

China grapples with implications of Brexit vote

Peter Symonds
2 July 2016

In the wake of last week's vote in Britain to exit the European Union (EU), the Chinese government, like its counterparts around the world, is grappling with the far-reaching economic and geo-political implications of the referendum outcome.

Speaking at a World Economic Forum gathering on Tuesday, Chinese Premier Li Keqiang appealed to investors to regard China as "a calm and cool head" in times of global economic uncertainty. Despite further signs of a marked slowdown, he said that Beijing was confident that it could handle the problems facing its economy.

"It's hard to avoid short-term volatility in China's capital markets, but we won't allow rollercoaster rides and drastic changes in the capital markets," Li declared. "It's important for all of us to work together to strengthen confidence, prevent the spread of panic, and to maintain the stability of capital markets."

In the immediate term, Li was concerned to prevent any plunge in the Chinese share markets as occurred in mid-2015 and for which he faced heavy criticism within the Chinese Communist Party (CCP). Unlike other stock markets, which fell sharply last week, the falls in China were small and were erased by gains this week.

However, the Brexit vote presents more complex economic problems to the CCP regime even in the short term, with financial analysts pointing to the vulnerability of the Chinese yuan to global currency movements.

Wall Street Journal analyst Lingling Wei pointed out on Monday that the yuan was "already the subject of a precarious central-bank high-wire act." She continued: "With all major currencies except the dollar and yen plunging in the wake of the British vote, pressure grows on the People's Bank of China [PBoC] to also

let the yuan weaken. But if the gap with the dollar becomes too big, capital outflows could speed up again."

In other words, if the PBoC maintains the value of the yuan against the US dollar, Chinese exports become less competitive in many markets. Any devaluation, however, particularly a large one, could result in a destabilising exodus of funds from China. Analysts estimate that up to \$1 trillion flooded out of China in 2015.

Britain's exit from the EU has also undermined China's trade and investment strategy towards Europe, which sought to develop the UK as a European base of operations. Beijing has invested considerable effort in cultivating relations with Britain, making London an offshore trading hub for the Chinese currency. Companies such as Chinese technology giant Huawei have invested in Britain to extend their reach into Europe.

Prime Minister David Cameron feted Chinese President Xi Jinping during his state visit to Britain last October. Xi told the British parliament that a "great new age" of friendship had opened up between the two countries. Plans were announced for Chinese-built nuclear power stations, a high-speed rail service and joint space research.

The Chinese government clearly hoped that its ties with Britain would increase China's chances of securing market economy status from the EU. Now Beijing will be compelled to operate within a far more uncertain situation where the Brexit vote is opening up fissures both in the UK and the EU.

Speaking on Tuesday, Chinese Premier Li declared that Beijing wanted to see a "united and stable" European Union and a "stable and prosperous" Britain.

At the same time, Beijing may no longer enjoy what

British Chancellor George Osborne described as a “golden relationship” with London. The pro-China orientation of Osborne and Cameron has already been criticised by Washington particularly after Britain became the first major Western power to sign up to China’s Asia Infrastructure Investment Bank (AIIB) in March 2015. The US as part of its “pivot to Asia,” which aims at undermining Beijing diplomatically, economically and militarily, was sharply opposed to the British decision.

The Conservative Party is not just divided over Britain’s policy towards Europe, but also to China. Significantly this week, an inner-party report has hit out at what it regards as the government’s failure to take a tough stand against China’s human rights record. The report suggests concern in sections of the Conservative Party that Britain’s longstanding relations with the US have been compromised by growing ties with China. Care about “human rights” is Washington’s stock-in-trade as it pursues its predatory interests.

China’s AIIB initiative is part of far broader “One Belt, One Road” plans for massive infrastructure investment in high speed rail, road, Internet links and port facilities aimed at more closely integrating the Eurasian landmass. As well as boosting economic growth, Beijing regards the policy as a means of establishing closer ties with Europe and marginalising Washington. The Brexit vote, and the fracturing of the EU, compounds China’s already major difficulties in securing agreement for its proposals.

An editorial in China’s state-owned *Global Times* last weekend lamented the British vote declaring that it had “opened a Pandora’s box in Europe, pushing the continent into chaos” and reflected “the general decline of Europe.” It suggested that the changes would “benefit the US, which will lose a strong rival in terms of the dominance of its currency. Politically it will be easier for the US to influence Europe.”

In Washington, however, various analysts are already declaring that the real winner from the Brexit vote will be China. A comment from the Washington-based think tank, the Brookings Institution this week was headlined “Brexit aftermath: The West’s decline and China’s rise.” After considering the economic implications, commentator David Dollar declared:

“Finally, from a larger geostrategic perspective, it would seem that China is the big winner from Brexit.

Europe is likely to be a less influential player on the world stage and will be absorbed with internal issues of negotiating the British exit, controlling immigration, and keeping the periphery inside the eurozone. The United States is also likely to be distracted by these European challenges. This gives China more scope to pursue its reclamation activities in the South China Sea and to play divide and conquer with European states on various issues.”

The remarks indicate concerns in Washington that Beijing will gain an advantage from the Brexit vote. The United States has no intention of ceding influence to China or any other power. It is already engaged in a comprehensive military build-up in Asia against China, and also in Europe against Russia, in preparation for war. In the coming weeks and months, Washington’s will undoubtedly ramp up this dangerous confrontation on both fronts.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact