regime (MTCR), nor is it a party to the Hague Code of Conduct against Ballistic Missile Proliferation (relevant because of North Korea), a member of the Australia Group (AG Guidelines: Guidelines for Transfers of Sensitive Chemical or Biological Items) or a participant in the Wassenaar Arrangement (on export controls for conventional arms and dual-use goods and technologies).

The AIV realises that Chinese participation in these forums for countries that supply militarily sensitive goods and technologies is not yet an option. However, if China eventually undergoes a positive development in accordance with the standards of responsible stakeholderhood, the question of whether it can participate in some way in this system of consultation and agreements must be considered. The AIV also feels it is desirable to consider how China can somehow become involved in the US-led Proliferation Security Initiative (PSI), which it has criticised in the past. In any case, China is by no means the only country that could take more responsibility for attaining arms control objectives.

<sup>104</sup> See the AIV report *The nuclear non-proliferation regime: the importance of an integrated and multilateral approach*, Advisory Report No. 47, The Hague, January 2006, p. 19. At the time this report was finalised, the deal had yet to be approved by the Indian parliament.

<sup>105</sup> The NSG, which consists of the 45 main suppliers of nuclear fuel and technology, supervises export controls on nuclear and related items.

China's constructive role in the six-party talks on North Korea has already been mentioned. As regards Iran's presumed military nuclear aspirations, China has recently shown a reluctant willingness to support limited UN sanctions against that country. At the end of March 2007, Beijing voted for Security Council Resolution 1747, which condemned and imposed heavier sanctions on Iran.<sup>106</sup> The resolution also included a passage indicating that the aim is a nuclear-weapon-free Middle East including their means of delivery. China could play a more active role here. The country must decide whether its economic interests (specifically, its oil and gas needs) and its traditional aversion to intervention weigh more heavily than nuclear non-proliferation.

## **V.6 Raw materials, energy and Africa**

China's current highly assertive efforts to meet its ever-increasing need for raw materials (for example copper, tin, cobalt, tungsten, niobium and so on) and energy by signing bilateral agreements with numerous countries could lead to competition with EU countries and the West in general, for the available quantity of raw materials and fuels is limited.<sup>107</sup> This is one more reason to extend cooperation between the EU and China to the field of energy supplies, as is planned under the new Strategic Partnership.

Nor do China's efforts to defend its economic interests, some of them in countries with repugnant political regimes (such as present-day Zimbabwe), seem in keeping with the current tendency for international businesses and organisations to pay closer attention to each country's record on good governance, the rule of law, measures to tackle corruption and environmental protection. These goals are being undermined by Chinese policies that appear to be solely aimed at securing a steady supply of raw materials and fuels from a wide range of countries, including some international pariahs. China's Africa policy is a striking example.

China itself calls its Africa policy 'value-free',<sup>108</sup> but it could just as well be termed Machiavellian. Using its soft power, China is enhancing its status as a global player by presenting itself in Africa as an alternative to the West. At the same time, it is expanding its strategic and economic interests in Africa to help boost its own economic development.<sup>109</sup>

One particularly sensitive issue is Sudan. In late 2006, with massive human rights violations taking place in Darfur, there were signs of a shift in China's policy. At the Chinese-African summit held in Beijing in November 2006, President Hu for the first time called the Sudanese leader Omar Hassan Ahmad al-Bashir to account. China then urged Sudan to accept a joint UN-AU peacekeeping force in Darfur. During the Chinese president's visit to eight African countries, including Sudan (early February 2007), Darfur was once again on the agenda. However, it must be assumed that – whether or not because of China's major economic interests in Sudan (China is the largest purchaser of Sudanese oil) – Hu was not

106 UN Security Council Resolution 1747, 24 March 2007.

107 See also AIV/AER Advisory Report No. 46, December 2005.

108 *China's African Policy*, January 2006, <[www.fmprc.gov.cn](http://www.fmprc.gov.cn)>.

109 Ian Taylor, 'China's oil diplomacy in Africa', *International Affairs*, 82: 5, 2006.

prepared to press the Khartoum regime very hard.<sup>110</sup> In fact, China is one of the countries that have blocked multilateral action against Sudan.<sup>111</sup>

If, despite the mixed signals coming from China, there is indeed a shift in its Africa policy<sup>112</sup> towards greater willingness to help find ways of combating serious abuses in that part of the world, this is a subject for the EU-China-Africa dialogue that was agreed on at the EU-China summit in September 2006 (for more on this, see Chapter VII).<sup>113</sup>

110 China's decision to give Sudan a loan to build a palace for the Sudanese president has been fiercely attacked, especially in the American press (see, for example, Sebastian Mallaby, 'A palace for Sudan', *Washington Post*, 5 February 2007).

111 See Jonathan Fenby, 'China's great wall of intransigence', *Financial Times*, 26 February 2007.

112 Stephanie T. Kleine-Ahlbrandt and Andrew Small, 'China, the unlikely human rights champion', *Policy Innovations*, 14 February 2007.

113 The Leaders agreed to pursue a structured dialogue on Africa and explore avenues for practical cooperation on the ground in partnership with the African side' (*Joint Statement of the Ninth EU-China Summit*, Helsinki, 9 September 2006).

## VI China's military reforms

### **Key propositions**

- *At present, China's armed forces mainly concentrate on protecting the Chinese homeland and are not capable of power projection.*
- *However, this is starting to change, for spending on defence has been rising steadily since the 1990s and the armed forces are being modernised.*
- *There is a lack of transparency regarding China's military efforts, and this is making other countries feel insecure.*

### **VI.1 Lack of transparency**

On the eve of the National People's Congress in March 2007, Beijing announced that the official defence budget for 2007 would be increased by nearly 18% to RMB 350.9 billion (USD 45.3 billion or EUR 34.4 billion). This means that about 7.5% of Chinese government spending – 1.62% of GNP in 2002 – will go to defence.<sup>114</sup> The announcement drew a fiery response from Washington, which said that such a substantial increase in military spending was not in keeping with China's 'peaceful development' policy. However, a Chinese spokesperson played down the increase by saying that a good deal of it would be used to increase salaries and improve housing for military personnel.<sup>115</sup> The trouble with this explanation is that no one outside China knows whether it is true.

**Government question 9: *What is the AIV's assessment of the modernisation of China's armed forces? Is this modernisation accompanied by the development of a new strategic vision or doctrine relating to China's role in regional and global security?***

Since the mid-1990s, the budget for the Chinese People's Liberation Army (PLA)<sup>116</sup> has been rising by more than 10% a year. The increase mentioned above of nearly 18% is in line with this. To put this in perspective, however, China's spending on defence still falls a long way short of America's, which exceeds USD 650 billion (including spending on the war in Iraq). Taking European countries for comparison, China's official defence budget of USD 45.3 billion is now close to those of the United Kingdom and France, and more than four times that of the Netherlands.

However, the official defence budget is known to represent only part of the total. Estimates suggest the true budget could be as much as twice that amount. The picture is blurred by the fact that the PLA has all kinds of untraceable financial interests in civilian society. The possibility cannot be ruled out that the PLA's leaders themselves do not have even an approximate idea of how large the defence budget actually is.

Like other countries, China believes it is entitled to build up military strength in keeping with its economic and political stature. However, the lack of transparency regarding Chinese

<sup>114</sup> Andrew Yeh, 'Chinese military spending to rise by 18%', *Financial Times*, 4 March 2007.

<sup>115</sup> *Ibid.*

<sup>116</sup> The term covers all three branches of China's armed forces (army, navy and air force).

defence spending and the obscure way in which the PLA operates and is transforming itself are causing concern in other countries.<sup>117</sup> China's 2006 Defence White Paper has not alleviated this.<sup>118</sup>

## **VI.2 China's domestic security**

The CCP's policy is aimed at keeping the party in power, and the PLA serves this goal. The PLA's supreme commander is President Hu, who is also chairman of the powerful Central Military Committee (CMC). Mention has already been made of the widespread protest in China: 74,000 instances in 2004 and 86,000 in 2005. Partly owing to large-scale deployment of the paramilitary People's Police, such protest has so far been confined to isolated local incidents.<sup>119</sup> However, if the country's rulers feel the protest is too extensive for this militia to deal with, the PLA will be used, as it was in Tiananmen Square. The modernisation of China's armed forces can therefore partly be explained by the country's traditionally strong emphasis on domestic security.

## **VI.3 China's external security**

Apart from reasons of domestic policy, China has other reasons to modernise its armed forces and expand their military capabilities. From China's point of view, it faces at least as many strategic uncertainties regarding other countries as other countries do regarding China.<sup>120</sup> Thus China sees the US not only as a major trading partner, but also as a potential strategic rival.

Chinese borders on fifteen other countries and territories in Asia, some of which (such as North Korea, Pakistan/India and Taiwan) pose a major threat to regional stability. In addition, China has steadily expanding interests abroad and is increasingly dependent on overseas supply lines. In short, China's rise as a world power presents it with strategic and military challenges that may develop a momentum of their own, with unpredictable consequences.<sup>121</sup>

## **VI.4 Strategy**

Partly owing to the political and military leadership's lack of transparency, there is no clear picture of China's long-term military and strategic plans. Although China's leaders maintain that they wish to pursue a policy of peaceful development, the country is strengthening its position as a major regional power in military and other respects. Naturally, this clashes with existing military interests in the region, notably those of the US (see also Chapter IV).

