

China's Relationship with the U.S. and the EU in the Twenty-First Century

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Introduction

The twentieth century has ended. This tumultuous century has witnessed three major wars: the First World War, the Second World War, and the Cold War. At the end of this century, human society finally has an opportunity for peace. But will this peace come about in twenty-first century? This task should mainly be borne by large countries that can determine the orientation of the world. The United States, the European Union ¹ and China are three countries that can play this important role in future international affairs.

Among the three, the U.S. is the sole superpower and will continue to retain this status in the new century. The European Union, made up of some former great powers, is having a renaissance, like a new power in the world. China, with its policy of reform and openness, is becoming a new emerging power. In history, a new rising power usually experiences great trouble in the existing world order. With the renaissance of Europe and emergence of China, will the world avoid a repetitive painful experience of the old days and register the twenty-first Century as a peaceful century in human history? The answer will very much depend on how these countries manage their foreign affairs.

¹ Though the European Union is a regional group, for purposes of linguistic simplicity it will sometimes be referred to as a “country” in this paper.

1. Economic Development and Security Circumstances after the End of the Cold War

The end of the Cold War has dramatically changed the map of the world's international security situation, offering the best security environment to many countries, and providing opportunities that have never been equaled in world history to countries developing their national economies. China, the U.S. and the European Union are the three greatest beneficiaries of the end of Cold War, both in the security and economic areas, despite the economic or internal problems some of these countries had in the 1990s.

Economic Development

China's economic growth was disturbed twice during the 1990s. Due to the Tian Anmen square event in 1989, China faced economic sanctions imposed by all western countries in the beginning of the 1990s, which lasted until 1995. The Asian economic crisis that occurred in 1997-98 also caused negative impacts on Chinese economic growth that contributed, with other internal factors, to the slowdown of Chinese economic development. Even though it was hurt by the sanctions imposed by western countries and the Asian economic crisis, Chinese economic growth still remained more than 9% per year during the 1990s. Its GDP multiplied more than four times from 1.854 trillion renminbi in 1990 to 8.2 trillion renminbi in 1999. China's foreign trade also increased quickly. Its total foreign trade volume expanded from \$115.4 billion in 1990 to \$360 billion in 1999, while its foreign currency reserves rose from \$11 billion in 1990 to \$154.6 billion in 1999.

Though the American economy was shaken up by the recession of 1990-1991, it recovered very quickly and has continued to expand. In January 2000, it surpassed the 1960s record of 106 months of consecutive expansion, making this the longest period of U.S. economic expansion since at least WW II. The American economy has recorded an average annual growth of more than 3 percent in the 1990s with a high level of price stability. Furthermore, while the U.S. unemployment rate run at a 30-year low of 4.1 percent, inflation did not rise despite the strong economic growth. Moreover, for the first time since 1969, the American budget was balanced in 1999, with a surplus of \$1 billion. This is the first time that the American economy is beginning to break away from a pattern of high deficit in its national budget and high debt, which have harassed American economic development since the 1970s.

Compared with Chinese and American economic growth, economic development in the EU countries has been slower. Currency speculation in 1992 nearly destroyed the European Exchange Mechanism (monetary system), while the recession in the middle of the 1990s dropped the EU countries into economic torment. Thereafter, the economies of the EU countries have recovered very slowly. However, pushed by the launching of the Euro on the first day of 1999, the EU countries, particularly Euro areas countries, made great efforts to clean up their economic system and build up a healthy economic and fiscal base, so as to successfully launch the Euro. Whereas the Euro has depreciated more than expected since then, it has the potential to become one of the most important financial tools to rival the U.S. dollar. In 1999, international financial institutions issued Euro bonds worth \$602 billion, accounting for 45% of the total bonds issued, while U.S. dollar bonds made up 42%. At the launching of the Euro, many foreign countries stated their intention to increase the rate of Euro in their national foreign currency reserves. In

the end of 1999, Hong Kong declared its intention to raise the percentage of Euro in its foreign currency reserves from 10% to 15%.

Security Circumstances

For a long time, China, the U.S. and the EU were threatened by the military expansion of the Soviet Union. This threat suddenly disappeared after the collapse of the Soviet Union, and the security circumstances for China, the U.S. and the EU have been considerably improved.

Moreover, the end of the Cold War created a positive atmosphere for countries to deal with security issues.

Within the three countries, only China has boundary issues with neighboring countries. These have tormented China for a long time and have even generated conflicts between China and some of its neighbors. However, since the normalization of relations between China and Russia, the latter in 1991 completely withdrew its armed forces from Mongolia. Furthermore, China signed the Agreement on the Western Sector of the Sino-Russia Border in 1994 with Russia, and in 1999 the two countries signed the Agreement on the Eastern Sector of the Sino-Russia Border. As a result of these actions, Russian Foreign Minister Ivennov was able to say after signing the last agreement in Beijing, "Henceforth, there is no boundary issue between Russia and China."

China also signed border agreements with Kazakstan, Kirgistan and Tajikistan in 1994; in 1999 it signed with Vietnam the agreement on the land border between the two countries. Thus, China has peacefully solved all its border issues with its neighbors except for India, which for a long

time has caused China anguish. However, negotiations on these border issues are now underway. Territorial water border issues between China and other countries still exist, but these issues are more manageable, as all sides concerned already have expressed the conciliatory intention to solve or freeze the issue.

In addition, in 1996 China separately signed with Russia, Kazakstan, Kirgistan and Tajikistan an Agreement on strengthening trust in military affairs in the border areas, and an Agreement on mutual reduction of military forces in border areas. China also agreed with Russia and the U.S. to detarget their nuclear missiles previously aimed each other. All these steps significantly improved the Chinese security environment. In the Korean peninsular, on the other hand, the potential for conflict has not been eliminated. Solving this issue will require all concerned sides to make greater efforts and with good faith. Furthermore, the tension in the Taiwan Strait created by Li Denghui's "Two countries theory" has not eased, and it still threatens the unity of China and the peace and the stability in this area. Yet, despite these problems, China has never had such favorable security circumstances in its contemporary history.

The U.S does not have a powerful neighbor, but during the Cold War it faced the challenge to its world interests and widescale destructive threats from the Soviet Union. However, the collapse of the Soviet Union eliminated these threats to American interest. Furthermore, the agreement on detargeting nuclear missiles between U.S, Russia and China has eliminated the only direct threat to the American territory, no country in the world is now able to directly threaten the U.S..

The security of the European Union countries also benefited from the collapse of the Soviet Union, which had stationed its the largest army in Eastern Europe and imposed great pressure on the security of the EU countries during the Cold War. Following this period, the dismantling of the Warsaw Pact left NATO as the only military organization in Europe able to take the leadership role in European security. The withdrawal of the Russian army from the former Warsaw Pact countries and the enlargement of NATO by the inclusion of three middle European countries (Poland, Hungary and the Czech Republic) pushed the NATO defense line closer to the Russian borders. The Kosovo War broke down the “Great Serbia idea” which triggered WW I and could have become another source of tension threatening the security and the stability of the European continent. Moreover, with the restoration of civilian government in Algeria, the Muslim fundamentalists were contained and the other potential threat to the EU was eliminated.

2. Perspectives of Development for China, the U.S. and the EU

China, the U.S. and the EU enter the twenty-first century with sounder economic development and more favorable security circumstances than they have perhaps ever seen. However, during this century, the role that a country can play in international affairs will be determined by its economic growth. The strength of its military power is less important, though this too must be supported by economic growth. The development of new technology, which can propel economic growth, also needs the support of economic growth (I will not deal here with the impact of policy). So the roles of China, the U.S. and the EU in world affairs and their mutual relations will be driven by how these three develop their economies during the twenty-first century.

China

The most remarkable evidence after the end of the Cold War is that China has continued to keep its economy growing rapidly. This started in the 1970s, and has outstripped even the miraculous growth of the “East Asia Tigers”. China has become a rising economic power in the world. According to predictions made by the Chinese government, with an average annual growth of 7%, by the year 2010, China will have doubled its year 2000 GDP. Its total imports in the coming decade will exceed \$2 trillion. If China realizes this economic growth target, its GDP in 2010 will surpass that of Italy, the U.K. and France, and perhaps that of Germany. China will therefor become the third or fourth largest national economy in the world. According to these estimates, by the middle of this century, China will have raised its per capita GDP up to the level

of moderately developed countries. If Chinese economic growth does indeed match the growth rate designed by the Chinese government, China should have a chance to become a major international power, such as the world has never known. The problem is whether China really has the economic potential to keep this rapid growth rate in the future.

Generally speaking, China possesses a huge potential for rapid economic growth and for maintaining a steady long-term rate of development:

- 1) Chinese GDP per capita is still very low: in 1999, it was only \$800. Even using the PPP (Purchasing Power Parity) standard, Chinese per capita GDP does not surpass \$4000. While this level can't compare with that of the industrialized countries, the gap between the two represents a huge potential for China's economic growth and will enable it to keep its economic development for a long time.
- 2) China's savings rate stays constantly high, from 35% to 40%. This high percentage did not fall in 1999, even though the Chinese government lowered interest rates to a historic low level and raised the tax on savings interest. All the measures that the Chinese government undertook to push consumer spending failed to discourage savings. The stable high level of saving should guaranty the investment rate of up to 30%.
- 3) According to Chinese government statistics, in 1997 the contribution of Chinese consumption (not including public purchases) to GDP growth was only 46.98%. Compared with the 70% rate of industrialized countries, this rate is very low and provides a big

potential increase for consumption in China, which should also attract more foreign direct investment. Furthermore, Chinese accession to the WTO will gradually open the door of the Chinese market to foreign direct investment, which could spur economic growth and in turn push China to deepen its economic reforms, speeding up its economic integration into the international economy. Nevertheless, China's accession into the WTO can also have some short-term negative impacts in short terms on the Chinese economy.

