

The Club of Three and China

18th Plenary Meeting of the Club of Three

SUMMARY

China's potential as a significant strategic, trading and investment partner for Europe prompted the decision of the Club of Three to invite a group of Chinese leaders from public life, business, finance, the media and academia to join this year's Plenary conference in Berlin. The Chinese group included the Executive Mayor of Shenzhen, China's fourth largest city. The meeting was hosted by Germany's Federal Ministry of Finance and was opened by the Finance Minister, Dr Wolfgang Schäuble with an appeal to turn the Group of 20 into a powerful international instrument capable of securing global equilibrium and growth.

The conference discussions were held in an informal and confidential capacity. They demonstrated the extent to which China and Europe share many common problems, and have a mutual interest in understanding each other better and collaborating more closely on the global stage. Both groups recognised that they do not always share common values but that this should not deter frank discussion and

cooperation. Partnership must be built on the basis of mutual tolerance and understanding.

With China in the foreground, there was a lively exchange about the respective roles and value to China of the Group of 20 and the Group of 7. Participants also discussed whether China's interests would be better served in a Group of 2 with the United States, a Group of 3 that also encompassed Europe, or even a Group of 1 as a stand-alone economic superpower. There was considerable support for the idea – coming most notably from the Chinese participants – that a Club of Three plus China, or even a transformation of the Club of Three into a Club of Four would be a positive and very welcome development.

GOING FORWARD FROM BERLIN

Special Session and Session I

There was general agreement around the table that the **success of the meeting confirmed the need for follow-up**.

Two specific proposals were made:

- ▶ From the Chinese side, it was proposed that the Berlin Club of Three meeting should be supplemented by a follow-up session to be held in China.
- ▶ From the European side, it was recommended that the EU and China should each set up a task force, embracing government and the private sector, to bring together the different strands of their relations – economic, political, strategic – and develop integrated strategies for their relations with each other.

Below, left: Dr Wolfgang Schäuble, German Federal Finance Minister.

Right: Jean-Claude Trichet, President of The European Central Bank (right) and Lord Simon, GDF Suez Director and ISD Policy Board Chairman



CONFERENCE AGENDA

Friday 5 November

Welcome and Special Session

Venue: Federal Finance Ministry

Chair: Lord Weidenfeld

Speaker: Dr Wolfgang Schäuble, German Federal Finance Minister

Session I

The global economy after the financial crisis

Chair: Lord Simon of Highbury

Speakers: Jean-Claude Trichet and ZHU Min

Conference Dinner

Views from the Three and China

Venue: Allianz SE, Pariser Platz

Welcome and Chair: H.E. Wolfgang Ischinger

Speakers: Ana Palacio and H.E. WU Hongbo

Saturday 6 November

Session II

Collision or collaboration: the Three and China in the World

Venue: Federal Finance Ministry

Chair: François Heisbourg

Speakers: Helen Alexander and Prof XIANG Lanxin

Session III

Social, environmental and demographic: what can Europe and China learn from each other?

Chair: Baroness Kennedy QC

Speakers: LÜ Ruifeng, Mario Monti and Dr Eberhard von Koerber

Closing Lunch

What have we learned from each other? Are we going in the same direction?

Venue: Residence of the British Ambassador

Hosted by: H.E. Simon McDonald

Speakers: Lord Powell and HE Di

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Berlin

THE SEARCH FOR GLOBAL EQUILIBRIUM

Special Session and Session I

As its starting point the conference looked at the global economic canvas and debated how equilibrium can be restored to the world economy. Recognition of China's economic transformation and its far-reaching implications for the international community was reflected throughout the exchanges. Progress towards greater economic stability will only be achieved if all the key players – including the United States – take into account that there has been a decisive shift in economic power away from the Western industrialised world.

► There was full agreement that the leading trading nations must step up the effort to secure equilibrium in the global economy. But there was deep division over how best to attain this goal. Several speakers advocated **growth promotion** as an absolute policy priority. This was said to reflect the prevalent view at the IMF. An alternative argument was made by European policy-makers. They contended that the priority was to **restore stability to financial markets** and that governments must put their public finances in order, even at the cost of unemployment and risk to growth. It was a Catch 22 situation.

► There was sharp criticism on all sides of the US Federal Bank's decision to pump a further \$6 billion dollars into the US economy. Participants expressed concern that this would put further pressures on an already weakened financial system.



