

## 12<sup>th</sup> Sino-European Strategic Dialogue

Beijing, December 15<sup>th</sup>, 2016

in partnership with the Chinese Institute  
of Contemporary International Relations -  
CICIR

note  
OBSERVATOIRE CHINE 2016/2017

Note d'actualité n°15/16 de l'Observatoire de la Chine, cycle 2016-2017  
Janvier 2017

- Both Chinese and Europeans record a global rise of populism.
- Chinese experts are wary yet not excessively alarmist towards the future Trump administration in the USA.
- China shows a guarded reaction following the EU's decision not to grant it the "market economy" status (MES).
- China is frustrated and seeks for a tighter cooperation with European countries in the fight against terrorism and islamic extremism.
- Measured optimism for the future of China's economic growth.



## Opening Remarks

Feng Zhongping's opening statement celebrated the 10-year cooperation between the CICIR and the Asia Centre, which started in 2005. The good weather that followed our arrival was heralded as a good sign for the meeting. He moved on to discuss the difficult year, with the Brexit and the election of Trump, which brought a sense of uncertainty to the international stage. Even though the dialogue should be focused on Sino-European cooperation, Trump's election was an important factor to be discussed.

The session would be divided in three parts, covering the political outlook, the international geostrategic and political issues, and the international economic governance.

Jean-François Di Meglio's opening statement discussed the state of the matter of the previous conference in Paris in July 2015 where it was concluded that terrorism would be the main threat of the years to come in regards to international politics, despite any of the major attacks having happened. The Chinese participants were very curious in discussing the academic approach to terrorism to understand the reasons behind the surge, the potential developments and the way to end it. The fear was that the conflict might spread east and reach China in the same proportions as in Europe.

The Hangzhou G20 in September 2016 has showed a new intention of the Chinese government to have a more prominent impact in international governance, which would mean that it would need to be involved in such issues. The decision made on December 11th by the US, Japan and especially the European Union to refuse to grant China the "market economy" status would thus be at the center of this meeting, but the wish was that the discussion could move beyond this point to bring uncertainties back to a more stable situation.



## Panel 1: Political Outlook in both China and the EU

Jean-Pierre Cabestan started the conversation. He discussed the rise of populism, which he believed is rising everywhere including in Europe, although perhaps to a lesser extent than elsewhere. He thinks that China is also experiencing the rise of populism with the emergence of a strong leader as Xi Jinping, whose anti-corruption campaign has both made him popular and given the glimpse of his power consolidation, which might result in political difficulties as the Chinese Communist Party is getting ready to its 19<sup>th</sup> Congress in 2017. The differences of view as well as power struggle between Xi and Li Keqiang highlight these difficulties.

On the other hand, China's economic transition from an economy led by industrial production and exports to a service-led economy has been slower than expected. The Chinese leadership is facing a dilemma as it wishes to

establish a "market economy" but at the same time does not want to dismantle most state-owned enterprises. In any event, China's economic slowdown and rising social inequalities and tensions will compel the CCP leadership to give priorities to the domestic problems in the coming months.

He also discussed the areas where China and the European Union could cooperate, such as climate change, investment protection, especially in regards to innovation, development and security (in Africa but also the Middle East).

He believes that the European Union will also be busy with its own internal issues, such as Brexit and the coming French presidential election. However, in Europe, for the time being populism has been "kept in check" by politicians such as Theresa May, François Fillon and Angela Merkel. The far right's influence across Europe is rising but not to the point of jeopardizing the traditional right. The new problem that the EU is facing is more a collapse of the left.

Anti-globalization is spreading but is at the same time contested among politicians and parties who have supported Brexit or Trump's election (the Tories in England, the Republican Party in the US). The divisions are creating more social uncertainties and may be conducive to keep in check the rise of populism.

Zhu Dandan answered JPC by stating that Chinese politics is not, in fact, experiencing intra-party tensions and that the power transition will be peaceful. The political structure has shown its stability and will again. She pointed out that the focus should be on the agenda of the CCP rather than on power struggle. The party leads the work of establishing a socialist society. The political discussion is now focusing on the necessary relaxation of economic and administration controls so that the economy can continue to develop and pursue its socialist goals.

Cui Hongjian introduced his idea of the challenges to come that can be summed up in three letters: TPP, meaning Trump, Putin and Populism.

Trump represents an important challenge for China because of his very harsh rhetoric against Chinese economic practices. The straining of US-China relations might represent an opportunity for Sino-European relations and the need to reestablish a new global governance order. China is very opened to cooperating with Europe, despite the issues that complicate their relationship, particularly the overcapacity of the Chinese industry and the EU's refusal to grant China a "market economy" status, as planned 15 years after China joined the WTO. Both sides want to go further on the negotiation for a bilateral investment treaty, and are interested in cooperating with the EU in the Mediterranean region among others. However, China is worried about the rise of populism in Europe and the possibility of a situation similar to Trump's election in Europe, not only coming from the extreme right, but even from conservative politicians such as Fillon, who wants a rapprochement with Putin and a stronger France.

