

**ECONOMICS AND
SECURITY**

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NATO Parliamentary Assembly

SUMMARY

of the meeting of the Economics and Security Committee
S-090, Folketinget, Copenhagen, Denmark

Saturday 12 November 2005

ATTENDANCE LIST

Chairman	Paul Gillmor (United States)
Vice-Chairpersons	Jean-Luc Reitzer (France) Monika Heubaum (Germany)
General Rapporteur	Jos van Gennip (Netherlands)
Chairman and Acting Co-Rapporteur, Sub-Committee On Transatlantic Economic Relations	Hugh Bayley (United Kingdom)
Co-Rapporteur, Sub-Committee on Transatlantic Economic Relations	John Boozman (United States)
Chairman, Sub-Committee on East-West Economic Co-Operation and Convergence	Andre Rouviere (France)
Rapporteur, Sub-Committee on East-West Economic Co-Operation and Convergence	Kurt Bodewig (Germany)
President of the NATO PA	Pierre Lellouche (France)
Secretary General of the NATO PA	Simon Lunn
Member Delegations	
Belgium	Luc Willems
Bulgaria	Yani Yanev
Canada	Leon Benoit
	Jane Cordy
Denmark	Peter Skaarup
Estonia	Margus Hanson
France	Francis Hillmeyer
	Philippe Nogrix
Germany	Robert Hochbaum
	Kurt Rossmannith
Greece	Ilias Papailias
	Assimina Xirotiri-Ekaterinari
Hungary	Agnes Vadai
Iceland	Magnús Stefánsson
Italy	Alessandro Forlani
	Luigi Marino
Lithuania	Paolo Ricciotti
Luxembourg	Petras Austrevicius
Portugal	Lydia Mutsch
Romania	Rui Gomes Da Silva
	Mihail Lupoi
	Constantin Nita
	Marcu Tudor

Slovakia
Spain

Turkey
United Kingdom

United States

György Juhász
Segundo Bru
Alejandro Muñoz-Alonso
José Perez Lapazaran
Aziz Akgül
Derek Conway
Jimmy Hood
Lord Sewel of Gilcomstoun
Peter Viggers
Michael Bilirakis
Trent Lott
Dennis Moore
John Tanner

Associate Delegations

Austria
Finland
Russian Federation

Sweden
Switzerland

Alfred Schöls
Suvi-Anne Siimes
Valery Bogomolov
Victor Dobrosotski
Franis Sayfullin
Victor Voitenko
Shamil Zainalov
Carl Hamilton
Theo Maissen

Mediterranean Associate Delegation

Algeria

Abdelkrim Harchaoui

European Parliament

Tobias Pflüger

Parliamentary Observer

Japan

Asahiko Mihara
Masataka Suzuki

Speaker

Sebastian Bersick, Research Fellow,
European Institute For Asian Studies

Committee Secretary

Sarah Davies (United Kingdom)

International Secretariat

Paul Cook, Director
Helen Cadwallender, Co-ordinator
Anna Kolesnichenko, Research
Assistant

I. Introductory Remarks

1. Chairman **Paul Gillmor** (US) started the meeting by welcoming the members and thanking the alliance for extending aid and support to the victims of Hurricane Katrina.

The members adopted the draft Agenda and the Summary of the Committee meeting in Ljubljana.

II. Presentation by Sebastian Bersick, Research Fellow, European Institute for Asian Studies on *Europe's Approach to China*

2. In his presentation **Sebastian Bersick** discussed the virtues of creating a regional policy towards China. He argued that the EU has begun to develop such a policy, while the United States has not. He noted that Chinese and European officials are building a strategic partnership, while the Asia-Europe Meetings (ASEM) are fostering interregional cooperation.

3. Dr Bersick characterized the current US policy towards China as hedged engagement characterized by economic engagement and political and strategic containment. Secretary of Defense Donald Rumsfeld has publicly stressed China's mounting military capabilities while a recent US Defense Review document foresees the need for counter-terrorism operations in North Korea and the Taiwan Straits. Dr Bersick suggested that the United States needs to develop a regional policy on China to reduce dramatic policy swings between containment and engagement. As East Asia develops its regional relations (led by China), American leaders need to adjust accordingly. Otherwise, there is a risk that a "fortress-Asia" will emerge. The EU is reaching out to this nascent Asian regional grouping and its China policy is set in a regional framework. Its own experience in building a powerful regional organization, the European Union, gives it a certain advantage in reaching out to the Asian region. Dr Bersick concluded that regionalism and multilateralism are important new realities in international relations, and the policy towards China should take account of them.

4. **Tobias Pflüger** (European Parliament) noted that the current position of the European Parliament is that the arms embargo should not be lifted. Dr Bersick agreed.

