“The Hamburg Summit: China meets Europe”

Keynote Speech
„The strategic dimension of the euro and the European Union in the globalized world”

by

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Hamburg Chamber of Commerce

November 30, 2012

Ladies and gentlemen,

It is a pleasure and an honour for me to address this distinguished audience. Even though – I must admit – the timing of my intervention places a big burden on my shoulders.

Speaking to you almost at the end of this fabulous Hamburg Summit with all the speeches, panel discussions and meetings in the couloirs is quite a challenge.

And the challenge seems to be even greater when thinking about myself being the one who stands between you all and the working lunch right after.

The quality of our talks yesterday and today shows clearly why the *Hamburg Summit* has become – over its five editions – one of the most important Sino-European fora.

And our discussions here are all the more interesting that they take place – this already had been mentioned – just a few weeks after leadership changes in Beijing and the U.S. Presidential elections.

Everybody knows by now that Hamburg is Germany's gateway to the world. So, when one is to talk about the strategic dimension of Europe in a globalized world, there are few better places than this cosmopolitan, seafaring city.

Hamburg has traded with China for nearly three centuries. The first Chinese cargo ship, loaded with tea, silk and chinaware, reached the local port as far back as in 1731. These days it's more television sets than tea and silk and chemicals rather than chinaware, but the Chinese trace is still apparent on the ground - more than 10,000 people of Chinese origin live in the city, and over 440 Chinese businesses maintain their offices here.

I.

The dynamics of the EU-China relationship is characteristic of wider global geopolitical changes in the last two decades. We live in an environment where new centres of power gain increasingly more influence and old, "traditional" geopolitical patterns suddenly no longer apply.

But no need to say more on this – not only with view of the interventions of Henry Kissinger and Helmut Schmidt – you have heard this probably many times since yesterday.

The message for us, Europeans, is this: the world around us is getting stronger, and we need to adapt.

Yes, the euro area still is the **world's largest economy**; the EU remains the **biggest exporter and importer of goods and services** although it only houses some 7% of world population and is relatively poor in terms of conventional resources.

But that leadership is set to decline, mostly due to the rise of emerging markets in general and Asia in particular.

The EU's share in world output was 29% in 1990, but it will have gone down to 18% by 2015. At the same time, China is due to overtake the Union as the largest exporter, after it has increased its export market share in the EU, US and Japan more than threefold over the past decade.

Yet, there is a tight link between Europe's long-term growth and trade with the rest of the world.

Half of our exports are research-intensive, another 20% are capital-intensive.

Only by focusing on innovation and investment can Europe trade and grow. Conversely, international competition will keep it innovating and investing.

But is Europe ready for these challenges of globalization? Can it remain an attractive continent, a competitive place at the edge of technological advance?

Of course, our view of this may be affected by the protracted financial and economic downturn. It would be easy to extrapolate doom and gloom from the Greek debt crisis or the haggling over the next seven-year EU budget.

But I am convinced that there is more to Europe than this, that if we focus on the bigger picture and think long-term, beyond the current crisis, we can be self-confident about the future.

Historically, the EU's economic success has been based, first and foremost, on the products, services, know-how and education offered and enjoyed by its people.

Again, if we look at the Fortune Global 500 list, we'll notice that 148 companies are actually based in an EU Member State. And when we examine the world of finance, we'll see that Europe is far from being a spent force – in most rankings of financial centres, London, Frankfurt and Paris all feature among the Top 10, alongside places such as Shanghai, Hong Kong, Singapore, or Tokyo.

Globally, investor confidence in the EU is still there. Consider these figures: of the 76 billion euro raised by the EIB on the capital markets last year to finance investment, nearly half (46%) was raised with non-European investors, mostly Chinese and Japanese. I take this as a sign of their continued trust in "brand EU" and its long-term financial institution.

Of course, the European Union is not a homogeneous entity – it comprises very heterogeneous economies. After all, its motto is "*United in Diversity*." This means that we, citizens of the EU, work together for peace and prosperity, and that the many different cultures, traditions and languages in Europe are a positive asset for the continent.

From a macroeconomic point of view, this heterogeneity is actually both a strength and a weakness.

I've spoken about the need for Europe to remain a competitive continent at the edge of technological advance, so let me use this point as an example.

In the latest competitiveness ranking of the World Economic Forum, the competitiveness divide in the European Union became more than evident.

Indeed, some of the old and new Member States, mostly on the periphery of the EU, lag far behind. This reflects the large differences between individual countries as regards the level of research, development and innovation, educational attainment, infrastructure investment and structural economic policies.

II.

Ladies and gentlemen,

I said earlier that in the face of rapid globalization, Europe needs to adapt. To continue playing a leading role globally, it first of all needs to put its own house fully in order. With a bit of hyperbole, we could say that the Europe of long lunches, the Europe of "*La Dolce Vita,*" is largely a thing of history.

Of course, crises are nothing new for our continent. In the five-and-a-half decades since the Treaty of Rome established the European Economic Community, there have been moments when the integration process slowed down or even stagnated - but the EU and its Member States have always emerged stronger.

The current crisis, the worst in EU history, has not just been the sum of the problems of individual countries, but also the result of deficiencies in the architecture of the Economic and Monetary Union.

