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EU and Global Economic Governance: A Chinese Perspective

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When we gather here in Brussels at this year's Global Jean Monnet Conference, I would think we all have the debt crisis very much in our mind, and in our heart. Somewhere 10 thousand kilometres eastward, the Chinese people are feeling likewise concerned, and are having some heated debates on it, not only because we are heavily hit by the financial crisis as well—maybe in a different context, but also because China has had a very high stake in the EU, as one of its most important trade and economic partners.

Here I would like to present to you some of the thoughts that have come upon me out of the recent Chinese academic discussions, and to present to you some of our understandings and concerns of the current crisis. My presentation will be in 3 parts, namely:

--Chinese perceptions of the current crisis;

--Euro zone reforms;

--China's possible roles.

I. Chinese perceptions of the current crisis

In final analysis, debt is a lack of liquidity. When a country is in debts, the usual way to relieve them, along side of increasing revenues and reducing costs, is to raise new loans to cover the old debts. It becomes a crisis, when the country is no longer able to barrow, either from the markets, or from other countries. And that seems to be the case with Greece.

We all know that the current financial crisis started with the failure of the US sub-mortgage market. Then the question is: Why Europe and the rest of the world should suffer because of a failure in the US financial market, and even more seriously?

An answer might well lie in the paradox between the international use and the sovereign issue of the US Dollar. While the people all over the world choose to use the Dollar is none of the US' faults, the US administrations do have misused and abused too much of the Dollar advantage over the years, by frequently indulging in the deficit budgetary policy: whenever they ran into debts, they just tried to cover the shortage by issuing treasury bonds and printing the Dollar, thus creating in the world an astronomical amount of speculative capital. This capital is, I believe, very much behind the financial crises—this debt crisis included—we have had so often nowadays.

A possible way-out might be to have another international currency, which could, in cases, serve as a substitute to the Dollar, as means for business transactions and for foreign reserves. This was what the Chinese people expected when the Euro was created: the new currency backed up by the largest economic entity in the world would play a balancing role to the Dollar. Unfortunately, for reasons we are all well aware, the expectation is far from being fulfilled; 10 years prove to be insufficient to make Euro into such a currency, and it itself has now become the prey of international financial sharks and has plunged into a crisis unseen in its history.

II. Euro zone reforms

The Euro zone is faced with a double task: to bail some of its member states out of their debt crisis, and to mend up the Euro mechanisms to avoid future crisis.

It is true that Greece (and some other

member states, too) has to be responsible for its heavy debts, but you must know better than me that the current crisis is apparently not just the problem of Greece, but also the problem of the Euro zone, and maybe of the entire EU, because on it rests their common fate. In this sense, to save Greece is to save the Euro zone, to save the EU, and solidarity is necessary and essential.

With this in consensus, Greece would not be difficult to save, as the Euro zone as a whole is not lack of money, and the world is rather have too much of money. At this particular moment, what matters may be not just the money, but rather the solidarity spirit and political will of the Euro zone. If the Euro zone is able to show its determination and muscle, the market will follow the signal.

The bail-out of the debt crisis should go hand in hand with the medium or long term reforms of the Euro mechanisms, that is, to prevent the crisis to happen again and again. There have been suggestions for a fiscal union to go hand in hand with the EMU, and the talks about a European economic government. It would be, of course, quite ideal if such steps could be taken. But the question is: Are the Euro zone or the EU member states prepared to do so, especially at this moment? We have serious doubts. At this juncture, better to be practical rather than to be ambitious.

To our understanding, reforms in this context should include 3 elements.

First of all is a greater vigilance over the fiscal statuses and policies of the member states. This could be fulfilled through reactivating the Growth and Stability Pact and making it more legally binding for enforcement.

Second, the role and functions of the ECB should be strengthened, along the line of making really like the central bank of the Euro Zone. The ECB has been performing very well in maintaining price stability, but as the central bank, its functions should not long remain as such. Its monetary policy should be more flexible and friendlier to growth; and it should have the function and the means for monetary operations in times of difficulties, such as issuing bonds and raising loans.

Third, there should a more vigilant monitoring over the financial markets. In this respect, either or both of the Commission and the ECB should play a more active role and work closely with the related authorities and institutions both at EU level and at international level, for maintaining the stability of the financial markets.

More basically, the EU may have to put more efforts on the reform and adjustment of the real economy. The economies of the EU member states differentiated greatly during the crisis. It is not accidental that certain countries, like Germany, which has had stronger real sectors, fare much better than others, both in sustaining the crisis and recovering from it. And the 4 socio-economic models in the EU—Scandinavian, Rhine, Anglo—Saxon and Mediterranean—performed differently as well. For the economic convergence in the Euro Zone and in the EU, it might be necessary to push forward structural reform programmes like “Europe 2020”.

III. China’s possible role

It is totally a wrong concept for China to “save” Europe: Europe does not need China to save it; China needs to save itself—our problems are as serious, if not more serious. But it does not mean that, on the question of the European debt crisis, China could or should stand impassive. China's economic wellbeing depends very much on its external economic relations, and Europe weights heavily. From this perspective, to "save" Europe is to save China as well.

How, then? I would think the Chinese government is prepared to take part in the rescue actions, like buying Euro bonds with its foreign reserves. But it has been somewhat reluctant, and with good reasons: for one, if the EU countries, as partners in the Euro Zone, hesitate to rescue Greece, how could China be determined? For another, the foreign reserves are hard earned, and not to be squandered away: while China could buy some Greek bonds out of good will, the bulk should be guaranteed against loses. So, if there are bonds issued or guaranteed by the ECB or the IMF, China would be willing to hold.

China could also do something to support the recovery of European economy. Even with the shrinking of its exports to Europe, it has been trying to increase its imports from Europe. And China should try to expand and deepen its economic and trade cooperation with Europe, such as to make their markets more open to each other, and not only for goods, but also for investment. Between Europe and China, there are still vast scopes for development, and the important thing is to tackle them in the spirit of partnership.

To conclude, in this globalized world, Europe and China share their destiny and have to work more closely.

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