



Compass 2020

Germany in international relations
Aims, instruments, prospects



China

**Its struggle for stabilization
and equal status**

Bernd Reddies



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The Compass 2020 project represents the Friedrich-Ebert-Stiftung's contribution to a debate on Germany's aims, role and strategies in international relations. Compass 2020 will organise events and issue publications in the course of 2007, the year in which German foreign policy will be very much in the limelight due to the country's presidency of the EU Council and the G 8. Some 30 articles written for this project will provide an overview of the topics and regions that are most important for German foreign relations. All the articles will be structured in the same way. Firstly, they will provide information about the most significant developments, the toughest challenges and the key players in the respective political fields and regions. The second section will analyse the role played hitherto by German / European foreign policy, the strategies it pursues and the way in which it is perceived. In the next section, plausible alternative scenarios will be mapped out illustrating the potential development of a political field or region over the next 15 years. The closing section will formulate possible points of departure for German and European policy.

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Abstract

Some 30 years on a course of reform and opening have brought China back into the international community as an economic and political actor. China's central political leadership has broadly implemented the fundamental decisions taken in the course of China's processes of economic and social modernization. However, asynchronicities in the process of translating economic development and social change into day-to-day practice have given rise to individual and regional contradictions in the development of prosperity in China. The country's gradual process of market-oriented reform has been based on an export-oriented industrial development involving attraction of foreign investors, and now the vision of China as the world's cut-rate low-wage factory is frightening the industrialized world. As a medium-term perspective, the Chinese government holds out the prospect of developing a modern, open and cosmopolitan industrial society. Forcing the pace of the country's growing involvement in international responsibility, e.g. by joining the WTO in 2001, the Chinese central government has stepped up the pressure on the provincial and municipal levels to modernize and forge on with reforms. Western countries, including Germany, are actively engaged in supporting the country's gradual development of rule-of-law structures.

A course of growing liberalization in China's economy and society have broken up the Communist Party of China's (CPC) monopoly on careers and privileges. The CPC is currently in the midst of a process of catch-up modernization designed to restructure it into an effective party in charge of government and administration. The domestic challenges facing the Party have shifted from pure economic development to matters bound up with society and social development. The country's political leadership has recognized and addressed corruption and nepotism in Party and administration, the growing polarization of society into poor and rich and town and country, and the present lack of countrywide social security systems as key challenges to be tackled in the course of the years to come.

In its role as a permanent member of the UN Security Council, China is committed to an active and conscientious engagement in multilateral crisis management. The emphasis of German policy is on common security interests.

China is making good progress in normalizing its relations with both its Asian neighbors and Russia. In this connection, the Chinese leadership has defined strategic steps to secure the country's raw materials and energy needs as new challenges for China's foreign policy.

The EU is China's largest trading partner, and export world champion Germany is China's largest partner in the EU. While German industry had continuously expanded its China engagement since the country embarked on its course of reforms, the 1989 Tiananmen Square massacre meant a severe setback for German-Chinese political relations. Since the late 1990s both the EU and Germany have revamped the whole of their Asia policy and their relations with China in particular. There continue to be differences of opinion on human rights issues and climate change. For the years ahead, the task of getting China constructively involved in efforts to come up with an agreement to succeed the Kyoto Protocol will be one of the major challenges facing the EU and German foreign policy.

Thus far China has not been forced to prove that it has the strength needed to come to terms with cyclical crises that may emerge in the course of its reform process. The world must be interested in ensuring that China's social stability remains intact in the course of

the ongoing process of reform and opening. Providing China active support in its course of economic and social modernization with a view to keeping open the policy space the country needs for its gradual process of political modernization may turn out to be a worthwhile goal for Germany's EU-integrated China policy, in the bilateral, regional, and international framework alike.

I The framework

I.1 A modernized China – new player on the international stage

East Asia's gradual rise since the 1970s to a center of economic and trade power has created a new trade geography. The region, which extends from Japan, Southeast Asia's "little dragons," and South Korea to today's market- and reform-oriented China, is growing in economic and political importance on a global scale. As a late starter on the road to a market economy, China is all the more resolved to engage in the efforts needed to make up for its modernization deficits both in the economy and in society.

The gradualist reform and opening policy on which China embarked in 1978 has led the country into the most fundamental and comprehensive modernization phase of its long history. Now, after decades of weakness and aberration, a politically and economically strengthened, Han-led China, one with a new sense of itself and a claim to a specifically Chinese development path ("Chinese-type socialist market economy"), is returning to the fold of the international community. China is now bent on turning to account its "third chance" since the end of Chinese feudalism – since the failure of the 1911 bourgeois revolution, which a weak central government was unable to prevent from falling prey to regional warlords, and since the Maoist aberration of the years up to 1976, which led the country into economic chaos and utter political and legal disorder.

China's fundamentally new course of market-oriented reform and liberalization, one that banks more on pragmatism than communist ideology, was set by the central government and now extends to all levels of the Chinese polity. The declared aim of Chinese policy is an economic growth that, unfolding in a setting of political and social stability, will lead to the creation of a society marked by universal prosperity (the "harmonious society"), with authoritarian policy structures being used to secure, internally and externally, the country's stability and economic growth. The monopoly of a modernized Communist Party of China (CPC) is and remains the constitutive element here.

The 1989 massacre on Tiananmen Square, with which the Chinese political leadership has yet to come to terms, has severely and enduringly impaired the credibility of the reform process. The fact that China's fast-moving course of economic reform is out of step with the country's hesitant course of political reform continues to undercut the government's international standing.

Since 1998 the CPC leadership has forged on with a forced pace of catch-up modernization of the Party designed to shore up the legitimacy of one-party rule in a situation marked by dramatic economic growth and social change, with the reorganization of the CPC into a de-ideologized state party paralleled by a consumption oriented depoliticization of the population. In 2002/2003, in a carefully orchestrated, sweeping transition of power, the fourth generation since the Party's takeover of power in 1949 assumed leadership in both Party and state; this is a generation that set out on its careers only

after the Maoist Cultural revolution had come to an end. A course of late technocratic modernization and a selective membership policy has been used to restructure the CPC, the once revolutionary worker and peasant party, to form an administrative and management party. The reorganized Party, increasingly based on selected technocrats and academically trained professionals, has, since 2002, been opened up for the country's new entrepreneurial class as well. In the process of gradual liberalization of private spheres of life, the CPC, delegating power to a competent government administration, is determined to assume a bracketing function in holding together what has traditionally been a multiethnic state organized on federal lines.

