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China, the European Union and the Restructuring of Global Governance

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In cooperation with the **InBev Baillet Latour Chair at the College of Europe** and in
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Chaire InBev Baillet-Latour
« Union européenne-Chine »

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THEME OF THE CONFERENCE

The Conference broadly covers all aspects relevant to understanding European and Chinese views on the restructuring of global governance in order to allow for active participation by as many scholars as possible working on relevant subjects.

The financial crisis has brought to light severe fault-lines in the regulation of global capitalism: hypertrophy of the under-regulated financial industry, growing inequalities within and among countries as well as major structural macroeconomic imbalances, particularly between the US and the rest of the world. In addition to the economic crisis, the world faces global issues such as climate change and severe competition for energy resources, which have become more acute with the acceleration of industrialization of the emerging economies during the last three decades, notably of China.

The US overconsumption model stands out as one of the most critical developments in recent times. The mix of rising household indebtedness and of an escalating fiscal deficit has brought about a severe trade deficit which has translated into a huge external debt financed by the savings of the rest of the world, notably from East Asia. The massive supply of foreign savings on the US bond market combined with the expansionist monetary policy of the Fed, has kept interest rates at a low level, fueling debt leveraging from financial operators for speculation purposes as well the US real estate bubble. The latter popped with the break-out of the subprime crisis.

Capital inflows from Asia have enabled the US to dodge the necessary correction of their trade imbalance. These flows were the counterpart of the export-led growth strategies adopted by most East Asian - especially China - and other emerging economies. Many economists have suggested that export-growth strategies have been a response to the higher volatility of global capital flows and to the wave of financial crises that hit several emerging economies in the 1990s. The governments of many emerging economies considered that these crises, especially the East Asian crisis of 1997, had been used by Western governments to take-over their national strategic assets by Western firms. The perception prevails in East Asia that the Bretton-Woods IFIs' policies with regard to financial bail-outs are biased in favour of the Washington Consensus model of Western governance. Promoting export-led growth and stockpiling hard currency reserves was therefore perceived as providing a shelter from IFIs' impingements on national economic sovereignty.

These structural imbalances have both caused financial instability and nurtured trade frictions between China, the US and EU. The current crisis is likely to aggravate these trade frictions since rising unemployment might bring about an outburst of protectionism.

The financial crisis and climate change have shown the limits of the US growth model, based as it is on high inequalities and overconsumption, as well as the vulnerability of the export-growth models of emerging economies. The global governance system designed at the end of the Second World War has to adjust to the new governance agenda as well as to shifts in

economic and political power notably embodied by the rise of East Asia and the emergence of a multi-polar world.

The economic and financial crisis is concomitant with a crisis of global geostrategic leadership. The US share of the world economy has been declining over the last decades and the crisis could accelerate this long-term trend if emerging economies like China continue to grow. While the US continues to spend half of global military expenditure and remains the sole military superpower, the legitimacy of the US' hegemonic position, both in multilateral institutions and at the global strategic level, has been questioned by an increasing number of emerging powers. One of the crucial questions to be addressed is therefore also the evolution towards a multi-polar world in terms of global security.

The panels cover the following items:

1. A nexus of interconnected **economic issues**, which would include: keeping markets open, addressing sensitive issues such as intellectual property and investment (particularly investment in services and the role of sovereign funds) and thinking on how to restructure the multilateral framework to break the current deadlock of the Doha Round.
2. **fiscal stimulus packages**, which is aimed at combating recession, with the gradual correction of structural imbalances and the restructuring of the global financial system it implies. US households should deleverage from their excessive indebtedness whereas the emerging economies should be supported in their efforts to shift from an export-led growth to domestic consumption and environmental investment. Financial regulation reforms, including the control of off-shore centres, would prevent the return of major crisis and would ensure that capital takes its fair share of the tax burden. What are the possibilities for creating **new rules on international capital flows and reshaping international institutions** in order to take into account the economic weight of non-western economies?
3. **energy and climate**. The question is whether the stakeholders in each group of economies can take advantage of the crisis to reorganize the global governance system regarding these two issues? Can new global institutions effectively address difficult issues such as environment standards?
4. **geopolitical dimensions**. What networks of alliances are likely to emerge from the post-cold war era and can they develop into a multi-polar world? Can the US' strategic hegemonic position be challenged and by which alliances over the medium term? What are the possibilities for developing a more balanced global security system?