China feels victimized as many populists are targeting it as being the main, and sometimes only, beneficiary of globalization. It wants more consensus and risk management from other world powers. Cui thinks that China also faces challenges because of globalization, such as overcapacity. To maintain peace, China wants

a discussion between the main actors on risks and security.

Asad Beg responded to Cui's TPP with his own three letters: PPP or pragmatic, positive and practical. He wants to put words into actions. He discussed the three key points: the position of the EU, the evolution of the situation in China, and EU-China cooperation.

The European Union is back on track but still facing major criticism due to inadequate communication on its achievements and potential. Asad pointed out that the problem of European security can be resolved by focusing on 5 issues: security within (make people feel safe); state and societal resilience (prosperity without); comprehensive help (EU is the world's single largest donor); cooperation with international organizations; and global governance (sustainable development).

The EU is willing to engage with China but wants reciprocity of opportunities, as for instance the case of China's "market economy" status. In return, the EU could help China dealing with its problem of overcapacity. EU-China cooperation should also take place in particular in Africa, where a better economic situation will translate in less migration, in Afghanistan, in the fight against terrorism, and in the Middle East.

Jean-François Di Meglio then intervened to introduce the need for positivity on 5 issues: the drive toward reciprocity between Chinese and European investments; Trump's election brings forward the idea to reshape global governance; China is starting to look outward after 40 years of economic cooperation; populism is a threat in Europe, but also in China, and there is therefore a mutual need to cooperate against it; Fillon and France's position vis-à-vis Russia is defining a potential new "voice" from Europe. Once harmonization is found among the different stakeholders and in spite of current interpretation that Fillon is univocally "pro-Russian", there could also be room there for a game reshuffling, Fillon being elected eventually or not. The debate has been reopened.

Sophia Chuli (Discussant 1) then responded to Cui's argument that Greece was experiencing a dangerous surge in populism by stating that Greece was a fervent supporter of free speech: there populist ideas are perhaps more openly discussed than in China, but are not necessarily more influential. She also argued that Greece was supporting a unified EU.

Zhang Jian (Discussant 2) pointed out that Sino-European relations would be difficult to strengthen in such an uncertain context. He also asked for more insights on the Fillon reform proposals, whether he could implement them, and the risks for Italy to leave the Eurozone after Renzi's defeat in the elections.

The Discussant 3 asked whether there was a possibility for France's National Front to get more significant power through Parliamentary elections?

Isis Jaraud (Discussant 4) discussed the opportunity that represents a reshaping of world order. She also pointed out that populism was first and foremost an attempt, though misguided, to narrow the gap between the elites and the people who have not benefited from globalization. Isis therefore did not understand China's fascination with it. Instead of excluding the debate, she believed that it must

be a call for more political dialogue and social redistribution.

Jean-François Di Meglio briefly answered the discussant 3's question by reassuring the Chinese counterparts of the impossibility of France's National Front to obtain a legislative majority because of the current ballot system, which is not proportional.

Asad Beg raised his concerns for the current racist trend on Chinese social media against foreigners and especially Japanese, Muslims and African immigrants, which could be paralleled to EU's nationalistic youth movements online. What are the motivations of this angry youth and how can it be dealt with accordingly?

Zhu Dandan described populism more as a way to answer very difficult questions with very easy solutions. She raised her concern about rising anti-Chinese sentiments in Europe and asked how the EU hopes to deal with them.

Jean-Pierre Cabestan argued that China was pointing out the rise of populism as a way to dismiss its own problems and to imply that its political system was in fact better and more sustainable. In turn, Europeans are convinced that democracy is the best form of governance, and the best system to deal with populism. China deals with it through coercion, propaganda and control, measures which only limit the expression of the populist opinion, not the phenomenon as such. He also said that Marine Le Pen was more moderate than her father, which has contributed to her growing popularity. Similarly, the National Front's recent evolution has turned it into a more mainstream party. But its chances of coming to power are limited. Fillon remains the favorite candidate. Among the reforms that he is likely to introduce is a much-anticipated labour reform. JPC went on to say that it is important for China to look beyond each European member-states' politics and discuss further cooperation with the EU as such, despite internal division on many issues.