President Hu Jintao and Prime Minister Wen Jiabao have publicly expressed their concern over continuing rampant corruption among Party cadres, which constitutes a threat to the CPC's reputation and legitimacy to rule. Targeted, media-supported campaigns to uncover and bring to trial cases involving corrupt cadres have served the end of regaining the population's confidence in the CPC, the idea being to have, in a vertically organized state, qualified technocratic cadres – members of a modernized CPC – implement and enforce the legal norms set by the central government and to assume expanded scopes of action in provincial and local politics.

1.2 The Chinese economy – Has it grown too strong at too fast a pace?

Making use of an active industrial policy, modernization of the country's tax system, and international financial and economic advisors, China's central government is engaged in efforts to macromanage the economy. What we see taking on shape are the contours of a state-centered economic and social model, though one subject to the rules of the world market.

When the bipolar West-East world order came to an end, China, with its course of economic modernization, leaped into the expanding globalization of the world's financial and good markets, becoming its beneficiary while at the same time advancing it. The annual two-digit growth rates posted by the Chinese economy have impressed the world, awakening at the same time a latent mistrust as to the future behavior of this new regional power on its way to becoming a world power.

China's growth strategy has thus far been driven largely by exports and foreign investment. Accounting for a share of 3% of the overall number of Chinese businesses active in China, in 2005 foreign corporations contributed 57.3% to China's total volume of exports, and their share of high-tech products even reached a level of 87.89% of the country's export output. In 2005 foreign firms accounted for 28.5% of the country's net industrial product, paying 20.5% of the country's corporate taxes. (To put these figures into perspective, we need only compare China's industrial-production-based export strategy with Russia's export strategy, 85% of which was based on natural resources exports (2005).) In terms of economic policy, the Chinese central government has set itself the medium-term goal of reducing the country's dependence on exports and foreign investment by stimulating, by central means, the development of modern large-scale Chinese corporations as well as by strengthening the domestic market, i.e. above all private consumption.

In conjunction with high GDP growth rates, this development strategy, based on export industries and foreign investment, has led to an explosion of China's trade surpluses with the industrialized countries, and in particular with the US. By the end of 2006 China had amassed currency reserves amounting to over 1 trillion US\$ – doubling its reserves in a period of two years. These reserves, which, since 2005, have been boosted by dramatic

growth in China's financial investments abroad, are giving rise to tensions in world trade, awakening protectionist sentiments in some industrialized countries. The US in particular is calling for an appreciable upward revaluation of the yuan as a means of redressing the trade deficit. By creating a currency basket with a growing euro component, China has relaxed the yuan's direct peg to the US\$, allowing it to float within certain limits, hoping in this way to be able to relieve the pressure on the government to upvalue the yuan. Some 70% of China's currency reserves have been invested in US bonds – China and Japan are the US' largest foreign creditors – and this is not without its influence on the scopes open to a critical US China policy. China may be expected to gradually restructure its currency reserves with a view to reducing its dependence on the US\$. In the coming years China, advised by the grandees of global investment banking, is set to create a state investment agency tasked with profitably investing large shares of the country's currency reserves in international markets.

Since the mid-1990s the Chinese central government has sought to compensate for the increasingly palpable economic and social asynchronicity of individual and regional development – between the country's rich coastal provinces and poorer inland areas, the underdeveloped west and the former core centers of the country's heavy industry in the northeast (Manchuria). Until the year 2000 the Chinese central government financed, in the framework of the macroeconomic objectives it had defined, a good number of costly infrastructure measures – including airport and freeway construction, modernization of the country's rail network – with a view to strengthening the competitiveness of structurally weak provinces and reducing unemployment. However, in 2005 12 coastal provinces and cities continued to account for 93% of the country's goods exports and 87% of its foreign investments. These coastal provinces at the same time accounted for 63% of China's GDP. Under Prime Minister Wen Jiabao macroeconomic management has, since 2003, focused on overcoming the country's dramatic individual and regional disparities.

The central government regards China's accession to the WTO in 2001 as an expression of its will to open the country internationally, although it should be noted that for China's economy, and above all for the agricultural sector, the step initially entailed more burdens than benefits. In joining the WTO the Chinese central government has subordinated the Chinese economy to the rules of the world market. The Chinese central government has used the prospect of stepped-up international competition in the Chinese market as a means of placing provincial governments, local monopolies, and the financial and banking sector under sustained and unavoidable pressure to modernize. The WTO regime also calls for liberalization of domestic commerce, and it has thus also provided the central government the legitimacy it needed to abolish an interprovince trade protectionism that has existed for centuries.

The central government is using an active industrial policy to promote the development of partially privatized strategic large-scale corporations and banks into global players. The intention is to have, by 2015, 50 Chinese corporations among the world's leading business firms; today China has 20 such corporations. The government hopes to use the means of minority holdings (up to an accumulated share of 25%) in these corporations both to facilitate the transfer of management knowledge and to boost investor shareholder-value pressure on Chinese management. The idea here is that participation of the international financial and corporate world in China's reformed state-run businesses, in conjunction with international IPOs for these businesses, will serve to blunt the anticipated political resistance and soften the calls for protectionist barriers to the global expansion of large Chinese corporations. In addition, retention of state controlling interests and attraction of foreign investors has served to prevent the formation – as e.g.

in Russia – of a new stratum of powerful oligarchs. Seeking the advice of the cream of international investment banking and acquiring strategic holdings in international banks and insurance corporations, the Chinese central government has launched spectacular IPOs for the Bank of China and ICBC (in the autumn of 2006, with 22 billion US\$, the world's largest IPO), signaling to the rest of the world that China's modernized financial sector intends to be a weighty player in the international financial markets, even under the globalized conditions encountered there.

The aggressive investment policies engaged in by provincial governments and large state-run corporations continue to counteract the central government's efforts to provide for a soft landing in a situation of overheated economic activity and to reduce the danger of an inflationary expansion of oil and raw materials imports. In view of the fact that the province level was ignoring cyclical policy initiatives of the Chinese central bank (People's Bank of China), the central government in 2006, for the very first time, intervened in large-scale investments underway there (steel, cement, and power plants), imposing freezes on new construction as a means of preventing uncontrolled environmental risks and the development of excess capacities. Reorganization and internationalization of China's banking system, in conjunction with efforts to professionalize credit management, have served to cut off state-run enterprises from the quasi-subsidies they had been receiving in the form of mandatory loans provided by state banks. This has eliminated one of the core problems behind China's banking crisis, the accumulation of uncollectible loans in the – once closed – system consisting of state banks providing unconditioned credit to state-run businesses.

