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**POLICY
BRIEF**

DIVIDED ASIA: THE IMPLICATIONS FOR EUROPE

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SUMMARY

As China's economic and military power increases, security in Asia looks set to find a new foundation. With trade integration on the continent growing through the implementation of "mega-FTAs", relationships between Asian countries are becoming as important as US military guarantees in ensuring that Asia's amorphous conflicts do not erupt into violence. The US military presence confirms the status quo in the region, but America has done little to resolve the continent's territorial disputes. Even so, live conflicts are rare. China's mixture of coercive action and self-control has enabled it to probe its neighbours' weaknesses while avoiding open warfare.

The European approach to Asia is out of step with the continent's own trends. Asia is not interested in Western imports of multilateral security institutions and international arbitration, and the EU should abandon its efforts to transfer its own post-war solutions to the Asian situation. Instead, it should focus on rewarding compromise and build on its growing arms trade with the region to take a more central security role. As the US switches from a bilateral approach to a regional trade strategy, Europe should follow suit. It should create a value proposition of its own, to match the US-backed Trans Pacific Partnership. Otherwise, it risks losing its chance to increase its access to the region's opening markets.

When they think about Asia, Europeans often focus solely on China. On the one hand, they see it as an attractive economic juggernaut: European officials, media, and public opinion are increasingly concentrated on the economic opportunities and risks that China presents. On the other hand, however, they see it as a dragon blowing its hot breath on a powder keg that is close to explosion: Asia's historical disputes, its national rivalries, and its territorial conflicts seem to be growing more serious.

One thing is clear: China is on the rise. It has the largest market potential in Asia and also maintains by far the largest defence budget on the continent. But China must be viewed in its regional context, and in the region, economics are distinct from politics. Commercial integration among Asian economies is increasing, even without an institution like Europe's single market. Meanwhile, the region's fragile balance of power is based on historical grudges and rivalries – not all of which are focused on China. The only thing that keeps this precarious situation from erupting is the enduring pre-eminence of the United States as a naval power in the Pacific Ocean.

Europe and Asia have adopted opposite approaches to trade and security co-operation in the region. On trade and economic issues, Europe deals bilaterally with its Asian partners. It has not taken part in region-wide economic initiatives, such as the Asia-Pacific Economic Cooperation forum (APEC) or the Regional Comprehensive Economic Partnership (RCEP) free-trade agreement (FTA) negotiations.

Even its negotiations on an FTA with the Association of Southeast Asian Nations (ASEAN) have been suspended. On security, Europe falls back on a well-worn dictum for the region as a whole, advocating a law-based multilateral system that mirrors, if not quite replicates, Europe's post-war model.

For its part, Asia has in the past relied for its security neither on the kind of multilateral framework put forward by Europe nor on other Western-derived legal tools. Instead, it has largely moved away from a multilateral approach to security. But, on trade and economic issues, it is moving towards a competitive multilateralism: the "spaghetti bowl" of bilateral agreements, which sidelined the World Trade Organization (WTO) and its Doha Round of trade talks, is now giving way to several concurrent regional initiatives.

Europe's outlook on the region also suffers from a kind of "G2" fixation. It tends to see China and the US as the only important movers in the Asian space, as if other stakeholders had been crowded out of a Pacific that is "large enough for two", as President Xi Jinping told Barack Obama in June 2013.¹ But what if Asia's security were to be based on relations between Asian nation-states rather than on US guarantees? Observer Research Foundation Vice President Samir Saran has said that "in the next ten years, the movement and agency in the region will be run for the first time ever by Asia itself".² What if regional trade integration became a game with multiple players, shaped by a competing set of "mega-FTAs"? This commercial form of "minilateralism", to use the jargon of political scientists, would not look much like the European ideal of collective security built on economic interdependence. And neither would it fit the bilateral approach to trade that Europe has taken since the failure of the WTO's Doha Round.

This brief will examine the dynamics of Asia's security landscape and its linkages with economic trends, taking into account historical factors, the current rise of China, and the role of the US, which is still Asia's most significant external partner. It will consider whether and how Europe can address Asia's emergent conflicts. It concludes that a "Trans Eurasian Partnership" on trade and investment might be exactly the reset for which Europe and Asia should aim.

The nature of Asia's security landscape

Europe's foreign policy and security approach to Asia, although it has given rise to plenty of meetings and statements, is largely underpowered and misdirected. Some EU member states have formulated foreign-policy positions on Asia and maintain security ties with the countries in the region. In spite of the Lisbon Treaty, the EU has far less control over foreign policy and security than it has over trade. So, true

European capacity is split between the member states and the EU, with the result that neither the states nor the EU seem to have much control over guiding foreign policy and security.

It is impossible to address the efficacy of the EU's policy approach to security in Asia without attempting to understand the region's underlying dynamics. The post-World War II order in the Asia-Pacific region is based on temporary solutions and suspended conflicts rather than on collective or co-operative security, or even on simple confidence-building measures. An American-backed peace has not contributed to a regional settlement on which all parties can agree. Even so, live conflicts in East Asia are scarce. The states in the region avoid taking serious risks that could lead to military action. And the protracted territorial conflicts in the region have more to do with symbolic competition than with the pursuit of any vital economic or strategic goal. National and ideological divides have in fact protected states and regimes that would have fallen apart if they had had to face a democratic peace or regional integration. The overall level of conflict in Asia remains minimal, in inverse relation to the explosion of military budgets and arms procurement across much of the continent. However, the massive military build-up, which includes the acquisition of long-range projection weaponry, has greatly increased the potential for incidents that could escalate into a sudden large-scale conflict.

