



## Identitat Global Forum (2019)

THE CHANGING WORLD, EUROPE AND CHINA

## Identitat Global Forum: The Changing World, Europe and China



Zürich University, Aula (KOL-G-201), Rämistrasse 71, CH-8006 Zürich, Switzerland

09:00 – 18:00

Friday, 8 February 2019

## Message from the Identitat Global Forum

China has emerged from the Financial Crisis of 2008 as the fastest growing world power. Its ascent is changing the prevailing world order. The ramifications of these changes are felt across the globe. The ensuing the U.S.A.-China trade frictions are only one precursor of the significance of these changes. In the early 2019, *Erasmus China Business Centre and Swiss-Asian Chamber of Commerce* are gathering colleagues from business, economics, politics, and academia to organize an Identitat-Global Forum. This forum aims to analyze the economic and geopolitical impact of these changes on the Global Economy. The view of this forum is not to be myopic and bilateral, the focus should rather be on Asia on the one side and Europe on the other, on the theme around The Changing World – Europe and China, with subjects such as the Trade War, Disruptive Technologies, The Changing World Order, The Belt Road Initiative, and further topics emerged in the run up to the forum. This event takes place in Switzerland as the neutral ground for different voices of concerns and visions and as an uniquely positioned birthplace of a dialogue amongst protagonists of all stripes and colors.

Dr. Ying Zhang

Executive Chairwoman

Identitat Global Forum

Feb. 8<sup>th</sup>, 2019, Zurich

Co-organizer

**ERIM**

**Erasmus  
China Business  
Centre**

Erasmus China Business Centre (ECBC) explores business in China by integrating ongoing and new research projects in education and industry associated with China. By being academically and socially inclusive, ECBC activates research development, knowledge creation, business development, and innovation in education. The center aims to create a knowledge-creation platform to discuss, diagnose and develop solutions for internal and interactive challenges and issues in Great China and the Asian market. This way it can extend China-associated business, education and research collaborations, and progress output among stakeholders, sectors, and countries worldwide.

<https://www.erim.eur.nl/erasmus-china-business-centre/>

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<http://www.sacc.ch>

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### **What we have learned from this Forum**

### **Video of this Forum**

<https://www.new-silk-road.org/identitat-global-forum-2019>

## Program

08:30 Check-in

09.00 – 09:10

Welcoming notes by Dr. Ying Zhang and Dr. Urs Lustenberger

09:10 – 10:40

Panel A: A world order in flux: how does it change due to China?

- Prof Dr. Bill Fischer, Professor of Innovation Management, IMD, Lausanne
- Professor Dr. Patrick Ziltener, Professor Sociology, University of Zurich
- Ulrich O. Birch, China & Asia focus - Interim Management & Advice, Basserdorf

Chair: Dr. Ying Zhang, Professor of China Business and Economics, RSM, Erasmus University

Break and network 10.40 – 11.10

11.10 – 12.30

Panel B: Economic interdependence and mutual suspicion

Trade War and Technological disruption: influence by the world powers' movement

- Florin Baeriswyl, Professor of Brand Strategy & Design, Fudan SIVA, Shanghai/Zürich
- Sir Joe Bossano, Former Chief Minister of Gibraltar
- Dr. iur. Karl Pilny, CEO, Asia21 GmbH, Küsnacht
- Dr. rer. pol. Christian Etter, former Delegate for Trade Agreements of the Swiss Federal Government and Ambassador at SECO, Independent Consultant International Trade, Berne

Chair: Dr. Urs Lustenberger, Chairman of SACC

Lunch Break 12.30 – 13.30

13.30 – 15.00

Panel C: The Belt & Road Initiative – opportunity or threat to Europe?

- Sir Joe Bossano, Former Chief Minister of Gibraltar
- Pino Musolino, President, North Adriatic Sea Port Authority
- Dr. Changqi Wu, Professor, Huanghua Business School, Peking University
- Dr. Philipp Boksberger, CEO of CEIBS in Zurich Campus & Board Member of SCCC

Chair: Dr. Ying Zhang, Professor of China Business and Economics, RSM, Erasmus University

Break and networking 15.00 – 15.30

15.30 – 17.00

Panel D: Pushing back? Investment restrictions for Chinese investors in Europe and the difficulties of Europeans investing in China

- Tuck Seng Low, Senior Advisor EUTEC, Zurich
- Marco Toni, Partner, attorney-at-law. LL.M., Loyens & Loeff Switzerland LLC, Zurich
- Hannede Veringa, AXAIM, the Netherlands


Chair: Dr. Urs Lustenberger, Chairman of SACC



17.00 Closing

Networking and apéro 17.10 – 18:00

## Contributors

Dr. Ying Zhang	Professor of Entrepreneurship and Chinese Business & Economy, Erasmus University	
Dr. Urs Lustenberger	Chairman of Swiss-Asian Chamber of Commerce Partner, Lustenberger Law Firm, Zurich	
Dr. Bill Fischer	Professor of Innovation Management, IMD	
Dr. Patrick Ziltener	Professor Sociology, University of Zurich	
Ulrich O. Birch	CEO, Asia21 GmbH, Küsnacht	
Dr. Christian Etter	Former Delegate for Trade Agreements of the Swiss Federal Government and Ambassador at SECO, Independent Consultant International Trade, Berne	

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Dr. Philipp Boksberger	CEO of CEIBS in Zurich Campus Board Member of SCCC	
Tuck Seng Low	Senior Advisor EUTEC, Zurich	

Hannede Veringa	AXAIM, the Netherlands		
Marco Toni	Partner, attorney-at-law. LL.M., Loyens & Loeff Switzerland LLC, Zurich		

## Panel A: A world order in flux: how does it change due to China?



(Video Record: <https://bit.ly/2CeBpla>)

Panel A starts with a brief introduction by Professor Ying Zhang, moved to the opinions presentations by each contributor and dialogues. In particular,

Prof. Bill Fischer has a background in engineering, and has both American and Swiss nationality. From 1980 onwards he moved to China and has been back and forth between China, Switzerland and the United States ever since. From late 1990's he became the president of the CEIBS. Presently, he cooperates with a lot of big companies on a regular basis.