An economic growth and development – and the unleashed energy demand it has entailed – that in many cases has meant acquiescence in environmental damage, inefficient energy use, air and water pollution, and so on, could not fail to undercut the quality of life of Chinese citizens and give rise to international complaints over global environmental degradation and a reckless Chinese industrial policy. In 2005 China, which accounts for 20.5% of the world's population, was the world's second largest CO₂ emitter (17.9%, a figure topped only by the US. Germany, with 1.3% of the world's population, is responsible for 3.2% of total world CO₂ emissions.) According to World Bank estimates, the costs of environmental degradation in China amount to 8-12% of the GDP, a figure roughly equivalent to the country's average annual rate of economic growth.

China's political leadership and population have identified the environmental crisis as a factor that could endanger China's rise to an economic and world power. In 2005, in its "Green GDP" strategy, the Central Committee (CC) of the CPC formulated the political goal of a "sustainable and coordinated development of man and nature, environment and society (CC session in October 2005). China's 11th five-year plan sets out the ambitious goal of reducing the country's energy consumption by 20% and cutting emissions by 10% by the year 2010; a further goal is to use renewable energies to cover 10% of the country's energy needs by the year 2020.

The macroeconomic management and environmental targets set by the central government have in many cases collided with the ambitious economic expansion targets defined by the country's provinces, cities, and townships. Officials have in many cases sought to put a positive spin on environmental statistics, according more weight to economic growth than to environmental protection. In the medium term this conflict will decide on whether or not the central government is strong enough to provide for a "soft landing" for an overheated economy and to push through sustainable environmental reforms throughout the country. The central government's economic macroprojection, which fore-

sees a quadrupling of the country's GDP for the period between 2000 and 2020, presents a clear-cut picture of the global dimension of the tensions between national economic growth and environmental sustainability. China has committed to the Western economic model, and it will therefore have to accept the criticism leveled against it by the West for whatever adverse environmental impacts may result from its development path.

For China, integration into the world economy has, all told, been a success story. In a poll conducted by the German "Handelsblatt" in early 2007, European business managers rated China as the world's most competitive nation by far, at the same time ranking Germany as the euro zone's most competitive country.

1.3 Legal system development in the wake of economic development

The Mao era left China in a state of legal chaos. Progress in China's policy of reform and opening, and efforts to attract foreign investors made it imperative for the country to develop rule-of-law structures, starting out in the business sector.

The Chinese central government responded to the demands of foreign investors for investment protection and efforts to curb product piracy and safeguard intellectual property rights by adopting increasingly detailed legislation and stepping up enforcement efforts in the provinces. Foreign businesses continue to complain about obstacles to market access in the form of arbitrary, nontariff trade barriers and noncompliance with legal provisions on product piracy and protection of intellectual property rights at province level. In view of the huge damage suffered by European suppliers, the European Commission has threatened to take legal action with the WTO. The new urban middle class is calling for a legal framework designed to protect its newly acquired private property – from the condominium to the family car. The central government has initiated comprehensive training programs for officials of the country's judicial system, which is currently under development, as well as for lawyers, and is running up against a wide range of tactics deployed by established networks in the CPC and in provincial and municipal governments and designed to stall the enforcement the newly developed rule-of-law structures in all economic sectors and walks of life.

1.4 Work and society – social stability in danger

The human rights discussion in China continues to be defined by differences in basic positions, with the Western view of the universality of human rights being set in opposition to an official government position that sees a hierarchization of human rights as a reflection of a given society's stage of development. In the process of gradual realization of human rights, China sees a need for developing countries to start out by according priority to social human rights. The Western side couched its response in the form of a dialogue involving a new, pragmatic flexibility by insisting that in view of the progress China has made in economic development, the country should devote more attention to strengthening civil human rights at home, Labor and social affairs – social stability at risk.

The process of social change sparked by China's reform policies has opened up the egalitarian poverty society that typified the communist phase of the country's history. The new phenomena associated with individual and business competition are changing patterns of social behavior in Chinese society. The new and expanding (regional and individual) social inequalities emerging from this development constitute a threat to China's social stability.

The rise of a new, consumption-oriented middle class in the coastal regions, made up of some 300 million persons, has, in important ways, taken place at the expense of the country's roughly 130 million migrant workers, who have largely been deprived of their social and legal rights. At present a rural population of some 700 million persons has little or no access to the country's new prosperity. The World Bank has expressed its acknowledgement of China's successful poverty-reduction policy. However, viewed in terms of World Bank criteria, today's China, with its Gini coefficient of 0.45, still has to contend with an inequality in income distribution that threatens the country's stability. The Chinese labor ministry predicts larger-scale social unrest in the medium term if the country does not succeed in finding a sustainable solution to the problem of inequality in income distribution.

Despite high rates of economic growth, structural change in industry and rationalization processes are undercutting efforts to reduce unemployment. At present, in a situation in which no more than 11 million new jobs are available, some 24 million new entrants per year are pushing into the Chinese labor market. In rural regions 100 million are without work. The share of wages in China's GDP has declined constantly in the course of the country's market-oriented reform process – from a figure of 16% in 1989 to 12% in 2003. Thus far China has not succeeded in finding a new social security system to replace the once comprehensive, workplace-based system of worker social security that was in place in all state-run enterprises (the so-called "iron rice bowl"). Only in the country's areas of industrial concentration have, in certain places, provincial and municipal social security systems emerged that are geared to regional economic strength. Only 10% of the population is covered by any form of social security system. In 2005 no more than 43 million Chinese citizens were entitled to receive retirement pensions. While the legal retirement age in China is 60 years for men and 55 years for women, in 2000 the average age at which people were pensioned off was in fact 51 years. To make matters worse, in 2005 the country's social security fund was faced with a deficit of US\$ 102 billion (as opposed to a figure of US\$ 4.6 billion in 2000), and the deficit continues to mount. China's national auditing agency has determined that in 2005 US\$ 900 million from the social security fund was misused by authorities for company loans and investments abroad.

Following a reform of the healthcare system, 75% of China's population is without health insurance. High fees at all levels of secondary education constitute a de facto access barrier for broad segments of Chinese society. And the social segregation of Chinese society continues. Individual provision for health, education, and old age are the background of a high private savings rate amounting to roughly 30% of incomes. Preventive saving motivated by social uncertainty has the effect of retarding the expansion of a private consumption urgently needed as a driver of economic growth. It should be noted in this connection that at present private consumption accounts for only 40% of China's GDP. The Chinese government is aware that if the booming export sector is to be restrained as the driving force of economic development – e.g. in order to reduce international tensions over trade issues – the only way to hold economic growth at stable levels will be to strengthen domestic consumption.