Many of the continent's disputes can be explained by Asia's legacy of unsettled borders and punctilious nationalism. The Western imports of international law and international institutions have failed to address this legacy, dealing poorly with Asia in general and even, at times, sanctioning the division of nations. Most Asians only rely on international law to uphold sovereignty and do not accept the legitimacy of legal resolution of disputes and international arbitration. China is by no means the only country in the region that has made spurious claims to vast maritime spaces, nor is it the only one that has tried to use its past history to legitimise its territorial claims.³

The alternation of periods of regional trade co-operation with periods of conflict goes back a long way. As Japanese political scientist Eichi Fujiwara says, "Historically, under the Chinese Ming dynasty there was flourishing maritime trade between Korea, Japan, and China – an early form of regional co-operation. Invasions destroyed this potential."⁴ Others have noted the introduction of nationalism by the West: as National Graduate Institute for Policy Studies Professor Shinichi Kitaoka says, "Before the West entered Asia, the concept of absolute sovereignty did not exist in Asia. The West introduced statehood in the Westphalian sense to Asia, with all the negativity this brought with it."⁵

³ Mark J. Valencia, "The South China Sea: Back to Future?", *East Sea (South China Sea) Studies*, 15 July 2011, available at <http://southchineseastudies.org/en/conferences-and-seminars/-second-international-workshop/582-the-south-china-sea-back-to-future-by-mark-j-valencia>.

⁴ Author interview with Eichi Fujiwara, Tokyo, 16 April 2013.

⁵ Author interview with Shinichi Kitaoka, Tokyo, 16 April 2013.

¹ "Chinese leader Xi Jinping joins Obama for summit", *BBC News*, 8 June 2013, available at <http://www.bbc.co.uk/news/world-asia-china-22798572>.

² ECFR interview with Samir Saran, New Delhi, April 2013.

It is important to make an accurate assessment of the real threat of conflict. So far, those who have predicted major conflicts have been proved wrong. Asia's conflicts are dormant volcanoes rather than imminent disasters. Open war, as opposed to minor skirmishes, has not happened in Asia since 1979, the year in which Chinese defence spending took off and began a new shift in the regional power balance.

Insufficient attention has been given to the reasons why conflict does not occur more often. But the implications of Asia's quarrels and divisions are clear enough. The low level of conflict exists in contradistinction to the rapid expansion of defence budgets and weapons procurement on the continent. Asia accounted for 47 percent of global arms imports in 2012. China's defence spending has grown by more than 10 percent per year since 1979, with the exceptions of 1998 and 2009. China's military spending is now more than twice that of its closest competitor, Japan, although Japan's military spending has increased in 2013 for the first time since 2002. India's defence budget is consistently rising at a pace of 5 to 8 percent per year.⁶ At this rate, with \$100 billion of weapon purchases scheduled for the next three years, India's defence spending will overtake the UK's in the coming years. South Korea's defence budget is set to reach \$43.3 billion by 2017.⁷ By then, it will have overtaken France's defence spending, which is to be frozen at €31.4 billion for three years starting in 2014.⁸

In all four Asian countries, weapons development is mainly focused on submarines and missiles. Each country is at the moment developing supersonic anti-ship missiles (including the BrahMos, ASM-3, Hyunmoo-3, and DF-21D programmes; China's DF-21D is hailed as the world's first ballistic anti-ship missile). These programmes create the potential for sudden conflict escalation. China has installed 60 to 70 advanced DF-17 or DF-21 nuclear missiles in Qinghai and Tibet, aimed at India. India has planned 15 new airfields and 10 advanced landing grounds to enable it to make an offensive strike deep into Chinese territory. The rise of asymmetrical nuclear forces throughout the region (India–Pakistan, India–China, North Korea–United States), as well as the existence of a virtual nuclear power (Japan) and of two potential nuclear powers (South Korea and Taiwan), create an “arc of unstable deterrence”, according to Fabrice Pothier, Head of Policy Planning at the NATO Secretary-General's Office.⁹

The alternative to crisis containment is hard to imagine. Could Europe's past be Asia's future? Is the continent, as Aaron Friedberg has suggested, destined to endure a period of interstate rivalry – or even war?¹⁰

The roots of conflict in Asia

The protracted territorial conflicts in the Asia-Pacific region are about much more than the islands and rocks that supply them with pretexts. Even the economic and strategic value of the surrounding maritime space is not the true cause for rivalry. The conflicts are symbolic of a wider competition among Asian nation-states, even though the states are not prepared to take serious risks in the pursuit of this rivalry.

Should Asia's expanding maritime disputes been seen as the unfortunate consequence of a pre-Westphalian state culture, combined with postcolonial and post-1945 ambiguity towards borders? The travels of the Buddha were not constrained by borders, nor did the sailors and merchants of Asia recognise any national borders before the West's involvement in the region. Tributary relationships were based on people rather than territory. With few exceptions, neither the Dutch, the Portuguese, the French, nor the British were concerned with delineating sea borders when they left the region.

Much of Asia shares two cultural traits: identity-based or even ethnicity-based nation building, and a lack of the historical guilt usually associated with postcolonial societies. Together, these traits are a dangerous combination: the result is a sort of nationalism without guilt. Only Japan, in spite of its very strong identity, has acquired since 1945 a culture of guilt and of mainstream pacifist discourse, and both these qualities are now being challenged in the country's public debate. Asian nation-states have been constructed on narratives of humiliation and dispossession. Competing claims over largely empty space are based on previous exploration as a substitute for legal possession, rather than on successful development or on any kind of “civilising mission”. Empires such as Meiji Japan or Qing China and postcolonial nation-states such as Vietnam and Indonesia have also carried out forms of “internal colonisation”, assimilating minorities or neighbouring populations into their space.

Japan is the only Asian state that has carried out its expansion using Western international law as a tool. Its neighbours view Japan's adherence to Western legal frameworks as a sign of hypocrisy rather than a source of legitimacy. Japan's pre-1905 acquisitions were not challenged by the victors in 1945, with the exception of Taiwan, which was conquered by force. Japan had also used pan-Asianism as a basis for its territorial expansion, claiming that it was liberating Asia from Western colonialism and setting up a competition with the West. Defeat, occupation, and democracy largely brought an end to Japan's Asianist ideology, resulting in a tradition of guilt for the post-war generation and explaining the prevalence of pacifism in Japanese public opinion.

Other Asian nations have not experienced the same disillusionment. From Korea to Malaysia to India, a young nationalism emerged as each state claimed equal rights through political or military struggle. Schooled against the West in the anti-colonial era, predisposed against America by communism or Third Way neutralism, this nationalism

6 Laxman Kumar Behera, “Indian Defence Budget 2013–14”, *Defence Review Asia*, 6 May 2013, available at <http://www.defencereviewasia.com/articles/216/Indian-Defence-Budget-2013-14>.

