

Beijing, October 8, 2010

An analysis of the current situation in China

Shortened text of a presentation given at the 4th International Joint Alumni Conference on October 1, 2010 at the Swiss Re Centre for Global Dialogue in Rüslikon, ZH by H.E. Mr. Blaise Godet, Ambassador of Switzerland in Beijing.

These days, a foreign visitor finds a recovered and self-confident China. The times when DENG Xiaoping recommended the party to focus on the inner development of the country in the first place, while attaching only subordinate importance to international affairs seem to be long gone.

One has to admit that China can legitimately be proud of recent and forthcoming achievements: the Beijing Olympic Games in 2008, the World Exposition in Shanghai; the Asian Games in Guangzhou later this year; the reconstruction efforts undertaken after the two earth quakes in Sichuan and Qinghai as well as after the severe floods in Gansu; and not to forget the stimulus plan, amounting to roughly USD 600 billions, which contributed to financing the numerous construction sites across the country (roads, airports, ports, subway lines, resident buildings, etc.) and seems to have lifted the economy out of the undertow of the economic crisis that was looming 18 months ago.

There is hardly any month that passes without the central or provincial government inaugurating an airport, a congress centre, a high-way or an opera. Looking around, one gets sometimes overcome by the feeling that the resources of this country are unlimited.

However, it seems to me that China's economic achievements contrast with a certain sluggishness of the political system. If the practice set in place under the team of JIANG Zemin and his premier minister ZHU Rongji will be continued, the actual tandem with HU Jintao and WEN Jiabao, which took over in 2003, will remain in power until 2012. Accordingly, we should then witness the arrival in the first row of the current vice president XI Jinping and the vice premier LI Keqiang. It seems likely that the successors will take on the prudent and efficient manner of guiding the country owing to which China is now ranking the second largest economy in the world, what allows it to maintain a dialog at eye level with the USA.

In particular with Washington there are many topics to be discussed and the relationship is often soaked with mistrust. Among the hot issues there are the RMB exchange rate, judged artificially under-valued by Washington; Taiwan, to which the US sold weapons in January; Iran, which China is treating carefully in view of its dependence on Iranian oil supply; Afghanistan, where the USA want China to engage more in security issues; the Democratic People's Republic of Korea, where China's support is essential for the viability of the regime; human rights, even though Mrs Clinton has apparently decided not to turn it into a bone of contention; and eventually the global warming. Nevertheless, due to the importance for the international system as well as the vital financial and commercial interdependence, both countries pragmatically try to intensify bilateral relations. The striking point is the multiplication of contacts and visits at all levels between both capitals, which

substantiates the idea of a permanent dialog upon different topics with not only a bilateral but also a global scope, creating a de facto G2.

However, Beijing officially refuses the idea of participating a Sino-American duopoly – a so called Chimerica - but prefers to emphasise its engagement within the G20.

Today, the Party leadership is following a moderate path. The Political Bureau's Standing Committee (9 members) follows in fact a centrist approach, yet still closer to the conservative nationalists than the proponents of a more far-reaching opening of the society. One has to be aware of the fact that the Chinese instinctively reject instability and disorder from which they suffered so hard in the past. For the first time in two centuries the majority of the Chinese people experience a constant improvement of their living condition, without an apparent risk that the situation might turn into chaos. The party's legitimacy is based on this slow, yet constant raise of achievements. It is very possible, that if today free elections were held, the power of the CCP would be confirmed with a comfortable majority, since the majority of the population agrees with the overall leading strategy of the party. However, there is one issue endangering the monopoly of the party: corruption. The leadership in Beijing is well aware of this problem and is attempting to solve it through the improvement of inner-party democracy. At the same time, in the provinces and big cities more action is taken against those accused of having misused public funds. For the time being the Party has the means – owing to its success in achieving economic prosperity - to come to grip with the bold internet users who are expressing their dissatisfaction with the shady practices of certain local authorities.

If there is one topic that China does not want to be lectured on or may even think that others should learn from China, it is the field of human rights. China is demonstrating with pride its success in fighting poverty and famine. It emphasises that never before so many individuals (we speak of 300 to 400 millions) were lifted out of poverty in such a short period of time and that this undeniable success facilitates the relations between Beijing and the developing countries. As a consequence it is not with the attitude of a penitent that China approaches the Western countries in the different human rights dialogues. Much more so it expresses the conviction that the imprisonment of some dissidents is a price well worth paying in order to maintain the sacrosanct social stability and the strategy of a controlled opening up.

The same strategy of control explains the rigidity that Beijing shows in the Tibet issue as well as the manner of dealing with the Dalai Lama.

No matter whether the exile government ultimately strives for the autonomy or the independence, it is out of question to tolerate that a province could openly jeopardise the Chinese authority and even less so if the given province comprises a significant part of the countries' territory and is rich in natural resources and eventually threatens to evoke similar endeavours in other provinces. Xinjiang, with its Uighurs is also a "difficult" autonomous region, as in the opinion of some people it threatens to slip into the spiral of "terrorism", "fundamentalism" and "extremism", which Beijing currently describes as the three worst plagues. It is by the way with respect to this concern that Beijing has founded the "Shanghai cooperation organisation" which gathers with Russia and China the majority of Central Asian republics. Eventually the Taiwan issue still triggers strong defensive reactions in spite of the warming up of the relations across the strait and the policy of gradual rapprochement put in place by president Ma Ying-Jeou since his accession to power in 2008.