- 4) There is great disparity in development levels between the eastern and western parts of China. Nevertheless, this could provide China with more flexibility in restructuring its economic structure in the future, by transferring less advanced manufactures from the east to the west and to thus offer thus more opportunities for investors.
- 5) China's foreign debt is proportionally low. So far, Chinese current medium- and long-term foreign debt is about \$120 billion, while short-term debt is about \$40 billion dollars. Furthermore, the redemption rate has always been under the internationally recognized 25% warning line.
- 6) The parity of China's medium/long-term and short-term debt is rationally sound and healthy. The majority of foreign capital flowing into the Chinese capital market has been generated by FDI. These two factors have consolidated the Chinese capital market, making it more difficult for it to be manipulated by international speculators. Besides, Chinese foreign reserves are at a very high level, with \$156 billion in 1999 and, which could further increase. Including those of Hong Kong, total Chinese foreign reserves are about \$250 billion dollars.

This amount is sufficient to defend the exchange rate of the renminbi, and the Hong Kong dollar, and prevent speculative attacks after the renminbi becomes a convertible currency.

While the potential for Chinese economic development is huge, this does not mean that China will be able to take advantage of it. Everything depends on what policies China will undertake in the future. Specifically, it depends on further success in deepening its economic reforms, on how China pursues its political reforms, and on whether China is able to maintain internal stability.

After the successful economic reforms of the past two decades, Chinese economic reform has entered into its most difficult stage, which should determine whether its economic system can function efficiently according to market economy principles and merge with the international economic system. To achieve this purpose, China should reinvigorate its many inefficient state-owned enterprises, transform its ownership system, enhance its legal mechanisms, restructure its banking system, modernize the management of companies, reform its economic system with market economy principles on the basis of the Chinese reality, and so on. The Chinese government has already started further economic reforms and has vowed to realize them. Some of them have been fruitful, but others need more time to take effect. The accession of China to WTO should provide the strong propulsion for China to spur its economic reforms and give it a new opportunity to more quickly merge its economic system into the international economic system.

The necessity of political reforms in China, both to stimulate economic development and ensure national stability, is becoming more and more urgent. This point has already become a national

consensus in China. The problem is how to advance the reforms. The goals of the political reforms must be to improve the life of the Chinese people, assure their welfare, and preserve the unity of China. Without these goals, the reforms cannot be supported by the majority of Chinese people. Furthermore, very quick political reforms that are beyond the capacity of China to bear, and which are not based on Chinese realities or civilization, would lead China to national chaos or to becoming a militaristic country, which would be a catastrophe both for the Chinese people and the rest of the world. On the other hand, China needs to learn from experiences of other countries regarding the rules of law, governance and political systems, and combine them with Chinese realities and Chinese civilization to push its political reforms forward, step by step. The indispensability of political reforms requests that Chinese leaders be more courageous to reform the Chinese political system that they are familiar with, and put it completely under the effective supervision of Chinese people.

Without national stability, China cannot proceed with its economic and political reforms, but the continuance of the economic and political reforms consists of two more important guarantees to keep national stability. This is a major dilemma for the Chinese government and the most serious challenge that the Chinese government should cope with in the near future. The first dilemma is that transforming the economic system and making political reforms will generate very serious unemployment issues, which could become a source of instability in China if the government does not appropriately deal with the issue. The second dilemma is the social decay from the increasing disparity between poor and rich people and between the eastern and western areas, which are other sources that could endanger the stability of China. In fact, some scholars have predicted that China could be dissolved because of the so-called struggle between regional

powers and central power. But this situation is unlikely in China. During Chinese history, China was indeed broken apart many times. This was often generated by foreign invasions or very severe natural catastrophes combined with the loss of control of the central government. Nevertheless, the sense of unity in China prevails over the sense of dissolution.

China would have a greatest chance of succeeding in keeping its rapid economic growth by reforming its economic and political systems, thereby becoming one of the most important powers in the world. However, it is difficult to foresee how China will proceed with its reforms. There will be many twists and turns, many false starts, and perhaps even temporary about-faces. But the best thing that the rest of the world can do is let China work this out for itself, exchange its experience with China, and give suggestions rather than repeatedly trying to impose its ideas on China. Whatever happens, and whichever direction China moves in, the Chinese people will draw on their long history to continue the economic and political reforms with its own characteristics, its own style and its own speed. Every attempt to force China to accept others' ideas can only generate the opposite effects, even though some ideas could be revealed as very important.

The U.S.

American economic expansion has just entered its ninth year and could continue going on for years to come. However, according to the business cycle of the market economy, the economic boom will eventually end and the economy will enter a recession, even though some economists predict that this cycle is dead because of the “new economy”. Others predict that American

economy could grow for at least next ten years. The American economy could continue to develop, but its base is already damaged, perhaps seriously.

1) Speculative bubbles in the American economy have arrived at an alarming level, up to 34%.

The American GDP is more than \$8 trillion per year, but the virtual economy has already reached about \$13 trillion. However, this bubble in the American economy still expands, given the fact that about 45% of American families try to earn money by investing in stock. Furthermore, one-third of American dollars circulates outside of the U.S, so it is dangerously reliant on foreigners' willingness to buy dollar assets. Moreover, the savings rate in the U.S. is down to historical lows. This bubble is supported by strong rising value of shares on Wall Street and the inflow of foreign capital because of the high-level gains from the American stock market. But this bubble could burst, similar to what happened in Japan.

2) Corporate and personal debt levels in the U.S. are rising quickly. By June 1999, 85% of the total amount of corporate debt in the world was due to American companies. The percentage of personal debt in the U.S. has reached 132% of the American GDP, the highest level record in the American history. The average amount of personal debt is close to 82% of their annual incomes.

3) The U.S inflation rate has remained low during the last few of years. This has been due to the strong dollar vis-a-vis other currencies, very cheap goods imported from many foreign countries that were obliged to depreciate their national currencies due to deep financial crisis, and the U.S. raising productivity generated by the "new economy". But the vigorous imports

spurred by strong consumer demand are driving the American foreign trade deficit up to unprecedentedly high levels. The U.S economy cannot endure such a high level of trade deficit for a long time, which should weaken the dollar position and trigger depreciation. A high rate of productivity growth, as a double-edged sword, could also indirectly encourage inflation, because of the very quick rising of stock prices. And the rapid recovery of the Asian economies can also increase the price of merchandize in the world market, which adds more factors to the possibility of inflation in the U.S.

- 4) This very strong and steady consumption has been generated by the confidence of American consumers in the American economic boom, along with the high returns from the stock market. The increase of American population with immigration also supports the economic boom. This high level of consumption could keep on for the coming years, but it already shows signs of tiring, which would cause negative impacts on the U.S. economy. So the U.S. needs to find other markets to absorb its goods and services, which could at least reduce the shock of a potential recession to the U.S economy.

American economic growth during the 1990s is unprecedented in American economic history. But the cumulation of problems that have been aggravated by overheated development will not allow the American economy to continue its way of growth. Few doubt that the next recession will come soon. The problem is when, and how deep this recession will be. The issues that the U.S. economy faces are not easy to resolve. No market economy so far can avoid or resist the punishment of the business cycle. However, the U.S. economy still has the chance to alleviate potential impacts of the recession in the future.

After switching from a budget deficit to a surplus, the American government has the ability to remove a total of about \$5.7 trillion in federal debt, which it plans to do by 2013. If this goal were realized, the financial state of the U.S. would be healthier, which would also provide the American government with more freedom and financial tools to handle other economic issues that could undermine the sustained development of the U.S. economy.

Management of the macroeconomy is becoming more and more mature, both in theory and practice. The American government, particularly the Federal Reserve has accumulated negative and positive experiences on macroeconomic management and has become more confident in using monetary policy, combined with other economic management approaches, to prevent the overheating of the economy or to stimulate economic growth. The success of the Fed in carrying out the soft landing of the U.S. economy during the middle of the 1990s has contributed to dealing well with the forthcoming recession.

The U.S. is still the pioneer of new technologies with higher spending on R&D than other countries, and the capacity to attract professionals from the entire world. The development of new technology in the U.S. has engendered the so-called new economy, which has contributed to the continued expansion of the economy.

The agreement signed by American and Chinese governments on China's accession to the WTO will gradually open wide the door of the huge Chinese market to American goods and services. The WTO agreement with China will offer a great opportunity for American businesses to export

to the Chinese market, which should help take up the slack when internal consumption in the U.S. decreases and could postpone the next recession, or at least ease its shocks, despite very hard competition inside the Chinese market. The dollarization trend of the Latin American countries will also strengthen the U.S. dollar's position in the world market and put the U.S. in a very favorable position to compete with other countries in Latin America.

But as a market economy, the U.S. cannot avoid the business cycle, which periodically punishes economies. America's economic recession is inescapable; however, given that the American government has more macroeconomic management tools to adjust the national economy, the recession could reveal a new characteristic, and perhaps be much less deep but longer than the preceding recession.

Nevertheless, the U.S. economy should be able to recover and keep growing, sometimes strongly. Underestimating the performance and the potentiality of the U.S. economy and the capacity of its self-recovery would be a big mistake. This enables the U.S. to continue to play the role of leadership and to act as locomotive of the world economy. But with rapid economic growth of China and strong recovery of the European Union countries, the position of the American economy in the world economy will be eroded.

The European Union

The aim of all integration approaches put forward by the EU is to let it become one of the strongest economies in the world and to take a position parallel with that of the U.S.. Since the

signing of the Maastricht Treaty, the European Union has taken a deeper step, which has enhanced the cohesion of the ongoing integration for the EU countries, enlarged its economic scale, and succeeded in harmonizing economic policies within member countries. The successful launch of the Euro and the creation of the European Central Bank and Eurosystem offer the EU the tools to manage its macroeconomy with the same monetary policy, by which Euro area countries are able to closely coordinate their national monetary and fiscal policies. The EU countries already possessed favorable conditions to welcome their economic boom for the coming years.

