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WEEKEND LONG READ

Weekend Long Read: Former WTO Chief Proposes a Plan B to Reach an EU-China Trade Rebalance

By Li Xin

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Pascal Lamy.

Pascal Lamy, the former head of the World Trade Organization (WTO), has warned that Europe must take a firmer stance on China's growing export surplus or risk an industrial and political backlash that could fundamentally damage relations between the two economies.

A longstanding advocate of free trade, Lamy said he had reluctantly concluded that the scale and speed of Chinese exports into Europe had become unsustainable. He called for a negotiated arrangement to moderate the flow of goods, backed by the credible threat of trade restrictions if talks fail.

"It took me a long time to make up my mind, because I'm a deep believer in open trade," Lamy told Caixin in an interview in Singapore in mid-October. But he believes that China's combination of industrial subsidies, weak domestic consumption and price competitiveness across supply chains has distorted the traditional logic of comparative advantage.

Lamy, who served as WTO director-general from 2005 to 2013 and the European Union's trade commissioner before that, argued that China had begun to recognize a shift in Europe's political mood.

He welcomed recent progress in discussions over voluntary export restraints on Chinese hybrid vehicles as a possible opening for broader negotiations, while cautioning that a lasting settlement remained uncertain.

Lamy's preferred approach, which he calls "Plan A", is a negotiated solution. But he believes it will only succeed if Brussels first develops a credible "Plan B": a transparent, sector-specific mechanism to restrain imports, designed to comply with WTO rules.

"There will be no Plan A if Plan B is not on the table," he said.

Despite his increasingly forceful position on trade, Lamy rejected the idea that Europe should close itself to Chinese investment. He argued that Chinese manufacturers should be encouraged to move production to Europe, creating jobs and transferring technology, subject to national security scrutiny.

He also welcomed the revival of the long-stalled EU-China Comprehensive Agreement on Investment, describing its suspension as a politically driven setback that had imposed costs on both sides.

The trade debate comes as Europe confronts wider questions about its economic strength, security and place in an increasingly fractured international order. Lamy said the EU's immediate priority was to strengthen its single market, particularly in finance, energy and digital services, without which ambitions for greater strategic autonomy would remain hollow.

He also offered a striking explanation for Europe's willingness to accept United States tariffs under President Donald Trump: preserving Washington's support for Ukraine was more important than defending a few percentage points of market share.

Looking further ahead, Lamy predicted that the rivalry between the U.S. and China would dominate international relations for two decades, leaving Europe and other middle powers seeking ways to preserve their independence.

The following are excerpts from the interview.

EU–China trade: A negotiated settlement

Caixin Global: There has been progress in negotiations between China and the EU over hybrid vehicles, although there is no final agreement yet. What does this development tell us about the state of EU–China trade relations?

Pascal Lamy: I think this voluntary export restraint on hybrid cars is a new and somewhat unexpected development.

My interpretation is that Germany changed its position this summer, becoming tougher toward China because of the enormous trade surplus. China received that signal. It understood that the EU was shifting toward a more aggressive position.

Until now, some in Europe wanted to take tougher action, but Germany had its foot on the brake. That has changed. China probably realized that it would be better to negotiate something rather than risk an escalation.

I have described two possible approaches. Plan A is a negotiated solution. Plan B is something tougher that the EU would impose.

I take this as a positive development because China has read the room. It understands that the EU is getting tougher.

But from my perspective, this is only a first step. It should preferably be followed by other steps in sectors where the rapid surge of Chinese exports into Europe threatens the survival of parts of European industry. The question is whether this is a down payment on a broader agreement, or whether it is the final payment and we close the issue.

Together with two academic colleagues, I have proposed a new Structural Rebalancing Instrument, that would be WTO-compliant and would activate safeguards on a sector-by-sector basis. That is Plan B.

I would be very happy if Plan A worked. I have always preferred negotiation to unilateral measures. But we do not yet know whether China is prepared to take further steps rather than face full-fledged safeguard measures.

Caixin: When will we know whether Plan A can deliver a substantive agreement?

Lamy: It will probably take some time. My advice is that there will be no Plan A if Plan B is not on the table.

The EU first needs to prepare Plan B. It should also establish a collective insurance mechanism against possible Chinese retaliation. China can target one or two specific member states, potentially weakening the political majority in the EU Council needed to act.