117 *Military power of the People's Republic of China 2006: Annual report to the Congress*, US Department of Defense, 2006.

118 *White Paper on Defence*, December 2006.

119 Minxin Pei, 'Lange mars China naar democratie' ('China's long march to democracy'), *Het Financieele Dagblad*, 12 July 2006.

120 Anthony H. Cordesman and Martin Kleiber, *Chinese military modernisation and force development*, CSIS, 7 September 2006.

121 *Ibid.*

China sees the US as its main potential military and strategic adversary. However, as already indicated, Chinese spending on defence still lags far behind that of the US, despite the growing army budget and even if unofficial funding is taken into account. China is no match for the US in a conventional conflict, nor will it be in the decades to come. China is well aware of this and is therefore investing in niche capabilities and asymmetric warfare, which are mainly directed against C4ISR (command, control, communications, computer, information, surveillance and reconnaissance) systems – an example being anti-satellite technology. The following conclusion would seem to be correct:

What China does seek is to focus on niche capabilities and US vulnerabilities to deter, complicate and delay, if not defeat, US intervention in a Taiwan scenario, while more broadly preventing the United States and its allies from violating its sovereignty or containing China's development through military action or intimidation.<sup>122</sup>

Chinese military doctrine is based on strategic defence, which is actually a mixture of offensive and defensive thinking. Thus China could well launch a pre-emptive strike if it felt this would be in its best interest. As China sees it, the conflicts in which it has been involved since 1950 (Korea, India and Vietnam) were all cases of legitimate self-defence.

#### **VI.5 Improvement of military capabilities**

China's military leaders are conservative-minded, and a tradition of strict secrecy between the branches of the armed forces ensures that they exchange very little information. Attempts to get them to work together more closely ("joint") have so far had little effect. Furthermore, the armed forces do not have much operational experience. This is seen as a problem.<sup>123</sup>

Nor does China have sufficient capability for the long-range use of military force ('power projection'). Thus it does not have the resources to conquer Taiwan. On the other hand, it can launch an attack on the island, for example using the more than 600 medium-range missiles it has deployed on the Chinese coast opposite Taiwan since the mid-1990s. China is continuing to deploy such missiles, and no one knows how far this will go. How many missiles will China eventually have in place? Even though China's political relations with Taiwan now seem more relaxed, this military uncertainty is a source of concern for the AIV.

China lags a long way behind in the field of C2I (command, control and information) systems, which are essential for modern-day deployment of the armed forces (information warfare). This is therefore the main focus of Chinese equipment projects. It should be noted here that it takes at least ten years for major military investment projects to provide operational weapon systems.

The PLA is 2.3 million strong. China faces the huge task of modernising this army, whose equipment is largely obsolete. The Chinese 2006 white paper presents the following timetable for modernisation of the armed forces:<sup>124</sup>

122 C. Fred Bergsten *et al.*, p. 154.

123 Kees Homan, 'China: vreedzame opkomst of militaire dreiging?' ('China: peaceful rise or military threat?'), *Atlantisch Perspectief*, 2006, No. 2/8.

124 'China: PLA is becoming a force to be reckoned with', *Oxford Analytica*, 21 February 2007.

1. Short term (up to about 2010): 'a solid basis'. The goal is to develop capabilities which will enable the PLA to conquer Taiwan while deterring US intervention. About 10-20% of its equipment, including submarines, surface vessels, fighter aircraft and ballistic and cruise missiles, will be replaced with modern equipment during this period. The remaining equipment will be upgraded as inexpensively as possible, but there will be room for investment in C2I, so that the Chinese armed forces can begin developing network-enabled capabilities (NEC, whereby sensors, weapon systems and command systems are linked up in a single network). Such priorities will benefit the navy, the air force, strategic armed forces and the space industry at the expense of the army.
2. Medium term (2011-2020): 'major progress'. In this phase, China wants to achieve military parity with states such as Japan, Russia and Western European countries, with particular emphasis on information domination.
3. Long term (up to about 2050): 'informationalised forces'. Only then will China have truly transformed itself into a modern military power, with a mixture of capabilities such as C4ISR, electronic warfare (EW) and network-enabled capabilities.

When presenting the Chinese white paper in late December 2006, President Hu emphasised that the navy will be given priority in the modernisation of the PLA.<sup>125</sup> This means that the navy will be transformed from a 'green-water navy' which mainly operates in coastal waters, into a 'blue-water navy', which can also operate on the high seas. This is in line with China's power projection aspirations and its preparations for a possible attack on Taiwan. A key indicator here will be whether China purchases one or more aircraft carriers – an option it is now considering. China is also working on a second-generation nuclear-powered submarine that can transport sixteen nuclear missiles, each with a range of 8,000 kilometres. This could significantly enhance China's deterrent capability.<sup>126</sup>

The Chinese leadership has not given any explanation for this focus on the navy. China has traditionally been a land-based power, but it may now become more of a seafaring nation as people migrate to the coastal cities and the country grows more dependent on overseas transport links for the supply of raw materials, etc. It may wish to protect oil supply lines from the Middle East by means of sea control operations. This would make China less dependent on other nations that may try to interfere with such supplies. Another reason may be that China seeks maritime parity with India, which is also modernising and expanding its navy. In any event, even assuming China's ambitious modernisation programme is successful, the Chinese fleet will only be able to compete with its US counterpart around the middle of this century.

## **VI.6 Military cooperation with China**

In March 2007, during a visit by the Chairman of America's Joint Chiefs of Staff, General Peter Pace, China proposed that Chinese military personnel be allowed to receive training at the US Military Academy at West Point. The Chinese also suggested holding exercises for joint humanitarian and rescue operations. This is in line with earlier overtures in 2006, when senior military personnel paid reciprocal visits to military exercises.

<sup>125</sup> 'China wil zeemacht sterker maken' ('China wants stronger navy'), *NRC-Handelsblad*, 28 December 2006.

<sup>126</sup> Type 094 SSBN, <[www.sinodefence.com](http://www.sinodefence.com)>.

The AIV asks whether Europe should also investigate the possibility of closer military cooperation with China. In this connection, it notes that the Netherlands is one of the EU countries that already has contacts with the Chinese Ministry of National Defence. China's defence minister visited the Netherlands in 1999 and 2005, and in 2001 the then Dutch Minister of Defence, Frank de Grave, paid a visit to China. De Grave wrote to the House of Representatives that existing bilateral cooperation on defence would be stepped up, existing exchanges of military trainees would be expanded, and military intelligence services would begin to exchange information.<sup>127</sup> Such contacts should be continued, especially as the two countries may well have more dealings with each other during future peacekeeping missions.

127 Letter of 29 January 2002 (ref. def0200018) from the Minister of Defence to the House of Representatives, containing a report on the visit to the People's Republic of China on 9-14 December 2001.

# VII

## External influence on China: the Netherlands, the EU and NATO

### **Key propositions**

- *Where possible, China should be encouraged to participate in international institutions and abide by the rules governing them (responsible stakeholderhood).*
- *This means that every effort should be made to strengthen and expand cooperation, but also that pressure should be exerted if China acts counter to internationally accepted principles and legal norms.*
- *The Netherlands can do this most effectively through international bodies, especially the EU.*

### **VII.1 Opportunities to exert influence**

The importance of ensuring that China acts as a responsible stakeholder at all levels – national, regional and global – was emphasised at the start of this report. Western countries should therefore make every effort to strengthen and expand cooperation. However, if insurmountable conflicts exist or arise, it is of paramount importance that we uphold our own values, otherwise our policy towards China would no longer be credible. This is the common thread of this report.

Apart from the multilateral channels mentioned earlier, particularly in Chapter V, the Netherlands has three other channels it can use to influence developments in China: (1) bilateral channels, (2) the European Union and (3) NATO, in consultation with the United States. Which channel it uses will partly depend on the topics concerned. Trade is often dealt with bilaterally or through the EU, whereas military and strategic issues have traditionally been tackled through NATO.

The inadequacies of the existing system of world governance make it difficult to influence Chinese policy effectively. These inadequacies are apparent not only in global organisations, but also in the EU and NATO. Both organisations are confronted with existential issues and leadership problems which are now undermining their ability to act in response to external developments, such as the rise of China.

### **VII.2 Bilateral channels**

**Government question 11: *What do the abovementioned security and military aspects of China's rise mean for regional and international security? Should this influence EU and Dutch policy and the organisation of Dutch armed forces?***

To support China's political and economic transformation and so ensure greater respect for human rights and development of the rule of law, the Netherlands must continue and strengthen its present bilateral policy. At the same time, to encourage a process that will make China a responsible stakeholder in a world order that meets certain standards of security, sustainability and justice, the Netherlands should where possible focus its efforts on the EU, since this country's interests and those of the other EU member states largely run parallel.