7 Kim Eun-jung, “Mid-term defense program focuses on missile defense against N. Korea”, *Yonhap News Agency*, 25 July 2013, available at <http://english.yonhapnews.co.kr/national/2013/07/25/51/0301000000AEN20130725002700315F.html>.

8 French Ministry of Defence, “La loi de programmation militaire (LPM) 2014–2019”, *Ministère de la Défense*, 14 August 2013, available at <http://www.defense.gouv.fr/actualites/dossiers/lpm-2014-2019>.

9 Author interview with Fabrice Pothier, 27 September 2013.

10 Aaron L. Friedberg, “Will Europe's Past Be Asia's Future?”, *Survival*, Autumn 2000.

is now coming home to roost in East Asia, turning one nation against another. The South Asian subcontinent was an early indicator of the trend, as indicated by the endless Indo-Pakistani rivalry that began after partition. And Southeast Asia saw its own confrontation between Indonesia and Malaysia in the 1960s, not to mention the war between Cambodia and Vietnam that began in 1979 and went on for more than a decade. Meanwhile, in China, the end of the revolution has seen a shift from anti-imperialist to nationalist rhetoric. The continuing uncertainty surrounding border delineation, as well as the resurgence of assertive nationalism, has rekindled unresolved territorial disputes.

Western international institutions have no Asian foundation

Western imports of international law and international institutions, from the League of Nations to the United Nations, have not dealt well with Asia. They have even on occasions accepted the division of nations. So, legal resolution of disputes and international arbitration is very unattractive to most Asians.

The region's modern history shows that conflicts in Asia have rarely, if ever, been resolved by Asian multilateral or legal frameworks. It was Australia and France, not Asia, which came up with a peace settlement for the Cambodian conflict in 1989–1991. East Timor's independence conflict was solved by a UN intervention, using essentially Western means. The Korean armistice is still sustained today by a UN mandate in which the US plays the leading role. In the South China Sea, the few settlements (Indonesia–Malaysia and Malaysia–Singapore) that have been made between ASEAN members have been bilateral and decided by the International Court of Justice (ICJ). Vietnam and China's limited border deal, on the land border and the Gulf of Tonkin, was achieved on a bilateral basis. In Northeast Asia, a bilateral deal between Japan and Russia on the Southern Kuriles/Northern Territories seemed possible in 1956 and in 1993. A settlement again seems on the cards after Japanese Prime Minister Shinzo Abe's visit to Moscow in April 2013, and Japan and Russia signed a defence co-operation agreement, to include naval exercises, on 2 November 2013.¹¹ The turnaround is remarkable, after decades during which Russia was considered the main threat to Japan's security. Likewise, on China and India's disputed borders, only bilateral talks have ever been on the table. The UN Security Council's Resolution 47 on Kashmir, passed in 1948, has been ignored since it was made. And China will allow no internationalisation of the Taiwan cross-straits issue, with the result that the reality of close economic and human interaction by the People's Republic of China (PRC) with a strong *de facto* state has drifted far away from any legal description of the two countries' relationship. So, the most

striking feature of the post-war order in the Asia-Pacific is that it is based more on temporary solutions and suspended conflicts than on collective or co-operative security or on confidence-building measures.

Events in recent years have also evidenced a general unwillingness on the continent to resort to international institutions. Japan does not usually recognise the existence of claims to its territory. However, it announced in August 2012 that it would seek a resolution by the ICJ of the Dokdo/Takeshima dispute with South Korea.¹² South Korea treated this appeal to international mediation as worse than Japan's claim on the islands itself. In the words of Hahm Chaibong, President of the Asan Institute for Policy Studies, "in Europe, seeking out a legal solution is seen as a prudent choice. But in Asia, it is an admission of wrongdoing."¹³ If Japan were to go to the ICJ over the Senkaku/Diaoyu issue (as the Philippines has done over the Scarborough Shoal dispute), China would see it as a form of dispute escalation. Divided nations such as Korea or pre-1975 Vietnam have little trust in multilateral institutions or in international law. Taiwan exists outside the international system, although it has the tacit acknowledgement of most of its members. Taiwan's burst of maritime activism over the Senkaku/Diaoyu dispute with Japan, and over the Spratly/Nansha islands dispute with the Philippines, is a way to become or to stay indispensable in any regional settlement in spite of its formal diplomatic isolation, and to increase its value as a regional "card" in China's policy. Were Taiwan to give up its claims, China would interpret it as a move away from the Republic of China, the PRC's partner, towards Taiwanisation of the island. The high-profile position adopted by Taiwanese President Ma Ying-jeou on maritime issues goes hand in hand with improved cross-straits relations, increasing Taiwan's leverage in the region. Taiwan was even able to conclude a lucrative fishery agreement in April 2013 with Japan, which is concerned about a China–Taiwan alignment on the Senkaku/Diaoyu islands.

International institutions have even at times inadvertently contributed to Asia's conflicts. The 1982 United Nations Convention on the Law of the Sea (UNCLOS) has considerably raised the stakes by creating an entirely new category of disputes around Exclusive Economic Zones (EEZs) and extended continental shelves. China's submission to the UN in May 2009 of the famous nine-dotted line, appearing to claim the entire South China Sea, was preceded by an earlier joint submission by Vietnam and Malaysia, themselves driven by the need to respond to an UNCLOS deadline for submitting claims. UNCLOS has also created a worldwide rush to claim extended continental shelves beyond the EEZs, which is now a point of contention in the area surrounding the Ryukyu Islands and Okinawa. UNCLOS, which aims at multilateral dispute resolution and arbitration, has in fact

¹¹ Yoko Kubota, "Japan, Russia agree to cooperate on security as China rises", *Reuters*, 2 November 2013, available at <http://www.reuters.com/article/2013/11/02/us-japan-russia-idUSBRE9A102G20131102>.

¹² "Press Conference by Minister for Foreign Affairs Koichiro Gamba", Ministry of Foreign Affairs of Japan, 17 August 2012, available at http://www.mofa.go.jp/announce/fm_press/2012/8/0817_01.html.

¹³ Author interview with Hahm Chaibong, Seoul, 19 April 2013.

fostered a retreat into bilateral claims and disputes in the area. And it does not offer a formula for delineating maritime boundaries in cases where there are multiple claimants.