Having been mandated by law to represent the interests of the working population, the Chinese labor unions have been urged by the government to work actively to meet the challenges posed by the new economic and social realities in the country. Although they have a membership of 150 million (according to data of the All-China Federation of Trade Unions / ACFTU) and an apparatus consisting of some 500,000 full-time functionaries, the Chinese labor unions have thus far shown very little presence in the public discussion on reforms. The government expects the ACFTU, with its large membership, to show more active engagement when it comes to dealing with labor-market problems and undertak-

ing efforts to reduce potentials that could lead to social tensions – from efforts to combat unemployment, workplace-based initiatives, problems involving labor law, to efforts to reorganize social security. Legal frameworks designed to enable the formation of labor unions in private companies and to pave the way for wage policies have placed Chinese private companies and joint ventures under pressure to act, and are also intended to strengthen China's reputation in the ILO. Beyond these improvements in the quality of company-level unionization and union activities, Western criticism has centered on the continuing monopoly of the ACFTU in matters of labor organization.

While the one-child policy in effect in China since 1980 for Han Chinese (there are liberal exemptions for peasants and ethnic minorities) has served to moderate population growth, it has at the same time led to the development of an age pyramid that is expected to create severe social problems over the medium term. China's demographic development is coming more and more to resemble that typical of far more highly developed societies – i.e. a declining birth rate accompanied by a dramatic rise in the share of the population over 65 years of age.

The Chinese central government is using legislation, the judiciary, personnel policy, and media campaigns to stamp out the causes of widespread corruption in the country. The core of political and social discord in the country, and in particular in rural regions, must be seen in influential traditional networks active in the triangle defined by Party/administration, state-owned banks, and investors. Arbitrary behavior on the part of officials, corruption, and fraud and deception when it comes to acquiring peasants' land for urbanization and industrial investment projects have sparked unrest among the population throughout the country. In protest demonstrations, many of them accompanied by violence, the victims of these practices are demanding justice from the authorities. Thus far, though, no political dimension has emerged from the social core of these demonstrations.

The central government is fully aware that much of this unrest is justified. China's rural population, thus far the main loser in the modernization process, is in danger of finding itself disconnected from the rest of the country's generally dynamic development. The abolition of the agrarian tax in effect since 595 BCE as well as of the right of local authorities to impose arbitrary fees has marked a dramatic, virtually symbolic break with traditional, quasi-feudalistic instruments of local control – and must be seen as a significant central government intervention in the corruption-prone discretionary powers of local cadres, one of historical dimensions. The stated objective of creating the "new socialist village" provides for priority for the development of rural infrastructure, connection of villages to water mains and power grids, and state-funded compulsory schooling, measures conceived in response to the embitterment expressed by the rural population. One of the priority medium-term policy goals formulated by both the CC of the CPC and the central government is maintenance of social stability.

1.5 Foreign policy – China's leap into international responsibility

Despite the growing weighty role it plays in the world economy – China is the world's fourth-largest economic power and third-largest exporter – China has shown considerable reserve and reticence when it comes to foreign policy. Chinese foreign policy has until recently been restricted to the task of securing the country's course of reform and development by seeking to forge orderly relations with neighboring countries and working to keep international relations as free of conflict as possible. Engaging in a charm offensive as well as a course of active shuttle diplomacy, China has been repositioning its foreign policy since the 1990's.

China has used a cautious and balanced-oriented diplomacy to reduce potential tensions with its Asian neighbors; and it has used treaties to place its relations with its rival India as well as with Russia on a normalized footing based on good political and economic ties.

China's economic rise and its return to the fold of the international community coincide with the phase of US unilateralism in the wake of the Cold War. China is wary of the US' powered sense of mission and its self-perception as a morally legitimized superpower. The detailed formulations of legitimate reasons for preventive military interventions set out in the 2002 Bush Doctrine have been factored into China's foreign policy. In a kind of love-hate relationship, China views the US in the light of a military superpower, an important trading partner, and its most important debtor, treating the hegemonic power with the respect and agility of the weaker partner. Having won over China, in September 2001, for the war on terror, the US has now discontinued its support for Uighur separatists (in Xinjian Province), which it until then saw as part and parcel of its human rights policy.

China has great interest in a Europe growing increasingly strong in political and economic terms, a Europe that plays a formative role in shaping the structure of international power. In view of the deepening of Asian regional relations, the – more informal – ASEM process between EU member countries, the EU Commission, 16 Asian countries and the ASEAN Secretariat is coming to play an increasingly important role, and China's trade relations with the EU are overtaking those it entertains with the US.

Expanding and securing the country's access to energy and raw materials at the global level is a new task area for China's foreign policy. China's political perception of its role as a developing country in the process of transformation and of its efforts to diversify and secure its supply of energy and raw materials has, in recent years, been the impetus driving its relations with the Arab oil-producing countries and its more active foreign policy toward the developing nations of Africa and Latin America. This policy approach is encouraged by the fact that many developing countries are following China's successful course of economic development with growing interest and recognition. Autocratic regimes in particular are fond of a development cooperation free of donor-set standards. China's swift establishment of a world-spanning network of cultural institutes, the Confucius Institutes, has signalled China's will to give preference to integrating cultural exchange into its expanded international relations.

China has based its new foreign policy on the basic premise that regional conflict fields have superseded the bilateral confrontation that once dominated world politics. Internationally, China, with its veto power at the UN, subscribes to the maxim that regional conflicts can best be overcome on the basis of multilateral consultations, not sanctions or military confrontation, with due heed being paid to the sovereignty of the countries involved in a given conflict.

In the course of China's reform process the Chinese military has lost some of the external weight and internal relevance it once had. While reducing the personnel strength of its armed forces, China is purchasing modern weapons technology (especially from Russia for the air force and navy) and has increased its – relatively modest – military budget to roughly US\$ 40 billion, the officially stated aim being solely to deter potential aggressors and to strengthen the country's national defense capacity. For China, continuation of the arms embargo the EU imposed against China in 1989 is chiefly an expression of a lack of respect for China as well as of a political partnership that is not in line with international standards.

In a situation marked by continuing latent nationalist tendencies in the countries of East Asia, the main problem must be seen in a lack of regional confidence-building consultation mechanisms that hamper efforts to reach consensus on disputes resulting from reemerging geopolitical conflicts or historically rooted national sensitivities.