The AIV emphasises that there is not much scope for a separate bilateral policy.<sup>128</sup> Nevertheless, there are Dutch interests to be defended in connection with orders and investment opportunities for Dutch businesses (and, conversely, Chinese investments in the Netherlands), advice and technology in the field of energy savings, environmental protection and water management, attraction of Chinese students and researchers, promotion of tourism from China and cultural exchanges. Exchanges, including those in the political, social and scientific sphere, must be aimed at increasing mutual understanding and trust. In addition, the Netherlands should focus on areas where it has something to offer China ('niches') and that can help this country build up an economic or cultural profile in China. Examples include agriculture, education and health care. It is an encouraging sign that so much is already being done.

The Dutch government should defend these interests as vigorously as possible, which will depend on effective coordination. Dutch policy must take account of general political and strategic considerations concerning China's peaceful integration into existing international institutions and regimes. To ensure that political leaders' decisions are carried out, there must be constant feedback between the Ministry of Foreign Affairs and the other ministries involved.

#### **VII.2.1 How the Netherlands can help reduce uncertainties in Chinese society**

The AIV also recommends that the government use bilateral channels to help reduce the uncertainties in Chinese society that were discussed earlier in this report. The Netherlands is already doing a great deal in China, for example through training programmes for judges, public prosecutors and police officers, the Royal Netherlands Academy of Arts and Sciences' China Exchange Programme, and land registry and water management projects. The Dutch government has also made efforts to involve Dutch businesses in China's economic development through the Development and Environment-related Export Transactions (ORET/MILIEV) programme. (Implementation of the programme in China was recently the subject of a joint evaluation by the Dutch Ministry of Foreign Affairs and a Chinese institute.)<sup>129</sup>

Since that China is expected to focus more on domestic consumption and social investment in the coming years, the AIV feels advantage should be taken of Dutch experience and knowledge of public-private partnerships on social security, health care and pensions in working out the details of future cooperation projects with China. Cooperation in these areas could help reduce some of the uncertainties that threaten Chinese development and at the same time draw attention to the differences between the EU's social model and that of the US. New projects should contribute to a 'stable, responsible, prosperous and sustainable China, to cite the request for advice.

#### **VII.2.2 Implications for the Netherlands' armed forces**

The AIV believes that the rise of China and the modernisation of the PLA have no direct implications for the organisation and capabilities of the Dutch armed forces. However, it

128 See also the AIV report *The Netherlands in a changing EU, NATO and UN*, Advisory Report No. 45, The Hague, July 2005.

129 *Country-led joint evaluation of the ORET/MILIEV programme in China: the Development and Environment-related Export Transactions Programme*, Amsterdam, Aksant, 2006. In April 2007 the Minister for Development Cooperation, Bert Koenders, announced that he intended to limit the programme to projects aimed at reducing poverty and boosting the private sector.

recommends that the armed forces keep a very close eye on political and strategic developments in China. The recent appointment of a defence attaché to the Beijing embassy is in line with this. The Military Intelligence and Security Service (MIVD) should also be involved in this task.

### **VII.3 The EU as a channel for influence**

**Government question 2: How should the Netherlands treat China as a player on the international political stage? Within the EU framework, do the Netherlands' interests differ from those of other EU member states?**

The AIV notes with satisfaction that the general guiding principles of Dutch policy<sup>130</sup> and that of the EU<sup>131</sup> are very similar. Since January 2007, the European Commission has been negotiating with China on a new and much broader cooperation agreement (to replace the one signed in 1985).<sup>132</sup> This goes well beyond the EU's specific areas of competence (such as WTO matters). Its subsequent implementation will therefore depend on cooperation between the member states and the Commission, and with each other, as well as efforts by European businesses. All this must be part of a coherent long-term EU policy towards China, which should follow a clear economic, political and strategic course.

Within the framework for enhanced cooperation to be negotiated with China, the various players – including the member states, for example through trade missions – can make their own contributions and defend their own interests alongside specific EU policy and joint EU-China projects. The basic principle of previous EU policy, in which China is seen as a partner, must continue to apply.<sup>133</sup> This is in clear contrast to the American policy, sometimes referred to as 'conengagement' – a combination of containment and engagement, or a US version of hedged integration. The main features of this policy appear to be rapprochement on economic matters and deterrence when it comes to the military dimension of relations with China.

#### **VII.3.1 EU-China policy requires better coordination**

However, the EU clearly needs to coordinate its China policy more effectively with the member states. Recent years have seen what has been termed a 'scramble for the Chinese market', in which the political leaders of individual member states pursued strictly national economic interests. Except in WTO matters, they have sidelined the representatives of the European Commission and the High Representative for the Common Foreign and Security

130 As set out, for example, in the Ministry of Foreign Affairs' policy memorandum of 13 June 2006.

131 As set out, for example, in the European Commission documents *A maturing partnership: shared interests and challenges in EU-China relations*, 10 September 2003, and *EU-China: closer partners, growing responsibilities*, 24 October 2006.

132 The 1985 agreement, known as the Agreement on Trade and Economic Cooperation between the European Economic Community and the People's Republic of China, superseded an earlier version dated 1975. The proposed title of the new agreement is 'Partnership and Cooperation Agreement'.

133 The EU and China have recognised one another as 'strategic partners' since October 2003.

Policy (CFSP), whose concerns are more political.<sup>134</sup> But that does not alter the fact that the assessment of strategic issues such as the political implications of China's economic and military rise expressly belong to the relevant EU bodies.

The French and Dutch rejection of the European Constitution will have reinforced Beijing's perception that the EU does not speak with one voice, and hence that the only major global strategic player China needs to reckon with is the US (even though American prestige has declined significantly in Chinese eyes in recent years).

### ***VII.3.2 Even so, China neither can nor wants to ignore the EU***

Yet the EU's position in relation to China is stronger than might appear at first sight. Overall, the EU economy is about as large as that of the US, the EU's share of world trade is greater and the Union therefore carries considerable international weight – especially as seen from China, which is so dependent on globalisation for its economic growth. In 2006, as already mentioned in Chapter II, China overtook the US as the leading exporter to the EU. Acting as a united entity, the EU has considerable negotiating power within the WTO. China would like the EU to grant it market-economy status, which would make it less vulnerable to anti-dumping regulations. The EU can use this as a trump card in talks with China. China also wants the EU to lift the arms embargo (discussed in more detail below).

The EU has extensive experience in dealing with the kind of uncertainties that face Chinese society (outlined in Chapter II) and, more importantly, is willing to provide money and expertise in order to tackle them. China and the EU have dealings with each other in various policy areas, such as energy policy and development aid. If China really does seek effective multilateralism, it cannot ignore the EU – nor, judging by the EU policy paper it published in 2003, does it want to.<sup>135</sup>

Another fairly significant factor is that the EU's normative power gives it the credibility to point out to China the importance of respect for legal norms and peaceful settlement of disputes. The European Parliament can also play a positive role by emphasising in its contacts with China that the EU is a community of law which, among other things, provides protection for national minorities.

Nevertheless, the EU would be wise at present not to indulge in geopolitical pipe dreams about China. Even though the AIV favours the gradual evolution of the EU into a full-fledged player on the world stage, the Union must remain realistic. The development and implementation of the CFSP are still proceeding very slowly. It should also be remembered that European countries have no military presence whatever in China's part of the world. Nor is the EU involved in the six-party talks on North Korea. In expanding its cooperation with

134 In a similar vein, Nicola Casarini concludes somewhat bitterly: '[...] despite a Common Commercial Policy (CCP) and repeated calls by the Commission for increased policy coordination, EU member states have continued to compete against each other for China's market shares in order to redress the growing bilateral trade deficits and maintain the global competitiveness of their companies. This European scramble for the Chinese market has been skilfully exploited by the Chinese leadership in order to obtain political concessions in the form of "silence" over sensitive issues pertaining to China's domestic affairs [...].' See *The evolution of the EU-China relationship: from constructive engagement to strategic partnership*, EU Institute for Security Studies, Paper No. 64, October 2006, pp. 18-19.

135 White Papers of the Government <<http://www.china.org.cn/e-white/index.htm>> China's EU Policy Paper, October 2003 <<http://www.china.org.cn/e-white/index.htm>>.

China, the EU, while encouraging democracy and respect for human rights, therefore has no option for the time being but to focus on 'low politics' – i.e. the technical, societal and economic domains in which it has already shown it can achieve results. The EU has already taken steps in the right direction, and a large number of cooperation programmes are already under way.

### ***VII.3.3 How the EU can help reduce uncertainties in the Chinese societal problems***

In the AIV's view, existing EU-China programmes should be strengthened, with priority for efforts to protect the environment, conserve energy and improve transport links, public administration and the legal system, which would reduce the problems in Chinese society described in Chapter II. The AIV also points to opportunities at EU level for public-private partnerships on social security, health care and pensions, areas greatly affected by China's delays in reforming the financial sector. In this way, the EU could help reduce tensions in Chinese society which, as indicated above, could have unpredictable political repercussions.

