

Innocence Abroad: President Hollande in China

IMD Professor Jean-Pierre Lehmann reacts

April 26, 2013

French President François Hollande is in China... for the first time! That is right. The 58 year old president of the world's fifth largest economy has never visited what has since 2010 become the world's second biggest economy. Nor has he ever been to India, the other rising Asian giant.



The Hollande-China lack-of-connection illustrates a deeper syndrome: the chasm between the world of business and the world of politics. A serious corporation would never dream of appointing a CEO, or even a junior person with responsibility, who was not reasonably experienced and familiar with the new global economic powers, especially China. Apparently being Head of State and responsible for an entire country's GDP and its prospects does not require "knowing the world."

In the world of today, if a business person wakes up in the morning and thinks parochial; her goose will be cooked in a not distant future. Alternatively if a politician wakes up in the morning and thinks global, he is likely to have his political career terminated very soon. Today business is global, but politics tend to remain very local.

What Hollande will make of China on this "discovery" trip will be interesting. For a person who is so un-worldly it might be difficult to absorb what is, its recent massive economic and consumption growth notwithstanding, a rather different part of the planet. For many French companies, however, China is a huge market – and Chinese tourists to France are big-spenders!

By far the most profitable French enterprises in the Chinese market are in luxury goods and also in wines and spirits. China is the biggest market, in value terms, for French Bordeaux wines and cognac. There is a lot of wealth in China. Recently it was reported that the Chinese Communist Party's National People's Congress counts 83 billionaires. Yes: 83 billionaires. This makes the €600k in a secret Swiss bank account revealed to have been held by the former French Budget Minister Jérôme Cahuzac seem like petty change – indeed even if, as some allege, the amount is the triple of what has been admitted to by the former minister.

François Hollande is famous for having declared quite categorically during the campaign "**Je n'aime pas les riches**" ("I don't like the rich). So perhaps China was not an ideal destination. In the context of his socialist principles, however, he might be glad to discover that his Chinese counterpart, Xi Jinping, has launched an anti-ostentation campaign. From the viewpoint of LVMH or Chanel, however, this may not be such good news. And in view of the paltry state of the French economy, France does need to export.

In 2000 when China's market was not the behemoth it has become, France's exports to China amounted to roughly \$3 billion and Germany to \$7 billion: a difference of \$4 billion. By 2011 Germany was exporting some \$70 billion worth of goods, while France's exports stood at \$18 billion: a difference of \$52 billion. By the following year German exports to China had surpassed exports to the US.

Of course the fact that Germany is doing so much better than France has probably nothing to do with whether or not Angela Merkel knows China better than does François Hollande. On the other hand, China presents a "political" problem to France, which it does not to Germany. In the 2012 presidential elections (which Hollande ended up winning), all ten candidates, from the extreme right Marine Le Pen to the extreme left Jean-Luc Mélenchon, with all the various political colourings in between (including centre-right Nicholas Sarkozy and centre-left François Hollande) undertook as part of their campaign pledges to "protect" France from China. The protectionist mentality remains extremely strong and stubborn. This is especially the case with the combative and somewhat chauvinistic minister for "industrial renewal" Arnaud Montebourg.

As to Germany, in the words of a forthcoming book on Europe by Indian author Pallavi Aiyar, German companies, especially the so-called Mittelstand (SMEs), increased their exports to China "thus turning the erstwhile Middle Kingdom's rise into an opportunity to be exploited rather than resented."

That is the spirit entirely lacking in France and that accounts, in good part, for its quite dramatic loss of competitiveness. It is arguably less important for Merkel to know China because her economy is doing well, especially in remaining highly competitive, and hence German companies can "take care" of the China challenge. Hollande has a sick economy with declining competitiveness that would greatly benefit from some German lessons on approaching China – and the world!

One fears, however, Hollande will return from his global jaunt as parochial as when he left!