

Beijing
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2012

INSTITUTE *for*
STRATEGIC DIALOGUE

The Club of Three and China: The China-Europe Beijing Forum

SUMMARY

The China-Europe Beijing Forum was conceived as an extension of the Club of Three and China initiative that began during the 18th Plenary Meeting of the Club of Three, held in Berlin in October 2010. This return visit to China, organised by the Institute for Strategic Dialogue (ISD) in conjunction with the Boyuan Foundation - a leading Chinese non-profit organisation promoting academic research and policy analysis - sought to build on the strong relationships established in Berlin, and create a lasting platform for mutually beneficial exchange between Europe and China.

tions such as the G20, the G7, and the EU-China High Level Summit, China and Europe are able to exchange views on a range of topics. Nevertheless, despite these formal mechanisms of exchange, little or no dialogue is currently taking place in the senior non-governmental realm. Issues of contention such as the valuation of the Renminbi; the imposition of Chinese tariffs on European goods; and the continuing debate over human and political rights in China continue to attract attention in European media and political circles, and have resulted in misunderstandings and tensions in the Europe-China relationship.

The Club of Three and China: China-Europe Beijing Forum convened more than 50 distinguished political, media, academic and business leaders in Beijing on 24-25 May 2012 to develop a sustainable network of Chinese and European leaders able to tackle these critical issues of contention and strengthen Sino-European relations more generally. Notable participants included Pascal Lamy, Director-General of the World Trade Organisation (WTO), Zhu Min, Deputy Managing Director of the International Monetary Fund (IMF) and Zhou Xiaochuan, Governor of the People's Bank of China.

Below: Lord Simon of Highbury chairs the first session of the conference. **Below right:** Zhou Xiaochuan, Governor, People's Bank of China and He Di, Director-General, Boyuan Foundation and Vice Chairman, UBS Investment Bank



Europe and China share a common interest in economic, political and geostrategic cooperation. To some degree, this cooperation already takes place; trade between the EU and China has reached record volumes and is set to continue expanding, and, through international institu-

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REVITALISING EUROPE

Special Session and Session I

The conference commenced with an examination of the capacity of the Euro for recovery, and the role that China can play in aiding a European economic recovery. China's strong -although not unencumbered- economic position has made it singularly well-placed to act constructively in the European arena. A special session with the Chinese Vice Premier, Wang Qishan, gave the European participants a valuable insight into how the Chinese leadership views forthcoming challenges facing both China and Europe. Indeed, in many ways, the exchange with the Vice Premier set the tone for the conference as a whole, providing frank and informative interaction with one of the most influential figures in contemporary Chinese politics.

During the conference sessions, most participants alluded to the fact that the China-Europe relationship is often characterised by a tension between cooperation and competition. Participants widely agreed that one objective involves creating more focused and distinct channels of engagement with China. Most fundamentally, it was agreed that Europe has the ability to solve the financial crisis and reinvigorate the economies of its member states, but that this would be based not only on measures to stimulate growth but also a range of other developments.

- Participants generally agreed that, in order to safeguard its future and that of its member states, Europe must embrace greater, rather than less, union, especially in regard to fiscal policy.
- Many participants reflected on the need for an effective set of European 'firewall



institutions' to protect the 'soft underbelly' of Europe. Focus mostly rested on the proposed European Stability Mechanism (ESM), and the potential of this institution to act as a 'financial backstop' for EU member states. Some participants went further and spoke of the need for an institutionalised banking union.

- Several participants pointed out the urgency of the situation, stating that 'market reality' means that 'the market will not give the time' which political institutions are seeking. European participants strongly urged China to accelerate its investment in the continent, particularly in the strong enterprises and companies which continue to drive the European economy.

CHINA: A REALISTIC APPRAISAL

Conference Dinner

The conference dinner was held in the Banquet Hall of the Beijing Hotel. The keynote speech was given by one of the most influential men in China's economy and a former head of the world's largest bank.