### ***VII.3.4 Need for common criteria***

The AIV believes the new EU-China policy should eventually include criteria which Brussels and the member states can use when deciding whether to step up cooperation with China or – if China acts counter to European interests or general humanitarian principles that the EU feels all countries should uphold – scale it down.

There should be no doubt about one thing: the willingness of EU countries (including the Netherlands) to cooperate more closely with China must depend not only on how that country behaves outside its own borders, but also on how its rulers treat their own citizens. With few exceptions, democratic countries with a good human rights record do not pose a threat to their neighbours. A shift in China's political system towards greater pluriformity, freedom of expression, freedom of movement for civil society organisations and protection of the lives of Chinese citizens should therefore be one of the benchmarks for Western policy towards China.

### ***VII.3.5 The EU and China in Africa***

***Government question 5: Can the AIV indicate whether or not – and, if so, how – China's energy and natural resources policy in the different producing regions affects Dutch and European foreign policy goals, particularly security, regional stability, good governance, poverty reduction and sustainable development? How should the Netherlands and the EU respond? On what can mutual interests be founded?***

***Government question 6: How can China be more closely involved in international agreements and initiatives for cooperation with developing countries? What channels can be used to achieve this? Could China's interests in developing countries' stability and the development of their market form a basis for intensifying contacts with development partners such as the Netherlands and the EU?***

The AIV has answered these two questions together because it is China's search for energy and other raw materials in Africa that most affects Dutch and EU interests in the field of development cooperation – not forgetting that China is also actively seeking energy supplies in Russia, Central Asia, Latin America and the Middle East. The question of how this is affecting development policy, and especially the human rights situation, in Africa has already been briefly discussed in Chapter V, Section 6. The present section will focus on what the EU can do in this area.

First of all, the rapid developments that have taken place in EU-China relations since the end of 2006 have made these questions partly superfluous. The AIV greatly welcomes the agreed EU-China-Africa dialogue. It has also learned that energy will be one of the topics discussed in the EU's new Strategic Partnership. The structures for dialogue are now in place; what remains to be seen is which joint interests and actions will yield concrete results.

### *Energy*

Unlike in the West, China's approach to energy security is based on efforts by state-run enterprises to secure supplies, rather than on market forces. China wants to minimise its dependence on other countries. The challenge it faces here is how to expand its interests in international energy sources while protecting both the sources and its logistical transport links with them.

However, such overseas investment cannot give China true security. First, the security of Chinese oil and gas interests in unstable failed states is open to question. Second, the country's long supply lines are vulnerable to piracy, terrorist attack and blockade by other countries. The US can cut China's supply lines whenever it chooses, and China knows it. Only energy-supply regions that are geographically close to China and linked to it by pipelines can offer it security. The West can help China in expanding and protecting its oil interests.

China must also become more closely involved in the relevant multilateral energy organisations, especially the International Energy Agency (IEA) in Paris, which is currently dominated by the West. This recommendation is in line with the AIV's comments on the IMF and the World Bank in Chapter V.

The EU and China can jointly concentrate on improving China's energy efficiency and encouraging the use of clean energy. The benefits of this for China itself, the region and the world are immense, but so is the cost. According to the director of the Centre for Energy, Petroleum and Mineral Law and Policy at the University of Dundee in Scotland, Philip Andrews-Speed, the time has now come for the EU to greatly increase its funding in this area.<sup>136</sup> The AIV shares this view.

### *Africa*

As for the EU's potential role in Africa in response to China's growing presence there, the AIV again points to the recent slight shift in China's attitude towards Sudan. As already indicated, China has not openly criticised the Khartoum regime's complicity in the Darfur atrocities and has continued to block multilateral action. There are signs, however, that it has been exerting cautious pressure on Sudan's rulers behind the scenes, even though this has not yet produced tangible results.

In the long term the AIV does not despair of China's role in Africa. As China's vested interests (investment, exploitation of resources, logistic links, loans etc.) in that part of the world increase, it will have a growing interest in stability and security there. It should be noted that there is already growing resistance in Africa to Chinese involvement there. The first cases of local social unrest in response to displacement of African industry, alleged exploitation of workers and working conditions in general have already occurred.

<sup>136</sup> Philip Andrews-Speed, 'China's energy policy and its contribution to international stability', Marcin Zaborowski (ed.), *Facing China's rise: guidelines for an EU strategy*, Chaillot Paper No. 94, December 2006.

At the same time, concerns are starting to be voiced in Africa that China must – as South African President Thabo Mbeki has said<sup>137</sup> – be careful not to colonise Africa a second time. In short, China's honeymoon with Africa appears to be drawing to a close. All the same, China's appearance on the scene has reduced Western countries' role and influence in Africa. The EU will have to adjust to this new situation, for China plans to stay in Africa, something which is, incidentally, welcomed by African countries.

The European Commission is thinking about ways of establishing trilateral cooperation with China and Africa. One major obstacle seems to be that, as the foregoing suggests, African countries are – with a few exceptions – unlikely to show much enthusiasm or interest. Nor should Europe have too high hopes of China in this regard. China sees itself as another developing country, rather than a donor. All in all, the rise of China has fundamentally altered African countries' dependency, while strengthening China's own position on the world stage.

The AIV proposes a pragmatic, businesslike approach. Cooperation should focus not so much on programmes founded upon generally accepted principles (whether based on the 'Washington consensus' or on the conditions governing EU cooperation with, say, the ACP countries) as on specific projects that take account of the different countries' wishes and needs. Such a differentiated approach seems most likely to succeed in improving local conditions in African countries.<sup>138</sup>

Given the unlikelihood that Africa and China will take a leading part in the trilateral talks, the AIV does not feel the EU should expect too much from cooperation with China on development in Africa. In view of this, the EU might usefully consider to what extent it can participate financially in China's African ventures, in areas such as infrastructure, training and health care. It goes without saying that these must be sound projects. Trilateral talks will also provide an opportunity to look at how Chinese and EU development efforts in Africa can be coordinated more effectively. What is important in any case is that the EU builds up trust within the trilateral forum.<sup>139</sup>

### **VII.3.6 The arms embargo**

One specific issue is the arms embargo, which was introduced after the events in Tiananmen Square (1989) and is still in force. The question of whether to lift it was discussed during the Dutch EU Presidency in the second half of 2004. In early 2004, with an eye to the Presidency, the government wrote a letter to the House of Representatives indicating that 'a negative response to China's request that the arms embargo be reviewed is inappropriate, and [...] the Netherlands must launch a debate with other EU member states on the conditions in which,

137 Lionel Barber and Alec Russell, 'Interview with Thabo Mbeki', *Financial Times*, 3 April 2007.

138 *A compact between China and the European Union*, Centre for European Reform, 5 September 2006.

139 In this connection, the AIV refers to three requests for advice which the government plans to submit to it by mid-2007: one on the effectiveness of aid, one on Africa and one on Dutch and European development cooperation. These reports will certainly discuss China's role in Africa and its implications for Dutch and European development policy. See also the Minister of Foreign Affairs' letter of 4 September 2006 to the House of Representatives on the AIV's multi-year programme of work from 2007 onwards.

and the point at which, it is acceptable to lift the embargo.<sup>140</sup> The government based its statement on, among other things, the observation that China 'has experienced far-reaching changes in the economic, political, social and human rights fields over the past fifteen years.'<sup>141</sup> In the first half of 2005 this debate came to a temporary halt after the NPC's adoption in March 2005 of the abovementioned law indicating that Taiwan would, if necessary, be annexed by force if it officially declared itself independent from mainland China.

In December 2006, the subject came up again on the agenda of the EU's General Affairs and External Relations Council (GAERC), but a majority of member states were against the embargo being lifted. The government's main objections to lifting the embargo in December 2006 were 'the human rights situation in China, stability and security in the region [i.e. Taiwan], relations with allies [especially the US] [and] completion of the review of EU Code of Conduct on Arms Exports.' Other factors were 'decisions regarding the Toolbox of additional measures that would come into effect if the embargo were lifted'.<sup>142</sup> Little now remains of the optimistic view the government took in 2004. The EU debate on the subject is frozen; some member states, taking their cue from the US (as well as Japan and Australia), are firmly opposed to the embargo being lifted.

The AIV believes it is time for the EU to end the embargo, once a new, more stringent EU Code of Conduct on Arms Exports comes into effect and the decision-making process on the Toolbox is completed. This is on the assumption that China does not increase its pressure on Taiwan and that there is no serious deterioration in the human rights situation. The AIV recommends that the Netherlands press for the embargo to be lifted, in the spirit of the joint statement issued at the end of the EU-China summit on 9 September 2006:

The Chinese side reiterated its view that lifting the arms embargo would be conducive to the sound development of EU-China relations and urged the EU to lift the arms embargo at an early date. The EU side recognised the importance of this issue and confirmed its willingness to carry forward work towards lifting the embargo on the basis of the Joint Statement of the 2004 EU-China Summit and subsequent European Council Conclusions.<sup>143</sup>

The AIV's position is based on the following arguments.

140 The Minister of Foreign Affairs' response, dated 30 January 2004, to the motion of 18 December 2003 by Representatives Van Bommel *et al.* on the arms embargo against China (*Parliamentary Papers* 2003-2004, 21 501-21 502, No. 520).

