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CENTURY

Warsaw / October 8-9 / 2014

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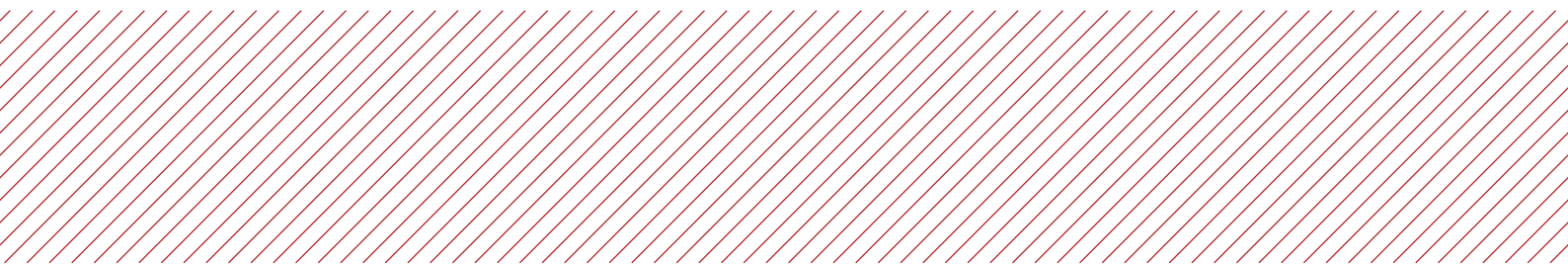
Warsaw / October 8-9 / 2014

PROCEEDINGS

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

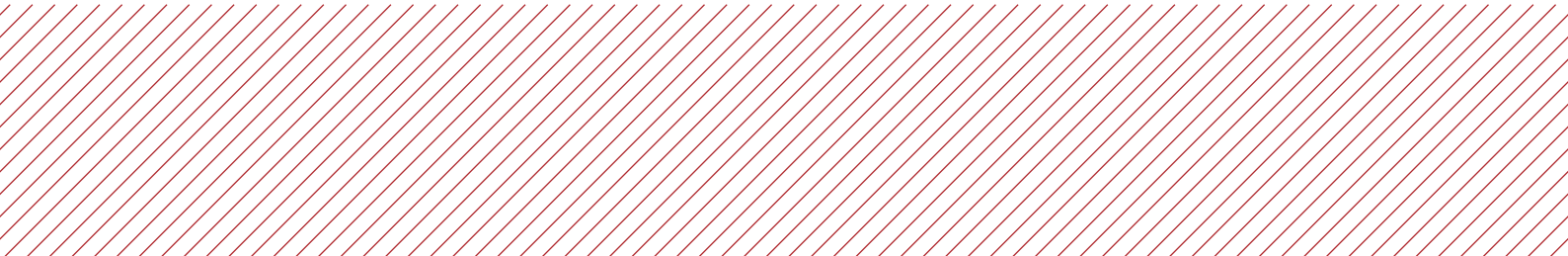
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CONTENTS

Introduction by Axel Berkofsky	5
Session 1: Convergence or divergence of interests? The dynamics of European and Asian trajectories.....	10
Looking beyond the Borders of the European Union	
<i>Dominik Mierzejewski</i>	10
Reinforcing the European ‘Pivot to Asia’	
<i>Filip Grzegorzewski</i>	12
China and the International Climate Negotiations	
<i>Isabel Hilton</i>	13
How do Asians see their future?	
<i>Sylvie Kauffmann</i>	17
‘Global Asia’ and Europe’s Response	
<i>Jürgen Stetten</i>	20
Containment or New Multilateralism? Implications of TTIP and TPP	
<i>Marjut Hannonen</i>	23
Session 2: Containment or new multilateralism? Implications of TPP and TTIP.....	23
The Trans-Pacific Partnership (TPP): US-driven China Containment?	
<i>Axel Berkofsky</i>	25
‘Containment’ in an era of economic interdependence	
<i>Hans Kundnani</i>	28
Session 3: Strategic uncertainty in Asia – Europe’s response.....	32
Why should Europeans respond to foreign policy and security issues in Asia?	
<i>Angela Stanzel</i>	32
Security in East Asia and the challenge of a European role	
<i>Gudrun Wacker</i>	34
Session 4: Russia – a European or Asian power?.....	38
Russia hedging its Bets in East Asia?	
<i>Bernt Berger</i>	38
About the authors	44

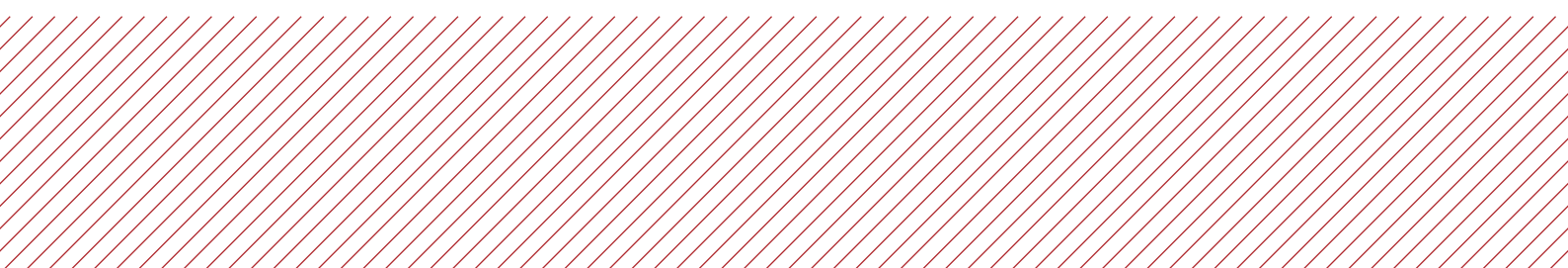


What is the European Union's role in and impact on Asian security? How is the EU's role as a security actor in Asia perceived? How much 'soft' and how much 'hard' power does Asia want from Europe, and how much of both is Europe able and prepared to provide for Asia? This year's Warsaw Asia conference, organized by the Friedrich-Ebert-Stiftung, demosEuropa and ECFR, again brought together some of Europe's leading Asia scholars to discuss these and other issues related to Europe's involvement in Asian security.

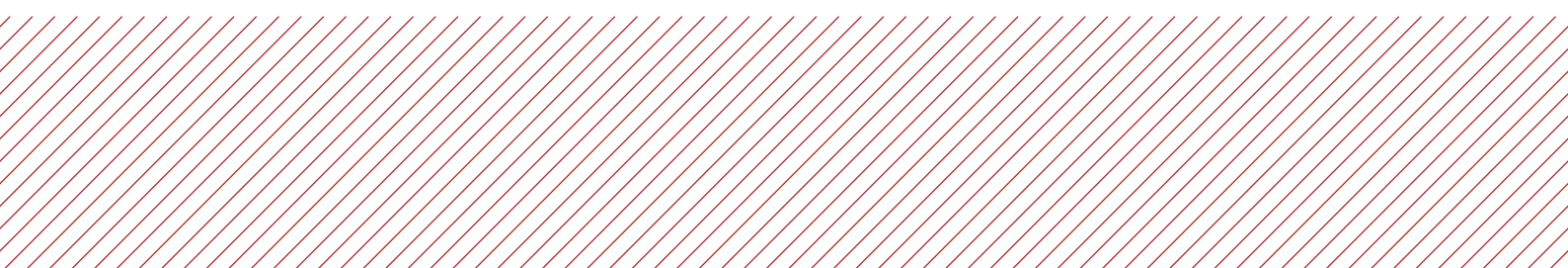
The conference was aimed at pooling the opinions and analyses of European scholars on a number of selected issues related to Asian politics and security and European involvement in them. And indeed it did. The issues discussed in Warsaw included: Asia's strategic and geopolitical uncertainties (currently shorthand for Asia's numerous unresolved territorial disputes involving China and Japan); Russia's geopolitical positioning and repositioning; China's success and failures in dealing with its deteriorating environment (undoubtedly a threat to regional stability and security if not contained quickly and sustainably); the present state and future of Chinese-Russian relations against the background of what Moscow and Beijing refer to as US-driven containment policies against them; and the economic and (from a US and Japanese perspective) political motives behind the Trans-Pacific Partnership (TPP) and the European-American Transatlantic Trade and Investment Partnership (TTIP). In order to keep the results and analyses of the Warsaw conference on the record, conference participants were asked again this year to produce short papers summarizing the main points of their presentations. The result of these efforts is the set of papers you find below.

The EU, it was suggested at the conference, is probably not a 'real' actor in Asian 'hard' security, nor is it aiming at being or becoming one. The EU has been upfront about the fact that its military contributions to Asian peace and stability will continue to be limited, and while there is some European military presence in the region (British and French naval forces), the European Union and its individual member states will continue not to seek US

INTRODUCTION BY AXEL BERKOFKY



security alliance-style ties in the region. Then again, European contributions to Asian peace and stability through ‘soft’ power – i.e., the provision of developmental, economic, financial, and technical aid in many Asian countries (in essence, in all Asian countries in need of such support) over the past decades – are not at all unimpressive, and indeed very substantive. While not creating headlines in the international press, the EU’s role in and impact on stability and economic and social development through its money, policies, and instruments continue to make very visible and concrete contributions to the region’s development. Consequently, any criticism accusing the EU of not making the kind of ‘hard’ security contributions in accordance with its economic and business ties and interests in the region will have to be measured against the results of the above-mentioned European ‘soft’ power contributions to Asian security. In other words: those who accuse the EU of not doing enough in Asian security (like some US policymakers do, dismissing the benefits and results of ‘soft power’ as secondary), choose to ignore (deliberately or against better knowledge) the decades-long positive and constructive EU contributions to Asian peace and stability through aid as opposed to boots on the ground. The question of where Russia belongs, i.e., whether its political and economic future is in Europe or rather in Asia (in Asia as far as Putin’s Russia is concerned), was debated during the conference. Russia’s aggressive land-grabbing policies against Ukraine and its often-announced ambitions to expand its trade, energy, and security ties with China at the expense of peaceful and constructive policies with the West in general and Europe in particular have created a lot of debate over recent months. The new Silk Road overland trade route as envisioned by Russia is above all a project that will not only strengthen Russian-Chinese trade ties sustainably, but also protect both countries from US-driven economic and political containment policies (through e.g., the blockage of international sea lanes of communication and trade). While Russian rhetoric (and that of President Putin in particular) more often than not seeks to imply that the expansion of Russian-Chinese trade and political ties comes at the expense of the West’s relations and economic clout and influence with both China

