



China, the United States, and Europe at Cannes

Arvind Subramanian says that as the United States and Europe stumble, China will play a lead role at the G-20 Summit and face questions about how it will wield its power.

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Steve Weisman: World leaders in the G-20 have decided to convene in the French Riviera at a time when Europe seems to be in turmoil, engulfed with a debt crisis that might spread to the world. This is Steve Weisman at the Peterson Institute with Arvind Subramanian, whose book *Eclipse* is about the rise of China. How should we look at China's role at the Cannes summit?

Arvind Subramanian: In some ways, the Cannes summit is going to dramatically illustrate, I think, the central proposition in my book, which is that China's rise is more imminent, larger in magnitude, and broader in scope than anyone imagines, because you're going to see the spectacle of one of the current great powers, Europe, which is in such financial trouble, turning for help not to the other great power, the United States, which is on the sidelines, but to the rising power, China. What could more dramatically illustrate the change of the course of all history?

Steve Weisman: What help are the Europeans asking China to provide?

Arvind Subramanian: At the moment, formally they've asked China to contribute to their emergency financing package, called the EFSF [European Financial Stability Facility]. And that's, I think, the specific request that they have made. But I think, the closer US gets to the abyss, the greater will be the need for resources from abroad, from outside Europe.

Steve Weisman: You mean outside the US and Europe?

Arvind Subramanian: No, outside Europe, and not from the US, actually. And it has to be from the rest of the world apart from Europe and the United States. And the major creditor now in the world, with a cash pile of \$3.3 trillion reserves, is China.

Steve Weisman: What's China's response to this call for help?

Arvind Subramanian: It's a little bit complex, Steve. At the moment, they're just biding their time, waiting and watching, because they're under their own pressure domestically. People are asking or might ask, "Why is it that the country still has so many poor people? Why should we be investing our money to rescue a much richer part of the world, and which doesn't seem to be able to get its act in order?" So at the moment, China is sitting on the sidelines waiting. But if things come to a sorry pass, then China will have an interest in averting a major crisis in Europe because of the feedback effects onto itself. As you know, Europe is China's biggest importer, or base market for China. And China will have an interest to prevent that big export market from collapsing. So, it will have, at some stage, to consider giving serious financial help to Europe.

Steve Weisman: No lender wants to give to Europe or to Greece without being sure they can be paid back, but China has always been reluctant to criticize other countries for their internal affairs. Is China eager to tell Europe to get its act together?

Arvind Subramanian: That's actually a very good point. Because the choices that China faces are, I think, twofold: one is to lend money directly to Europe, but then open itself to the charge that it's getting involved in European politics, dictating terms, demanding concessions. For example, China might say, "Get us off the arms embargo list," or "Make designate us as a market economy." China is now labeled a non-market economy for trade purposes. But that runs the risk of it becoming a very politicized bi-lateral relationship, which I think both sides will want to avoid. That is why my own view is that China should pump this money into the IMF [International Monetary Fund]. So that you would have a collective international effort at solving European problems. It would be a truly cooperative effort. But of course, China has to get something in return for that.

Steve Weisman: What should it get?

Arvind Subramanian: I say a little bit controversially that China should have decision-making power in the IMF equivalent to that of the United States. Both of them should be one notch higher than Europe, which frankly is a debtor, a supplicant. In which financial institution do debtors get veto power? That to me is outrageous, and I think governance changes should be set in motion, which confer on China top-dog status. I think to the Chinese that's going to be very important, because in response to possible domestic charges that, "Hey, why are you investing this money overseas?" They could say, "Well, this is a cooperative effort, we want to help the world, we have self-interest in it, and in return, we are being recognized as Numero Uno."

Steve Weisman: The IMF has agreed, under pressure from some in the G-20, to move in this direction, but obviously not enough in the view of many, including yourself. Wouldn't China's demand for more say upend the process that's already underway?

Arvind Subramanian: You're absolutely right that the IMF is far from having moved to that stage of actually conferring this great status on China. I'm not sure whether it's upending the process so much as trying to accelerate the process. I think current discussions at the IMF are typically incremental and modest, constrained by the interests of many, many countries, including the United States. But it's all going to be a matter of need and evolving circumstances. If in fact there is chaos in Europe and you need all these resources through the IMF – which the IMF does not currently have – then I think we have to revisit all these issues.

Steve Weisman: We're a hundred years away from the opening of World War I, just about. And the United States looked at the war in Europe as -- I think Woodrow Wilson said at the time -- "a public brawl that we don't want to get involved in." And there's a tendency to say, "Why should we get involved in these disputes between Greece and Italy and Germany?"

Arvind Subramanian: Exactly. I think the analogy with 1914 is actually very good. Remember 1914, the years before were the heydays of globalization. That was the first great era of globalization. And we're similarly in another era of globalization. So things have

become so intertwined and so enmeshed, in terms of trade flows, capital flows, ideas, technology, that the John Donne phrase is true: no country is an island entire of itself now. There's a lot of self-interest in ensuring that even what seems like problems 5,000 miles away can come back and hurt you, because of this intertwining and enmeshing that we see.

Steve Weisman: Do you think the Chinese realize that?

Arvind Subramanian: Just remember, in 2008 when the crisis hit, and the US and the EU went down, China suffered an export collapse, which was really quite terrifying for the Chinese. They were able to respond to it only because they had this fiscal ability to throw fiscal money, engine pump-priming at the problem. This time around, as solid as their finances are, even they will be less constrained in how much they can respond...

Steve Weisman: More constrained?

Arvind Subramanian: More constrained. And therefore, they will have a big interest in averting financial and trade Armageddon.

Steve Weisman: Thanks, Arvind.

Arvind Subramanian: Thanks, Steve.