Reflecting the open and informal nature of the Club of Three format, he drew on personal experience to highlight the challenges facing China's economy. He went on to stress the need for

Below: Sylvie Kauffmann, Editorial Director, Le Monde **Above right:** Zhu Min, Deputy Director, International Monetary Fund (IMF)



Europe to understand that China's economy is still developing and that many of its citizens still face high levels of poverty.

The speaker's candour provided a much-needed perspective on the realities of China's remarkable economic growth and transformation. However, the speaker stressed that preoccupation with domestic economic priorities in no way affects China's commitment to working with the EU; the relationship remains a crucial component of China's external policy.

REBALANCE AND REFORM IN CHINA

Session II

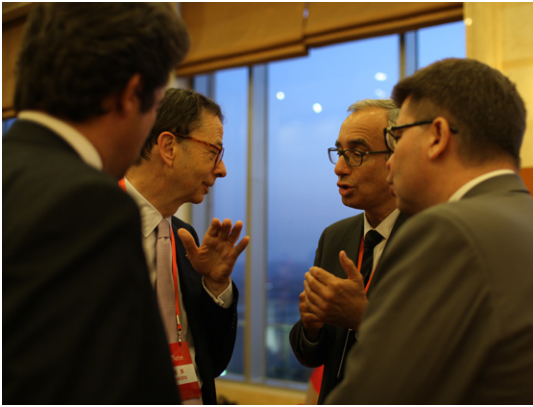
When the conference resumed on day two, attention shifted to the economic rebalancing of China, with a focus on the importance of this rebalancing to the rest of the world, and debate on the direction this rebalancing should take, given the challenges facing policy makers. Many participants highlighted the significant strides that China has already taken in regard to its economic rebalancing, with the notable appreciation of the Renminbi pointed out by both European and Chinese participants and virtually all participants noting that

'the shift is happening'. Participants from both sides also highlighted the fact that expanding domestic consumption remains a key challenge for Chinese policy makers. Further crucial issues discussed included the need for corrections to the imbalances between the public and private sectors of the Chinese economy and between the service and manufacturing industries. It was also stressed that more attention must be paid to inequalities in wealth, to the environmental impact of development, and to the need to safeguard innovation in technology and design.

- Although some participants saw efforts to increase consumption as futile until a certain level of income is achieved, others pointed to significant government actions which could improve public consumption.
- A vast majority of participants referenced the need to promote, develop and expand China's 'social safety net' so as to allow citizens more security in their spending. The potential effects of health-care and pension reform were therefore raised as significant factors during this session of the conference. Others suggested the selling of long-term bonds at high interest rates as another method to promote internal consumption.
- Whilst both European and Chinese participants saw great advances in the reform of China's state owned enterprises (SOEs), European participants tended to focus on the need for further reform of SOEs to create a 'level playing field' for foreign investors, whilst Chinese participants tended to focus on the capacity of these SOEs for restructuring the economy (away from manufacturing towards services) and for promoting internal consumption (through the paying of dividends).
- Several speakers spoke of concern

Below: Guo Shuqing, Chairman, China Securities Regulatory Commission





Above left: Delegates in discussion
Above right: Peter Sands, Group Chief Executive, Standard Chartered PLC



over China's continuing external trade surpluses. This was recognised as a significant issue for both China and the EU.

MAPPING GEOPOLITICAL ENGAGEMENT

Session III and Special Session

The third session of the conference examined the geostrategic security challenges facing China and Europe. Speakers stressed that constructive engagement is vital in minimising the potential for future security challenges to derail multilateral relations. A number of participants also highlighted the danger of inward-looking parochial policy making and the need to 'resist nationalism' in this testing global economic environment.

During the Special Session with Pascal Lamy, international institutions such as the United Nations - particularly the United Nations Security Council - and the World Trade Organisation (WTO) were highlighted as valuable multilateral tools which aid engagement but which need readjustment to the realities of today in order to fulfil their po-

tential value to the geostrategic order.