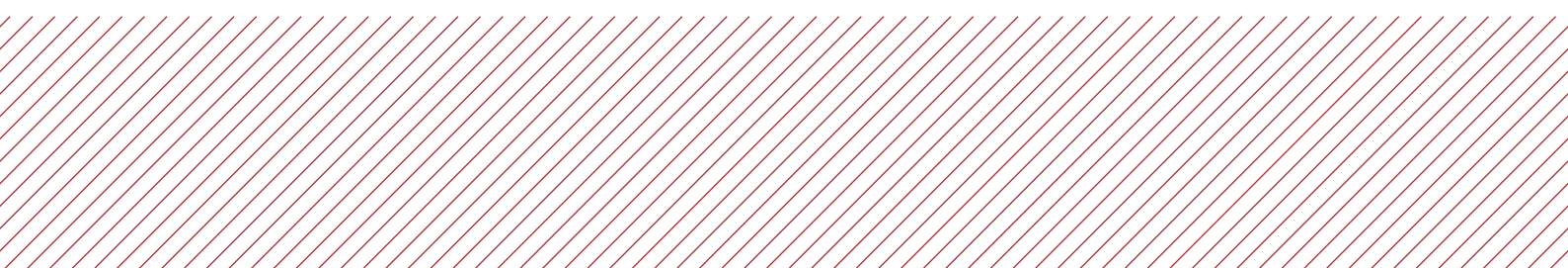


and Russia, Beijing continues not to subscribe fully to such Russian-style zero-sum rhetoric and strategies. In fact, as it emerged during the conference, Russian policymakers might be far too optimistic about China's preparedness to 'choose' the improvement and expansion of economic and energy ties with Russia at the expense of economic and trade ties with the West. While Russian scholars and policymakers close to Putin tend to suggest otherwise, China – because of its business and trade in and with Europe and the US – is realistically far less willing to build an anti-Western Russian-Chinese block (of the kind Putin has in mind). In fact, as it was argued during the conference, Russian scholars close to Putin and Moscow's policymakers do fundamentally misunderstand and misinterpret the essence and basics of Chinese foreign, security, and energy policies. Unlike Russia (at least the current Russia) China is not interested in a return to Cold War rhetoric and policies, and Russian policymakers do not seem to understand that China is not as fully convinced as Moscow that a Cold War-style East-West confrontation is inevitable.

China, it was argued during the conference, is on Asia's mind – almost always. Indeed, China's foreign policy assertiveness (and at times its aggressiveness regarding its territorial claims in the East and South China Seas) has undoubtedly increased the perception in Asia that Washington's expansion of its security and defence ties in Asia (through the so-called 'Asia pivot' announced in late 2011) is welcome and indeed necessary. Territorial disputes will continue to keep Asian political leaders awake at night in the months and indeed years ahead, and it remains very unlikely that any of the disputes (between China and Japan, Japan and Russia, China and a number of Southeast Asian countries, and Japan and South Korea) will be addressed in a results-oriented way, let alone solved any time soon. There was consensus among the conference participants that Europe's role in attempting to address Asian territorial conflicts will continue to be very limited, if existent at all. Europe is reluctant to get involved in Asia's territorial conflicts beyond urging the parties involved to solve their disputes peacefully, and it typically neglects to follow-up on well-meaning statements with actual policies or

policy proposals. This has led to the perception in the region (and in Japan in particular, as one conference participant reported) that the EU cannot be counted on as a geographically distant but politically present actor. Thus, the EU is not seen as a curb on the aggressive quality of Chinese regional security policies in general and those related to territorial claims in the region in particular.

In order to address these shortcomings in Europe's contributions towards the resolution of Asian territorial conflicts, it was suggested during the conference that Europe could propose to send European lawyers and experts of international maritime law to the region in order to seek to define ownership and sovereignty of the disputed territories. To be sure, such a proposal and European involvement in Asia's territorial disputes would not be welcomed by all, and most certainly not by China in particular, as China continues to refer to any outside interests in its conflicts in the region as 'interference in its internal affairs'. Consequently, unless there is a fundamental shift in what Beijing finds 'acceptable' in terms of 'interference' in China's internal affairs (i.e., issues like Tibet, Taiwan, territorial disputes, human rights, democracy, freedom of speech and expression, and so on), European involvement is bound to remain marginal at most. Of course, this is not the only case, as China won't tolerate anything in terms of alleged European 'interference'. Moreover, the EU and EU member states (in particular those with strong business, trade, and investment ties with and within China – namely, the UK, France, and in particular Germany, which accounts for 50% of China's overall trade with Europe) deliberately choose not to become too outspoken (or even prefer to remain silent) if a critical European assessment on Chinese regional security policies could lead to Chinese threats of retaliatory economic and trade policies. While Europe's choice to voice muted and timid criticism on Chinese external and internal policies might be understandable from a European 'realpolitik' point of view, the matter has undoubtedly led to a loss of the EU's credibility as an actor having a coherent global foreign policy. Indeed, the EU had been accused of the same thing in the context of relations with Russia before imposing sanctions on Moscow



in early 2014. While Europe will no doubt continue to be accused of being more concerned with its business and investment interests in China than in human rights there, European policymakers point out that non-confrontational approaches and advice to Beijing policymakers in areas such as the rule of law, trade and investment policies, and ‘even’ human rights over the last ten years have led to results and changes in Chinese internal and external policies. Then again, against the background of China’s assertive policies related to territorial claims in the East and South China Seas and Beijing’s continuing to refer to anything resembling criticism of its internal policies (related to human rights, minorities, governance, the rule of law, freedom of speech and expression) as unwelcome ‘interference’ in China’s internal affairs, EU policymakers might be overly optimistic about their ability to have an impact on Beijing’s policies at home and abroad.

Finally, the contents of and motivations behind the Trans-Pacific Partnership (TPP) and European-American Transatlantic Trade and Investment Partnership (TTIP) were discussed (see e.g., Marjut Hannonen’s contribution to the topic below). Again, it is China at the centre of the debate and controversy. With the US as the main driver of the TPP, Beijing has concluded that the TPP is a multilateral US-driven trade and invest pact aimed at containing China economically and politically – and the US argues that the TPP is nothing of the sort.

SESSION 1: CONVERGENCE OR DIVERGENCE OF INTERESTS? THE DYNAMICS OF EUROPEAN AND ASIAN TRAJECTORIES

LOOKING BEYOND THE BORDERS OF THE EUROPEAN UNION *DOMINIK MIERZEJEWSKI*

We are used to the common perception that bilateral relations with individual EU member states drive China's policy towards the European Union. However, EU-China summits and any strategic partnership between Brussels and China, i.e. China's new so-called '16+1 initiative', should be closely watched – and so should China's relations with countries in the EU's neighbourhood. China's relations with Serbia, Ukraine, and Belarus can be cited in this context. In Warsaw in 2011 China included Serbia among European Union members within what China referred to as the '16+1 formula.' With that newly developed formula Beijing planned to compare the nature and quality of Chinese investments in the EU with investments in the EU neighbourhood and the Western Balkans. China's relations with the former Yugoslavia were among the most important in the former Soviet bloc. China combines history with today's interests and regards the Western Balkans as a gateway to the EU market. A China-sponsored Serbian-Hungarian joint railway project is evidence of increasing Chinese interests in that part of Europe. Due to its overproduction of steel (200 million tonnes a year) China is planning to invest in a high-speed rail line between Belgrade and Budapest. Of course, the question whether China will use its steel overcapacities in that part of Europe remains yet to be seen. An interesting point was made by then Chinese Prime Minister Wen Jiabao in 2011 when he stated that Central Europe will play a "linchpin" (qiao toubao 桥头堡) in the expansion of Chinese companies in Europe. What is more, even at the local government level of cooperation Chinese delegations use this expression to describe the role of certain regions in the context of China's foreign policy towards CEE countries.

The second case is Ukraine. Due to the very 'dynamic' situation in Ukraine, China (among other states) can play an important role in shaping Ukraine's future. Under Xi Jinping's leadership China's foreign policy has become more active. The key question remains whether or not China can stick to the

'principle of non-interference' against the background of its significant economic interests in Ukraine. In 2012 Ukraine became the fourth largest arms exporter to China, selling weapons and military equipment worth roughly \$700 million. This amounted to 31% of China's overall weapons import. The Ukrainian military industry is located in the eastern part of the country, with intercontinental ballistic missiles, tactical ballistic missiles, as well as radar and avionics systems being designed in Donetsk and Dnepropetrovsk, while battle tanks such as the T-34, T-64, and T-80UD are manufactured in Kharkiv and Luhansk. Furthermore, the production of the MBT-2000 main battle tank of the People's Liberation Army is highly dependent on the diesel engines produced in Kharkiv. China is hence obviously concerned with geopolitical risks and instability in Central Europe and Ukraine in particular.

The third case is that of China's activities in Belarus. Due to political reasons Belarusian President Lukashenko considers China a friend: "China's investment has never had any political strings attached, therefore, we are more than willing to see China speed up its investment in Belarus on a larger scale." One example of China's investment activities in Belarus is the China-Belarus Industrial Park (Zhonggong guoji gongcheng toufen youxian gongsi 中工国际工程股份有限公司). In 2012 Lukashenko signed the decree "On the China-Belarus Industrial Park" and the Chinese Engineering Corporation CAMC began operations in Belarus. In September 2014 China declared the China-Belarus Industrial Park as part of the China Silk Road Economic Belt. Both sides set up a new mechanism between Belarus and the Xinjiang Uighur Autonomous Region – namely, the Belarusian-Chinese Intergovernmental Committee (Zhongguo-Baieluosi zhengfu jian hezuo weiyuanhui 中国-白俄罗斯政府间合作委员会) (the first committee meeting took place on September 4, 2014). The Chinese government made Belarus a part of the Silk Road Economic Belt, expanding that trading route to Central Europe.