141 *Ibid.*

142 The Minister of Foreign Affairs' letter of 4 December 2006 to the House of Representatives on the agenda for the GAERC meeting on 11-12 December 2006, and his letter of 12 December 2006 to the House of Representatives on the report on the GAERC meeting on 11-12 December 2006 (*Parliamentary Papers* 2006-2007, 21 501-21 502, No. 719). The Toolbox, which applies to all post-embargo countries, includes measures to increase transparency regarding (non-)issued licences (including dual-use ones) and closer consultation between the member states.

143 *Joint Statement of the Ninth EU-China Summit*, Helsinki, 9 September 2006.

1. Maintaining the embargo indefinitely is a form of conditionality that does not do justice to the spirit of partnership that has grown up between the parties over the last twenty years.<sup>144</sup>
2. The effectiveness of the embargo can be questioned, to the point where it appears to have become a purely symbolic policy that no longer contributes in any way to greater respect for human rights.<sup>145</sup>
3. There has recently been a gradual improvement in the human rights situation in China (see Chapter III, Section 3).
4. The political situation in relation to Taiwan now appears to have stabilised (see Chapter IV, Section 6).

In the AIV's view, one great advantage of an EU Code of Conduct on Arms Exports is that, in legal terms, it has an *erga omnes* effect (i.e. it applies equally to all). China therefore could not view it as discriminatory. Lifting the embargo will, moreover, bring China's participation in the originally Western forums of countries that supply militarily sensitive dual-use goods and technologies a step closer (see Chapter V, Section 5).

Washington is bound at present to be fiercely opposed to the approach called for here, and will probably argue once again that the US does not wish to find itself facing modern European weaponry in the event that the Taiwan issue leads to armed conflict. More generally, the American government could interpret lifting the embargo as part of an EU policy aimed at closer, broader cooperation with China and a move towards a multipolar world order.

To most European countries, however, such a world order is quite simply a fact of life. All it means in European eyes – no less than this, but also no more – is that responsibility for attaining a number of international goals should be distributed over a number of suitably equipped power centres in the world (in proportion to their actual contribution), on the understanding that this should not undermine continued transatlantic cooperation. The AIV therefore sees the fear (which prevails in some conservative American circles) that the EU and China are ganging up on the US as unfounded.

#### **VII.4 NATO as a channel for influence**

##### **Government question 12: What position should the Netherlands take in the EU on strategic dialogue with the US on China? Does the AIV believe that NATO should seek closer ties with China?**

Under the terms of Article 4 of the North Atlantic Treaty, NATO is still the appropriate forum for the discussion of global issues of relevance to security and stability in the North Atlantic

144 In this connection, Jonathan Holslag has written that the EU's dealings with China, supposedly based on 'engagement', are in fact based on 'conditionality', particularly when it comes to respect for human rights. See his article 'The European Union and China: the great illusion', *European Foreign Affairs Review*, 11 (4), 2006, pp. 561-563.

145 The actual impact of the arms embargo is limited mainly because the European governments involved turn a blind eye to the large-scale export of dual-use goods used in advanced submarine and military fighter aircraft systems. See I. Anthony, *Militarily relevant EU-China trade and technology transfers: issues and problems*, SIPRI, Solna, 2006. Eberhard Sandschneider similarly points out that the main problem is not direct trade in arms, but the transfer of dual-use technology (see his essay 'Is China's military modernisation a concern for the EU?', Zaborowski, p. 45).

region. Indirectly, this surely applies to strategy towards China, but nowadays this and other strategic issues are scarcely discussed in the NATO Council. The AIV would be very pleased if this were to change.

NATO's, practical role in carrying out military activities in Asia is currently very limited, and in the AIV's view it should remain so. The AIV does not believe the alliance's range of activity should be extended to the entire world. Apart from the fact that this could create major political and practical problems – as witness NATO's present difficulties in Afghanistan (ISAF) – it would probably arouse suspicion not only in China but also in India.

#### **VII.4.1 NATO's 'Contact Countries'**

At the recent NATO summit in Riga in November 2006, the alliance explicitly reached out to what it terms 'Contact Countries'. These are countries which NATO cooperates with (or has done in the past) and are not part of existing NATO structures. They include Australia and Japan (which have just signed a bilateral security agreement – see Chapter IV) as well as South Korea and New Zealand. All four countries are part of ISAF in Afghanistan. In the words of the Riga Summit Declaration:

NATO's policy of partnerships, dialogue, and cooperation [...] has fostered strong relationships with [...] Contact Countries [...]. With this in mind, [the Heads of State and Government] task the Council in Permanent Session to further develop this policy, in particular to:

- fully develop the political and practical potential of NATO's [...] relations with Contact Countries [...];
- increase the operational relevance of relations with non-NATO countries, including interested Contact Countries; and in particular to strengthen NATO's ability to work with those current and potential contributors to NATO operations and missions who share our interests and values [...].<sup>146</sup>

The last few words in particular may cause apprehension, since they leave open the possibility that some countries may be excluded. China is not in fact mentioned anywhere in the Declaration, although it is referred to indirectly in the transcript of NATO Secretary-General Jaap de Hoop Scheffer's pre-summit press briefing.<sup>147</sup>

In its letter to the House of Representatives on the Riga summit, the government writes that the Netherlands is 'very much in favour of more frequent, closer consultations with these countries [Australia and Japan]'.<sup>148</sup> The AIV regrets to see that the government does not refer to China either.

146 Riga Summit Declaration issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Riga on 29 November 2006, Paragraphs 11 and 12.

147 When a journalist from the Chinese newspaper *People's Daily* inquired about the purpose of cooperation between NATO and Japan, the Secretary-General replied that the alliance did not intend to be a 'global policeman', but that it needed partners all over the world. However, he did not mention China in this connection. See *Press briefing on NATO's Riga summit by NATO Secretary-General Jaap de Hoop Scheffer*, 24 November 2006.

148 Letter of 14 December 2006 from the Minister of Foreign Affairs, Prime Minister and Minister of Defence to the House of Representatives concerning NATO's Riga summit on 28-29 November 2006 (*Parliamentary Papers 2006-2007*, 28 676, No. 32).

In addition to these consultations with the Contact Countries, the AIV recommends that formal dialogue with China be launched at the highest level, to preclude any sense of 'strategic encirclement' that China's leaders may spontaneously feel. At the moment there are no formal, structured top-level links between China and NATO, although dialogue between China and the alliance has been slowly getting under way at lower levels. China's indignation at NATO's bombing of the Chinese embassy in Belgrade during the Kosovo war in 1999 has only gradually subsided.

Official NATO-China dialogue is also useful as a means of encouraging cooperation on international peacekeeping, an area in which China – despite its increasing participation in such operations – is still a relative newcomer. Such dialogue may also be fruitful in the American-led Proliferation Security Initiative and the fights against international terrorism and even piracy. For the time being, however, the AIV does not feel that NATO should expand its operational role in relation to China.

The AIV also believes the Netherlands should initially work through the EU when it comes to general political issues concerning China. This will enable European (and hence also Dutch) interests in Asia to be defended more effectively and will highlight the difference from the current approach by the US, which appears to see China as a potential adversary rather than a potential partner. If there were a different American policy in the near future, based on multilateral cooperation rather than unilateral action, this would increase the likelihood of a common EU-US strategy and policy towards China. A change of policy in Washington could also clear the way for a positive review of talks on strategic issues within the North Atlantic Council, as recommended by the AIV (see above).

#### **VII.5 Joint action by the EU and the US/NATO**

In the AIV's opinion, joint action by the transatlantic partners offers the best long-term hope of encouraging China's integration into multilateral cooperation structures. Until recently, the European viewed China mainly in economic terms, whereas the US chiefly focused on the geopolitical implications of China's economic rise.<sup>149</sup> The two elements need to be combined in a balanced, integrated approach. Perhaps it is beyond the Netherlands' capability to act as a bridge-builder in transatlantic relations, but this country could endeavour to give China a central place in the regular consultations between the EU and the US as part of the New Transatlantic Agenda.

EU-US dialogue on policy towards East Asia has been taking place since late 2004, when the transatlantic controversy over the arms embargo was at its height. Since then, the EU has begun to think about the implications of China's rise in more strategic terms. Until then, as indicated above, EU policy was mainly determined by a wish to promote trade. Dialogue with the US and – a key factor – the upgrading of relations with China from constructive engagement to a strategic partnership have now introduced an important security policy component.

149 For more on this, see David Shambaugh, 'The new strategic triangle: US and European reactions to China's rise', *The Washington Quarterly*, summer 2005, pp. 7-25.

In any case, European and American interests in relation to China are essentially much the same. As so often, the disagreement concerns the way in which the West can attain its ultimate goal (a stable, democratic, peaceful China), rather than the goal itself. The Netherlands, too, must continue to work wherever possible for a transatlantic consensus on relations with China. The strategic EU-US dialogue on policy towards East Asia must therefore be strengthened.<sup>150</sup>

150 See also Werner Weidenfeld, 'Asia's rise means we must rethink EU-US relations', *Europe's World*, spring 2007, pp. 8-13.