**Presentation** includes four key points:

1. The forty years of China's reforms have been extraordinarily successful and have changed not only the role of China on the world stage, but have changed the world stage itself.
2. Yet, despite such success, Professor Winter Nie (IMD), wrote this week: "2018 marked the 40th anniversary of [the reforms]. Confucius once said: "At forty, one is no longer perplexed about the world
3. Martin Wolf once wrote (2009) that the real question about what China has accomplished should be "not why has China grown so fast? Rather, why has it not grown faster?" I think that one response to Martin Wolf's query would be to look at macro-level demographic and political dynamics that might well explain a plateauing of China's growth trajectory, and consider how long-lasting they might be?
4. Like any complex phenomena, you need to see both the forest and the trees to understand China. His focus has been more at the tree level, looking at Chinese firms, and there are certainly some interesting signals of what may be ahead.

Professor Fisher considers the future not wildly optimistic from a macro-perspective seen the demographics of China. Yet, Chinese business can be considered as source material to learn from in respect to innovation.

**Dialogue** between Professor Ying Zhang (Q) and Professor Fischer (A):

Q: What kind of innovation are taking place in China?

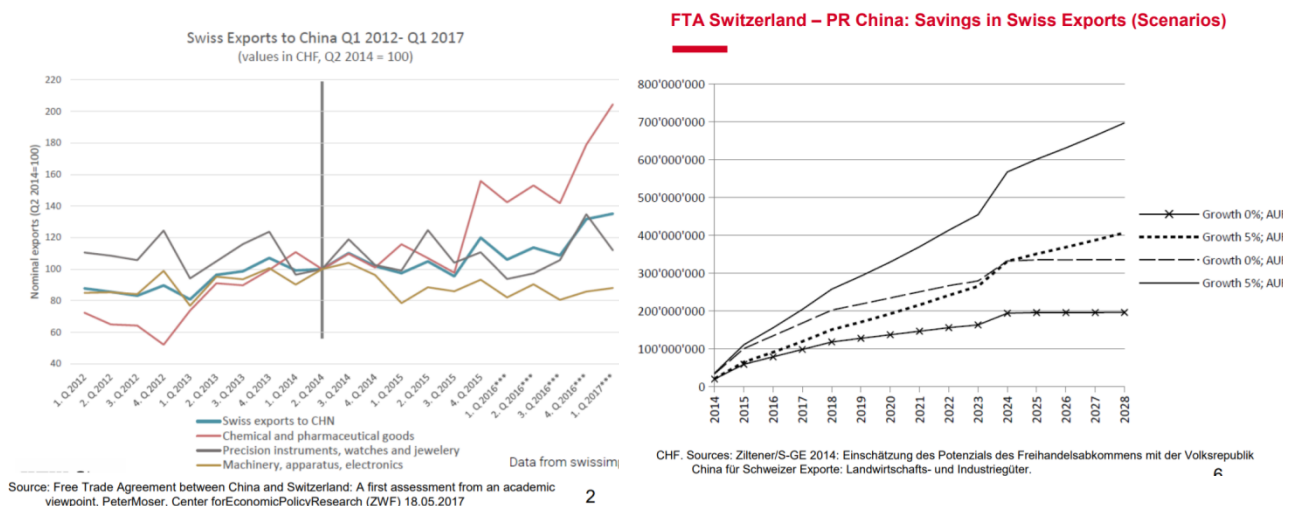
A: Professor Fisher finds that Chinese companies are experimenting more than incumbent European market leaders. This behavior leads to a 'disruption' of the market. China is becoming a dominant player in the following markets: cars, microchips (semi-conductors) and mobile payments. Eventually, they might become the game-changer in these markets. Already, they are able to introduce innovation. Also, Chinese companies are more willing to partner up with other companies and institutes on a broader scale compared to Western companies. Learning from China might become a new slogan.

*Q: Chinese companies are perceived as a threat, and also they might lack morality to follow the rule. What do you think?*

A: Professor Fisher thinks that this might be true. Nowadays, state intervention in China happens on a larger scale than before, which could slow innovation down and might reduce business opportunities for example for SME's. For example, the Chinese surveillance might infringe on the brand-building of these companies in the global market, e.g. Huawei. Lastly, it is not unimaginable that there might be more than one world wide web, due to the nature of the Chinese system.

**Prof. Ziltner** is an economist and sociologist by training. His background is globalization studies. He teaches about Superpower China at Zurich University. Professor Ziltner studies bilateral- and regional trade agreements (FTA) and their effects in the 1990's. His first observation is that there were three highly integrated world regions in the 1990, namely NAFTA (Northern-America), the European Union and East-Asian integration. However, there were no similar economic institutions at work in Asia in comparison to NAFTA and the EU. Therefore, it was possible to integrate economies without having a uniform legal system and institutions.

**Presentation** shows his analysis of the Swiss exports to China from 2012 to 2017 and concluded that there was no big bang effect with the implementation of FTA's. Even though, the FTA means a regime change. This could be explained in two ways. On the one hand, trade tariffs are gradually diminishing over a longer period of time. Consequently, the savings potential (more profit) is being realized through this gradual process. On the other hand, business needs/cycles and foreign exchange rates flattened out the big boom-effect. In essence, introducing FTA's is not comparable to a big bang. It is more a learning process. Institutions and businesses need to learn how to deal with it and improve the process. And sometimes the involved benefits do not outweigh the cost (administrative burden, personnel costs, etc.) to utilize the FTA/regime. Therefore, it is challenging to assess the direct effect of FTA's, see figure below.



