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Table of contents

1. EUROPEAN UNION AND CHINA OPEN A NEW STAGE OF THE COMPREHENSIVE STRATEGIC PARTNERSHIP
Ambassador Viorel Isticioaia-Budura..... Page 2
2. CHINA'S 'PEACEFUL RISE' ALSO DEPENDS ON EUROPE
Pierre Defraigne..... Page 5

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EUROPEAN UNION AND CHINA OPEN A NEW STAGE OF THE COMPREHENSIVE STRATEGIC PARTNERSHIP

Ambassador Viorel Isticioaia-Budura *

The nearly 40 year-old EU-China relationship initially developed in the framework of economic and trade cooperation. EU-China relations have received a new impetus since the beginning of 2000s, as reflected by the launch of a Comprehensive Partnership in 2001 and its upgrading to a Comprehensive Strategic Partnership in 2003.

Economic and trade relations were consolidated in 2009 by the High Level Economic and Trade Dialogue. This first pillar of the relationship was complemented in 2010 by an enhanced political dialogue on both bilateral and global issues - the High Level Strategic Dialogue. These two pillars of the EU-China relationship are now firmly established and play a predominant role in bringing forward exchanges between the two sides.

They have been completed since 2012 by the High Level People-to-People Dialogue which forms the third pillar of the EU-China relations and represents a further step to develop a truly comprehensive bilateral relationship. This new pillar aims at promoting exchanges between civil societies in the field of culture, education and youth, and maybe in the future, in other fields. These high level dialogues obviously feed into summits which provide strategic guidance to the relationship. The wide engagement at the senior official level is underpinned by over 80 sectorial dialogue mechanisms, including lower level working groups, in very diverse areas. They reflect the ever-increasing expansion and the wide scope of bilateral exchanges.

Further progress was made in 2013, which was marked by the completion of the Chinese leadership transition and the 10th anniversary of the EU-China's Comprehensive Strategic Partnership. The EU was successful in establishing links with the new Chinese administration and in laying the groundwork for EU-China relations over the next decade. The High Representative Catherine Ashton started the process by paying a visit to China in April of last year.

The 16th EU-China Summit, held in November 2013, was successful in adopting the *EU-China 2020 Strategic Agenda for Cooperation*. It is an important document, which will serve as a comprehensive roadmap for enhanced collaboration between the EU and China in the coming years. The 2020 Agenda focuses more specifically on strategic issues, investment, innovation, urbanisation, climate change and environmental protection, people-to-people exchanges as well as defence and security matters.

Moreover, in 2013, economic and trade relations continued to expand. EU-China trade in goods and services almost reached half trillion

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InBev-Baillet Latour Chair of European Union-China Relations



Euros in value, not far from the current value of EU trade with the United States when it comes to goods. Further intensification of economic activity is expected after the re-launch of the High-Level Economic and Trade Dialogue in October 2013. As decided by 16th EU-China Summit, in January 2014 the negotiations on an EU-China bilateral investment agreement aiming to improve investment protection and market access for both sides were launched.

Naturally, the extensive and dense relationship is sometimes challenged by certain difficult issues that need to be solved. Both sides agreed that while trade disputes are unavoidable, they must not have an impact on the overall relationship. The amicable solution reached on the solar panel cases last year proves that such difficulties can be resolved in a constructive way. Both sides realise that their trade and investment exchanges have become a major source of wealth, jobs, development and innovation and that their long term interest is to continue to intensify their efforts to tap into the potential of EU-China economic cooperation in a spirit of reciprocity and mutual benefits. A number of other challenging issues such as visa issuing and the application of the EU Emissions Trading Scheme (ETS) in aviation are of importance to the EU. The EU would like to develop meaningful cooperation in these areas

Human rights remain at the top of the EU's agenda on China. The latest round of the Human Rights Dialogue was held in June 2013. The EU Special Representative for Human Rights, Stavros Lambrinidis, visited China, including Tibet, in September 2013, and engaged in extensive discussions with the Chinese authorities and interlocutors relevant for policies linked to ethnic minorities, freedom of religion, conveying the EU's hope for more progress on human rights in China.