Using the 16+1 formula and its bilateral relations with Ukraine and Belarus, China is looking for further access to the European market. As regards relations with the Balkans, it is possible that China might seek to use its over-

production capacities for infrastructural projects in both Ukraine and Belarus. When it comes to the Eastern neighbourhood, European authorities should pay close attention to Sino-Russia “twists and turns” in Ukraine and Belarus.

REINFORCING THE EUROPEAN ‘PIVOT TO ASIA’

FILIP GRZEGORZEWSKI¹

While Asian powers have numerous “strategic partnerships” with European states, they do not perceive Europe as a ‘real’ strategic partner. This has a negative impact on Europe’s economic interests, security interests, and prestige. Europe is capable of playing an important role in Asia-Pacific affairs and our tools in the region (diplomacy, economy, know-how, culture) are growing in importance. While these forms of European presence in Asia are important, they do not yet constitute a sustainable presence in and impact on Asian politics and security. The ‘European pivot to Asia’ needs actions which are not necessary directed towards Asia. To name just a few: the TTIP to sustain Western values and standards within the global system, European FTA strategy for major world powers, inclusive plan for troubled areas and regions, which engage Asian development tools and – last but not least – a good narrative about European history and its lessons for the future.

To tackle these issues, multilateralism may be the key political answer and Europe here has the upper hand. Europe created the successful ASEM process and the Shangri-La dialogue in Shanghai ‘We have the institutions’, which work and grow in importance (just to name the historical visit of Xi in Brussels this year). Europe has the knowledge and skills to solve things via negotiations or mediation.

We are aware that it takes many years to give real political primacy to multilateralism and European diplomacy at the expense of the particular inter-

¹ This writing contains personal views of the author which do not necessarily reflect the official position of the Polish Ministry of Foreign Affairs.

ests of EU member states. It is possible to coordinate more on a common policy agenda and to express the same voice via national, multilateral, and European institutions. Issues of the joint stability of Eurasia may be a good point of departure.

CHINA AND THE INTERNATIONAL CLIMATE NEGOTIATIONS

ISABEL HILTON

In December 2015 world leaders are expected to gather in Paris to attempt, once again, to conclude a comprehensive agreement on how to reduce emissions of planet-warming greenhouse gases. Their task is given added urgency by the relentless accumulation of scientific evidence, both that the world's climate is changing and that these changes, many of which are irreversible, are having increasingly serious and negative effects on the systems on which contemporary human civilization depends.

The latest report from the Intergovernmental Panel on Climate Change, released in November 2014 and which synthesizes tens of thousands of scientific papers, issued a stark warning that climate change is set to inflict "severe, widespread, and irreversible impacts" on people and the natural world unless carbon emissions are cut sharply and rapidly. Climate change, the report said, has already increased the risk of severe heat waves and other extreme weather, and thus it warns of the prospect of food shortages and violent conflicts.

Despite clear scientific evidence of the dangers to human life on Earth, the history of efforts to agree a comprehensive strategy is not especially encouraging. In Copenhagen in 2009, however, in an otherwise unsuccessful attempt to reach a global deal, participating countries pledged to limit the rise in average global temperature to below 2 degrees centigrade. Beyond C2 degrees, they reasoned, the impacts of rising temperatures ceased to be linear and the potential for catastrophe could grow exponentially. The C2 degree pledge enabled a carbon budget to be constructed that laid out how much global human society can still afford to emit without pushing the

climate over into catastrophic change. How to keep global emissions within that budget – who does what, who pays for it and how to finance the adaptation to the changes that are already embedded in the changing temperature that we can no longer avoid – is the substance of the current international negotiations.

China has been part of global climate negotiations since June 1992, when the 172 participating governments at the first Earth summit (United Nations Conference on Environment and Development (UNCED)) in Rio de Janeiro agreed that human activity was having a dangerous impact on the climate and agreed the United Nations Framework Convention on Climate Change (UNFCCC), which aimed to limit emissions in order to stabilize the climate. An important aspect of the convention was burden sharing: under Article 3(1) of the Convention, signatories agreed that, while all were obliged to take action, they should do so on the basis of “common but differentiated responsibilities”, and that developed countries should “take the lead.” Developing countries were allowed to prioritize development and poverty reduction, and were entitled to expect financial and technical support from developed countries, while developed countries were assigned legally binding emissions reduction targets under the Kyoto Protocol, which was adopted in 1997.

China is a signatory of the UNFCCC, and when the convention was agreed, China’s contribution to climate change was relatively small. As a developing country, it had not accumulated large historic emissions and it was excused from mandatory reductions. Since then, however, China’s economy has more than doubled; it has poured more cement than any other nation in history, it consumes more coal than any other country, and since 2005, it has been the world’s largest emitter of GHG by volume. Today, despite the fact that around 11% of China’s citizens live in extreme poverty, its per capita emissions are now above the global average. Indeed, in late 2014, researchers pointed out that China had passed the EU in its level of per capita emissions: the per capita average for the world as a whole is 5 tonnes of

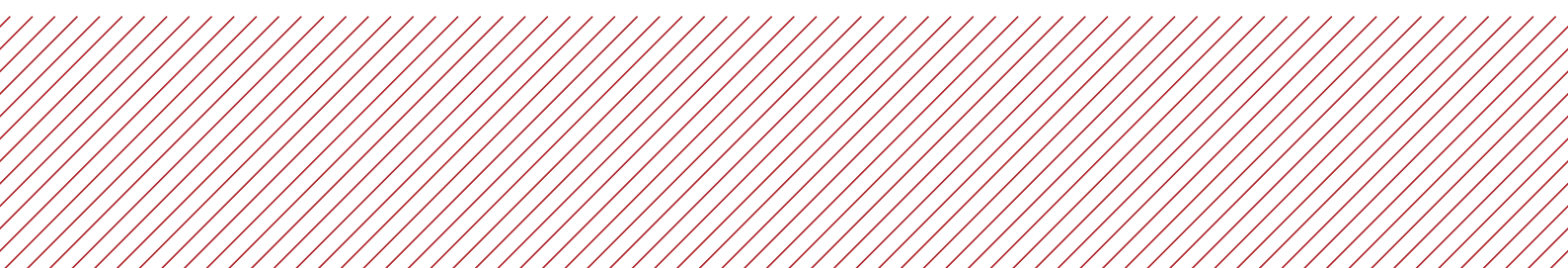
CO₂ per annum. While China is now producing 7.2 tonnes per person each year, the EU produces 6.8 tonnes (the US is still far ahead with 16.5 tonnes per person). As a result of this phenomenal growth and industrialization, it is now a truism of climate policy that if China does not reduce its emissions dramatically, the effort to prevent catastrophic temperature rise will fail. As a result, there is a growing recognition that China's claim to global leadership and international respect demands that it commits to substantially more effort on climate change than in the past.

Global climate negotiations are a confusing mass of moving parts, as nations seek to calculate the best offer they can bring to the table, and the most they can obtain to satisfy domestic needs and political pressures. In October 2014, for instance, the European Union met to agree the EU's climate targets to 2030. In the past, the EU has been on the leading edge of climate commitments – indeed, if Europe were removed from the history of climate negotiations there would be little to claim in the way of achievements in the UN process. Still, the October 2014 commitments fall well short of what will be required to meet the 2 degree centigrade pledge because the enlarged and crisis-ridden EU must contend with the drag effect of such coal dependent countries as Poland. As a result, though some momentum was maintained, the EU was unable to make the leap in ambition that some member states wanted. In China, too, internal pressures constrain the negotiating position: China's energy is nearly 70 per cent dependent on coal. Reducing China's coal consumption will require a huge effort of adjustment. In addition, China's predominance in heavy industry and its continuing infrastructure development – which includes the ambition to urbanize another 250 million rural residents in the next few years – contribute to China's relatively high carbon pathway.

On the other hand, elite climate scepticism of the variety evident in the United States is not a problem in China: the current leaders, and their immediate predecessors, have understood the risks that climate change poses to China's future prosperity, food security, and social stability. Like other

politicians, however, they seek to balance short and long-term goals and to ensure that international commitments do not spawn difficulties at home. That said, there has been a number of significant shifts in China's position since Copenhagen and there are reasons to expect that China's climate policy will continue to evolve. The 12th Five Year Plan, launched in 2010, is a blueprint for the transition from high emitting, low added value, investment-driven growth to a more balanced and sustainable model. China had no option but to attempt this: the era of abundant cheap labour is over and China must move up the value chain if it is to sustain growth, even at the lower levels envisaged by its planners. To do that, it must become more efficient in its use of resources, including energy, and capture a share of high value technologies.

China's 12th Plan has targets for energy efficiency and high levels of investment in low carbon and renewable technologies, stimulated by a range of domestic factors that include the weight of the toxic legacy of the first three decades of industrialization and energy security. The 13th Plan, currently under preparation, is likely to take this further. As well as devoting funding to research and development of new low carbon and climate friendly technologies, China's capacity for high volume manufacturing has lowered the price of solar panels dramatically and the country has come to dominate the market in both solar and wind technologies. China itself boasts the largest installed wind and solar power plants in the world. Perhaps of more concern is the rush to nuclear: China is rushing to build nuclear power plants at home, and plans to build many more plants around the world. Many of these policies were climate friendly. Toxic levels of air pollution in China's cities in recent years have also changed the equation somewhat: cleaning the air is now a high priority, which has given a boost to efforts to reduce coal. The building of new coal-fired power stations has now been banned. In addition, China still has room for improvement in energy efficiency and China's ambition to change the structure of the economy will help, if it is achieved. Urbanization could either contribute to emissions reduction or make them worse, depending on how it is done:



if China continues to build sprawling car dependent cities, it will lock in high carbon expenditure and will find it extremely difficult to control emissions. Inside the negotiations, China has a reputation as a tough and sometimes obstructive negotiator, insisting still, despite China's growing prosperity and weight in the world, on "common but differentiated responsibilities." Some negotiators are privately convinced that China is hiding behind the poor and failing, so far, to step up to its responsibilities. If this does not change, the impact on the global poor in the short term will be serious, and in the long term the effects on all countries, including China, will be extremely negative.