Cui Hongjian indicated the importance of clearly defining populism and its 3 major features: an enhanced state power, a protectionist economic agenda and an exclusive social policy (xenophobia). He agreed with Jean-Pierre Cabestan that issues such as Crimea need to be discussed with Russian counterparts and a Sino-European consensus on this issue will take a long time to be reached. China is overall very open to strengthening ties with its European counterparts, but fears that its core principles won't be respected. As a result, it is searching for clarity on some of the EU positions.



## Panel 2: International Geo-strategic and Political Issues after Donald Trump's Victory

Jean-Pierre Cabestan pointed out that a period of uncertainty was starting as the US were becoming a source of uncertainty while China remains a stable country: "Trump has turned the tables". Amongst the new uncertainties, Trump seems to single out China while loosening the tension and trying to improve US' relationship with Russia. What will happen in Syria thus? Will the international community back Assad's claim to power? And does Trump really want to revisit the Iran nuclear deal? Trump's challenge of the "one-China policy" raises many question marks regarding the US involvement in East Asia and its relationship with China.

Fu Xiaoqiang introduced the Chinese concern regarding the threat of global terrorism. China believes that the ETIM (East Turkestan Independence Movement), which is financed by major Islamic groups such as Al-Qaeda, represents a threat to Chinese security through its operations in Xinjiang and in several cities across the country.

International cooperation needs to be developed to successfully limit the influence of ISIS and the risk of "lone-wolf" attacks.

China has raised its spending on counter-terrorism to US\$ 1 trillion, showing it is a major actor in the global counter-terrorism as it fears IS's Eastern spread with new organizations being created in the Philippines and across South and Southeast Asia.

Despite military control and actions to eliminate Daesch, a unilateral plan should be proposed to reduce the spreading and the risks of radical ideologies.

Li Wei discussed the Trump victory in more details and what it would mean for Sino-US relations. Against the odds, Trump managed to win the presidency, despite losing the popular vote, by tapping into the middle-class electorate of the Rust Belt states, considered as the "losers of globalization" and its numerous trade deals. Trump's anti-PC and anti-liberal rhetoric helped the rise of populism. Overall, social anxieties have prevailed over market logic, and it is an important reminder to the world that economic growth and prosperity need to be inclusive, a principle promoted both by China and the EU.

Trump's stance against the TPP was received positively by China because it is believed that it will weaken the US position in the region and therefore help China strengthening its regional influence. Also it is important to point out that it is Trump who is threatening to challenge neoliberalism, with protectionist measures, not China. China believes that this unpredictability can be an opportunity to get a better deal with the US: "the bargaining has begun".

Arto Haapea (Finland, 1<sup>st</sup> Discussant) believes that the US will still play an important role in the Asia-Pacific region, and that it is not necessarily a 'zero-sum game'. As Xi puts it: "the Pacific Ocean is big enough for the both of us".

Duterte's pivot to China raises a lot of questions, but the diversification of Philippines' foreign relations might be

good for all the actors involved. And despite all his rhetoric, Duterte did not question the UN Arbitral Tribunal Decision about the South China Sea, which seems to show that his position could be predictable in foreign affairs. Overall, the TPP seems out, but another economic cooperation arrangement might arise.

Ludovit Katuscak (Czech Republic, 2<sup>nd</sup> Discussant) pointed out that Central and Eastern Europe is not seeing the Trump election negatively as it might represent an opportunity for these countries to stand as a bridge between the West and Russia.

Lena von Sydow (Sweden, 3<sup>rd</sup> Discussant) emphasized that Sweden wants to keep good ties with the US despite the different values the two countries hold, as it represents Sweden's main partner outside of Europe. She also wants China to take its new role of international actor more seriously in regards to climate change, human rights and peace keeping.

Jean-Pierre Cabestan intervened to remind everyone that Trump appointed a new ambassador who is close to Xi, which might mean that he intends to stick to the "one-China policy". However, his opinion on climate change and trade need to be challenged if they do not evolve.

The Chinese counterparts raised their concern about the unpredictability of Trump's opinions and how they can be constrained.

Fu Xiaoqiang responded to Asad Beg's concern that China considers independentists as terrorists whereas the EU does not. Despite this difference, China was willing to cooperate on fighting global terrorism, not only national, and had already implemented deradicalization programs in Xinjiang, taking the example from some European countries.

Feng Zhongping asked what China was expected to do to help Europe with the issues of terrorism and extremism? He believes that China and the EU need to work together in Africa and the Middle East to develop the region. He also said that enlarging NATO would be a mistake as it would isolate Russia and create more issues. It would be naive to believe that it is possible to change Russia. The EU's most important task is to strengthen its relationship with this nation and envisage pragmatic and practical solutions.

Sun Yongfu also pointed out that the EU might stand alone in imposing sanctions on Russia, which is not in its interest.