Above: LÜ Ruifeng, Executive Mayor of Shenzhen, one of China's largest cities, speaking at Session III

- ▶ European participants, especially Germans, defended the Euro as a stable currency, destined to survive the fiscal crises in some of its smaller member states.
- ▶ Currency manipulation was barely discussed. The exchanges suggested that this controversy had become over-politicised and overblown.

EUROPE AND CHINA – THEIR HISTORIC LINKS

Conference Dinner

During the Conference Dinner speakers placed contemporary relations between China and Europe within the context of their historic links. Today, Europe's attention is focused almost entirely on China's unique brand of break-neck economic transformation and its impact as an emerging superpower on the strategic balance, on the environment, raw material supplies and the whole range of challenges facing the contemporary world. It is too easily forgotten that China as a great power has a long history, and that Europe and China have been closely intertwined culturally, politically and even economically, going back many centuries.

COLLISION OR COLLABORATION: THE THREE AND CHINA

Session II

Links between Europe and China were discussed in greater detail when the conference resumed the next morning and the focus was narrowed from global and regional issues to the challenge of building a strong and enduring bridge between China and Europe. There is much work to be done. Tensions between trading nations are common but China's size and importance make it imperative for Europe to overcome the problems that have surfaced.

- ▶ Several Europeans complained of Chinese restrictions on foreign investment, of preferential treatment and subsidies to Chinese high-tech enterprises, and of widespread pirating of European imports. The Chinese response that its government had insufficient power to protect intellectual property was greeted sceptically. Favourable treatment for Chinese high-tech start-ups has to be understood in the context of



Above, right: Lord Weidenfeld and H.E. Wolfgang Ischinger, Head of Government Affairs at Allianz SE, Chairman of Munich Security Conference and ISD Policy Board member. **Below:** Session I speaker, ZHU Min, IMF Special Advisor and former Deputy Governor of the People's Bank of China



China's decision – a decision welcomed by its trading partners – to rebalance the economy from low-cost export-directed production to 'indigenous' innovation and technologically advanced manufacturing.

- ▶ From the European side, there was acknowledgment that failure to speak with China in a concerted manner undermined Europe's credibility and efforts to strengthen ties with China. Europe's task is hampered by growing parochialism and narrow nationalism among its populations.
- ▶ On all sides, it was argued that economic links between China and Europe deserve to be brought into the wider context of their political and strategic relationship.

SOCIAL, ENVIRONMENTAL AND DEMOGRAPHIC QUESTIONS: WHAT CAN EUROPE AND CHINA LEARN FROM EACH OTHER?

Session III

After a short break the Conference turned to social, environmental and demographic problems. Participants explored whether Europe and China can learn from each other as they grapple with the negative consequences of economic transformation and globalisation: massive population shifts from rural to urban areas and their factories; threats to social cohesion; pressure for health and social services; environmental degradation and demographic changes.

- ▶ The Executive Mayor of Shenzhen described the transformation of Shenzhen, a relatively small town of around 300,000 inhabitants 30 years ago, to one of China's Special Economic Zones and its fourth-largest city today, with over

15 million people, more than half of them young, unskilled migrants. Growth in GDP had been equally dramatic. This was typical of China's other major cities. The daunting challenge was to improve public facilities and housing, provide training, skills and educational facilities; integrate the migrants and provide overall security for the city.

▶ European cities, though on a much smaller scale, were experiencing similar challenges – all the tougher because of a perceived connection between immigration and terrorism. One participant argued that Europe's problems would ease if EU market integration were followed by an EU-wide social welfare system.

▶ China and Europe faced similar problems of demography with ageing populations increasingly outnumbering the young and posing problems affecting the social fabric, the provision of social services and the labour market. Chinese speakers indicated that they could learn useful lessons from European models of the welfare state.

▶ Europe's 19th century industrial revolution and the demand for both raw materials and markets that it generated is being replicated by China today on a far huger scale. Pressure on energy resources creates further uncertainties. Even though China is putting significant investment into energy-saving projects, its massive population has contributed to it becoming the world's highest polluter. It was proposed that China and Europe should join forces in the race against time to save the global environment.

Below, left to right clockwise:
 Rt Hon Shaun Woodward MP, UK Shadow Secretary of State for Northern Ireland and H.E. WU Hongbo, Chinese Ambassador in Berlin (dinner speaker); Ana Palacio, former Spanish Foreign Minister and former Senior VP of the World Bank (dinner speaker); Mario Monti, former EU Commissioner and President of Bocconi University Milan and Baroness Kennedy QC, ISD Trustee; Sasha Havlicek, ISD Executive Director.