- 1) The strict monetary and fiscal disciplinary requirements set by the Maastricht Treaty for would-be member states of the European Monetary Union have for the first time created common monetary and fiscal policy goals among them. These strict disciplinary requirements have driven these countries to clean up their national fiscal base, so that even their national economic growth has been sacrificed. The commitment to these strict requirements contributes to a solid and healthy economic ground for Euro area countries, which is indispensable to sound economic growth. The rate of domestic saving in the European Union countries is high and debt is very low. If one counts the foreign currency reserves of the European countries together, the total reached more than \$280 billion dollars in 1999, which surpassed the Japanese and Chinese foreign currency reserves.
- 2) The successful launch of the Euro brought institutional changes to the EU, providing the EU with a common monetary and financial tool, which is very important for stimulating harmonious economic development. The structural reforms realized by Euro areas countries,

followed by other EU countries, created a sound economic environment for the sustainable economic growth in the future and the possibility of assuring the successful issue of the Euro banknote and the stabilization of the Euro in the international currency market. The stability of the Euro should be a catalyst for greater European economic integration, which could lead to a greater economic and financial potentiality to assure future sustainable economic development.

- 3) Massive investments made by the European Union countries in the Central and Eastern European countries during the 1990s and the industrial restructuring undertaken by EU countries over many years will be fruitful in rationalizing European industry, improving the productivity of the EU countries, and strengthening their competitive power in international markets.
- 4) The 15 countries of the EU are the biggest common market in the world. Over the next 25 years, the EU could enlarge the European Union from 15 to 20, or even to 25 or 30 member states and increase the scale of its market, which can offer more potential to absorb more goods and stimulate economic growth, as all the new potential members are middle-income countries. The economies of Russia and other former-Soviet Union countries have already reached the bottom of recession and are beginning their recovery. Because of its proximity, the EU should get more economic benefits from this recovery.

But the EU is composed of different countries and cannot be integrated like a single country. Its capacity and efficiency of economic management will be contained by long, sometimes very

difficult, coordination between member countries, restrained by different national needs. Also, new integrated institution, the European Central Bank, needs time to be tempered to manage the EU economy.

- 1) The Euro will be challenged by possible international speculation when the Euro banknote is issued. The EU countries have already learned lessons from the monetary crisis of the early 1990s, in which the European monetary system was nearly devastated by speculation. They have consolidated after this crisis and cleaned up their banking system and monetary mechanisms. The achievement of strict monetary and fiscal disciplinary requirements has made the economic ground of the EU countries healthy, so its capacity to handle large international speculation has been strengthened. Unfortunately, in 2002, the economic growth of the EU countries may not be strong enough. The new monetary institution needs more time to be tempered and improved. The coordination of economic policy within the EU countries is sometimes not effective or harmonious. All of these could weaken the position of the Euro when it becomes a true international currency. Therefore, the Euro could be considered weak and subjected to international speculation, which could crash down the economic growth of the EU countries, and even devastate the new Euro if the EU countries cannot properly deal with it.

- 2) How the EU countries will handle the dilemma between enlargement and deeper integration should be related to the EU target, which is to realize the sustainable development of the economy. Deeper integration with institutional reforms will abate the heavy bureaucracy of the EU with 15 member countries and speed up the process of policy-making, which is very

important for the EU in coping with economic challenges. But EU enlargement will move in the opposite direction, away from deeper integration. Obviously, the enlargement should increase the market for the EU without touching on the political aims; however, a deeper integration with institutional reforms should determine whether the EU really can become an economic superpower that is able to compete with other economic superpowers.

- 3) Monetary and financial policy play an increasingly important role in regulating the economy and can be independent of governmental intervention. This is the role of the European Central Bank (ECB). The Euro can be a catalyst in pushing the integration of the EU. However, given the fact that the EU is still not a unique country as a federal state like the U.S., the coordination of economic policy always reveals weaknesses. On the one hand, the procedure of the ECB's policy-making is somehow overlapped, which could slow down the speed of policy-making and reduce the efficiency of the reaction against quick changes in the market. On the other hand, despite the fact that the economic policy within same wings of political parties in EU countries has become closer, the policies of political parties in power could easily be influenced by internal factors, particularly during economic or social crises, thus making coordination between EU countries harder. This weak coordination could in turn generate negative impacts on economic development.
- 4) Some structural problems still exist in the EU countries, including high labor costs because of the very expansive social security system, excess regulation, and inelastic labor markets. These problems are not easily solved. Any solution, for example, introducing the principle of flexible labor market or reducing governmental expenditures for social security is unpopular.

However, without solving these structural problems, the sustainable development that the EU countries pursue cannot be achieved.

The EU countries have become an exciting laboratory for the world. Their experiments with a new model of organization of their economies, by integrating old national countries on the European continent, should offer a new economic institution to the world and contribute to the globalization in its own way. The integration of the EU will encounter mistakes and obstacles, but it is already past the point of no return. Once the EU realizes its integration, it should reach its aim and become one of the most important economic and political poles in the world and bring more contributions to the economic growth of the world.

3. Does China Threaten the World?

Obviously, the status of China the U.S. and the EU may vary dramatically during the twenty-first century because of the importance of their economic volumes in the world economy. China, with its geographical size, massive population, strong economic growth and growing technological and military potential, is a rising power and will make a considerable impact on the world. The European Union, with its large population, forthcoming stable economic development of economy pushed by a deeper integration and enlargement, is already enjoying a renaissance and will strengthen its voice in world affairs. However, the U.S superiority may not last for very long. Its relative position to others will inevitably be eroded.

The European Union, with its increased economic position in the world, should take on more responsibility and share more in the leadership in international affairs, just as launch of the Euro will challenge the dominant position of the U.S. dollar in the world economy. But, as the EU is itself composed of separate nations, it has a long way to go to manage international affairs in "one voice". Until that time, the voice of the EU will be weaker than that of the U.S., and its security will still need American military protection. The European Union will therefore remain politically dependent and weak for years until it achieves one identity and behaves somehow like one nation-state to exercise a totally independent role in international affairs.

However, China, with the faster growth of its economy, huge potentiality and political independence, could very quickly become one of the major players in world affairs. The inevitable evolution of China will change the existing world order. Because of this, many express

concern whether China will play the game within the existing rules or whether it will make big trouble. Some even fear that China could generate another war and bring the world into chaos.

Will China behave like a troublemaker and perhaps even drag the world into war during its way to becoming a big power? In contemporary history, a new rising power often broke down the old balance of powers and brought great trouble to the existing world order. From the U.K. to the Soviet Union, France, the United States, Germany and Japan etc, the world has witnessed the influence of these rising powers. Some new rising powers, like the U.K and the U.S., became dominant power in the world by breaking down the old world order. Others like Germany and Japan, made bloody regional or world wars to challenge the old world orders, while the Soviet Union used the Cold War to try to dominate the world.

The temptation to a rising power to use military force to break down the existing balance of forces and undertake its expansion is mostly motivated by economic factors. They can be summarized in three different factors.

- 1) Controlling a larger share of world markets;
- 2) Seeking more space of "survival"; and/or
- 3) Disputing the sphere of influence.

British and American expansions could be considered as part of the first group. The British army defeated other European military powers, conquered and colonized vast non-European countries, and established a huge world empire. Its military activities granted the Britain a dominant

position in the world. The United States excluded the Spanish forces and influence from Latin America by declaring war against Spain, and transformed Latin America into its backyard and colonized the Philippines. In this sense, the Spanish-American war is the turning point for the U.S. After this war, the United States became the unique big power in the Western Hemisphere and thus emerged on the world scene.

The second factor could explain activities undertaken by Germany and Japan. Germany tried twice to become a big power in the world, but believed its way toward that goal was obstructed by other great powers and that it did not even have enough space for "survival". So Germany did not hesitate to declare war against other powers to seek more space for "survival" and brought the world into wars. Japan, for similar reasons took military action against other countries.

The third factor could be applied to the former Soviet Union. Even without a hot war between the Soviet Union and Western countries, the Cold War spread wildly. It involved almost all countries in the world and had tremendous impacts on their international relations. Though this was considered an ideological war, it was in fact mainly motivated by economic reasons, too. According to the Stalinist interpretation of Marxism, the world market is divided in two parts: one part is the capitalism market and another is socialist. These two markets are totally separated and compete each other. Between the two markets, there is a big area that is for developing countries. Whoever is able to control this area can control the world and win the ideological war. This is why the Soviet Union made every effort to spread its sphere of influence around the world.

Will China follow the same path that the other rising powers have traced in human history and threaten the world? The answer is “no”. It is true that China is developing its economy very quickly and will become one of the world’s biggest economic powers. China also needs many more goods and materials to support its economic growth, like other countries that have realized industrialization. However, China is a large country both in terms of geography and population, and these factors provide China with a potential huge internal market. In particular, the living standard of the Chinese people remains very low, even if China realizes its goal of economic development by the middle of this century, as is analyzed previously. This potentiality offers China the possibility to enlarge its market, as its economic growth needs. Also, the Chinese accession to the WTO will both open Chinese market to the world and provide the possibility for China to compete in the world market with other countries and to integrate the Chinese system into the international system. Undeniably, its rapid economic growth will push China to consume more resources than it can satisfy by itself, and this will lead China to rely on the international market for its raw materials, especially energy resources. However this issue can be solved according to market principles and not trigger conflict if no one tries to unilaterally control these natural resources.

Chinese territory has fed the Chinese people for a long time and helped China create a brilliant civilization and history. This territory should be able to continue feeding Chinese people, especially as the growth of the population will reach its peak in the next ten years, and the pressure brought by the growing population will therefore be eased. So China does not have the so-called problem for space of "survival". Also China has already opened its door to the world and shown it is willing to integrate into the international system. Germany and Japan, by

integrating into the international economic system after 1945, set good precedents for this by reaching the positions of the second and third biggest economic powers, which they failed to do through war.