It is obvious that the structure of the Eurozone as a monetary union without fiscal union has played a major role, and that without deep changes the euro would be unsustainable in the long term.

The reform zeal we have witnessed in the EU lately is meant to remedy macro-economic and financial weaknesses which had deep structural roots, partly due to the political reality of the last 20 years, partly due to complacency.

The reforms currently underway are meant to construct a more resilient financial landscape, boost growth and support job creation.

And the EU is doing a good job.

First, and perhaps most visibly, financial support programmes have been agreed with Greece, Portugal and Ireland.

The European Financial Stability Facility and the permanent European Stability Mechanism have pooled resources to extend financial support and fight financial contagion.

Even in other vulnerable countries – Spain and Italy, for example - ambitious and politically difficult structural reforms efforts have been launched.

Furthermore, the European Central Bank has supported financial institutions, markets and systems at a time of major distress. The unconventional liquidity support by the ECB has played a key role in preventing a systemic credit crunch and a 'confidence crunch.'

All these efforts already bear fruit.

Fiscal imbalances are being reduced.

External adjustment has taken root: unit labour costs have declined sharply in the hardest-hit EU countries, some of which already see their exports grow in real terms.

Finally, risk premia on peripheral sovereign debt have been on a downward trend this year.

So, much has been achieved to underpin the EU economy and the euro, although more reforms needs to be completed to protect the currency – and here I have in mind particularly the banking union, necessary for us to better manage and contain financial sector risk.

III.

Ladies and gentlemen,

Only an EU that is strong internally can lead the way globally. And only an EU that is financially equipped will maintain its clout.

The Union's financial arm, the EIB, underpins its foreign policy objectives with long-term investments. Established by the Treaty of Rome in 1958, it is the only financial institution which is legally bound and technically equipped to serve all 27 of its shareholders, the EU Member States. It has the top credit standing (*AAA rating*), a balance sheet of nearly half a trillion euro and is the largest supranational lender and borrower in the world.

Out of the 61 billion euro in loan signatures in 2011, 7 billion went to non-EU regions in the EIB's sphere of activity, that is, the EU's immediate neighbourhood, Asia, Latin America and the ACP countries. This is a considerable amount in terms of support to the Union's external policy.

But it is not just with direct investments **abroad** that the EIB promotes EU interests. By lending to its large network of European clients operating globally, it supports internalization of the EU economy. This bolsters the Union's competitiveness, and, at the same time brings substantial benefits to external economies.

By fostering economic development around the world, the EIB contributes to global trade - and thereby lays the groundwork for European exports.

The regions where we lend are gaining in prominence as EU trade partners. While 10 years ago, they accounted for only 20% of world GDP, today it is 34% and by 2020 that figure is set to increase to 50%

EIB activities in emerging trade surplus countries help to consolidate important economic partnerships. At the same time, they are geared towards contributing to the global public good, for example by providing climate action financing.

China is one of the recipients of EIB loans.

You might think that a country awash with cash does not need European funding, but there is more to our involvement than pure finance.

In recent years, the EIB's focus in China has been exclusively on projects combating the effects of climate change - one of our key operational priorities and major comparative advantages vis-à-vis other international financial institutions.

China's economic development has rapidly reduced poverty levels, but at a huge environmental cost – which is, among others, due to its dependence on fossil fuels. Asia, and particularly China, account for more than 40% of the world's CO2 emissions, and that share is increasing.

At the same time, the government is well aware of environmental issues and the large renewable energy and energy efficiency potential the country has.

China has embarked on an ambitious CO2 reduction programme, and the EIB has been the most active European partner to support this agenda. Of the 2 billion euro in EIB loans signed in China since 1995, more than two thirds – and more than 80% of loans in recent years – have been allocated to climate action.

The Chinese government appreciates not just the funds but also the technical expertise provided by the EIB, as well as its strict criteria for project selection and implementation, which then lead to domestic improvements in project supervision and quality control.

Finally, let me mention our plan to open a residential EIB office in Beijing. This decision reflects the fact that EU-China trade has increased dramatically in recent years and currently reaches well over €1 billion a day, despite the continuing crisis.

China is the EU's biggest source of imports, and has also become the EU's fastest growing export market – and this warrants our presence on the ground.

IV.

Ladies and gentlemen,

The challenges of globalization are multi-faceted. At this point in time, they are, above all, of an economic nature, but the consequences are also political, security-related and cultural.

The crisis has sharpened international competition, with emerging markets extending their economic and geopolitical influence. This trend toward a more multipolar world had already been present before, but the downturn in Europe and the United States has accelerated it.

The rapid pace of economic growth in emerging countries, especially the populous ones like China, India or Brazil, has put them among the world's biggest economies. This has increased their significance in global policy-making: today, G-20 meetings are regarded as more important than the G-7.

This is the geopolitical reality of the day; but it does not mean Europe should be playing second fiddle.

On the contrary: the technological lead, the innovative potential, the democratic tradition and the respect for human rights and the rule of law have traditionally been – and remain - the driving forces of Europe's progress and success in global competition.

I believe that, if it completes the necessary reforms, Europe will come out of this crisis more unified, stronger and fit to continue playing its role as a key global political player and economic powerhouse.

Thank you for your attention.