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THE RISE OF CHINA WITH SPECIAL REFERENCE TO ARMS SUPPLIES

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Europe and the Emergence of China
Consequences for the Transatlantic Relationship
A European Perspective

Bruno Tertrais*

1. Introduction

Like the rest of the world, Europe has been fascinated by the emergence of China for a long time, and there has been an official relationship between the EU and the People's Republic of China for 30 years now. This relationship was upgraded in 1998. It now takes the form of a China-EU summit every year, the latest having taken place in December 2004. The EU became China's main trading partner in 2004, with trade between the two parties soaring to €160 billion.

The EU's strategy towards China, which is based on European Commission policy papers adopted in 1998, 2001 and 2003, aims at engaging China in the international community, supporting China's transition towards an open society based upon the rule of law and the respect of human rights, and integrating China further in the world economy.[1] The theme of 'multipolarity' is also implicitly present in the European approach: "The EU, as a global player on the international stage, shares China's concern for a more balanced international order based on effective multilateralism".[2]

The EU's interest in Asia has been primarily economic and political, and is particularly incarnated in the series of Asia-Europe Meetings that have taken place since the mid-1990s. To be sure, Europeans do have some significant strategic interests in the region. Some EU members are bound by the 1953 agreement to defend South Korea, for instance. The EU has shown a keen interest in the North Korean problem, including being a party to the Korean Energy Development Organisation agreement and keeping contact with Pyongyang while Washington snubbed North Korea in the early days of the Bush administration. The strategic dimension is not completely left out of the Chinese-European relationship – there are regular meetings of experts on non-proliferation as well as conventional arms exports and a joint declaration on non-proliferation and arms control was signed at the latest summit.

Nevertheless, Europe's thinking about strategic issues in Northeast Asia remains very limited. And Asia remains to a large extent the missing dimension of transatlantic dialogue and cooperation. This helps to explain why the political sensitivity of issues such as China's participation in the Galileo system (€200 million) and the ramifications of the question on the arms embargo were not always clearly seen in Europe until recently.

2. Where do we stand?

China is now a confirmed participant in the Galileo programme. A follow-up agreement on technical cooperation on satellite navigation was signed in October 2004.

The question of lifting the embargo started to become a major political issue in 2003, when German and French leaders openly expressed their support for such a gesture. There is a mix of political and economic reasons for their stance. First, it seems that countries supporting the lift of the embargo are genuinely convinced that the embargo is humiliating for China and places it unjustifiably in the same

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[1] A country strategy paper for China 2002-06 was also adopted by the Commission in March 2002. It focuses on economic and social reform, sustainable development and good governance.

[2] European Commission, *Commision Policy Paper for Transmission to the Council and the European Parliament,* COM(2003) 533 final, 10 September 2003, p. 23.

category as Burma, Sudan and Zimbabwe – three other countries that currently face an EU embargo. Second, there is probably a belief that European economic interests would be indirectly served by such a move. The economic benefits to the EU would come from the 'rewards' that would be expected from China, for instance in the form of sales of civilian aircraft planes and nuclear power plants.

This strategy is part of a coherent approach that favours Beijing over Taipeh. The stance taken by France, for instance, shows a significant evolution: while Paris was an important arms provider to Taiwan in the 1980s, these days France seems to have made a strategic choice and appears keen to recognise the arguments of the People's Republic of China.[3]

The debate within the EU on the arms embargo focuses mostly on the human rights issue. The European Parliament and some countries such as Sweden have opposed lifting the embargo without progress on human rights. Other EU members with closer ties to Washington, such as the UK and the Netherlands, have made it clear that they would not oppose the lift of the embargo.

3. These issues should be de-dramatised

There is no European willingness to make the EU-China partnership some kind of 'counterweight' to US power. On Galileo for example, the Europeans are not naive. China will not have access to the most precise navigation service and thus will not be able to use Galileo for military purposes.

The US stance that European arms sales to China could upset the strategic balance in the region should be taken with a healthy dose of scepticism, when such arguments come from the same quarters that consider Europe a military dwarf lagging behind the US in terms of defence technology. American accusations of European weakness *vis-à-vis* China would be more credible if the Bush administration had not taken a U-turn on its policy towards China after September 11th. And the US-EU friction over the embargo should also be put in the broader context of the transatlantic rivalry in the air transportation market, and Boeing being afraid of the penetration of Airbus in the Chinese market.[4]

Most importantly, the Code of Conduct (CoC) would be a serious obstacle to the selling of military hardware to China, in particular because of the provision that refers to the respect of human rights. If, as will probably be the case, the CoC was indeed reinforced through provisions that would bar the export of equipment that could be used for 'external aggression' or 'internal repression', there is little that Europe would be able to sell to China. (It is notable in this regard that the latest joint EU-Chinese statement explicitly mentions the current work on "strengthening the application" of the Code of Conduct.)[5] The real question that remains is that of dual-use capabilities such as observation satellites – a pressing request of Beijing, officially to monitor rice plantations.