China does not need a sphere of influence or disputes with other big powers. China considers the world market a global market and is making efforts to integrate its economic system into the international system. China has also abandoned ideological contest, as it does not have the political will to become a superpower in the world and only expects to build up a peaceful environment to achieve the four modernizations - Industry, Agriculture, Science and Defense- by developing its economy as quickly as possible. In the future, with its strengthened economic power, China's impact in the Asian region and the world will be increased, but this is different from a sphere of influence. A sphere of influence means a big power tries to put other smaller countries under its control or make them follow its policy and not allow third countries to deal with them. Given the consistent principle of its foreign policy, China would never want to exercise this kind of influence on other countries (this will be further analyzed below). There is a big difference between China and the Soviet Union.

Economically speaking, it is groundless to say that China could threaten the world, when China is on the way toward becoming a big power. Some international affairs experts argue that China is historically an expansionist country, and give many examples showing how China has expanded during its history, to try to prove that China will threaten other countries, even the whole world, when China becomes stronger in the future. But does Chinese history justify this argument?

On the one hand, China had four periods of expansion, which occurred in the Han Dynasty (from 206 BC to 220 AD), the Tang Dynasty (618 AD to 907 AD), the Yuan Dynasty (1271 AD-1368 AD) and the Qing Dynasty (1644 AD-1901 AD). The expansions during the Han and Tang Dynasties can be considered in a way as passive expansions, similar to the U.S expansions during the nineteenth century. At the beginning, these two dynasties were too weak and their forces were too concentrated to realize the unification of empire; the emperors were obliged to make big concessions facing attack or aggression from the north. However when the forces of the dynasties became stronger and finished the unification war, the emperors organized the counterattack. The emperors of the Yuan and Qing Dynasties were from nomadic people who conquered other peoples. Their expansion in the early rule of their dynasties was marked by the culture of nomadic people and didn't represent the main trend of Chinese culture, which is of the Confucianist tradition. As an opposite example, during the early Ming Dynasty, the emperor many times sent a very powerful fleet abroad, which even reached the coast of East Africa. Unlike the European colonialist countries later on, the Chinese fleet didn't colonize these countries but landed only to show Chinese goodness to native peoples. This event may be hard to believe according to the logic of colonial period, but this is what the Chinese fleet did.

On the other hand, the most important is to have internationally recognized standards to judge whether a country is expansionist or not. This common standard should be international law. Without this common standard, any justification by using historical records does not make sense. Nevertheless, the record of Chinese expansion in history occurred before the appearance of international law. Otherwise, we can say almost all European countries, the US, and some big Asian countries should also be considered expansionist. Even Sweden could be an expansionist

country, because it occupied other countries in history; Poland and Greece too, as these countries expanded their territory and created a big kingdom or empire. However, this kind of analysis can hardly help understand the policy of a country for a future period; it only contributes to mutual misunderstanding and reveals the irresponsibility of some experts. Returning to the case of China, even after the appearance of international law, China became a target of aggression, occupation and humiliation from colonial powers. After the founding of the People's Republic of China, China has used its military forces for several times to defend its territory and border security, but these conflicts were characteristic of self-defense.

Thus, history cannot prove that China will become an expansionist country. However, some others argue that given the fact that China is an authoritarian country but not democratic one, the growing power of China will lead it to become expansionist and threaten international society. According to this theory, this is because democracies do not fight each other; only an authoritarian country has the possibility to fight other countries.

This theory is based on the fact that the three countries that began the WW II were not democratic; neither was the Soviet Union in its conduct of the Cold War. But there are in fact two different points about the impact of democracy: one is the democratization of managing international affairs, and the second is the stand of national country vis-à-vis international affairs. It is certain that the democratization of international affairs should be the guaranty of the world peace and security. Theoretically, countries with democratic systems should not fight against others nor aggress against others because they respect each other on the basis of the same

political values and solve their differences by democratic procedures. Also under a democratic system it is easier to contain leaders from declaring war.

Nevertheless, democracy is a double-edged sword and will not always lead countries to remain peaceful. In history, democratic countries have sometimes declared war against other countries, colonized other countries, or facilitated authoritarian political forces to take over national power. WW I was declared by countries that had a considerable level of democracy. The political system of one country is undeniably a very important factor in determining whether it is an expansionist country; however, the most important factor is what kind of foreign policy a country applies.

The problem is what is the basis of foreign policy that China applies and will choose in the future.

Since its foundation, the People's Republic of China has constantly maintained its foreign policy based on the well-known five principles of Peaceful Coexistence proclaimed by it in the 1950s: Mutual respect for sovereignty and territorial integrity; Mutual non-aggression; Non-interference in each other's internal affairs; Equality and mutual benefit; and Peaceful coexistence. These five principles mean that China wants to establish international relations with all other countries, whatever their political systems, to settle differences with them by peaceful means and to never threaten other countries. In the 1970s, China publicly pledged and has repeatedly vowed that China never seeks to become a superpower or pretend to hegemony. At the end of the 1980s, the

orientation of Chinese foreign policy was further defined as: Conceal capacities; Be good to keep a low profile; Never become a leader; Make some contributions.

The basis of Chinese foreign policy is solidly rooted in traditional Chinese civilization, the painful memory of the past, and it fits with Chinese national interests. This means China's top foreign-policy priority is subordinated by its powerful desire to modernize its economy and maintain the peaceful international environment that Chinese economic growth badly needs. Chinese leaders have promised to the world that China will neither be a superpower nor seek hegemony. Even former Chinese leaders, Mao Zedong and Zhou Enlai, repeatedly told foreigners that if China became a hegemonic country one day, the entire world should rise against it. In the world, no other national leaders have called other countries to fight against their own country in case it becomes hegemonic. This strong statement clearly shows the Chinese determination not to seek hegemony. To relieving the concern on so-called Chinese hegemony, China has declared in the Joint Communiqué signed with United States in 1972 that "neither should seek hegemony in the Asia-Pacific region".

To solve differences with its neighboring countries, China has always been willing to use peaceful means and avoid potential military conflict. In past years, China has resorted several times to military force to protect its national interest, because all peaceful measures failed and China deemed that there was no other choice to defend its national security. Since the 1970s, however, China has shown further peaceful desire in presenting new formulas for the peaceful settlement of the territory divergences with neighbor countries; notably, the phrase "Set aside the issue of sovereignty and develop them jointly", with the short expression "joint development".

This idea is to have the concerned countries jointly use the disputed areas before discussing the issue of sovereignty to resolve territorial divergence.

One of the four Chinese modernizations is military modernization, which is considered by some analysts as evidence of a Chinese threat to other countries. But with the rapid development of national economy, China should obviously modernize its military forces to fit the need to protect national security. In particular, China will strengthen its naval force, which is slowly moving from coastal patrols toward an ability to go to the ocean. Perhaps in the future, the Chinese navy could possess some aircraft carriers.

Some analysts think that the modernization of the Chinese navy could serve as the vehicle to realize future Chinese expansion and could threaten American national interest in Asia-Pacific areas. But this kind of analysis lacks a fundamental basis. First, no power in the world does not try to modernize its military force. Second, China insists that economic construction be taken as the center, and that defense work be subordinate to it. The size of China's armed forces is suited to the needs of defending the country's security and interests, and the modernization program of China's national defense work is entirely for self-defense, and arises from the need to safeguard the country's modernization drive and security. Third, China is both a continental and coastal country. China has a mainland coastline of more than 18,000 km. There are more than 5,000 islands in China's territorial waters, with an area of more than 500 sq. m, and the islands' coastline totals more than 14,000 km. China also exercises sovereignty and jurisdiction over vast continental shelves and exclusive economic zones, as defined by the UN Convention on the Law of the Sea.

China needs a strong navy to protect its territorial sea and exclusive economic zones defined by UN Convention on the Law of the Sea. Therefore, Chinese military modernization is still characterized by self-defense determined by Chinese foreign policy. China does not expect to send its naval fleet everywhere in the world; hence, there is no reason to worry about the orientation of Chinese military modernization. If one day China uses its military forces to impose its view on a foreign country and not for self-defense, and to dispute the sphere of influence with other countries, this army would become an expansionist army. But this is not the case and will not be so, even in the future.

Chinese foreign policy is still peaceful. China's top foreign-policy priority remains the same in the new century: to be subordinated by its powerful desire to modernize the Chinese economy, and the need to maintain a peaceful international situation without seeking hegemony or disputing spheres of influence. China hopes to settle differences with other countries by peaceful means and avoid any military choice up to the last minute. China really likes to play a constructive role and make its contribution to the peace and stability of the world. Threatening other countries fits neither with Chinese civilization nor its national interest. Furthermore, the integration of the Chinese economic system will strongly enhance the economic interdependence between China and rest of the world and encourage the peaceful cooperation within them. China needs the understanding of other countries and their cooperation. It is very important to interpret Chinese foreign policy according to the philosophy of Chinese civilization and not by following the logic of others countries. However if western countries tend to contain and weaken China, this would put China in a corner and lead the world to an unstable situation. To keep the world in

peace and prosperity and eliminate any potential war, it is indispensable for China, the U.S and the EU to manage their foreign policies well and to deal carefully with the relationships between them.

4. Making Efforts To Manage International Affairs Well

During the new century, the most important issues that the countries of the world are facing are how to keep peace, develop their economies and avoid major dramatic conflicts that the world has experienced. Appropriate handling of these issues will very much depend on how the major powers deal with each other.

China, with its rapid economic growth and systematic reforms, will become a dynamic major power in the world and increase its influence in international affairs. The European Union, with its deeper integration and economic restructuring, will strengthen its position in the world and inevitably look for more responsibility and leadership in the area of international affairs. The United States, retaining its superpower position, will continue to play the role of leader and deal appropriately with new rising powers. Therefore, these three countries will strive to manage their relationships well, so as to cope with challenges that the new century will inevitably confront them with.

