



EUROPE AND CHINA

Club of Three Special Session
Berlin (Allianz Representative Office), 2/3 November 2023

INTRODUCTION

In November, the Club of Three held a special session in Berlin Europe and China. It built on a series of webinars with senior Chinese figures during the course of 2022 and 2023, including two events in partnership with the China International Institute of Strategic Studies (CISS).

This special session brought together around 45 senior representatives from business and the foreign affairs field in France, Germany, the UK and China to discuss how best to manage relations between Europe and China in the aftermath of the Ukraine crisis, the 2022 quinquennial Communist Party Congress and appointment of a 'refreshed' Chinese leadership team, and in the midst of continuing tensions between China and the United States.

The event began with a dinner on the Thursday evening hosted by Mathias Döpfner at Axel Springer's Journalisten Club, which served as a scene setter for the exchanges that took place the following day.

The Friday discussions were held at the Allianz Representative Office on Pariser Platz. They were divided into three sessions looking at Europe-China relations through a wide range of geopolitical, diplomatic, and socio-economic perspectives. The majority of Chinese participants participated remotely from China.

Discussions on the Thursday evening highlighted that Europe's relationship with China could not be envisaged in a vacuum and certainly not without considering the



Left: Friday sessions in Berlin, Allianz building **Right:** Meeting room, view of Pariser Platz

the implications of US policy towards China.

A participant from Germany suggested the creation of a high level coordination mechanism to ensure that EU interests and intentions were clearly understood by America. Moreover, although the Europe-China relationship was important, Beijing was mainly preoccupied with its relations with the US, the performance of its economy, Taiwan and its ties with Russia in the context of the war in Ukraine.

The Europeans had taken note of this and shared the same assessment of how China had evolved in recent years. Faith in the idea that closer trade relations would promote democracy within China had gone. But there

was a continuing belief that doing business with China remained in Europe's interest, and the end of the so-called 'wolf warrior diplomacy' in favour of a softer Chinese approach to foreign policy was welcomed.

For its part, China did not see itself as a rising power with hegemonic ambitions. This was, in its view, the image that America wanted to project to the rest of the world. China thought in terms of restoration of its power after a long period of decline that had started after the opium wars of the 19th century. Europeans were also encouraged not to treat all authoritarian regimes in the same way. There were important differences between China and Russia for instance.



FRIDAY 3 NOVEMBER

SESSION I – EUROPE AND CHINA IN AN AGE OF INCREASED COMPETITION: WHAT SCOPE FOR COOPERATION?

Chair: Lord Sassoon

Speakers: Xinghai Fang | Jörg Wuttke | Yongfu Sun | Isabel Hilton | Zhimin Ding

The meeting began with a session on trade, economic issues, energy, and climate action, areas where Europe and China had cooperated in the past before the difficulties arising from the more general deterioration in their relationship. Li Keqiang, who had passed away a few days before the meeting, had come to symbolise China's drive for economic reform and willingness to engage with Europe. The Europeans paid tribute to the former Chinese Premier and expressed the hope that the discussions in Berlin would follow his frank and open approach to Europe-China relations.

Chinese and European participants first exchanged perspectives on the state of the Chinese economy which had reopened since the end of the country's zero-Covid policy at the start of 2023. Economic recovery had been sluggish and China was experiencing serious deflationary pressure. This downward trend was particularly visible in its real estate market where prices had fallen sharply. Youth unemployment was also very high. This had led to some debate in the West as to whether China's economic problems were structural or simply a temporary correction.

A leading Chinese participant questioned the view that the Chinese economy was in a fragile state. The fact that it was going through a difficult time was undeniable, but GDP growth during the first three quarters of 2023 had been around 5.2%, and this was likely to continue during the last quarter.

According to him, parallels to Japan in the 1990s and rumours of a balance sheet recession were exaggerated. Problems with real estate and small and medium-size banking institutions were going to be a drag on growth for some time, but they were largely under control.

A participant from Britain agreed that China's real estate crisis had been somewhat exaggerated. He compared it to the problems that Spain's housing sector had experienced in the 2010s. Rather than a major collapse, there had been a market correction in Spain.