4. Should the embargo be lifted?

The above being said, there are still three good reasons why lifting of the arms embargo is a bad idea. The first reason is that China will probably always outsmart the Europeans. Let us be clear: Beijing wants to modernise its armed forces at the best available price. Once the embargo is lifted, China will in all likelihood hold other areas of cooperation hostage to arms sales. Furthermore, it will play the card of European willingness to sell some defence-related equipment to China as a bargaining tool vis-à-vis Russia, its main provider of military hardware.

The second reason is that we do not need another transatlantic crisis. This issue is particularly sensitive in the Pentagon, but even some Democrats have taken a strong stance on it. Even if Washington is exaggerating the dangers of lifting the arms embargo, such a move by the EU would

[3] Paris for instance openly disapproved of Taiwan's 2004 referendum on anti-missile defences.

[4] Some in the US have argued that the fate of the Airbus A380 is critical to European thinking about the embargo and that Beijing was holding up an order of five A380s until the lifting of the embargo. On 26 January, however, China Southern Airlines confirmed its acquisition of the five aircraft.

[5] See the Joint Statement of the 7th China-EU Summit, 8 December 2004, para. 7.

send the wrong political message to the US. Needless to say, such a crisis would also play in the hands of all those who may have a political interest in transatlantic divisions, including China itself.

The third reason is simply that China does not face any military threat today. The goals of the modernisation of the PLA are to be able to resist American power, to be in a position to blackmail Taiwan and to bolster the PLA's ability to maintain internal order. Are Europeans keen to signal to China that it is ready to contribute to helping Beijing satisfy these goals?

5. Conclusions

Some would say that there is an element of schizophrenia in the European approach. Within the government circles of some of the countries willing to lift the embargo there is recognition that China could one day become a destabilising force and even a military threat to Western interests. The hope nurtured by many European leaders is in fact that the engagement of China through measures such as lifting the arms embargo will contribute to a normalisation of Chinese behaviour and foreign policy. Whether or not this strategy will be politically 'cost-effective' remains to be seen.

The Lifting of the EU Arms Embargo on China

An American Perspective

Peter Brookes[*]

Later this year, the European Union will consider lifting the Tiananmen Square arms embargo against the People's Republic of China (PRC). The US and the EU imposed the embargo following the June 1989 crackdown on democracy protestors in Beijing. This paper is one American's view on the range of opinions concerning this nettlesome issue that has crept into the transatlantic relationship.

1. American concerns

In general, Americans are not pleased with the change in EU policy. Perhaps first among concerns about the change in policy is China's refusal to renounce the use of force against Taiwan. In light of China's ongoing military build-up, Beijing might decide to coerce or take military action against Taiwan. The 'Anti-Secession' law is not encouraging. But more to the point, the sale of EU arms to China could mean that European weapons would be used against American troops in a Taiwan contingency.

Second, a lifting of the EU arms embargo might further exacerbate the shift in the balance of power across the Taiwan Strait. In the next few years, the conventional cross-Strait military balance of power will move decidedly in Beijing's favour. This change could lead Beijing to perceive an opportunity to resolve Taiwan's future through force. This sort of miscalculation has the potential for catastrophic results.

Third, in some quarters there is significant concern that China wants to succeed the US as the pre-eminent power in the Pacific. Increased Chinese military might derived from EU arms sales could at some point allow Chinese forces to deter, delay or deny American military intervention in the Pacific.

Although many Asian countries welcome Chinese economic opportunities, they are concerned about Beijing when it comes to security matters. Some strategists believe that China also has an eye towards subjugating Japan and dominating Southeast Asia. Australia and Japan have already expressed their unhappiness with the EU's change in policy.

Fourth, China's behaviour towards conventional arms, weapons of mass destruction (WMD) and ballistic missile proliferation is of great concern. The PRC's export control laws leave a lot to be desired. Wilful, government-supported proliferation is even more troubling. China's relationship with North Korea, Iran, Burma or even Syria could lead to sensitive European technology falling into the wrong hands.

Finally, China's human rights record remains deeply troubling and scarcely merits reward. Just in 2004, Chinese security services harassed and detained the justice-seeking mothers of Tiananmen Square victims, political activists and Internet users. In fact, some suggest that China's human rights record has regressed since 1989. Once the arms embargo is lifted, the EU will lose significant leverage with China over human rights. In addition, ending the arms embargo would send the wrong signal to other repressive regimes.

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2. Perceptions of European motivations

So why is Europe thinking of making this change? Probably the most dominant belief is that the EU is trying to curry favour with China for preferential treatment in commercial market transactions. China is one of the world's hottest economies and lifting the sanctions may lead to large deals for EU firms such as Airbus. If the political climate is right, the PRC may also look to EU companies for high-speed rail, telecommunications, satellites, energy generation plants or even high-end nuclear plants as China's insatiable appetite for energy grows.