Overall, the development of the EU-China relationship is dynamic – it continues to grow and expand in scope. China is a key partner for the EU – one of its four strategic partners in Asia. The EU and China have become increasingly interdependent in the context of globalisation. The EU welcomes China's active role on the international scene. Furthermore, the high level meetings, the Strategic dialogue and the bilateral consultations on regional affairs contribute constantly to the enhancement of the cooperation between the EU and China and to the joint efforts to address the most pressing international and regional issues and global challenges such as the reform of governance in the financial sector, the new security threats and climate change.

The fourth round of the Strategic dialogue between High Representative Catherine Ashton and State Counsellor YANG Jiechi, held in January 2014, reviewed the results of the good practical cooperation achieved on regional issues, on Iran, the Middle East Peace Process and counter piracy. It also acknowledged the fact that a wider agenda is unfolding with opportunities for exchange of views and possible cooperation in Africa, Central or East Asia. Other areas in which the EU would like to enhance engagement with China include international development, peace-keeping, crisis management, disarmament, non-proliferation, arms control, nuclear safety and security, cyber issues and disaster relief.



InBev-Baillet Latour Chair of European Union-China Relations



As a major political and trading partner in Asia, the European Union is concerned by the persisting tensions in the East and South China Seas. In the spirit of *the East Asia Policy Guidelines* approved by the European Council in 2012, the EU uses each opportunity to convey its principles and constructive message.

Indeed, while recognising the complexity of the situation, the EU urges all parties concerned to seek peaceful and cooperative solutions to these problems in accordance with international law, in particular in compliance with the *UN Convention on the Law of the Sea*. In relation to the South China Sea dispute, the EU calls on all sides to accelerate the work on the ASEAN-China Code of Conduct. The EU has a valuable experience to share with the parties in the region in respect to joint management of maritime resources. The EU also insists on the fact that good China-Japan relations are essential for the prosperity and the stability of East Asia. We hope China and Japan will find a way to develop trust-building measures and resume political dialogue.

The European Union and China can build on their common interests and interdependence to bring their Comprehensive Strategic Partnership to a new level in the coming decade. 2014 looks set to be an eventful year: the two sides are planning a top level visit to the European institutions and work on the 17th Summit is well under way. It is expected that bilateral relations and cooperation on international and global issues would be high on the agenda for both China and the EU, along with the roadmap for the implementation of the 2020 Strategic Agenda for Cooperation. Both sides are committed to use the new opportunities to keep the momentum in the positive dynamic of the bilateral relations and to reinforce the cooperation in a forward-looking way.

Promoting peace, prosperity and sustainable development are at the core of the EU-China Comprehensive Strategic Partnership. The EU believes that, as global actors in a multipolar world, both sides share responsibility for building a secure, prosperous and fairer world for all.



CHINA'S 'PEACEFUL RISE' ALSO DEPENDS ON EUROPE

Pierre Defraigne*

China, thanks to an unlikely alliance between global market capitalism forces and the CCP – the latter maintaining the upper hand – will become the largest world economy by 2025. For the first time though, the biggest economy will not be the most advanced, since America is retaining its technological lead. Moreover, China will not offer the world a model for reproduction by others. China is therefore shaping up to be an awkward global player in the eyes of the West. Yet was there any other way than a heterodox route, in Western terms, for China to succeed in bypassing Western hegemony? Does China not reveal here its essential difference to the West: its ability to live with contradictions, to reconcile the Yin and the Yang?

These unique circumstances make the 'peaceful rise of China' the major strategic challenge of the 21st century, first and foremost because China's Renaissance deeply alters the world's economic and geopolitical equilibrium. The peace and prosperity of the world will therefore be determined in the near future by our joint capacity to make room for China around the table of leading powers. The sheer size of the country and the rapid speed of its convergence performance, which exert a huge and growing pressure on natural resources, starting with climate, force China's main partners to undertake drastic economic and social adjustments through labour and financial markets. The scale of China alone calls for a rebalancing and a strengthening of the multilateral governance system, but the unique nature of China's model makes this strengthening particularly challenging.