China's regional tactics: maintain ambiguity

“The Middle Kingdom” is at the centre of many of Asia's potential crises, raising fears of an Asian dragon that could set off a chain reaction that would engulf Asia. But China's actual strategy is much more refined, a remarkable mix of coercive action and self-control. Indian security expert Srikanth Kondrapalli says that “China behaves multilaterally at the global level, but bilaterally at the regional level”.¹⁴ China's stated and implied claims are maximalist, which makes them well-suited to future bargaining. For several decades, with the important exception of Vietnam, a fellow socialist country bereft of allies, China has not used direct violence to enforce its territorial claims.

On the other hand, while the Chinese navy has avoided provocative action, paramilitary, law enforcement subsidiaries, and well-organised Chinese trawlers have all raised the Chinese flag over ever-widening areas. In April 2001, a daring fighter pilot collided with a US surveillance plane off the coast of Hainan, dying in the process but forcing the US plane to land. A reportedly drunk Chinese fishing captain (twice) rammed a Japanese customs boat in the contested waters off the Senkaku/Diaoyu in 2010. The captain was arrested and subsequently repatriated to China following a short diplomatic crisis, after which he was immediately forgotten.

Perhaps the closest China has come to armed conflict was the Scarborough Shoal incident in the spring of 2012. The Philippines dispatched a decommissioned US-made frigate against Chinese paramilitary boats and a tense standoff ensued. China blinked, agreeing to pull back its vessels rather than risk escalating the conflict. It has since returned to the region, surrounding the contested atolls in what a Chinese general has aptly called a “Chinese cabbage”: layers of intimidating non-military law enforcement naval agencies that effectively deter any civilian Filipino boat from entering the area.¹⁵

To some Chinese observers, the Scarborough Shoal incident and its outcome forms a precedent for changing policy on disputes such as the Senkaku/Diaoyu islands. When viewed together with the case of China's 39-day military patrol inside Indian Kashmir territory, which was followed by a discreet withdrawal, the Scarborough Shoal incident reveals a distinct pattern. China blusters, probes for weaknesses, and runs out the clock, enabled by its perceived geopolitical

rise. China's exploratory manoeuvres at times extend a long way, right up to the farthest borders of China's “nine-dotted line”, as was the case with the incident in March 2013 near Natuna Island in Indonesia's EEZ.¹⁶ That incident is particularly interesting since Indonesia claimed that it had obtained assurances from China on the area in July 1995. In these limited disputes, China does not fully lose even when it backs down. Instead, it merely reverts to the status quo, having made its point – as it did in 1996 in the Taiwan Strait, when it halted major military exercises after US aircraft carriers appeared in the area.

So far, China has neither engaged nor let itself be engaged in actual conflict. Intimidation alternates with incrementalism, with China often claiming to be simply reacting to an act by the other party. The posture has been described as one of “reactive assertiveness”.¹⁷ It chimes well with China's self-conceptualisation as a victim. At the moment, China seems to have returned to the stance it took until 2009: never quarrel with more than one neighbour at once. After agreeing to a hotline with Vietnam in June 2013, China signed an agreement in October 2013 that includes joint exploration and peaceful negotiation of maritime disputes. This is not the first time that this has happened – a similar declaration was made in 2011 – but it provides the two countries with a welcome respite from tension, as well as serving to isolate the Philippines. Also in October 2013, President Xi Jinping revived the idea of agreeing a Code of Conduct with ASEAN on territorial issues, and proposed a “maritime Silk Road” in the region.

By staking and enforcing outsized claims, and then lifting the threat of enforcement (if not the actual claims) from some of the parties involved, China effectively sows division between neighbours that are focused on bilateral issues. At the APEC summit in October 2013, Xi opened a new front by calling on Taiwan to open political negotiations and stating that “we cannot hand those problems down from generation to generation”.¹⁸ Meanwhile, incidents with Japan are growing in number, and now involve unmanned Chinese drones and naval manoeuvres in the vicinity of Okinawa.

Other regional actors, on the defensive towards China or locked into their own maritime disputes, have not shown the same self-control and tactical ability. Violence has broken out among China's smaller neighbours – not including Japan – over fishing areas around what are often “uninhabited and uninhabitable” islets, as former National Security Council adviser Jeffrey Bader described the Senkaku/Diaoyu.¹⁹

¹⁴ Srikanth Kondrapalli, “China's foreign policy at its borders”, Seminar, Asia Centre, Paris, 20 September 2013.

¹⁵ PLA General Zhang Zhaozhong, “China boasts of strategy to ‘recover’ islands occupied by Philippines”, TV interview transcript by *China Daily Mail*, 28 May 2013, available at <http://chinadaily.com/2013/05/28/china-boasts-of-strategy-to-recover-islands-occupied-by-philippines/>.

¹⁶ See an account at Scott Bentley, “Mapping the nine-dash line: recent incidents involving Indonesia in the South China Sea”, the *Strategist*, 29 October 2013, available at <http://www.aspistrategist.org.au/mapping-the-nine-dash-line-recent-incident-involving-indonesia-in-the-south-china-sea/>.

¹⁷ International Crisis Group, “Dangerous Waters: China–Japan Relations on the Rocks”, Asia Report No. 245, 8 April 2013, available at <http://www.crisisgroup.org/~media/Files/asia/north-east-asia/245-dangerous-waters-china-japan-relations-on-the-rocks.pdf>.

¹⁸ “Xi meets Taiwan politician ahead of APEC gathering”, *Xinhuanet*, 6 October 2013, available at http://news.xinhuanet.com/english/china/2013-10/06/c_132775470.htm.

¹⁹ Shaun Tandon, “China says ready to talk if Japan admits dispute”, *AFP*, 20 September 2013, available at <https://www.google.com/hostednews/afp/article/ALeqM5jqRakIH078NfMppOmBaTnzyDvJw?docId=CNG.894f32afbd0c001d433e21ed91ac5.e1>.

Taiwan's customs boats, not those of the PRC, have hosed their Japanese counterparts. North Korea, whose aggression towards South Korea and the US-led UN contingent at the Demilitarized Zone (DMZ) has steadily declined since the late 1960s, shot a South Korean tourist in 2008. In 2010, North Korean forces sank a South Korean navy boat, killing all 46 sailors on board, and shelled a civilian island in the Yellow Sea. South Korean coastguards killed two Chinese fishermen in a 2010 tussle; Filipino coast guards killed one Taiwanese fisherman in 2013. Vietnamese and Filipino forces have traded shots on numerous occasions, and the Filipino navy engaged Chinese vessels in 1996.