- Chinese participants largely felt that, in contrast to China's relationships with the US and Japan, the Sino-European relationship is free of any substantial inherent tensions. In this sense, it was felt that the Euro-Chinese relationship has a better 'starting point' than China's other major geostrategic relationships. European participants, in turn, unanimously tended to view China's rise as an opportunity for increased engagement, rather than a threat.
- A number of participants highlighted significant challenges which, if allowed to develop, could mature into substantial threats. Foremost among these were the potential for tension should China's economic reforms proceed badly, and the weakened ability of Europe to protect itself from threats in the wider neighbourhood should its economic standing continue to be damaged by the ongoing financial crisis.
- In the context of China's peaceful rise, and ongoing turbulence in the Middle East and North Africa, the conversation also included a substantial focus on international responsibility. In this context, there ensued debate about the perceived 'role' of China in global conflict resolution. Several European participants called on China to take greater 'responsibility' in international conflict resolution. This was met on the Chinese side by some disagreement as to whether the calls were valid, given China's economic standing, and whether this pressure from Europe for action was appropriate, given the chequered recent history of European interventionism. Some European speakers were concerned less about China's conduct around the world than about its relationships in its own neighbourhood.



Left: Dai Xiaojing, Executive Director, Stock Exchange Executive Council (SEEC) and President, SEEC Media Group Limited

HIGH MOUNTAINS AND DEEP RIVERS: REFLECTIONS ON THE LESSONS LEARNED

Closing Lunch

The conference ended with a lunch at the renowned Wangfujin Quanjude Roast Duck Restaurant. Four participants - two Chinese and two European - spoke of the lessons they had drawn from the Club of Three and China: China-Europe Beijing Forum. The remarks reflected the value of establishing this opportunity for high-level informal, off-the-record dialogue. The speakers also demonstrated the goodwill that had been generated by the Forum and stated the widely-held desire to continue dialogue and strengthen the network that had been created.

The first speaker on the Chinese side was the president of a major Chinese media conglomerate. The second was a prominent academic and influential member of the Boyuan Foundation board.

The first speaker highlighted an ancient

Chinese proverb:

“Just when you fear the road is blocked by high mountains and deep rivers, the willows and flowers greet you in another village”.

This proverb indicated the value of recognising new opportunities at a time of stagnation and despair. The Club of Three: China-Europe Beijing Forum was described as, in some ways, reflecting the situation in this proverb. According to one speaker, the Club of Three and China dialogue had reinvigorated relations between the EU and China, when more formal, governmental channels of engagement have shown less progress. It was reiterated that the Club of Three and China initiative is a highly useful endeavour at this point, and has made a very strong start in addressing strategic relations between Europe and China.

This position was reinforced by supporting contributions from the European speakers, one a prominent leader in the global financial sector and the second a senior business leader, who emphasised the need for continuing exchange between non-governmental groups. In this respect the Club of Three and China: China-Europe Beijing Forum emerged as an important medium.

CONCLUSIONS

Participants were unanimous that this inaugural meeting of the China-Europe Beijing Forum had been successful in developing a strong network of leaders; deepening understanding of the critical issues; and strengthening Sino-European relations in general. Going forward, fu-



Above left: Pascal Lamy, Director-General of the World Trade Organisation (WTO)

Above right: (from right to left) Yuan Ming, Professor of International Relations, Peking University. Charles Grant, Director, Center for European Reform. Wang Jisi, Dean, School of International Studies, Peking University and Director, Center for International and Strategic Studies, Peking University.



ture engagement can build on the enthusiasm of partners and participants for the Forum, allowing the development of a network of key players and institutions devoted to seeing substantial and frank dialogue between Europe and China at a senior non-governmental level. The strong commitment of all sides to continued engagement has been demonstrated through the consultations of both the European and Chinese steering committees. Both sides have already arranged follow-up meetings, scheduled for October, in which the prospects for a major meeting in Europe will be discussed.

