GLOBAL VIEWS

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Signal boost

Relationship between the EU and China is complex and multifaceted, but both sides have sent the positive message that they want it to evolve in a healthy way

As the world's second-largest economy and a major global power, China is an important partner for the European Union. The EU and China have a strong economic relationship, and trade between the two sides has been growing rapidly in recent years. In July 2020, China surpassed the United States to become the EU's biggest trading partner. In 2021, the EU and China traded goods worth about 696 billion euros ($755 billion), accounting for 16 percent of all EU trade in goods. In addition, China's share of EU trade has nearly tripled from 4.4 percent to 16.2 percent over the past 10 years. This is due to a variety of factors, including China's growing economy and the availability of goods produced in China.

Many of the EU's top companies have been eager to invest in China in spite of the disruption caused by the COVID-19 lockdowns, while European countries have become one of the most important destinations for Chinese companies in terms of foreign direct investment. China is a critical partner that can greatly influence the EU's market.

China's growing middle-income group and increasing purchasing power have led to an increasing demand for European goods and services, particularly in areas such as luxury goods, automobiles and high-tech products. This has led to increased exports from Europe to China and has created jobs and economic growth on both sides. European companies have also invested heavily in China, which has helped to create jobs and promote economic development in the country.

China's Belt and Road Initiative also presents opportunities for European countries to participate in infrastructure projects and economic development in Asia and other regions in the world. This presents new business opportunities for European companies and could also help to improve connectivity and promote economic development in the regions. The initiative also aligns with Europe's goal of improving the connectivity of its own neighborhood.

Overall, the relationship between Europe and China is complex and multifaceted. Despite the fact that China and the EU maintain a partnership, it is also acknowledged that there are several areas in which they are in competition with one another. The EU seeks to attain strategic independence and greater reciprocity in international relations, which is also applicable to the trade relationship between China and the EU. Currently, the EU holds the belief that trade and investment relations with China are characterized by significant asymmetries, including a lack of reciprocity in access to markets and an uneven playing field in certain areas. Conversely, China is seeking to transition away from its traditional economic model, striving for a more balanced path of development. Furthermore, it is essential for China to elevate its value-chain and stimulate its domestic consumption-driven market. However, as previously noted by both EU Council President Charles Michel and President Xi Jinping in their meeting in Beijing in December 2022, these challenges can be ameliorated through candid dialogues and negotiations via existing channels. It was also emphasized that international trade and investment should be governed by rules established through a reformed World Trade Organization.

Cooperation between the two sides is beneficial for both and for the world. Given that China and the EU are both prominent actors on the global stage, the manner in which they interact with one another has a significant impact on the international community. It is therefore of paramount importance that constructive cooperation between China and the EU on crucial issues is fostered. As the world continues to change and global challenges evolve, Europe and China will need to continue to work together to promote peace, stability and economic prosperity. Working together with China on global challenges such as climate change and economic inequality can also help Europe achieve its goal of strategic independence. By working together to promote sustainable development and reduce greenhouse gas emissions, Europe and China can rapidly address some of the most pressing issues facing the world today. Additionally, by working together to promote economic development in less developed regions, Europe and China can help to reduce poverty and promote stability.

Moreover, Europe and China can promote a level playing field in trade and investment. By ensuring that trade and investment between the two sides is based on fair competition and mutual benefits, Europe can balance its relations with any country or group of countries, which is an important aspect of strategic independence.

I also see opportunities for collaboration on regional and international security issues such as peacekeeping and counterterrorism, in order to contribute to stability and security in the region.

In his meeting with Michel in December 2022, President Xi stated that China was "ready to strengthen strategic communication and coordination with the European side". Later, Michel's spokesperson Barend Leyts said that Michel's visit to China provided a "timely opportunity" for Europe and China to engage on matters of "common interest". From this candid, in-depth, and face-to-face meeting, both sides sent a positive message to the world, indicating that China and Europe are willing to strengthen their relationship and cooperation in various ways. This meeting has also boosted the confidence of companies from both sides to strengthen their investments in both markets, which will lead to significant opportunities in various sectors, particularly in terms of creating jobs and driving economic growth. These are exciting prospects for future stronger collaboration between the European Union and China. We are looking forward to seeing our bilateral relations evolve in the right direction in the coming years.