On the positive side of the balance sheet, China recently announced that it will launch a national carbon trading scheme in 2016, and that it will cap emissions "as soon as possible". When that is judged to be it will make a huge difference to global efforts to reduce emissions. A cap in 2025 would give a significant boost to global mitigation. A cap in 2035 would be too little, too late.

HOW DO ASIANS SEE THEIR FUTURE?

SYLVIE KAUFFMANN

In June 2014, the ECFR organized a study trip to Tokyo with a group of ECFR Council members led by Mark Leonard and François Godement, in order to answer that question. We had made a similar trip to Beijing and Shanghai in 2012, which at the time focused on "what does the new China think?".

This time in Tokyo for over a week we met with a wide group of interlocutors from Japan, but also from South Korea, Taiwan, and various Southeast Asian countries.

Three main points emerged from our discussions.

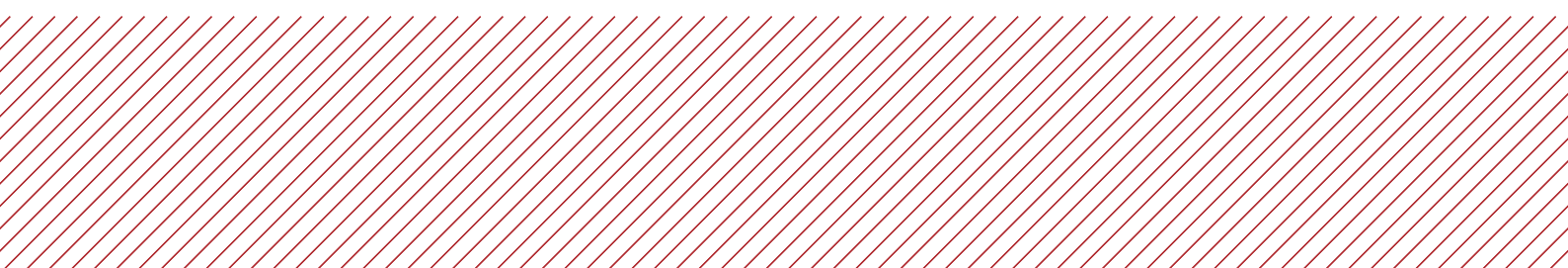
1. "China, China, China!" as one former Japanese diplomat, now an academic, pointed out in a somehow exasperated tone, as most of the time we ended up talking about China. There was widespread concern

of a Sinocentric future for Asia, i.e., of the “Asian century” becoming the “Chinese century”. An “Asian paradox” was mentioned, in the sense that economic development and closer economic cooperation don’t necessarily lend to a better security environment.

2. History – or at least the political instrumentalization of history – still plays a crucial role in the region, and a negative one. This is very much the case for China, Japan, and South Korea. The issues of the Yasukuni shrine, of territorial disputes, and of comfort women weigh heavily. The Philippines and other ASEAN countries have been able to handle the legacy of WWII much better.
3. We encountered a rather general perplexity about Europe’s role in Asia, as well as expressions of doubts about the American commitments in the region. It is difficult for Europe to limit its role in Asia to its commercial links and soft power. Europe is expected, particularly by Japan, to be more active in negotiations and in helping to maintain security in the region. But that would obviously require a unified and coherent European vision of Asian affairs.

However, the world’s security and diplomatic environment has dramatically changed since our talks in Tokyo, and this unstable environment could also affect the future of Asia, even though in Asia itself, developments have been rather on the positive side.

The Ukraine crisis has grown into a protracted confrontation of the Western powers with Russia. The crash of the Malaysian Airlines flight hardened the EU position and sanctions have been enforced both by the US and the EU. This has led president Putin to ostensibly “pivot” towards China. The escalation of the ISIS offensive in the Middle East and the military involvement of the US will no doubt intensify South-East Asians’ fears about the reality of the American security commitment to Asia.



Asia itself has witnessed several dynamic shifts :

- The tensions around the Senkaku/Diaoyu islands have somewhat decreased.
- Chinese President Xi Jinping has been on a regional diplomatic offensive, visiting several countries in Asia, including India.
- Newly elected Indian Prime Minister Modi has very much made his mark on the foreign relations front. He achieved rock-star status during his visit to the US. He has given a new turn to the Japan-India relationship and established good personal relations with Shinzo Abe, both playing the “democrat-nationalist-reformer” card. And he has hosted an India-China summit. Not bad for the first few months of his term.
- Shinzo Abe has also been reaching out in the Asia-Pacific region, primarily with countries with which Japan shares common values and interests (Australia, South Korea, ASEAN, India)
- The Russia-China relationship is evolving under the pressure of the Western reaction to the Ukraine crisis, as mentioned earlier, although the relationship remains very much tipped in favour of Beijing. The Ukraine crisis is reverberating all the way to the Arctic. Both Russia and China have been promoting parallel international institutions as an alternative to the “Western-dominated world order” (BRICs bank, Shanghai Cooperation Organization, China development bank...). India has been an ambivalent participant in this process so far.

Will these developments, both inside and outside of Asia, prove the first concrete signs of an emerging New World Order? This of course remains to be seen. But the West, and particularly the Europeans, distracted by their own security crises in Europe and in the Middle East, would be wrong to stay away from the future of Asia.

'GLOBAL ASIA' AND EUROPE'S RESPONSE

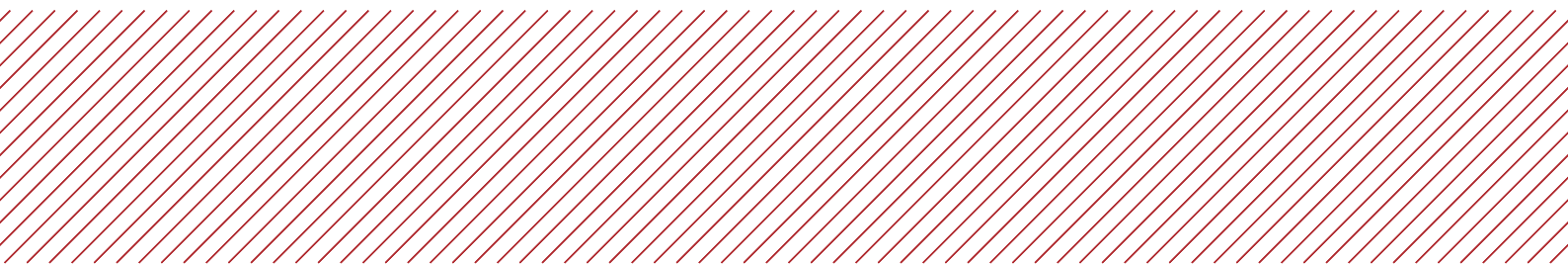
JÜRGEN STETTEN

1. Obviously it is the jet stream of economic globalization that has made ties between Europe and Asia ever stronger in recent decades. More recently, Washington's "pivot to Asia" rhetoric has kick-started a conversation in European capitals on how to broaden relationships with Asian countries which traditionally had been defined by rather narrow economic interests, to possibly include and identify common security interests with Asia. What is less clear, however, is whether the "Asian Century" will lead on balance to more or rather less convergence of interests between these two diverse continents.
2. Let us look at a less frequently used angle of Asia-Europe relations, namely the debate on social equity and justice that is underway in both Europe and Asia. In Europe, the policy discussion for the last 15 years has focused on how to scale back or "re-invent" existing welfare states. It is a wave that first hit the UK and Germany and now has reached France, Italy, and Spain – among other countries. The trend in Asia goes in a rather different direction. What keeps policymakers awake at night in China, India, Indonesia, and South Korea are the burgeoning middle classes in these countries that demand much more than just high economic growth rates and rising income levels. What Asia's rapidly growing middle classes ever more vocally call for are better access to education and health services, clean air and affordable housing in sprawling megacities, adequate pension systems, and more generally better governance and less corruption. Hence many Asian governments – whether democratically elected or not – are struggling to reinvent themselves as well as their countries' development model to cater to those demands.
3. Both trends and particularly Asia's push for "welfare statism", which the former ASEAN secretary general Surin Pitsuwan rightly calls the "new frontier in Asia", may fundamentally change the way Asians and Europeans look at each other. Europeans for a long time used to fret about

Asians' practice of underbidding on the labour cost front. Today they better get ready for populous Asian societies and economies engaging in a different kind of competition. "Over-bidding on the productivity and product quality front" will soon be the new name of the game between Asia and Europe. In a positive scenario, this will lead to stronger and more innovative economies as well as new and reinvented welfare states in both Asia and Europe. It cannot be ruled out however that both trends are accompanied by zero-sum game thinking, setting in motion a rather gloomier scenario. Should governments in Europe not live up to old expectations and should their counterparts in Asia not be able to address their middle classes' new hopes, policymakers on both continents will be tempted to look for scapegoats, engage in trade wars, and play international blame games.

4. Finally, let us briefly look at another set of dynamics which may lead to converging national interests between Asia and Europe – namely, the state of democracy. In an increasing number of countries in Europe, governments are faced with a rising level of frustrated voters, i.e., people who either stay at home on polling day all together or vote for so-called "protest parties" in national elections (and even more so in elections for the European Parliament). Once again the trend in Asia goes in a different direction, as Freedom House has found out in its recent surveys. Not only does the number of Asians living in free societies steadily increase (admittedly from a very low level), but the way in which democracy is practiced also seems to improve. The recent elections in India's chaotic yet dynamic democracy seems to be a strong case in point, with voters turning out at historic levels and providing Mr. Modi with an unexpectedly strong political mandate.
5. What do these trends in democracy mean for Europe's response to 'Global Asia'? Generally, a Europe that is more self-critical and humble when it comes to democracy bodes well for a relationship with an Asia whose citizens seem to get ever more eager to make use of their democratic rights.

Of course, there is still China hosting half of the world's population living in an un-free political system. And yes, Asia still is home to the world's most un-free country, namely North Korea. But who would have thought 20 years ago that South Korea's new middle classes would push this erstwhile isolated, rural, autocratic, and conservative society into one that today boasts not only a vibrant democracy but a world-class consumer, pop culture, and art scene? Perhaps it is not only trade and business but also Europe's and Asia's political and cultural trajectories which in the future will bring both continents closer to each other than we might suppose today.