From the discussions held during the China-Europe Beijing Forum, several

ideas and conclusions became apparent:

1) Europe can survive the financial crisis and China can help.

- Overall, and taken as a whole, Europe is not in overly poor financial shape. Both European and Chinese participants remain confident about the ability of Europe to recover.
- The Eurozone must move towards greater integration and solve a number of problems; most urgently it must reassure markets about the ability of its firewall institutions to sufficiently recapitalise in the event of crises such as the current ones in Greece, Ireland, and Portugal.
- China can help, and indeed wants to help, not only by investing in government bonds but also by investing in Europe's companies and businesses, which remain pioneers and leaders in their field. Despite fragility in the Eurozone, these companies remain reliable, ambitious and worthy recipients of investment, and, as recent studies have shown, have significantly outperformed American companies during the last de-



Right: Delegates in session during the conference.



Above: Lord Brittan of Spennithorne, Vice Chairman UBS and Former Vice President, European Commission

cade. Although challenges around issues of intellectual property rights and technology transfer will remain contentious in the short-term, this increased cooperation in trade and investment points in the right direction for the Europe-China relationship.

2) China is an economic superpower, but its economy is not invulnerable.

- Continuing global recession will harm China's export-dominated economy.
- China's stated aim of re-orientating its economy is a genuine policy challenge and one that will require great skill and courage. 'Downward pressures' on the Chinese economy such as falling business investment, lower consumer spending and falling exports, have led to some anxiety. Addressing internal imbalances could take a generation, given the absence of state provision of healthcare and pensions.
- Europe's welfare programmes can provide good templates and lessons for Chinese policy makers. These programmes themselves are seen by many

Europeans as being in need of reform.

3) Continued dialogue remains a necessity

- Participants remain convinced that only through high-level, informal channels of frank communication can Europe and China improve mutual understanding, create economic advances and enhance geostrategic clarity.
- Finding a common 'European voice' remains, as ever, a significant problem and possibly an impossible challenge, given national traditions. As economic and fiscal challenges continue unabated, this issue becomes increasingly significant.
- In economics and trade, China often cites European protectionism in the field of technology transfer, whilst Europe cites unfair market access in China and lack of government action on the enforcement of intellectual property legislation. Dialogue remains necessary in order to take transparent action and to make clear the limitations of policy and enforcement.
- In international affairs, Europe remains keen for China to act as a responsible player in the international arena. In this sense, it no longer appears to view China as a developing nation, and believes it should take on responsibilities for securing international public goods. China, for its part, remains suspicious of European calls for greater global engagement. It is sceptical about the motives of past NATO engagement around the world and reluctant to break with its stated policy of non-interference, seeking to prioritise its monumental targets in lifting its citizenry out of poverty, rather than the pursuit of ambitious foreign policy goals.

CONFERENCE AGENDA

Friday 25 May

Special Session

Speaker: Wang Qishan

Welcome and Session I

Revitalising Europe

Venue: Bank of China Headquarters

Chair: Lord Simon of Highbury

Speakers: Baudouin Prot, Zhu Min,

Dr Jean Pisani-Ferry,

Hu Xiaolian, Pierre Lagrange, Gao Xiqing

Conference Dinner

China: A realistic appraisal

Venue: Banquet Hall, Beijing Hotel

Speaker: Guo Shuqing

Friday 26 May

Session II

Rebalance and reform in China

Venue: Bank of China Headquarters

Chair: Qin Xiao

Speakers: Qin Xiao, Liu Shijin, Lord Turner of Ecchinswell, Wang Yongli, Peter Sands

