



# The Impact of the European Sovereign Debt Crisis on China

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# Trade

- EU = China's largest trading partner
- China = the 2nd largest trading partner of the EU
- EU goods exports to China 2010: **€113.1 billion** (+38% on 2009)
- EU goods imports from China 2010: **€281.9 billion** (+31% on 2009)
- EU services exports to China 2010: **€20.2 billion**
- EU services imports from China 2010: **€16.3 billion**

# A blow to China's export

- China's export growth to the EU year-on-year has fallen into single digits, 22.3% (Aug.) → 9.8% (Sept.) → 7.5% (Oct.).
- **Trade surplus:** expected to be \$150 billion in 2010 → first trade deficit in two decades?

# A New Surge of Labor Unrest

- The rising currency (10%) + increasing wage demands (20%) + dramatic slowdown in orders from Europe and US → **a triple whammy** for Chinese exporters → lay off workers, cut overtime hours and/or withhold pay → labor unrest and bankruptcies of small factories.

# Other impacts

- Depreciation of the euro against the dollar → China's **foreign exchange reserves** lost \$87.9 billion in value.
- **FDI from EU27 to China**: 10.7% increase in 2010 → 1.05% in the period from Jan. to Oct. this year.
- **Growth projection** been lowered: 10.4% (2010) → 9.1% (2011) → 8.4% (2012)

# Beijing's Responses

- **No new stimulus:** the 2009-2010 stimulus (\$586 bn) → excess liquidity + a huge debt burden on local governments and state enterprises.
- Focus on reining in rising inflation, “soft landing”
- Domestic monetary easing;
- **Shift gears:** Switch from an economy dependent on exports to one fueled by domestic consumption.

# False European hopes of a Chinese savior?



# Should China Rescue Europe?

- A hard political sell at home.
- “If Germans do not want to contribute more money, why should China bother?”
- “why should the Chinese govt spend money to bail out spendthrift Greeks who on average earn 10 times more than an average Chinese?”
- China is looking to buy EU factories and railways instead of wobbly government bonds.