The Shanghai Cooperation Organisation (SCO), with China and Russia as its leading powers, is assuming growing regional strategic importance as a forum for the resource-rich, autocratically ruled countries of Central Asia – one in which the US and Japan are neither members nor have observer status. India, Pakistan, Iran, and Mongolia have observer status with the SCO. The fact that the presidents of Iran and Afghanistan, both crisis countries, attended the SCO's five-year anniversary meeting in 2006 in Shanghai served to boost the organization's political standing. The SCO's original goal of jointly combating transboundary Islamist activities and Muslim separatism has increasingly been expanded to include economic issues and security cooperation. A 2005 SCO resolution calling for the closure of foreign military bases in member countries forced the US to withdraw its troops from Uzbekistan. The SCO's policy of seeking to tie the Central Asian countries more closely to China and Russia runs counter to the US interest in opening the region to the South (Afghanistan, India).

In view of their dramatically rising trade volumes, the ASEAN countries can point to a positive trade balance with China (foreign trade in 2004: US\$ 104 billion). Furthermore, China's stability-oriented currency policy during the 1997/98 Asia crisis did much to enhance the country's reputation with the Southeast Asian association. ASEAN's important East Asian trading partners China, Japan, and South Korea have been involved in the ongoing dialogue on the basis of the so-called ASEAN+3 structure. Japan has responded to the 2002 Chinese initiative on creating a common free-trade zone with ASEAN by the year 2010 by advancing some thoughts of its own on a 16-country free-trade zone, the "East Asian Summit Bloc" (EAS), which would consist of ASEAN+3 plus India, Australia, and New Zealand.

In response to China's rise to the status of a regional power and North Korea's nuclear and missile policy, Japan has moved even closer to the US, indulging in nationalistic political gestures and thinking publicly about amending its pacifist constitution. Conservative rituals at home, like Prime Minister Koizumi's repeated visits to the Yasukuni Shrine (until October 2006), as well as the seemingly endless dispute over the contents of Japanese school history books have had adverse effects on the political climate in which China and South Korea deal with Japan, an important trading partner for both of them. The official visit to Beijing that Japan's new Prime Minister Abe made in October 2006 was recognized in China as a promising gesture. On the occasion of a return visit to Tokyo in April 2007, Chinese Prime Minister Wen Jiabao responded with an offer to work for reconciliation.

As far as international conflict scenarios are concerned, China has come out unambiguously in favor of multilateral approaches and negotiated settlements, never failing to insist that the state sovereignty of each conflict party be respected by all other parties. In the new century China has, for the first time, actively participated in UN peace missions, contributing police personnel for the UN missions in Haiti and East Timor and, more recently, a military contingent for the UN mission in Lebanon.

China's economic and political rise has forced the US to reformulate its Asia policy. For years now, US China policy has vacillated between intimations of a new containment policy and the will to actively embrace China as a strategic partner, e.g. in its attempts

to come up with solutions for the conflict fields North Korea and Iran. No one but China can force North Korea to return to the negotiating table. In view of the escalation of the crisis brought about by North Korea's nuclear and missile testing, China has agreed to cooperate in the imposition of sanctions by the UN Security Council, while at the same time joining South Korea in urging the US to resume diplomatic talks with North Korea.

The political perspective of an inevitable reincorporation of Taiwan formulated in the PR China's "One-China Doctrine" and the contrary views stated by Taiwanese President Chen, who is pushing for independence, constitute a latent crisis potential of suprarregional import. Thus far the US has actively restrained all of President Chen's efforts to amend Taiwan's constitution as a means of declaring the country's independence. The Taiwanese parliament, dominated by the opposition parties, has likewise come out against the president's aspirations for independence. Unexpectedly, the CPC has, for some time now, sought to normalize its relations with the Taiwanese Kuomintang, initiating an active and regular exchange with Taiwan's opposition parties. Very close economic interlinkages across the Taiwan Straits have served to create a broad-based climate of cooperation in day-to-day matters. In view of the losses recently suffered by the Taiwanese DDP in municipal elections and the performance of the Chen presidency itself, which has been marked by crises and corruption, China is content to wait for the next Taiwanese presidential elections, which are scheduled for 2008.

II. German policy – political perspectives and scopes for economic activities

China's economic rise has contributed in key ways to expanding world trade. Germany's exporting companies were early to accept the risk involved in developing China as both a new market and manufacturing location, and successes have outnumbered entrepreneurial misunderstandings and setbacks. China has become an important component of the global trade and locational policies of various branches of German industry, including services.

Latent fears about Chinese competition and a possible future Chinese economic dominance have prompted, in both Germany and the EU, a debate over the perspectives involved in China's continuing economic and political ascent. This debate, often driven by fear, is reminiscent of many arguments and fears advanced in the course of the 1980s Japan debate. Indeed, some lines of argument are even reminiscent of Oswald Spengler's ideologically driven scenario of China as a "yellow peril" for the Occident.

While the development of German-Chinese economic and trade relations have, since the 1980s, been marked by continuously high growth rates, the 1989 Tiananmen Square massacre meant a break, indeed a reversal, in bilateral German-Chinese relations. The establishment, in 1999, of the German-Chinese rule-of-law dialogue at the level of the two nations' heads of government may be seen as a breakthrough in the efforts of both sides to normalize and deepen their political relations.

The German government's 1993 Asia Concept focused, in general terms, on the economic aspects of Germany's cooperation with the multifaceted continent. It was the German Foreign Office's 2002 regional concept that called for a political reorientation and increased regional differentiation of Germany's Asia policy.

As far as trade and foreign policy is concerned, Germany's activities are set in a framework defined by the EU as well as by international and supranational agreements. Thus

far China's rise has, in all, amounted to a win-win situation for both sides, Europe and China. High levels of German investment in plant and equipment as well as joint-venture partnerships have more recently been supplemented by growing financial investments made by German banks and insurance companies. The German government has countered unjustified fears that China is destroying German industries and attracting German jobs by promoting a concept of "rapprochement through interdependence". China recently replaced Japan as Germany's most important trading partner in Asia, and Germany is China's most important trading partner and largest European investor. As early as 2008 China is expected to overtake Germany, becoming the world's third-strongest economic power and stripping Germany of its world export title.

Both sides see a need to update the 1985 European-Chinese trade and investment agreement.

Germany's commitment to political and military multilateralism and institutionalism – and not national interest – as the right avenue to setting common international norms and standards is a constitutive element of its foreign policy. German foreign policy has always been keyed to efficient multilateral institutions and reliable partnerships, a point it has in common with the foreign-policy conceptions and interests of China and the Republic of Korea. Japan rarely departs (ASEAN+3, six-party talks on North Korea, APEC) from its own foreign- and security-policy concept, which continues to be keyed to the US.