Another more sinister reason is to open a new arms market for European weapons in China. The PRC is a veritable cash cow for arms sales. China's defence budget currently runs $50-$70 billion a year, including plenty of money for arms purchases. With declining defence budgets for Europe's beleaguered defence firms, China provides a golden opportunity for selling arms in a growing market.

From a political perspective, some EU countries are seen to be pushing their fellow member states to acquiesce on this issue because should the new arms policy go awry (e.g. the use of EU weapons on political dissidents, Tibetans or Uighurs), the EU can spread the political responsibility for the policy change across the breadth of EU membership. By altering the policy under the EU's umbrella, some states will inoculate themselves from their constituents' disapproval for backing down on China's human rights record.

Finally, on the most cynical end of the scale, some believe that the EU is attempting to balance American global power through the development of a 'multipolar' world. In such a construct, American power could be counterbalanced by other power centres such as China, Russia, Japan, India and the EU. In this construct, making China more powerful will help Europe challenge the global pre-eminence of the US.

3. Chinese motivations

No doubt China has motivations of its own. First, Beijing continues to seek political absolution for the Tiananmen Square massacre among the international community. The recent death of Zhao Ziyang, the ex-communist party leader who became a reformist after the massacre, is an added nail in the coffin for the requirement that the Chinese government account for its actions at Tiananmen; the lifting of the EU embargo would be another.

Second, since the PRC's main advanced-technology arms supplier is Russia, China is looking for some competitive pricing and alternative sources for the arms it currently buys from Moscow. With the US and EU currently out of the Chinese arms market, it is a 'seller's market' for the Russians.

EU arms producers can compete with their Russian counterparts in terms of quality and (possibly) price. This would turn the Chinese arms market into a 'buyer's market' for Beijing, decreasing their dependence on Russian arms and enhancing the likelihood of generous, advanced-technology transfers to the Chinese arms industry as part of any arms deal. The Chinese may also be hoping that the EU's decision will lead to pressure in Washington from defence firms to do the same. (Nevertheless, a change in American policy is highly improbable.)

In addition, Beijing is hunting for military technology it can't find elsewhere, especially in the Russian market. The Chinese can find top-notch fighters, diesel submarines, destroyers and surface-to-air missiles in Russia, but they may not be able to find the necessary command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) systems it needs to make these systems more effective. The EU may be just the market for such systems.

Beijing would also like to drive a wedge into the transatlantic alliance. China certainly would not object to having an ally in the EU, especially when jousting with the US in the UN Security Council or other multilateral institutions over such issues as Iran's nuclear programme (where China just signed a $70 billion gas/oil deal).

Further, it should come as no surprise that a lifting of the arms embargo would be seen as a significant defeat for the Taiwanese in Europe and would support China's desire to increasingly isolate Taiwan from the international community in hopes of early unification. Some would argue that if the Europeans sell arms to China, they should sell them to Taiwan as well.

4. Conclusion

There are sure to be consequences for the transatlantic relationship over a decision to lift the EU arms embargo against China. America's perception of Europe, already troubled over Iraq, will not be improved. Americans, especially veterans, would gasp at the thought that European arms might be used against American servicemen and women in a Taiwan or Korean contingency. Americans may also resent a decision on the part of the Europeans that will negatively alter the security situation in a region (i.e. the Pacific) in which they have little or no responsibility for security.

Even with the advent of a new arms-sale Code of Conduct and other regulations, the Bush administration will be unhappy. But the American Congress will react most strongly. There will certainly be attempts to clamp down on defence industrial cooperation with European firms and to prohibit the purchase of defence articles by the Department of Defense from EU businesses that sell arms to China.

The US welcomes China's peaceful integration into the international community as an open and free society through commerce, tourism, academic exchanges and official dialogue. These activities maximise the free world's efforts to encourage positive political and social change for 1.3 billion Chinese.

But in the end, the EU's decision to lift the arms embargo against China will not help close the transatlantic divide and may perhaps even widen it. The decision will also be perceived everywhere as an imprimatur of dismal human rights records. Finally, it could increase the likelihood of military conflict in the Pacific, which is no one's interest – not even the EU's.

The Rise of China and its Meaning for the Structure of Global Leadership in the 21st Century

A Russian Perspective

Alexei D. Voskressenski*

There has been a pointed discussion about the character and orientation of the global leadership in the international analytical community in the last 10 years. This theoretical discussion became even more pointed and entailed more practical considerations after the September 11th terrorist attacks on the United States. Clearly the terrorist acts in the US and elsewhere as well as the decision of the administrations of President Clinton (on Yugoslavia) and President Bush (on Afghanistan and Iraq) to begin the power restructuring of this new post-bipolar world's global structures and avenge the attacks have complicated the situation and sharpened the discussion on the character of the global leadership. The role of 'the China factor' – the problem of a peaceful rise of China and its accommodating itself to the existing global order or its possibility to subvert or partly restructure it according to China's new economic status – is one of the main topics in this discussion today.