## VIII Summary

This report by the Advisory Council on International Affairs on the significance of the rise of China for foreign policy has been written at the government's request. The government has said that it will draw on this report as it develops its China policy.

### ***A mature relationship with China (Chapter I)***

With growth rates that have continuously averaged more than 9% for more than a quarter of a century, China is rapidly heading towards becoming the world's second-largest economy in the not too distant future. Above all in the light of China's enormous size and its population of 1.3 billion, its rise can only be described in superlatives. For example, its trade surplus with the US was over USD 220 billion in 2006; at the beginning of 2007 its foreign currency reserves totalled USD 1.1 trillion; it has in the last few years become the world's second-biggest oil importer; since 2006 it has been exporting more to the EU than the US and it is now Africa's third-largest trading partner. Thanks to China's growth, the number of people there surviving on less than one US dollar per day has declined by more than 500 million: an impressive result.

China's economic rise is leading to irreversible shifts in the international landscape at both regional and world levels. The big question is: in what direction is the country heading? In other words: what will China do with its increasing power? Will the country play an active part in solving global problems within the existing framework of international institutions? Will it respect the existing rules of the game? Or will it form a threat to world peace? It goes almost without saying that everything possible should be done to ensure that China develops along positive lines and becomes a responsible stakeholder.

This report has been written on the assumption that the approach should be engagement with China, rather than the opposite approach of containment. The Council considers it of great importance for global stability that China's diplomatic status, position and influence should be adjusted to match its growing economic and military might. In view of the uncertainty about the direction of China's development, however, the AIV agrees that the concept of 'hedged integration' should guide Dutch China policy. In addition to this the Council favours promoting a mature relationship between China and Western countries: a relationship based on equality and mutual respect, in which it is also possible to call each other to account for ways of acting that run contrary to each other's expectations.

### ***China's economic growth and societal problems (Chapter II)***

China's rapid economic growth is due above all to its own policies, which have aimed at closer integration into the world economy. One of this report's main conclusions about Chinese foreign and security policy is that China's economic growth will continue to be dependent on a stable process of economic globalisation. Economic growth is also essential to Chinese rulers' efforts to prevent social unrest by delivering more prosperity for everyone. In any event in the near future, China will certainly continue to pursue policies aimed at maintaining a high growth rate of about 9%.

However, the country is increasingly encountering social problems that could be sources of political instability. These problems include growing inequality between urban and rural China and between eastern and western China, patterns of ownership (particularly in the countryside), demographic developments, migration to the cities, widespread official corruption, energy insecurity, environmental consequences of growth and the shortcomings

of the financial sector. The Chinese Communist Party (CCP) is well aware of these problems, as was shown at the last session of the National People's Congress in March 2007, but their seriousness must not be underestimated. The AIV's conclusion is that China's problems are more socio-political (institutional) in nature than financial and economic (policy-related). The CCP faces the enormous challenge of reforming the country's political system without losing political control.

### ***China: some domestic political developments (Chapter III)***

Chinese foreign and security policy aims above all at safeguarding the country's independence, sovereignty and territorial integrity (the one-China policy). The Chinese leadership is also striving to shape a propitious international environment for the country's development and modernisation. Several major domestic factors play a role in this respect. Firstly, the CCP's rule is currently not seriously endangered. Secondly, over the course of the past twenty years, China has been moving gradually towards accepting international human rights standards (which may conflict with old, deeply entrenched practices). However, account must also be taken of the possibility that domestic factors will give the foreign policy of the People's Republic a sharper nationalist flavour. And full-fledged democracy is still a distant prospect.

### ***China and the Asian region (Chapter IV)***

Unmistakably China's influence is growing in Asia. This has mainly taken the form of 'soft power'. China emphasises its desire for 'peaceful development', except of course with regard to Taiwan, which it threatened with armed intervention in 2005. Nonetheless, relations with Taiwan seem to have calmed down in the past year. More generally, there are currently no developments in the region that are direct sources of instability. Although the US as the existing major power in Asia must prepare itself for a reduction in its regional power and influence, yet in the absence of regional security organisations it remains for the time being the indispensable guarantor of regional security. The emergence of the US and China as two hostile camps polarising the countries of the region must be avoided.

### ***China at global level (Chapter V)***

China aims at recognition as a global power. The problem is however that the existing system of global governance has not yet come to grips with the new reality of emerging powers, and therefore requires gradual adaptation. It would be reasonable to expand the G8 to include China, for example. China's position in the IMF and World Bank should also be strengthened. Although this would inevitably be at the expense of the voting weight of countries like the Netherlands, the AIV considers it self-evidently in the Netherlands' interest to promote a more accurate reflection of the new international balance of forces and therefore supports further adjustments of voting strengths.

With regard to China's position at the UN, the AIV notes that in the past several years China has gradually been moving towards active, constructive participation, as witness its increasing role in international peace operations. While non-intervention is still a central Chinese theme at the UN, China is also visibly assuming greater responsibility for such issues as North Korea and Iran. This provides an opening to explore the possibility of strengthening other arms control regimes besides nuclear non-proliferation by involving China more closely in upholding them.

### ***China's military reforms (Chapter VI)***

The greatest obstacle to assessing China's military reforms is the lack of transparency on the Chinese side. Through their secrecy, Chinese leaders are themselves contributing to other countries' uncertainty about China's peaceful intentions. As a result, a justifiable

increase in the Chinese defence budget to USD 45 billion – a fraction of the US defence budget – for a 2.3-million-strong military has fuelled an inconclusive debate about China's military intentions. The country's most recent Defence White Paper lays out an ambitious strategy for creating armed forces that would be capable by the mid-21st century of holding their own against the US. It is impossible to assess just how realistic these plans are. What is clear is that the Chinese navy is changing from a 'brown water navy', active chiefly in China's own coastal waters, to a 'blue water navy', also active on the high seas. In the near term, the placement of medium-range missiles aimed at Taiwan is the main cause for concern.

### ***External influence on China: the Netherlands, the EU and NATO (Chapter VII)***

This summary began with the argument that China should be encouraged to play an active part in internationally agreed frameworks while respecting the corresponding rules of the game. The Netherlands, the EU and NATO should aim by all appropriate means to reinforce and extend cooperation with China. At the same time, any Chinese action contrary to generally accepted international principles and legal norms should be opposed. In principle the best way for the Netherlands to proceed is through international institutions, particularly the EU.

#### ***The Netherlands***

While acknowledging that the Netherlands has very little scope for a bilateral policy of its own towards China, the AIV nevertheless recommends that the government contributes bilaterally as well as multilaterally, to the extent of its ability, to reducing the societal problems mentioned above about the course of Chinese society. In this connection, the Netherlands has its own specific interests: winning contracts and investment opportunities for Dutch companies and attracting Chinese investments to the Netherlands. In particular, the Netherlands must be conscious of the areas ('niches') in which it has something to offer China and where our country can develop an economic or cultural profile there. Take for example water, agriculture, sustainable energy, and Dutch experience with and knowledge of public/private partnerships in the fields of social security, health care and pensions. To safeguard political leadership in the conduct of policy, the Ministry of Foreign Affairs should be in permanent dialogue with the other ministries concerned. The Ministry of Defence would also be well advised to monitor the development of Chinese policy and strategy intensively and in depth and to maintain existing contacts with the Chinese military authorities.

#### ***The EU***

In advancing the process of preparing China for a role as responsible stakeholder, the Netherlands should focus its efforts as much as possible on the EU. After all China cannot avoid dealing with the EU as a global economic power. In addition to promoting democracy and human rights, the EU should concentrate for the time being on its strong suit, where it has proven its ability to get results. This is 'low politics', the domain of economic, social and technical cooperation. The EU should also help diminish the uncertainties in Chinese society mentioned above, which could lead to unpredictable political reactions. The AIV notes with approval that EU-Chinese dialogue has again gained momentum since late 2006.

Considerable attention has been paid lately to the closer relations that China has been developing with many countries on the African continent. As its interests in this part of the world – investments, exploitation of natural resources, logistical links, loans – increase, China stands to gain more and more from a stable, secure Africa. This means that there are opportunities for trilateral cooperation between Africa, China and the EU. The AIV favours a pragmatic, businesslike approach. Cooperation should focus not so much on

programmes founded on general conditions and principles as on specific projects that take as much account as possible of the different countries' wishes and needs. A differentiated approach seems most likely to succeed in improving the local conditions in African countries.

### ***Lifting the arms embargo***

In the AIV's view, the time has come to lift the EU's arms embargo on China, but after the entry into force of a new, tougher EU Code of Conduct for arms exports and the conclusion of the decision-making process on the Toolbox. The Council is assuming here that China will not heighten tensions with Taiwan and that there will be no serious deterioration in the human rights situation in China. The AIV recommends that the Netherlands work actively in the EU for lifting the export ban.

