



By: **Daniel Lacalle**

The European Union's Wrong Approach to China



The leaders of the European Union have become increasingly concerned about the Chinese economy.

For years, the EU saw itself as one of the main beneficiaries of the strong growth of the Chinese economy, and it saw China as the biggest opportunity for the German and French industries to expand. All the challenges of the Chinese system existed then and remain today.

However, in a recent **report** of the Diplomatic Service of the European Union, the summary stated that “the EU sees China as a partner for cooperation, an economic competitor, and a systemic rival. However, EU-China relations have become increasingly complex due to a growing number of irritants. China has become less open to the world and more repressive at home, while taking a more assertive posture abroad, resorting to economic coercion, boycotts of European goods, and export controls on critical raw materials” (EU-China Relations factsheet, December 2023).

What has happened?

The biggest problems of the EU economy are not China or the US

We need to start by understanding why the European Union is not growing according to its potential and the eurozone remains stagnant. The biggest problems of the European Union economy are not China or the United States, but its own misguided policies.

The leaders of the European Union usually blame the competition from China and the United States on subsidies, also accusing their top trading partners of protectionist measures.

The European Union countries have much larger government spending and subsidies than China

However, this makes little sense. The European Union countries have much larger government spending and subsidies than China, and bailouts of inefficient industries added to the meddling of government on so-called “state champions” are well documented.

China will likely grow 5% in 2024, despite the largest contraction in the real estate sector seen in any economy in decades.

This means that the Chinese economy will be the only economy that has posted GDP growth in an abrupt real estate sector slump in the past three decades.

Europe's stagnation

The euro area may avoid a recession in 2024, but we must remember it was already in stagnation in the fourth quarter of 2019, with negative nominal interest rates and expansionary fiscal and monetary policies.

Furthermore, Europe's stagnation comes in the middle of one of the largest stimulus packages in recent history, the Next Generation EU Fund.

The European Union cannot criticize China for its subsidies and public support of industries because it is at the core of its own industrial policy.

The European Union has not just lost the technology race relative to China and the U.S. It has not even presented itself

We must understand that the problems of the European Union come from excessive and counterproductive regulation and government interference in the economy, a misguided

energy policy that has eroded competitiveness, as well as a myopic set of rules in agriculture and farming that are crippling the primary sector.

The European Union has not just lost the technology race relative to China and the U.S. It has not even presented itself. A completely incorrect understanding of fiscal policy limits technology start-ups from thriving.

Self-inflicted challenges

The leaders of the leaders of the European Union know that their economies' challenges are self-inflicted and come from an incorrect understanding of green objectives.

The European Union has implemented a bureaucratic and interventionist approach to sustainability, forcing pernicious and counterproductive measures that have backfired, driving countries to increase imports and production of coal despite the expenditure of hundreds of billions of euros in subsidies.

Many European leaders want China to implement the same restrictions and legal and fiscal burdens as they do

Green objectives need to consider competitiveness and technological development. When ideology takes over from competition and free markets, the results are stagnation, high unemployment, and debt, as well as the opposite effect of what politicians tried to achieve.

Many European leaders want China to implement the same restrictions and legal and fiscal burdens as they do.

However, China cannot afford to make its citizens poorer by following an ideological view of development. Impoverishment is a luxury for rich and entitled nations. One that not even the rich nations can afford.

The accusation of protectionism is unjustified

The leaders of the leaders of the European Union complain that China is closing its economy and implementing barriers to the export of essential commodities.

The accusation of protectionism is unjustified, especially when we look at all the thousands of pages of legislation approved in EU countries to "protect" their industries and limit trade, many times disguising them as "environmental" measures.

China's challenges are not under discussion, but they cannot be an excuse to advance interventionism. Protectionism can only be attacked with more free trade.

Unfortunately, when many European Union politicians complain about subsidies and protectionist measures from one trading partner, they often show that they want to be even more protectionist, a sort of "free trade for us, but not for you" principle.



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Unless they understand that limits to free trade and protectionist measures only hurt those countries that impose them, politicians

will continue to believe that the reason why the EU is not growing is because they are not interventionist enough. A joke.

I find it amusing to see that European politicians blame China for interventionist policies only to dictate even more intervention in the economy. Instead of learning from the positive drivers of the Chinese and United States economies, it seems that European leaders ignore the positives and decide to copy the negatives.

The European Union has all the ingredients to be a fast-growing, capital-attracting economic agent. It can only be achieved by abandoning the interventionist policies that have damaged the economy.

The EU does not need to see China as a threat. The EU can lead by example, and it cannot expect that others will implement their incorrect policies.

There is a growing trend of protectionism and barriers to free trade disguised under the inexistent threat of a trading partner, in this case China.

It comes from a zero-sum game view of the economy that only politicians can defend. It presents an inexistent threat to advanced interventionist policies. If we don't understand that protectionism only protects politicians, we will see the EU economies drown further in a bureaucratically enforced stagnation.