China does not maintain a dialog with its international partners about these sensible topics which are called core interests by Beijing. They are all arrayed around the maintenance of the security of the political system, national sovereignty, territorial integrity (Taiwan, Tibet, Xinjiang) and the stable development of China's society and economy. They illustrate that domestic concerns have still priority in the definition of the foreign policy and that the defence of universal values plays only a secondary role.

There is yet another reality that foreign visitors to China – even if they go there frequently - may not always be aware of: the rise in the value chain of industrial production: Very often people in the West still imagine China as a giant production workshop of unsophisticated goods like toys or shoes. Of course, this is still the case. However, China counts more and more companies that generate a high value added, in particular in the fields of electric vehicles, electronic imagery, solar energy, micro mechanics, telecommunications and new communication technologies. China's economic take-off is thus also a qualitative one.

Nevertheless it would be erroneous to think that there appear no clouds on the sky: In certain places the environment is in a deplorable condition, the industrial production is often little efficient, the health system is precarious not to say inexistent, which as well applies to the social security. China has thus to experience enormous investments, which the United States and Europe have already undertaken.

A social security system and a health system that merits its name is nothing but a question of equality. It addresses in the end the sustainable development of China's growth. If Beijing wants to overcome the stalemate of an economy mainly based on exports, which caused China to accumulate an immense amount of dollars (2'400 billions !) and to be in some way dependent on the American Treasury, another growth model has to be put in place. This model would logically have to take into account the satisfaction of the domestic market's needs, which implies an increase of the domestic wages in real terms (we have already seen some strikes in (foreign) companies) as well as a better coverage of health and social insurance. In fact, if a Chinese worker feels defenceless against a stroke of fate, he will always conserve his inclination to accumulate savings.

However, the growth of the industrial and financial product range does not mean that the Chinese markets is about to be westernised. Certainly, as a consequence of China's accession to the WTO, the economic legislation has been adapted. Yet, foreign companies keep on operating in a somewhat opaque, unstable and sometimes discriminatory legal environment. They also have to be aware of the fact that in case of legal dispute they will not be able to count on an independent judicial examination. In China the tribunals are not there to oppose the regime. They clearly stand in the service of the Party.

When sometimes I hear of the difficulties Swiss firms encounter, I get the impression that there is a critical size for a company to engage in this market. There is no universally applicable recipe that guarantees success. However, I feel tempted to say that if a company thinks of settling in China without clear strategy and solely due to the lower costs of labour, neglecting other existing obstacles (local partners, local customs, bureaucracy, etc.), it might encounter some disappointments. In China a

rough business climate prevails and profit margins are narrow (maybe the luxury industry is an exception) so that eventually only a sufficient volume of booked orders will justify an investment.

In order to facilitate the work of our businessmen, Switzerland has made big efforts towards establishing a bilateral free-trade agreement, not only to reduce the customs duties, but also to improve the market access conditions in general. The interest is reciprocal, since for Beijing the negotiations with Berne would be a training field with a non EU-member State that has a nevertheless very diversified economy, before entering a similar dialog with Brussels. The SECO hopes that our negotiations could start on the beginning of next year, what seems realistic to me, considering that a Memorandum of Understanding was signed to that effect on the occasion of the recent official visit of President Leuthard last August. According to the Swiss view the scope of application of the agreement should be as broad as possible and contain in addition to the usual tariff specifications regulations on services (including financial services), intellectual property and competition policy. In any case Switzerland will insist on the inclusion of an evolutive clause that allows both parties to periodically re-examine the scope of the application of the agreement with a view to widening it.

Also China's hunger on natural resources has to be mentioned. It can be felt on all the continents, even in crisis regions like Sudan or Afghanistan. This deployment also stirs security issues, since China needs to protect itself and its strategic economic interests, in particular with its naval force. To this end the mission of the navy has been extended: Instead of restraining itself to defending its coast lines, it shall henceforth secure the protection of the Chinese strategic interests, as it is doing today in the range of the naval operation "Atalanta" in Somalia.

Eventually I would like to mention the bilateral relations that are getting increasingly dense and diverse (diplomacy, security, investments, human rights, humanitarian aide, global warming, culture and tourism, science, education and research). Moreover, the relationship would further benefit from an extension towards fields such as legal assistance, migration, finance and banking services. The initiation of a financial dialogue, as it is wished by the Chinese side, would allow to tackle certain domains where our expertise is well established: 1) banking training "capacity building"; 2) improvement of the conditions regarding the access to the financial market; 3) stock-exchange -, banking- and finance regulation problems; 4) diversification of reserve assets. Paradoxically, the Uighur affair, which the Chinese have handled with soberness after an initial wrathful reaction, seems to have revealed the maturity of our bilateral relations. This is illustrated by the fact that this issue has not been turned into a stumbling block for our most important current dossier: the free trade agreement.

In conclusion I hope that my comments, sometimes critical, have translated the strong impression which China has made upon me: a very energetic country, determined to fight against poverty and keen to learn and to open up to that effect. In other words China appears ready to draw lessons even from foreign practice, but it will do so at its own pace and shall not let other countries dictate the orientation of its political, economic or social course. In a nutshell China is giving us an example of "opening under control".