



AMERICA • CHINA • EUROPE

Jump to response by Daniel Gros

## Europe must be nicer to China if it wants its support

China is likely to react sympathetically when Europe approaches it for assistance, directly or indirectly. But if Brussels is to persuade Beijing to make a substantial commitment to Europe, it has to demonstrate more geopolitical competence – and also more independence in managing relations with China.

A fundamental mistake European governments have made is to position themselves as geopolitical subsidiaries of the US. These interests are defined by geography. America has to handle Mexico as sensitively as Europe handles Russia. It is striking that Europe does not indulge in ideological grandstanding on democracy and human rights in Russia.

All Europe has to do is to treat China as pragmatically as it treats Russia. A few simple symbolic gestures could win significant favour in Beijing. The EU has so far denied China the status of “market economy”, even though it will gain this automatically in 2015 under current World Trade Organisation agreements. This could constrain the EU’s unilateral anti-dumping actions against China. Another possible symbolic gesture is to lift its arms embargo. This does not mean that the EU will begin arms sales to China. That will not happen. But the removal of the embargo would end a humiliating condition imposed on China, and not on Russia.

There is plenty of goodwill to help the eurozone deal with its current problems. It was barely twelve years ago that Asia appeared to be spinning out of control in the its own financial crisis. Europeans gloated visibly about the sudden crashing of the promised Asian century. I know this well as I experienced it personally. So as Europe lurches from one crisis to another, it would be perfectly natural for Asians to feel smug. Yet, amazingly, there is virtually no schadenfreude. Why not?

Most importantly, Asians realise that we are all now in the same boat. In this interconnected economic universe, no country is immune from financial

crises. Asia is now experiencing its most propitious moment for rapid economic growth. A fundamental requirement for such rapid growth is global economic stability.

China has sound geopolitical interests in keeping Europe together. A strong, united Europe provides an alternative economic pole, reducing China's reliance on the United States. After the Brussels meeting, Xinhua commented, "Obviously, it is up to the European countries themselves to tackle their financial problems. But China can do what it can within its capacity to help as a friend."

Given all the brouhaha in the US Senate over China's trade surpluses, few are aware that China exports more to Europe than the US. Indeed, Europe is China's largest trade partner and China is Europe's second largest trading partner. This is why Beijing welcomed the creation of the euro in 1999, while Washington reacted unenthusiastically to the creation of an economic alternative that could undermine the dominant role of the US dollar in the global economic system.

The symbolic moves I have suggested above would undoubtedly generate ripples in America. Yes, there will be some political costs for the EU. But it could also prompt Washington to treat Brussels with greater respect if the EU can, from time to time, demonstrate geopolitical independence. Ironically, it may also help the US reconsider its decision not to participate in the latest European rescue package. In short, geopolitical independence by Europe could lead to financial rewards from both Asia and America.

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### **China's assistance could do more harm than good**

Does Europe need 'assistance' from China? Not at all if it gets its own act together. Unlike the US, the eurozone does not have an external deficit that needs to be financed. Its current account is balanced, so there are enough savings within the monetary union to finance all public deficits. The problem is one of distribution. There is an excess of savings north of the Alps, but northern European savers do not want to finance the southern countries such

as Italy, Spain, Greece.

Why should China buy Italian or other peripheral debt if Germans savers and banks do not want to do it? The answer might be that China will be asking for an implicit guarantee from Germany for any 'euro' bond it buys. But this does not make sense for Germany. Why should it pay a political price for something – guaranteeing the debt of other countries – that it has consistently refused to consider even for its own banks?

A large inflow of funds from China and other 'investors' could in fact do more harm than good. The incoming capital would strengthen the euro and thus make a recovery in the periphery even more difficult. Germany's exports are much less price sensitive than those of the periphery. Germany can thus get by with a stronger euro, but countries such as Italy and Greece, which must compete on price would be even further weakened. Why should Europe pay any political price for assistance which is not really needed and which might actually be counterproductive?

As there is the little difference between the euro area (the 17 countries out of 27 European Union members), any political concessions would have to be agreed by all 27. The non-euro members of the EU have little reason to agree to political concessions just because the eurozone is not capable of managing its own internal problems.

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