In conclusion: Prof. Ziltner explained that bilateral FTAs are useful instruments for business, but their effects are limited. Thus, in general terms FTA's do not necessarily have a disruptive effect. Also, he recommends making FTA-system as straight-forward and simple as possible, which improves the utilization rate by businesses. Also, in order to grasp the effect of these FTA's the utilization of these systems should be monitored on the long-run.

**Dialogue** between Professor Ying Zhang (Q) and Professor Ziltner (A):

Q: What kind of impact does FTA have on employment?

A: Prof. Ziltner states that the correlation between FTA and employment is challenging to determine from a macro-level perspective. A case-by-case analysis provides a better insight in determining the direct effect of FTA. The company decisions reflect the impact of these FTA's, for example: did the company change its value-

chain, and how did it change? Some companies do not adapt to the FTA, due to the involved costs are too high. Raw data sometimes illustrates that the impact of FTA can be overestimated. However, there are Swiss companies that do utilize FTA to gain a competitive edge on the foreign market.

*Q Some companies do not follow the FTA. Is this a communication issue (companies don't know) or implementation issue (too complex)? And did you talk that FTA's sometimes do not have the desired effect with policy makers?*

A: Prof. Ziltner is researching this phenomenon. It is still too premature to assess this from a Chinese perspective. From the Swiss-side it is clearer. There are highly-trained Swiss people who analyze the FTA-regimes since the 1970's. In essence, the need for a FTA depends heavily on the export market and whether the involved benefit outweighs the involved costs. Both causes are discussed with policy makers. The challenge remains how to stimulate Swiss businesses to utilize a FTA-regime, since they cannot force the market to do so.

Q: "What do you mean with 'dirty reality' from your data?"

A: Prof. Ziltner states that dirty reality means looking at the numbers. Basically, grunt work. The success of a FTA depends also whether the business sets the utilization of the FTA as a strategic goal, but also the lack of internal struggles about implementing FTA.

Ulrich O. Birch has acquired the majority of his work experience in big industrial companies. In 2005 and 2016 he worked in China for ABB. And for the additional 5 years he spent on behalf of ABB advising Swiss companies on how to do business with China. For a couple of years he also was the chairman of the Chamber of Commerce of the South-West of region of the European Union in China. Since 2016 he is back in Switzerland and is an independent advisor.

**Presentation:** After WWII the United States (US) was in general terms the global leader, but not recently. Also, the EU is facing challenges that might affect its continuity. The general geopolitical trend is that the center of gravity is moving from the West to Asia. The growth of the Chinese economy might slow down, but in absolute terms it still surpasses the whole GDP of the Swiss economy. The expectation is that China might overtake the role of the US in 2030. Therefore, China is the strategic rival of the US and it requests China to reform its economy in accordance with the US economy and provide better market access. This is very unlikely to happen.

In 2018 China celebrated the 40th anniversary for opening up its market to the world. This notion was introduced by former president Deng Xiaoping, whilst the role of former prime-minister Zhu Rongji was vital for the Chinese economy between 1998 and 2003, but also the following boom. According to Mr. Birch, he marketized socialism.

The EU-model is not attractive for China, e.g. inner turmoil, terrorism, impact of the financial crisis, Brexit, etc. Ideally, China wants to be a global leader on its own merits. ("Chinese Dream"). This notion is instilled by the Chinese population due to its history. Throughout history, China did have a dominant role on the global stage. In 1820 China was even the richest country in the world and contributed 40 per cent of the GDP.

Nowadays, China drives innovation and also operates more in foreign market than before. Already, China is the dominant player in e-commerce (= which is relatable to the entire economy of Switzerland), mobile payment, and 5g-network. This might also be true in the markets of AI (Artificial Intelligence and robotics) and robotics. One of the reasons why they become a dominant player in certain fields is that they acquired (foreign) technology and brands, since this process might be faster and cheaper. However, this also fueled the needs for growth and acquiring (natural) resources is essential to perpetuate the growth. Therefore, China also trades with countries like Africa, South-America, Australia and Canada.

To Chinese programs facilitate this economic growth. The first program is called 'Made in China 2025'. The goal with this program is to make China self-sufficient and independent. It identified 10 key industries which are considered vital for China's development, namely IT, Robotics and Numerical Tools, Green energy and -vehicles, Aerospace equipment, Ocean engineering and high tech ships, power equipment (smart grid and-city), new materials, medicine and medical devices, agriculture machinery and last, railway equipment. Some even consider that this program sparked the potential trade war between China and the US. The tariffs imposed by US can be linked to the earlier-mentioned markets

The second program is the "Belt & Road" (BRI). The biggest project the world has ever seen. It spans over 65 countries and affects around 60 percent of the global population, around 30 per cent of the Global GDP and around 75 per cent of the global energy need. BRI can also be seen as a vehicle that help to create new institutions (AIIB) and rules that favor the interest of China. However, Western countries are concerned whether the BRI is

reciprocal. The role of China within the European continent shall become more important. Therefore it is paramount to understand Chinese (business culture), and that parties enter into a proactive dialogue, and request more reciprocity and transparency. The EU needs to stand by its own core values. Cooperation is the only option for a better world.

*Dialogue* between Professor Ying Zhang (Q) and Ulrich O. Birch (A):

*Q: Will China become a leader and what kind of leader does Mr. Ulrich Birch want China to be?*

A: Mr. Ulrich Birch hopes that China will become a cooperative leader with respect to the Western world. China already aspires to be a strong and respected country. Perhaps more transparency might take away concerns and fear amongst Western countries. However, there is internal critique on the Chinese prime-minister Li Keqiang. Certain group feels that he gave away essential information prematurely. According to the Art of War one does not reveal its plans.