China's balancing act: coercion without force

China maintains a balancing act between confrontation and restraint. In the six decades since the PRC was founded, China's inclination to engage in conflict or to compromise over territorial issues has varied considerably. According to the best-researched study on China's behaviour at its borders, published in 2005, the PRC has been more likely to compromise in disputes where no Han population is involved.²⁰ From Ladakh in India to the East China Sea, the PRC's territorial disputes are now focused on uninhabited areas, thus limiting risk to civilian populations. Vietnam is an important exception: in July 2013, China created a prefecture, which implies a population centre, on the main Paracel island. Xi expressed in July 2013 China's attitude in unusually cautious terms: he spoke of the need to "plan the two overall situations of maintaining stability and safeguarding rights as a whole". And Foreign Affairs Minister Wang Yi said that resolution of the issues would "take time".²¹

China's tactics keep its neighbours on their toes. Time is on China's side, since its economic strength is steadily growing, as is its capacity to project force. By slowing down, limiting its assertiveness, and choosing bilateral talks over multilateral resolution, Beijing diminishes its neighbours' incentive to form coalitions against it. At the same time, it reduces the chances of a serious American military pivot that would be extremely costly and unhelpful in dealing with other potential crises. Therefore, it is safe to say that tension over maritime issues is here to stay, as other stakeholder nations continue to base their national calculus on guesses about China's long-term attitude. For its part, China will predictably maintain some unpredictable behaviour. It will carry out minor skirmishes and symbolic acts to safeguard its right to make irredentist claims in the future. China is not reckless, but it does not accept the European standard of guaranteeing borders as the foundation of regional

peace. Without then West German Chancellor Helmut Kohl's declaration in June 1990 guaranteeing in perpetuity the Oder–Neisse border with Poland, Europe would be a different place today. Asia might be facing a very long time living with a rising power that is not prepared to grant this kind of guarantee to its neighbours.

US regional strategy: "If it ain't broke, don't fix it"

It could be argued that the US has not made much effort to solve the unfinished conflicts in Asia. It has neither acted as a major player in region building nor even advocated strongly for it. The Clinton administration is the only exception: it did work to promote APEC (Asia-Pacific Economic Cooperation, or "four adjectives in search of a noun", as Australian statesman Gareth Evans once said). President Bill Clinton's government initially had strategic objectives for APEC, hoping to create a security forum in which Taiwan would be a participant accepted by the PRC. It later shifted its focus to free trade across the Pacific, economic diplomacy that to this day remains one of the US's central goals. President George W. Bush and his close aides largely ignored Asia, and in particular ASEAN, which his Secretary of State Colin Powell did not mention in his first public statement on Asia.²² This US absence led Hillary Clinton, the new Secretary of State in the Obama administration, to proclaim in 2011 that "America is back".²³ However, Obama's repeated cancellation of trips to Indonesia – including, in October 2013, his absence from an APEC summit in Bali that coincided with the US government shutdown – illustrates that America is a reluctant participant in multilateral regional diplomacy. Even so, the US still forms the backbone of regional security in Asia.

Speculation about a US withdrawal from Asia is not new: in the early 1990s, with the first Bush administration cuts in military spending, people were already talking about the possibility of a "strategic hole" appearing in the region, or even that the US would become a mercenary power that sold its protection to the highest bidder. These speculations have so far been proved inaccurate. But the US has little advice to give on how to solve Asia's regional issues. The Obama administration's "pivot to Asia" has not changed things. Instead, the US continues essentially only to provide reassurance against any conflict escalation by China. US analysts generally perceive Asia's maritime conflicts to be unsolvable. ASEAN itself has become known for the time-honoured method of sweeping issues under the rug. Filipino diplomat Rodolfo Severino, ASEAN's former Secretary General, has termed the conflicts "intractable", adding that any legal resolution would be inadequate because it would be

²⁰ M. Taylor Fravel, "Regime Insecurity and International Cooperation: Explaining China's Compromises in Territorial Disputes", *International Security*, Vol. 30, No. 2 (Fall 2005), pp. 46–83, available at <http://taylorfravel.com/documents/research/fravel.2005.IS.regime.insecurity.pdf>.
²¹ Cited in M. Taylor Fravel, "Xi Jinping and China's Maritime Disputes", Taylorfravel.com, 15 August 2013, available at <http://taylorfravel.com/2013/08/xi-jinping-and-chinas-maritime-disputes/>.

²² Colin Powell, "U.S. Looks to Its Allies for Stability in Asia and the Pacific", *International Herald Tribune*, 27 January 2001, available at <http://www.nytimes.com/2001/01/27/opinion/27iht-edcolin.t.html>.
²³ Hillary Clinton, "Back in Asia: The US Steps Up Its Re-Engagement", *Strategic Review*, 8 January 2011, available at http://photos.state.gov/libraries/indonesia/502679/pdf/clinton-interview_strategic-review.pdf.

“dependent on sovereign states for its implementation”.²⁴ By and large, the US advocates putting the conflicts back in the box. One exception was the position taken by Hillary Clinton in July 2010 at the ASEAN Regional Forum, and later in Hanoi, when she offered to facilitate talks among claimants. Following as it did a new and unusual US support for ASEAN claimants, this offer only raised eyebrows in Beijing.

Of course, the US approach also helps to preserve the US’s central security role in the Asia-Pacific as the guardian of a fragile status quo. The US has rarely proposed a specific diplomatic outcome or formula to solve an international conflict in Asia. Only twice has the US come up with something substantial to deal with regional Asian conflict: the Clinton administration’s 1994–1995 initiative to set up the Korean Peninsula Energy Development Organization (KEDO), which sought to resolve a case of nuclear proliferation that had global implications; and the re-engagement of Burma in 2009, which led the Burmese junta to a managed opening two years later. For the most part, the US is in the business of managing regional conflicts in Asia, not of solving them.

