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Transcript

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## CHINA IN THE WORLD PODCAST

Host: **Paul Haenle**

Guest: **Joerg Wuttke**

Episode 60: China-EU Trade and Economic  
Relations

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**Haenle:** I'm here with my good friend, Joerg Wuttke, president of the EU Chamber of Commerce, to talk today about China-EU economic relations in the year ahead. Thank you, Joerg, for joining the Carnegie-Tsinghua *China in the World Podcast* this morning.

**Wuttke:** Thank you for the opportunity.

**Haenle:** To start out, I want to talk a little bit about EU economic and trade relations as we move into a new year. Last week, there were a number of developments—a landmark year, I would say, for China-EU economic relations. Several high level visits by European leaders to China. Prime Minister Premier Li Keqiang went to Europe to celebrate the 40<sup>th</sup> anniversary of diplomatic relations. In April, President Xi Jinping became the first Chinese president to visit the European Union headquarters. In the coming year, I wanted to get a sense from you on what you think we can expect in terms of Chinese priorities for its own economic and trade ties with the EU. And what are EU priorities for advancing China-EU economic and trade relationship?

**Wuttke:** Well, 2015 has been another blockbuster year in trade. I think we trade 1.5 billion Euros a day. And the European Union is the largest trading partner with China. It's still imbalanced, you have more Chinese exports to Europe. But interesting enough, the trade between Germany and China is balanced: in Germany, covering 50 percent of exports out of China into the Chinese industry landscape.

So trade has been very good. But what was notable last year was a complete change in investment flows. You had, again, a sizeable investment of Euros in China—but it's less than \$9 billion—whereas China has invested around about \$22 billion into the European Union, in comparison \$15 [billion] into the United States. Europe is very attractive. It's mostly equity investment, the biggest one of course being ChemChina buying Pirelli. And we have seen sizeable deals since. That is really a game-changer—that China becomes a major stakeholder in Europe—with jobs, with economic presence, which is something we like. It entices the Chinese to step up to the plate on the investment agreement, and at the same time also alerts the decision-makers here that actually European investment creates less jobs in China than is possible because of the constraints we still face, and Chinese create a lot of jobs in Europe, which is something we welcome, of course.

So it's a good development. In 2016, [this] remains to be seen. China has economic headwinds; that could mean there is more Chinese investment in Europe, as they look for different markets. There might be less anticipated European investment in China because the fact is, we are facing overcapacity, lower growth potential, and so forth. And frankly, [in] many areas we would like to invest more, do more business, but constraints are as they are. We have a European Chamber position paper every year outlining 800 areas—400 pages—where the problems are.

**Haenle:** And how has—to this point—or how do you see it in the future, the economic slowdown in China affect all of this?

**Wuttke:** I think that [the economic slowdown] has affected [investment] in real-time investment. People in head offices in European Union countries get more cautious. Again, we have massive

problems in our import structure. Steel has been importing—China’s steel imports grew by 40 percent last year. [That situation] makes that group very vocal in the present market economy / statist discussion. And so it’s something where we see layoffs in European operations here in China. It’s—overall, it’s just more caution. It is an unexpected new feeling that China slows down. We are world champions in recession-handling in Europe, but China having sort of something of a long landing, a hard landing, is something we never experienced.

**Haenle:** Last weekend, we saw the official launch of the Chinese-led Asia Infrastructure Investment Bank—the AIIB. Fifteen EU countries have signed up as founding members of the bank. As you and I have talked before, famously the United States, of course, had a different approach to this, and is not a founding member. There seems to be a different perspective on the AIIB coming out of the U.S. than is coming out of the EU, and I wanted to talk a little bit if you could to our listeners about how the EU countries see this Chinese initiative.

**Wuttke:** Yeah. I mean, we always ask China to become a responsible stakeholder, to get...[to] step up to the plate and get involved in international affairs. The World Bank is very much an American-driven thing, the IMF is very much European, we have the Asian Development Bank which is Japanese, and now basically the second-largest world economy, the biggest trader in the world—China—also wants to have its footprint somewhere. And we have to acknowledge this. Now, are they going to do it in their vintage-style of control and in transparent handling, or are we part of this and basically make sure that they are basically in line [with] what World Bank, IMF, and ADB are doing? And that’s why European countries in the majority actually joined this group, in order to be part of that.