Three facts jump to mind. Firstly, because of its increasing relative weight as it moves from number two today to number one world economy in 2025, China no longer has simply domestic economic policy. The impact of its growth on the rest of the world, from the West to the BRICS and Africa, is such that Beijing must, from now on, factor in the international consequences of all its major internal decisions: in particular its energy choices, its technology drive, its financial stability and the trade-off between inflation and employment achieved through its monetary, fiscal and wages policy. With this rising influence, international responsibility to share the leadership in world affairs is imposed on China. China has no other option than engage in the shaping of a global governance system consistent with the needs of an economic and geopolitical order in deep transformation; otherwise it runs the risk of containment policies from the West and of a bloc-to-bloc confrontation.

Secondly, and as a consequence, the 'peaceful rise of China' is no longer the sole responsibility of China, as it was thirty years ago when Deng Xiaoping wisely advised China's leaders to 'coolly observe, calmly deal with

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InBev-Baillet Latour Chair of European Union-China Relations



things, hold your position, hide your capacities, bide your time, accomplish things where possible'. Today the harmonious integration of China in the world economy falls within the joint remit of China and its main partners – America and Europe – who must make room for China at the banquet table, despite their differences.

But will the West accept its relative economic and strategic decline which is the inevitable consequence of its diminishing demographic weight combined with the economic convergence of Asia, and has been accelerated by a severe self-made financial crisis? Or will it resist the undermining of its hegemonic power and the loss of the two-century-old privileges attached to it, namely a monopoly of highly skilled labour and technology-intensive manufacturing and services, and preferential access to fossil energy and minerals? Will China, for its part, be able to adapt its development model so as to relax the pressure on international resources and outlets markets? Will it also contribute to the overall task of adjustment? Will both China and the West be able to promote a deal among advanced and emerging powers in order to ensure fairer access to natural resources and effective and reciprocal entry to each other's export markets?

The three major developments

China is in quest of inclusive and sustainable growth, and in need of strategic restraint.

The economic model transformation

Over the last two thirds of a century, China has been through three phases of modernisation. The first started in 1949 when, after the 'century of humiliations', the CCP restored China's independence and ensured its return to unity and stability. The Mao years (1949-1976) saw major advances in education, health, infrastructure and heavy industrialisation, but these achievements were tainted with major economic mistakes during the Great Leap forward which cost millions of lives, and the severe political turmoil caused by the Cultural Revolution. But the basic conditions for take-off had been laid in the course of the three previous decades when Deng Xiaoping proposed a radical move toward reforms and opening up to the Third Plenum of the 11th Congress (November 1978). China then opted for a bottom-up approach through experiments in de-collectivised agriculture at field level and through the creation of special zones, in close vicinity to Hong Kong and Taiwan, for attracting foreign direct investment. 'Crossing the river by groping the stones' provided the right allegory for Deng Xiaoping's pragmatic method of reform. The mix of centralised power and flexible implementation at provincial and local level led to the fast roll-out of reforms across China. This two-speed modus operandi guaranteed success. As they were extended throughout China over a decade, the reforms and opening up proved an overwhelming success, and secured three decades of continuous high growth. But eventually, in the words of former Prime Minister Wen Jiabao, Chinese growth was deemed to be "unbalanced, uncoordinated and unsustainable".

InBev-Baillet Latour Chair of European Union-China Relations



China's unprecedented record in terms of convergence and poverty alleviation brought collateral damage in terms of the wealth gap, regional imbalances and harm to the local and global environment.

Moreover, on the global scene, the post-2008 crisis world economic slowdown, in particular in the West, makes exports less of a driver for China's growth whilst the global race for natural resources and the threat of climate change call for a drastic worldwide move towards a carbon free and more circular economy.

China is trying to meet the domestic and global challenge of opting for more inclusive and sustainable growth by launching its third wave of modernisation through the conclusions of the Third Plenum of the 18th Central Committee last November 2013.

The new reform agenda echoes the historical November 1978 Third Plenum which endorsed Deng Xiaoping's strategy of reforms and opening up. The overall economic reorientation is as ambitious, as comprehensive and as far reaching, but takes a more top down approach as it is accompanied by a strengthening and modernising of China's political system.