Models of global leadership

It is more or less clear that the epoch of the straight, crude 'hegemony' in the global international system has passed. As the globalisation process has come to appear more complex and has incorporated the processes of regionalisation, regionalism and the fragmentation of the world, the essence of the hegemony concept became much more refined in its content and terminology. The international hegemon in the past was understood as the state that had both the military force and creative potential for unilaterally structuring and restructuring the global international system according to its interests.

The 20th century has added another important characteristic – there could be not only one state but two: a hegemon and a counter-hegemon. After the disintegration of the USSR and the strengthening of the arguments by the school of thought that points to the decline of classical hegemony, concepts of 'structural hegemony', 'soft hegemony' and the 'global dominant' state have also appeared. If the hegemon has the military force and creative potential to unilaterally change the global system, for the globally dominant state these parameters are not enough. In the new post-bipolar system of international relations, by comparison with a hegemon the globally dominant state must additionally have the desire (more precisely, a large majority of its political elite must have this desire) and the conscious support of the international community to structure the global system and world politics. The support of the international community may be rendered in different forms, such as resolutions by the UN Security Council, formal or informal coalitions (e.g. the initial anti-terrorist coalition) or consensus on strategic issues.

The emergence of the EU and eurozone, and later the new diplomatic coalition of France, Russia and Germany that opposed the unilateral American view on the future of Iraq may show the transition of the US as a world leader from the category of hegemon to the category of a globally dominant state. Other informal arguments for this being the case are the discussions about the necessity of a more benign, structural and soft approach to leadership in the US itself. It seems that in addition to the above-mentioned conditions, the main structural difference between the globally dominant state and

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the hegemon is that the global dominant loses the possibility to unilaterally control and determine the parameters of the extended construction and reproduction of the armed forces of the large regional states.

A state should fulfil three major conditions in order to be the hegemon or the globally dominant state in the international system:

1. It must have an effective economic mechanism based on the manufacture of innovations; further, it must financially dominate the system of the world currencies, have leading positions in global trade and dominate in large transnational corporations.
2. Such a state must have military power capabilities on a global scale, must unilaterally lead, create or control powerful military coalitions and carry out effective global military policy.
3. It must create and promote a society that is internationally attractive from the point of view of the political and civic culture, which is based on an open, competent leadership. It must also have a sense of the necessity of significant public sacrifice or donorship, i.e. the readiness of a society and its political elite to commit material and non-material resources in the name of global leadership and the international community. The society of such a state must be attractive in terms of its ideology and should be and simultaneously be perceived as the global centre of the best education and leading science, and must have a vivid and vigorous population.

If we consider these three groups of conditions to be and also to be perceived as defining the global hegemon or dominant state with the reference to the US, the current global leader, we can probably argue that there is an erosion of America's undisputed leading role in all these parameters, although the key attributes are still intact. For this reason the transition from the category of hegemon to the category of global dominant does not mean the complete loss of global leadership by the US.

Regional leadership

The next group after hegemons and global dominants consists of the states that can be called 'leaders' (or regional leaders). These states are not considered globally dominant by all three of the even-eroded parameters, but they have a certain (greater or smaller) creative global or large regional potential and their own global or large regional economic and military capabilities. They also have a certain degree of support by other leaders, a globally dominant state or peripheral states to direct or to correct global/regional development – first of all in a concrete area where they are located geographically or have historical, geopolitical, economic or cultural interests. Some researchers call these 'the large regional states'.

There is no uniformity in this group of states. There are leaders (or regional leaders) among this group, i.e. the states that can strengthen the role a global dominant or even play in principle the role of a regional dominant (of course with the consent of a global dominant, which can be silent and informal or fixed in a set of agreements and coalitions. There are also 'anti-leaders', i.e. states that under some conditions and to a certain extent can resist a global dominant and even carry out decisions that run counter to the policy of the global dominant.

The anti-leader states have obvious problems with the transformation of their destructive potential into constructive and creative power. Under no circumstances can the anti-leaders replace the leader. Under certain conditions an anti-leader can try to play the role of a regional anti-leader, i.e. carrying out a policy contradicting (or even challenging) the policy of a global dominant in a specific region. Certainly, a global dominant will not look neutrally upon such attempts, as any regional anti-leadership is a key to a position of the 'counter-leader' and probably to the position of a 'counter-dominant' state (and possibly also to a 'counter-hegemon'), i.e. the state that is challenging the existing global dominant and that in principle is able to occupy this position in the future. The core distinction between the anti-leader and the counter-leader is the basic impossibility of the former to turn itself into a global dominant or hegemon. Additionally, there are 'non-leaders' in the global system – states that are unable under any circumstances to turn themselves into leaders – which accept as a whole the existing structure of the international system not withstanding their place in it.