**Haenle** (*simultaneously*): Yeah. Yeah.

**Wuttke:** It’s a great pity that this divided Europe and the U.S. –

**Haenle:** Yeah.

**Wuttke:** – and it definitely took a bit of a shine off the U.S. as a global leader –

**Haenle:** Yeah.

**Wuttke:** – because normally Europe follows the U.S. That topic – I think it was just too obvious—we had to be part of this in order to steer it from the inside.

**Haenle:** Yeah. I mean, if you look around, there’s 56 other countries now around the table shaping the way this is built. And I think that’s a positive aspect. You know, my sense is that the U.S. is coming around. If you look at the state visit [by President Xi to the U.S.], there were positive statements in the agreement documents where the U.S. welcomes Chinese contributions to infrastructure development. But I think there’s more room for the U.S. to get around and approach this more constructively. I tend to agree with you on that going forward. Another major initiative—Chinese initiative, which has been elevated to the top of China’s foreign policy priority, is the “Belt and Road” initiative, the 一带一路 (*yi dai yi lu*). It’s hard to be in

China and not on a daily basis come across something on the 一带一路. Big push here in China, as you know. How does the EU look at this in, generally speaking, from your perspective? [It was] launched in 2013. How do you think this grand infrastructure plan will complement European interests—if at all—and benefit the EU? And what concerns would you have on it?

**Wuttke:** It was raised in Kazakhstan years ago by President Xi Jinping, and it of course emulates the old Silk Road image. And we are the receiving end in Europe—it ends in Venice or it ends in Germany. And hence, we are the other stakeholder, and we are mystified by what it actually means. We are trying to figure it out, we are looking at projects, and I think it's more of a political concept—a voice of “we are reaching out,” rather than kind of “here's the money and we built another highway.” So there is [a] bit of mismatch of expectations from our side, and actually what the Chinese can deliver. And the problem also seems to be then [with] the Chinese leadership—that the president voiced it, but the bureaucracy is still trying to figure out how to put the rubber on the road.

And—so “One Belt, One Road” —I'm very, very positive on this “one road.” I think this is the Maritime Silk Road. You have lots of—billions of customer— India, Southeast Asia, Arabia, China can basically help to get this better connected by infrastructure investment. I would be very, very cautious on the “one belt,” which is the Central Asian route.

**Haenle** (*simultaneously*): Central Asia piece. Yeah.

**Wuttke:** Because between Xi'an, central China, and the first major country on the map—Iran, Turkey—you have 60 to 70 million customers. So it's non-existent. It's not even 60 percent of Hebei Province or Henan Province. So in a way it has to be something that has to develop and has to be feasible.

So “One Belt, One Road,” you will see [inaudible] color, a lot of politics—be it gas-buying, be it an airport, be it this and that. But the Chinese are still trying to figure it out. It certainly is for us interesting in Europe because we want to have improved rail connections; it cuts our goods transportation time by half.

**Haenle:** Yeah. Sure.

**Wuttke:** The problem is, of course, it goes through very questionable areas—Ukraine and so forth. So in a way, I think it's a political concept, but boy the fine print is still missing.

**Haenle:** Yeah. You used this phrase that you were mystified. I run into a lot of Chinese government officials, frankly, who are mystified. And they're the ones who have to put the meat on the bones on this plan. And I think you get the sense that, you know, Xi Jinping has really—like other initiatives—kind of planted the flag, and that the bureaucracy is now having to catch up. But the risk is that they're moving into a period—it sounds like you're saying—where the Chinese are going to need to begin to implement this plan. You know, we're out of the phase where we've announced it, and everyone is aware of it. It now is moving into the implementation phase and it sounds like that'll be—you think—a little bit more complicated, especially through some of these

unstable areas, where frankly my own country, the United States, has tried and had a mixed bag in terms of success.

**Wuttke:** Yeah. 2016—we have to see a lighthouse project. We have to see a major [project] which is new. The Pakistan-Gaffar port was relabeled “One Road, One Belt,” and this is not good enough. And, again, unfortunately China had some top officials talking about overcapacity, connecting it to “One Road, One Belt,” which is ill-advised. There is so much overcapacity in the market. The European Chamber will launch a major study on the 22<sup>nd</sup> of February, days before the G20 Finance Ministers meeting. There is no way overcapacity can be alleviated by “One Belt, One Road.” It’s just simply not going to happen.

**Haenle:** Let’s shift gears a little bit and talk about the business environment here in China. You do a lot of work, obviously, in your capacity as the president of the EU Chamber of Commerce looking at the business environment for European businesses. How do you EU countries see the business environment now and in the year ahead, in particular? What developments are you watching for? Where are the opportunities and where are your concerns?