CONCLUSIONS

As the conference drew to its close, a clear set of ideas and propositions emerged:

1. The search for global equilibrium

▶ Globalisation and interdependence have become synonymous.

▶ A solution to the global imbalance is imperative and demands a collective effort by key trading countries to collaborate in addressing the problem.

▶ The EU's own balance is in equilibrium – thanks to Germany's stellar export record.

▶ In a multi-polar world, the balance of economic power has shifted decisively in favour of Asia as a whole, and more specifically towards China.

▶ China's status as a great economic power is confirmed. The time has come to demonstrate that it can assume the international responsibilities that go with such power.

▶ The United States, while remaining a key player, no longer has the power to dominate global decision-making. China's priorities are shifting away from concentrating on economic relations with the US. It is in China's interest to align itself more closely with other key players, especially with Europe.

2. Trade and Investment Cooperation between Europe and China

▶ In the coming decade, China's leaders will have to deal with rising social expectations and immense demographic, environmental and

energy problems. The Chinese Communist Party's Central Committee has confirmed its commitment to 'inclusive growth' and to 'major breakthroughs' to adjust its economic and social structure.

► This is among the reasons why China is turning away from its overriding focus on export-led growth towards a more balanced approach to development and to policies designed to encourage innovation and technologically advanced manufacturing industries. China recognises the need to develop the service sector, and to pay much greater attention to social cohesion and the provision of social services.

► Europe will need to find a response to this redirection of Chinese planning policy. With strong competition from China in manufacturing products, Europe must undertake major structural reform of its own industries. It must also reconsider its investment policy in China.

► Even though China asserts that it spends more on intellectual property protection per capita than many other countries, enforcement has to become far stricter both to attract foreign investment and also to protect the growing level of Chinese high tech manufacturing.

3. A strategic partnership between Europe and China

► Europe will only become a credible partner for China if, at a minimum, the Three (Britain France and Germany), abandon the race to compete with each other for China's favours and for a privileged relationship with China. Europe would be much better served if it found a common voice for managing relations with China.

► As China becomes more assertive, Europe would be well-advised to pay closer attention to China's key foreign policy interests, such as its relations with Japan, and to define more precisely its position on Taiwan and contentious territories in the South Pacific.

► Differences in political systems should not be an obstacle to political engagement with China.



Above, left to right clockwise: Ambassador WU and Clariant Chairman Jürg Witmer; Dr Eberhard von Koerber and Dr Mathias Döpfner, CEO of Axel Springer and ISD Trustee; Prof LIU Kang, Shanghai Communication University & Duke University; MAO Yumin, Chief Investment Officer, China Construction Bank; Helen Alexander, President of the Confederation of British Industries & Advisor to Bain Capital

LIST OF ATTENDEES

CHINA: CHUI Keung Phoenix TV | DAI Xiaojing Caijing Financial Magazine | Dr FANG Xinghai Shanghai Municipal Government | HE Di Boyuan Foundation LI Yifei VivaKi, Publicis Groupe, Greater China | Prof LIU Kang Shanghai Communications University | LÜ Ruifeng Shenzhen Municipal Government | MAO Yumin China Construction Bank | SUN Shuyun ISD | WANG Jianxi China Investment Corporation | H.E. WU Hongbo Chinese Ambassador to Berlin | Prof XIANG Lanxin Fudan University & Graduate Institute of International Studies, Geneva | ZHU Min IMF