The instrument should be transparent and predictable. It should establish the numbers, the thresholds and the limits that Europe is prepared to accept. It should be WTO-compliant and accompanied by a solidarity mechanism against retaliation. Once that framework is on the table, you can work on Plan A.

Caixin: Is there enough solidarity among EU member states to support Plan B?

Lamy: I think so, although ultimately that is for member states and the European Parliament to decide.

The trade deficit with China is more than €300 billion a year. It has doubled since Covid. The EU remains one of the only large,

deep open markets, given what has happened in the U.S., Japan, Turkey, Indonesia and elsewhere.

This is simply unsustainable.

It took me a long time to reach this conclusion because I am a deep believer in open trade. But when one country has a cost advantage along the entire supply chain, combined with a structural imbalance between production and consumption, substantial subsidies and exchange-rate depreciation, the traditional logic of comparative advantage no longer works.

Europe has to improve its own competitiveness, of course. But that is not the whole explanation. Why would we be competitive with the rest of the world, as we are, but not with China?

If we fail to address this, we will face deindustrialization, followed by social problems and then political problems. That could put Europe in a much more aggressive position toward China. If populist movements, particularly on the far right, end up dealing with this problem, they will be much tougher than the traditional center-right and center-left parties.

Caixin: China would dispute some of your arguments about industrial policy and exchange rates. But the sentiment you describe is certainly evident in Europe. Are EU–China trade relations approaching a breaking point?

Lamy: Tensions have been growing. This recent development provides some temporary relief, but we will have to see what comes next.

What matters is that China understands the situation. The EU has the numbers and has put forward proposals. We should negotiate a solution that addresses the structural problem. This is not about a quid pro quo — you give me €10 billion ($11.2 billion) and I give you €10 billion. We need transparent systems to address structural imbalances, systems that could be challenged at the WTO if necessary.

I am not suggesting that we can dramatically reduce the trade deficit. It will remain high, probably too high. But we need to stop it increasing and contain its destructive effects.

Of course, protection comes at a price. Some imports from China would become more expensive. That is why we must be selective. We should not apply these measures indiscriminately across every sector.

Chinese investment and Europe's industrial future

Caixin: Instead of exporting to Europe, many Chinese manufacturers are willing to build factories there, create jobs and bring technology. Would Europe welcome that investment, including technology transfers?

Lamy: Of course. I deeply regret that the EU–China investment agreement has been shelved. I believe Europe should remain open to Chinese investment, and that the agreement should be revived.

Think about what China did with European companies 30 years ago. We were ahead in many sectors, and China welcomed our

investment on the condition that we produced locally, transferred technology and accepted ownership arrangements that often kept control in Chinese hands.

Thirty years later, China is ahead of us in a number of sectors. What worked in one direction can work in the other.

There will, of course, be national security concerns. These are much more sensitive today because of digitalization, artificial intelligence and software that can extract data. Investments will have to be scrutinized with those risks in mind.

But I believe Chinese investment is a very good way forward.

It probably would not significantly change the trade deficit, however, because the underlying problem of overproduction and underconsumption in China would remain.

Caixin: How much of Europe's concern stems from the sheer volume of Chinese exports, and how much from China's move up the value chain, which increasingly puts its companies in direct competition with traditional European industries?

Lamy: Both factors are at play.

China has developed legitimate competitive advantages through its education system, the training of engineers, its innovation capacity and the scale of its domestic market. That is how global market capitalism works.

But there is another, darker side involving subsidies, exchange rates and underconsumption, which inevitably pushes production into export markets, sometimes at dumping prices.

Look at recent Chinese exports to the EU. If the nominal increase is 5 percent but prices have fallen by 2 percent, the increase in volume is around 7 percent. That is what matters.

In China's automotive industry, competition among more than 100 companies has become extremely intense and deflationary. Prices are falling because of cut-throat competition, and those pressures are transmitted to export markets.

The green transition

Caixin: Europe needs to accelerate its energy transition, particularly after the war in Ukraine and instability in the Middle East. China can supply affordable solar panels, wind equipment and other clean technologies. How does Europe balance the benefits of those products against concerns about strategic dependence?

Lamy: This is precisely the dilemma.

Europe wants to decarbonize, and China offers products that we either do not manufacture or produce at higher prices.

Many Europeans have been traumatized by what happened to the photovoltaic industry, where European manufacturing was

largely displaced by Chinese exports. That experience is often cited as a warning.