Germany comes together with the countries of East Asia in a good number of international forums – both at the political level (UN organizations, in the G8 – with China as a guest, in ASEM), as well as through partnerships between all of Germany's states and China's provinces) and at the economic level (WTO, Ostasienausschuss der deutschen Wirtschaft).

Germany has developed close cooperation with China in support of the reform process underway in China (including development of the rule of law, energy, environmental and climate protection, industrial relations and safety at work), a cooperation that extends to cultural exchange (Goethe and Confucius Institutes, DAAD, Humboldt Foundation) and far-reaching bilateral cooperation efforts on the part of universities, NGOs, and political foundations. In its 2002 China country paper, the German Federal Ministry for Economic Cooperation and Development (BMZ) emphasizes that one of the main features of cooperation with China, which, the ministry emphasizes, should not be viewed as development policy in the traditional sense, is economic cooperation in the mutual interest of both sides. Democracy and human rights issues are on the agenda of both the bilateral German-Chinese and the European-Chinese dialogue, which has been pursued vigorously since the political relations between the two sides were intensified.

Germany's relations with the countries of East Asia are marked by continuity, with a strong focus placed on economic components. In political terms, there are no fundamental problem separating Germany and the East Asian region. Germany's relations with Japan, the PR China, and the Republic of Korea have the status of strategic partnerships. In recent years more and more partnerships have developed in connection with actions aimed at preventing and resolving international crises.

When it comes to pursuing its national interests, Germany would do well to factor regional conflict constellations into its policy strategy. To cite an example, China, a UN veto power, is, in the foreseeable future, unlikely to support Germany and Japan's tandem bid for permanent seats on the UN Security Council.

In view of widening international crisis scenarios and growing aspirations for international participation, Germany will have no choice but to clearly formulate its national interests in its security policy and to develop an expanded security concept. In further developing its confidence-based relations with East Asia, it will prove helpful for Germany to state clearly that the German Bundeswehr, an army controlled by the German Bundestag, will not be available for NATO missions in East Asia (that is, Germany will not be defended beyond the Hindukush).

Today's united Germany is highly regarded in East Asia as a reliable partner with a tradition of good relations with the nations in the region. Impressive rates of economic growth, a deep-seated belief in progress, and a new sense of self-assurance in East Asia have deprived "Model Germany," a nation in the midst of a process of restructuring, of some of the attractiveness it has otherwise generated. However, Germany continues to be viewed as an important partner in both trade and international politics – perhaps more important than others, yet still one partner among many.

III. On the road to 2020 – scenarios

III.1 A stabilized China committed to assuming international responsibility

China's continuing development is characterized by political and social stability. The country's initial phase of reform and growth, driven mainly by exports and foreign investment, is being switched step by step to a path geared to efforts to strengthen the domestic market as a driver of economic and social development. An active industrial policy adopted by the political leadership strengthens the hand of the country's reformed state-run business enterprises as well as of the financial and banking sector in international competition. Using instruments of macroeconomic management and tightened-up legal regulations, the central government insists emphatically that due attention be accorded to environmental compatibility, efficient resource use, and social balance in economic growth, doing so in constant wrangling with the country's provinces and municipal governments.

The central government, using all the power at its disposal, forces the provinces to cease tolerating both high-handed practices in the development process and the corruption that has endangered the country's cohesion. The central government sets a macroeconomic framework designed to reign in economic egoisms on the part of overly confident regions, with attempts to ignore or evade these political and economic targets at the province level which are regarded as attacks on the country's unity and countered with drastic punitive measures, as first demonstrated in the case of the CC member and Shanghai Party chief who was deposed in 2006.

In the poor provinces in the country's hinterland, the central government has used a targeted urbanization policy to create a number of medium-sized cities, locating new small and mid-sized industries and services in them as a means of mitigating rural unemployment and reducing pressure on the underemployed rural population to migrate to the coastal regions in search of work. Eased access restriction to cities for migrant workers (hukou), discriminatory in both social and citizenship terms, have now created a legal framework permitting qualified workers and their families to move to cities, and this serves to ease the demand there for qualified workers in developed industrial and service sectors.

Revenues from partial privatizations of strategic state-owned enterprises (oil, energy, heavy industry) and banks and the annual dividends paid out by these companies since 2007 are earmarked in the central government budget specifically for the purpose of improving the basic infrastructure of the country's healthcare and education systems. Now having been given the form of joint-stock corporations, what was once referred to as "people's property" is used for purposes of basic social security, above all for the rural population. Potentials for social tensions are reduced in connection with efforts to strengthen rule-of-law structures in day-to-day life, in the world of work, and in economic affairs. A sense of greater social security, associated with a rise in the wage share of GDP, leads to a decline in the savings rate of private households, boosting private consumption, as recommended by the World Bank.

Employing a dual strategy, the central government, in parallel to the intensified pressure it has been putting on provinces and municipalities, forges on with liberalization of private spheres of life, giving politics a more transparent shape. Elements of regional self-government are established, and the powers of parliamentary bodies vis-à-vis the political executive as well as public administrations are broadly strengthened. With the People's Congresses now more transparent and in possession of more control rights, based on and expanded budget law and rights to make policy and conduct public hearings, parliamentary control mechanisms are now more and more able to deal effectively with province elites in CPC and public administrations, which have until now been accustomed to acting as they see fit. A system of checks and balances is beginning to take on contours. Time limits on political mandates ensure that elites are rotated out of their positions, breaking down the inertia of corrupt networks.

Since the late 1990s, NGOs and local citizens' initiatives have increasingly addressed legal, environmental deficits, stepping up the public pressure on local administrations. Expanded civic participation is tolerated, in part even encouraged, by the state with a view to solving concrete social and environmental problems – although such efforts continue to run up against limits when it comes to pursuing explicitly political or politically volatile goals.

Countrywide internet access – the number of users has risen far above the 120 million noted for 2006 – has served to expand the leeway for discussions in the country on social reforms, creating a new kind of public space. This exchange of information, which the state is unable to control fully, serves to point to concrete grievances and to enhance transparency and critical participation, making relevant issues known throughout the country.

Lags in the development of the rule of law continue to be addressed by the West, above all in international forums. While the good progress made in the development of civil rights is widely acknowledged, reforms of the penal code and police law lag far behind. The role played by freedom of the press in creating more transparency in the process of political and social development and in addressing international doubts over China's aims and intentions remains a contentious issue in the leading bodies of state and CPC.

