

**CHINA, THE EUROPEAN UNION AND THE RESTRUCTURING OF
GLOBAL GOVERNANCE**

**Keynote speech by Karel De Gucht
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Good morning ladies and gentlemen.

I've only just returned from Beijing, where last week I met Chinese Minister for Commerce Chen Deming for the first time as European Commissioner for Trade. I also joined President Barroso's Executive-to-Executive meeting with Premier Wen Jiabao. So it gives me great pleasure to share my views on this important topic with you, fresh from the field.

And these topics need fresh thinking indeed.

My meetings took place against a backdrop of business concerns about China. Is the business climate for foreign companies in China worsening? Is there a standstill, or backpedalling, of economic reforms? Will economic nationalism become China's dominant long-term identity?

There are no clear-cut answers to these questions. But a willingness to learn and understand each other is the foundation for a good working relationship.

[China and the economic crisis]

China is the first economy to effectively rebound from the economic crisis with impressive growth rates. China grew by 8.7% in 2009 while other major economies recorded negative growth. This year, it keeps on roaring ahead and heading up the world's growth league.

To some extent, the economic crisis has helped China to reduce the risk of overheating that had been building up previously. The domestic stimulus package has also been used to reduce social inequalities that had widened during years of growth. Direct State intervention has targeted infrastructure and fixed capital investment in order to fight the urban/rural and coastal/inland imbalances.

China's growth continues, however, to rely very much on exports, boosted by a low value of its currency and strong investment in plants of export-oriented industries. At the same time, domestic demand of households does not yet expand sufficiently. Policies to help rebalance the Chinese economy, and that of the world, are therefore still called for.

Meanwhile, because of China's giant leap forward, many countries in the world are looking to the East for inspiration, both for economic as for political reasons, especially in the aftermath of the crisis that has prompted many to doubt the virtues of market forces.

The Chinese government is aware that it owes much of its domestic legitimacy to its economic achievements. Since Deng Xiaoping opened China up to the world, China has lifted hundreds of million people out of poverty. Over the past five years China has managed to increase its GDP per capita by almost half. This is a phenomenal achievement.

Younger generations have witnessed a decade of steady progress and have seen China growing ever stronger. National confidence is up and is translated in a new-found assertiveness.

Nobody can deny the magnificent efforts China has made in pursuit of increased wealth for its citizens. However, they are not truly unique. The fast growth of Japan in the sixties and South Korea and Taiwan later on were equally spectacular. Moreover, one should not forget that China's efforts have been successful because of the open multilateral trading system, and then openness of China's main export markets, including that of the European Union. China has greatly benefited from the openness of others. Openness being a two-way street, China can only continue to grow in a world economy which grows itself and which advocates open markets.

Therefore, it is important for the EU to persuade the Chinese government that it is in its own interest to champion reform and openness. This is not a foregone conclusion because the Chinese leadership is steering a path between those who want to pursue reforms towards greater openness and those who advocate tight state control or intervention.

We have to be mindful of this domestic context and define our positions accordingly.

[the economic crisis and global imbalances]

The financial crisis has revealed the degree to which the world's economies are integrated, both financially and in terms of physical production and trade flows. This has had real benefits - higher growth rates and living standards.

At the same time, global economic integration has also accelerated the spread of the crisis. The crisis thus highlights that it is in everybody's interest to identify and tackle structural imbalances early on, before they can unload in a shock.

For economic growth of the world or of its main components to be sustainable, it must not rest on major imbalances. Our global economy depends on open, integrated and fair markets where a level playing field is guaranteed and where there is enough macroeconomic policy coordination to avert the build-up of dangerous disequilibriums. Both the European Union and China have a strong mutual interest, and the responsibility, to ensure that the ship of the world economy steers clear of the rocks.

The growing need for China to play a more active part and assume a greater responsibility in the management of world affairs inevitably leads to more systemic questions on the reform of global institutions.