*Q: What are the disadvantages of the Western model and what is expected from the future leadership role of China? What is the optimal model?*

A: The West can learn from China. Partly behind China's innovation is because there is less democratic hassle, e.g. administration process. The lines are shorter in China in comparison to the West. Also, hard work is the value that the West can learn from the Chinese, since western employees tend to complain more.

## Panel B: Economic interdependence and mutual suspicion

## Trade War and Technological disruption: influence by the world powers' movement



(Video Record: <https://bit.ly/2T1cyXx>)

Panel B starts by Dr. Urs Lustenberger with an introduction of the Trade War and Tech Disruption. Then the presentation and discussion moved to the one as follows.

**Sir Joe Bossano**

*Economist, and socialist. Union-leader. Parliament-member. Freedom-fighter. Former Chief Minister of Gibraltar.*

There is a climate change in human society, which was not automatically recognized by the experts. Trump got elected, despite what every experts has said. The same applies to outcome of the Brexit-referendum. Brexit represents a group of people who do not want to be controlled by the EU. The EU aspires an impossible mission by labelling Germans, French, Spaniards, etc. as 1 European identity. The Scots are part of the UK since 1776, and they still do not quite feel British.

Nationalism has been in societies for a while, and one might even believe it is natural. On Gibraltar there are wild makake-apes, and the leading makake who are not 'elected' as the leader of the entire group and separate themselves. They start another group. Humans and makakes share DNA. Hence, this is also human behavior.

Why is it that Trump won and UKIP nearly defeated Cameron? It is because of **POLITICAL CLIMATE CHANGE**. The post-industrialized system/ economy needs to be reset. The experts were first the majority and now they are the critiques and vice-versa. Experts were not aware of the undercurrent of discontent in society.

The only way for the world to survive is through cooperation. Seen the course of the economy it is possible that the worst years are yet to come, since the EU enjoyed its best time. It might be advisable to let go of old dogma and observe the changes at hand and react to them. Similar to the French revolution, it did not change France, but also the world. If underlying courses are not taken into account the analysis is superficial. Trump

recognized that geopolitics is no longer unipolar, but bipolar. He is trying to change it, but this is futile. If there might be a Brexit in March then the UK shall have a recession in September, as well as the EU.

*Q: Is a systematic change sufficient or should it be renewed?*

A: It depends on your perspective. Climate change of the weather favors certain species more than others. The system change might too.

**Dr. Christiaan Etter**

*An economist by training. Studies international public- and constitutional law. Member of the executive board of Seco. Retired. Last 15 years involved with FTA, with amongst others between Swiss and China.*

Recently the term “trade war” is being used, but this should be not used lightly. So far governments, including the governments of the big trading nations or trading blocs, remain in active dialogue with one and other, and sometimes they even conclude new or updated FTAs (e.g. CETA, TPP/ minus the US, USMCA). It is concerning that the rate of disputes has increased in the last 2 years. Notably, due to the power-play attitude of the US presidency (vis-à-vis China, the EU and other partners). As a response, China and the EU are compelled to reciprocate; otherwise there will be a run-to-the-bottom. Hopefully, state actors that are involved in (trade) disputes remain reasonable, recognizing - in their best own interest - that economic “nationalism” is at best a short term illusion. It is not in the best interest of involved actors if the global economy became ever more fragmented.

At the same time, an important element behind certain trade disputes is not just the ambition to maintain or improve the competitiveness of one’s own national economy (mid-long term it improves all sides), but the fear sometimes nurtured by established (“industrialized”) economies to be overtaken by emerging economies.

However, as far as the rise of the emerging economies is due to fundamentals, e.g. country size and population growth, accumulated investments in physical and human capital, abundance in raw materials etc. A fight against such development means a waste of resources. Therefore, the only promising approach is cooperation, e.g. in science and technology (AI, Robotics, manufacturing). Preferably, cooperation on a multilateral level is warranted, perhaps via the WTO. Alternatively, countries can cooperate on a bilateral level with China. Despite, what has been said, China is humble enough, is keen and capable to learn from other actors.

*Q: What do you think about the dilemma of populism in democracy and the interest of politicians to cater to their electorate?*

*A: From an economic perspective everyone is maximizing their profit. Politicians want to be re-elected. The art of human kind to produce or to progress is to shape national institutions to achieve a win-win situation, where the personal benefit of the politicians does not prevail above societies' interest. There are ups and downs. Hence, a win-win is not necessarily a given fact.*

**Dr. Karl Pilny**

*Author of Trilogy.*

Times are changing and they are turbulent. The EU mindset is to find simple solutions for complex matters. In 1980 it was about Japan's boom. In 1990 the little tigers came 'Hong Kong, Singapore, South Korea, & Taiwan. Now, China and India are booming. Also, ASEAN-region, aka rise of Asia. This could be a disruptive development.

AIIB is an example of an institution that might disrupt the world. The EU projects its own shortcoming to China. The problem is not that China has a plan. The problem is that the EU does not have one.

The EU could play a role between the current super power, US, and the future superpower China. EU is bombed down by national interest. EU might become the victim. It is a complex multipolar world. It is better to look at Asia at large. Europe is now battling symptoms and not the cause.

**Florin Baeriswyl**

*From brain drain to educational export leader*

Every year 9 million Chinese students have to pass a very stressful exam that will determine which university they will be able to attend. The same exam will also influence their job and social position in the future.

Considering the Chinese 'one child' policy, an entire family's hope relied on their one and only child. The Chinese government continues to maintain a high pressure on this so called Gaokao university entry exam.

However, the traditional Chinese education system does not promote the development of a child's personality; it's values or social responsibilities. These important virtues are lacking once an adult. Changing such a system based on memorizing proves to be very difficult.

Mainland China has long been known as something of a student departure lounge. Between 1978 and 2016, it is estimated that more than 4.5 million Chinese studied outside their home country.