In support of this position, the AIV would argue that maintaining the embargo indefinitely is a form of conditionality that does not do justice to the spirit of partnership that has grown up between the parties concerned over the last twenty years. The effectiveness of the ban can also be questioned, to the point that it has degenerated into a purely symbolic policy that does not actually contribute in any way to greater respect for human rights. Furthermore, the human rights situation in China has gradually improved since the Tienanmen Square tragedy. Finally, the political situation in relation to Taiwan now seems to have stabilised.

The great advantage of an EU Code of Conduct on arms exports, in the AIV's eyes, is that it has an 'equal for all' effect. China therefore could not view it as discriminatory.

### ***NATO***

The AIV opposes extending NATO's sphere of operations to the entire world. While the Council can sympathise with NATO's desire to work more closely with countries such as Australia, Japan, New Zealand and South Korea – 'contact countries' that the alliance works with in ISAF – it also believes that NATO should not exclude any country from such relationships. The AIV therefore recommends that a formal dialogue be launched with China at the highest level, parallel to the consultations with the contact countries. Strategic consultations on China in the framework of article 4 of the North Atlantic Treaty would also be desirable to arrive at a joint policy.

### ***The EU and the US/NATO***

A stable China is in the interests of the countries on both sides of the Atlantic. The Netherlands should therefore work where possible towards a transatlantic consensus on relations with China. The strategic dialogue between the EU and the US on East Asia policy should be intensified to this end. The Netherlands could endeavour to give the question of the relationship with China a central place in the regular consultations between the EU and the US as part of the New Transatlantic Agenda.

**Ministry of Foreign Affairs**

Postbus 20061  
2500 EB Den Haag  
Tel.: +31 (0)70 348 6486

**Ministry of Defence**

Postbus 20701  
2500 ES Den Haag  
Tel.: +31 (0)70 318 8188

Mr F. Korthals Altes  
Chairman of the Advisory Council  
on International Affairs  
Postbus 20061  
2500 EB Den Haag

Date 13 October 2006  
Our ref. DAO-0778/06

Re: Request for advice on 'The significance of the rise of China for foreign policy'

Dear Mr Korthals Altes,

Rapid economic developments in China, and the country's increasing prominence on the world stage, are having major consequences for international relations. China has an increasingly influential voice in global issues such as conflict management, energy supply security, the use and supply of resources, sustainable development and the promotion of world trade. The security policy aspects of China's rise also require special attention.

Relations between the Netherlands and China are good. It is in the Netherlands' interests to strengthen these good relations. On 13 June 2006 the government presented its policy memorandum on China, *Shaping a relationship for bilateral cooperation with China, for 2006-2010* to the House of Representatives. The memorandum sets out an integrated, coherent view of China that will allow the continued concerted and effective promotion of Dutch interests.

Given China's growing global role, the government believes that an advisory report on the meaning of its rise for foreign policy is relevant to further policy development. The same is true of advice on how the Netherlands can respond to the rise within bilateral and multilateral frameworks. The guiding principle should be the importance the Netherlands attaches to a stable, responsible, prosperous and sustainable China and our wish to contribute to this through our foreign and defence policy. The government would therefore like the AIV to produce an advisory report on two main themes, namely the significance of the rise of China for both global and security policy.

In this light, we would like to put the following questions to the AIV:

**The significance of China's rise for global policy (focusing on China's role in multilateral forums)**

China can largely thank its economic development and its consequent increased economic weight for its global political influence. Chinese policy is aimed at continued economic growth.

In 2001 China joined the World Trade Organisation (WTO). This encompasses requirements to make markets more accessible to foreign businesses, which creates opportunities for Dutch businesses. At the same time shortcomings, such as in the labour rights area, need to be raised in a constructive manner.

In the Netherlands' view, the increasing size of the Chinese economy and the country's relative prosperity should be reflected in its playing a constructive global political role. As a permanent member of the UN Security Council, China is gradually accepting more responsibility for international peace and security. China's foreign policy also seems more focused on active participation in multilateral forums, such as the UN and the WTO, than in the past. On occasion it still exercises caution; for example when, in its opinion, the international community goes too far in interfering in countries' internal affairs, as in Sudan, Iran and Burma. In other cases, including North Korea, China adopts a more active stance. In this respect, China's self-interest seems to be an important additional factor; see, for example, the relation between Chinese energy interests and the country's position on the Sudan/Darfur question.

In recent years China has increasingly relied on global markets for oil, gas and other resources. It is generally accepted that Chinese demand will continue to grow in years to come. China's economic growth and quest for oil and other natural resources has consequences for sustainable development in other regions, particularly developing countries. Although Chinese activities are important for the economic development of the countries in question, internationally adopted development goals seem to be of secondary importance in Chinese policy. It also seems that there is no dialogue on development strategy, either with the individual countries involved or with donors active in those countries. One aspect of this problem is the fact that China makes loans to countries which are already struggling with sizeable debts, African countries in particular.

#### Questions:

- What is the AIV's assessment of China's position within multilateral forums, with particular reference to China's position as one of the five permanent members of the UN Security Council? What are the implications of this for in particular the functioning of the UN and UN Security Council?
- How should the Netherlands treat China as a player on the international political stage? Within the EU framework, do the Netherlands' interests differ from those of other EU member states?
- What is the AIV's assessment of China's position in the WTO, and China's adherence to WTO requirements?
- What is the AIV's assessment of the changes in China's relative global economic weight, not only as 'the workshop of the world' (due to low labour costs), but also, increasingly, as an investor and high tech researcher? How can the EU and the Netherlands respond to these changes?
- Can the AIV indicate whether or not (and, if so, how) China's energy and natural resources policy in the different producing regions affects Dutch and European foreign policy goals, particularly security, regional stability, good governance, poverty reduction and sustainable development? How should the Netherlands and the EU respond? On what can mutual interests be founded?
- How can China be more closely involved in international agreements and initiatives for cooperation with developing countries? What channels can be used to achieve this? Could China's interests in developing countries' stability and the development of their market form a basis for intensifying contacts with development partners such as the Netherlands and the EU?

## **The significance of China's rise for security policy**

China's rise raises a number of particularly important security policy questions. Its ever-increasing defence spending, the Taiwan question, the sensitivities on both sides in its relations with other countries in the region such as India, Japan and North and South Korea, and the European and transatlantic debate on relations with China all play a role.

### Questions:

- How can the Netherlands encourage China to behave as a constructive partner on the world stage in terms of peace and security, including arms control and non-proliferation? Which new or existing initiatives could help?
- What is the AIV's assessment of China's influence in the region, including how it relates to the US? Should shifts be expected?
- What is the AIV's assessment of the modernisation of China's armed forces? Is this modernisation accompanied by the development of a new strategic vision or doctrine relating to China's role in regional and global security?
- What role do regional organisations such as the Shanghai Cooperation Organisation (SCO) and the Asean Regional Forum (ARF) play in China's foreign and security policy?
- What do the abovementioned security and military aspects of China's rise mean for regional and international security? Should this influence EU and Dutch policy and the organisation of Dutch armed forces?
- What position should the Netherlands take in the EU on strategic dialogue with the US on China? Does the AIV believe that NATO should seek closer ties with China?

We would appreciate receiving the AIV's report by April 2007 at the latest. This deadline takes into account the anticipated evaluation of the policy memorandum's implementation, which will take place around one year after completion.

Bernard Bot  
Minister of Foreign Affairs

Henk Kamp  
Minister of Defence

Agnes van Ardenne-van der Hoeven  
Minister for Development Cooperation

**List of abbreviations**

<b>ACP</b>	African, Caribbean and Pacific Group of States
<b>AER</b>	General Energy Council
<b>AG</b>	Australia Group
<b>AIECE</b>	Association of European Conjuncture Institutes
<b>AIV</b>	Advisory Council on International Affairs
<b>APEC</b>	Asia-Pacific Economic Cooperation
<b>ARF</b>	ASEAN Regional Forum
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASEF</b>	Asia-Europe Foundation
<b>ASEM</b>	Asia-Europe Meeting
<b>AU</b>	African Union
<b>BMD</b>	Ballistic Missile Defence
<b>C2I</b>	Command Control and Information
<b>C4ISR</b>	Command, Control, Communications, Computer, Information, Surveillance and Reconnaissance
<b>CCP</b>	Chinese Communist Party
<b>CFSP</b>	Common Foreign and Security Policy
<b>CMC</b>	Central Military Committee
<b>CPB</b>	Netherlands Bureau for Economic Policy Analysis
<b>CSIS</b>	Centre for Strategic and International Studies
<b>CTBT</b>	Comprehensive Test Ban Treaty
<b>DPRK</b>	Democratic People's Republic of Korea (North Korea)
<b>EU</b>	European Union
<b>EW</b>	Electronic warfare
<b>FDI</b>	Foreign direct investment
<b>G8</b>	The seven richest industrial countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) plus Russia
<b>GAERC</b>	General Affairs and External Relations Council
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>IAEA</b>	International Atomic Energy Agency
<b>ICCPR</b>	International Covenant on Civil and Political Rights
<b>IEA</b>	International Energy Agency
<b>IISS</b>	International Institute for Strategic Studies
<b>IMF</b>	International Monetary Fund
<b>IPR</b>	Intellectual Property Rights