The Bilateral Relationships of China with the U.S. and the European Union

Political Relations

Since the 1990s, China has separately proposed its principles for developing relations with the U.S. and the European Union. The principles with the U.S. can be summarized as follows:

- Increasing mutual trust
- Enhancing cooperation

- Reducing trouble; and
- Avoiding confrontation.

The principles with the EU are as follows:

- Looking toward the twenty-first century and building stable long-term friendly relations and cooperation
- Mutual respect for each other and seeking common ground while putting differences aside
- Engaging in mutually complementary and beneficial cooperation so as to promote common development; and
- Strengthening consultation and cooperation in international affairs.

Comparing these two sets of principles, the big difference is that China's policy with the U.S stresses the importance of the two countries working together to reduce trouble and avoid confrontation. With the EU, there is no such a mention: China always points out to the EU countries that there is no fundamental conflict of interest between China and the EU, because China does not worry about the Taiwan issue with the EU. However, this issue as well as the security issue in the western Pacific area may lead China and the U.S. to confrontation. Thus, China's relation with the EU is more stable than that with the U.S.. Dealing well with this issue thus becomes the dominant factor which could determine the relationship between China and the U.S., as well as the peace and stability in Asia, and even in the world.

The Taiwan Issue

Since the normalization of Sino-American relations in 1972, in order to keep peace and stability in the western Pacific area, China has stressed that it has no intention to become a superpower or to seek hegemony. China even declared jointly with U.S that "neither should seek hegemony in the Asia-Pacific region". In the 1990s, China emphasized the principle of reducing trouble and avoiding confrontation to show its peaceful will in its relationship with the U.S. Avoiding confrontation has two meanings. For the Chinese side, China does not challenge the American interest in this area or oppose the American military presence in Japan and South Korea. For the American side, the United States does not obstruct China in achieving its reunification with Taiwan.

After the 1970s, China ceased to criticize the American military presence in Japan and South Korea and accepted it as fact. By doing so, the Chinese government has kept its promise. However, the Taiwan issue remains unsolved, and the trend of Taiwan's independence has become even stronger than before. There are many differences between China and the U.S. in the areas of political values, human rights, the new order of the world and the like. But none of these can be compared with the Taiwan issue, which constitutes the major obstacle to the stability of Sino-American relations and has been tormenting their relationship. If this issue is not well managed, all aspects of the relationship between China and the U.S. would be greatly jeopardized.

Since 1949, the situation in Taiwan has changed greatly. The biggest change is that Taiwan has recently realized the switch of ruling political party by popular vote, and the political party that

requests Taiwan's independence took over the government of Taiwan. This has complicated the settlement of the Taiwan issue. In the United States, support to Taiwan still remains strong; some political forces have indeed tried to support the independence of Taiwan, in spite of the One-China policy subscribed to by the American government. Recent political changes have given these Taiwan supporters more arguments because Taiwan had already become a democracy and the United State must strongly support it. If this support is based solely on recent events without relation to the history and other aspects of the Taiwan issue, this argument could sound reasonable. However, the Chinese people have a quite different view.

At the beginning of the Chinese civil war, disregarding Mao Zedon's demand to keep out of the confrontation between the Kuomintang and the Communist Party, the United States became deeply involved and supported the Kuomintang against the Communist Party. The Kuomintang lost the support of the Chinese people and was defeated. Unfortunately, during the debate in the U.S. over who lost China, many American politicians did not understand that the autocratic policy applied by the Kuomintang was the main reason for its failure. They did not see that it was the Chinese people who rejected the Kuomintang government, but argued the need for a continued support to this government. The Korean War further enhanced the view of these that believed in the Cold War.

This autocratic power thus moved to Taiwan in 1949 and has since received political, military and economic support from the U.S. Only since 1987 has Taiwan abandoned the old policy and started the democratic process. Given the historic support to Taiwan from the U.S, everyone

knows that the Taiwanese authority has always been supported by the United States during the last fifty year, regardless of whether its authority was autocratic or democratic.

In addition, China has repeatedly promised that the Chinese central government will permit Taiwan to keep its political system and manage its own internal affairs. Clearly, reunification cannot jeopardize the democratic system in Taiwan, and the Chinese central government has never had the intention to take over the governance of Taiwan.

There is no question of switching the Taiwanese political system. The core issue is that the U.S really would not like to see China's reunification. The argument used to support the Taiwan democracy could not be accepted by the Chinese people, because they believe that is only a pretext used by the U.S. to contain and weaken China. This big difference of view on the Taiwan issue between Chinese and American is very dangerous and not helpful in solving the Taiwan issue.

For the Chinese people, the Taiwan issue is linked to national sentiment. The state of separation of Taiwan with the Chinese mainland is considered by Chinese people to be a shameful national humiliation and painful memory of defeat by colonialist forces. So the Chinese people have a strong national aspiration to reunify Taiwan with the mainland, even though it may cost a high sacrifice from the Chinese nation. Every attempt to block reunification efforts will be considered by the Chinese people a continued humiliation that will excite in them a stronger nationalist sentiment. No Chinese government can ignore this sentiment. Any Chinese government that

abandoned Taiwan would be considered traitorous by the Chinese people and be deprived of their support.

The Taiwan issue has already become the hottest issue between China and the U.S to test their relationship. This unsettled issue is a major obstacle to building up a stable and constructive relationship between the two countries, and will hurt their vital national interests, thus creating difficulties for world peace and prosperity.

In January 1950, the former U.S. Secretary of State Dean Acheson mentioned during a speech at the National Press Club that the U.S. has to avoid the Chinese people switching their irritation and indignation from Russia to the U.S. He stressed, If this happens, this is stupid. So, the U.S. has to apply its constant policy to China: "Anyone who violates the integrity of China is the enemy of China and is acting contrary to our interests". Unfortunately, the Korean War switched Chinese resentment to the U.S. In recent years, because of the repeated mistakes of the United States in its policy towards China, particularly after the bombing of the Chinese Embassy in Yugoslavia, an anti-American nationalist feeling has strongly developed among the Chinese people. Every measure undertaken by the American government that is considered by China as support of Taiwan's independence will raise a stronger anti-American feeling among the Chinese people, who could push the Chinese government to change its current foreign policy. This kind of ambience is not helpful to the Chinese government in its pursuit of economic and political reform.

If the American Congress passes the Taiwan Enhancement Act and it is not vetoed by U.S. President, this means they do not care about very strong opposition from China. This act, if passed, will be considered by China as the U.S. not honoring its commitment to the "One China" policy. It will badly harm the already very fragile Sino-American relations and destroy the last hope to peacefully settle the Taiwan issue. This evolution could lead China and the U.S. to a confrontation in which there will be no winner. The U.S. would be involved in a conflict by Taiwan issue that does not hurt its vital national interest. This eventual conflict could damage its world strategy and decrease its influence in the Eastern Asian area, even in the world. Furthermore, even though China may achieve the goal of reunification, it will lose its economic growth and jeopardize its relations with the rest of world. The lessons of the Korean War deserve the attention of the both sides.

The Korean War has changed the geopolitical map of the world. China and the U.S. tried to avoid becoming antagonists, but were driven into this war by other countries. Yet during the war, the U.S. had the opportunity to avoid confrontation with China by not ordering the American army across the line of demarcation. However, because of the miscalculation made by General MacArthur, direct confrontation was not avoided. China and the U.S. indeed paid a high price by freezing their relations for 23 years. Meanwhile, other countries reaped big geopolitical and economic benefits.

Obviously, confrontation between China and the U.S on the Taiwan issue does not fit with either country's vital national interests. For saving the peace, China and the U.S. have the responsibility to solve the Taiwan issue on the basis of "One China" principle by peaceful means. So, China

will respect the U.S. vital interests in the Pacific area, and the U.S. should continue to recognize that Taiwan is part of China and respect other Chinese vital interests. The recent election in Taiwan also provided an opportunity for both sides to handle this issue well, despite the claim of independence by the political party that will handle the power. Anyway, clearing up the Taiwan issue, which is this major obstacle, will open the door to stabilize the relationship between China and the U.S. This will enable the two countries to eliminate one of the sources that could threaten the peace and stability in the world and to really establish a constructive strategic partnership.

However, the Taiwan issue is not an issue for the relationship between China and the EU. The EU expects that the Taiwan issue could be settled by peaceful means and urges that China make this effort. In the meantime, it strictly keeps economic contacts with Taiwan that China does not oppose. After settling the sale of airplanes and destroyers by France to Taiwan, the issue of EU countries selling arms has been solved. Still, some EU countries complain that China does not treat the EU countries equally because China has allowed the U.S. to sell arms to Taiwan.

Indeed, China is not pleased to see that the U.S. continue to sell arms to Taiwan, but, this issue is inherited from history. In the three communiqués signed by China and the U.S., the U.S. has committed itself to the proposition that it "does not seek to carry out a long-term policy of arms sales to Taiwan" and "That it intends gradually to reduce its sale of arms to Taiwan, leading, over a period of time, to a final resolution." However, this is not the case for the EU countries.

Furthermore, if China treated the U.S. as it has done the EU countries on the issue of arms sale to Taiwan, China would give up the peaceful solution of the Taiwan issue.

China still gives the U.S. time to reach a final resolution and expects that the U.S. will keep its commitment on this issue. But this is not a long-term policy either. So the policy applied by EU countries on the Taiwan issue is very helpful to stabilize and broaden the relationship between China and the EU and will contribute to the peace of the Asian-Pacific region.

Handling the Differences in Values Well

Ideological conflict based on the differences of the market and planned economies has been over since China has began its economic reforms and the calliopes of the Soviet Union. No country has refused the market economic system, even though there are different interpretations of what that is. However, different interpretations on the market economy and social issues, which can be termed “values”, have become another ideological dispute between countries. This value dispute, if not well handled, may be another source of conflict.