China's evolving position through economic growth

Because of the steady economic growth it has enjoyed for the past three decades along with its sheer size, enormous market, huge potential and the alternative ideology, the People's Republic of China (PRC) occupies the most important place in this theoretical discussion about the character of evolving leadership. Moreover, the phenomenal planned economic growth of this huge state alongside the realisation of policy reforms and its 'special' foreign policy position moves this theoretical discussion into the practical sphere related to diplomacy and in particular to foreign-policy forecasting, as well as the calculation of the military projections related to the foreign and economic policy of a state such as China.

It is expected that more than 50% of global economic growth will most likely be related to the Asia-Pacific region where China is playing an increasingly important role, as well as related to China itself. The emergence of the PRC among the major trading states and possible world economic superpowers could put the existing global economic and political order into question, because China has always complained that it is suffering under the structural/economic leadership of the West and has never hid its discontent with the past economic and political order. For this reason the Western and Chinese analytical communities are today discussing the problem of China's 'peaceful entry' into the system of global relations. Chinese analysts, accordingly, are considering the question of the future role of China as it is acquiring the status of *daguo* (great power) and if it should simultaneously become the *fuzeguo* (responsible state) and what this last notion means in Chinese terminology compared with Western political science and international relations. China has formulated a model of socialism with Chinese characteristics, which is flexible enough to have successfully integrated the socialist idea with a Confucian ethical system and at first rudimentary, and later quite sophisticated 'capitalist' market mechanisms, while the attempts to create a new system of 'socialist morals and ethics' and a 'socialist economy' have obviously failed in the former USSR.

In this connection it is not as important what the actual essence of the Chinese economic system is, i.e. how much 'socialism' is in it, as that China's economic system is perceived as an alternative to the 'pure-capitalist' Western market system. In this sense, mainland China or more precisely Greater China (mainland China plus connected territories inhabited partly and influenced mainly by the Chinese diaspora) is quite capable of challenging Western trading blocks (NAFTA and the EU) and the US not only economically, but also through the 'spiritual alternative' it has formulated to the Western system of values, economic structures and management.

It is clear, however, that this challenge is special as compared with the challenge of the former USSR, and it will be very difficult to formulate an acceptable response for meeting it, for the reasons that follow.

First, communist China is not unanimously perceived as the leader of the third world or the developing world. The major argument here is economic: China (contrary to the former USSR, which argued that the Soviet socialist economic system was developing according to socialist economic laws and that these were different from market ones), has incorporated neo-Marxist innovations into its mainstream theories of international political economy consisting of the idea that the 'world-economy' has three interconnected structures:

- a united and uniform global market;
- the political systems of the independent competing states; and
- a three-layered spatial structure, consisting of

- the ‘centre’, which specialises in manufacturing the most effective high-cost goods and technologies and thus uses in full the effect of making free the resources needed for its own super-fast development;
- the ‘periphery’, or more specifically the less-developed countries specialising in exporting raw materials and goods made with manual labour, acquiring mostly luxury goods for the price of that export, investing money into the centre and transferring capital into offshore zones; and
- the ‘semi-periphery’.

Further, the ‘semi-periphery’ is not homogeneous. It consists of three groups of countries: 1) those that are relatively advanced in industrial terms, but which as a whole cannot specialise in the production of economically ‘more effective’ high-cost goods; these countries may, however, be able to produce technology that can be sporadically sold for the not-so-high price in the periphery in particular niches or in some instances compete with the centre; 2) the new industrialised countries, which have based their modernisation on the innovation model, but oriented their production to exporting goods to the centre; and 3) countries that export crude oil.

Additionally, from the point of view of the neo-Marxist theory, which is effectively applied in China, economic relations in the modern world are independent from political ones. Thus, Chinese economists have come to the conclusion that the market is not only a notion intrinsic to the ‘capitalist’ approach to production, but also to any others including a socialist approach. Thus, it was possible in theory to separate the state, the economy and society. That conclusion made it further possible for them to exclude or to minimise the role of the state in the economy. Yet to minimise it not from the point of view of its role in principle, but from the stance of its operating ‘separately’ in the economic system, where it should help the functioning of economic law, and in politics where it can form a civil society in democratic states or rigidly structure society on the basis of the ideological concepts in authoritarian states with market economies. In practice this means that it may be possible to transform totalitarian states into authoritarian models of industrial development. These theoretical ideas were first elaborated by General Chiang Kai-shek, who applied them in practice in Taiwan, and in other regions, for example Latin America, by General Augusto Pinochet. In the PRC these ideas made possible the successful implementation of the reform policies. Although the Chiang Kai-shek and Pinochet models of authoritarian development both consciously paved the way for further political reforms and political transformation towards democratic rule, there are no persuasive arguments that this path will be followed by the PRC.

If the global ‘capitalist’ economy is based on the fragmentary possession of capital and competitiveness, the global (globalised) economy requires a centre (the ‘leader’). This means that there are two ways of overcoming the status of being on the periphery or the semi-periphery: 1) it is possible to form a global (or macro-regional) economic system according to one’s interests, or 2) carry out a unilateral adjustment of the internal sphere of the state according to the requirements of the international globalised economic system. The specific feature of China is that it successfully develops in both directions, understanding that is possible to be integrated in a global system as a part of the periphery or as a large, developing country from which the new nucleus (part of the centre, or an alternative centre) can crystallise. What distinguishes the centre from the periphery and semi-periphery, and what is very well understood by the Chinese leadership, is the necessity of creating the conditions for the self-centred accumulation of capital, i.e. defining the conditions for accumulation through the national control of the labour market, national market, centralisation of profits, capital, resources, technologies, etc.