This brain drain proved to be a huge cultural and financial benefit to the universities in the US, the UK, Australia, and Canada and beyond.

Today the situation shifted more towards domestic higher education.

Considering that 20 years ago there were only 3.4 million students studying in China, today more than 26 million people are enrolled in Chinese universities, and nearly 500,000 of them are foreigners.

China wants to be seen as a premier higher education destination – and some would argue it already is. Indeed, China today is now third-, behind the US and the UK, in terms of the total number of international students on its campuses.

250 million additional students will enter education over the next decades

The structural societal shift from farm to factory to high-tech lab is getting stronger.

In 2016, 314 million people were employed in the agricultural sector which represents around 40% of the entire Chinese workforce.

By comparison, the U.S. and Germany employ only 2% and 10%, respectfully.

However, while the agricultural sector represents a large portion of employment, it contributes only 9% to the GDP, hence rural labor is extremely unproductive.

As food shortages have been eliminated, rendering Chinese farming more productive has therefore become a government priority.

The increasing productivity will eventually enable 250 million additional people to enter formal education.

## Panel C The Belt &amp; Road Initiative – opportunity or threat to Europe?



(The Video Record: <https://bit.ly/2VSmWT9>)

Panel C starts with a brief introduction about the BRI by Professor Ying Zhang, then the discussion was moved to the presentations by each contributor and dialogues.

### **Sir Joe Bossano**

*(Former Chief Minister of Gibraltar)*

In essence, BRI (Belt and Road Initiative) removes barrier of trade, but also cost of delivery. By creating and investing in infrastructure. The BRI is the physical manifestation of what is been done in cyber space. BRI has the potential to remove the differential between online and offline trading. For example, in the High Street of Gibraltar a watchband costs approximately 10 pounds. On the website of Alibaba, the same bands costs 1 pound. BRI diminishes the cost differential, due to the huge investments in infrastructure, which caters to the demand of the consumer.

The consumer is buying from low cost supermarkets in the UK, e.g. Aldi and Lidl. The growth of the market share of these low-end supermarkets illustrates their popularity, at the expense of the dominating supermarkets (high-end). This popularity owes in large part the price-quality ratio offered by these low-end supermarkets.

One of the objectives of multiple humanitarian international organizations (sustainable development goals - SDG) is to reduce the global poverty. One of the means to do this is to open up markets of improvised countries. This enables empowerment for markets and on the long-run they can import products from advanced economies, since they are no longer poor.

There are no longer rational arguments to oppose the BRI. Vested interest might be an issue. Sir Bossano speaks from experience that there are businessmen who prefer to open up markets when they import goods, and want protectionist measures when they export their goods.

An interlocked global economy means bigger interdependency. As a consequence, this means that a hiccup in one economy might influence the other economies. A bigger interdependency means a safer world, since all interests are intertwined. Also, a producer in country X that sets off his products in country Y means that any aggression from Country X towards country Y means less business for the producer, e.g. a smaller customer base. On contrary to a more isolated economy which could lead to a more aggressive approach vis-à-vis foreign policy, since it has more to lose.

*Dialogue* between Professor Ying Zhang (Q) and Sir Joe Bossano (A):

*Q: Is BRI a threat?*

A: One can be only a threat, if the threat already exists.

*Q: How does one protect its economy for commerce?*

A: From a historical perspective Gibraltar has an open market, and they embrace challenges that sprout forth out of e-commerce. Thus, globalization. The economic growth rate of Gibraltar is more than 5 percent in comparison to the EU which has a general growth rate of 1 to 2 percent. Adaption means also that current business might go bust. Similar to the horse and carriage during the Industrial Revolution. They became useless with the introduction of automobiles. One adapts, changes and relearns in order to succeed.

*Q: What message would you like to give to other politicians, except being open?*

A: Commit to your word. The EU preaches one thing and practices another. See for example, the agricultural market within the European Union. Mainly, the dairy products, e.g. milk. The dairy farmers within the EU were promised a price for milk that is well above market price. Which meant that the EU-state have to buy the surplus of milk (and other agricultural products such as sugar, or butter) and sell these products outside the EU for a loss.

Another example, Brussels used to subsidize the price of sugar in Spain. The state would buy the surplus and sell this to the global market, outside the EU. This lead to the situation where Spaniards who lived close to border bought sugar in Gibraltar to consume it in Spain.

One of the weakness of democracies in a multi-party state is that people look on the short-run (consumer needs) and lose track on the long-run (economy sustainability). Politicians cater to their electorate, since other politicians might take advantage. Thus, the rise of populism. This affects liberal democracies within Europe.

**Professor Wu Changqi***(Professor at Peking University)*

BRI (Belt and Road Initiative) has 5 components: Infrastructure, Trade, Finance, Policy called Nation & Connecting of the People.

From 2013 there are three factors that affect the Sino-EU relationship and future developments. First, the EU in general does not have a balanced economy, or put it differently the EU-member states do not have an equally developed economy. Certain regions are more advanced than others, for example Germany, France, Benelux compared to Central- and Eastern-Europe. The latter, also referred as developing countries, have a stronger need for infrastructural developments. China is able to fulfill this need. Part of the BRI is about building roads, ports, i.e. infrastructure.

Another factor is that both China and the EU have their modus operandi. Therefore, an active dialogue is warranted to avoid any suspicion and distrust. Therefore, the BRI is a win-win situation. China in itself is more unified than the EU. However, like the EU the economies within China are not equally developed, as well. Yet, European companies do recognize Chinese competition. Recently, Siemens and Alstom announced that they want to merge in order to uphold competitiveness within the EU market, since similar Chinese companies expressed interest or took action to enter into the EU-market. Policymakers and executives have to analyze and research the implications of the BRI. Consequently, they should prepare themselves accordingly.

