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**Speech by President of the European Council
Herman Van Rompuy
at the Friends of Europe's third Europe-China Forum**

It is a pleasure to be here with you today for this 3rd Europe-China Forum. This is indeed a good moment to discuss EU-China relations for the 10 years to come: we are celebrating the 10th anniversary of our strategic relationship; we have just agreed on a Strategic Agenda that should drive our relations up to 2020; and I have just returned from a summit encounter in Beijing with Premier Li Keqiang and meetings also with President Xi Jinping.

The new Chinese leadership finds itself at a crossroads. After many years of rapid development at record-high yearly growth rates, millions of people have been lifted from poverty. At the same time the existing economic model needs to be re-examined, and revised, if China is to continue on an equivalent path of growth and development over the coming decade.

Reforms are an ongoing process in a changing society and changing world – in China and everywhere else, also in Europe.

Speaking more specifically about China. Rebalancing between consumption and investment, internal and external demand, private and collective goods (such as social security, education, environment), the ecology and the economy, countryside and cities – all of this is high on the Chinese agenda. It will reshape China in the coming decades.

The present model is not environmentally sustainable to an extent that, if left unchecked, it may endanger the quality of life and even the health of the Chinese population, as well as its productive capacity.

P R E S S

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This economic model has also shown its limitations in terms of efficiency in the assignation of resources. The rapid growth and the deep involvement of the Administration in the economic life of the country has led to disfunctionings and to corruption-related problems. The State sector will remain important but there is clear awareness that the market has to be given a greater role - the 3rd Plenum foresaw "a decisive role" - in guiding economic decisions. Rule of law will need to be strengthened, while limiting government/administration direct involvement in the economic life of the nation.

But the rapid growth has affected the aspirations of the population and is introducing important social changes. Today, the Chinese population is more empowered and educated than it has ever been in the past. The number of internet users is the highest per single country in the world: 538 million at the end of 2012, projected numbers of up to 718 million at the end of 2013, over 50% of its total population!

The Chinese have greater ambitions regarding their personal future. They are leaving the countryside and moving into cities in unprecedented numbers. This can no longer be managed through administrative restrictions. It requires a governmental policy capable of handling the new demands of its society and channeling them in ways that will contribute to harmonious development and avoid misery traps in the exodus from rural to city life: a phenomenon well known in contemporary history of our world.

As a final introductory point, let me add that the domestic challenges are tightly linked to China's foreign policy. During the initial phases of its economic development, one of China's main interests has been finding enough resources, raw materials, to fuel its economic development. In parallel China has developed a commercially oriented foreign policy aimed at opening markets for its production.

It is now confronted with a double challenge: on the one hand, internally, it has to find a better balance between attention to its own internal market and an export oriented production; on the other hand, its economic expansion and the wide network of connections it has established abroad have increased China's capacity to influence world events. At the same time, China has also become more interdependent with the rest of the world: external events have internal consequences. The question is therefore, how does China wish to use its international clout and what does it need to do to promote its interests internationally; how to reconcile its profile as a developing nation with the power and needs it also has as a highly developed industrial country.

This quick summary of some of the main questions that China is facing, constitutes the backdrop against which EU relations with this key partner are being built. These issues lie at the heart of the decisions taken by the 3rd Plenum two weeks ago. These issues are at the basis of our relations with China and at the centre of our discussions with the Chinese leaders. And before moving further, let me express my confidence in the fact that the Chinese people and their leaders are rising to the occasion in addressing these challenges.

I have been meeting the Chinese leaders regularly for the last four years. I developed a very cordial relationship with former Prime Minister Wen Jiabao. Last week's summit also allowed me to start building a personal rapport with President Xi and Premier Li, based on earlier encounters we had had in their previous capacities. These personal contacts help in developing further trust. They also assist in overcoming administrative hurdles of which the leaders are quite often not even informed.

