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The Euro Zone Debt Crisis: An Opportunity for Closer EU–China Cooperation

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The euro zone's debt crisis is currently the biggest uncertain factor for the future of the European economy and even the global economy. It was therefore high on the agenda of the EU–China Summit that was held in Brussels on 20 September 2012. In the short term, the risk associated with the Greek debt problem is accumulating, bringing great turbulence to the global economy and eroding the reliability of the euro. In the long term, the debt crisis has led to much uncertainty regarding the future of European regional integration. However, the crisis also provides not only the need but also an important opportunity for greater European integration. China can assist in this process by increasing its investments in Europe, and it seems willing to do so. In the first half of 2012, Chinese investments amounted to € 5.4 billion, a 63 per cent increase over 2011.

Chinese Assessments of the Euro Crisis

In China, some scholars think that the euro zone debt crisis will have a positive impact on the process of European integration. Others take the opposite view and argue that the debt crisis will lead to fragmentation in the EU. Proponents of the positive view believe that the debt problems have produced an opportunity for further integration, and that previous progress in European regional integration was based on the crisis-driven model. They believe that the EU can find a way out of the crisis. Proponents of the negative view, meanwhile, think that there is no way for Greece to get rid of its budget deficit or its sovereign debt. Any financial bailout is just a temporary solution, unless Greece can realize economic growth — which is a very difficult task. They are certain that Greece will exit from the euro zone sooner or later, which will hinder the process of European regional integration. It is this negative opinion that currently prevails among Chinese scholars.

However, a closer look at the positive view reveals that there are two ways for the EU to get out of the debt crisis. One is deeper integration, which means further economic integration and even establishing some kind of common economic governance. A fiscal compact is necessary but not enough. The EU needs to realize a fiscal transfer between budgetary surplus and deficit countries. Another way out of the debt crisis is for Greece to depart from the euro zone, which is the simplest way but which carries the biggest cost. If Greece exits from the euro zone, investors in international financial markets will assume that Spain or Portugal might be next. This would lead to great panic. In reality, both of these approaches are too difficult to carry out, and the EU is trying to find the middle way.

Policy Dilemmas for the EU

The EU is now facing at least three policy dilemmas. First, the most urgent challenge is how to deal with the dilemma between austerity and growth. Without growth there is no way for Greece to get out of its crisis. The smart solution would be to consider how to attract strategic investors and foreign direct investment. Second, with regard to policy-making, there is the dilemma between democratization and elitism, which is also a problem of legitimacy versus efficiency. Any rescue policy is not only the concern of the officials in Brussels but also of every European citizen, as is clear from the demonstrations and strikes in Greece and other nations in the euro zone. Public opinion is diverse and sometimes even conflicting, but economic policies should respond quickly to the rapidly changing economic situation. Third, there is the long-term question of deeper integration versus disintegration.

The current crisis brings a historical opportunity for the EU to rethink or reshape its institutional structure. If it can grasp the opportunities to push further integration, realize a common fiscal policy and establish a bank union or even a quasi-common economic government, the EU would have a bright future. In contrast, if Greece leaves the euro zone, it might be the beginning of the dismantling of the EU. A Greek departure from the euro zone would not be in the interest of Greece, the EU, or the rest of the world. The recent G8 Summit in the United States in May 2012 and the G20 Summit in Mexico in June 2012 sent out strong signals of support for the EU to solve the debt crisis.

What China and the EU Can Do Together

As for China, both the central government and a majority of scholars support a more integrated and firmly grounded EU. From the perspective of bilateral economic relations, the EU as a whole is China's largest trade partner, so a unified and stable EU market is good for the export of Chinese products, which is one important pillar for maintaining China's high-speed economic growth. From the perspective of bilateral political relations, the EU and China refer to their mutual relationship as a strategic partnership, which means that they should support each other in an emergency situation. Chinese leaders have also shown strong support for the EU in solving the debt crisis, which includes buying government bonds and encouraging domestic companies to invest in the EU. During the G20 Summit in Mexico, China committed an additional US\$ 43 billion to the IMF, which amounts to a concrete contribution from China to Europe's efforts to solve the debt crisis through multilateral channels. A stronger EU is good for a more balanced and fair international society that suits the Chinese ideal of the democratization of international relations.

The Chinese government believes that the EU has the capacity to deal with the crisis. During the half century of European integration since the 1950s, crises have been the main engine for further EU integration. Today, the euro debt crisis is pushing Brussels to accelerate its reform of the EU's internal financial systems and to work on establishing a common fiscal policy. As to the debt issues of Southern European countries, the European Central Bank still has some options to show a more active role, such as buying these countries' bonds. A crisis not only brings trouble but also opportunity. If the EU can use the opportunity to improve its institutional framework and reform its internal labour market and social welfare system, a more efficient and booming European Union will be the result.

The EU and China should work seriously on some old and new issues that impede bilateral economic cooperation. The two most important long-standing issues are the EU's refusal to grant market economy status to China and the continuing EU arms embargo against China. The EU should show its good faith on these two issues, otherwise it will be difficult for the Chinese government to explain to the public why it is necessary to save the EU instead of giving more aid to China's small and medium-sized enterprises.

A new issue for bilateral economic cooperation is the question of how to promote a more balanced investment relationship and expand economic cooperation in that regard. Compared with EU-China trade, direct investments are still unbalanced, with investments moving mostly from the EU to China. China is now in the process of upgrading its industry and transitioning from an export-driven economic model towards a domestic consumption-driven economic model. The Chinese market is highly relevant for the EU to recover from its financial crisis. It is very important for governments on both sides to facilitate

mutual investment and business activities. The announcement at the recent EU–China Summit that both sides will start negotiations on an investment treaty should therefore be welcomed.

The Chinese Ministry of Commerce periodically publishes guidelines for foreign investment. If the EU also published guidelines for foreign investors, with a clear list of which sectors, industries, or even companies are open to foreign investment, it would be very helpful for Chinese companies wishing to enter the EU market. It would also be beneficial for the recovery of the European economy. The EU should take a more inclusive attitude towards Chinese investors entering the European market. Compared with the well-developed European market and companies, the Chinese market and Chinese companies remain at an early stage of their development. Most Chinese companies are still in the process of learning how to enter and integrate into the global market. The media on both sides should therefore work as a bridge for better mutual understanding rather than to enlarge the gap. If these things can be done, both sides will benefit substantially.

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