



## The Effects of European Economic Crisis to China-European Union Economic Relations

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### ABSTRACT

The global economic crisis which first appeared in USA during 2008, still has an negative effect on European Union member countries. In this study, the economical relations between China and European Union member countries compared via focusing on their foreign trade policies. In addition to this, the problem of "the value of Renminbi" between China and trading countries with China focused. The role of International Monetary Fund (IMF) on the way to rescue European Union from the economic crisis are studied. The result of the research showed that European Union is still one of the best customers of China and the support of China to rescue European Union from the economic crisis will make European Union faithful customer of China in near future.

**KEYWORDS :** Global Economic Crisis, The value of Renminbi, China-EU-IMF relations

### INTRODUCTION

What is crisis? The crisis is an unstable or crucial time or state of affairs in which a decisive change is impending and also Crisis is the time that people, institutions and countries began to concern about their future. In history many governments overthrown because of economical problems they had faced.

What is 'European Sovereign Debt Crisis'? A period of time in which several European countries faced the collapse of financial institutions, high government debt and rapidly rising bond yield spreads in government securities. The European sovereign debt crisis started in 2008, with the collapse of Iceland's banking system and spread to primarily to Greece, Ireland and Portugal during 2009. The debt crisis led to a crisis of confidence for European businesses and economies.

### THE CAUSES OF EUROPEAN UNION DEBT CRISIS

European Union has been facing the biggest and the widest economic crisis since the 'Great Depression'. While the European Union is fighting with the reflections of the economic crisis of United States, Greek debt crisis started and the Union started to fight with another economic crisis inside them. Addition to these credit rating companies decrease the credit rates of European Union countries. Also the value of country bonds of Greece, Portugal and Ireland become worthless. All these things led the economic crisis worse in Union.

### CHINA'S INCREASE IN POWER

China get ahead of Japan in "Current National Income" and took the second place in world placement in its history for the first time. China take an advantageous position in economy, because while any countries are fighting with economic crisis, China has still high export rates to these countries. This opportunity led China to grow while world's top countries are fighting with crisis.

Also China is the number 1 position in world in Foreign exchange reserves with the number of 3.2 Trillion dollars and has 1.161 tons of gold reserves which is twice as much as European Central Bank reserves.

### PROTECTIONISM IN FOREIGN TRADE

There is a dilemma between protectionism and free trade policies. This popular argument between them lasts until 17th century. Some groups support protectionism to encourage local industries and to increase domestic employment. Contrary to this some groups support free trade policy, because they think that everyone has right to reach various and cheap products.

### EUROPEAN UNION'S FOREIGN TRADE POLICY AND VIEW OF PROTECTIONISM IN FOREIGN TRADE

European Union applied some protectionist policies in order to protect the Union after the crisis started. In 2008, The President of Europe Commission declared that they are against protectionism, but they encourage the support of private and public sectors to each other.

**Table 1. World Trade Volume of 2009**

	Export %	Import %
EU	17,1	16,2

USA	16,6	11,2
Japan	5,4	6,3
China	9,3	14,9

**Source:** IMF, Eurostat

European Union has carried out 20 % of the world trade volume in 2009, when we look at the table European Union has achieved the 17,1 % of world export and 16,2 % of world import. We understand from the chart that European Union placed on the top position in world trade volume ranking. Also it is stated in European Commission report in 2010 that free trade policy decrease the unemployment rates and helps the union to grow.

### CHINA'S FOREIGN TRADE POLICY AND VIEW OF PROTECTIONISM IN FOREIGN TRADE

For several years best known politicians and economists state that sun is rising from "East". The reason of this statement is China has been growing with an average rate of 10% approximately for ten years. Especially in information technologies, the position of China in world league is rising. Chinese officials stated that they will be equal to both domestic and foreign products but emphasized that they are on alert for protectionism. Also stated that protectionism can not be the solution of economic crisis. In 2011, China celebrated their 10<sup>th</sup> year in membership of World Trade Organization. When we look back to the past ten years we observe that China is the one of the most successful members of organization.

In the last ten years, there is not only an increase in trade but also an increase in employment rates. Parallel to this, prosperity of Chinese citizens has increased in last ten years.