I have always been impressed by the clarity with which the Chinese leaders see the problems they need to address in order to ensure the prosperous development of their nation and to advance towards their long term vision. This is very much behind the importance they attach to relations with the European Union. President Xi was clear in this regard when he said that "China and the European Union are natural partners", a partnership based on "mutual dependence, support and inclusiveness".

Indeed, today we are a partner in development for China in a deeper sense than just a trade partner. We are a partner that will bring experience and knowledge. We are a partner whose economy contributes to world growth. A partner on which it is worthwhile investing. We are also increasingly seen as a partner for peace and stability.

But, as China needs the European Union, the European Union also needs China. China is a major destination for EU exports. It has contributed to sustain the euro during the recent financial crisis. It is a source of investment and its rapidly growing economy offers, and will continue to offer during the coming years, irreplaceable opportunities for economic expansion.

China also lies at the centre of a very prosperous group of fast developing nations, notably the ASEAN countries. Its relations with the Republic of Korea and with Japan, (strategic partners of the EU and major world economies) are key in ensuring peace and security in East Asia. Chinese decisions and actions impact on regional and world stability.

I will address now some of these questions, particularly in the light of the discussions we had during our summit last week. The EU has been China's biggest economic partner for the past nine years. Our bilateral trade was over €430 billion in 2012, a four-fold increase compared to ten years ago, creating jobs and business opportunities on both sides. The EU is also one of the top five investors in China, but the numbers are still much smaller than our true potential.

Undoubtedly, as in any partnership, there are trade disputes. In the China-EU 2020 Strategic Agenda for cooperation agreed last week, we committed to respect WTO rules and administer anti-dumping and countervailing duty investigations in a fair, objective and transparent manner. We also agreed to handle major bilateral trade frictions through dialogue and consultation, as a preferred option, and, if needed, through negotiations.

Together with the Chinese leaders in Beijing last week, we agreed on the need to enhance the figures on trade as well as on investments. I specifically encouraged more investment from China into the EU. The launch of negotiations on an investment agreement, a major outcome of the Summit, was warmly welcomed by both. This should lead to further liberalisation – and a level playing field.

In the context of our overall economic cooperation, while in Beijing, I underlined that the existential threat over the euro has been lifted and that Europe's economy is back on the path towards recovery. This message was very well received by the Chinese leadership who stressed the importance they attach to the euro as one of the pillars of today's international monetary architecture. Premier Li referred to his country's readiness to buy bonds and participate in structural funds in support of the euro. He also expressed readiness to join the European Bank for Reconstruction and Development.

But growth today needs to be "sustainable" growth. It has to be based on low carbon emissions and strong measures to protect our environment. This will improve longer term perspectives, while opening new business opportunities. The European Union is a world leader in green technologies and industries. Its research and innovation programmes, the EU Horizon 2020, with more than €70 billion to be invested over seven years, will offer new possibilities for our partnership with China.

China's urbanisation policy has also become an important pole for our relations. President Xi indicated that this would be a major goal for the coming 20 years, and described the magnitude of the challenge (at present 53% of the population lives in cities; with expected growth rate of 1%, the ratio will reach 60% in 2020 and peak at 70% in 2030; the intention is to favour the development of "smaller" cities; prevent slums). Here again, the possibilities for cooperation and business are immense, as shown by a Forum on Urbanisation which gathered 2000 people, mayors and municipal representatives from Chinese and European cities, on the same dates as the Summit. A "Partnership for Sustainable Urbanisation" established between the EU and China should help nurture this cooperation.

In his discussions with us, Premier Li stressed the "essential role of the market" in assigning resources. This was also at the center of decisions taken by the 3rd Plenum. Premier Li indicated that the Government's task was to assure macro-economic stability and a level playing field, also between foreign and Chinese investors. Premier Li underlined this would open new opportunities for investments in the non-public sector. He also referred to the "bold step" taken to put the lending rate on a market basis.

We would like to increase cooperation with China in the field of rule of law to work for overall beneficial effects, including for EU businesses.