Session III

Mapping geopolitical engagement

Venue: Bank of China Headquarters

Chair: Lord Brittan of Spennithorne and Yuan Ming

Speakers: Charles Grant, Zhou Wenzhong, Eberhard Von Koerber, Wang Jisi

Special Session

Venue: Bank of China Headquarters

Speaker: Pascal Lamy

Closing Lunch

High mountains and deep rivers: reflections on the lessons learned

Venue: Wangfujin Quanjude Roast Duck Restaurant

Chair: Dai Xiaojing

Speakers: Wang Jisi, Lord Brittan of Spennithorne, Lord Simon of Highbury



LIST OF ATTENDEES

CHINA: CAO Yuanzheng Bank of China | **CHEN** Xingdong BNP Paribas Securities (Asia) Limited | **DAI** Xiaojing SEEC Media Group Limited | **FANG** Xinghai Office of Financial Services, Shanghai Metropolitan Government | **GAO** Xiqing China Investment Corporation | **HE** Di UBS & Boyuan Foundation | **HU** Xiaolian People's Bank of China | **HUANG** Danhan Trade in Services to the EU-China Trade Project (II) | **LI** Bo People's Bank of China | **LI** Lihui Bank of China | **LI** Yifei Man Group China | **LIU** Shijin Development Research Center of the State Council (DRC) | **MA** Jun Greater China Deutsche Bank | **QIN** Xiao Boyuan Foundation | **SUN** Zhenyu Ambassador of China to the World Trade Organisation | **WANG** Boming SEEC Media Group | **WANG** Jianxi China Investment Corporation | **WANG** Jisi School of International Studies, Peking University | **WANG** Tao UBS Investment Bank | **WANG** Yongli Bank of China | **WANG** Yuan China Development Bank | **WU** Xiaoling National People's Congress Standing Committee | **XU** Shanda Committee for Economic Affairs, Chinese People's Political Consultative Congress (CPPCC) | **YAN** Lan Greater China Investment Banking, Lazard Ltd | **YI** Xiqun China Association of Private Equity | **YUAN** Ming Peking University | **ZHANG** Tuosheng Center for Foreign Policy Studies | **ZHANG** Yansheng Academic Committee of National Development and Reform Commission (NDRC) | **ZHAO** Ju China Investment Banking | **ZHOU** Hong Institute of European Studies, Chinese Academy of Social Sciences (CASS) | **ZHOU** Wenzhong Boao Forum for Asia | **ZHOU** Xiaochuan People's Bank of China | **ZHU** Min IMF

EUROPE: Patricia **BARBIZET** Artémis | Jean-Louis **BEFFA** Compagnie de Saint-Gobain | Roland **BERGER** Roland Berger Strategy Consultants | Charles Edward **BOUÉE** Roland Berger Strategy Consultants, Asia | Lord **BRITTAN** of Spennithorne UBS | Charles **GRANT** Center for European Reform | Wolfgang **ISCHINGER** Allianz SE & ISD | Peter **JUNGEN** Peter Jungen Holding GmbH | Sylvie **KAUFFMANN** Le Monde | Jürgen **KLUGE** Franz Haniel & Cie | Eberhard von **KOERBER** Club of Rome | Pierre **LAGRANGE** Man Group Asia | Pascal **LAMY** World Trade Organisation | Lord **SIMON** of Highbury Unilever Group & ISD | Michael **MACLAY** Montrose Associates & ISD | Dr Jean **PISANI-FERRY** Bruegel | Baudouin **PROT** BNP Paribas | Peter **SANDS** Standard Chartered PLC | Louis **SCHWEITZER** AstraZeneca PLC & ISD | **SUN** Shuyun ISD | Lord **TURNER** of Ecchinswell Financial Services Authority UK & ISD

Institute for Strategic Dialogue (ISD)

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.



Project partner

Established in 2007, **Boyuan Foundation** is a non-profit organisation promoting academic research and policy analysis via multiple angles and disciplines. Boyuan seeks to analyse the mid and long-term perspectives on economic, social and international relations issues in China. In a spirit of openness, rationality and inclusiveness, Boyuan seeks to define problems, establish frameworks, and pursue consensus. Boyuan's activities include facilitating research, hosting forums, organising seminars and publishing academic literature.



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