This balancing act is reflected in the US refusal to endorse any territorial claim. The US Navy’s physical presence has effectively ensured stability and deterred any large-scale conflict in the decades during which the Pacific became an American lake. The duality of the US approach is evident in the case of Japan. The US–Japan Security Treaty covers areas under the control of Japan, but it does not sanction Japan’s possession of these disputed areas. The costs of maintaining this ambiguity are high: 60 percent of the US Navy is deployed in the Pacific. The “pivot to Asia” in fact overstated its military component. Basing US Marine high-speed catamarans in Darwin, 2,500 miles from China, and anchoring littoral combat ships in Singapore does not really look like the “encirclement of China”, or the so-called “lily pad strategy” that Beijing commentators often claim to see.²⁵ Yet the rising tension between China and Japan and the advent in Japan of a stable Liberal Democratic Party government headed by Shinzo Abe suggest a possible reinforcement of the US–Japan alliance. In November 2012, right before his re-election, Abe described a “security diamond” between Australia, India, Japan, and Hawaii, and he has argued for a renewed role for Britain and France in Asia’s security.²⁶

Europe’s offering: a China shop in a region of elephants

In contrast to the underlying logic behind the US pivot, the EU’s December 2012 “Guidelines on the EU’s Foreign and Security Policy in East Asia”, a welcome expansion of an earlier 2007 policy document, are bubbling with good will and proposals. The proposals include an intention to “contribute to relevant confidence building, conflict-resolution and post-conflict reconstruction activities”; “the embedding of political and security cooperation among the region’s major players”; to “encourage more military-to-military exchanges”; to “consistently promote transparent and rules-based international approaches”; to “embody closer cooperation on foreign and security policy objectives across East Asia in line with international norms”; “promoting outward-looking models which recognise EU interests and equities in the region”; to “look for opportunities to add value to regional organisations through direct involvement in the region with specific initiatives”; and to “share the experience of the EU and its Member States in relation to the consensual, international-law-based settlement of maritime border issues”. These are only some of the objectives in a wide-ranging but unspecific policy statement. Europe’s collective approach is rules-based and oriented towards solving issues within an open regional framework.

However, the guidelines repeatedly emphasise the need to partner with the US, which is described as “an important contributor to regional stability”. Thus, Europe hedges its bets. It often thinks in terms of a potential China–US “G2”. Whether adversarial or co-operative, or a mixture of both, this combination would crowd out any other policy actor. But what if Asia’s future were to be based on relations among Asian nation-states, moving away from a US-provided security or from an ideal convergence based on regional interdependence? What if neither US-led security provisions nor the building of regional institutions were to shape the region’s future? What if the key determinants were instead to be regional balances of power and relationships based on strength, if not on the outright use of force?

Europe is making a fundamental category mistake in stressing Asian regional institutions, multilateralism, and dispute settlement based on international law. The late Michael Leifer debunked a similar vision of ASEAN. Although ASEAN was the most influential of Asia’s regional groupings, Leifer argued that the body was created not to solve international conflicts but, “*faute de mieux*, with a role to contain regional tensions”. Unlike the European model, ASEAN’s aim was to “consolidate national sovereignty, not to supersede it”.²⁸ Leifer’s observation applies equally well

24 Rodolfo C. Severino, “The South China Sea: Ten myths and ten realities”, *East Sea (South China Sea) Studies*, 21 January 2013, available at <http://southchineseastudies.org/en/conferences-and-seminars/-/hoi-thao-quoc-te-4/781-the-south-china-sea-ten-myths-and-ten-realities-by-rodolfo-c-severino>.

25 See Asia Centre, “The End of Non-interference?”, *China Analysis*, October 2013, available at http://ecfr.eu/page/-/China_Analysis_The_End_of_Non_interference_October2013.pdf.

26 Shinzo Abe, “Asia’s Democratic Security Diamond”, *Project Syndicate*, 27 December 2012, available at <http://www.project-syndicate.org/commentary/a-strategic-alliance-for-japan-and-india-by-shinzo-abe>. The article was written in November 2012, on the eve of Japan’s general election.

27 Council of the European Union, “Guidelines on the EU’s Foreign and Security Policy in East Asia”, Brussels, 15 June 2012, available at http://eeas.europa.eu/asia/docs/guidelines_eu_foreign_sec_pol_east_asia_en.pdf.

28 Michael Leifer, “The ASEAN Peace Process: a category mistake”, the *Pacific Review*, Vol. 12, Issue 1, 1999, available at <http://www.tandfonline.com/doi/abs/10.1080/09512749908719276>.

to Asian co-operation more broadly, and it is becoming even more relevant in the context of today's tensions and the rebirth of nationalism on the continent.

Basing European foreign and security policy in Asia on an alignment with US policy is misguided. US diplomacy is closely linked to US commercial goals in the region. European and US interests may coincide in areas such as encouraging Asia's openness to free trade for goods and services. However, American and European firms are in competition in many other areas, such as in the fields of aerospace, transport equipment, public procurement, media and entertainment, and telecoms. Falling in line behind the US ensures that the US will find its way into Asian markets before Europe does, as well as allowing the US a better position to negotiate terms for market entry. America's security stance in the Asia-Pacific remains cautiously conservative, with a strong preference for the status quo. The US is also using this rationale to justify disengagement not only from Europe but also possibly from the Near and Middle East. The US has not backed Japan's 2009 suggestion by then Prime Minister Yukio Hatoyama of an Asian community, which it saw as romantic or even anti-American. But neither does it fully back the 2013 Abe government's defensive stance towards China. America's defence posture in the Asia-Pacific aligns with Asian countries' desire for a counterbalance to China, but the US will continue to offset this position by engaging with China, its largest creditor.

On Asian security issues, Europe should stop emphasising multilateral, law-based, and region-wide solutions as a substitute for the hard power it does not have. This approach does not increase Asia's respect for the EU, which it sees primarily as a trading bloc. Europe should of course welcome and support multilateral legal solutions as well as arbitration if and when they arise. But the European effort to transfer the solutions that have been adopted on the European continent since 1945 is seen by Asian countries as overly didactic, and Europe cannot back its approach with enough hard security commitments to persuade Asia to accept its model.