My view is more nuanced.

For every job in manufacturing solar panels, there are roughly five jobs in installation and maintenance. So if Europe imports inexpensive, subsidized solar panels from China, and that allows us to create five jobs here for every manufacturing job in China, I do not necessarily think that is a bad deal.

I regret that Europe no longer has much solar panel production. But we should distinguish between sectors.

We should not allow the same thing to happen in machine tools or the automotive industry.

Europe should benefit from China's clear advances in areas such as electric mobility. We should recognize that China has acquired competitive advantages, some legitimate and some not.

The question is where we are prepared to accept dependence and where we are not.

Europe does not have the same strategic approach as China. China says it needs to be self-sufficient and independent in everything. We do not say that. We still believe in the benefits of exchanging comparative advantages, provided the exchange remains reciprocal.

The problem today is that China increasingly has cost advantages across so many sectors that European companies have less room to compete, not only in China but also in third-country markets. This is no longer simply a bilateral trade issue.

Trump, Ukraine and Europe's strategic autonomy

Caixin: The Trump administration has threatened and imposed more tariffs on Europe. Has that encouraged the EU to work more closely with China, or has it strengthened Europe's determination to become more independent of both powers?

Lamy: Frankly, the U.S. trade problem is not the biggest problem for Europe.

The tariffs will hurt, of course, but a 10 percent tariff is not the end of the world. In some respects, it is more of a problem for the U.S. than for Europe.

I have always said that I did not like the Turnberry agreement with the U.S. because it was the result of arm-twisting. But Europe accepted it because we needed to keep the U.S. on our side over Ukraine.

For us, defending Ukraine and ensuring that Ukraine does not lose this war is more important than losing a few points of market share in the U.S. There was a political trade-off.

Caixin: Europe increasingly talks about strategic autonomy. But how much is it prepared to pay for it?

Lamy: Europe needs greater strategic autonomy, not necessarily because we want it, but because the brutalization of the world obliges us to pursue it.

We cannot achieve that without strengthening our economy — we need more power and more money. That means increasing our growth potential, innovating more and completing the European single market.

I worked with Jacques Delors in 1985 when we launched the internal market project. Forty years later, it is still incomplete in finance, energy and digital services. There is potentially around one percentage point of additional growth within our reach, at very little fiscal cost, simply through regulatory reform.

We need a more integrated banking system, more open energy networks and greater consolidation in telecommunications.

With the Jacques Delors Friends of Europe Foundation and other European organizations, we have launched a campaign called One Europe, One Market to push for these reforms before the next European elections.

Without greater economic strength, discussions about strategic autonomy make no sense.

We also need to rationalize our defense industry. At present, European countries are spending more on defense, but procurement is becoming more national rather than more integrated. That is absurd.

Europe probably pays around 35 percent more for weapons than it should because we lack a genuinely integrated defense market and sufficient bargaining power with American suppliers. The EU was not originally designed for defense integration. But the world is forcing us to confront these issues.

Europe's political future

Caixin: Europe is also experiencing a political shift to the right. Where is Europe heading?

Lamy: Contrary to what the founding fathers believed, economic integration does not automatically lead to political integration.

Other conditions are necessary. Moving into defense and military affairs is breaking the glass ceiling between economic and political integration. Defense is about threats and danger. It requires a different mindset. I think that transformation is gradually taking place.

I would have preferred it to happen for reasons other than Mr. Putin or Mr. Trump. But their actions are accelerating Europe's transition from an economic union towards something more politically integrated.

At the same time, far-right and other anti-integration forces are gaining ground in several European countries. But this is not inevitable. In democracies, people vote for political movements and sometimes change their minds when those movements fail to deliver.

We have seen that in countries such as the Netherlands, Finland, Poland and Hungary where the extreme right lost after having been in government. Political trends can change. The challenge now is evident in France, Germany and Spain as well.

Part of the answer lies in improving Europe's economic performance. Stronger growth would make it easier to sustain our distinctive welfare systems.

That brings us back to the same conclusion: Europe needs a stronger economy.

And if we want a stronger economy, we must ensure that some of our industrial sectors are not overwhelmed by competition from China.