CONTAINMENT OR NEW MULTILATERALISM? IMPLICATIONS OF TTIP AND TPP

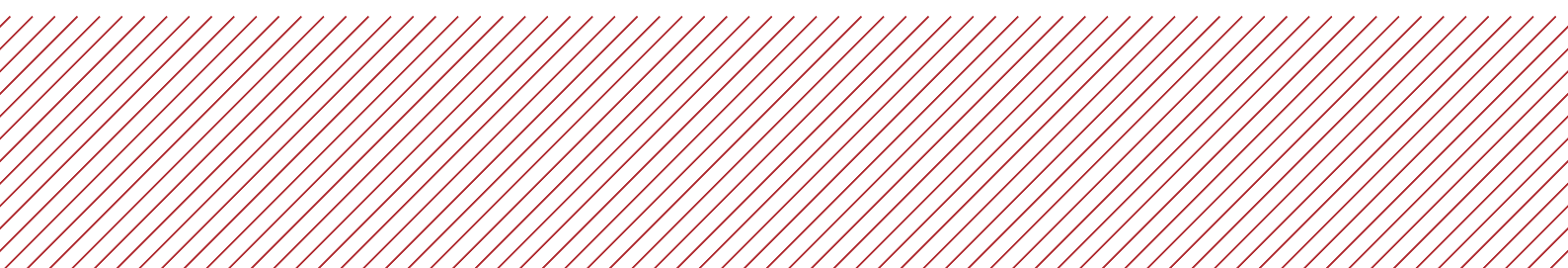
MARJUT HANNONEN

The short answer to the question I pose in the title of this paper is: neither, but rather something in between.

Firstly, both the TTIP and TPP have their roots in the fact that the multilateral process has not delivered. In addition, following the global financial crisis we need growth that cannot easily be delivered internally, at least not in the EU – hence we need external sources of growth. Furthermore, the EU and US are not alone in pursuing bilateral deals, others are doing the same and we seem to have a flurry of activity, in particular in Asia, even if TTP and TTIP are the largest and most ambitious ongoing negotiations.

I will start with TTIP. The motivation for TTIP was indeed mainly economic: with the US being the EU's largest trading partner, the elimination of the remaining NTBs between Europe and the US would have considerable benefits. Estimates indicate 1% GDP growth. Even if that is not necessarily an accurate figure (it could be both higher and lower), the mutual benefits through the adoption of the TTIP would nevertheless be significant. Obviously, all the low-hanging fruit in our trade relationship was picked a long time ago, so we are left with the difficult pickings, which are mainly regulatory in nature. That is also where the geopolitical element comes into the picture: if the US and EU can agree on regulatory cooperation and approximation, the standards resulting from this work will be de facto global standards. The two are much too large markets for anyone to ignore. And this of course runs against the Chinese objective of developing China-specific standards that others need to adopt in order to trade and operate in the Chinese market. Also, an economically stronger EU and US would command more respect from emerging powers. Within the EU this would hopefully also help to get more unity from EU member states in particular when dealing with China. Chinese promises of trade and investment opportunities have at times in the past led to disunity among EU member states.

SESSION 2: CONTAINMENT OR NEW MULTILATERALISM? IMPLICATIONS OF TPP AND TTIP



As for the TPP, the objective is mainly geopolitical: it seeks to give the US 'pivot' to Asia an economic leg. The added economic value of the TPP before Japan joined was rather limited. It is important to note that the US already has an FTA with most TPP participants, except Vietnam, Malaysia, New Zealand, and Japan. Hence this is where the additional market access will mainly occur in the case of a successful conclusion, with Japan obviously being the biggest prize. However, the TPP also aims at being an ambitious agreement. Nevertheless, it seems clear that the TPP's level of ambition cannot reach the same level as the one assigned to TTIP due to the great number and different levels of development among the participants. Also in the regulatory field the results will not be approximation, but basically others adopting US standards, at least this seems to be the US objective. It would be important for the US to conclude the TPP both for the geopolitical reasons and reasons related to credibility, since the TPP's adoption has been made such a priority of US trade policy. But there are problems in the negotiations with Japan, and internally between the US administration and the US Congress and it remains to be seen when these difficulties can be overcome. China is obviously following these processes closely, and its initial rejection of TPP as part of a US containment strategy has now developed into cautious interest in the trade pact. However, China knows that currently it cannot deliver the level of ambitious standards required to join the TPP, so it is not likely to request joining the talks any time soon. However, it has already expressed interest to join the deal later on. This moment will have to coincide with its ability to deliver a real internal market opening in areas like services, investment, procurement, and many systemic non-tariff barriers.

As regards the TTIP, China has responded by asking for FTA negotiations with the EU. FTA has become the new Market Economy Status – meaning that this seems now to have become China's number one demand from the EU, raised at any occasion and at all levels. So far the EU has prioritized investment negotiations with Beijing to see whether China can deliver on EU demands for market access. This has been the priority for all EU member states, except the UK. However, China is likely to keep pushing and its moti-

vations are mainly political – Beijing wants to be involved in a process with one of the “main players” (the EU), knowing that involvement in the TPP seems very unlikely any time soon. China is also very much aware that it cannot deliver sufficiently for a deep and comprehensive FTA with the EU, and hence continues to be more interested in the process than substance.

Conclusion

The TTIP was born from economic necessity, with an important geopolitical element included – unification of the West to counter China’s attempts to create its own rules in the area of international trade. As for the TPP, its ultimate purpose was geopolitical (US pivot to Asia), but it also aims to be an ambitious agreement that could serve as a model for others to join.

THE TRANS-PACIFIC PARTNERSHIP (TPP): US-DRIVEN CHINA CONTAINMENT?

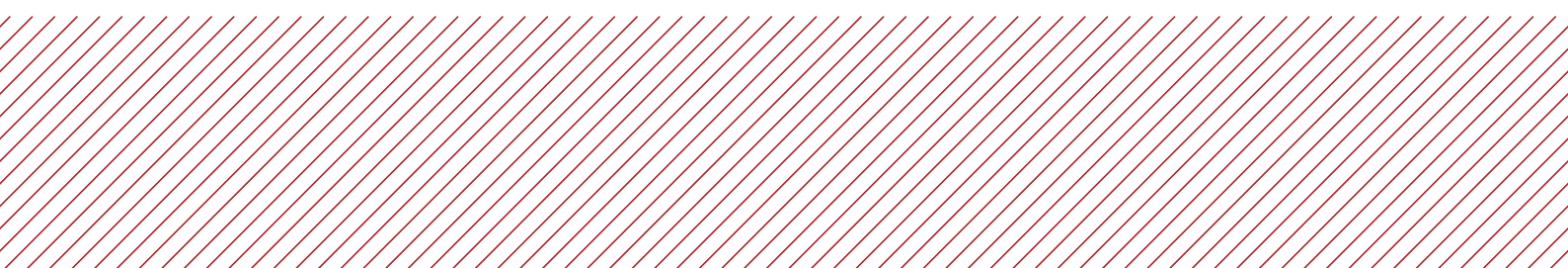
AXEL BERKOFSKY

China has no doubts: the Trans-Pacific Partnership (TPP) is a multilateral US-driven trade and invest pact aimed at containing China. The US (together with Japan), Beijing typically argues, is applying double standards when allowing Vietnam to join the TPP while declaring China not to be ready to join. Like China, Vietnam, it is furthermore argued in Beijing, is an economy dominated by state-owned enterprises (SOEs), and while this stands in the way of Washington endorsing possible Chinese ambitions to join the TPP, SOEs in Vietnam do not seem to be an obstacle for Vietnam joining the TPP. While Beijing complains that the TPP is specifically aimed at excluding China from regional economic and financial integration, the US (again together with Japan) counters that compliance with the TPP’s 29 chapters apply to all countries which plan to join the trade pact. To be sure, many of the 29 chapters cover issues which China’s main trading partners (above all the US and the EU) have found problematic for years in China: market access for goods and services, financial services, telecommunication, intellectual prop-

erty rights (IPR), rules of origin (ROO), technical barriers to trade (TBT), sanitary and phyto-sanitary standards (SPS), competition policy, transparency in health care technology and pharmaceutical, labour, environment, regulatory coherence, government procurement are all areas which Europe and the US have constantly cited over the years as areas in which China does not comply with international standards. Such an argument, however, does not convince anybody inside of China and the fact that the TPP includes several provisions specifically aimed at reducing the influence of state-owned enterprises (SOE) provides China with further alleged 'evidence' that the TPP is aimed at isolating China (also by adopting so-called 'platinum standards').

In sum, the TPP, the argument in China (sometimes) goes, is a US-led conspiracy aimed at halting Chinese economic growth. However, not only inside but also outside of China are there suspicions that the TPP is motivated by a policy to isolate China in Asia: the TPP, Financial Times journalist David Pilling has written in the recent past, is an "anyone-but-China club." "No one will say it out loud, but the unstated aim of the TPP is to create a high level trade agreement that excludes the world's second-biggest economy", Pilling argues. Others fear that the TPP will be splitting Asia into two blocks: those countries, which are able and willing to comply with the TPP's standards and requirements, and those which are not. Furthermore, Beijing believes that the TPP is part of the US 'return to Asia' strategy with China's containment at its centre. Therefore, Beijing argues, the US will never accept Chinese TPP membership as that would weaken Washington's China containment policies. Japanese Prime Minister Shinzo Abe, having repeatedly argued that the TPP is indeed a political project to be adopted between democracies, has further confirmed Chinese suspicions that the trade pact is quite simply 'against' China.