### CHINA'S MONEY CURRENCY RENMINBI'S VALUE PROBLEM

Appreciation or depreciation of the currencies may affect country's economics both in positive or negative perspective. Companies which makes currency trading can make huge earnings from the change of currencies.

If we look this situation from a country's perspective, depreciation of the currency increase the competitiveness of the goods that the country is exporting to the international arena. So depreciation of the currency sometimes may be beneficial to the countries. Competitiveness of money can not be measured by its nominal value, it is measured by its real value. Nominal value refers to an economic value expressed in fixed nominal money terms in a given year or series of years. By contrast, real value adjusts nominal value to remove effects to general price level price changes over time. If the value of the currency increase or decrease parallel to the inflation of deflation the power of competitiveness may not be changed. But if it is not changed parallel to the inflation changes, the competitiveness of the currency will be decrease. G-20 is blaming China about deliberately keep the value of Renminbi low. By keeping the value of currency low, China takes an advantageous position in the international trade arena.

The difference of Renminbi from the currencies of other countries is,

in most of the countries the value of currencies are determined via supply and demand balance. Contrary to this, the value of Chinese currency is determined by the central bank of China. This is the main reason why G-20 economies are blaming China to keep low the value of the currency. In 2007 central bank of China increase the surge rate of Renminbi from 0,3 % to 0,5 % , but there are still same criticisms to the central bank about keeping the value of currency low.- As the criticisms increase, central bank of China took a decision about increasing the surge rate 100 % from its recent value. Now with the last decision in 2012, the surge rate of Renminbi is 1 %. Chinese officials declared that they do not want to release the surge rate of Renminbi free, because any sudden change in the economy may collapse the whole economy. The decision of increasing the surge rate to 1 % is a critical meaning for the currency reform of China and also an important step to make the Chinese currency a global exchange tool.

#### THE EUROPEAN FINANCIAL STABILITY FACILITY (EFSF)

The European Financial Stability Facility (EFSF) was created by the euro area Member States following the decisions taken on 9 May 2010 within the framework of the Ecofin Council. The mandate of the facility is to safeguard financial stability in Europe by providing financial assistance to euro area Member States. To fulfill its mission, European Financial Stability Facility issues bonds or other debt instruments on the capital markets. The Facility is backed by guarantee commitments from the euro area Member States for a total of €780 billion and has a lending capacity of €440 billion. Also the facility has been assigned the best possible credit rating by Moody's (Aaa) and Fitch Ratings (AAA). EFSF has been assigned a AA+ rating by Standard & Poor's. The countries affected from the global crisis applied IMF for economic aid. As the demands for financial aid increased, IMF entered to an reconstruction period in order to renew itself and help to the aid demanding countries. Also as the number of demands increase IMF needs financial support. For the need G-20 decided to support financial capacity of IMF in 2009 London summit. When we look at the present, IMF still needs financial support to fund the affected countries. In February 2012 IMF made a call to powerful countries to help European countries. After the call Japan and China declared that they will help European Union via IMF.

**Table 2. 2004-2011 Gross Domestic Product increase of China**

Years	Annual Rate %
2004	10,1
2005	11,3
2006	12,7
2007	14,2
2008	9,6
2009	9,2
2010	10,3
2011	9,2

Source: IMF

#### CONCLUSION

The global economic crisis first started in USA and then severely affected European Union. Since then there has been an axis shift in European Union. When we look to the other side of the world China has an approximately 10 % growing value annually. Even being in an economic crisis and very cheap Chinese products are in the market, European Union choose free foreign trade policy. Also China choose free foreign trade policy but the currency of China is under control of Central Bank of China and surge rate of the currency is limited with 1 %. This policy is critiqued by many countries.

Why China help EU? After the IMF's call for help to EU in February 2012, China declared that they will help EU via IMF, the main reason of this help is EU is one the best customers of China and as they in the crisis their import from China is decreased. The policy of China helping EU is, to make EU economy as soon as better and as the economy become better the import rates will increase to numbers before the economy crisis. So China will reach the high Gross Domestic Product numbers they have before the crisis.

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