Jean-Pierre Cabestan believes that although EU-Russia relations may improve, it will be hard for the EU to agree to lift its sanctions as long as the Ukraine crisis is not solved. He also believes that Trump's message of "Making America Great Again" goes against any isolationist policy. The absence of diplomats in Trump's cabinet, which is dominated by generals and businesspeople, is however a problem that may complicate US's relations with its major partners.

Li Wei believes that China and the EU can start negotiating an FTA, which will put pressure on Trump.

Asad's closing statements included a summary of the uncertainty brought by the Trump election. He also reiterated that in view of China's new position on global governance, there was a need for this country to be more involved, to better accept reciprocity, and cooperate more often on security, particularly counter-terrorism.



### Panel 3: International Economic Governance

Sun Yongfu (chair) started the panel by emphasizing the fact that the EU, not the US, was China's first trade partner. How can China and the EU cooperate in the future, despite the EU's decision not to grant China a "market economy" status (MES)?

Zhang Jian raised several economic concerns. The global economic growth is slowing, while anti-globalization is rising. China's rise has contributed to the emergence of a new international economic governance system. A new direction is being considered to revitalize economic growth with innovation, as discussed during the Hangzhou G20 Summit, with an emphasis on reducing the human impact on climate change and creating a more inclusive economic growth. As the EU, US and Japan refused to follow their commitment to give China an "market economy" status because of anti-dumping issues, China will be looking for an alternative legal course. China is also curious to see what changes the entry of the RMB in the SDR (Special Drawing Rights) will bring.

Jean-François Di Meglio wanted instead to look at the issues from the angle of international governance. China's initial entry into the WTO in 2001 was not believed to benefit the country greatly, but its foreign exchange reserve increased tremendously thereafter. While not gaining a MES is not ideal for China, getting it would not have guaranteed China not to be sanctioned by anti-dumping penalties. Adjustments are therefore needed for China to develop despite a decline in trade. China needs to adapt to the current rules rather than the previous ones, where MES was of great importance (even Trump is saying he does not want the US to be a "market economy").

The overcapacity problem also recalls the situation in the UK 30 years ago, and China should be confident that it can go forward despite the EU ruling regarding China's MES. Also, while the RMB does not meet some of the conditions, it will still join the SDR basket of the IMF. It is important to think of a system of currency that works for the world. All in all, China needs to be actively involved in global governance.

Sun Yongfu agreed that while there are frictions, the general picture of financial trade between China and the EU is positive. China is willing to take a more proactive role on world trade.

The EU ruling on the MES is an issue, but China is confident that it won't prevent a deepening of trade relations between the two parties. However, the implications of trade friction, such as anti-dumping penalties, will be more important to consider if China is more actively involved in global governance.

Feng Zhongping however wanted to make clear that even though the MES was not the main focus of Chinese politics, it still wants the EU to reward the "good student" (China), even if it means introducing subsidies or going forward with anti-dumping penalties afterwards.

China also wants to make clear that it does not want to enter an era of tax war as promoted by Trump's discussion of lowering business taxes to 15%. If we want to promote global governance, we would need to actively reject this. The question was also raised as to why Russia was granted MES but not China?

Jean-François Di Meglio replied that when Russia was granted MES, the status was not yet clearly defined. China would need to accept the ruling for further economic cooperation.

Moreover, the consensus is that trade war should and could be avoided because everyone would be worse off. Free trade liberalism needs to be mended. Sino-European cooperation could for example include high tech. But China would need to let foreigners invest in China in all aspects of the economy, which is what a "market economy" means and is not the case now.

Jean-Pierre Cabestan also pointed out that since the US is not as important compared to the global economy as it used to be, it will most definitely not isolate itself. In any case, more US protectionism leaves space for EU and China to invest in new regions such as Africa or Latin America.

Sun Yongfu finally emphasized that China's economic growth was strong and that Chinese investments abroad have increased steadily as a result. He showed great desire to start negotiations on bilateral trade relations with the EU, despite the MES problem. China still believes that the EU could implement subsidies instead of anti-dumping penalties.

EU's investments would be welcome, especially in sectors such as infrastructure.

Overall, Sun believes that China wants to push BIT (bilateral investment treaty) negotiations forward, especially because of the uncertainty coming from the US.



### Concluding remarks

Jean-François Di Meglio reiterated that it was important to put the dialogue in the context of the day. Despite the MES issue, the dialogue showed much promise and definitely proved the strength of EU-China relations.

Feng Zhongping explained that the two major concerns for China coming out of this meeting were Trump's election and the EU's MES decision. Discussing these issues has permitted to reach a balanced opinion that would help China feeling more confident about future cooperation with the EU.

Zheng's final words were that China's general hope is that the European integration project continues to strive forward as it is seen as a model for universal integration for peace and economic prosperity.