I have just commented on some of the elements that will fuel our economic relations with China during the coming years. As we have seen, these questions refer to key challenges that affect China's economic and social development and the form and depth of European actual involvement can only be judged over time. Suffice it to note today that our cooperation is placed at the core of China's reform efforts.

Allow me now a few words on our cooperation in the field of human rights. Our dialogue in this field is, as with other strategic partners, an integral part of our relationship. Throughout the years this dialogue has developed and I welcome the good exchanges during the recent visit to China of our Special Representative, Mr. Lambrinidis.

The decisions adopted by Third Plenum a few days ago, contain potential for positive movements in this field, including, the reduction in the number of crimes punished by the death penalty, the abolition of the "Re-education Through Labour System", and reforms aimed at reinforcing the rule of law, including greater professionalisation of the judiciary. Some social reforms, such as the relaxation of the one - child policy, seem to go in the right direction. There is no doubt that lifting millions and millions of people from poverty in the last years is also a major contribution.

Nevertheless, concerns regarding respect for fundamental freedoms (including human rights defenders and freedom of expression), and regarding the protection of minorities remain. And I raised these issues with the Chinese leadership, in the spirit of frankness, but also friendship and respect, that characterises our relations.

Let me conclude today with a reference to EU cooperation with China on international and security matters. Despite its proclaimed policy of "non-interference", through its economic policy China has become a very influential international player. It has considerable security and defence capabilities and as a permanent member of the UN Security Council it is constantly confronted with the challenges of the international peace and security agenda. It has also become a more assertive actor in its neighbourhood.

The defence and promotion of interests in a globalised world requires all actors, China and the EU alike, to face challenges often in distant places. The EU and China have a structured dialogue, the "Strategic Dialogue", to address such questions at HR Ashton/State Councillor level. These are also subjects that we address in all our summits.

Our cooperation in this field has undoubtedly made progress in the last years. President Xi was clear last week when he referred to the benefits our relationship will bring to the "World order". This is illustrated by examples like the Iranian nuclear negotiations, where China's strong support to High Representative Ashton's efforts has contributed significantly to the successful adoption of an interim agreement in the E3+3 negotiations with Iran last Saturday. It is also the case in the fight against piracy off the coast of Somalia, where the Chinese Navy is working together with EU operation ATALANTA.

Nevertheless, further progress can still be made. More dialogue is necessary to continue communicating EU positions on Syria, on the Arab Spring process or even on actions in the Sahel. Joint cooperation in addressing African crises, in partnership with the AU and the UN, is undoubtedly an area where I hope we will be able to advance. Our interests also coincide when dealing with Afghanistan and stability in Central Asia.

One area of particular concern to the European Union refers to the mounting tensions around maritime disputes in the South China Sea and the East China sea.

I have addressed all these questions with the Chinese leaders, most recently last week in Beijing, reiterating the EU's position of principle that territorial disputes should be resolved in accordance with the UN Charter and international rules, through cooperative solutions. Premier Li underlined the importance of solving these issues through dialogue and avoiding what he referred to as "their internationalisation".

I think it is important to use today's discussion to call again for restraint and dialogue. The three major East Asian nations have a lot to gain through their cooperation and their interests are intertwined even more closely than those of others.

Over the 10 years of our strategic partnership, China, the European Union and the World have changed substantially. Today, even more than in the past, we appreciate that the only way to overcome the challenges we face is through greater understanding and cooperation. I have worked to achieve this with the Chinese leadership over the last four years (one of the great advantages of the "permanent" Presidency of the European Council!). I am grateful for the friendship they have extended to the Union and to me. I respect the long term vision with which they consider our relations.

Last week's summit concluded with the adoption of the "China-EU 2020 Agenda for Cooperation". Its four chapters - Peace and Security, Prosperity, Sustainable Development and People to People exchanges - cover most of the questions I have addressed today.

I trust that we will be able to continue building on the sound basis that we have laid. The world stands to benefit from our relationship, both in terms of the prosperity it generates and the greater stability and peace it can foster.