The values of each country are rooted deeply in each civilization and can serve as the core of its unity, stability and prosperity. Meanwhile, these national values ought to absorb the good things from other civilizations too. Any value that rejects this absorption cannot contribute to the unity, stability and prosperity of the country and will decline. One reason that the United States has become the strongest country in the world in science, technology and economy is that the U.S. is an immigrant country. People from all over the world have brought their original culture into the U.S., which has founded a new culture, a new civilization with the advantages of others to create a new country.

In Chinese history, the Han and Tang Dynasties are the two strongest, because they also absorbed the advantages of other cultures and civilizations. That is why China has now opened the door to the outside and is eager to absorb the advantages of other civilizations. The EU countries are achieving their momentous work in creating a new identity and body composed of countries with different civilizations. The diversity of values and civilizations are indispensable to the progress of humanity.

The mutual absorption of different values and civilizations should certainly take time, but no one can stop this trend. However, during this evolution, friction from different values and civilizations can occur. This friction is inevitable, if one country intends to impose its own value to other country, or wants its own values and civilization to triumph over others. This friction could in turn generate conflict and would certainly not help forward the mutual absorption of values and civilization and their peaceful coexistence.

China, the U.S. and the EU represent different values and civilizations, and Chinese values sometimes have an opposite characters vis-à-vis the American and EU's. Its civilization is unlike theirs. Because of that, in the past years China has experienced dispute and even confrontation with the U.S. and the EU. This did not contribute to mutual understanding or create an appropriate atmosphere to reach common values or to learn from each other the advantage of civilizations. Compared with the U.S., the EU prefers to deal with the value issue with China by exchanging views to seek the basic common values, instead of through direct confrontation as the U.S. does. The EU's way is a good one for dealing with the value issue. History, tradition and custom determine that every country has different values, and even though the U.S. and

EU's values are largely similar, differences still exist between them. But, allowing for these differences does not mean that the world does not need basic common values, which are crucial to keeping the peace, stability and prosperity of the world. China, the U.S and the EU may work together to reach common basic values through talk rather than direct conflict. Criticism is perhaps not bad, but it has to be made on the basis of respecting differences and understanding the root causes of these differences without superiority mentality or triumphalist attitude towards others. Dealing well with the differences between China, the U.S. and the EU should have an important impact on the world. It will be helpful to seek the common basic values of the world and settle peacefully the potential conflict generated by the dispute on civilization.

The Economic Relations of China with the U.S. and the EU

The Foreign Trade of China with the U.S. and the EU

The U.S., the EU and China are three of the biggest trading countries in the world. In 1999, U.S foreign trade reached \$1754.9 billion dollars, EU foreign trade was 1530.4 billion Euro (extra-EU trade), and China's foreign trade reached \$360.7 billion dollars, ranging just after the Netherlands. If we include the foreign trade of Hong Kong, total Chinese foreign trade was \$579.3 billion dollars, which ranged after Japan with \$727.1 billions dollar of total foreign trade amount.

China's foreign trade with the U.S. and the EU has registered a rapid development during the 1990s. From 1991 to 1998, China's trade with the U.S. increased by 2.87 times and with the EU by 2.2 times. In 1998, the volume of China's foreign trade with the U.S. amounted to about \$54 billion dollars, and with the EU, about \$48.8 billion dollars (see table). According to Chinese

statistics, the U.S. and the EU are respectively China's second and third biggest trading partners after Japan (except for Hong Kong). According to EU statistics, China is the largest fifth trading partner of the EU; including Hong Kong, China is the fourth. According to U.S. statistics, China is the fifth largest trading partner of the U.S. (considering the EU countries as a single group).

Comparison of China's Trade with the U.S. and the EU

\$ Billion dollars

Year/ Country	1991			1994			1998		
	Total	Export	Import	Total	Export	Import	Total	Export	Import
U.S	14.2	6.1	8.1	35.3	21.4	13.9	54.9	38	16.9
EU	15.1	6.7	8.4	34	15.4	18.6	48.8	28.1	20.7

Resource: Statistics Yearbook of China

Comparing China's trade with the U.S. and the EU, two important characters can be noted. First, China's trade with the U.S. has increased faster than its trade with the EU. Second, China's trade of China with the U.S is less balanced than its trade with the EU. These two characters are due to the following factors:

- 1) The volume of processing trade (China imports raw materials or semi-manufactures provided by foreign companies and processes goods to export abroad.) between the China and the EU amounts much lower than the volume between China and the U.S. So far, the processing trade has counted for about 50% of the total volume of China's foreign trade.

- 2) EU joint ventures in China have mostly focused on the internal Chinese market not the international market, so these ventures show a very poor export performance. U.S. joint ventures also seek a greater portion of the Chinese market, but many of them have exported their products into the international market. In addition, many joint ventures in China with other countries or regions are created in China with the aim of using cheaper labor, material and or utilities to enhance competitive power in the international market.
- 3) The U.S market is more open to Chinese goods than the EU and has fewer protectionist measures against Chinese goods. Furthermore, the U.S market is more diversified, which makes it much easier to absorb merchandise of different quality. However, the EU market has more regulations for selecting the merchandise that it likes to import.
- 4) Shipping fees are higher between China and the EU than between China and the U.S. This increased cost of transport and has a negative impact on the competitive power of both sides. Also, for much merchandise, the EU price is expensive, even much more expensive than the U.S. price.
- 5) Many companies from other countries and regions have shifted their manufactures to China. They use the raw materials in China or import the material and semi-manufactures from the original countries or regions to factories in China and process the final product to export to the American market. By doing so, these companies have reduced both the cost of production and helped original countries or regions to decrease the ir surplus of trade with the U.S. for

easing the trade tension with the U.S. This factor pushed the trade surplus of China to high levels.

- 6) The EU prefers to transfer technology and know-how to China and has looser controls on the export of high technology. However, the U.S has a lot of concern on the export of high technology to China. Particularly after the Cox report, the U.S has enhanced its export controls on technology to China, which really wants to increase its import of high-tech products from the U.S., not only increase its imports like agriculture and natural gas.

China's trade with the U.S. and the EU has a huge potentiality to increase. With the rapid growth of the economy and personal consumption, China should increase its foreign trade with the world, particularly with the U.S and the EU. Chinese accession to the WTO will open up the Chinese market to outsiders, in which the U.S and the EU will be the two biggest beneficiaries. Also, it will contribute to the stabilization of the economic and commercial relations of China with the U.S. and the EU. These relations have been disturbed by political reasons, which has jeopardized their sound development. The achievement in the future of the Asian-European Transcontinental railway will close the distance between eastern Asia and western Europe, which could enable both sides to decrease the transportation fee and improve their competitive power. For increasing American exports to China, the U.S. is welcomed to loosen its controls on high technology. Even though American high-tech products are competitive, the strong controls on high-tech products will put American high-tech companies in a weak position vis-a-vis other competitors.

Chinese accession into the WTO will also enhance the speech rights of China on trade policy and increase the power of developing countries in the WTO. Trade disputes between China, the U.S. and the EU could increase. The beef war, banana war, gene war, and airplane war, could be duplicated again. The non-tariff barriers, the super-301 clause, could be used by others as a tool to protect national interest too. If trade disputes are not well handled, they could damage the WTO, which would harm the interests of every country. This requires China, the U.S. and the EU to work with other countries to harmonize each position inside the WTO so as to build up a sound trading system for the world.

Investment

During the 1990s, foreign investment in China has increased very rapidly. In 1997 it became the second largest recipient country in the world after the U.S., and even during the Asian economic crisis China has still remained one of the three biggest recipient countries of foreign investment. Investment from the U.S. and the EU in China has also increase considerably. Between 1990 to 1998, the total volume per year of contracted investment from the EU increased from \$224 million dollars to \$5.91 billion dollars, while the American contracted investment increased from \$358 million dollars to \$6.21 billion dollars. EU and U.S. shares of Chinese contracted investment have increased respectively from 3.4% to 11.34% and from 5.4% to 11.9%. According to these statistics, EU contracted investment in China has developed more rapidly than the American investment, and the EU share in the investment amount of China is now close to that of the U.S. Furthermore, the size of EU investment in projects is usually bigger than that of the U.S.

Between 1979 and 1998, China received \$571.64 billion dollars of contracted investment, and it continues to welcome more foreign investment flowing into its market. With the improvement of the investment environment in China, more and more bigger companies are interested in investing there. So far, more than 300 of the 500 largest multinational corporations have either provided investment or opened business offices in China. The size of foreign investment has also enlarged considerably. Chinese accession to the WTO will not only open the door to foreign goods, but to additional foreign investment. Competition in the Chinese market should become hot. China will increasingly need technology-intensive investment instead of labor-intensive investment. This larger flow of foreign investment into China will serve to strengthen the integration of the Chinese economic system into the international system; however it will also increase the economic risks for China, if its macroeconomic management is not improved, as happened with many Asian countries during the Asian economic crisis.

During the new century, China's trade and economic cooperation with the U.S and the EU will be enhanced, particularly after the Chinese accession to the WTO. This enhancement will serve to spur the economic growth of the three countries, ameliorate their political relations, and speed up China's integration into the international economic system. However, this enhancement and greater economic interdependence could also generate more trade and economic disputes, which could damage relations. To prevent this, China will need to improve its existing pipeline of economic consultation and perhaps establish new mechanisms to harmonize its economic policy with those of the U.S. and the EU.