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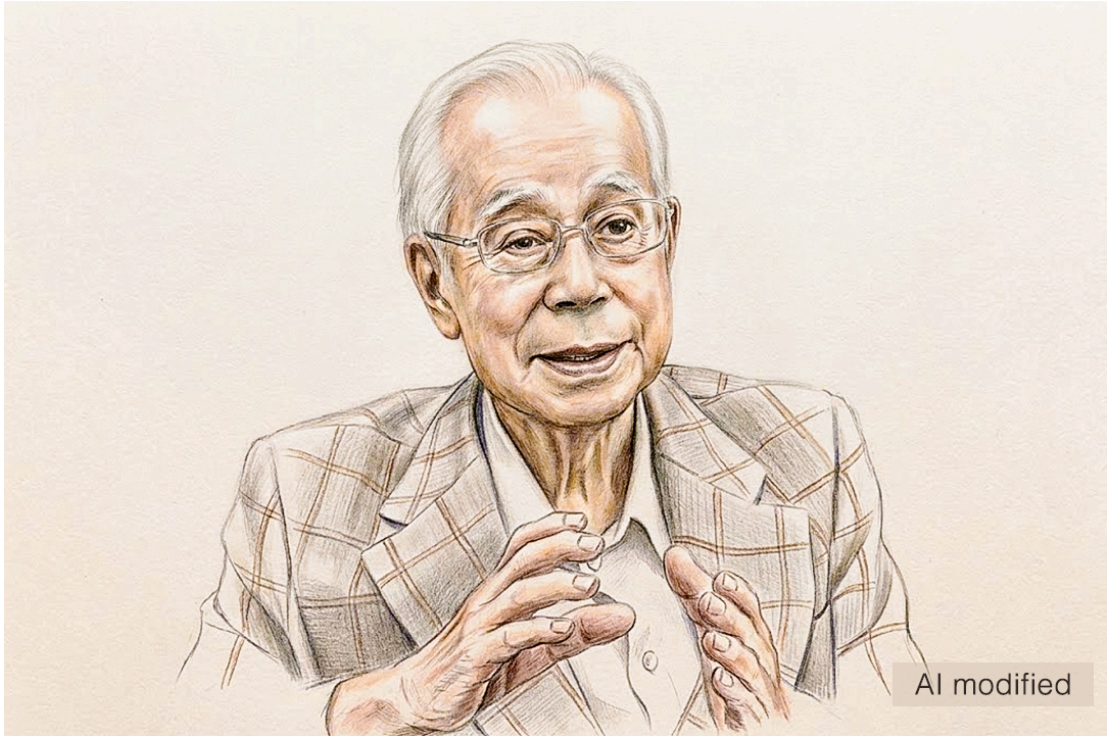
WEEKEND LONG READ

Weekend Long Read: Yasuo Fukuda's Final Testament — a Japan That Never Goes to War Again

By Tatsuhito Tokuchi

Oct 31, 2026 09:00 AM

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Former Japanese Prime Minister Yasuo Fukuda has died at 90. As a Japanese statesman, he devoted himself over many years to serving the Japanese people and fostering friendship and harmony between China and Japan — a commitment that inspires deep admiration and respect.

As a board member of the organization he founded to promote Asian cultural exchange, I had the privilege of getting to know him closely during his final years. To my mind, his greatest legacy is his insistence that Japan honor its pledge never to wage war again.

A reluctant politician

Fukuda was born in 1936 in Tokyo's Setagaya district, the eldest son of former Prime Minister Takeo Fukuda.

After graduating from Waseda University's School of Political Science and Economics in 1959, he joined Maruzen Oil, now Cosmo Oil. In 1962, he went to Los Angeles for a two-year assignment.

The global oil crisis of 1972 impressed upon him the overriding importance of diplomacy for resource-poor Japan. Without sound relations with other countries, Japan could scarcely function.

Perhaps because he had witnessed the disorder of post-war Japanese politics through his father, he had no wish to become a

politician. When he married Kiyoko Fukuda, he even promised that she would never have to become a politician's wife.

Events intervened. In 1976, his younger brother, Yukio Fukuda, who had been expected to inherit their father's political career, fell ill. Persuaded by his mother, Mie Fukuda, he resigned from his job and entered politics.

He spent a year as his father's political secretary beginning in 1977 and was first elected to the House of Representatives in 1990. From 2000 to 2005, he served consecutively as chief cabinet secretary in the governments of Yoshiro Mori and Junichiro Koizumi. His 1,289 days in the post made him its second-longest-serving occupant, after Yoshihide Suga.