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Staying upbeat

Despite gloom hanging over the global economy, there are still some positive factors

Due to the impact of geopolitical tensions, coupled with rampant inflation, monetary tightening and the lingering COVID-19 pandemic, the global economy experienced stagflation in 2022.

In early 2022, the global economy got off to a good start on the back of a strong rebound in the previous year. But from the second quarter, the economy started to lose steam. According to the estimates of the Organization for Economic Cooperation and Development, the growth of world economy dropped by 0.1 percent in the second quarter of 2022 from the previous quarter. In the third quarter, driven by the robust recovery of the United States and China, the global economy regained momentum, but this was followed by weak performance in the fourth quarter, revealing that the world economy is not yet on a solid footing. Overall, the global economy registered a less-than-expected growth rate of 3 percent in 2022, compared with 6 percent the previous year.

At the same time, the world has been struggling to tackle soaring inflation. According to data released by the International Monetary Fund, global inflation reached a 10-year high of 8.8 percent in 2022, in which the rate for developed countries was 7.3 percent and that for the developing world was 9.9 percent.

Countries posted different economic performances in 2022 due to their different pandemic control and economic policies. The US economy shrank for two consecutive quarters before improving in the second half of the year, growing about 2 percent over the whole year. Other advanced economies such as the European Union, Japan and the United Kingdom recovered rapidly in the first half of the year but experienced sharp declines in the second half. Russia, Ukraine and some East European countries, which suffered heavily from the military conflict, saw negative growth. In comparison, emerging economies in Asia and the Middle East countries maintained strong growth momentum, rising 4.3 percent and 5.3 percent respectively.

Looking ahead, despite the waning impact of COVID-19, the world still faces a lot of uncertainties on its road to recovery, and it may take a few years for the economic wounds the pandemic inflicted on the global economy to heal.

Although the inflation pressure is easing — according to International Monetary Fund estimates, the average inflation level of the world will decline from 8.8 percent in 2022 to 6.6 percent in 2023 — it is still higher than the pre-pandemic level. Major economies will continue to raise interest rates. The US Federal Reserve said that it will further increase the benchmark rates to above 5 percent. The risks of the financial market and property sector have not been defused, and the risk of downward movement is looming.

In addition, fresh challenges are emerging.

Global debt has been piling up at an alarming rate. The year 2023 and 2024 will be the peak period for developing countries to pay off their debts. Coupled with rising interest rates, a strong dollar and sluggish growth, developing nations will face growing debt pressure, and the risks of defaults are increasing.

Heightened geopolitical tensions also threaten the global recovery. A dangerous escalation of the Ukraine crisis is looming large; the US' economic war and military provocations against China will continue. The country is doubling down on suppressing China's technological progress and seeks economic decoupling from China. Its efforts in these regards will have immense impacts on the world economy. The US is also perpetuating its protectionist measures such as the Inflation Reduction Act, triggering new economic conflicts. The US has become the largest source of risk to global economic stability.

Some major economies lack the impetus for growth, casting a shadow over the prospects for the global economy. The fading dynamism of the US economy, combined with soaring inflation and high interest rates, is dampening the confidence of consumers and investors alike, while the country's export growth will grind to a halt due to weak demand. But thanks to the relatively healthy balance sheet of residents, the US economy will be able to avoid a hard landing in 2023.

The United Kingdom and some East European countries will see negative growth, and the EU as a whole is projected to experience close to zero growth. In Latin America and Africa, many economies will fall into recession. With the growth momentum in much of the world losing steam, the global GDP will increase much slower than last year.