Future trends and consequences

It is clear that the crystallisation of new centres is very difficult today, the models of catching up development are not working smoothly and the force of external factors is becoming more important than the force of the internal ones (or can very strongly influence the internal factors). A systemic and carefully elaborated policy can nevertheless bear its fruit. And the fruit of the reforms are visible in

China. The rates of GNP growth in China in 1979-2002 surpassed 9% (i.e. they were twice as high as those from the preceding 30 years) and GNP volume in 2002 has exceeded $1.2 billion, which translates into approximately $1000 per capita at current exchange rates. Exports for the last 20 years have increased by 20 times. If the existing trends prevail, by 2010 China will probably have the volume of GNP in terms of purchasing power of the present US level.

At the same time, the transition of China from the status of a 'closed' continental power to the status of the largest national economy and the largest trading state in the world (or one of the two largest) means that this state will try to secure the sea lines of communication around its borders, which will inevitably cause the conflict with the US and Japan. It is clear that the PRC does not yet have military capabilities comparable with those of the former USSR, much less the US. But the military capabilities of China are growing and its economic capabilities and interests in the very near future could be much more significant than those of the former USSR. China's capabilities are dictated by the cumulative size of its economy, geographical and demographic resources, and not just the per capita GNP (the parameter by which China still ranks low according to international standards because of its enormous population). So, the Soviet type of socialist leadership that China could carry out in the foreseeable future may not be recognised by the whole global community, and in any case the Chinese leadership does not try to give the impression that it aspires to this type of a leadership. The above-mentioned theoretical considerations have enabled China to reject the idea of declining state sovereignty in the face of globalisation and alternatively suggest the state's capacity to adapt to basic changes in international conditions.

The character of the economic transformation being carried out in China along with its foreign policy strategy is aimed at updating the rules of functioning of the global system and forming a huge zone of 'close interaction with China' for those on its perimeter. China argues that as a world power it will be more predisposed to accept international responsibilities than the US, because it accentuates multilateralism and multipolarity. The Chinese approach respects national self-determination and thus hails 'comprehensive security', which consists of 'common security' and 'common prosperity', where the need for a security community is based on sovereign equality. Thus, China is proposing a strategy to offset uneven globalisation, which consists of maximising opportunities for economic globalisation while retaining the state's own sovereign options. This strategic policy can essentially correct and maybe even completely transform the system of international and regional relations. It is clear that this transformation will take a lot of time and be conditioned by numerous 'ifs'; however, today such trend is not seen as impossible as it seemed 10 years ago.

The three conditions for obtaining the position of a hegemon or a global dominant that were formulated above cannot be met by China very soon and some would argue that they may not even be achievable at all. But this only seems the case at first sight. Today the Eurasian continent produces approximately 75% of the world's GNP; 75% of the world's population lives there and it has 75% of the world's resources, which may be the key to future global development.[6] Some 47 years were required for the US to double its per capita GNP, 33 years for Japan, 10 for South Korea and 7 for China. The GNP of the Asian countries is growing by 6% per year on average, i.e. the rates of growth in Asia are twice as high as those for the rest of the world. It is expected that by 2020 Asia will produce 40% of the world's GNP. Further, 16 of the 25 largest cities of the world will be located in Asia and 5 of the 7 largest national or supra-national economies will be Asian. Ranked by GNP volume, the Chinese economy may occupy first place. In 1950, the PRC produced 3.3% of the world's GNP, but by 1992 this figure had increased to 10% and continues to grow, though not as fast as it previously did. In 2003, China's GNP volume (the size of the economy) happened to put it in third place after the US and Japan, while it took fourth place in the volume of exports and third place for imports. The PRC currency reserves represent at least 11% of the world's total reserves. 'Communist' China has opened its economy to foreign direct investment, welcomed large-scale imports and joined

[6] Data in this section draws from the Asia-Pacific Center for Security Studies (2003).

the World Trade Organisation on a scale and at a speed that the former USSR never did and indeed earlier than democratic Russia, spurring prosperity not only within China but across the region.

If weighting the contribution of a country's economy to global economic growth calculated by the purchasing power parity, from 1995 to 2002 the US contributed 20%, China contributed 25% and the other industrial countries of Asia contributed 18%. And if imagining that the economic and political unification of the PRC and Taiwan takes place, all the previously mentioned trends become even more obvious and with much more significant strategic consequences.