The US has countered this and similar criticism with the argument that China is 'allowed' to apply for TPP membership if it feels prepared enough to comply with TPP rules and standards. To be sure, Chinese worries about being excluded from the TPP and the further institutionalization of regional economic and



trade integration, however, might turn out to be premature. The TPP's adoption is behind schedule and the recent collapse of US-Japan talks on (among other matters) Japanese agriculture tariffs (which from a US perspective must be abolished in order for Japan to be able to sign the TPP) makes sure that in the months ahead this will stay that way. Japan signing the TPP was always going to depend on Tokyo's preparedness to reduce or indeed scrap its exorbitantly high agricultural tariffs (e.g., on butter it is 300%, and 600% on foreign-imported rice). Japan's very influential agriculture lobbies will continue to pressure the government to keep these TPP non-compliant tariffs in the place. Once and if adopted, there is near-consensus among analysts that the TPP will not be eliminating trade protectionism. Japan will continue to insist on protecting and subsidizing its rice farmers, while the US and Canada will do that with sugar and dairy products respectively. Those who are critical of the TPP without necessarily believing in a US-led conspiracy against China argue that Washington plans to correct earlier mistakes through the adoption of the TPP: the failure of not having insisted enough on China's compliance with WTO standards which enabled Beijing to continue manipulating its currency, rig public procurement tender procedures, and provide the country's SOEs with cheap finance. An exclusive TPP, it is also feared among the critics, will not only exclude Asia's biggest economy, but will indeed reverse the course of the East Asian regional economic integration.

In order to counterbalance US efforts to adopt the TPP as early as possible, China over recent months has sought to speed up efforts to make progress towards the adoption of the Free Trade Area of the Asia-Pacific (FTAAP) under its own leadership. That agreement excludes the US and the more the adoption of the TPP gets delayed, the more Beijing points to the FTAAP as alternative allegedly more suitable to the economies of many Asian countries. The other trade and investment pact China is currently investing many resources into is the Regional Comprehensive Economic Partnership (RCEP), which again excludes the US. The RCEP is an outgrowth of the ASEAN Plus Three (ASEAN plus Japan, China and South Korea) and also includes Australia, India, and New Zealand.

'CONTAINMENT' IN AN ERA OF ECONOMIC INTERDEPENDENCE

HANS KUNDNANI

In the debate about the rise of China and the challenges it poses, the concept of “containment” is often used loosely as an alternative to a policy of “engagement”. China often accuses the United States of attempting to “contain” it – by which what is usually meant is an attempt to limit, slow, or even prevent its economic development. It is often also said, both in China and in the West, that it is impossible to “contain” a country like China – in part because of its size and in part of the economic interdependence between it and the West. However, since Russia annexed Crimea in the spring, Western policymakers have begun to develop a new version of “containment” involving deterrence and economic sanctions. Can this approach work and what does it tell us about the idea of “containing” China?

The concept of “containment” goes back to George Kennan’s famous “Long Telegram”, which was written in 1946 and published anonymously as “The Sources of Soviet Conduct” in *Foreign Affairs* in 1947. In it, Kennan – then a diplomat at the US embassy in Moscow and later the first head of policy planning in the State Department – said the United States should “regard the Soviet Union as a rival, not a partner, in the political arena” and called for “a long-term, patient but firm and vigilant containment of Russian expansionist tendencies.”² That meant “the adroit and vigilant application of counter-force at a series of constantly shifting geographical and political points, corresponding to the shifts and maneuvers of Soviet policy.” The telegram became the basis for US policy during the Cold War.

However, even during the Cold War, “containment” was a notoriously vague term. What began as an attempt simply to prevent further Russian expansion, above all in Europe, later turned into a more aggressive attempt to “roll back” Soviet influence. There were also disagreements about means.

² “X” (George F. Kennan), *The Sources of Soviet Conduct*, *Foreign Affairs*, July 1947.

In fact, in his memoirs, published in 1967, Kennan said “containment” had been misunderstood: he had wanted to prevent Soviet expansionism through the use of political rather than military means. In his classic study *Strategies of Containment*, John Lewis Gaddis argues that US policy oscillated between “symmetrical” containment (responding to Soviet expansion in all locations and by any means) and “asymmetric” containment (confronting the Soviet Union at times and in places of one’s own choosing).³

The biggest difference between the Cold War and the post-Cold War is the extent of economic interdependence between Russia and the West – and in particular between Russia and Europe. This is partly a consequence of globalization. But it was also a deliberate strategy. For the last twenty years or so, the West has expanded trade and tried to integrate such powers as Russia and China into the international system. This in turn was based on two assumptions: first, that economic interdependence would lead gradually but inexorably to democratization; and second, that economic interdependence would turn these powers into “responsible stakeholders,” as Robert Zoellick put it in a speech on China in 2005. The greatest achievement of this approach was China’s accession to the World Trade Organization (WTO) in 2001 and Russia’s in 2012.

Since the annexation of Crimea, however, many in the West have called for a new policy of “containment” towards Russia. Strobe Talbott – a Russia expert seen as a possible secretary of state if Hillary Clinton is elected as US president in 2016 – tweeted that “containment is back.” In April, the *New York Times* reported that the Obama administration was seeking to “forge a new long-term approach to Russia that applies an updated version of the Cold War strategy of containment.”⁴ Following the annexation of Crimea, the West clearly needs a much tougher

³ John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy*, New York 1982.

⁴ Peter Baker, “In Cold War Echo, Obama Strategy Writes Off Putin”, *New York Times*, 19 April 2014.

policy towards Russia, but no one wants war – precisely the dilemma that led US policymakers towards the original policy of “containment” in the late 1940s as a response to Soviet expansionism. But what “containment” means today – and whether it can work – is even less clear than it was during the Cold War.

Over the last few months, the West has taken tentative steps to reverse Russia’s integration into the international system. After the annexation of Crimea, Russia was immediately ejected from the G8. After Russia went further and destabilized eastern Ukraine, the West also gradually imposed remarkably tough economic sanctions. The imposition of sanctions has been led by the United States, which had much less trade with Russia than the Europeans did, and therefore less to lose. But the Europeans have reluctantly followed and imposed sanctions of their own, especially after Flight MH17 was shot down in July – a kind of tipping point for public opinion in countries like Germany. At the end of August, the European Union imposed “Stage 3” sanctions, which targeted the energy, banking, and defence sectors. Russia has responded with counter-sanctions.

The question now is what happens next. Sanctions seem unlikely to change Russian behaviour in the short term.⁵ They do seem to be hurting the Russian economy – particularly the “Stage 3” sanctions, which have largely cut off Russian state-owned banks from European capital markets. But at the same time, President Vladimir Putin’s popularity in the polls has soared and there is little evidence of a shift in Russian policy. In particular, it is almost inconceivable that Russia will withdraw from Crimea – the annexation of which was the original catalyst for the first stage of sanctions. Precisely because sanctions do not seem to have deterred Putin, and because the West cannot now simply back down, it faces the prospect of a protracted standoff with Russia – hence the return of the Cold War idea of “containment”.

The only real precedent we have for how this dynamic might develop is Iran.

⁵ See Clifford G. Gaddy and Barry W. Ickes, Can sanctions stop Putin?, Brookings Institution, 3 June, 2014.

Though the Russian economy is much bigger than that of Iran's, it is similarly vulnerable to "smart" sanctions – in part because of the way that, like Iran, Russia is so dependent on energy exports, which are cleared in dollars or euros. Although the sanctions imposed by the EU and the United States have already begun to restrict trade and investment between Europe and Russia and created a climate of uncertainty, there are still a number of further steps that the West could take. If Europeans are prepared to maintain sanctions, European companies may start to divest from Russia, and vice versa, even if they are not required to do so by sanctions. In other words, the unwinding of economic interdependence could begin to develop a dynamic of its own.

While the West struggles to adjust to the idea of "containing" Russia in this way, however, it remains hard to imagine that it could take a similar approach to China – an even bigger economy than that of Russia. Since 2010, China has pursued a more aggressive foreign policy and made increasingly expansive territorial claims. In May 2014, US Defense Secretary Chuck Hagel criticized China's "destabilizing, unilateral actions" in the South China Sea. Shortly after the annexation of Crimea, a Chinese state-owned oil company moved an oil rig to a site in the South China Sea between Vietnam and the disputed Paracel Islands, where Chinese and Vietnamese ships clashed.⁶ If there were an "Asian Crimea", the West may be forced to contemplate something like the approach it is now taking towards Russia – as inconceivable as that now sounds.

⁶ Secretary of Defense Chuck Hagel, Speech at IISS Shangri-La Dialogue, Singapore, 31 May 2014.

SESSION 3: STRATEGIC UNCERTAINTY IN ASIA – EUROPE'S RESPONSE

WHY SHOULD EUROPEANS RESPOND TO FOREIGN POLICY AND SECURITY ISSUES IN ASIA?

ANGELA STANZEL

China's rise, along with recent developments in the East China and South China Seas, seemed to have disappeared from Western media reports lately. And indeed, tensions again seem to have decreased in Asia in recent weeks. Nonetheless, Japan is continuing to change its defence stance, the future in Kim Jong-un's North Korea is still uncertain, and fighting between India and Pakistan in the disputed Kashmir region has increased to an alarming level, highlighting the nuclear threat that looms over Asia. Moreover, border incidents between China and India are ongoing, even during Xi Jinping's visit to India in September. And then there is the future of Afghanistan after US and NATO troops withdraw from the country by the end of 2014. In sum, it seems the landscape is changing to an increasingly quarrelsome and divided Asia, one that disregards the high economic interdependencies between Asian countries.

Although no conflicts have erupted in the Asia-Pacific region (of a kind that could match the ongoing crisis in the Middle East, for instance), Europeans seem to have a lack of understanding about the scale of the diverse problems Asian countries face. Europe is not setting an agenda in Asia, but rather is constantly trying to keep up with developments in the region. Europe has several "strategic partners" in Asia, such as China, India, Indonesia, and Japan, and progress has been made with South Korea, too. But if there is any joint EU policy in Asia it mainly concerns the major trade partner in Asia (i.e., China), after which come the more or less developed bilateral ties between individual European and Asian countries. While it is natural that different member states have differing relations with Asian countries, a coherent policy of the EU and its member states should not be absent from the Asian landscape either. How to maintain a solely economic approach in Asia given the various simmering conflicts or already ongoing "grey-zone" conflicts? How high are Europe's stakes in Asia?