5. The Chairman enquired about the EU's approach to Taiwan. Dr Bersick replied that the EU does not have diplomatic relations with Taiwan, but does co-operate in economic and cultural matters. He added that the EU lacks a military policy should a conflict in the Taiwan straits arise.

III. Consideration of the draft Report of the Sub-Committee on Transatlantic Economic Relations, *An Emerging China and the Transatlantic Economy* [173 ESCTER 05 E] by **Hugh Bayley** (United Kingdom), Acting Co-rapporteur and **John Boozman** (United States), Co-Rapporteur

6. **Hugh Bayley** (UK) opened his remarks by discussing the Committee's trip to China in July 2005. Based on that experience as well as conversations with local representatives of the World Bank, committee members concluded that it would be worthwhile to prepare a report next year that would focus not on the highly developed areas of eastern China, but on the vast interior regions that confront daunting development challenges.

7. Mr Bayley then outlined the key economic points in the draft report. Among the factors behind China's rapid growth he mentioned deregulation (price liberalization, privatisation), strong capital formation (due to high savings rates), and a large shift away from agriculture towards

modern technology sectors. He pointed to a range of weak points in China's performance including an undemocratic political system that clouds transparency and breeds corruption, particularly at the local level. Other problems include the fragility of the financial system (because of bad debts), an undervalued currency, weak capital markets, an aging society, unemployment and impediments to labour mobility. Environmental pollution and rising energy consumption are also of concern. China also needs to enhance intellectual property protection rights. He concluded by suggesting that the West need not fear China's economic rise, but prepare to gain from it. He also suggested that it is important to work not only with the government, but also to reach out to civil society and China's younger generations.

8. **John Boozman** (US) underlined the significance of China's economic transformation and suggested that the United States and Europe can play a part in shaping this transformation. The United States is particularly concerned about China's military ambitions, but Mr Boozman suggested it would be misleading to understand American objectives only in terms of "containment"; most Washington analysts do not see China as another Soviet Union. The major problem is that the Communist Party dominates China's political life. The challenge for the United States is to find a balance between encouraging democratic reform in China and other policy priorities including significant US economic interests in China's development. That said, China's illiberal political order could have long-term consequences for its own stability and prosperity. The recent wave of rioting in the countryside is a manifestation of the difficulty the current system has in mediating diverse social interests.

9. Mr Boozman also outlined the draft Resolution on *Forging a Transatlantic Policy Towards China* [192 ESC 05 E], which calls for a serious US-EU dialogue on China. He stressed that rising imports from China should not be considered simply as an economic threat. It is, in fact, an opportunity but the West needs to make their own economies competitive and flexible to exploit the opportunities China presents. He also suggested that the West should engage China in an energy dialogue and think through the effects that a rising China will have on the developing world.

10. **Jos van Gennip** (NL) agreed that the trip to China had been very useful. He suggested that China would be key to the construction of a genuinely multilateral international system, but there are concerns about that country's undemocratic character and its support for despotic regimes in Sudan and Zimbabwe.

11. Mr Bayley responded that China's support for despotic regimes is largely driven by economic and strategic considerations. For example China's support for Sudan and Iran stems from China's growing need for energy supplies. He suggested that the West should consider working more closely with Chinese oil companies and possibly embark upon joint exploration projects. He also suggested that western countries have also found themselves working with fundamentally undemocratic countries because of oil needs.

12. **Petras Austrevicius** (LT) suggested that it would be very useful for the Committee to meet American experts on China. Mr Boozman added that the Committee should meet American business leaders to discuss China during a possible committee visit to the United States next year.

13. **André Rouvière** (FR) supported the idea of returning to China. He also stressed that China is not the kind of liberal economy the West knows. It is liberal only to the extent that the government considers this useful. For example, recent food price rises are not so much due to liberalization, but rather to a government decision to lift prices. Moreover, the gains from this growth are distributed very unequally. He also suggested that the country's people do not enjoy genuine freedom of movement – for example, most Chinese people cannot go to Hong Kong. He added that trade liberalization produces not only winners, but also losers who do not get compensated. The banking sector is in a bad shape, as the government issues guarantees on non performing loans. There are also significant asset bubbles. Moreover China does not fully respect

property rights. Mr Rouvière suggested that the WTO should demand that China adhere to minimum wages, and minimum environmental and social standards. All this will help place competition with China on a more equal footing.

14. Mr Bayley agreed that increased food prices were due to a government decision, yet he pointed out that the welfare benefits this move brought about have been significant. Many governments conduct similar policies to support rural areas, and there is nothing wrong with this. He agreed that trade with China causes job losses in some sectors in the West, but mentioned that the opportunities for the West are significant. The US economy enjoys a significant trade turnover with China, and developing countries are selling significant amounts of raw materials to China. Mr Bayley expressed concern about the high level of income inequality in China and noted that China has a higher Gini coefficient than the United States.