It consists first of a shift from an export-driven strategy towards an increased domestic demand strategy already sketched out in the 12th Five-Year Plan, which implies rising the wage share in the total value added, a better remuneration of household savings and the gradual roll-out of a social safety net so as to allow for more domestic consumption. It focuses on decarbonising the economy and recycling waste in order to design an 'ecological civilisation'; this entails massive investments in clean energy and de-pollution of the environment.

Secondly, in the future, markets will play a 'decisive' – versus fundamental – role in the allocation of resources, in particular through the liberalisation of factor prices (land, credit, labour). Financial liberalisation will contribute to a better distribution of credit and more equity funding for private companies. Thirdly, the internationalisation of the economy will continue through inbound and outbound FDI and through the gradual use of the Yuan as a transaction currency in carefully selected foreign financial centres, while China will enter into more bilateral and plurilateral trade and investment liberalisation, including in the services sector.

As a result of these new strategic orientations, China's development is expected to take a more sustainable, inclusive and balanced character domestically, while the pressure of China's growth on the rest of the world is eased. Thanks to a massive effort to advance the technology frontier, by relying on both FDI and endogenous market and policy developments, China can reasonably expect to cross the glass ceiling of the middle income country level around the middle of the 21st century. Refusing to confine itself to the stage of a labour-intensive power-house in the international division of labour, China ambitions to have its own global firms mastering the global output chain and promoting global brands. It will use its formidable financial power, acquired at the cost of severe repression of consumption for several decades, to upgrade and diversify its production base while securing its international supply sources.

InBev-Baillet Latour Chair of European Union-China Relations



Xi Jinping's China is shifting from quantitative to qualitative growth; from growth at any cost to inclusive development. To achieve this aim, China will exploit a strong new weapon in development to the full: its huge and fast-growing internal market. China will use its expanding domestic market as an intangible strategic asset for climbing up the technology ladder and building a robust basis for economies of scale and branding. But it will also deepen both its regional and international integration, thereby strengthening its external links. Quite logically, China will also have to secure its maritime routes to energy fields and mineral sources and to its export markets, since it will not be content to rely indefinitely on the protection of foreign competitors for the safety of its vital supply lines. China is effectively bringing its own strategic capacity – including a Blue Water Navy – up to the level of its vital economic interests.

Yet China should know that ultimately its security rests more on a rule of law based multilateral system than on a strategic balance of power. Stable multi-polarity calls for revamped multilateralism.

China therefore has to ponder carefully its balance of interests; integrating further in the world economy implies either more cooperation at global level, or more integration at the regional, or probably both. Building an effective and fair cooperative multilateral security system would allow China to restrain itself in terms of its strategic capacity build-up, which would ease potential tensions with its neighbours and its main partners. But such an option does not depend on China's good will alone. It also depends on the response from its main partners, i.e. America and Europe.

The anchoring of the CCP's monopoly of power

China's partners not only anticipate economic reforms but also political reforms. On this very point though, there is complete divergence. China and the West disagree on the nature of a political system consistent with market capitalism.

The prevailing Western view holds first that 'pluripartism' is the cornerstone of a genuine democracy: the West sees competition for power and alternance, made possible by free elections, as the foundation of an effective democratic system encompassing checks and balances and the rule of law as the guarantee for human rights and civil liberties.

The West not only promotes pluralist democracy as the only acceptable ethical norm, but also makes it a prerequisite for development – although this was never the European experience, and has neither been substantiated by the development failures in India, Latin America and Africa nor, at the opposite end, by the economic successes of authoritarian Asian Tigers.

Western countries overlook the specific historical and anthropological conditions at work in the complex relationship between economic progress, social development and political rights. They usually ignore the successive attempts by China between 1911 and 1949 to achieve economic and political transformation through market economy and constitutional democratic rights; these efforts were thwarted by post-colonial economic dominance, civil strife between regional warlords and, ultimately, by the

InBev-Baillet Latour Chair of European Union-China Relations



Japanese invasion. China also adopted, with limited success, the Soviet model of state-owned enterprise, central economic planning and totalitarian bureaucracy. China eventually opted for its own way: the socialist market economy with Chinese characteristics. Therefore the recent Chinese economic miracle and the key role played by the CCP in its occurrence, by exploiting the growth potential of global market capitalism combined with long term planning and political and social stability, are still regarded with suspicion in the West.