Instead, Europe's strategy on security in Asia should focus on the two types of policies at which it excels. It should encourage and even reward compromise among differing parties in Asia. For example, Europe is deeply invested in Asia's success in locating within the region the energy resources it needs for its fast growth. Unlocking the potential of the South and East China Seas (or whatever their designation may be in the future) is essential. While the US may depend in the future on its own energy resources, Europe and Asia both have to rely on the Middle East, which is unstable at best, and on Russia, which is a difficult partner. Europe should prioritise enhancing energy security through common initiatives, from the limitation of the use of sanctions and boycotts to the creation of an agreement on rights of navigation (as opposed to freedom of navigation) and joint sharing of resources and surveillance of EEZs. Europe has plenty of experience to share, from the Baltic Sea to the North Sea, as well as a similar problem to solve in the Eastern Mediterranean, between

Greece, Cyprus, Turkey, Lebanon, and Israel. The Indian Ocean, where France and the UK have maritime domains and hard assets, but where they co-operate with all riparian states on maritime security, may also serve as a model to solve EEZ claims east of the Malacca Strait. Creating a zone of shared maritime development and surveillance in the Indian Ocean could act as a model from West Asia for East Asia, with the help of European nations. France has similar interests in the South Pacific, while the UK maintains the Five Power Defence Arrangement with Australia, Malaysia, New Zealand, and Singapore. Both the UK and France would likely be involved in a Korean crisis contingency. Although co-ordination with the US remains fundamental, maintaining an independent satellite observation capacity – in other words, a “second opinion” – may matter to Asian countries, which already value having more than one provider of weapon systems. These trends of course are at risk from declining defence budgets. But member states should revive, from the bottom up, a European policy towards Asia that has become largely inactive.

The second priority that Europe should adopt concerns an issue that gets little attention: European arms sales to Asia. In this area also, EU-level policies remain poorly defined. The new EU Code of Conduct adopted in December 2012 creates guidelines for prohibiting weapon sales to certain countries, but it leaves real decisions largely to member states. This lack of unified policy is a key reason why the arms embargo placed on China in 1989 cannot be lifted, since it could potentially result in a free-for-all, with countries competing with each other to enter the newly opened market. Even so, arms sales to Asia have flourished, in large part thanks to the regional arms race. The volume of European weapons sales are even sometimes at the same level as US sales in the region.²⁹ Only China is excluded: because of the arms embargo, arms transfers from Europe to China are negligible, although accurate amounts are unclear, since figures are based on self-declaration by the vendors involved.

Arms transfers almost always involve security co-operation, whether in training, after-sales services, or continued upgrades. The UK, for example, initiated a Defence Cooperation Memorandum with Japan in April 2012, which also coincides with the establishment of a “Global Strategic Partnership”.³⁰ And France is not far behind. Europe is therefore a much more important security actor in Asia than it thinks it is, but the main thrust of weapons policy is developed by member states, with commercial considerations forming the most common factor. Even so, the implications go beyond the commercial sphere: Singapore has become France's second-most important partner in military R&D.³¹

²⁹ According to the SIPRI Arms Transfer database, European weapon transfers to Asia in 2011–2012 reached 2,618 TIVs (trend indicator value, SIPRI's index for the value of these transfers) as opposed to 6,417 TIVs from the US in the same period. In 2011 alone, the ratio was much closer (1,701 to 3,554 TIVs, or 48 percent). See SIPRI Arms Transfer Database, available at <http://portal.sipri.org/publications/pages/transfer/splash>.

³⁰ Ministry of Defense of Japan, *Defence of Japan 2012*, (Tokyo: Ministry of Defense, 2012), available at http://www.mod.go.jp/e/publ/w_paper/e-book/2012/files/assets/basic-html/page316.html.

³¹ ECFR interview at the French Ministry of Defence, Paris, 14 November 2013.

The UK is holding naval exercises with Japan, and France has three categories of joint exercises with India. Germany, which is not deeply involved in Asian security matters, has sold more submarines to Singapore than its own military operates. Europe cannot continue to focus only on a soft-power approach at the EU level while its member states are security suppliers – with or without principles.

Europe and Asia's global factory: trade agreements as strategy

Just a few years ago, the preferred model for international relations in Asia was “bandwagoning”. Asia was captivated by China's increasing economic attractiveness, both as a final destination for exports and as part of the production chain on the way to Western markets. The rest of the continent was perhaps also seduced by China's supposed soft power and non-interference norms. Even India, the subcontinental giant, ended its more than 30-year pause in economic and political relations with China with a meteoric comeback. China–India trade hovered around \$250 million until the early 1990s, but reached \$74 billion in 2011. Since 2008, China has been India's most important trade partner.³² Normalisation has taken place, and some Himalayan roads have been reopened for the first time since the 1962 war. China is also the main trade partner of Japan, Korea, and Taiwan, and trade integration between China, Japan, and Korea is greater even than intra-EU trade relations, in spite of the absence of a free-trade treaty.

On economic and trade issues, Europe has become more realistic, even if it has not become more daring. The rising giants of Asia, China and India, essentially killed the Doha Round of WTO trade talks. Between 2000 and 2013, 73 bilateral FTAs have been concluded in Asia. Europe has caught up with reality and has moved on to negotiating bilateral trade deals. An FTA with Korea was successfully finalised in 2011, and the EU is close to deals with India and Singapore, with another three potential deals in Southeast Asia under negotiation. Most importantly, the EU has now opened talks with Japan, the world's third-largest trading nation.

These bilateral deals are important in securing access for European goods and services in Asia. However, they do not directly address the fact that China plays an intermediary role in Asia's export-oriented production as the exit door from the Asian value chain. China is now the most important commercial partner of two-thirds of the world's nations. But 70 percent of the value of China's exports is made up of intermediate goods produced abroad, mostly elsewhere in Asia. China's trade surplus with Europe should really be called an Asian surplus. A case can be made that China has collected only a fraction of the proceeds. Other Asian

economies use China as a stepping-stone to global exports. But in the future, given China's move towards producing more high-tech goods and effective economic nationalism, China may reverse the relationship and use the rest of Asia's FTAs as a step towards global markets. There are some signs that this is already taking place: in a 2010 survey, only 29 percent of Japanese firms made use of Asian FTAs, compared to 45 percent of Chinese firms.³³ For China, these FTAs involve ASEAN economies and “early harvest” trade liberalisation with Taiwan.