<b>KEDO</b>	Korean Peninsula Energy Development Organisation
<b>MIVD</b>	Military Intelligence and Security Service
<b>MTCR</b>	Missile Technology Control Regime
<b>NATO</b>	North Atlantic Treaty Organisation
<b>NEC</b>	Network-Enabled Capabilities
<b>NPC</b>	National People's Congress
<b>NPT</b>	Non-Proliferation Treaty
<b>NSG</b>	Nuclear Suppliers Group
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>ORET/MILIEV</b>	Development- and Environment-Related Export Transactions
<b>OSCE</b>	Organisation for Security and Cooperation in Europe
<b>PLA</b>	People's Liberation Army
<b>PNG</b>	Papua New Guinea
<b>PSI</b>	Proliferation Security Initiative
<b>R&amp;D</b>	Research and Development
<b>RMB</b>	Renminbi
<b>SCO</b>	Shanghai Cooperation Organisation
<b>SIPRI</b>	Stockholm International Peace Research Institute
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>US</b>	United States
<b>WHO</b>	World Health Organisation
<b>WTO</b>	World Trade Organisation

## Previous reports published by the Advisory Council on International Affairs

- 1 AN INCLUSIVE EUROPE, *October 1997*
- 2 CONVENTIONAL ARMS CONTROL: urgent need, limited opportunities, *April 1998*
- 3 CAPITAL PUNISHMENT AND HUMAN RIGHTS: recent developments, *April 1998*
- 4 UNIVERSALITY OF HUMAN RIGHTS AND CULTURAL DIVERSITY, *June 1998*
- 5 AN INCLUSIVE EUROPE II, *November 1998*
- 6 HUMANITARIAN AID: redefining the limits, *November 1998*
- 7 COMMENTS ON THE CRITERIA FOR STRUCTURAL BILATERAL AID, *November 1998*
- 8 ASYLUM INFORMATION AND THE EUROPEAN UNION, *July 1999*
- 9 TOWARDS CALMER WATERS: a report on relations between Turkey and the European Union,  
*July 1999*
- 10 DEVELOPMENTS IN THE INTERNATIONAL SECURITY SITUATION IN THE 1990s:  
from unsafe security to unsecured safety, *September 1999*
- 11 THE FUNCTIONING OF THE UNITED NATIONS COMMISSION ON HUMAN RIGHTS,  
*September 1999*
- 12 THE IGC AND BEYOND: TOWARDS A EUROPEAN UNION OF THIRTY MEMBER STATES,  
*January 2000*
- 13 HUMANITARIAN INTERVENTION, *April 2000\**
- 14 KEY LESSONS FROM THE FINANCIAL CRISES OF 1997 AND 1998, *April 2000*
- 15 A EUROPEAN CHARTER OF FUNDAMENTAL RIGHTS?, *May 2000*
- 16 DEFENCE RESEARCH AND PARLIAMENTARY SCRUTINY, *December 2000*
- 17 AFRICA'S STRUGGLE: security, stability and development, *January 2001*
- 18 VIOLENCE AGAINST WOMEN: LEGAL DEVELOPMENTS, *February 2001*
- 19 A MULTI-TIERED EUROPE: the relationship between the European Union and  
subnational authorities, *May 2001*
- 20 EUROPEAN MILITARY-INDUSTRIAL COOPERATION, *May 2001*
- 21 REGISTRATION OF COMMUNITIES BASED ON RELIGION OR BELIEF, *June 2001*
- 22 THE WORLD CONFERENCE AGAINST RACISM AND THE RIGHT TO REPARATION, *June 2001*
- 23 COMMENTARY ON THE 2001 MEMORANDUM ON HUMAN RIGHTS POLICY, *September 2001*
- 24 A CONVENTION, OR CONVENTIONAL PREPARATIONS? The European Union and the ICG 2004,  
*November 2001*
- 25 INTEGRATION OF GENDER EQUALITY: a matter of responsibility, commitment and quality,  
*January 2002*
- 26 THE NETHERLANDS AND THE ORGANISATION FOR SECURITY AND COOPERATION IN EUROPE  
IN 2003: role and direction, *May 2002*
- 27 BRIDGING THE GAP BETWEEN CITIZENS AND BRUSSELS: towards greater legitimacy and  
effectiveness for the European Union, *May 2002*
- 28 AN ANALYSIS OF THE US MISSILE DEFENCE PLANS: pros and cons of striving for invulnerability,  
*August 2002*

- 29 PRO-POOR GROWTH IN THE BILATERAL PARTNER COUNTRIES IN SUB-SAHARAN AFRICA:  
an analysis of poverty reduction strategies, *January 2003*
- 30 A HUMAN RIGHTS BASED APPROACH TO DEVELOPMENT COOPERATION, *April 2003*
- 31 MILITARY COOPERATION IN EUROPE: possibilities and limitations, *April 2003*
- 32 BRIDGING THE GAP BETWEEN CITIZENS AND BRUSSELS: towards greater legitimacy and  
effectiveness for the European Union, *April 2003*
- 33 THE COUNCIL OF EUROPE: less can be more, *October 2003*
- 34 THE NETHERLANDS AND CRISIS MANAGEMENT: three issues of current interest, *March 2004*
- 35 FAILING STATES: a global responsibility, *May 2004\**
- 36 PRE-EMPTIVE ACTION, *July 2004\**
- 37 TURKEY: towards membership of the European Union, *July 2004*
- 38 THE UNITED NATIONS AND HUMAN RIGHTS, *September 2004*
- 39 SERVICES LIBERALISATION AND DEVELOPING COUNTRIES: does liberalisation produce  
deprivation?, *September 2004*
- 40 THE PARLIAMENTARY ASSEMBLY OF THE COUNCIL OF EUROPE, *February 2005*
- 41 REFORMING THE UNITED NATIONS: A closer look at the Annan report, *May 2005*
- 42 THE INFLUENCE OF CULTURE AND RELIGION ON DEVELOPMENT: Stimulus or stagnation?, *June 2005*
- 43 MIGRATION AND DEVELOPMENT COOPERATION: coherence between two policy areas, *June 2005*
- 44 THE EUROPEAN UNION'S NEW EASTERN NEIGHBOURS: *July 2005*
- 45 THE NETHERLANDS IN A CHANGING EU, NATO AND UN, *July 2005*
- 46 ENERGISED FOREIGN POLICY: security of energy supply as a new key objective, *December 2005\*\*\**
- 47 THE NUCLEAR NON-PROLIFERATION REGIME: The importance of an integrated and multilateral  
approach, *January 2006*
- 48 SOCIETY AND THE ARMED FORCES, *April 2006*
- 49 COUNTERTERRORISM FROM AN INTERNATIONAL AND EUROPEAN PERSPECTIVE, *September 2006*
- 50 PRIVATE SECTOR DEVELOPMENT AND POVERTY REDUCTION, *October 2006*
- 51 THE ROLE OF NGOs AND THE PRIVATE SECTOR IN INTERNATIONAL RELATIONS, *October 2006*
- 52 EUROPE A PRIORITY!, *November 2006*
- 53 THE BENELUX: THE BENEFITS AND NECESSITY OF ENHANCED COOPERATION, *February 2007*
- 54 THE OECD OF THE FUTURE, *March 2007*

\* Issued jointly by the Advisory Council on International Affairs (AIV) and the Advisory Committee on Issues of Public International Law (CAVV).

\*\* Joint report by the Advisory Council on International Affairs (AIV) and the Advisory Committee on Aliens Affairs (ACVZ).

\*\*\* Joint report by the Advisory Council on International Affairs (AIV) and the General Energy Council.

## **Advisory letters issued by the Advisory Council on International Affairs**

- 1 Advisory letter THE ENLARGEMENT OF THE EUROPEAN UNION, *December 1997*
- 2 Advisory letter THE UN COMMITTEE AGAINST TORTURE, *July 1999*
- 3 Advisory letter THE CHARTER OF FUNDAMENTAL RIGHTS, *November 2000*
- 4 Advisory letter ON THE FUTURE OF THE EUROPEAN UNION, *November 2001*
- 5 Advisory letter THE DUTCH PRESIDENCY OF THE EU IN 2004, *May 2003\*\**
- 6 Advisory letter THE RESULTS OF THE CONVENTION ON THE FUTURE OF EUROPE, *August 2003*
- 7 Advisory letter FROM INTERNAL TO EXTERNAL BORDERS. Recommendations for developing a common European asylum and immigration policy by 2009, *March 2004*
- 8 Advisory letter THE DRAFT DECLARATION ON THE RIGHTS OF INDIGENOUS PEOPLES: from Deadlock to Breakthrough?, *September 2004*
- 9 Advisory letter OBSERVATIONS ON THE SACHS REPORT: How do we attain the Millennium Development Goals?, *April 2005*
- 10 Advisory letter THE EUROPEAN UNION AND ITS RELATIONS WITH THE DUTCH CITIZENS, *December 2005*
- 11 Advisory letter COUNTERTERRORISM IN A EUROPEAN AND INTERNATIONAL PERSPECTIVE: interim report on the prohibition of torture, *December 2005*