If there is a military escalation in Asia – a military escalation on the Korean Peninsula, a regime collapse in North Korea, an Asian Crimea, or if China declared an Air Defence Identification Zone (ADIZ) for the South China Sea, just to name a few examples – this would indeed be a direct challenge to Asian stability. A military conflict if not a nuclear conflict would shake the world, and not least global trading routes which Europe also depends on. Thus the answer to the question whether Europeans should be bothered with foreign policy and security issues in Asia is yes – and the stakes are high.

Should (and would) Europeans respond to foreign policy and security issues in Asia? However this question may be answered, the EU and its member states do have tools to respond – whether they like it or not. The EU could increase its presence in Asia, and develop a new policy that takes into account regional dynamics and external factors, and this could also be an approach to development of a coherent EU policy for Asia strategy. Considering the multitude of volatile problems we find in this region, no one would disagree that a coherent EU policy would be advantageous. First, the economic aspect is too often underestimated. Some argue that Europe's solely commercial and "soft power" approach is clearly out of date, but being the largest economy in the world, Europe possesses strong soft power tools which could be used more effectively. An example of how trade is being used as a development tool is the enhanced "Generalised Scheme of Preferences" (GSP+), which allows developing countries to pay less or no duties on their exports to the EU, but on condition that they ratify international conventions relating to human and labour rights, the environment, and good governance. As of January 2014, the EU has granted GSP+ to ten more countries, including Pakistan, creating a long-needed tool to engage this country in human rights dialogue with the EU. This is a tool which could be further developed.

EU trade with Asian countries leaves much more room to be enhanced and diversified. For instance, Europe could push for deepened relations with

ASEAN and also India. If India, Japan, and the US offered assistance – even to China – e.g., for infrastructure projects, why not Europe, too?

Even on security Europeans play a role contrary to what is often stated. France and the UK are engaged in political and security cooperation with Japan; other member states stand for what is referred to as European “neutrality” in Asia, but in view of arms sales – mainly by France, UK, and Germany – European Asia policy is in fact not “neutral”. Here, decisions in security policy often rest with the member states, but their decisions on arms sales have an impact on the EU's overall relations with Asian countries. If member states and the EU coordinated arms sales and security cooperation in Asia, this could give Europeans a way to be flexible enough to adjust to the changing security landscape in Asia.

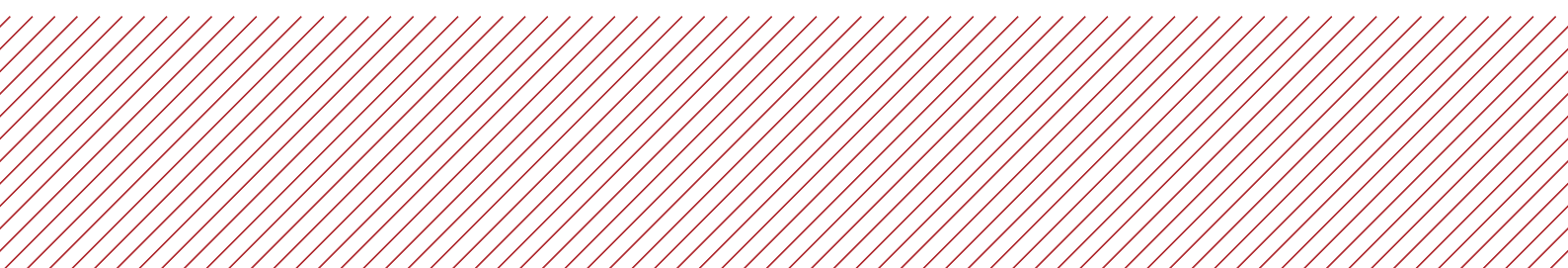
Thus, Europe's response should first and foremost strive to develop a deeper consensus between member states and the EU on economic, political, and security policy in Asia. The challenge to do so is great, but although Europeans seldom unite, when they do, Europe is powerful, efficient, and can influence the world.

SECURITY IN EAST ASIA AND THE CHALLENGE OF A EUROPEAN ROLE GUDRUN WACKER

Three main points:

- After making several (albeit small) steps to upgrade their political profile in Asia, Europe and the EU have been distracted from the region – again.

EU High Representative Lady Ashton gave very strong focus to China, but not to Asia in the first years she held office. Her so-called “Asian semester” took place in 2012 and 2013 when she attended the ASEAN Post-Ministerial Meeting and the ARF; she underlined her interest and commitment to increase EU contributions to Asian security when she



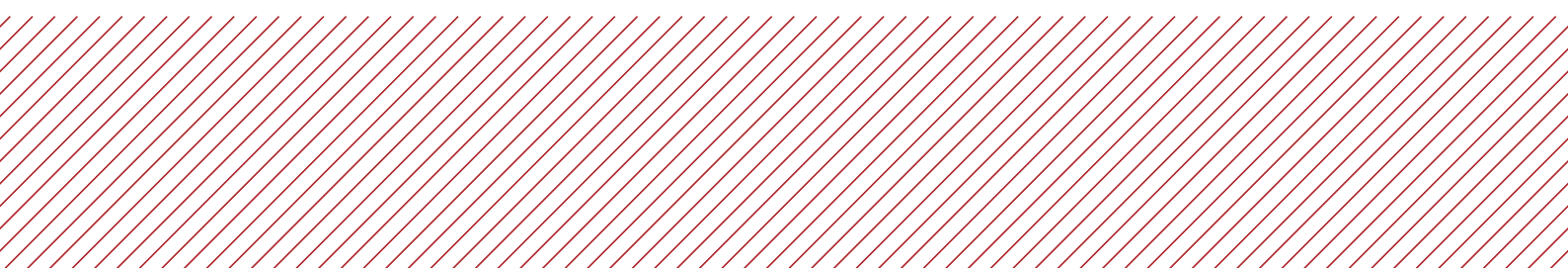
attended the Shangri-la conference in 2013. It is debatable whether the Joint Statement signed by Catherine Ashton and Hillary Clinton on transatlantic cooperation in Asia on one of these occasions was such a good idea. However, there seems to have been no follow-up to this declaration. The EU signed an action plan with ASEAN in April 2012 to enhance partnership, including in the field of security.⁷ The EU also finally acceded to the Treaty of Amity and Cooperation (TAC), thus fulfilling the formal precondition to be accepted as a member in the East Asia Summit. Also in the year 2012, the Guidelines on the EU's Foreign and Security Policies in East Asia were published in a revised and updated version.⁸ At the end of 2013, the EU mandated its security think tank in Paris EUISS to renew European membership in the Council for Security Cooperation in the Asia Pacific (CSCAP), a track II forum dealing with Asian security. Lady Ashton and her office made some statements, such as on China unilaterally declaring an Air Defense Identification Zone (ADIZ) in the East China Sea, and on Japanese Prime Minister Abe's visit to the Yasukuni Shrine.

The ASEM summit will take place as planned this month in Italy and will hopefully invigorate this format. However, with the Euro crisis not over, the success of Eurosceptic forces in recent European member countries' elections, the personnel changes in the EU Commission and EEAS under way, and the referendum in the UK on EU membership looming, a lot of attention and capacities are being spent on introspection. Moreover, the crises erupting in the immediate neighbourhood of the EU (Crimea, Syria, Iraq, ISIS etc.) have refocused EU policymaking on Europe proper. And developments in Ukraine and the conflict with Russia have even put the post-Cold War order in Europe back on the table and revived old patterns of East-West thinking. In sum, this does not bode well for the sustained and high-level engagement that would be necessary for the EU to be perceived as a reliable partner for and contributor to Asian security.

⁷ Full text: http://eeas.europa.eu/asean/docs/plan_of_action_en.pdf

⁸ Full text http://eeas.europa.eu/asia/docs/guidelines_eu_foreign_sec_pol_east_asia_en.pdf

- Since neither the EU nor its individual member states have any military forces or hardware to speak of in the region, their room for manoeuvre is limited to begin with. The EU's main response to Asia's territorial disputes consists e.g., of appeals to all parties to solve their differences peacefully on the basis of international law and to refrain from unilateral steps that could be perceived as provocative by the other party. Should one of the territorial/maritime conflicts in the region escalate and develop into a military conflict, the EU and its member states would be hard hit in their economic interests (interruption of trade routes, investments). If the EU wants to do more than issue appeals and statements, it needs to think about how to actively contribute to stability and peace in the region. Appeals to seek international arbitration are not necessarily the best or only way, since – as Francois Godement has pointed out on several occasions – international arbitration is considered by the regional states as a last resort. The EU (or member states) could think about offering expertise, training for experts, or platforms for parties to start talking to each other.
- The EU and its member states should sit down and think through contingencies and their choices. Despite all the dialogue formats that have been initiated over the years, the EU and its member states' relations with China still have a strong focus on national development in China and bilateral cooperation and – becoming stronger in the last decade – on China as a partner in global affairs. The regional level is still largely missing from the European perspective on China – in contrast to the US which has mainly looked at China from the perspective of its own predominant role in the region, its web of alliances and the (present or future) challenges China poses to US security interests in the region and beyond.
- In general, the EU has several options with respect to the unfolding dynamics in the region: 1. side more openly with the US, 2. side more openly with one (or several) of the claimants, 3. remain neutral as long as possible, or 4. offer itself as an “honest broker” or mediator. Since transatlantic links are still strong, it is hard to imagine the EU or member



states staying completely out of a military confrontation. However, even if we assume this, it should contribute more to avoiding escalation now. Whatever the decision might be, it is important for the EU to be prepared for regional contingencies. If it doesn't at least think through some of the undesired and unwished-for scenarios, it will most likely have no choice but to respond in a rash and uncoordinated manner or watch helplessly if such scenarios should materialize.

- Conclusions/Recommendations

It could help if institutions like the German political foundations or think tanks in Europe would offer workshops for officials, politicians and experts from within the EU. In such workshops scenarios can be developed or contingencies can be played through in policy games.

SESSION 4: RUSSIA – A EUROPEAN OR ASIAN POWER?

RUSSIA HEDGING ITS BETS IN EAST ASIA? *BERNT BERGER*

Russia's tactical move towards greater engagement in East Asia has been a long time coming. The question is not so much one of Asian or European identity, but one of regime survival and diversification of markets for its largely resource-driven economy. Engagement policies between Russia and Europe have not lived up to expectations on either side. In view of what the Russian leadership perceived as marginalization in international affairs and Europe overstepping its geo-strategic interests, Moscow has chosen to make the political upheaval in Ukraine the tipping point of Russia's international conduct.