In 2007, political turmoil and worsening ulcers brought down Shinzo Abe's first government. Fukuda succeeded him as prime minister. By coincidence, both father and son reached the premiership at 71. They were Japan's first father-and-son prime ministers.

Apart from serving as chief cabinet secretary, Fukuda had held no other cabinet positions — an unusual route to the top in Japan. Although his government lasted only about a year, he accomplished a considerable amount.

Domestically, his achievements included establishing the Consumer Affairs Agency to protect consumers, advancing the long-stalled effort to make earmarked road-tax revenues available for general spending, and developing legislation governing public records.

Internationally, he invited then Chinese President Hu Jintao to Japan in 2008. The two countries signed a joint statement establishing a "mutually beneficial relationship based on common strategic interests." Fukuda also successfully hosted the Group of Eight summit at Lake Toya in Hokkaido, where leaders set global emissions-reduction targets.

His ability to accomplish so much in so little time owed much to the close relationships of trust he had built as chief cabinet secretary with government departments, companies and business organizations, including the Japan Business Federation, known as Keidanren, and the Japan Association of Corporate Executives.



Japanese Prime Minister Yasuo Fukuda delivers a policy address to the House of Representatives in Tokyo on Oct. 1, 2007. Photo: Xinhua

Why records mattered

Politicians often favor grand, attention-grabbing projects that can be presented as personal achievements. Fukuda took the opposite approach. He emphasized "carrying out reforms from the public's perspective."

The creation of the Consumer Affairs Agency, which required painstaking coordination, and the public-records legislation, to which he devoted considerable energy, reflected that conviction.

After his death, the Asahi Shimbun republished a 2017 interview in which he explained how the public-records law came about.

Fukuda described why he had insisted on the legislation: scandals involving patients infected with HIV through blood imported from the U.S., and the loss of pension records, had exposed the need for a rigorous, uniform legal framework for keeping and managing government records. He resolved to address the problem.

"Access to truthful information is a basic principle of democracy, and preserving firsthand records is extremely important," he said.

He also returned to Japan's wartime history.

"When Japan was defeated, the military burned documents that reflected badly on it. Restoring Japan's reputation requires years

of effort, built up over time," he said. "Japan today rests on the accumulated record of historical facts. Without that record, we cannot earn the trust of other countries."

Under Fukuda's leadership, the Public Records and Archives Management Act passed the Diet in 2009.

The law required politicians and government officials to submit to its constraints. It gave citizens a means of exercising their right to know, protecting their interests and providing a measure of restraint against encroachments by those in power. Its influence on Japan's public administration has been profound.

Leaving office

In May 2008, the Fukuda government's plan to extend a widely criticized provisional gasoline tax for another 10 years sparked public anger, driving its approval rating below 20%.

The Democratic Party of Japan, which controlled the upper house, escalated the confrontation by filing a censure motion against the prime minister in June. That September, Fukuda announced his resignation.

At his resignation news conference, he explained his reasoning:

"The Democratic Party has done nothing in the Diet but delay deliberations or refuse to deliberate, leaving the government unable to make the decisions it should. Simply allowing time to pass would cause the public considerable difficulty. I have

therefore decided to resign and let a new team make decisions that serve the public's interests."

His premiership lasted only a year. Even so, his commitment to principle and the effort he devoted to the Japanese people were plain to see. He would later be described as the Japanese politician with the least appetite for power.

Asia at the center

Fukuda attached great importance to Japan's relations with the rest of Asia.

Half a century earlier, while serving as his father's secretary, he had been deeply involved in drafting and promoting the Fukuda Doctrine, with its call for "heart-to-heart" relations with Asian countries. He helped draft the document with Hisashi Owada, then a foreign affairs official and the father of Empress Masako.

The doctrine grew out of his father's deep reflection on Japan's prewar conduct and subsequently became a foundation of Japanese diplomacy toward Asia. It was only natural that the son should carry forward that commitment.

After leaving office, Fukuda continued to exercise influence in the media and business communities.

He made two secret visits to China in June and July 2014 for talks with President Xi Jinping. Those efforts ultimately helped bring about a meeting between Prime Minister Abe and Xi at the Asia-Pacific Economic Cooperation summit that November, easing

tensions that had persisted since Japan's nationalization of the disputed Diaoyu Islands.