Finance is the second implication of the BRI. AIIB (Asian Infrastructure Investment Bank) where a large number of EU-member states already became an AIIB-member. The UK and Luxembourg were one of its earliest members. The AIIB facilities financial means to materialize BRI, also known as the Silk Road.

However, the international relation aspect of Chinese banks is less sophisticated in comparison to their European counterparts. Professor Wu was part of the Board of the Chinese Branch of French Bank 'Societe Generale'. Therefore, European Banks have more investment opportunities. China has materialized and signed numerous MOU (Memorandum of Understanding) with European member States to create more investment opportunities in lesser developed countries along the Silk Road.

For example, Sri Lanka is a great case to analyze. The Chinese media considers it a great success. The Chinese companies intended to create an important harbor in the Indian Ocean, with an equal playing field. Eventually, Hambontana Port was intended to prosper from an economic perspective. Plans were made to make aforementioned port an economic and touristic hub within the Indian Ocean.

Third important factor of the BRI. The significance of the BRI within lesser developed regions in Middle-East and North-Africa. For example, Ethiopia. A lot of migrants (albeit illegal) stems from this region, due to conflict, poverty and war. The Chinese, due to BRI, have developed a railroad from Addis Abiba to Djibouti empowered this region. The spillover effect is that both countries were able to build industrial parks (garments, shoes, etc.) which created opportunities for entrepreneurs and employment for the local population. This reduces the need for the local population to migrate (illegally) to the nearest rich countries, i.e. EU.

*Dialogue* between Professor Ying Zhang (Q) and Wu Changqi(A):

*Q: The communication from China on the BRI is consistent, yet the image others have of the BRI diverges from the aforementioned. What do you think about this debt-trap diplomacy?*

A: The answer is two-folded. First, China is in large a developing country, in relation to per capita GDP. The world average is around \$10,000, and China's capita GDP average is around \$ 9,000. Therefore, it wants to utilize the BRI based on its own experience. Also, there is an old Chinese saying: ' If you want richness, built roads first! ' Basically, develop a sufficient infrastructure of a region.

Second, there is no proof that substantiates this claim. China's financial means to invest substantially less compared to other superpowers. Furthermore, the only proof used to substantiate this claim is Hambotana harbor. Professor Wu invites everyone to go to this harbor in Sri Lanka to witness what has happened, instead of following what has been said blindly. . A new city is emerging, due to the impact of BRI. Logically, this development requires a huge need for finance, which the Chinese fulfills.

Shanghai is a good illustration for this. If you went to Shanghai 30 years ago, it looked vastly different than the present Shanghai. This city is a harbor for modern day finance and even a tech hub. In that respect, Hambontana is similar to Shanghai of 30 years ago. China wanted to use its own experience and implement it in the region with the BRI. The developments of Shanghai enabled for Changzhou. On the one hand, the need to finance such developments is huge. On the other hand, the return on investment also grows in relation to this need on the long-run. Patience is key here. This claim makes sense on the short-run (period less than a year). On the long-run (20 years) it might be a different story.

**Pino Musolino***(President, North Adriatic Sea Port Authority)*

The youngest port harbor in the world. Voltaire said: 'All is for the best in the best of all possible worlds' (French: Tout est pour le mieux dans le meilleur des mondes possibles).

BRI is in essence a tool, similar to a hammer. On the one hand, the utilization of the object whether the object is a threat or an opportunity. Initially, the BRI is to solve domestic challenge. This purpose changed throughout its conceptualization. In 2013 even the name was different 'One Belt and One Road'. On the other hand, the Euro-centric way of approaching is to overestimate itself and underestimate the counter party, in this case China. This attitude should also be taken into account.

Initially, the BRI is to offset the overcapacity, so that the middle-class in China remains happy and prosperous and will not riot. China has every right to uphold stability within its borders. For China the stability of the Communist Party is the at most importance. 2049 is the next milestone, whilst 2025 is regarded as a strategic milestone by European standards. By that time, China's intend is to prosper economically. This idea was announced by former president Deng Xiaoping during his presidency. Subsequent presidents are aiming to uphold this goal.

The BRI is really sophisticated and it is multi-faceted. The BRI-project in South-East Asia differs from the projects in 16+1 Framework. Furthermore, the BRI is ever-developing. Around 2015 Venice was the most Western part of the BRI. Nowadays, BRI stretches out to the America. And in the future they will go even more westwards.

Also, the BRI is a successful branding operation. However, it is not different from what the Romans, Spaniards, the English and the Americans (in the 20th century) did. The Chinese are not handing out freebies, but perhaps expect something in return. The BRI in Eastern-Europe and South-East Asia is about geopolitical clout. Power is like water, they enter into a void, if available. When the US retreated from certain areas, there was a (power) vacuum, which the Chinese filled in.

The BRI brought the weight of the Chinese economic development to infrastructure. Whilst, making sea transport more important. Although, digital innovation (e-commerce) is important, yet the physical movement of goods stays paramount. Thus, making interconnectivity equally as important.

Paragh Kahna has written its soon to be published book: 'The Future is Asian: Commerce, Conflict and Culture in the 21st Century'. Kahna mentioned in his book that actors can assert their influence by controlling key points in a transport network. This nullifies the need for war.

Seen in that light, having a Chinese base near the ports of Djibouti is strategically important. It is part of the sea route to the Suez canal. This legitimizes the need for China to have a base there. In that respect, it behaves like other countries.

There is no EU-strategy vis-à-vis BRI. Partly, because the EU-member states have different, albeit conflicting, interests. Therefore, China established the 16+1 framework, which divided the EU in two parts. China enters into dialogue twice a year directly with these countries. Also, China has a MoU with Germany, France, Spain and on still ongoing (at this time) with Italy. These countries are able to absorb the Chinese overcapacity. Therefore, it is hard for the EU to come up with a unified strategy.

