

## ***Strategic Insight Breakfast Briefing*** China's Slowdown and the Implications for Europe

30 March 2016

*Hosted by Salamanca Group*

On Wednesday 30<sup>th</sup> March, the European Leadership Network (ELN) and Salamanca Group co-hosted a meeting on "China's Slowdown and the Implications for Europe", part of the *Strategic Insight Breakfast* series. The discussion brought together senior diplomats, politicians and members of both the Western and Chinese business communities to debate the challenges and opportunities of China's growing role on the world stage.

The meeting was chaired by Baroness Ashton, former EU High Representative and member of the ELN's Board of Directors. Baroness Ashton started the discussion by drawing on her personal experience of working with Chinese counterparts and highlighted their contribution to one of the most recent collaborative diplomatic accomplishments - namely the EU3+3 Iran deal. She also shared her view on the potential of the relationship with China not only with regard to trade and security, but to broader cooperation on global issues such as climate change and the environment and research and innovation. James Kynge, the award winning Emerging Markets editor at the Financial Times, and Mark Hendrick MP, a member of the House of Commons Foreign Affairs Committee, then offered their expert opinions, which were followed by a debate by the wider group.

The group focussed their attention on the economic aspects of China's development and its relationship with Europe. Europe's position at the western end of Beijing's 'One Belt, One Road' infrastructure project, China's diplomatic efforts in Europe and the impact of China's economic slowdown, most recently on the UK steel industry, all shape the context in which the group discussed the issues.

With regards to the economic performance, it was stressed by some that among the Chinese leadership's priorities is the management of the structural transformation of the public sector and the sustainability of the long-term trade relations. China's slow down was said to have derived from the transition from investment-led to consumer economy

struggling to combine the strict political control with the requirements of the capital markets. Additional points in the discussion were investment, which comprises a record high of 45% of the GDP (channelled into state-owned enterprises and the heavy industry), and corporate debt which stands at 150% of GDP. As a result, China is among the countries with the lowest levels of consumer savings.

Further, the poor performance of the Chinese stock markets over the past months was partly attributed to preferential treatment practices for state-owned companies. Combined with the lack of transparency of the more stable bonds market, this has led to a further decline of profits and returns. Moreover, the pervasive nature of these practices is alarming foreign and domestic investors and exposing the dangers they could face in the years to come.

All participants agreed on the impact of the political turbulence on the economic slowdown. The need to boost the confidence of Chinese consumers and increase the wealth of opportunities available to them was identified as the most pressing factor the political leadership has to address.

In focusing on the impact of China's slowdown on Europe, the key vulnerability was pinpointed to heavy industries exports whereas bank exposures were argued to be fairly limited and mostly affecting the British banking sector. Further, the EU's reluctance to grant market economy status to China remains among the most contentious issues in their relationship.

The group was divided on whether or not China would experience a so-called 'hard landing' in economic terms. On the one hand, some pointed to the enormous structural challenges facing the Chinese government in moving towards a consumer led economy. On the other, not denying these challenges, one participant noted that "thirty years ago had someone told us China would be where it is today, we would have dismissed them outright."

In terms of the political aspects of the relationship, there was some strong disagreement over the extent to which European governments should criticise China's domestic political landscape, with some pointing out the hypocrisy of Western states lecturing China on human rights concerns while their own countries have such problems. It was also made clear by some that while China still has many problems, it must be commended for its huge successes over the last three decades, notably for having raised many millions out of poverty. One senior figure gave the last word on the issue, urging Europeans not to forget their values when dealing with China.

None of the participants in this meeting sought to make policy prescriptions for the Chinese government, all agreeing that the monumental task facing Beijing in its attempts to continue China's economic and political development was not one to be envied. What the meeting did however demonstrate is the growing debate in Europe as to how to deal with one of the biggest foreign policy challenges of our time, and the need for a great deal more of such discussion.

For more information about this meeting, or on future ELN-Salamanca  
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