Discussion on this radical difference should not be conducted only, or even mainly, in ideological terms, but also on a factual basis. Western and Chinese views of democracy are not a simplistic black or white issue. Once historical, anthropological and timing and sequencing factors are taken into account, the gap between doctrinal views appears manageable in practice. It calls for prudence and pragmatism. Mutual respect and genuine dialogue are crucial to ensuring the necessary cooperation between the dominant West and rising China.

China has opted to combine the innovative power of market capitalism with the Leninist democratic centralism exercised by the CCP. In the minds of Westerners, this mix is both unworkable over the long term and ethically wrong. From a functional standpoint, according to the Western understanding, economic freedoms must not be constrained by a lack of political rights because such limits bridle creativity and entrepreneurship and, ultimately, technological and social innovation. From an ethical perspective, entrusting the monopoly of legal violence to a single party amounts to a denial of democracy. This radical principled stand ignores the historical and anthropological specificities of the Chinese political system: the absolute precedence given to the unity and integrity of China, the priority accorded to the long term and concern for political stability do not indicate a substitution of pluralist democracy for the CCP's single rule.

For China, political reforms have a different aim: they focus on the strengthening of the CCP through the implementation of more demanding and effective internal procedures with regard to consultation at all levels of power, and ongoing evaluation, accountability including ethical standards and corruption, selection and promotion rules, according to high professional standards, of CCP cadres and leaders. Such political reforms aim to enhance both the CCP's effectiveness in decision-making and responsiveness to the population's demands.

Cooperating despite differences

The rise of China has come as a shock to the West, as it deprives it of its hegemonic dominance and the associated economic privileges which form the cornerstone of Western advanced social models. The offshoring and outsourcing of manufacturing jobs towards China imposed severe adjustment costs on America and Europe whilst globalisation is complicating social cohesion, especially since it increases the wealth and income gap between immobile unskilled labour and mobile capital and professional skills. Moreover, the aggravating pressure on the climate triggered by the expanding thirst of China and the BRICS for carbon energy and minerals is forcing a change in

InBev-Baillet Latour Chair of European Union-China Relations



world consumption and production patterns. But the main concern raised by China's return to the forefront of the world stage is related to the unique nature of the Chinese political system.

China's ability to engage and conduct permanent and deep reforms for the benefit of its huge population – one fifth of mankind – and of the world should be acknowledged. Western powers, and even more so their public opinion, face a contradiction here – not uncommon in international relations – between principles and interests. On the one hand, the Western view of human rights and democracy implies ideological pluralism and competition for power through free elections. Therefore, Western governments push for a change in China's political system. On the other hand, the magnitude and the depth of economic reforms are such that they will, through the profound changes in the economic system and in society, raise the inherent risk of severe political turmoil which calls for a strengthening and not a weakening of government.

Indeed, China has to face up three challenges: growing social demands from its own people as their situation improves, centrifugal forces which often appear with regional disparities, as experienced today in Europe, and, most importantly, the effective ability of politics to retain ultimate control over market forces, be they domestic or global. These challenges call for strong political power.

Some neoconservative 'Doctor Strangeloves' in America might wish to push for a drastic slowdown of the Chinese economy as a way to keep its strategic rise under check and to force political changes according to Western standards. More realistic observers, though, are aware that growth and stability go hand in hand everywhere, and especially in China. They would highlight the efforts undertaken by the CCP to straighten out its ethics, and to improve its effectiveness while becoming more innovative in terms of internal consultative democracy as well as more responsive to criticisms and suggestions from civil society. Rule of law is making headway in China and a new balance of power is setting in between the CCP and the citizens. But no challenge to the unity of China and to the monopoly of power of the CCP is allowed. The autonomy of the judiciary remains a central issue with regard to the enforcement of the rule of law. But progress in this direction should not be overlooked. The Constitution binds the CCP itself today. The Western propensity to look down on China through either human rights or mercantilist lenses, often results in not being able to see the wood for the trees. Underestimating the merits of China's complex political system dynamics would be imprudent from a geopolitical standpoint; the CCP is the main driving force behind China's economic, social and environmental reforms. And the ecological future of the planet and world peace and prosperity badly need these reforms.