China has obviously managed to create a viable economic model that differs from the Western form of capitalism. Thus, what it is called is not as important as the fact of its viability and an alternative character. By 2025, 21% of the global population will live in the area of 'Greater China' or the area of the Chinese civilisation. There will be obvious attempts by the PRC to structure this economic space in various ways (free economic zones, custom unions, the projects with the Association of Southeast Asian Nations (ASEAN+3), the creation of the *yuan* currency zone, etc.).

China has also sought to pre-empt a potential US-led coalition in the region by deepening economic ties with American allies such as Japan, South Korea, Taiwan and Australia. These countries would pay a considerable economic price if they were to support any US-led anti-Chinese policies. China has adroitly exploited every manifestation of regional dissatisfaction with America's obsessive and overbearing war on terror, seeking to cast itself as a friendly, non-interfering alternative to US power in the region. It is even proposing new institutional arrangements wherein China can exercise a leadership role that excludes the US, such as the East Asian Economic Zone and the Shanghai Cooperation Organisation. China is now rapidly creating transnational corporations and buying world brands, making its economy really global and thus more internationally competitive.

Military implications

The Chinese army is the largest in the world by the number of soldiers, although it is restructuring according to its new tasks. The PRC military budget is increasing in real figures and there is a strategic goal to double it or even to triple it in the long term in view of the development of dual-use technologies and their commercial implementation. In Asia as a whole military expenditure has increased by 50%.

According to a white paper on China's national defence in 2004, China will maintain the size of the People's Liberation Army (PLA) at 2.3 million members through this current restructuring, aiming at optimal force structures, relations and better quality. China plans to build a streamlined military with fewer numbers but higher efficiency. Under the present military restructuring, China will achieve streamlined forces through such measures as reducing both the number of PLA officers and the number of personnel by about 15% and reducing ordinary troops that are technologically backward while strengthening the navy, air force and second artillery force (rocket forces).

In its modernisation drive, the PLA takes informationalisation as its strategic focus. Computers and other IT equipment have been gradually introduced into routine operations. The ability to provide operational information support has been greatly enhanced while more and more IT elements have been incorporated into the main Chinese weapon systems. In its drive for informationalisation, the PLA adheres to the criterion of combat efficiency, moving in the direction of integrated development, enhanced centralised leadership and overall planning. It is developing new military theories and operational theories while optimising the management system and force structure, updating systems of statutes and standards, and emphasising training for informationalisation. The PLA is accelerating the modernisation of weaponry and equipment, depending on national economic development and technological advance.

Since the collapse of the USSR, Russia has emerged as China's principal source of advanced military hardware and technology. By the mid-1990s, Russia's need for hard currency forced a restructuring of military trade with China to a cash basis. Now, however, Russians are increasingly hard-pressed to come up with something new for China, and this pressure will increase as a result of any possible competition for hard currency that may arise between Russia and the EU if the EU arms embargo for China is lifted.

China is eager to renew defence cooperation with Western countries. During his recent EU tour, the Chinese Premier Wen Jiabao pressed for a decision to lift the ban, arguing that the embargo is discriminatory. He asserted that the maturation of China's ties with the EU made the arms embargo a meaningless artefact, calling it a remnant of the cold war. He was encouraged by French President Jacques Chirac's reported remarks that the ban no longer corresponds to the political reality and makes no sense, a view that was supported by German Chancellor Gerhard Schroeder. Mr Wen may have also thought that European arms industries would push for a share of the $11 billion in arms agreements that China has signed since 1999. So, if some countries are complaining that they have a trade imbalance favouring China, they may try to correct it by selling weapons to China as China proposes.

It is clear that since the early 1990s the PRC has been upgrading its conventional and nuclear forces and improving its operational capabilities to match the standards of the US armed forces. China's defence budget has increased at a double-digit annual rate since 1995. Virtually the entirety of China's defence spending is concentrated on strengthening its ability to project power in its immediate southern and south-eastern neighbourhood. If the current trend in China's military modernisation continues, the balance of power in East Asia will shift in China's favour.

Technical and societal advances

Achieving regional leadership in the spheres of innovation, science and ideology is more difficult for China. The communists' ideals can hardly inspire large masses of people today however China tries to dynamically modernise and adapt them to meet modern ideological purposes, reducing the most odious of them and having combined them with a Confucian system of values and ethics. Nevertheless, the idea of modernised Confucian ethics can be compared with the idea of Protestant ethics in terms of its creative potential. In this modernised Chinese ideology, the concepts of paternalistic authorities and a stoic perception of life are very important. There is a vigorous embracing of the Asian culture in the region that includes the Asian values of diligence, discipline, respect of family values, esteem of the authorities, submission of individualistic ideas to the collective values, the belief in a hierarchical society, the importance of consensus and the aspiration to avoid confrontation by any means. Such a belief system preaches the domination of the state over a society and the society over an individual, but the Asian individual is inspired by the absence of the internal social conflicts and support of the community's values. Thus, this relatively benign authoritarianism helps to develop societies that are demographically and territorially close-knit. Certainly, not all of these values are universal enough for all kinds of societies, but the developing East-Asian half of the world is inspired by a considerable part of it.