Economic indicators showed that China's deflation pressure was easing. The decline in the Producer Price Index had slowed in recent months, which was encouraging. The main concern was that demand would remain weak for some time, resulting in a stagnating price level as the Consumer Price Index currently indicated.

A European business representative was more pessimistic about China's growth forecast, which he expected to be somewhere between 2% and 3%. But he did point out that the size of the Chinese economy mattered more to European businesses operating in China. Even with a slow growth rate, the gap between the economies of China and India – currently estimated at \$15trn (roughly the size of the EU economy) – was going to further increase

slightly, which is why foreign companies remain firmly focused on China.

There was however a worrying trade imbalance between Europe and China. The level of trade with China was described by a European participant as “miserable”. In 2022, only 1.6 million containers had been shipped to China. Overall, the EU had exported goods worth just 23% more than what it had sold to Switzerland. By comparison, China has shipped 6.4 million containers to Europe. The politicisation of businesses amid the current geopolitical context, with calls for economic decoupling as well as disputes over human rights and sanctions, made things difficult. European leaders had however acted on this problem and more emphasis was now being put on doing business with China. It had also been made clear that decoupling was not the objective, according to a joint statement issued at the end of the US-EU summit in Washington D.C in October.



Top: Madam Zhimin Ding Bottom: Yongfu Sun

LIST OF PARTICIPANTS

Senior Colonel (Ret.) Zonglin **BAI** *CISS* | Marie-Hélène **BÉRARD** *MHB SAS* | Sylvie **BERMANN** *Former French Ambassador to China* | Lt. General (Ret.) Xiaogong **CHEN** *Former Deputy Commander, PLA Air Force* | Yifan **DING** *Chinese People's Institute of Foreign Affairs* | Zhimin **DING** *Investment Association of China* | Xinghai **FANG** *China Securities Regulatory Commission* | Jonathan **FENBY** *TS Lombard* | Maurice **GOURDAULT-MONTAGNE** *Former Secretary General, French Foreign Affairs Ministry* | Charles **GRANT** *Centre for European Reform* | August **HANNING** *Pluteos AG* | Isabel **HILTON** *China Dialogue* | Edward **HOWARD** *Vodafone Group* | Wolfgang **ISCHINGER** *Munich Security Conference* | Anna **KUCHENBECKER** *European Council on Foreign Relations* | François **LE GOFF** *Club of Three* | Julianne **LEE** *Standard Chartered* | Katie **LEE** *HSBC* | Michael **MACLAY** *Club of Three* | Margarita **MATHIOPOULOS** *ASPIDE Technology* | Douglas **MCWILLIAMS** *Centre for Economics and Business Research* | Uwe **MICHEL** *Allianz* | Clem **NAYLOR** *British embassy Berlin* | Isabelle **PERNOT DU BREUIL** *Asia Centre (Paris)* | Lord **POWELL** *House of Lords (UK)* | Lord **SASSOON** *China-Britain Business Council* | Michael **SCHAEFER** *Former German Ambassador to China* | Rudolf **SCHARPING** *RSBK Strategy Consulting* | Yinhong **SHI** *Renmin University of China* | Astrid **SKALA-KUHMAN** *Lenzing AG Austria* | Christian **STRAUBE** *Stiftung Mercator* | May-Britt **STUMBAUM** *Centre for Intelligence and Security Studies* | Yongfu **SUN** *Former Director, Chinese Ministry of Commerce* | Romana **VLAHUTIN** *German Marshall Fund of the US* | Major General (Ret.) Jianzheng **WANG** *CISS* | Wen **WANG** *Renmin University of China* | Peter **WATKINS** *Chatham House* | Jörg **WUTTKE** *European Union Chamber of Commerce in China* | Lanxin **XIANG** *Institute of Security Policy, CNISCO* | Major General (Ret.) Xuguang **YANG** *CISS* | Daojiong **ZHA** *Peking University* | Rear Admiral (Ret.) Dengping **ZHAO** *CISS*

The switch to electric cars in Europe risked widening the trade deficit with China. A large proportion of European exports to China were internal combustion engine (ICE) cars. Once these stopped, China was unlikely to find European electric vehicles (EVs) as attractive, as it was already making good quality and competitive EVs. China's rapidly growing EV industry had sparked concern in the EU. By 2025, China would have the capacity to export four million cars a year and around 170 ships had been ordered to support this effort. In October, the European Commission had officially begun an anti-subsidy investigation into Chinese EVs at the request of the French government. One of the Chinese participants warned that, if adopted, such measures would be counter-productive as they were likely to have a negative impact on the production of European EVs in China. A business representative from Germany shared the view that the EU should not put taxes on clean energy products from China at a time of a climate emergency.