The possibilities created in China's 2001 labor code for representation of worker rights at the company level and in collective bargaining are gradually implemented by labor unions at the company level as well as by a more competently staffed ACFTU. At first vocally criticized by some Western investors as excessive regimentation, the law on employment contracts, which was adopted in 2007 following broad discussion throughout the country and explicitly covers migrant workers, has proven to be a viable instrument for placing

industrial relations on a more secure legal footing and strengthening the rights of labor unions to represent worker interests – another component of efforts conceived to put in place a labor-law cornerstone of social stability. By the year 2020 China has signed the ILO convention on free wage bargaining, although the continuing existence of the ACFTU monopoly continues to pose an obstacle to the signing of the ILO convention on freedom of association.

The legal provisions and company-level regulation on environmental protection and workplace health and safety standards continue to encounter entrenched resistance, particularly among public administrations in the country's underdeveloped provinces. It is there that wage-intensive and polluting industries have withdrawn as a means of evading the growing environmental monitoring practiced in the country's developed regions. Violations of environmental and labor laws are prosecuted by the central government and broadly discussed in the national and local media.

Appreciably rising wages in all productive sectors are inducing wage-intensive manufacturing operations – including those of foreign investors – particularly in the lower-quality segments of the textile industry, to look for new locations in low-wage developing countries in Asia and Africa. This is a side effect on which the central government has actually reckoned as part of the process of restructuring and transforming the Chinese economy from the "world's factory" into a "developed in China" economy with state-of-the-art research, technology, and services. China's huge textile exports were in any case again and again a cause of tensions with the country's Western trading partners – and overproduction and rising prices for raw materials were driving profit margins down. In addition, the Chinese government is eager to point to these relocations as signs of an economic policy geared to the needs of the developing world.

In connection with the market-opening measures required by the WTO regime, China, a weighty exporter, is becoming a strong importer of industrial and consumer goods. Chinese corporations have been stepping up their investment and merger and acquisition activities abroad – even the US has suspended some of its strategic access barriers – and this is serving to deepen international cooperation and reduce China's current-account surpluses.

Acknowledged by the US and the EU to be a market economy, China – mindful of the growingly important role played by the yuan in the international monetary system – has assumed greater responsibility in the World Bank and the International Monetary Fund.

But Chinese foreign policy has trouble coming to terms with the country's new role as an economically strong, advanced emerging nation in the field of tensions between the developing countries to which it is committed and its membership in the forum of industrialized countries, now the G9, with China as a new member. China seeks to compensate for this political balancing act vis-à-vis the developing world, coming out in favor of strengthening the role played by the developing countries in UN reform, an enlargement of the number of permanent seats on the UN Security Council, and an expansion of financial, material, and nonmaterial development assistance.

Political development in East Asia continues to be influenced in crucial ways by the US and its geopolitical and -economic interests. The emergence of an Asian free-trade area continues to be blocked by competing models: While the US is in favor of an Asia-Pacific free-trade zone, China and Japan fear that this would result in US dominance in the region. China is in favor of a concept based on a free-trade area together with the ASEAN countries, while Japan would prefer to forge a selective Asian trade pact.

As a hegemonic power, the US is still able to use diplomatic pressure to keep nationalistically motivated conflict potentials under control in East Asia, e.g. conflicts over maritime boundaries and traditional territorial issues. The Asian countries generally continue to welcome a strong US presence in the region as a counterweight to a China on the rise. Development of the political and economic relations between China and the US continue to play a key role, even beyond East Asia.

Realistic politicians from both political camps in the US have modified the unilateral power politics typical of the G.W. Bush era in favor of a new willingness to cooperate in central global problem areas. The US expands its relations with China, much in the sense of a strategic partnership, with a trend toward declining Chinese trade surpluses and China's cooperative stance when it comes to pressing international conflict scenarios playing a contributory role.

With interconnections between the Taiwanese economy and China's coastal provinces growing increasingly close, and increasing numbers of businesspeople and private persons migrating to mainland China, the Taiwanese government eases its traditional restrictions on travel between Taiwan and the Peoples Republic as well as on trade with and investment in mainland China. A reformed Kuomintang wins the 2008 presidential elections, putting an end to the debate on the prospects of formal independence for Taiwan. The growingly close links between Taiwan and mainland China – Taiwan's most important trade partner – and Beijing's continuing respect for the autonomy status of Hong Kong and Macao enable Taiwan to continue on a status quo course, though one that involves a good number of gradual steps toward convergence. The Chinese concept of an "Economic Zone of the Western Coast of the Taiwan Straits" leads to the creation of a closely integrated economic zone consisting of modern industries on both sides of the Taiwan Straits, comparable to the dense modern economic centers in the Yangtze and Pearl River deltas.

The outcome of a carefully orchestrated Chinese balance-of-interests policy is that the Vatican finally breaks off diplomatic ties with Taiwan and recognizes the PR China, the last European state to do so.

Japan, which continues to be ruled by conservative forces, has not yet been able to develop a workable policy of good neighborly relations in East Asia. Japan moves closer to the US, assuming an increasingly marked Western orientation, and at the same time amending its constitution to enable it to pursue a preventive and diversified rearmament policy. Enlarged US security guarantees and an active Japanese involvement in the US-led National Missile Defense (NMD) continue to prevent Japan from opting for a deterrent nuclear force.

An open, globalized China remains a stable partner in international politics.

III.2 Economic and political setbacks retard China's development, weakening its integration into the international community

The ongoing conversion of China's economic structure – away from excessive dependency on exports and towards a policy keyed to high-quality, environmentally compatible growth – is making less progress than the central government had hoped it would. In urban regions, local administrations continue to promote the expansion of labor-intensive industries as a means of boosting economic growth and combating unemployment, and they are willing to tolerate both inadequate working conditions not consistent with national labor legislation and dangerous and environmentally incompatible production methods.

The social security system available in China's hinterland and rural regions continues to be rudimentary and underfinanced, and it is unable to provide basic health services for the population there. A growing number of the retirement-age rural population is still without any retirement benefits. Resentment over social underdevelopment in rural areas compared with urban regions finds outlet in local protest demonstrations against Party cadres and city halls. Targeted central government financial interventions in favor of particularly hard-hit regions are unable to prevent spontaneous social unrest from spreading.

In view of growing social tensions in the country, the central government slows down the pace of economic liberalization and development of the country's legal system. The result is escalation of the ongoing dispute between poor and rich provinces over the central government's investment-related distribution of tax revenues, which then leads to forms of regional alienation. The central government's loss of authority works in favor of separatist tendencies in the internationally integrated, prospering economic centers in the country's coastal regions. The country's underdeveloped regions take a critical view of the pervasiveness of modern Western ways in the country's coastal regions, branding it as betrayal of Chinese traditions. The ideological vacuum left in the wake of a reformed CPC attracts nationalist, sectarian, and anti-Western currents, above all among members of the country's young professional elites. Not stopping at China, these currents brand this growing "Westernization" as the reason for an ongoing destabilization of Asian values in East Asia's traditionally consensus-minded societies, with isolationist currents beginning to cloud the country's policy of liberalization.

