

## **CHINA'S ECONOMIC SLOWDOWN: ADDING TO EUROPE'S TROUBLES** **Dahrendorf Symposium, 26<sup>th</sup> of May**

Björn Conrad and Genia Kostka, Co-chairs of the Working Group 'Europe and China', and  
Wiebke Rabe, Dahrendorf Research Associate

**China's new international assertiveness combined with domestic power recentralization and economic slowdown meet a fragmented, crises ridden Europe. While China is actively creating and shaping international institutional landscapes, Europe is struggling to deal with an increasingly self-confident China and with its state-driven economy moving to the centre of the global economic system. Following decades of relative stability, the relations between the two are likely heading towards stormier waters, marked by more pronounced tensions and possible conflicts. China's proactive foreign policy pressures Europe to define its positions vis-à-vis China with more clarity and coherence. During times in which common global challenges call for joint solutions, a constructive re-crafting of the Sino-European relationship is one of the most fundamental and difficult tasks Europe is facing in the years ahead.**

### **Intensifying engagement abroad**

The impacts of Xi Jinping's leadership are highly visible in the foreign policy arena, leading to more and increasingly intense points of engagement with Europe. China creates and finances parallel international structures in policy areas such as currency, trade, and security. 57 countries are now part of the Asian Infrastructure Investment Bank (AIIB), the Shanghai Cooperation Organization (SCO) is in the process of gaining two new members this year, namely India and Pakistan, and the Belt and Road Initiative, despite its continuously blurry conceptualization, is forcefully pushed by Beijing to the top of the agenda in most of China's bilateral and multilateral relations. These initiatives are just the visible tip of the iceberg. More profoundly, Europe has to come to grips with China's intensely state-led economy playing an ever greater role in international trade and investment. China has become a global investor not only in its neighbourhood, but also within the European Union and its backyard. Chinese state-owned as well as private enterprises are seeking markets, brands, and technologies abroad. At times, they appear as saviours for European enterprises in trouble. But as actors with access to subsidized state credit they are also distorting the rules of the level playing field. In addition, Europe will also have to engage with a China which is gradually intensifying its role as a global security actor, seeking to protect its mounting commercial and political interests abroad. Under Xi Jinping, China is making its way to many of the arenas of international politics it has traditionally steered clear of in the past. Meanwhile, the foundations of China's expanding global reach are often shaky, making China a precarious global actor. Europe's greatest challenges in the years, maybe decades to come, will be finding ways to constructively relate to and engage with a China that is in the process of changing the global landscape.

### **Growing pressures at home**

The fundamental phase of China's economic transition, supposed to switch the world's largest economy to a different model of growth, comes with enormous pressures, tensions, and vulnerabilities. China's economic growth in double digits belongs to the past. The country is struggling with enormous debt levels, manufacturing is slowing down and a stream of money is leaving its borders. Turbulences at the Chinese stock market, fear of increasing unemployment and intensifying labour unrest paint a sombre picture of economic uncertainty.

Still, many of the urgently necessary economic reforms - for example of Chinese state-owned enterprises - are progressing much slower than expected or have stalled completely.

An economically troubled China causes problems for Europe, especially at a time that sees Europe and the European Union at its most vulnerable in decades, ridden by constant crises ranging from Eurozone to refugees. European economies are ill prepared for decreasing demand from Chinese markets as well as for intensifying competition from Chinese companies. The mounting economic and political pressures in China and Europe are likely to reveal lines of conflict that have been glossed over by mutually beneficial economic relations in the past. If that is the case, the overall tone of Sino-European relations will become harsher, dialogue more challenging. At the same time, the need for collaboration increases: revitalizing global trade, combating international terrorism, mitigating climate change. The list of issues that call for a constructive relationship is long.

### **Important decisions lying ahead**

Until this day, the European Union lacks the ability to develop a coherent China strategy. Being internally more divided than arguably ever before EU member states still often engage China on a bilateral basis rather than following joint approaches. EU policy goals toward China are fuzzy and span, as ambitiously as ambiguously, over a plethora of sectors from energy efficiency via counter-piracy to education without coherently addressing many of the underlying conflicts. In the midst of this challenging context, Europe and China are currently heading towards a number of momentous decisions that will set the tone for the redefinition of Sino-European relations. Most prominently, EU member states are currently debating the arguments for and against granting China Market Economy Status (MES) by December 2016 - a decision that will have a profound impact on Europe's international stance and standing, its industries, and the relationships between European countries and China.

### **Policy Implications**

1. The EU Institutions and member states should not treat issues like granting of Market Economy Status or negotiations on the Comprehensive Agreement on Investment (CAI) as isolated decisions. These decisions, and more to come, need to coherently address the fundamental questions that China as a state-led economy poses to the rules of fair market competition in the global economy. Brussels and the European capitals can use upcoming decisions as first building-blocks for a longer-term, strategic redefinition of Sino-European economic relations.
2. The EU Institutions and member states need to increase the sophistication of their assessment regarding Chinese Outbound Investments into Europe. Improved and more comprehensive information on Chinese investments can enable EU member states to fully seize the opportunities that come with these investments, while balancing them against associated risks. These risks do not only include possible national security implications (e.g. investments in critical infrastructure). Given the role of state subsidized financing in China, Chinese investments especially need to be assessed with regard to their undermining effects on fair market competition and long-term distortions of industries' competitiveness.
3. The EU Institutions and External Action Service should narrow their strategic focus vis-à-vis China. A strategy at the EU level should define only a few, but clear and concrete fields of European interest. These primary areas of engagement with China should be built on a high level of interest overlap between member states and define concrete policy initiatives with measurable targets that can be feasibly achieved within a mid-term time horizon.
4. Within each of the areas of primary engagement, targeted Sino-European pilot projects that are limited in scope and risk can provide valuable information on the feasibility and merits of deeper collaboration. Potential Sino-European collaboration in areas as diverse as joint infrastructure investments (e.g. Belt and Road Initiative) or security policy (e.g. Counter-Terrorism) can then be further pursued on the informed basis of the pilots' successes and failures.

## THE PANEL

“China’s economic slowdown: Adding to Europe’s troubles” is the title under which four internationally renowned experts from academia, politics and the business sector unravel implications for Sino-European relations caused by these fundamental changes in the global economic order. They will elucidate how worst case scenarios may shake stability in China as well as Europe and will unpack underlying dynamics on both sides. At the same time, they will also shed light onto the still existing openings for constructive engagement and how they may be used to shift the trajectory of Sino-European relations.

## CHAIR & MODERATOR

**Genia Kostka**, Professor of Governance of Energy and Infrastructure, Hertie School; Co-chair of the Dahrendorf Working Group ‘Europe and China’, Berlin

## PANELISTS

**Reinhard Bütikofer**, Member of the European Parliament, Brussels

**Björn Conrad**, Vice President Research, Mercator Institute for China Studies (MERICS); Co-chair of the Dahrendorf Working Group ‘Europe and China’, Berlin

**Christine Wong**, Professor and Director, Center for Contemporary Chinese Studies, University of Melbourne

**Jörg Wuttke**, President, European Union Chamber of Commerce in China, Beijing