15. Mr Boozman agreed that processes in China are complicated, yet, he noted, there was a general trend towards liberalization. He also suggested that it is misleading to blame China for the weak state of certain sectors in the West. If it were not China selling into these sectors, it would very likely be other competitive countries. The real challenge is to adapt economies so that they can fully exploit global opportunities.

16. **Victor Voitenko** (RU) described the report as balanced and objective, yet expressed the concern of the Russian delegation that the report placed too much stress on the need for political liberalization in China. He cited the Russian case in the years following the collapse of the Soviet Union as evidence that premature political liberalization can produce grave instability. He also suggested that the principle of national self-determination was paramount. He suggested that the Committee substantially soften the proposal on political reform in the draft resolution. Mr Bayley responded that political reform would have to follow on the heels of economic change. This is unlikely to happen overnight and caution is certainly needed. Yet, the West should continue to encourage reform. Mr Boozman concurred.

17. **Carl Hamilton** (SE) said he was against the idea of somehow sanctioning China simply because of its low wages or lack of environmental policies. In his view, the Chinese produce cheaply because they are poor. Efforts to undermine this comparative advantage through trade policy would effectively impose a double punishment on China. A better policy would be to broaden China's opportunity to export. Only in this way will it be able to overcome poverty. Mr Hamilton argued that using economic means to protest China's lack of democracy will only restrain the kind of development the West is seeking to encourage.

18. Mr Bayley agreed that the West should not increase its tariffs on Chinese products but rather decrease them. He reiterated that the West should maintain pressure to encourage change while restructuring economic structures to best exploit the opportunities China's emergence is presenting. Mr Boozman said that the West ought to help China move forward rather than design policies that aim expressly to penalize it. He suggested that the West will need to have a degree of patience because China's political transformation will take time.

19. **The draft Report [173 ESCTER 05 E] was adopted without amendment.**

20. Mr Bayley then introduced a proposal to prepare a special report in 2006 on development assistance to Africa to which there were no objections and he also summarized the future activities of the Sub-committee on Transatlantic Economic Relations.

IV. Consideration of the draft Special Report on *Russian-Chinese Trade and Economic Co-operation: Current Situation, Problems and Prospects* [174 ESC 05 E] by Victor Voitenko (Russian Federation), Special Rapporteur

21. Mr Voitenko stressed the growing importance of cooperation between Russia and China, noting that the two countries have developed a new model of cooperation based on respect of each other's sovereignty, inviolability of borders, non-intrusion in internal affairs and acceptance of each other's model of development. In June 2001, the two countries signed an Agreement on friendship and cooperation, which created a foundation for a strategic partnership between the two countries. Today, Russia and China have similar positions on many international and regional issues, such as the central role of the UN and its Security Council in maintaining peace and security in the world. They are working together to deal with WMD, drug trafficking and several other issues of mutual concern. There is increasing cooperation on border matters although more progress on this front is needed. There are also outstanding problems to be resolved including insufficient control over the quality of the goods traded, difficulties in finding reliable business partners, poor infrastructure, insufficient regulatory legislation, inadequate information and a dearth of insurance services. There is nonetheless a strong foundation for deeper economic ties between Russia and China. The two countries do not have any major political differences and have developed a solid legislative basis and coordinating mechanisms to foster economic cooperation.

22. The Chairman asked the speaker to comment on the issue of Chinese migration to Siberia. Mr Voitenko replied that the problem is exaggerated. He admitted that there are indeed many Chinese citizens living in the Russian Far East. But he asserted that the Russian government has all the necessary tools to deal with the issue. Mr Van Gennip asked whether Russia faces the problem of job losses to China in the manufacturing sector. Mr Voitenko answered that there is no such problem. As for the development of manufacturing exports, Russia has adopted a law on free economic zones that will encourage wood processing on the Russian territory for example.

23. **Kurt Bodewig** (DE) noted that population density in Chinese regions bordering Russia is much higher than that of Russian population in the border regions. In this regard, he asked whether Russia envisages any exchange of workers and whether Russia has any development projects for these areas. Mr Voitenko replied that Russia does have development projects for these areas, but at this juncture it does not need foreign workers. Yet, some participation of China in these projects should not be excluded.

24. Mr Austrevicius asked what effect Chinese industrial development is having on the environment in the adjacent Russian territories, in particular, its marine resources. He also asked about the implications of Chinese energy demand for infrastructure development in the Far East. Mr Voitenko replied that Russia has a gas pipeline project with China that is expected to start operating in three years. With regard to the environmental problems, Mr Voitenko singled out Chinese sewage into the Amur River.