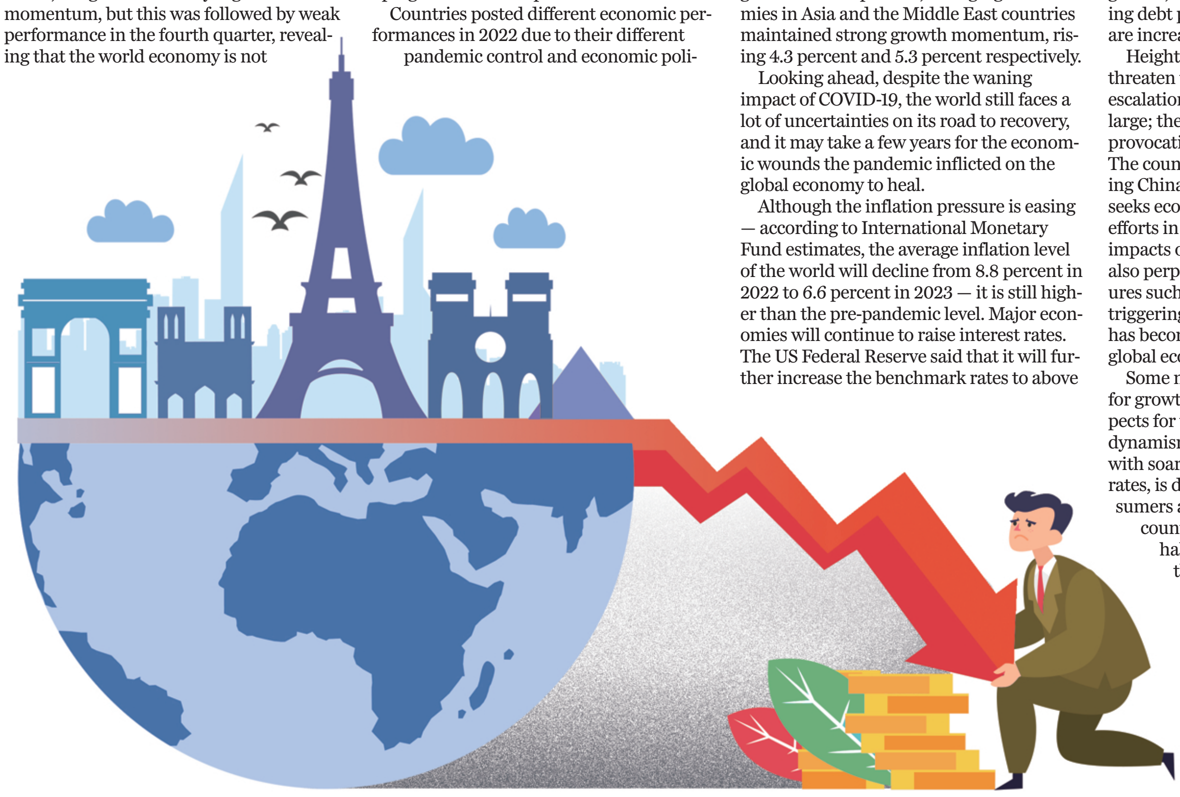
Nevertheless, there are still some positive factors.

With the relaxation of COVID-19 controls across the world, consumption and investment are picking up, restoring the confidence of market. Major economies are scaling back interest rate hikes, which will ease the financial liquidity crunch of last year, and stop the global economy from further declining.

The major driver of the world economy will be Asia. India and Southeast Asia are projected to grow by 6 percent and 5 percent respectively. As beneficiaries of the global energy shortages, Middle East countries such as Saudi Arabia saw robust growths in 2022, and are expected to maintain their growth momentum in 2023.

China has pulled through the most difficult stage. As pandemic curbs are lifted, coupled with the implementation of supportive economic policies and emergence of new growth engines, market confidence is recovering in the country. The IMF has revised upwards its forecast for China's economic growth in 2023 from 4.4 percent to 5.2 percent. Other global financial institutions such as Morgan Stanley and Goldman Sachs have also upgraded their forecast for China's economic growth.

The world economy will not suffer a recession as severe as that in 2008 and 2020 thanks to the robust growth of Asian economies. We are going to experience a "weak recession", and the yearly GDP growth is expected to be around 2 percent. With the world still plagued by uncertainties, it remains to be seen whether the global economy will rebound. In the post-pandemic era, the fundamentals of the world economy have changed, and we are entering a new era marked by high inflation, low growth, high risk and fragmentation. The world should take precautions against the challenges ahead.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