[the machinery of global governance]

China's increased economic weight is not yet fully reflected in the political profile that China adopts in international bodies and negotiations. For example, while China's more outspoken support in favour of the Doha Development Agenda negotiations since July 2008 is welcome, China has yet to take a

leadership role in the Doha Development Agenda negotiations and sometimes uses its developing country status as an alibi for free rider behaviour.

In the aftermath of the crisis, the world is looking at China to play a leading role on the world stage. With size comes responsibility. None of the major challenges that the world is facing – climate change, energy, security, the global financial system – can be solved without China's involvement. Splendid isolation is no longer an option.

Europe, and other partners, must urge China to shoulder the responsibilities that it now has as the world's second biggest economy.

Yet on the other hand it would be wishful thinking to believe that China will take a greater burden without anything in return.

China is very reluctant to take part in international bodies and structures and accept rules that they had no power in shaping themselves. It will not just join to strengthen rules and institutions it sees as preserving the status quo of a Western-dominated world.

Until China's voting rights reflect its economic weight, China has little inducement to take a higher political profile. It may be desirable to adjust the shareholder and voting structures of the multilateral agencies to better reflect the economic might of emerging markets.

Of course, China may remain highly ambivalent about committing itself as a global player given the overwhelming priority placed on domestic development and stability. Domestic priorities take centre stage. But unless the politics and

the economics match, it will be harder to tackle global economic challenges together.

Though this is destined to be a very difficult balancing exercise for years to come, I do not share many people's pessimism about China's role in international politics.

Sure, it does not share our "post-Westphalian" mindset and does not have the same tradition of international integration as Europe has, but has international co-operation not often been a story of self-interest rather than shared ideals? And have those Western, undoubtedly democratic states who are now all too eager to criticise China never favoured sovereignty over international organisations and international law?

China has been willing and able to subscribe to the logic of international integration at times when it was in line with domestic needs. In the '90s, for instance, Beijing has used the accession to the WTO to put pressure on internal economic reform – much like the Maastricht Treaty has allowed many European countries to return to the budgetary orthodoxy they needed.

And in the future, too, China will become increasingly convinced that a stable international environment, based on mutually agreed rules and decisions and common action against common threats, is much preferable to international chaos – much like the US and EU have become convinced of this over the years.

[EU response]

The EU will have to adapt its structures and behaviour if it wants to retain or reinforce its clout and influence. The EU's external policy has been one of essentially soft power, based on the promotion of our core values, and as such there is nothing wrong with that.

But as China and others develop their position (and voting rights) on the international scene, Europe will also have to better play to its strengths.

To quote Pierre Defraigne, who will moderate a plenary session this afternoon: “we often have too many Europeans around the table, but not enough Europe”. That goes for the issue of seats and voting rights in the World Bank and the IMF, but also for the United Nations or the G20.

Hence the importance of building a strong new European External Action Service. The EU can become as strong – or as weak - as its Member States and institutions allow it to be.

Europe's strengths lie when it pools its resources and speaks with one voice. We are already doing so in the WTO – an organisation I know well as Trade Commissioner. If the way Europe has organised its representation at the WTO can serve as an example, there is reason to hope we can respond to the challenge effectively.

[conclusion]

There are challenges ahead for global governance for China and for the EU: for China in taking on its responsibilities as a major economic power, and for the EU in getting its act together. But overcoming these challenges would be in our mutual interest, as we can both flourish only in a healthy and balanced world economy with sustainable growth.

China's economic development is racing ahead and the EU should be part of that. In order to reap the maximum benefits from our bilateral relations, we need a long-term partnership. We need frank and open dialogue, a shared vision of importance of economic openness, good mutual understanding of each others' positions and also an appreciation of each other's differences. I have started to address these issues with my Chinese counterparts last week in Beijing, and I am happy to continue our exchanges here in Brussels at the end of this month.

Even in challenging times and under increasing pressures, China and Europe are natural partners and necessary pillars of the global economy. Two decades ago we traded almost nothing; today our economic relationship is one of the most important in the global economy. There are still enormous economic benefits for both sides to harvest in the future.

Thank you very much.