EUROPE: Helen ALEXANDER Confederation of British Industry | Dr Karl-Georg ALTENBURG JP Morgan AG | Dick BENSCHOP Royal Dutch Shell plc | Nicolas BEYOUTOU Groupe Les Echos | Caroline BUTLER Lord North Street Ltd. | Charles de CROISSET Goldman Sachs International | Dr Alexander DIBELIUS Goldman Sachs Germany | Dr Mathias DÖPFNER Axel Springer AG & ISD | Gérard ERRERA The Blackstone Group | Stuart FIERTZ Cheyne Capital & ISD | Dr Thomas GAULY CNC (Communications and Network Consulting | Charles GRANT Centre for European Reform | Jacob GRIERSON Jones Day, France | Sir Ronald GRIERSON The Blackstone Group & ISD | Xavier GUERRAND-HERMES Guerrand-Hermès Foundation | Lord GUTHRIE N. M. Rothschild & Sons & ISD | Sasha HAVLICEK ISD | François HEISBOURG Fondation pour la Recherche Stratégique | H.E. Wolfgang ISCHINGER Allianz SE & ISD | Martin JÄGER Daimler AG | Peter JUNGEN Peter Jungen Holding GmbH | Michael KEELEY C12 Capital Management LLP | Pierre KELLER Lombard Odier & ISD | Baroness KENNEDY QC Human Genetics Commission & ISD | Dr Markus KERBER Federal Finance Ministry | Dr Eberhard von KOERBER Eberhard von Koerber AG | Gail LUMSDEN SAB Miller | John H. McCall MACBAIN Pamoja Capital S.A. | Michael MACLAY Montrose Associates & ISD | Gilles de MARGERIE Crédit Agricole Sophie | Caroline de MARGERIE Conseil d'Etat | H.E. Simon McDONALD British Ambassador in Germany | Mario MONTI Bocconi University | Simon MURRAY Simon Murray & Company | Rt Hon Lord OWEN Former UK Foreign Secretary | Ana PALACIO Palacio Y Asociados & ISD | Hella PICK ISD | Lord POWELL Sagitta Asset Management Ltd. | Dr Wolfgang SCHÄUBLE Federal Finance Minister | Lord SIMON of Highbury GDF-Suez & ISD | Denis SIMONNEAU GDF Suez | Bernard SPITZ French Insurance Federation | Philip STEPHENS Financial Times & ISD | Jean Claude TRICHET European Central Bank | Lord WEIDENFELD ISD | Dr Rudolf WEHRLI Clariant | Jürg WITMER Clariant | Dr Jörg WOLLE DKSH | Rt Hon Shaun WOODWARD MP Former Secretary of State for Northern Ireland

WHAT HAVE WE LEARNED FROM EACH OTHER?

Closing Lunch

To mark the end of the conference, **two participants, one European and one Chinese, spoke of the lessons they would take away from this Club of Three Plenary.** Their remarks underlined that the meeting had initiated invaluable contacts and opened the way to further collaboration.

The speaker on the European side was a former diplomat with wide business experience of China. His overall conclusion was that Europe and China have good reasons to establish a broad strategic partnership, but that they must overcome many mutual misperceptions and misunderstandings.

- ▶ European countries make the mistake of competing with each other for China's favours rather than pursuing a common cause: Europe must behave in a way that encourages China to take it more seriously. China, for its part, needs a better appreciation of the potential gained from close relations with Europe. China should regard Europe as a serious partner and not a side-show.
- ▶ Misunderstandings and misinterpretations must be dispelled. Europe is not pursuing a policy of containment against China. And China is not a giant bent on conquering Europe's traditional markets and monopolising the world's raw

Below, left: HE Di, Chairman of the Bouyan Foundation and Vice Chairman, UBS Investment Banking **Right:** Lord Powell, Chairman of Sagitta Asset Management



materials. Rhetoric needs to be calmed and Cold War thinking banished.

- ▶ Global interdependence has created a mutual interest between China and Europe to build an improved cooperative governance of the world economy and to achieve a synchronised rebalancing of the main global economies. Both have a vital interest in avoiding the downward spiral of protectionism.
- ▶ Europe and China should both look beyond bilateral trade disputes and recognise that Europe has become China's biggest market, and that China has become a hugely important market for Europe. They could achieve great progress by making common cause on global challenges to the environment, health, on the management of social security systems and of raw material resources, and even on addressing major foreign policy issues such as Iran's nuclear ambitions.
- ▶ Europe and China must respect each other's political systems. But they should be mature enough to recognise the right to criticise aberrations in the political system such as arbitrary arrests or detentions of dissidents. Differences in political system do not have to be an obstacle to constructive engagement. But nor should good relations be conditional on suppression of diverging views on values and human rights.

The Chinese speaker was similarly constructive on the lessons to be drawn from the conference.

- ▶ Europe and China have common interests in confronting global challenges and have good reasons to search for common language and action.
- ▶ China, now confirmed as a major power on the global stage, must accept its responsibilities, sit at top tables and assert itself in the management of international affairs. It can no longer afford to sit in splendid isolation.
- ▶ Think tanks and institutions like the Club of Three offer invaluable opportunities for informal exchange on often delicate matters. It would benefit both Europe and China to intensify such dialogue.

The Institute for Strategic Dialogue (ISD) is an independent think tank working with leaders in government, business, media and academia to develop multi-country responses to the major security and socio-economic challenges of our time and to enhance Europe's capacity to act effectively in the global arena. Activities include research, specialised task forces, high-level policy briefings, scholarships and cross-border networks that foster leadership and stability across Europe and its wider neighbourhood, actively bridging inter-communal, religious, socio-economic and political divides.