As to climate, there was recognition on the European side that it could no longer be isolated from other issues, as an oasis of cooperation amid otherwise tense relations between China and the West. This had been the strategy pursued by the US and Europe so far, but a new approach was needed. The war in Ukraine had significantly changed the situation. China had shifted its focus from climate to security as had Europe to some extent. Moreover, some of the technologies used in the defence sector and for the energy transition were often the same.

In China, this shift to security meant that coal-fired power generation would remain a very important part of its energy mix for some time. With around 58% of electricity consumption coming from coal, China was still in "the age of coal" as one of the

Chinese participants put it. Coal was seen as a "stabilising" fuel and the priority was to secure the security of energy supplies. Coal production had increased by 10% in 2022 as a result, and further coal-fired power generation had been approved. At the same time, the most polluting power installations had been phased out and stringent emission standards were in place. For the Europeans, however, building new coal-fired power installations in China was avoidable. In their view, this was not the answer to cope with electricity shortages and renewable energy intermittence. Electricity demand could be better managed, but China had been slow in adopting the necessary market reforms.

There was hope that Europe and China could cooperate on the so-called green finance taxonomy and common standards for sustainability reporting. For the Europeans, future adoption by China of the new standards issued by the International Sustainability Standards Board (ISSB) in June would represent an important step forward. One of the Chinese participants pointed out that this was still under consideration by the relevant government departments in China. The opening of an ISSB office in Beijing was seen as a positive development in this regard.

FRIDAY 3 NOVEMBER

SESSION II – GEOPOLITICS, CONFLICT AND MULTILATERALISM: IS PEACEFUL CO-EXISTENCE POSSIBLE?

Chair: Michael Schaefer

Speakers: Lt. Gen (Ret.) Xiaogong Chen | Sylvie Bermann | Yifan Ding
Rudolf Scharping

The second session took stock of Europe and China relations, explored the reasons behind the loss of trust on both sides and tried to establish whether there was common ground which could facilitate a relationship reset. Relations between Europe and China had peaked ten years ago but their then wide-ranging partnership had been replaced by an ideological confrontation. The tipping point for the Europeans had been China's position on Russia's war of aggression in Ukraine.

One of the main disappointments on the European side before the war in Ukraine was the realisation during the pandemic that China was not willing to cooperate in global efforts to tackle Covid-19. This, they believed, contradicted President Xi's famous speech at Davos in 2017, in which he made a strong case for multilateralism. China was attempting to build an alternative global



Lt. General Chen (session II)

system largely based on its own norms through the BRICS group of major emerging economies and the wider Global South. At the same time, China's domestic record on human rights had laid it increasingly open to criticism by Europe.

There were grievances on the Chinese side too. Although the idea had since been abandoned, and some had even argued that it was never taken seriously in Europe, initial calls for decoupling had been perceived as a threat in China. Europe had since switched to de-risking, an approach that the Chinese found more sensible but was nonetheless a cause for concern, though de-risking was in fact happening on both sides: the 'Made in China 2025' plan amounted from the European point of view to de-risking.

On human rights, a participant from China deplored that EU representatives had so far declined invitations to witness local conditions in the Xinjiang region. The Chinese view was that the EU was using human rights as leverage in negotiations with China.

Another point of contention was the European Indo-Pacific strategies, which were suspected of aiming to constrain China's influence in the region. For the Europeans however, these were part of a diversification drive to reduce its dependence on China and develop partnerships with other regional economies. Dependencies were acceptable

as long as there was a rules-based order. But it was increasingly clear that China no longer intended to play by the rules.

The Europeans pointed out that they had adjusted to the new international context and that a sense of realism had been re-introduced in their approach to China – as well as towards the Global South. Not enough was being done to understand China, its goals and drivers. A return to *realpolitik* was seen as necessary in order to reopen doors to a serious dialogue – but without losing our sense of European ideals and values.

