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Transcript

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## CHINA IN THE WORLD PODCAST

Host: **Paul Haenle**

Guest: **François Godement**

Episode 65: Uncertainty in China-Europe  
Relations

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**Haenle:** From the Carnegie–Tsinghua Center in Beijing, China this is the China and the World podcast hosted by Paul Haenle. I’m here with François Godement, who is in town this week for the Carnegie Global Dialogue, the third series in the Carnegie Global Dialogue. François is the director of the Asia and China program at the European Council on Foreign Relations. He is also a research associate at the Asia Center in Paris, which he founded in 2005. And I’m proud to say, he is a non-resident senior associate at the Carnegie Endowment for International Peace in the Asia program which makes him part of the Carnegie family and we’re delighted that he’s here this week in Beijing and we’re delighted that, François, that you’re on the China and the World podcast. Thank you.

**Godement:** Good morning Paul and thanks for the opportunity.

**Haenle:** We met yesterday in a roundtable with Chinese scholars, discussing EU-China relations. You described a relationship between China and the EU as “big” but also spontaneous and asymmetric, and if you could, we could start by maybe giving our listeners a sense of why you say that, help our listeners understand that. In what ways is the EU-China relationship spontaneous and asymmetric and why is this?

**Godement:** Spontaneous is an important development because we have the feeling that all trade with China was government directed, then there was for a long time been an obsession in Europe with what you might call political trade, that is it was through diplomatic action that you would gain traction in China and the Chinese were doing vice versa. Today, some of this still lingers because people worry about the big state actors inside China—for example the SOEs, the state enterprises—are probably the main investors from China in Europe.

**Haenle:** And in fact, we just saw a big one with ChemChina.

**Godement:** Although that one everyone treats it as Europe, but it is also Switzerland. And it’s a very peculiar context, basing your money in Switzerland at this point. I think the 43 billion dollars that ChemChina spent are also a ledger way of putting money into Switzerland, so it’s a bit special. But to come back to your question, my retort to the notion that this is all government driven is that the state enterprises themselves have their own dynamics and their own concerns, that it’s pretty much fragmented and that China lends itself to a lot of spontaneous relations, a lot of bilateral relations without necessarily ever a strategic grand plan. The second factor is human. There’s zillions of Chinese tourists in Europe with hot money flowing out as has been happening in 2015. There is a lot of under the radar investment including in real estate, including in education, which sort of places the relationship in a different category today. Now, the symmetry...

**Haenle:** Can I ask you before you move on, how about the private sector in china; has that also reinforced this notion of spontaneity?

**Godement:** I wouldn’t place that much accent on the private sector because moving in Europe is not so easy. It requires a lot of knowledge about the legal environment, about the regulatory environment, it differs from country to country, in spite of the European Union. And we often hear from Chinese firms, particularly private firms, that they are not yet well able to deal with this, with

the complexity. They don't necessarily have the support systems that western companies have, with lawyers and consultants and banks.

**Haenle:** So it's still mostly the state owned enterprises.

**Godement:** In that sense, yes. But as I said, fragmented and with a lot of incentive to do this anyway, a lot of competition among firms. So that is important. By contrast, there is an asymmetry because Europeans can't do a lot of things in China that the Chinese do in Europe. To be clear, there are communities for example of Chinese citizens residing in Europe now. In Europe there are probably more, in France for example, there are probably more than 600,000. The number of foreigners in China including Europeans is maybe 1/20 or 1/30 of that. The regulations, the barriers to entry are important. We've lived through the year of the WTO accession, which liberalized trade in goods. But today, all the strategic stuff happens in services and the virtual economy, in finance, in public procurement as well. And these are areas that have been less liberalized from the Chinese perspective, so whereas the European market is complex, not necessarily easy to navigate, but it is open.

**Haenle:** In order to address the asymmetry and also the uneasiness in the EU about being taken advantage of in certain cases, you've argued that Europeans would benefit from a more ambitious and straightforward approach to negotiations with China. What do you mean by that?

**Godement:** Well, I mean the Europeans have hang-ups about Chinese investments in some crucial areas, chief of which is public procurement or an investment in large infrastructures, because in Europe that's synonymous also with the welfare state, with social and public concerns. It's not merely an issue of cost-price analysis, and by doing that whereas you can buy cheap wiper blades and cheap aluminum wheels for example from china, it's not yet done to buy a cheap subway. It's another area it raises more alarm bells in terms of the social consequences of doing that. I personally think that Europeans should be more open. I would call it a second opening and a second discussion with China, but it has to be done in a way that leverages this to get some reciprocity, to get some advantages from China. The Chinese actually need to park some of their cash into Europe, they have sunk a lot of money into questionable deals in the energy producing and raw material world ever since 2001 and they're currently beginning to sink a lot of money on the way to the Silk Road in areas which are not necessarily completely stable or safe. By contrast, Europe appeals in terms of security, but we need to leverage that, and that would be to our mutual advantage, to do more. It's a strong economic relationship but it's something that's worth contemplating.