Is the fundamental divergence of views between the West and China, regarding the political regime and the economic and social model, compatible with the negotiation of a new multilateral order – fairer and more effective with particular regard to the key pillars of economic governance, i.e. trade liberalisation, currency and financial stability, climate change control, labour and environmental standards?

InBev-Baillet Latour Chair of European Union-China Relations



Is a practical transition, based on the respect of political sovereignty but enhancing the convergence towards common economic disciplines with regard to the respective roles of State and market and towards high level environmental and social standards and against corruption and tax evasion, possible? Or is the rivalry caused by the emergence of rival trade blocs an alternative, with the inherent risk of moving towards political and military confrontation? These questions cannot simply be put aside and ignored. They must be seriously debated by think tanks and independent academics so as to fuel political debate, drawing on a fair observation of facts which should remain the main source of the truth.

The West should also question its own evolution in light of the financial crisis and the ecological threat which challenges the very cohesion of its societies and the viability of under-regulated global market capitalism. The debate between China and the West must focus on the sustainability of advanced societies' economic and social models, as they serve as the reference benchmark for emerging and converging economies once the world is moving towards real convergence. A workable country solution at national level is only a valid norm when all countries can effectively adopt this same model. The fallacy of composition is obvious with regard to the physical capacity of the planet. Western patterns of production and consumption are simply unsustainable.

But does market capitalism itself remain a valid system if unregulated global markets eventually outweigh politics? Let's put this question in simple terms: Isn't capitalism globalisation gradually allowing market forces to instrumentalise States in their rivalry for market dominance and profit accumulation? How can the rationale of global firms' strategies with the goal of legitimate capital accumulation, be reconciled with the responsibility of democratic governments in charge of improving the living standards and spiritual aspirations of their populations?

Western democracies have been severely damaged by the financial crisis because governments have not been able to prevent it. They have lost control of market dynamics. Global firms and global financial markets are putting economic, tax, environmental and labour policies in competition. Market globalisation contributed to the integration of the world economy, including China's outstanding convergence, but it has not been matched by progress in policy governance at national and multilateral level. Hence market-driven globalisation is now undermining the very foundations of democracy in the West. Politicians have let themselves be overtaken by globalisation and hyper-financialisation. The high levels of debt and unemployment left by the 2008 crisis, rising inequalities and the comeback of poverty are undermining short-termist political systems, where communication has replaced leadership and lobbies, and the commercial media substitute for the voice of the people. The 2008 crisis has also damaged the credibility of the West in international fora: the Washington Consensus has lost its benchmark status. Monetary polycentrism, trade bilateralism and US extraterritoriality pretences are not consistent with the vision of predictable and fair multilateral economic governance. Western societies themselves are going through an existential crisis despite their high standards of living – which

InBev-Baillet Latour Chair of European Union-China Relations



are in fact less evenly distributed than they were before the launch of the neoliberal wave in the Reagan-Thatcher years. People tend to turn in on their private life; economic elites cut themselves off from causes of common interest whilst organised workers movements focus on their corporatist interests, leaving the weaker groups living at the margins of society incapable of collective action.

This picture of the mood in the West is rather gloomy and it contrasts with the optimism that prevails in China today despite the magnitude of the challenges faced by the country ahead.

How can the West manage this contradiction: on the one hand, pushing for the economic reforms deemed essential in the interest of both China and the rest of the world, and on the other, challenging – in words and/or in deeds – the political system that underpins them, at the risk of undermining it.

The West is faced with three options: firstly, the multilateral route, with an emphasis on compatibility/convergence of economic policy, with an implicit “agreement to disagree” on China’s political regime. Second, twisting China’s arm to get access to the Chinese market through a US-led “regulatory coalition”, the objective of which is to do away with non-tariff barriers and restrict China’s policy margin in its drive towards technology upgrading. Third, engaging surreptitiously in bloc-to-bloc trade rivalry, starting with a “pincer strategy” of China containment, spearheaded by the US-pushed TPP/TTIP which leaves China isolated and left with no alternative but to build up a regional East Asian bloc, risking global market fragmentation.