In this highly geopolitical world where the pursuit of national interest was prioritised over cooperation and multilateralism, were the UN Charter and Universal Declaration of Human Rights still common values shared by the international community? If not, the entire UN system would have to be put into question. One of the Chinese participants believed that Europe and China more or less shared fundamental principles while some of the Europeans were more doubtful. One of them indicated that it was better to talk about principles rather than values in the conversation with China.

On the principle of territorial integrity specifically, the Chinese side made clear that neither the legality of Russia's annexation of Crimea in 2014 nor of full-scale invasion of Ukraine in 2022 were considered legal by China. For China, however, the main cause of this conflict was NATO's eastward expansion. Some European participants acknowledged that mistakes had been made during the expansion process but insisted that this could not be used as a reason for waging a war that had breached international law, threatened European security, and could trigger a global conflict.

There was agreement that the UN system had not lived up to what were already

low expectations. Institutional reform was required, or else new initiatives would need to be taken in order to bridge the gap between diverging systems. Divergences were intrinsically not a major obstacle to re-establishing sound relations between Europe and China. Significant differences already existed at the peak of their relations. A participant from France noted that finding a *modus operandi* ought to be possible, adding that this had been achieved with the Soviet Union during the Cold War. There needed to be a place where critical issues could be discussed between the main powers in order to diffuse conflicts, such as the P5 format under which a deal on Iran had initially been reached. The renewed tensions in the Middle East following Hamas' cross-border attack on Israel and the invasion of the Gaza Strip that followed made this all the more important.

According to one of the Chinese participants, one way of rebuilding trust between Europe and China was to de-politicise their economic relationship. In his view, this did not mean that de-risking had to stop. It essentially meant separating the economy from the more political and ideological issues which could not be agreed upon. Given China's comparative economic difficulties, the prospect of years of modest growth, and the threat of inflation in Europe, this was in their mutual interest. But were the Europeans prepared to abandon their practice of using economic sanctions as a way of resolving international disputes?

Regarding the political situation in China, one of the Chinese participants pointed out that the central government in Beijing was facing "internal challenges" due to socio-economic pressures, including youth unemployment, as recent protests during the Halloween celebrations in Shanghai had shown. Europeans needed to be aware of these challenges in their interactions with China. The prime focus was on social stability.

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SESSION III – WHERE ARE THE THREE VIS-À-VIS CHINA, AND WHAT DOES CHINA EXPECT OF THEM?

Chair: May-Britt Stumbaum

Speakers: Lanxin Xiang | Charles Grant | Romana Vlahutin

The final session examined the type of relationship that Europe wanted to have with China and vice versa, delving deeper into the perceptions that they had of each other. How aligned were European countries' policies vis-à-vis China, and how far could they go in developing an independent policy given the predominance of their ties with America?

According to a UK participant, US and EU positions on China were fundamentally different. America worried about what China was, whereas Europe was mostly concerned about what China did. He noted that, perhaps naively, a majority of Europeans would happily resume close ties with China if it agreed to change its attitude towards intellectual property, human rights and its neighbours in the Indo-Pacific region. Clear Chinese support in favour of Ukraine was also viewed as a key condition for improving relations. For America however, China would

always be a rival no matter how it behaved and the actions it took.

As far as China was concerned, it was felt that the Europeans misunderstood the nature of its ties with Russia. A Chinese participant stressed that China and Russia had very little in common and had a profound dislike for one another. But despite the growing imbalance in this relationship, China was treading with caution when it came to its northern neighbour. Both countries had worked hard at resolving their many border disputes over the years and they had found a way of managing their differences. Russia was able to supply weapons to Vietnam without triggering reprimands in Beijing. And China was careful not to directly clash with Russian interests in Central Asia. Expecting China to condemn Russia over Ukraine was completely unrealistic.



Left: Romana Vlahutin (final session)



Right: Maurice Gourdault-Montagne

The Chinese found the EU's concept of 'systemic rivalry' both confusing and unconvincing – a cause for further mistrust. Going forward, one of the Chinese participants believed that China would put more emphasis on dealing with large European countries such as Germany, France and the UK. This was usually interpreted in Europe as a 'divide and rule' strategy. But it was highlighted that this had been a diplomatic tradition in China long before the establishment of the EU.