China in particular would be a natural ally for Russia. Both Moscow and Beijing have deplored what they perceive as containment and arrogance of the West. By the same token, both have adopted an increasingly assertive stance and at least rhetorically displayed a revisionist attitude towards the existing international order and its institutions. Yet, Russia's so-called 'pivot to Asia' might turn out to be less favourable than any dependencies on European markets. Increasing disparities in the economic weight (and to some degree military might) between China and Russia might give Beijing increasing leverage over Russia. Dealing with other countries in East and South Asia has proven difficult due to the lack of trust, existing conflicts, and structural problems.

Rebalancing, not Pivoting

With the EU and NATO trending towards greater marginalization of Russia and encroaching on both its security interests and needs for regime survival, Moscow's decision-makers have gradually abandoned their hope for greater rapprochement. Promises of closer engagement as was envisaged in NATO's Partnership for Peace program, cooperation in the Russia-NATO Council, and the EU-Russia negotiations about a new comprehensive framework

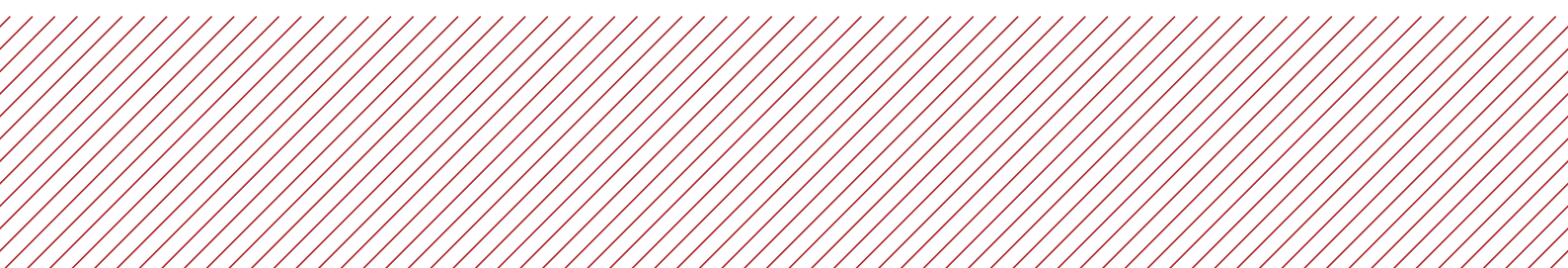
agreement for cooperation since 2008 involving security affairs – these were all frustrated. The idea of decreasing dependencies on European markets predates the current stand-off over the situation in Ukraine and associated trade sanctions. The so-called *energy pivot* to Asia was mainly a Western concept in reaction to the finalization of its gas deal with China in 2013. Negotiations with China over energy cooperation started as early as 2004 together with the signing of Sino-Russian strategic partnership. Current trends and sanctions have reinforced the already felt need to diversify the markets for Russia’s highly dependent energy-export economy and reinstate a more firm geo-political and military strategic stance. Thus, so far the so-called pivot has been more an ongoing attempt to rebalance rather than a fundamental geo-economic shift.

Rebalancing what and with whom?

Yet, rebalancing Europe’s weight as Russia’s main trading partner puts Moscow between a rock and a hard place. For not only is Russia lacking infrastructure and trust across its Eastern borders. New geo-economic competition in Central Asia, inner-Asian conflicts, and China extending its economic power further add to the myriad of obstacles. Thus, any serious attempt to increase trade and economic cooperation in Asia is a long-term goal. With the Russian government’s federal budget revenue heavily depending on exports and the need felt to counter the decline of oil prices after the financial crisis/changes in the US’ oil market, and decreasing dependence on European markets, the Russian leadership is left with few alternatives.

In view of actual figures, Russia’s task of balancing European trade is substantial:

Gross exports:	US \$527 billion
Overall Energy exports:	US \$356 billion
Other exports:	US \$171 billion
Overall share Energy exports:	68%
Gross exports to the EU:	US \$258 billion (approx.)
EU share of overall exports:	48%



When looking eastward, Russia is not only encountering a difficult political and economic environment marked by cooperation and competition, but also hard facts. China is Russia's key trading-partner in Asia. In 2013 China and Russia's state-owned Rosneft signed a deal worth over \$270bn in oil over the next 25 years. In 2014, about 10 years after the beginning of negotiations, Gazprom signed a major gas deal with China. The gas deliveries are expected to begin in 2018 and will run for 30 years.

Bilateral trade volume 2013:	US \$90 billion
Overall exports to China in 2013:	US \$35 billion (approx.)
China's share of overall exports:	6.6%
Volume of gas deal:	US \$400 billion
Expected investment in pipelines:	US \$77billion (50:50 share)
China's annual gas consumption 2013:	5.7 tcf / p.a.
Total gas imports in 2013:	1.87 tcf / p.a.
China's annual gas consumption 2020 (projection):	14 tcf / p.a. (projection)
Share of gas in China' overall energy consumption:	4.9%

In the mid-term Russia's gas exports will serve China's steadily rising gas consumption and its energy sector's transition away from coal. However, China's self-sufficiency in natural gas is on the rise. Companies are tapping into off shore sources and China is said to possess the highest reserves of shale gas worldwide. These factors, combined with alternative sources, mean that China will not rely on Russian gas and will thus gain greater leverage in negotiations. Hence Moscow's choices are limited and in the mid- to long-term it has no alternative to hedging its bets in the East by fully developing its economic potential. This involves the improvement of infrastructure and supporting cross-border trade and investment. So far, major Chinese investment in Russia has been rare. Most recently China's Union Pay entered into negotiations with Gazprom Bank and B&N Bank. The company will provide an alternative card system in a market that was 80% dominated by MasterCard and Visa. In June 2012 the China Investment Cooperation (CIC) and Russia Direct Investment Fund (RDIF) jointly established the

so-called Russia China Investment Fund (RCIF) in order to promote bilateral economic projects and promote greater trade and investment, mainly in Russia. So far the funds have been limited to \$4 billion, half of which is expected to come from the private sector. Additionally, Russia has sought to attract Chinese investments in its Special Economic Zones (SEZ), including the fields of industry, technology, logistics, and tourism.

Major obstacles: China and the Rest

While Russia and China's interests are congruent only on the surface, relations and cooperation with other countries in East Asia have encountered difficulties. During the past 20 years China's economic strength has outpaced Russia's by far. Economic cooperation is therefore possible only among non-equals. Neither China nor Russia have in the past demonstrated that they would prefer to sit in the same boat or form a global or regional alliance. Both sides have paid lip service to alternatives to existing "Western" institutions and they share a common affinity in their attitude towards the US. However, in practice to date, the implementation of any real measures has been limited.

The reasons for this are manifold.

- a. China has profited from the existing economic order and so far had little self-interest incentive to become a game changer.
- b. Ambivalence in the relationship between China and the US goes in both directions. So far, the US has been far more important as a trading partner than Russia and remains a crucial partner in security cooperation.
- c. Russia has inevitably developed into a 'junior partner' in relations with China. Any greater economic dependence will provide Beijing with greater leverage. This also holds true for multilateral formats such as BRICS wherein China represents the strongest economy. All in all, increasing dependency on China is not desirable for Moscow because of

Beijing's increasing leverage that might be used in various ways. For instance, China still looks after technologies that Russia possesses, particularly for submarine and aircraft engines.

- d. Although they are partners in Central Asia, Moscow still views the Shanghai Cooperation Organization (SCO) as a Chinese initiative. China's medium and long-term plans in the region including the Silk Road Economic Belt are not well regarded in Moscow. Albeit beneficial for Russia, China's rising influence in the region is heating up competition. So far Moscow has used limited means in order to contain China's forays into its traditional sphere of influence. The sponsorship of new members to the SCO, such as India, Pakistan, Iran, or Turkey has helped to water down closer regional cooperation. Alternative regional models such as the Eurasian Union were designed as a response to China's and the EU's regional ambitions. Last but not least, the so-called 'Customs Union' will exclude energy trade, but might turn out to be a strong tool to prevent further integration between the Central Asian and Chinese markets.

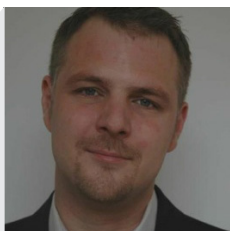
In the wider East Asian environment Russia's endeavors have encountered similar difficulties. Mistrust and ongoing territorial issues between the two countries have hampered deals with Japan. The Ukraine Crisis has aggravated the mistrust vis-à-vis Moscow. Relations with Vietnam have been improving, but might cause discontent in China. Russia and Vietnam have agreed on more than 17 bilateral agreements involving strategic energy cooperation. This involves joint offshore drilling projects between Gazprom and PetroVietnam. Even more sensitive: Vietnamese arms procurement in Russia involving improvements of naval capabilities are strongly against China's interest. On the Korean Peninsula Russia is encountering another difficult environment. Accessing the South Korean energy market involves deals with North Korea, a partner that has hardly been predictable in the past. Russia has agreed to write off North Korea's Soviet-era debt, but this might not be enough to keep Pyongyang from interrupting gas supplies for political pur-

poses. It is unlikely that Russian companies will hedge their bets on such uncertainties.

Outlook

Russia's moves to rebalance its economic relations in Asia can at best be a long-term goal. Political rapprochement, bargaining, and establishment of critical infrastructure are necessary pre-conditions for any major moves in this direction. In any case, Moscow will be confronted with unfavourable conditions in terms of political and economic leverage, particularly on the part of China. Thus, in terms of balancing and re-balancing Russia will always need both sides: Asia and Europe.

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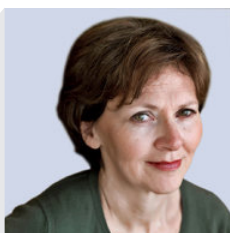
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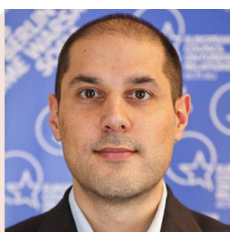
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