25. Mr Hamilton asked about Chinese emigrants to Russia; how many Chinese emigrants there are in Russia; and whether any improvement in their position is possible. Mr Voitenko replied that Russia is not bent on a policy designed simply to throw out immigrants. Rather, it wants to ensure compliance with Russian laws. Those emigrants who have integrated into Russian society and who are engaged in productive activities could be given resident status or even citizenship.

26. The draft Special Report [174 ESC 05 E] was adopted without amendment.

V. Consideration of the draft Report of the Sub-Committee on East-West Economic Co-operation and Convergence on *Economic Transition in the Middle East and North Africa* [172 ESCEW 05 E] by Kurt Bodewig (Germany), Rapporteur

27. Mr Bodewig outlined several challenges the MENA region faces. Reducing unemployment is particularly important given the region's high population growth rate. Female unemployment poses a particularly daunting challenge. Ethnic conflicts constitute another challenge and the war in Iraq has only exacerbated the situation. Finally, oil wealth has created both opportunities and problems. Mr Bodewig spoke about progress on the regulatory front, including the introduction of Value Added Taxation, restrictive monetary policies, privatisation, the beginning of political reform and some progress in building the institutions of civil society.

28. Mr Bodewig also outlined the challenges ahead including the need to reform education systems, to remove red tape in economic activities, to reform public administration and make it more efficient, to conduct tax reforms, and to further develop civil society institutions. He also stressed the importance of directing the windfall revenues from oil sales to development and not private enrichment.

29. **The draft Report [172 ESCEW 05 E] was adopted without amendment.**

VI. Summary of the future activities of the Sub-committee on East-West Economic Cooperation and Convergence by André Rouvière (France), Chairman of the Sub-Committee

30. Mr Rouvière thanked the Latvian members for hosting the Sub-Committee in September 2005 and informed members that visits to Poland and Ukraine are planned for 2006.

VII. Consideration of amendments and vote on the draft Resolution on *Advancing the Doha Development Agenda* [218 ESC 05 E] presented by Hugh Bayley (United Kingdom), Chairman of the Sub-Committee on Transatlantic Economic Relations and Bert Koenders (Netherlands), Vice-President of the NATO PA

31. The draft Resolution [218 ESC 05 E] was debated and amended.

The amended draft Resolution was adopted.

VIII. Consideration of amendments and vote on the draft Resolution on *Forging a Transatlantic Policy Towards China* [192 ESC 05 E] presented by Hugh Bayley (United Kingdom), Acting Co Rapporteur and John Boozman (United States), Co-Rapporteur

32. The draft Resolution [192 ESC 05 E] was debated and amended.

The amended draft Resolution was adopted.

IX. Consideration of the draft General Report on *Policy Implications of the Risk Society* [171 ESC 05 E] by Jos van Gennip (Netherlands), General Rapporteur

33. In his presentation of the draft General Report, Mr Van Gennip singled out the flu pandemic as an example of the kind of mega risk the international community currently confronts. He

described the devastating consequences such a pandemic might provoke, including a potentially very high death toll and severe economic and security disruption. He outlined the measures that should be taken to prepare the world to deal with this threat for example, to encourage the production of existing anti-viral drugs (in particular, by extension of financial guarantees to pharmaceutical companies); to help developing countries prepare for a pandemic, to designate an international coordinating body; and to speed-up the development of a new vaccine. Then he noted some policy initiatives that are already being undertaken.

34. **The draft General Report [171 ESC 05 E] was adopted without amendment.**

X. Consideration of amendments and vote on the draft Resolution on *Mounting an International Defence Against Avian Influenza* [187 ESC 05 E] presented by Jos van Gennip (Netherlands), General Rapporteur

35. The major amendments to the draft Resolution were a suggestion to remove the word “avian” from the text and a suggestion to remove the reference to Tamiflu and to use a generic term instead.

36. **The amended draft Resolution was adopted.**

XI. Elections

37. Moving to the next item on its agenda, the Committee proceeded to the election of Committee and Sub-Committee officers.

Sub-Committee on East-West Economic Co-operation and Convergence:

Kurt Bodewig (Germany) was elected **Chairman**.

André Rouvière (France) was elected **Vice-Chairman**.

Margus Hanson (Estonia) was elected **Rapporteur**.

Sub-Committee on Transatlantic Economic Relations:

Lord Sewel of Gilcomstoun (United Kingdom) was elected **Vice-Chairman**.

Petras Austrevicius (Lithuania) was elected **Co-Rapporteur**.

The mandates of all other officers were renewed.

XII. Closing Remarks

38. After some closing remarks, **the meeting was adjourned.**