**Haenle:** On the overcapacity issue, we've seen this fall this issue of steel imports and the protests that followed. And subsidies placed on steel after that. You made a distinction yesterday between the steel case and the solar panel trade dispute. Can you talk about that?

**Godement:** Yes, I can amplify that. I think it reflects on the changes regarding China. At the time of the solar panel issue, the European Commission was often criticized by member states for being too tough on China. Solar panels were thought to be a little marginal, nobody wanted to pick up a quarrel, everybody wanted the investment and it's very striking this time around on steel that it's the member states that are pushing the commission to lean a little harder on China. In part, steel is

socially more important than solar panels: it's an established industry with the unions, we've been going through very painful restructuring in Europe. But, in part it also reflects growing doubts about China's economic policies. First, the notion that they will export its problems to other. And second, the notion that after all there are ways in which we can resist some of the trends from China when they are negative. So, to see economic ministers, including from countries that never approved anti-dumping generally, not even against China but against others, to see them sign on is an interesting development. It means Europe is moving towards realism, it doesn't mean it's getting tougher on china, but just that it might be able to get its act together.

**Haenle:** Now in China for the first time in several decades, we're beginning to see doubts about its current economic trajectory. Slowing down of the economy. You wrote recently a piece called "The Facts Behind the Myth," which talked about China's economic downturn. Do you believe these worries about the slowing economy and the future of China's economy are overstated or overblown?

**Godement:** They are absolutely overstated, when one talks about the coming crash and when one focuses on the bubbles, they say the bubbles will bring down the house. China has a huge economy, it's partly speculative, it's also in the Chinese character by the way, even if it wasn't government driven there would be more bubbles, it's traditional. And second, we got hooked, literally, on 10 percent plus growth. We should pay attention to the fact that the Chinese themselves for years have been saying that the rate had to go down. The former prime minister...

**Haenle:** In some cases it's deliberate, it's a deliberate slowdown.

**Godement:** Yes, which doesn't make the consequences less painful for those who will suffer from them. My piece was also a warning to partners of China that they would rather than congratulate themselves on the fact that India and Chinese economy is slowing down, and some of it is getting bogged down, we should be concerned with the parts that are renovating that are going up that may be irresistible for example in the virtual economy, which are making China actually more advanced, more competitive—leapfrogging others.

**Haenle:** This is the so called "new economy."

**Godement:** Yes, and I think this is very serious. Chinese society is more plastic, more flexible than many others, in part because it has come out of totalitarianism and therefore you know, it accepts things that... take for an example all over Europe that controversy on the car services like Uber or others in China, it's going in immediately without many visible problems. There are problems, but they're not so visible.

**Haenle:** So a distinction between the "old economy" the heavy industry and others, and the "new economy", and you're generally optimistic about trends in the "new economy?"

**Godement:** I'm attentive to the dynamism in Chinese society, which I think is fundamental and it sort of rips away many doubts. On the other hand, if you look at the last year, it definitely proves that the government structure is not able to adapt very easily to financial management, for example of markets. That is going to be much more difficult, having side-by-side the big state and all those

new actors. In the goods producing economy, that was doable and cheap. In the virtual economy, it's clearly more difficult.

**Haenle:** Finally, if we could talk a little bit about China's Belt and Road initiative, how does this fit into the future trajectory of China's economic development? And how does it fit into its overall foreign policy strategy, perhaps, with connecting Central Asia all the way to Europe?

**Godement:** You know, One Belt One Road is a kind of convergence of several concepts and several layers in Chinese thinking. I don't think you can simplify except that president Xi Jinping seems to have a talent to get catchy phrases which stick, like the China Dream or the Renovation of the Chinese Road, and all the New Silk Roads. He invented, after all, the Maritime Silk Road concept. The truth is there is first, conflict avoidance with the United States: being influential in zones which are not under practical control of the United States. Second, there is a very natural trend of expanding China's talent for building infrastructure to the Eurasian environment and frankly, it's only in the past thirty years because of wars and conflicts like Afghanistan and we forgot that all these roads were passable.

When I was young, the kids in my generation, they went over those roads very easily when they were 20 or 22, nobody thought it was a big deal. Today, it's become a big deal so the Chinese leaders are talking about what could be a possible postwar situation in Central Asia; you know, through Iran and Afghanistan just to name a few questionable problem countries. The third dimension is really exporting capital. And I think we've got to think, to see things right: maybe the OBOR policy was conceived at a time when energy price was high, raw materials price was high, Central Asian states were very important. But today, they are very low; Central Asian states are maybe 50 million people; Europeans are 500 million and with a huge market. So I think we have to pay attention to the fact that the silk road policy ultimately points to one, two, three, four ways of getting to Europe, and reinforcing the connection over land, over sea, over cash. And I think that if there's something that survives from this strategy design, of the silk road, it will be establishing those connections to Europe.

**Haenle:** Well François, thank you very much for joining us this week at the Carnegie-Tsinghua Center, and thank you for joining the China and the World podcast.

**Godement:** Thank you, Paul.

**Haenle:** Thank you.