The EU is coming with two strategies that might be an answer to the BRI. First, the revision of Ten-T ( Trans-European Network ) due to 2023, i.e. the connectivity strategy within and outside the EU. Second, CEF (Connecting Europe Finance) with approx. EUR 42,3 billion, with EUR 30,6 billion allocated to transport. Yet, the EU is not thinking in terms how to connect their markets with foreign markets, as the Chinese do. In this respect, China is thinking in a win-win situation, whilst the EU member states focus on national interests. Therefore, the institutional mechanisms might pose a threat for the EU in relation to the BRI.

*Dialogue* between Professor Ying Zhang (Q) and Pino Musolino (A):

*Q: What is your strategic advice for business?*

*A: Do your homework! Know what you want and what you have, but more importantly know what the counter party wants. Also, try to understand the culture for the counter parties. Knowledge is power.*

**Dr. Philipp Boksberger***(CEO of CEIBS in Zurich Campus, Board Member of SCCC)*

BRI is a huge opportunity and a huge threat. BRI is intended to stabilize the domestic markets in China by offsetting overcapacity to foreign markets. By building infrastructure leads to more trade, and also more consumption. The value created by this can be used as collateral for the second and third wave of development. The biggest challenge is how to handle the finances (and repayments), if the Chinese economy cools down.

BRI has two cornerstones. One is about trade. The other about cultural exchange. CEIBS help private companies (not state-owned companies) with their globalization efforts. Initially, they go to Central-Asia and afterwards, the rest of the world.

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***Questions from the Audience to the panelists***

*Q: BRI could be an opportunity and a threat. Trains come full to EU and leave empty to China. Why is this?*

A: Trains that come to the EU from China are full because they are heavily subsidized. That is why China exports a huge amount to the EU. In that respect, railroad transportation is more subsidized in comparison to sea transport. Therefore, the rail network is used more as a political instrument.

Another point to be taken into consideration is that the EU market will be overwhelmed by Chinese goods and cause misbalance on the internal market on the mid-long run (after 3 years). The national / EU interest should be taken into account. It is about business and geopolitics, less about sharing freebies.

*Q: The cost for railroad per km is much higher for the Chinese in comparison to the EU. To what extent is this sustainable, if China keeps on subsidizing this?*

A: Subsidy is about creating a momentum by creating an offer that was not there before. Afterwards, the idea is that the subsidy ends. The marginality (profit) for rail freight is substantially higher compared to sea freight, and more so to air freight. China needs to try more than one possibility to transport goods. Therefore, the Chinese need to experiment at the moment and in the future they can decide which mode of transport succeeds.

## Panel D: Pushing back? Investment restrictions for Chinese investors in Europe and the difficulties of Europeans investing in China



(Video Record: <https://bit.ly/2XVvA51>)

Panel D starts by Dr. Urs Lustenberger with an introduction. Then the presentation and discussion moved to the one as follows.

### **Marco Toni**

*Studied @zurich represents foreign investors. Represent Chinese buyers in Switzerland and works at Loyens and Loeff.*

There are two types of investments he is involved

- 1) Greenfield investments - a foreign direct investment where the parent company builds up its operation in a foreign country from the ground up.
- 2) M&A - Merger & Acquisition (This accounts for the majority of investments)

From 2016 Chinese Foreign Direct Investments (FDI) in the EU decreased significantly. There are three causes for this:

- 1) Partially due to the trade war between the US and China.
- 2) China is limiting investments, capital outflow control.
- 3) The EU is scrutinizing investments being made by China in order to remain control of key industries - defense.

Regardless of the aforementioned, currently the Chinese are major investors in the EU. However, the European attitude towards Chinese FDI is changing.

- Germany - used to have an open policy - less restrictions. In 2016 this has decreased, due to tougher restrictions. If a foreign investor acquires more than 20 percent in a German company then it is scrutinized. Now it is 10 percent.

- France - investment restrictions - Alstom and GE. The scrutiny level has increased.
- UK - was open, but is investigating how to restrict FDI.
- Switzerland - no stricter scrutiny, but the swiss want more reciprocity. Scrutiny level might increase.
- EU - shall set up new guidelines. Regulation will increase. Thus, more scrutiny.

Q: Do you have clients that faced challenges investing in China

A: Foreigners can only invest by joint-venture companies with minority interest up to 49 percent. A time-frame is more than 6 months.

**Hanneke Veringa***works at AXA Investment Management the Netherlands*

Climate Change is an important topic. Getting the impact data right. There are more companies who enter into several indices. Green bond market is huge. However, the Chinese use a different definition of green coal. The EU regards coal not green. In relation to ESG - environment social governance - there is still ground to cover for Chinese business. There is a correlation of western big companies and high scoring on ESG scores. The bigger the company the better they do on ESG scores, due to reputation risk. Whilst in China does not have such correlation.

In order for Chinese companies to be taken up in portfolios of western financial funds they need to meet ESG requirements of IFC (International Finance Corporation) sustainable Framework.

Q: Should there be indices for companies who were polluters and now are green? Then Chinese companies are more willing to adapt.

A: The answer is three folded:

- 1) The Chinese are the biggest polluters at the moment
- 2) China announced to work on it.
- 3) Financial fund is going to put pressure on Chinese companies to change.

**Mr. Tuck Seng Low** is a member of the board of European Technology **Chamber** (EUTECC), which focuses on supporting EU technology companies to expand their international activities. It is a pan- European chamber, with its Headquarter in Brussels Belgium. EUTECC focuses on Sustainable urbanization, Health Care / Life sciences and Industry 4.0

Based on the experience of our members as well as various partners, EUTECC is convinced of the huge potential that emerging markets offer to European technology companies. As a leading non-profit service provider in the field of international growth, EUTECC offers a mature strategy for the expansion into such emerging markets, including China.

