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## Europe should stop arguing and look to Asia

By Jin Liqun and Keyu Jin

Viewed from China, the management of the eurozone debt crisis offers a stark contrast to the handling of the 1997-1998 east Asian crisis. In that episode, Thailand, South Korea and Indonesia were all forced to implement tough austerity programs imposed by the International Monetary Fund. But these countries also lost no time in restructuring their economies. Within about three years, their economies were back on track. This serves as both a warning and a lesson to the eurozone.

Unlike many of today's Europeans, the people of east Asia did not have the luxury of large relief funds from outside their countries. The people had to tolerate hardship, and they did not believe in the magic of street demonstrations. In a poignant case, the Korean people contributed gold and household foreign exchanges to the government to help ease fiscal pressure. China made a commitment not to devalue its currency. Politicians took action rather than indulged in endless debates.

Clearly this has not been the case in Europe. The Greek and Spanish crises have not been seen as shared challenges. They have marched to discordant national anthems. Endless bargaining on terms and conditions for piecemeal bailouts has wasted a lot of time, each summit only reinforcing the belief that the eurozone is stuck in a cul-de-sac. This approach is anathema to a Chinese mindset: in *The Art of War*, Sun Tzu advocated setting fire to ships behind battling troops. Sometimes no way back is the best reason to fight for survival.

From the outset of the crisis China has responded positively and firmly to Europe's appeal for support. But it should be received as an important and responsible stakeholder, not as an outside creditor relegated to lower levels of seniority in moments of urgency. It should be treated equally with the ECB in the event of any debt restructuring.

Over the last few decades, China has become wealthy. But keeping capital bottled inside the country risks asset bubbles and offers little means of diversification. It is therefore in China's interest to seek investment opportunities abroad. Europe offers many advantages: it is China's largest trading partner; it has an enviable legal structure; it has technology and managerial expertise that China still lacks. It should be a win-win situation.

But for this to happen Europe must address its debt crisis and Chinese companies need to be treated fairly and equitably. These companies encounter many – often invisible – impediments to investment. For instance, a sovereign wealth fund, such as the China Investment Corporation can quickly move in and inject capital in a western company in urgent need of money. But the market will not wait for such an investor if its intended investment is subject to a lengthy procedure of approval by the regulatory authority. Huawei, the Chinese telecoms company, has encountered increasing difficulties expanding its business in some European countries. The excuse given is often "national security".

Meanwhile, the eurozone is near the brink of collapse. So what should it do to ensure its survival? In our view, based in part on the lessons from the east Asian crisis, there is nothing substantial that stands in the way of Europe resolving its problems. Three steps in particular would help.

First, spending that jump-starts growth is critical at this stage. Overdue fiscal consolidation does not justify aggressive deficit-cutting now. A well-calibrated and well-managed fiscal rebalancing could be attained.

Second, Europe must make a true commitment to save Greece. This would involve a new, realistic timescale for debt repayment and economic restructuring --- say a ten-year plan – underpinned by both short term and long-term measures. It is unrealistic to push for so many drastic changes at the same time.

[Lastly, Europe should reach an agreement on a master plan, warts and all, and be brutally honest about what can be done realistically and what cannot.]

China suffered for decades from dogmatism in its macroeconomic management – and, as a result endured economic and social catastrophe.

The pain is within living memory. Lessons were learnt the hard way. We do not want to see Europe suffer from a similar bout of intellectual malaise. Europe should be braced for the worst, and try for the best.

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