

China cautious on Europe aid

Written by DINNY MCMAHON and AARON BACK
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Klaus Regling, chief executive of Europe's rescue fund, in Beijing Friday. (Agence France-Presse/Getty Images)

BEIJING — Chinese and European officials sought to play down expectations about when and how China may deploy its vast financial resources to help bail out indebted countries in Europe.

A Chinese Vice Finance Minister said China must first see the details of a new European bailout

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fund before making any commitments.

"We of course must wait until its structure is extremely clear," Zhu Guangyao told a press briefing.

"And moreover, this investment must be decided on after serious, technical discussions."

Klaus Regling, the chief executive of the European Financial Stability Facility, flew into Beijing on Friday on the first stop of a tour around Asia to drum up support for Europe.

He told reporters he doesn't expect "any precise outcome" from his visit to China and said "it's too early to say what kind of amounts might be envisioned."

Mr. Regling said his trip to Asia was about consulting with investors over the best way to structure the bailout.

European leaders on Thursday agreed to leverage the EFSF and increase its firepower through two mechanisms: a special fund and an insurance scheme for sovereign bonds.

Details on the new fund are scant, but European leaders are looking to partly fund the expansion with investments from cash-rich emerging economies such as China.

Mr. Zhu also said that more details are also needed on the insurance scheme.

"How much is this insurance? That's still not clear," he said.

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Beijing has previously expressed a willingness to help Europe, albeit through the International Monetary Fund.

With China's massive foreign-exchange reserves of \$3.2 trillion, few other countries have the financial firepower to make a significant contribution.

Analysts say that any new support for Europe by China will be conditional.

It will expect European economies to push ahead with tough domestic reforms and to be more sympathetic to Chinese interests.

There is also public debate in China about whether bailing out Europe is the proper use for China's reserves.

Mr. Regling dismissed suggestions that European leaders will be forced to offer concessions to China in return for investment.

"I am not here to discuss concessions," he said, noting that China already buys EFSF bonds and gets no special considerations.

Jin Liqun, chairman of sovereign wealth fund China Investment Corp., made clear in London last month that CIC wouldn't offer handouts.

"The \$3 trillion in reserves are the fruits of the hard work of the Chinese people," he said.

"We're willing to work with those European countries in distress for a better solution. But...we have to be accountable to the people."

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CIC felt the wrath of public opinion after it stepped in to shore up Morgan Stanley and U.S. financial firm Blackstone Group LP during the global financial crisis, losing heavily as shares in both companies continued to sink.

"CIC came in and bailed out the U.S. banks in 2007 and got burnt," said Ashby Monk, co-director of the Oxford SWF Project, which tracks and researches sovereign wealth funds.

"China has a domestic constituency to worry about and can't be seen to be wasting money."

Still, if China decides to contribute to a bailout it's likely to be the State Administration of Foreign Exchange and not Mr. Jin's fund providing the cash.

Although CIC has more than \$400 billion in assets under management, its funds are almost fully invested and it has been waiting for a capital injection for almost two years.

"European leaders should turn policy commitments into real action," said Mr. Zhu. EU leaders should "take serious action to solve questions the market needs."

Mr. Zhu didn't go into details. But last month CIC's Mr. Jin said "there are some things governments have to do to deserve the sincere support of the rest of the world," listing reining in spending, dismantling the welfare state, and reforming "sloth inducing" labor laws.

China clearly has an interest in supporting the economy of its biggest trading partner.

But with Europe coming cap in hand, analysts say that Beijing may feel it's entitled to more than just a slightly higher return on its capital.

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Both SAFE and CIC have gone to great lengths to avoid alarming Western governments by presenting themselves as purely financial investors with no political agenda.

"The West sort of imposed [rules] on countries with sovereign wealth, like China, to force them to invest along commercial and not political lines," said Mr. Monk.

"It's ironic then that Europe may now be side-stepping that principle," he said.

Beijing has a long list of gripes with Europe including the EU's unwillingness to lift an embargo on selling arms to China, its refusal to treat China the same way as other major economies in trade disputes, the difficulties Chinese firms often encounter when trying to invest in Europe, and EU pressure to get China to appreciate the yuan more rapidly.

Analysts say that given the complexity of decision-making in the EU, China might struggle to get explicit concessions on any of these points if it decides to provide Europe with the cash it needs in a timely manner.

Mr. Regling said there had been no discussion of concessions.

Many analysts say China is unlikely to be a white knight for Europe.

A parade of politicians from struggling European economies have gone to China over the past several years looking for support.

Beijing's response has typically been to say that it will continue buying European bonds, but it hasn't done so on any significant scale.

"We could see China investing, but it won't be a game changer for Europe," said Rachel

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Ziemba, a senior analyst at Roubini Global Economics.

"Though some capital might come from China, most will need to come from within Europe."

—Eliot Gao and Owen Fletcher contributed to this article.