In 2003, Chinese President Hu Jintao's advisors put forward a new theory, called China's 'peaceful rise'. It held that in contrast to the warlike behaviour of ascending great powers in the past, the economic ties between China and its trading partners not only made war unthinkable but would actually allow all the sides to rise together. The theory didn't survive power struggles within the Communist Party, but the general idea lives on in new and updated formulations such as 'peaceful development' and 'peaceful coexistence'.

In addition, China has started to actively position itself as a state encouraging science and innovation. For example, there are 120 so-called 'technoparks' in the country. Further, in 1995 the special state programme on the development of the high-tech industry was elaborated and priority fields in the programme were announced. These are electronics, computer science, space and fibre-optic communications, and energy-saving technology. The state has already invested about 10 billion *yuan* in the development of this programme. The Chinese state also actively invests in the development of the infrastructure of universities. China became the third country in the world to successfully launch a manned spaceflight programme, which became a symbol of this technological leap forward. It is clear that the space programme also has certain military, surveillance and intelligence components, aimed at developing a continuous surveillance capability in East Asia comparable to that of the US.

Thus, intentionally or not, China has achieved a lot in transforming itself into a regional power with some global interests, perhaps more than any other large regional state. Yet the PRC has done it so cautiously and smoothly that this policy has not caused any open counteraction of other states or the formation of any anti-Chinese coalitions.

Conclusion

China has created the basis for becoming a challenger to the existing regional and to some extent global structure of the international system in the future. This challenge is of a special kind because it is not directly related to the military capabilities of the PRC, which are not comparable by any measure with those of the former USSR. The PRC probably does not even aspire to them. At the same time, in the very near future the combined economic capabilities and the strategic interests of the PRC may be much more significant than those of the former USSR and its military capabilities will have undoubtedly increased to reinforce this new economic status.

China's capabilities are dictated by the cumulative size of its economic, geographical and demographic resources and not just per capita GNP – the parameter by which it still has a relatively low ranking owing to its enormous population. Thus, any 'Soviet' type of leadership that could be carried out by China is not likely to be seen by the global community. Further, China tries in every possible way to avoid this type of leadership. At the same time, because of its size, the regional or even globally significant issues related to China's expansion themselves represent a kind of a global challenge. But the problems arising from this particular challenge are not identical to the possibility of China taking on a regional or global leadership role, or becoming a contender with the US.

Today's unprecedented changes in the world are possibly related to the crisis of global regulation, connected with the world's transition towards another globalised character and orientation, which is viewed differently by various important international actors. This crisis is only partly related to the geopolitical crisis in that smaller part of the world that consists of the post-Soviet territories not 'supervised' by the Western corporate empire and to a problem of what has been called 'incompetent' and 'selfish' leadership by the US. Nevertheless, the crisis of world regulation and the 'incompetent' leadership (which has been exposed to doubt and discussion with no consensus) can result in the situation where some important anti-leader, with the support or the benign negligence of other major regional leaders, will proceed to the category of being a regional counter-leader, and once becoming an uncontested regional counter-leader can move further to become the possible counter-dominant or simply be perceived as such.

At present only China has come close to this position, but has never officially or unofficially given the impression that it has intentions for playing that kind of a game. Everybody, including those from the Chinese analytical community, understands that in view of the enormous number of internal problems China has, it should try to solve these first. But it is also understood that the transition to a new status can automatically help to solve some of these internal issues. It is certain that the Chinese leadership understands this. The political elites of at least two other major regional players, Russia and France (and perhaps Germany), obviously look rather benevolently upon China as the prospective regional leader. For some considerable time, China has been trying to raise the level of its relationship with the EU as it did with Russia – thus showing that it may be possible to geopolitically counterbalance the US-Japanese financial/economic/military knot with an EU-Chinese and Greater China-ASEAN financial and economic knot, along with a Chinese-Russian military and security tie as a basis for this new regional status. The success of China in a more global sense, however, will be dependent at least on the desire or the negligence of the EU, the US, Japan and Russia, as well as China's own aspirations.

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The Forum brings together a select group of personalities from the Brussels institutions (EU, NATO and diplomatic missions), national governments, parliaments, business, media and independent experts. The informal and confidential character of the Forum enables participants to exchange ideas freely.

The aim of the initiative is to think ahead about the strategic security agenda for Europe, treating both its European and transatlantic implications. The topics to be addressed are selected from an open list that includes crisis management, defence capabilities, security concepts, defence industries and institutional developments (including enlargement) of the EU and NATO.

The Forum has about 100 members, who are invited to all meetings and receive current information on the activities of the Forum. This group meets every other month in a closed session to discuss a pre-arranged topic under Chatham House rules. The Forum meetings are presided over by François Heisbourg, Chairman of the Foundation for Strategic Research, Paris. As a general rule, three short issue papers are commissioned from independent experts for each session presenting EU, US and Russian viewpoints on the topic.

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