There is huge rivalry between provinces themselves. Also, a similar competition is amidst amongst second and third tier cities. In 1992 company law was implemented in China and in 1998 there was a large scale of privatization of state-owned companies.

In order to do business in China, one must invest in relationships, and do your homework. Face-to-face contact is preferred. Also, the decision-making process is not similar to the West. Bear in mind that eh company chop bears more weight than a signature. Also, one must remember that China is more unified than the EU. Yet, the developments within China are fragmented, between provinces and even cities.

There are natural barriers in China for foreign companies. Microsoft cannot sell its products in China without a license and certain Chinese industries are more protected than others, e.g. green and other high-end technologies.

Despite these barriers, there are huge opportunities in the Chinese markets. The urbanization process enabled the increase in increase in personal consumption by the Chinese consumer. It is a good country to sell widgets, small applications that improve the customer experience that can be installed on smart phone, tablets and pc.

General restriction of FDI outflow is for any investment above US\$ 300 million needs to be approved by NDRC (National Development and Reform Commission) in Beijing. However, deals in certain sectors (mining, natural resources, and agriculture) with investments above US\$10 billion in order to extend Chinese strategic asset base overseas. Other sectors are clamped down for example, property and hotels, sports (to a degree seen the ambitions for hosting the Winter Olympic Games) and media. China has a well-developed and - defined industrial plan which is vertical and comprehensive, due to satellite images and other available data about certain regions in the world, e.g. phosphate in North-West Africa.

Q: Does the EU need to push back in relation to investments?

A: For sensitive sectors that are linked to national interest of a country definitely, for example defense. For other sectors, less invasive measures can be taken, such as a golden share (a share that has significant voting power in certain situations, mostly held by governmental institutions).

Q: How would you define the Swiss national interest?

A: This is not so easy to describe. As small land-locked country it is useful to align strategic interests with the EU. However, it is paramount for Switzerland to preserve its own identity, e.g. cyber security. In the program Made in China 2025, the Chinese government identified three geographic clusters that are significant: Greater Milan, Greater Munich, and Switzerland.

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#### **QA – General at this panel from the audience**

*Q: What do you think about cyber security and in relation to Huawei?*

A: Tuck seng Low - The Huawei case something that could have been seen coming. New Zealand was the first of the Western countries who blocked a deal with Huawei over the 5G network. Perhaps the US had some influence in that decision-making process. The Qualcomm and Broadcom merger was blocked by high-level US-government officials. However, it was inevitable seen the interests involved.

55:00

A: Marco Toni: If one controls the data, they control the world. The Huawei-case exemplifies what is currently going on in the world. Everyone is aware of the threat that cyber security imposes, and the threat of giving control away of the data network, albeit digital-, and mobile network, to a foreign country.

*Q: Is China being considered as a threat or is any other superpower considered as a threat?*

Urs: It is definitely about China, which is a looming giant in the background. And other big giants might be hesitant to share the same realm.

Marco Toni : Agreed. It is about the fear of China. Yet, the communication is about general implications.

Tuck Seng Low: The 5G network exemplifies this. Who in the EU can build a 5G Network? Nokia, Ericson, Vodafone? None of these companies have critical mass, nor financial backings for rolling out standards globally. The net result is that there will be fragmented networks. Even if the EU chooses to implement the US 5G network within the EU, it will still be significantly different compared to the US. EU-Member States are not in the position to neither develop nor roll out such a network that the whole of Europe will embrace. Hopefully, the EU as a whole needs to use its weight while negotiating about the 5G network.

## What we have learned from Identitat Global Forum 2019

The world is changing dramatically, at different levels and dimensions. Nationalism, divergence, and technology intelligence seem to start influencing the world, even though the fundamental relationship (at the individual, economic and business level) are interdependent and positive. People, business, individuals from various sectors and each corner of the world are questioning what we are doing but at the same time enthusiastic to the positive consequences of the changing, such as more opportunities being created. Making an effort to collaborate, trying to learn from each other, and doing more self-critical thinking (rather than being critical to others) become the keywords from this forum. In general, we learned quite a lot from this forum, including the points as follows:

1. The questions and fear/ threat that Europe felt about China come from our incompetence and incapability to understand the changing world, Europe, and China's mechanism of development. Naming China as a threat should be switched to questioning ourselves firstly, and consciously reflecting what we can do better and especially play a better role in the world.
2. Numbers (statistics) do matter, and we need to learn to read the stories and the background of the stories by looking into the numbers (statistics). European statistics should be combined with China statistics/numbers. Single-data-source will not make us understand the world better.
3. GDP growth index is a self-killing index. We should look into a future-oriented sustainability index and apply it into the social-economic development. We need to try to use SDG as goals to guild our behaviors and sustain our planet.
4. The big engine of the Western World has consisted of capitalism and democracy; however, this engine has started to dysfunction. What happened now in the world--Economic nationalism---is a lose-lose formula. What innovation/new formula shall we do to make the world better? We need to think more about it.
5. Right now, experts usually do not do things right. We are right now in the political climate change. National interests are difficult to be defined, and we should be wise to fight against /for such an interest.
6. The problem of the world is not China has a plan (building such as Belt and Road). The problem is the rest of the world do not have a plan. We cannot only sit, see around, wait, and question others' plans. In the past, we Europeans had plans; now we don't. Now please try to do something, rather than Brexit.
7. Teaching listening is critical. We need to learn how to listen. We need to learn to listen to people especially those who might not communicate in the way we do or we were used to doing.
8. We need to learn from China "If you want to become rich, you have to be on the road (build road) first." BRI can be a tool, like a hammer that can either break our head or can help us achieve goals. It only matters how we make use of this tool. We do not like to be "Europe does what the Americans told to do." We do whatever we want and what is good for us.

The Executive Board of Identitat Global Forum

March 8th, 2019, Zurich