

Discussion with Henri de Castries – Paris, February 2017



Henri de Castries, Residence of the British Ambassador in Paris (10 February)

INTRODUCTION

Some 30 senior figures from business and the policy field in France, Germany and the UK gathered in Paris on 10 February to take part in a meeting with Henri de Castries, a Non-Executive Director at HSBC and former Chairman and CEO of AXA.

Henri de Castries currently chairs the Paris-based Institut Montaigne, a French think-tank that contributes to the policy debate in areas including competitiveness and social cohesion. After graduating from the École Nationale d'Administration in 1980, he first worked at the French Ministry of Finance and then took part in the privatisation programme initiated by Jacques Chirac's government. He joined AXA in 1989 and later on became CEO and Chairman, a position he held until September 2016.

Henri de Castries gave a keynote address in

which he shared his perspective, based on his long business experience, on current political and economic developments in Europe and the US.

This was followed by a broader discussion over lunch entitled "Europe in turbulent times: politics, business and populism" and led by Norbert Röttgen (Chairman of the Bundestag's foreign affairs committee) and Andrew Fraser (Senior Adviser and Director at Mitsubishi and former CEO, Invest UK). Lord Simon, President of the Club of Three, made opening remarks and the discussion was chaired by Steering Group Chairman Michael Maclay.

This meeting was hosted by the British Ambassador to France, H.E. Lord Llewellyn, at his residence in the French capital, with generous support from the Robert Bosch

Stiftung and the British Embassy. In his welcoming remarks, Lord Llewellyn stressed the importance of forums such as the Club of Three in the years ahead. Britain was leaving the EU but it remained firmly engaged with the European continent and would continue to cooperate on a number of issues including trade, defence and security.

Keynote address

Henri de Castries outlined the internal and external challenges that Western democracies were facing. For him, the profound changes that had occurred in the period leading up to the first quarter of 2017 marked the beginning of a new century in the same way as the Congress of Vienna of 1815 and World War I did before. We were experiencing the end of what Henry Kissinger would call the Westphalian order. Throughout the nineteenth and the twentieth centuries, a Western view of the world had been imposed on others and the large countries of today were now taking this apart. Alternative models that were not democratic were starting to emerge and were successful in areas where the West

previously had a monopoly. But countries like Russia for example had very advanced technological capabilities that could compete with or outrun those of the West even though its economy was declining in the long term.

These great disruptions on the international scene were taking place at a time of major changes within Western societies themselves. There was no large European country where populist and nationalistic moments had less than certainly 30% and probably close to 50% of the vote. The main reason for the spread of populism across Europe and also the US was that the social contract on which Western democracies were based was broken. Governments were failing to provide peace through security and prosperity through democracy. In the US, statistics showed that the per capita income of 50-year old males had stagnated since the 1970s and a similar trend could be observed in Europe. The ability of our democracies to generate wealth was therefore being questioned and globalisation was unfairly presented as the scapegoat. Although it had had some impact, technology was to blame



Left : The Ambassador welcomes participants



Right (left to right): Gill Fraser, Rupert Harrison and Charlie King

for the current situation – not globalisation. In this respect, today’s world was reminiscent of the late nineteenth century when electricity was starting to radically transform traditional manufacturing processes. Many businesses became obsolete during this period and it took some time before new jobs were created by emerging economic sectors. A parallel with the end of the nineteenth century had also been made during the [Plenary Meeting of the Club of Three](#) in October 2016. As a pillar of the modern global economy, the West was most threatened by these transformations. This called for important social and economic adjustment.

There were three key factors that decision makers needed to bear in mind in order to understand and adapt to these challenges. Firstly, innovation was now granular. It used to be centralised and capital intensive but this was no longer the case. Its cost had collapsed, making information technologies very cheap and powerful. Secondly, once a business had developed a new, innovative proposition, success could be exponential and unlimited. This left almost no space for second best. Thirdly, no success could be

expected to last for ever in this highly innovative environment. As a result, societies were becoming more vibrant but it also meant that they were undergoing constant change, putting social models in the West under serious stress. These social models were supposed to be static, based on the principles of protecting and preserving the ‘acquis’ gained by individuals in the past. They were no longer fit for purpose in societies in constant movement. In the workplace, knowledge and skills were evolving very rapidly. In future, workers would need to re-skill themselves on a regular basis and change jobs much more often. Salaried employment would also become less dominant.

Henri de Castries then talked more specifically about the pressures that Europe was experiencing from the outside. Unlike the US, Europe was not protected by two large oceans. It was a large peninsula subject to various forces. With 30 million new inhabitants in Africa and a shortage of 4-6 million jobs, large migration flows to Europe were inevitable unless long-term solutions were found to encourage young people to stay in their own countries. And the porosity



Left: Henri de Castries and Patricia Barbizet



Right: Participants gather before the lunchtime discussion



Left (left to right): Jean-Michel Steg, Bernard Spitz, Ambassador Llewellyn

Right: Anne-Charlotte Fredenucci and Edmond Alphandéry



of the Middle East made these migration flows much more likely. In the East, the main threat came from Russia. In the long run Russia did not pose a serious problem because of its declining economy. But the risk of a provocation was real. Russia would not hesitate to use military force to show that it was still a powerful nation.

The next two years would be critical for Europe. The risk of fragmentation was somewhere between 20% and 50%, in his view. The Greek crisis was likely to resurface much sooner than expected and it was imperative to look at the problem from a strategic point of view as well as a monetary issue. Political and economic stability in Greece was essential in order to protect EU borders. But most importantly the survival of Europe required a strengthening of the Eurozone at the EU's core. And for this to happen, structural reforms would have to be put in place, starting with France. The European Central Bank had used most of the tools at its disposal. Only structural reforms could now make a difference and put the Eurozone on the right course. Mr de Castries ended his keynote address by highlighting

three areas on which Europe should focus on to reboot the European project: security, competitiveness and education. On security in particular, after the election of Donald Trump as US President, Germany would come to realise that America as an 'army of last resort' was no longer a valid concept and that a European initiative in this area was warranted.