International Issues

With the end of the Cold War, the logic of blocs in the world is over, and the world has become safer. But China, the U.S and the EU still have the responsibility to make an effort to eliminate factors in their bilateral relations that make them antagonists, and to shake off the old problem, “Who threatens whom” inherited from the Cold War, to reach a more stable order of the world. Undeniably, there will be divergence of interests between countries on international affairs in the new century. One country could have a common interest with another country and compose an interest group according to their common interests in different areas to protect those interests. This kind of composition will be alterable among countries, but they cannot become antagonists as they did during the Cold War, because of the globalization of the economy and the acceptance of the market economic system by the world. Furthermore, issues concerning economic interests, the reallocation of responsibility for international affairs, and the redistribution of leadership inside international organizations could become more important than security issues or value issues. However, security issues are still crucial, and they could directly threaten the peace, the stability and the prosperity of the world.

In the new century, China, the U.S. and the EU should work together to create a new international environment, in which there is no conflict between blocs and there is a cooperative atmosphere in which all countries can settle their differences by negotiation and dialogue, and encourage other countries to deal with their disputes by negotiation and dialogue too. To make these negotiation and dialogue successful, it will take a new mentality, a new ideal with more

engagement, less containment, more understanding, less power policy, with more cooperation, less imposition.

International Security Issues

The end of the Cold War did not bring the end of potential regional conflicts, like the Korean peninsula issue, the South Asian issue, and others. These issues are taken into the new century and concern China, the U.S. and the EU as well. In addition, there are many other security issues that concern the three countries that they have a common interest in settling. Despite the fact that they have different views on some issues, there is no reason for them not to cooperate in looking for a solution to handling these issues or to easing potential tension that could threaten the peace.

Korean Peninsula Issue

The Korean peninsula issue is only one issue inherited from the Cold War but it consists of a dangerous source that could trigger a regional conflict. At the beginning of the 1990s, Russia and China successively established diplomatic relations with South Korea. This action has been a very positive factor in contributing to the peace and stability of the Korean peninsula. However, this evolution was not followed by Western countries recognizing North Korea. North Korea, which criticizing the recognition of South Korea by Russia and China as a betrayal, has felt more isolated than before. This pushed the North Koreans to take a harder position and drove the Korean peninsula into an unstable situation.

The situation has recently showed some hopeful evolution: The two Koreas held their first summit in June 2000; Italy established diplomatic relations with North Korean; Australia and

North Korea decided to renew diplomatic relations ; Japan and North Korea began negotiations on normalizing their bilateral relations; and the U.S intends to settle the nuclear and missile issues with North Korea by negotiation and economic assistance. The most important event is that all countries concerning in the Korean issue--Russia, Japan, and particularly China and the U.S.--have reached a consensus that keeping peace and stability in the peninsula serves the interests of all these countries and that they will work together to achieve this purpose.

The EU, which experienced “détente” in Europe, can bring its contribution in this area. To keep the positive trend, others Western countries, particularly the U.S., are welcomed to recognize North Korea, encourage the leaders of two Koreas to discuss directly their differences, and persuade all the political parties of South Korea to support the “Sunshine” policy, as this will encourage North Korea to take a more cooperative in settling the missile and nuclear issues that the U.S. and Japan worry about. Furthermore, this encouraging change will open the door to building up mechanisms of mutual trust and a multilateral security dialogue system in East Asia, which will increase the transparency of the security policies of countries in the region and reduce misunderstandings and miscalculations that could give rise to tension. This will require one condition--that all the countries concerned in this region recognize each other.

The summit held in June projected a light on the possible reunification of the two Koreas. This perspective will issue the security arrangement in this area that should touch the American military presence in the Korean peninsula. China does not oppose the American military presence in the Korean peninsula and would like a unified Korea to discuss this issue with the U.S. If a unified Korea would want any form of American military presence or the departure of

American military forces, China should not have any objection. However, every arrangement on the American military presence in the unified Korea should strictly cover the south of a unified Korea. It is predictable that China would not like to see the military or security arrangements between the U.S. and South Korea expanded to the northern part of a unified Korea. The security of northern unified Korea can be assured by unified Korea itself, and guaranteed by China, or with other countries.

South Asian Issue

The dispute between India and Pakistan on Kashmir has been going on for a long time and has recently been aggravated. This issue has become increasingly urgent after India and Pakistan both had tested nuclear bombs. Any further expansion of the conflict could risk leading the two countries to nuclear confrontation. The Indian government recently declared a policy of the non-first-use of nuclear arms. This is a decisive step to eliminate the risk of nuclear confrontation in the South Asia and is welcomed by the world.

Since the 1980s, China and India have normalized their bilateral relations and jointly declared that neither seeks hegemony in this area. The negotiation on boundary issue between China and India is proceeding well and it is hoped a final agreement will be reached. The normalization of relations between China and India has played an important role in building up mutual trust, which is a vital factor to easing potential tensions in this area.

Meanwhile, China continues to keep good relations with Pakistan and encourages it to solve its dispute with India by peaceful ways. The visit paid by the president of the U.S. to both countries

has contributed to stabilize the situation in the area, but the two major issues that can threaten the stability and peace in this area are the Kashmir dispute and the potential nuclear arms race.

While it seems that the latter issue has receded away after the visit of the American president, the Kashmir issue, on the other hand, has generated a great deal of tension and has a long way to go before it is solved. China, the U.S. and the EU are able to encourage India and Pakistan to find a rational solution to this issue and engage Pakistan to fight against terrorism. Isolation or only partial support is not helpful in reducing the tension.

Central Asian Issue

After the collapse of the Soviet Union, Central Asia has become a new source of potential tension, and some analysts have foreseen the region possibly becoming an Asian Balkans. The main factors that will cause a potential conflict are the huge oil reserves, terrorism, and the overlap of interests of the main countries in this region. The oil reserves in this region are considered by the main oil companies to be the last great oil reserve in the world and have become the target of disputes to control this region. Because of the decreased influence of Russia in this region, Turkey and Iran will try to spread their influence, which has caused friction of among different interests. But the recent resurgence of Russia and the greater engagement of the U.S in this region have complicated the situation. The Central Asian region has also become the center of international terrorism. These issues have made this region unstable.

China borders three Central Asian countries--Kazakhstan, Kirghizstan and Tadzhiestan--, and the unstable situation in this region could menace China's security. Furthermore, China has begun to invest a great deal in oil exploitation for its future oil supply, and the Asian-European

railway will pass through this region. For the Central Asian countries, China has become the gateway to trade with the Korea, Japan, the United States, and other Pacific countries via Chinese ports: it reduces the trip by 2,000 km from the overland routes, while it is 10,000 km less than using Suez Canal route and the Indian Ocean.

China and the Central Asian countries have a common interest in keeping peace and stability in this region. However, China has no ambition to have a sphere of influence, and would work together with other countries to retain peace and stability. China has recently built up the security, economic cooperation framework with the three Central Asian countries and Russia. These countries have also decided to closely cooperate on fighting terrorism. The European Union also intends to cooperate with China in this region. To avoid making this region a new source of tension, all countries concerned, specially China, the U.S, the EU and Russia, need to find new ideas to address the issues. New rounds of dispute over influence in the region could destroy its foundation of stability, which would cause the people in this region to suffer.

European Security Issues

Between China and the EU, there is no potential direct conflict caused by security issues, given the fact that they are located at the two extremes of the Euro-Asian continent. However, the future evolution of NATO could concern China. Generally speaking, NATO enlargement belongs to the sphere of European affairs; however, the furthest possible enlargement and evolution of NATO could touch Chinese security concerns. These concerns concentrate on four problems: First, which countries could be involved, particularly the three Baltic countries; Second, the possibility of reaching the Chinese boundary by the furthest enlargement; Third,

how will NATO carry out its peace-making; and Fourth, the possible activities undertaken by an enlarged NATO outside the European continent.

Since NATO began planning to push its enlargement, China has repeatedly pointed out that every arrangement of European security ought to contribute to the peace and stability in this area. By negotiation and concession, NATO countries and Russia have solved their differences and reached an agreement allowing NATO to realize its first enlargement. Meanwhile, Russia has strongly opposed NATO's further enlargement.

After 1996, China has began to oppose the further enlargement of NATO. If Russia had not opposed NATO further enlargement, with particular emphasis on the three Baltic Republics, there would be no reason for China to be concerned. However, this is not case. If NATO insists on bringing the three Baltic Republics into NATO, this action would be considered by Russia a provocation threatening Russian security and would trigger a Russian reaction and generate strong nationalism in that country. This kind of result would worsen the security environment in Europe and would also generate an unforeseeable situation in the East Asian area. Given that the three Baltic Republics don't trust the future Russia, hope to adopt a security umbrella offered by Western countries, and refuse to become neutral countries, perhaps an European option that could be accepted by Russia would be better way to handle this issue. In terms of the second problem, this concern is less pressing than before, seeing that all countries bordering China will have less possibility of joining NATO.

The third problem concerns China more. The peace-making policy adopted by NATO will give it the right to take the military initiative, when NATO considers the situation in a country could threaten the peace and stability in the European area. Peace-making may in some cases be useful for saving the peace. The problem is who will have the responsibility for mandating NATO taking peace-making action, even inside the European continent? China has stressed that this responsibility must belong to the UN, not other institutions, though the UN may grant this right to other institutions.

Concerning the fourth problem, the Kosovo war is the first war that NATO has made outside the NATO area, but at least it was in the European continent. China states that NATO is a regional security organization. It should play its role inside the NATO countries area, and certainly stay within the European continent; but it does not have a mandate to operate outside of this area. And China does not like to see that NATO could become a global security organization that China does not believe the world will need. Every tentative movement in this direction will be opposed by China. European Security and Defense Identity (ESDI) also has a problem of what area it is to cover. An ambiguous answer here could concern China too. Thus, China, the U.S and the EU will need to discuss all these problems and clarify their positions.

Anti-terrorism

International terrorism has spread throughout the world, and no country can escape being the target of terrorist attack. However, the international cooperation against the terrorism is not effective. It is imperative that the international community will intensify their cooperation in this regard. This effective cooperation first needs to define what is and what is not terrorist activity.