The West must resist the dangerous temptation to build up a Western economic order which would push East Asia to do the same, with the Brics (excluding China) and Africa as a “floating continent” reminiscent of the non-aligned movement.

Questions for the EU to answer

Is the EU on its way to achieving, through political unity, the status of fully-fledged global player in a multipolar world marked by China’s Renaissance? Or will the EU remain a loose coalition of rivaling economies subject to divide and rules tactics from US, China and Russia?

Europe’s integration came about, in the immediate post-war period, in response to the threat of Soviet expansionism and with the US’ active support through the Marshall Plan (1947).

The EU project was at the start (in the early 50’s) an open-ended process: it was about “building up an ever increasing unity of its people”, between six Nation States, i.e. France and its neighbours. However, it never clarified which form unity would take. The construction was rather schizophrenic. On the one hand, in the context of the Cold war, Europe transferred responsibility for its strategic security to NATO under Washington leadership; on the other hand, the EU confined itself to economic integration – from a customs union to a single market and later a common currency – with the initial assumption that political integration will necessarily follow. The rationale behind such view, widely held among Member States, was the existence of a rich legacy of human rights and democracy shared by the membership and – unique to the European development model – the so-

InBev-Baillet Latour Chair of European Union-China Relations



called 'social market economy'. But, the main driver for political unity was supposed to be the sheer dynamics of market integration.

This attempt ultimately proved more difficult to achieve, for a series of reasons. First, democracy and human rights are not exclusively European; they are values held by most OECD countries, starting with the USA. Second, the 'social market economy' might be a more specific European feature since the EU countries which represent 7% of the world population and 25% of the world GDP, spend as much as 50% of the world social transfers through social security and education; a radical peculiarity indeed. Yet behind this common label, national social models differ widely in their conception and achievements, not only according to their level of development, but with regard to the degree of solidarity, which differs greatly among Scandinavian, Anglo-Saxon, continental and Mediterranean 'sub models'. And today, in the context of globalisation and of the dwelling economic crisis, these national models are put in competition through capital movement freedom: intra-EU rivalry for attracting intra-EU and extra-EU FDI pushes in the direction of rivalry with regard to price and non-price competitiveness, and tax and labour conditions, starting with real wages levels.

Thirdly, soon after its entry into the EU in 1973, the UK, imbued with its tradition of 'splendid isolation', and sticking to its 'special relationship' with Washington, developed effective tactics to slow the EU's march towards political unity. Fourthly, the collapse of the USSR and the reunification of Germany (1990) changed the internal economic and political balance of the EU, through massive enlargement eastwards. This turned the EU-15 into an EU-28, a larger coalition but far more heterogeneous especially in two respects: new Member States rely first on US strategic protection, primarily due to their fear of Russia, while opting for neoliberal economic policies because they used to associate the role of the State in the economy with that played by the State under former communist regimes. From this two-pronged perspective, most Eastern and Central Member States found themselves close to the UK position, although they are very different. The last enlargement aggravated a deep political divide within the EU with regard to its ultimate Eastern borders, the form of its constitutional government, the nature of its social model and its degree of strategic autonomy vis-à-vis the USA.

However, a major development brought part of the EU in a completely different direction, although not devoid of the same deep ambivalence towards the social model and strategic autonomy vis-à-vis the US. After the fall of the Berlin Wall (1989) a majority of Member States, led by Germany and France, took a drastic move towards the creation of a single currency from 1999 – the euro – as a logical consequence of the completion of a single market without intra-EU domestic borders in 1992. This major advance was marked by the establishment of a European Central Bank (ECB) in charge of federal monetary policy.

This contrasting development resulted in the division of the EU-28 into a 'two-speed Europe', raising the complex challenge of reconciling the unity of the 28 Member State single market, and the existence within it of a hard core of an 18 Member State economic and monetary union (EMU).

