

Beijing will not ride to eurozone's rescue

By Yu Yongding

Europe's courtship of Beijing is moving to a more intense level. Klaus Regling, the chief of the eurozone bail-out fund, is in Beijing discussing possible support. Just a few days ago French President Nicolas Sarkozy conferred with Hu Jintao, his Chinese counterpart, to win Beijing's support. They should not hold out their hopes too high.

The two will have had a courteous hearing: China is willing and able to help. Since the beginning of Europe's sovereign debt crisis, Beijing has repeatedly expressed its wish to offer "a helping hand" to Europe. Eurozone countries, however, have to understand that they will have to save themselves. Will China ride to the rescue?

To be clear, a strong Europe is always welcomed by Beijing for geopolitical reasons. As China's most important trade partner, a financially sound and prosperous Europe is firmly in China's interests. Sitting as it is on \$3,200bn in foreign exchange reserves, China *can* help, but while it is willing to do so this will not be without conditions.

As Wen Jiabao, premier, pointed out at the 2011 Dalian World Economic Forum, the European Union has first to put its house in order. When countries and political parties in the eurozone squabble among themselves over how to proceed, how can China support any hastily assembled rescue packages?

China's faith in the US dollar has been proved misplaced and it cannot afford to make the same mistake again. The recent agreement on expanding the scale of the bail-out fund is perceived as positive, but the idea of "leveraging" the European financial stability facility by partial guarantees is not reassuring. That is a far cry from the original design of EFSF bonds.

From the perspective of domestic politics, bailing out EU countries with Chinese money is hard for the Chinese people to accept. The tens of millions of elderly Chinese will demand to know why they should pay for rich Europeans to retire early when they do not have a decent pension system of their own. Unlike America, which has accumulated huge foreign debts, the eurozone as a whole has a healthy external position. This means that eurozone countries can solve their sovereign debt crisis with their own money, as long as Germany and some northern European countries are prepared to foot the bill. The Chinese people will ask: if

Germans do not want to contribute more money, why should China bother?

That said, it does not mean China should stay on the sidelines. China would be happy to invest in EFSF bonds in a measured way, as it has already done. If a eurobond should emerge, China should also invest. For any major investment in European sovereign bonds, safety is the key, which means that an ironclad guarantee and the involvement of the International Monetary Fund are necessary. Besides, there are many ways to help without exposing China to sovereign debt. Its sovereign wealth funds can buy shares in solid European non-financial and financial companies. Chinese enterprises can inject billions of euros of fixed direct investment into the eurozone economy.

Furthermore, there are indirect ways to help. Beijing should allow the renminbi to appreciate against the euro and give European companies greater access to Chinese markets – which, of course, needs to be reciprocated. An improved eurozone current account through trade as well as Chinese investment into Europe will free up funding within Europe and allow more savings to be directed towards governments.

Though China should continue its bilateral co-operation with individual European countries, Beijing should negotiate financial rescue packages with the eurozone collective, not individual states. Otherwise it may sow discord within Europe as the attitudes of individual countries towards Chinese actions are bound to differ.

To be clear, China should not give the impression it is taking advantage of the misfortune of others. But, for Beijing, financial decisions should be based on financial considerations. Do not blame it if China's help is short of your expectations. China has never claimed it can save you from the debt dragon – and, on its own, it will not.

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