**Wuttke:** I think it is more clear to most market participants that economic headwinds are there. The debt structure in local governments and companies is coming to the forefront. There’s going to be slower growth. You might label it the new normal. Fact is, we are out of this golden age of double-digit growth—

**Haenle:** Sure.

**Wuttke:** —and demographics [inaudible]. So the investment climate or the business climate is going to get rougher. We still wait for the clearing up of the overcapacity. They always talk about this—the new label is the “supply-side story.”

**Haenle** (*simultaneously*): Right...right.

**Wuttke:** And then of course, most interesting to us, is the shift from manufacturing, where we pretty much have open access, to service sector, where we pretty much see a very closed segment.

**Haenle:** Service sector. Closed sector. Yeah.

**Wuttke:** So even if the Chinese service sector develops very fast—

**Haenle:** Right.

**Wuttke:** —we might be outside the wall. And, so GDP growth might be 6, 7, 8 percent, whatever region you talk about in China, possibly coastal areas are most interesting to our service sector participants—you might not be part of this. And hence the European Chamber brings up all these ideas of opening up the banking sector, the insurance sector, the logistics area, which is red pepper—hot right now in China, doing extremely well. Movies is plus 50 percent.

**Haenle** (*simultaneously*): Sure.

**Wuttke:** I mean, there are areas where China does extremely well, and we are not participating. So basically, it is for us and also for AmCham—our brothers—to lobby for the opening, and we do this with the investment agreement. Again, China has a huge interest in participating in the European Union and [to] be on the secure side there. Hence, we have investment agreements where we actually feel okay in China. We want market access and that's the service sector. So the business climate is murky, difficult. We are going to have 1 or 2 years of difficult growth patterns, but again, [the] Chinese government has to send some positive notes in this more grim economic environment by market opening in order to entice us to step up here and invest.

**Haenle:** Lastly Joerg—you and I have been friends for a long time, we've been on a lot of panels together. As an American, I want to raise, you know, an issue that appears to me, that you and I have talked before....the EU in terms of looking at China and its own vital interest puts primary emphasis it seems on economic and commercial. In contrast, I think to the Americans looking at China, where we have security issues and other issues of strategic context—do you think, with regard to the EU, that this primary emphasis on commercial and economic [issues] will stay that way going forward into the future? Or, will it broaden out? And if so, how do you see it broadening out? Where will there be areas where the EU and China can work on strategic issues or areas where they can enhance global cooperation, so to speak? What are the areas of the greatest opportunity and greatest concern to you in this regard?

**Wuttke:** Yeah. I mean, we are less active in—as Europeans—in security matters, frankly because we are not anywhere close to where the U.S. is in the Asia-Pacific region.

**Haenle** (*simultaneously*): To the Asia-Pacific region. Yeah. Sure. Yeah.

**Wuttke:** We have our own problems in Ukraine and Eastern Europe and now with the refugees—[refugee] problems, migration problems in Europe. So in a way, you know, we can't add another topic to our list—

**Haenle:** Sure. Yeah.

**Wuttke:** —and hence, in this respect, Asia looks far away, and China particular. Trade does well, I mean, except these trade access barriers. So European-China relationship is very much mercantile and that also comes across because the European Commission and Brussels has only this kind of trade portfolio.

**Haenle:** Yeah.

**Wuttke:** Then underneath that you have 28 member states that show, in very different ways, how they care about topics. Being German, I can sort of assess this better. Human rights has always been very, very front and center in German politics.

**Haenle:** Sure has.

**Wuttke:** They have a workshop headed by the Ministers of Justice, and Chancellor Merkel was here, and she always sees dissidents. So it's not that she shies away. Other European leaders definitely have a different approach toward this.

**Haenle** (*simultaneously*): Yeah. Right. Yeah.

**Wuttke:** So—but on security, we are certainly concerned about free navigation in the South China Sea, we are concerned about—

**Haenle:** Certainly from a trade perspective. Right, I mean... Yeah.

**Wuttke:** Definitely. [An] open sea is crucial to us. So I hope that our politicians will actually realize this. Myself—I will actually lead a major delegation next week—the entire week—meeting nine commissioners, Parliament, in order to actually raise China as a topic there, so it doesn't fall off the table.

**Haenle:** Well Joerg, thank you very much for your time. Always a pleasure to talk to you. You've been here quite a while, you have very unique and important insights, and we appreciate you joining the *China in the World Podcast*. Come back again. Thank you.

**Wuttke:** Thank you so much.

**Haenle:** Thank you.