From 2010 to 2018, Fukuda also served as chairman of the Boao Forum for Asia. After stepping down, he became chairman of its advisory council.

He worried that strained relations between Japan and its East Asian neighbors, particularly China, were poisoning public sentiment on both sides. He came to believe strongly that Asia needed a platform for cultural exchange.

In October 2019, under his leadership, he and Yuji Miyamoto, a former Japanese ambassador to China, established the Japan Asian Community Culture Cooperation Organization. Fukuda became its chairman.

However tense relations between Japan and China became, he insisted that the organization remain active. It held numerous cultural exchanges, academic forums, film festivals and other events. No matter how crowded his schedule, he made himself available whenever his presence was needed.

Building bridges

I experienced his commitment to relations with China firsthand.

In 2012, the ruling Democratic Party of Japan's nationalization of the Diaoyu Islands angered China. Anti-Japanese demonstrations broke out across the country, relations became severely strained, and exchanges between the two nations largely stopped.

I was working at Citic Securities at the time. I often discussed with Chang Zhenming, then chairman of the Citic Group, and Wang Dongming, then chairman of Citic Securities, whether there was a way to ease the confrontation.

In September 2013, we organized a delegation to Japan comprising leaders of 10 major Chinese companies. Chang headed the delegation, with Gao Xiqing, then president of China Investment Corp., as deputy leader.

In Tokyo, we visited the Japan Association of Corporate Executives, Keidanren, Toyota Motor, Tokio Marine Insurance Co., Mizuho Bank, Orix and other prominent business organizations and companies. We also arranged a meeting with Suga, then chief cabinet secretary.

The visit drew considerable media attention. Major newspapers competed to cover it, and it made a substantial impression on Japan's business community.

Fukuda, too, attached great importance to the visit and attended several events. I can still picture his beaming expression as he addressed the delegation over lunch in Hakone.

Not long after we returned to Beijing, I received a call from the Japanese Embassy. Fukuda would soon be visiting China, I was told, and wanted to meet me at the embassy.

We met in its largest reception room, accompanied by Ambassador Masato Kitera. As we talked, I gradually realized that Fukuda had no other purpose in requesting the meeting than to

thank me for the modest part I had played in organizing the delegation.

A sudden warmth came over me. It was my first extended conversation with him.

A final testament

On Oct. 22, Fukuda died of heart failure in a Tokyo hospital. The Liberal Democratic Party said the wake and funeral would be restricted to close relatives. His eldest son, Tatsuo Fukuda, a member of the House of Representatives, would serve as chief mourner.

On Oct. 26, Japanese Prime Minister Sanae Takaichi issued a statement reviewing his contributions. “He made tremendous efforts to communicate Japan’s position and enhance its international standing,” she said.

Former Prime Minister Shigeru Ishiba told reporters that Fukuda had taught him the importance of approaching relations with China with genuine sincerity.

On Oct. 27, Xi sent a message of condolence to Fukuda’s family.

“Fukuda was a Japanese statesman known for his integrity and sense of responsibility, as well as a longtime friend of the Chinese people,” Xi said. “China will remember his contributions to China-Japan relations and Asia’s development.”

In August this year, Japan's TBS television network interviewed Fukuda about the continuing significance of Aug. 15, the anniversary of Japan's defeat in World War II.

His voice was very soft, but his words were firm.

"I saw the cruelty of war when I was young. Japan must never go to war again. War means forcing ordinary people to their deaths," he said.

"When disagreements arise, diplomacy must come first. That is Japan's only way forward."

"Exchanges between ordinary people must not stop. Japan must not embrace populism."

The reporter later disclosed that fluid had filled two-thirds of Fukuda's lungs. He spoke while receiving oxygen.

It was his last television interview. Summoning what strength he had left to insist that Japan honor its pledge never to wage war again, he delivered what amounted to a final testament to the next generation.

Hiroshi Ito, an editorial writer at the Asahi Shimbun, recalled that although Fukuda's government lasted only a year, he respected neighboring countries, upheld democratic principles and placed diplomacy at the center of his political work.

In both Japan and China, the older generation of politicians who valued the relationship between the two countries is passing

away. Those who follow them still have a long road ahead if they are to fulfill Fukuda's ideal.

Tatsuhito Tokuchi is a board member of the Japan Asian Community Culture Cooperation Organization and a former Chairman of CITIC Securities International Co. Ltd.

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