European positions vis-à-vis China seemed more aligned than they had been in the past. Russia's invasion of Ukraine had played a part in this. For instance, the 17+1 format, a cooperation agreement between China and a group of central and eastern European countries to promote the Belt and Road Initiative (BRI), had collapsed. In the UK, the current policy was more European than American. Britain was pursuing a balanced approach: be firm on behaviour that it found unacceptable, remove Huawei from its 5G network, but engage otherwise wherever it could. This position was unlikely to change in the event of a change of government after the 2024 general election.

The Chinese welcomed Europe's quest for greater strategic autonomy and the fact that it would not always follow the American position. However, there were signs that the EU intended to closely mirror the US approach, at least in some areas. One example was the economic security strategy put forward by Ursula von der Leyen, with the idea of investment screening for transfers of critical technology to China. But this proposal had not received unanimous support within the EU. Germany notably had expressed concerns.

There were different views among the Europeans about the degree of independence that Europe should or could

have vis-à-vis the US. Many felt that Europe had been caught up in the US-China rivalry and forced to choose sides - and was now finding itself in a difficult spot. Apart from the OECD group of countries, the rest of the world did not want to be put in this position, particularly the Global South.

For a participant from France, recovering Europe's legal sovereignty was a necessity. It should not continue to subject itself to the extraterritoriality of US legislation, which greatly limited its ability to navigate its own path in international affairs. Getting away from this situation would allow Europe to work with the Global South on its own terms in areas of mutual interest. But was this achievable? One of the British participants pointed out that complete independence from the US was not possible. France, Germany and others were reliant on US military technology, and America could use ITAR regulations to restrict or block the export of weapons and defence equipment if these countries did not follow US policy.

From a British perspective, strategic resilience was a better term than "strategic autonomy", and one that reflected the imperative to prepare for a US disengagement from European security and defence sooner or later.

One area of competition between Europe and China was the Global South. China was offering a comprehensive package of partnerships to countries in the part of the world: the Global Civilization Initiative, Global Security Initiative, Global Development Initiative, and the BRI. The BRI was experiencing difficulties as lending for projects was significantly down following the Covid-19 pandemic and China's economic slowdown.

The EU had responded to China's growing influence in the Global South by launching the Global Gateway Initiative. For the first

time, all EU investment and development projects were placed under one strategic framework. The EU was also more pragmatic in discussions with partner countries, putting more emphasis on the long term benefits of its approach to project financing and less on conditions. But Global Gateway was still in a learning phase and its structure could be further streamlined. Mobilising private sector investment was also going to be key in order to give the initiative real firepower. More broadly, the EU needed to be much clearer about what it could offer to countries that no longer had to rely solely on Western financial institutions for their development and now firmly pursued their own interests.

CONCLUSION

From a European perspective, the Friday sessions showed that there was a need to reintroduce a sense of realism in our approach to China – and also more broadly towards the Global South. Not enough was being done to understand China, its goals and drivers. A return to *realpolitik* was seen as necessary in order to reopen doors to a serious dialogue – but without losing our sense of European ideals and values.

As far as China was concerned, it was felt that the Europeans misunderstood the nature of their ties with Russia, and their attempts to press for Chinese support in the Ukraine conflict had caused frustrations. The EU's concept of systemic rivalry had also caused further mistrust.

On cooperation, 'de-politicising' the economic relationship between Europe and China was seen by the Chinese side as a possible way of advancing talks on energy and climate. Given China's comparative economic difficulties, and the prospects of years of modest growth and serious issues

with inflation in Europe, this was in their mutual interest.

Among the Europeans, some viewed the sanctions that had been adopted as divisive and ineffective. There was no real support for decoupling in Europe although business conditions in China had become much more difficult. De-risking was in practice being carried out as a 'sensible option' on both sides.

At international level, there was agreement that the UN system had not lived up to what were already low expectations. Institutional reform was required, or else new initiatives would need to be taken in order to bridge the gap between increasingly diverging systems. As far as Europe-China relations were concerned, a prerequisite was to establish exactly how much common ground was still shared on acceptable norms and principles.