The US has begun to address this new reality by switching to a regional trade strategy and launching the Trans Pacific Partnership (TPP) proposal. If the US successfully commits China's most advanced neighbours (and some of its competitors, such as Vietnam) to a higher level of trade liberalisation, this will diminish China's pivotal role in the Asian export chain, which has largely been secured because of China's continuing trade privileges as a developing economy. By proposing the inclusion of Taiwan, the US might even persuade China to join, under the old adage “if you can't beat them, join them”. At the same time, ASEAN and its regional FTA partners are negotiating the Regional Comprehensive Economic Partnership (RCEP), aiming to cover 45 percent of the world's population and a third of its GDP. These mega-FTAs or unilateralist proposals present benefits to those that join, but also come with a cost to economies that do not. A comprehensive FTA would be more advantageous to advanced economies, which would benefit from improved access for services and less red tape. A less comprehensive FTA would chiefly benefit the least developed partner, which could export its goods more easily. The decision by Europe in 2012 to open negotiations on an FTA with Japan is of course a response to these trends, since a Japan–EU FTA would complete the triangle begun by the TTP and the TTIP (the Transatlantic Trade and Investment Partnership, Washington's other strategic initiative). But will this move be enough? Without a wider offer by the EU to the region, Europe's limited negotiations might in fact prod China into being more open to the RCEP (of which it is already a member) and the TPP. Both trade groupings exclude Europe.

In spite of its robust bilateral trade approach, the EU could be forced into a defensive position by trade agreements that cover a widening share of global markets. The EU missed the boat on APEC in the early 1990s. Now, it has no comparable initiative to offer Asia on regional trade, services, and investment. The Asia–Europe Meeting (ASEM), created in 1995 following a proposal from Singapore, is much too diffuse to become a useful strategic tool, even though it has come up with some good initiatives, such as people-to-people exchanges and the Business Forum.

³² “China has become India's largest trade partner in South Asia”, the *Economic Times*, 10 March 2012, available at http://articles.economictimes.indiatimes.com/2012-03-10/news/31143050_1_bilateral-trade-trade-ties-india-and-china.

³³ “China has become India's largest trade partner in South Asia”, the *Economic Times*, 10 March 2012, available at http://articles.economictimes.indiatimes.com/2012-03-10/news/31143050_1_bilateral-trade-trade-ties-india-and-china.
³³ Masahiro Kawai and Ganeshan Wignaraja, “Free Trade Agreements in East Asia: A Way towards Trade Liberalization?”, ADB Briefs No. 1, Asian Development Bank, June 2010, available at <http://www.adb.org/sites/default/files/pub/2010/ADB-Briefs-2010-1-Free-Trade-Agreements.pdf>.

With the appearance of these mega-FTAs, the EU's laborious bilateral negotiations no longer seem to be the optimal strategy. The EU's human resources are already stretched thin at the Commission's DG Trade. And the body as a whole could soon be overwhelmed by the tension between, on the one hand, trying to compete in Asia only through bilateral negotiations, and on the other, negotiating the TTIP. As long as the Obama administration hesitated over trade issues during its first term, the EU seemed to be maintaining parity with the US. This is probably no longer the case. In terms of public diplomacy and discursive power, the US is back in the lead.

There are only three ways for the EU to recapture the initiative. In the first scenario, the TPP might flounder on its own accord and fail to meet its main targets. This would, by default, hand the initiative to the EU. But this outcome is unlikely. China's neighbours have a renewed incentive to shore up their ties with the US. Japan in particular needs US support for the Abe government's effort to kick-start the economy, especially given the quantitative easing and monetary devaluation that the Abe initiative implies. An incentive also exists for a CJK (China–Japan–Korea) FTA, and the RCEP may serve as a tool to extract more concessions from the US, which is not a partner.

A second way for Europe to increase its relevance would be to initiate a trailblazing trade and investment deal with China itself. Because of the scale of EU–China trade, its implications for other Asian suppliers, and China's number one ranking in global trade from 2013, an agreement between the EU and China would go a long way towards addressing the core of the EU's economic relationship with Asia. But China, which under current rules already has largely unfettered access to Europe's markets, does not necessarily see a need to make concessions. That said, the prospect of successful outcomes for the TTIP and the TPP might be the only thing that could make China more amenable to further engagement and reciprocal concessions with Europe or the US.

Finally, the third option for the EU is to create a value proposition for the region, much as the US has done with the TPP. This would be much harder for the EU, which has to deal with 28 member states, each of which has a stake in guiding policy, if not in implementing it. By selecting only a few initial partners for the TPP, the US has created competition to join among prospective participants. Even so, some of these initial partners might welcome a concurrent offer from the EU, and they might appreciate it if the offer were explicitly inclusive rather than potentially exclusive. Could such a proposition emerge as a Trans Eurasian Partnership (TEP) or a Europe–Asia Partnership (EAP)?

A large part of the TPP and the TTIP concerns standards and norms, reflecting the US desire to export its own ways of doing business. Europe's TEP or EAP should of course promote European norms, but it should also focus on investment issues. In spite of its reputation for protectionism, Europe is more open to foreign investment than any other region, a

fact that even Chinese studies recognise.³⁴ It is therefore in a position to leverage its openness by emphasising investment and services with regions where investment liberalisation is still under way. This should include private savings and companies, so as to unlock the region's state economies. Europeans, who remain the world's greatest aggregate private savers, should also gain greater access to companies and capital markets throughout Asia.

The EU's trade diplomacy and resources have served Europe well in achieving its goal of free trade in goods, which was the mainstay of global liberalisation in the past decades. Now it must be reinforced, both in volume and in competences, so as to better deal with the new strategic issue of region-wide FTAs, and with the responsibility for investment that has been vested in the EU by the Lisbon Treaty. The transition period, during which global trade diplomacy retreated from multilateral goals to a phase of bilateral anarchy, may be nearing an end. If Asia is to be the new battleground for expanded region-wide agreements, Europe should be prepared to take the field.

34 Zhang Yunling and Rongyan Wang, "The case for enhancing regional and global rules for investment", in Richard Baldwin, Masahiro Kawai, and Ganeshan Wignaraja (eds), *The Future of the World Trading System: Asian Perspectives*, (Geneva: VoxEU, 2013), available at <http://www.voxeu.org/content/future-world-trading-system-asian-perspectives>.

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