Without this basic definition, action against the terrorism will be diverted by political purposes, which to realize their military and political aims could support some military organizations considered by others as terrorist organizations. This state can have a negative impact on the fight against terrorism and actually encourage terrorist activities.

The root causes of terrorism are related to poverty, social problems and the level of education. Solving the social problems bearing on terrorism may be complicated, yet it is important to help poor countries improve their people's lives and raise the educational level.

So far, cooperation against the terrorism is limited only to the bilateral framework, and has been ineffective. It is conceivable that international society will put into practice a multilateral mechanism on the basis of the consensus on the definition of terrorism to coordinate action against terrorism undertaken by individual countries. China, the U.S and the EU have a common interest to strengthen coordinated action against terrorism.

Arms Control

Since the 1970s, arms control has registered remarkable progress in the areas of nuclear, chemical and biological weapons and the reduction of conventional weapons on the European continent. This progress has accumulated positive experience that has served to further lead international talks on arms control and build up a certain low level of trust among major players in arms control. However, the world is still overshadowed by the specter of nuclear weapons, and other weapons of mass destruction have not been totally cleaned up. Furthermore,

conventional arms control has not yet been addressed on the worldwide, and there is a long way to go toward further arms control.

As the five biggest nuclear powers in the world, China, the U.S., Russia, France and the U.K, have a specific responsibility for pushing a world arms control forward. Recently, the five big nuclear powers published a joint declaration promising the elimination of all nuclear weapons in the future. This is the first time in the history of world disarmament that five nuclear powers have made a joint declaration on the nuclear arms controls. Notwithstanding this, the declaration did not mention the detailed agenda of action they would undertake in the future, but the declaration itself is already an encouraging sign for the world. However, difference on the ABM treaty is like a cloud covering the illuminated sky of world arms control.

The National Missile defense (NMD) program advanced by the U.S. meets the opposition of all the other big nuclear powers and U.S.'s other allies. The U.S. has argued that it needs this program to protect itself against an eventual missile attack from "rogue" countries. Regardless of whether this program is technologically feasible, the core issue is not whether the U.S. needs this protection, because generally speaking, offensive weapons are always more easily invented than defensive weapons. Rather, this program could undermine the fragile base of mutual trust that has just begun to be built up after more than twenty years of arms control negotiations and could trigger a new global arms race. Russia has already threatened that if the U.S. implements this program, it could withdraw from all nuclear disarmament treaties. Even more serious is that this program could create a precedent enabling any country to ask to modify arms control treaties or to withdraw from them, with the reason that clauses of these treaties do not fit with its national

security needs. This would disturb the whole system of arms control. Besides, some countries fear that under the NMD umbrella, the U.S. will feel safer and will consequently behave more unilaterally and consider the interests and concerns of other countries less. The world could then become more unstable.

The U.S. as the sole superpower with a specific duty on arms control needs to listen to the concerns expressed by other big nuclear powers. Thus far, the only “rogue” country that could launch missiles to threaten the U.S. is North Korea. But the North Korean missile issue is not difficult to be settled through negotiation with help from other countries. But the American government is also under the high pressure from internal political forces to realize this NMD program. Perhaps, there is some room to improve the ABM treaty. The best solution of this issue is that the U.S. gives up the NMD program. At least, it is hoped that it will be possible to find a solution that could enhance mutual trust between the big nuclear countries and do away with the possibility of a new arms race.

A Multipolar World

The collapse of the Soviet Union has moved the world from a bipolar system into a unipolar system. The U.S. as the sole superpower has accumulated dominant powers in the political, military, economic, cultural and technological areas and has a more freedom to behave unilaterally and oblige more or less other countries to accept rules of the game designed by the U.S. The fact that the American Congress refused to ratify the Comprehensive Test Ban Treaty,

regardless of the call from its allies, has been seen as proof that the U.S. prefers to undertake unilateral action according to its own national interests, rather than considering the interests of the world, even of its allies.

The unipolar world based on the dominant power of the U.S has given rise to worry, disappointment, discontentment, and opposition from other countries. They are widely concerned that the unipolar world has created an unbalance of powers, which could lead the world to unstable and unfeasible situations, diminish the partnership principle within the big powers, and plant the seeds of potential confrontation. Uncomfortable in this situation, all of the other big powers would push the world to a multipolar system so that they would have more rights of speech and decision power in international affairs. So, building the multipolar world has already become the common will of the world. With the enhancement of the economic power of other countries, the world should inevitably move from an unipolar to a multipolar system. Other big powers could also get together with other countries, according to common interests, to counterbalance the power of the U.S. and to push it to respect the interests of other countries instead of taking unilateral measures.

However it should be asked, does the unipolar system really match U.S. national interests? In the unipolar system, the U.S. will play the role of first player everywhere, bearing a level of responsibility that could exhaust its energy and involve disputes, which could make the U.S. a center of contradictions and a target that other countries will resist. This is not conducive to U.S. leadership and its roles as arbiter in world affairs. As an arbiter, it does not have to be directly involved in the game. Unipolarity has pushed the U.S. to directly involve itself in many disputes

it would have preferred to avoid. However multipolar system could offer the U.S. a comfortable position as arbiter without exhausting its energy. Sharing responsibility and leadership with other big powers will also facilitate the U.S. in playing the role of a good arbiter. In addition, the U.S will have more room to group other countries, to protect their common interest.

With stronger economic power, the economic policies of China and the EU should provide more impact on macroeconomic management of the world and the international economic landscape. The launch of the Euro should challenge the dominant power of U.S. dollar in the international economy, give the EU a greater part in the international financial market, and strengthen its power on international economic policy. The competition between the U.S. and the EU for more shares in the international financial market could become heated, but this competition will still be within the mechanisms of market economy and cannot go into unmanageable situations. Otherwise, this competition would jeopardize the stability of the international financial market instead of contributing to its stability.

China supports the Euro becoming an alternative, parallel currency with the U.S. dollar and it should increase the share of Euro in its foreign currency reserves. China thinks that the Euro will make the international financial market more stable and safe. The diversity of its foreign currency reserves can increase the safety of its national economy and its capacity to resist speculation on the renminbi in the financial market, particularly during the period when it is on the way to become a convertible currency.

Integrating China into the International Economic System

All developed countries have to recognize that whether China is successfully integrated into the international economic system could determine the stability of the international economic development and the security of the world. China also intends to merge its national economic system into the international system to guarantee its sustainable economic development and the success of its reform policies. China's accession into the WTO is a major step towards integrating China into the international economic system. However, there is still a long way to go to totally integrate China. Perhaps, this integration will be achieved gradually. Nevertheless, it is imperative to involve China in the international economic and financial policy-making procedures.

For international affairs, there are many policy-making centers. The political and security policy-making center is the UN and the Security Council, the trade policy-making center is the WTO, the development and financial assistance policy-making centers are the World Bank and the IMF, and the economic and financial policy-making center is the G-7 or G-8 group. China is already a member of the UN, the World Bank and the IMF, and is about to become the member of the WTO. However China is still an outsider to the G-7. Nevertheless, the G-7 group has suggested creating a G-20 group including China and other main developing countries, to harmonize economic and financial policy within the main developing countries and with the G-7. The vital policies on world economic and financial issues are still decided by the G-7 group (because Russia is excluded from economic and financial policy-making). So far, China's GDP is less than that of the G-7 countries, but in 2010 its GDP will surpass that of Italy, the U.K and

France, and perhaps Germany. China will become the third or fourth biggest economic power in the world. Chinese economic policy should therefore provide more influence on the international economy.

With its economic power, China will be able to bring its contribution to the international economy. Otherwise, the lack of harmonization on economic policy between China and the other big economic powers could cause trouble in the sound development of the international economy. The recent Asian economic crisis has shown the vital impact of Chinese economic policy on the international economy and the interaction between Chinese economic policy and that of other countries. The developed countries recognized that during the Asian crisis, increased national strength enabled China to keep its promises not to devalue the renminbi, which has been conducive to the recovery of the Asian economy and to the stability of the world economy. Furthermore, strong Chinese support to the Hong Kong dollar played a decisive role in maintaining the convertibility rate of the Hong Kong dollar with the U.S. dollar in the face of speculation.

By these behaviors, China has shown to the world that it has the strength, influence, and political will to take responsibility for stabilizing the international economy, even though it will pay an economic price for that. Ignoring the increasing influence of Chinese economic policy and keeping China away from the policy-making center would undermine the efforts of the G-7 to keep the international economy stable, sound and growth-sustainable. Besides, China would like to take part in the economic policy-making procedures as a player, rather than simply having to follow the rules decided by the G-7 countries. Engaging China into the G-7 as whole member

should be the next step to integrate China into the international economic system. Recently, Germany and Japan have expressed their intention to invite China into the G-7, but other countries have either hesitated or only wanted to accept China as observer. In China, we also need time to reach the consensus on this issue. The integration of China into the international system still has a long way to go.

Conclusion

China and the EU, two rising powers, and the U.S, will have more responsibility to keep the peace, stability and prosperity of the world. China will continue to concentrate its energy on developing its national economy, endeavoring to integrate into the international economic system, and will never seek hegemony or threaten others. The U.S, even though its economic power will be proportionally decreased, will continue to play the role of leader in the world. The EU, with a stronger economy, should share more leadership with the U.S..

How China, the U.S. and the EU will deal with their bilateral relations could play a crucial role in the management of international affairs. By handling conflicting factors in their bilateral relations well, these three countries will not have fundamental conflict of interest. While friction and disagreement will still exist between them. This is mostly generated by differences in economic interest, and these will be easier to manage and settle according to the principles of the market economy and have less chance to trigger a hot conflict.

China, the U.S. and the EU should listen to each other, strengthen their mutual understanding to handle their political difference, and encourage other countries to settle their disputes peacefully. The world needs China, the U.S. and the EU to cooperate as partners and make this new century a peaceful one in the history of humanity.