InBev-Baillet Latour Chair of European Union-China Relations



But the eurozone project itself was flawed in two respects. On the one hand, the same political heterogeneity observed at EU-28 level would persist within the EMU-28 with regard to tax and social competition, strategic allegiance to the USA and the possibility of moving towards a federal system of government. On the other hand, severe governance fault-lines make the eurozone very fragile since the eurozone has no central budget, no banking union until 2022 and has no plans for either serious tax or social harmonisation. Moreover, the possibility to lead an active exchange rate policy is severely constrained, whilst the external representation of the eurozone within international fora, starting with the IMF, World Bank and BIS, has been so far been simply ignored.

The 2008 financial crisis severely hit the eurozone which, in 2010, entered into a severe sovereign debt crisis. Because of its severe governance shortcomings and of the 'one size fits all' interest and exchange rates policy, the single currency eventually led to a North-South divide within the eurozone, between a hard core of creditor countries – Germany and others – and a group of debtor countries – mainly Mediterranean countries and Ireland. This severe crisis, which put the very existence of the eurozone at risk in 2010, led to a drastic shoring up of fiscal governance through coercive coordination of national policies and led to the establishment – through a lengthy transition though – to a banking union with a centralised supervision and resolution mechanism.

Such strengthening of governance has been flanked with fiscal austerity policies with the objective of sovereign deleveraging and enhancing competitiveness through structural labour reforms and real wages cuts, both with strong deflationary effects. They have rescued the euro from ruin, but have put the eurozone on a 'lowflation' trend for a decade or two. Moreover, bank fragility persists in such a way that today, the eurozone still represents the major source of uncertainty for the world economy. Meanwhile, unemployment has reached unprecedented proportions since WWII; inequalities are on the rise and poverty is returning. Social cohesion is deteriorating and political tensions appear at both ends of the political spectrum: extreme-right and extreme-left.

Overwhelmed by domestic problems, European leaders neglect their collective international responsibility, as evidenced by the absence of EU role in the Arab Spring and in Syria, on Europe's doorstep, and its helplessness in the face of the Ukrainian crisis, which has forced a reluctant Obama to take back the driver's seat in confronting Putin's Russia.

The EU stands today in the middle of the river: if it goes back, it unravels, but moving forward calls for a sense of vision and leadership which does not exist at EU level. The EU is not really governed from inside its institutional apparatus, but by a group of leading Member States, mainly the lopsided Franco-German tandem whose line is mainly set by Berlin, in line with its interests and with little consideration given to strategic issues, which are not Germany's main concern. So far it is developing neither a vision for its future, with regard to a common economic and social model, nor strategic thinking with regard to its place in the world. The strategic levity of Europe is particularly critical in view of the rise of China, whose tectonic magnitude

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constitutes the most urging justification today for a political Europe. With 500 million people and 1/5th of the world's GDP, Europe has relevant dimension to weigh on global trends, provided it acts in unity. The EU, starting with its most advanced core, has a crucial choice to make: either the status quo, especially with regard to the governance of the eurozone which will perpetuate the Japanese scenario, with the inherent risk of tensions among countries and their centrifuge potential; or as an institutional leapfrog with a view to reconciling more proactive management with joint political control over defence, which would give Europe the strategic dimension and the autonomy it is due.

Conclusion

China must carry out its Third Plenum economic, social and environmental reforms, let social dynamics work, engage in multilateral governance and exert restraint on strategic build up.

The USA must address the central distributional divide reflected in the fiscal stalemate, confront the "guns and butter" dilemma and play multilateral, and resist the temptation of isolation and containment of China which would be a major geopolitical mistake and ethical failure.

The EU has to come together through a tighter political union, starting with the eurozone, making an ambitious social model and common defence the two pillars of its unity, reflecting a community of destiny among its people.

The EU must exploit the political exemplarity of its unique approach to regional stability, social solidarity and environmental protection. But it must develop enough strategic clout of its own so as to prevent any attempt to build up a Western bloc with a view to containing China.

The peace and prosperity of the world depends to a large extent on a pragmatic cooperation between the three main economic powers in order to achieve a workable international economic order, allowing for unique political models, but globally converging towards stable growth, the fair distribution of wealth and preservation of the environment, starting with climate change.

Europe has a key role to play in this grand design, both as a pioneer of sustainable development and as an honest and autonomous broker between China and America. Europe's historical responsibility is to make multilateralism prevail over a bipolarisation of the world.