China views Western criticism of the stagnant course of democratization in the country as interference in its internal affairs, using international bodies as a sounding board for propaganda attacks branding such criticism as part and parcel of a policy of destabilization whose ultimate, masked goal is regime change. China increasingly seeks the support of the developing countries in its confrontation with Western criticism.

In the post-Kyoto negotiations on a regime defining binding limits for greenhouse gas emissions, discord among the industrialized countries over the scope and implementation of these limits furnish the emerging countries with arguments in favor of a retention of existing, haphazard national environmental protection policies.

The US and a few other industrialized countries, pointing to their persistent current-account deficits with China, adopt selective protectionist measures designed to shield their own industrial sectors. In the US there is growing bipartisan support for geostrategic considerations concerning a targeted containment policy vis-à-vis China. China, for historical reasons, once again sees itself as the object of Western discrimination and cuts back on the economic and political cooperation in which it has otherwise been prepared to engage. It begins to build up its armed forces, intensifying its political and economic ties with Russia and some resource-rich developing countries.

IV. Actively engaging China – if it is willing to go along

“China is not a globalisation scare story, it is a globalisation success story” (Peter Mandelson, EU Trade Commissioner, October 2006). The reasons why Germany, a medium power, is widely acknowledged in East Asia must be seen in the country’s importance as a civil power based on economic strength, political reliability, and the role it plays as a core EU member state. The goals of German foreign policy – in tandem with European foreign policy – must be to get China and East Asia actively involved in international legal, environmental, and energy regimes – including e.g. the International Criminal Court, the WTO, and post-Kyoto agreements. The aim here must be to credibly convince China that a course of this kind is consonant with its own development interests. It is here that Germany can show itself to be an active political, conceptual, technical, and economic partner for China and the East Asian region, a partner that would also be prepared to engage with China when it comes to national implementation efforts.

Since 2003 the EU and China have seen themselves in the role of strategic partners. The negotiations on a new EU-China framework agreement set for 2007 open up the possibility to actively involve China in joint efforts to resolve global conflicts. In the wake of the Iraq disaster, it is not least respect for China as a growing power that has led to a new US willingness to engage in closer cooperation with the EU on economic issues.

As far as the ongoing efforts to modernize China’s legal system are concerned, Germany, the EU, and other Western countries have, since the 1990s, provided significant contributions at the central government level, at the province level, and in cooperation with the country’s leading universities. The German Foreign Office regards its successful bilateral rule-of-law dialogue with China as a “cornerstone of German-Chinese relations.” It would be important to enlarge given opportunities to influence and cooperate on the further development of the Chinese legal system – which continues to lack balance – into a system based on modern legislation and consistent application of the law.

As far as labor law, industrial relations, and unemployment insurance are concerned, political and practical cooperation efforts with and in German firms in China could help to work out model solutions for the country. The cooperation could be based on the joint declaration prepared by the German Federal Ministry of Labour and Social Affairs and the Chinese Ministry of Labor and Social Security. In 2004 a joint declaration was also signed by the responsible ministries in the field of social and health policy; it serves as a basis for closer cooperation.

Its efforts to strengthen the role played by labor unions in China’s new law on employment contracts is evidence of the serious interest of China’s political leadership in moving closer to European than to US standards – a development that could be broadly harnessed by making use of cooperation between labor law experts, labor unions, and workers’ councils and boosted by means of networking in the bodies of the ILO.

Projects geared to modernizing and further developing regional self-government would offer German development cooperation the expanding scopes of action it needs in the growing Chinese NGO sector to enlarge model civil-society-oriented cooperation efforts beyond the country’s metropolitan areas.

In the framework of the post-Kyoto negotiations it would make good sense to engage China in wide-ranging talks on CO₂ reduction goals, especially in light of the fact that, according to a prognosis of the International Energy Agency, China is set to surpass the US as the world’s largest greenhouse gas emitter within a period of ten years. In view

of alarming UN climate reports, China has signalled its willingness to reconsider its own position. In this connection it is essential that the industrialized countries themselves are prepared to join international climate-protection regimes, since otherwise there would be good reason to expect resistance to them from China, India, and other developing countries, which point to unequal treatment when it comes to reaching agreements on targets and standards. The US stance will be particularly important here. The reputation it enjoys in the developing world could enable a more environmentally aware China to play the role of a credible broker vis-à-vis the G77 on climate-protection issues. For German environmental technology, systems designed to boost energy efficiency, and suppliers of renewable energies, China and the East Asian region offer potentially attractive markets.

An expanded security dialogue could be used as a forum for an interdisciplinary analysis of international and regional conflict scenarios which extends beyond classic military approaches. For China's foreign policy and its military, involvement of Chinese national armed forces in multilaterally coordinated strategies designed to prevent and resolve conflicts and stabilize crisis regions poses an entirely new challenge.

In view of the (latent) mistrust harbored by China and Korea, two countries that suffered a heavy toll in WWII, Japan's approach to dealing with its recent past, both at home and abroad, are a matter of fundamental import. In this regard, and in view of the trust-based political relations and close cultural exchange it maintains with the region, Germany is in a good position to make use of its own experience and that of its neighbors in contributing to efforts to build real and lasting confidence there. Positive German experiences, e.g. those made in connection with the German-Polish schoolbook commission conference, could be fed into the East Asian regional dialogue, perhaps helping to get the dialogue beyond its timid beginnings.

A growing store of experience in international crisis prevention has served gradually to eliminate the political-strategic tensions associated with Korea and Taiwan as latent trouble spots of world politics. Coordinated international economic and financial reconstruction aid is serving to mitigate poverty in North Korea and to create the basis needed to improve the climate for talks and negotiations.

For the two Korean states, both the experience Germany made on the road to reunification and the domestic, economic, and social consequences of reunification will continue to be of interest in the medium term.

The Taiwan question remains as one important aspect of the EU's interest in security and stability in East Asia, even though the EU lacks the means it would need to gain any direct political influence in this crisis region.

Over the medium term East Asia will continue to assume greater and greater strategic relevance for German policy and the German economy. Germany and the EU can make use of their stable repute in East Asia to promote their own vital interest in security and stability in the region, expanding their highly developed economic relations there to the benefit of all parties concerned, and constructively engage with the countries of the region in seeking to meet the complex challenges posed by international politics.

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