Lunchtime discussion

The first speaker during the discussion that followed the keynote address was Norbert Röttgen. Expanding on the remarks made by Henri de Castries, the Chairman of the Bundestag's foreign affairs committee argued that populism was a product of failed policies aimed at building a global governance system. The populist movements in Europe and their anti-establishment rhetoric had a lot in common with the counter-model that Russia was pushing forward. They saw a logical proximity with authoritarian regimes such as Russia and, at the same time, Russia was using them as tools to destabilise Western societies. In foreign policy terms, European

countries needed to decide how to approach their eastern neighbour. In France, particularly on the conservative side, there was a different debate about Russia and the level of threat it really posed. This was also the case in the US following the advent of the Trump administration.

Germany was not immune to the spread of populism. The far right AfD (Alternative for Germany) party, which had won 4.8% of the vote in the last nationwide election on an anti-Euro ticket, had since changed its strategy and focused almost exclusively on immigration issues. It now looked certain to break the threshold of 5% for entering the German parliament. According to recent polls, it was predicted to win 12-15% of the vote. This could be explained by the degree of resentment towards the political class, not just among the so-called blue collars but also highly educated professionals such as doctors and lawyers, which had been seriously underestimated in Germany. Mr Röttgen’s working hypothesis was that the migrant crisis had acted as a trigger, unleashing all sorts of frustrations built up over time. In order to counter these populist

gains and show that Europe could deliver and be credible again, better policies were the solution. The desire among major parts of the population to protect their cultures and maintain a degree of democratic control in their own countries had not been addressed properly. Like Henri de Castries earlier, Norbert Röttgen believed that a “sursaut européen” had to start with a Franco-German initiative for reform and investment immediately after the French elections in May. Other initiatives in the fields of security and foreign affairs would also have to follow. Security had to be understood in a very comprehensive sense and include economic and social components. He also called for a European foreign policy vis-à-vis the Middle East in response to people’s concerns about terrorism, immigration and the lack of border controls.

Andrew Fraser then offered a business perspective on these issues. The backlash against globalisation was having a real impact on business. For the first time since 1945, international trade was growing more slowly than world GDP. Foreign Direct



Left (left to right): Thomas Buberl and Eberhard von Koerber
Right: Vivienne Cox and Lord Evans during lunch



Left: Norbert Röttgen during his lunchtime presentation



Right: Andrew Fraser – second speaker

Investment (FDI) was decreasing and the performance of multinational companies was declining. This difficult environment was in part the result of an angry reaction to the behaviour of these multinationals. Globally mobile, they had become disconnected from the societies in which they were operating. Alongside this disconnect, technological change had brought job insecurity to European workers. For many, unemployment and wage stagnation had become real concerns.

The speed and scale of these changes had also put governments on the back foot. They were struggling to effectively regulate and tax technology companies that were developing faster than the political process could cope with. Andrew Fraser cited the “double Irish” tax arrangement that had been used by some large multinationals as one example of footloose global corporations operating without direct accountability to national governments and to the people who elect them.

These unprecedented shifts had taken place against a general loss of confidence in Western leadership and its economic model,

following the Iraq war and the 2008 financial crash. It was imperative to establish a new, responsible form of capitalism, capable of reconnecting with the communities that it served. Japan, which had proved so far resilient against populism, had a tradition amongst business leaders of a capitalism that worked for the common good. Perhaps this held lessons for the West.

During the debate that followed these two presentations, one of the German participants pointed out that the apparent decline in FDI should be seen in context. Over the last 25 years, there had been a sharp increase due to the industrialisation of China. Levels were now returning to normality. This decline should therefore not be exaggerated and significant increases in Chinese FDI in Europe could now be expected.

A participant from Britain supported the analysis that technology was the key factor behind job insecurity. A large part of the solution lay with the private sector. Businesses, for their own survival and for the adaptability and resilience of the workforce, had to ensure that their employees were

equipped with the right skills for the new economy. At the international level, one of the French participants pointed to some concrete measures that the business world could take to address populism. Under the German Presidency of the G20, the B20 was going to recommend including a social dimension to international governance which would lead to the creation of a “social Bretton Woods”. This recommendation would be submitted in July 2017 with a formal launch in 2018.

For another French participant, the disillusionment with mainstream politics had been caused by overly technocratic policies. But there was a need now for real political initiatives. Comments made by the new US President about NATO made a European initiative on security absolutely crucial. Any joint action would have to involve the UK, regardless of Brexit. The UK was one of the only countries in Europe with credibility in this area.

CONCLUSION

The February meeting in Paris highlighted that Europe was under multiple pressures. These were critical times for our continent. On the one hand, it was experiencing deep

social and economic transformations caused by the acceleration of technological development and, on the other, it was having to deal with large migration flows from Africa. In the East, Russia was also posing a significant security threat.

The lack of adequate policies to tackle these problems had led to a feeling of insecurity among Europeans and other parts of the West, from the inside as well as the outside. This had given rise to great frustrations towards the political establishment, fuelling populist movements across all Western societies. Europe had to act fast in order to combat the rise of these movements and restore confidence in the European idea, starting with a Franco-German initiative for reform and investment following the elections in France.

There were also calls for a European initiative on security, a decisive issue for Europe’s future that had to be understood in a broad sense, not just defence and external borders. As a key player in the European security field, the UK had to play a part in this initiative.

MEETING PARTNERS

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