



WHILE CHINA RULES THE GLOBAL ROOST

Reflections from Dalian

By Professor Jean-Pierre Lehmann - September 2011

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The ironies of history can be the most delicious. For at least a century, from the outbreak of the First Opium War in 1839 to Liberation under Mao in 1949, China was imposed upon by the Western imperialist powers and later (following the Sino-Japanese war of 1894/95) joined by Japan. The sign on the Huangpu Park in Shanghai “No dogs or Chinese allowed” is said to have never existed; but the myth is widely believed and evokes the nature of the West’s oppressive presence. China and the Chinese were generally either pitied or despised. The words Chinese and poor were synonymous. The city of Dalian, where the World Economic Forum’s (WEF) “Summer Davos” meeting was taking place, was a Japanese occupied city from 1905 to 1945, incorporated into its empire in Manchuria (Manchukuo) following 1932.

In the first celebratory speech Mao delivered at Tiananmen Square in Beijing on the occasion of the “liberation” of China on 1 October 1949 he asserted: “Never will China be humiliated again.” Mao stuck to his word. China was not humiliated again. However, while it may have been feared in some quarters, admired in others – especially by leaders of pro-independence movements of colonised countries – it was also ostracised from the global community. In 1978, two years after Mao’s death, China under the leadership of Deng Xiaoping decided to open up and embrace globalisation. The rest is history! To cite only one among many possible dazzling figures: between 1978 and 2008 China’s trade multiplied more than a-hundred fold!

It has not been all plain-sailing by far. Again to cite only one example: Beijing first applied for accession to the GATT (later to become the WTO) in 1986 and had to undergo excruciatingly tortuous negotiations before finally being allowed in (with some major caveats) in 2001. In the meantime, especially over the last decade, not only has its GDP grown at an average 10% per annum, but its global clout has expanded at dizzying speed and scope. It has overtaken Japan to become the world’s second biggest economic power and, according to the IMF, is on course to become the first in 2016. While there are still many poor people in China, in popular perception the words Chinese and poor are no longer synonymous! China counts a high number of billionaires, second only to the US; it is the world’s biggest market for expensive Bordeaux wines and most luxury goods; big-spending Chinese tourists have become ubiquitous. But most of all, China has by far the world’s biggest share of foreign exchange reserves.

In 1978 China’s foreign exchange reserves stood at a paltry \$1.6 billion, today they stand at well over \$3 trillion ... and counting! In perhaps the most amazing reversal of fortune story ever, as China stands financially supreme, all three of its erstwhile oppressive imperialist masters, Europe, Japan and the United States, kneel as supplicants at Beijing’s feet for help. The US debt is largely financed by China’s purchase of Treasury-bills, the Eurozone economies are pleading for Chinese acquisition of their bonds, Japan is at China’s mercy in that what little growth there is in its anaemic economy it is dependent on exports to the Chinese market.

In his speech at the opening of the World Economic Forum’s meeting on September 13 Premier Wen Jiabao made it clear that China’s position allowed it to make conditions. Before that, however, he allowed himself a few minutes to lecture his supplicants – a bit like a schoolmaster admonishing his students. The US must be fiscally responsible and the EU must put its house in order.

Furthermore, the US, Wen indicated, should be much more open to Chinese direct investments (of which there are likely to be far more to come) and if it wants to lower its trade deficit then it should lift the ban it has imposed on exports of high-tech products. This has been a very contentious issue between Washington and Beijing. Relations with the EU rankle in the refusal of Brussels to recognise China’s status as a full market economy. This is more a matter of symbolism than substance, nevertheless it has been for the Chinese an irritant and perceived as a legacy of the days when the West ruled the roost. According to WTO provisions China will become a full market economy by 2016 in any case, but it would indeed be recognised as a sign of goodwill should the EU decide to move on this before, something which would greatly improve the climate for Chinese possible salvation of the Eurozone economies! To the Japanese, who are highly indebted, but more to themselves than to the Chinese, Wen nevertheless reminded them how important, for example, Chinese tourism is to the

Japanese economy: indeed the Akihabara district of Tokyo – the Mecca, so to speak, of Japanese electronic goods – has become highly dependent on Chinese customers.

So now that China rules the global roost, it will be laying down its conditions. China will become more powerful, partly because of its own internal dynamics and the shifts its economy will experience over the next few years – notably by becoming a much bigger foreign investor, as well as rapidly moving up the value-added chain – but also in good part because of the debilitating weaknesses of the erstwhile global roost-ruling troika: US, EU, Japan.

I suggested to the WEF that while the annual meeting in Dalian is known as the “Summer Davos,” possibly in the future they might consider naming the Davos meeting the “Winter Dalian!”

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