



Perception and Reality in a Rapidly Changing China

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Agenda

- China's global impact: Why China is important - Why we have to understand China
- Like in any high-growth emerging market, some things are changing fast, some things slowly, and some things not at all
 - The changing business environment
 - China's role in the world
 - China - U.S.
 - China - East Asia
 - China - Africa
 - China - Latin America
- Globalization, China and finding your niche

China's Global Impact

- A force of globalization
- Size
- Manufacturing power - iPod
- Keeping prices down
- First, Second, and Third World
- Forcing other economies to adjust
- Forcing businesses to change strategy
- Affecting almost every sphere

Changing China

- Speed of change
- Performance exceeds forecasts
- China is not X years behind the U.S.
- China is forging its own path - This is a society, a great civilization, that is re-emerging
- Leapfrogging
- Perceptions don't stay in tune with reality

The Business Environment

- Perceptions
 - It's all about price
 - It's all about low-end products
 - It's all about manufacturing
 - It's all about relationships
 - The scramble for talent
 - Global brands will win
 - IPR are not protected
 - Weak rule of law
 - Competition is limited
 - Press is docile
 - Consumers are not discriminating
 - Purchasing power is low
 - Reforms are slow or slowing

The Business Environment

- Reality
 - Costs have gone up
 - China is increasingly making higher-value products, eg Airbus in Tianjin
 - The service sector is growing ~ 39% of GDP
 - The talent is there. The challenge is retaining staff. Wages keep going up
 - Brand loyalty has yet to develop - the “last minute” decision
 - Local brands are strong
 - IPR protection is improving, though enforcement remains weak

The Business Environment

- Legal frameworks are evolving
- Many sectors are highly competitive both with local and foreign competition
- Active media - within limits
- Increasingly sophisticated consumers
- Consumer activism is increasing
- Wealthy consumers in cities and coastal areas - HNWIs growing by about 8% a year
- World Bank last year ranked China as one of the “top reformers” - eg bankruptcy law, property law

China - A “Top Reformer”

- Ranked by the World Bank as “a standout in regulatory reform”
- One of the world’s “Top 10 Reformers”, along with Egypt, Croatia, Ghana and Kenya
- Property law - put private property rights on equal footing with state property rights
- Bankruptcy law - gives secured creditors first priority to proceeds from their collateral
- Construction permits - electronic processing reduces delay by two weeks (e-government initiatives)

China's Role in the World

- Perception
 - Bastion of Communism
 - Militaristic
 - Repressive
 - Mercantilist
 - Supportive of dictators
 - Free rider
 - Poor governance
 - Eager to project power
 - Irresponsible
 - Unreliable partner
 - Currency manipulator

China's Role in the World

- Reality
 - Reluctant to project power, multilateral approach
 - Adjusting to increased responsibilities and larger role, eg Sudan, Myanmar
 - Skilled diplomats
 - Soft power
 - Reliable partner
 - Highly skilled policymakers
 - Becoming a “responsible stakeholder”

“For more than 30 years the United States worked with others to draw China out of isolation and into the international system. As it becomes a major global player, we are now encouraging China to become a ‘responsible stakeholder’ that will work with the United States and others to sustain, adapt and advance the peaceful international system that has enabled its success”

- Robert Zoellick, 2005

then-US Deputy Secretary of State

“If China called for sanctions against Iran, it would no longer be a free rider or free loader and could become a guardian in the post-Cold War world. This is about the exercise of power. At the end of the day, Iran will be a nuclear power or not a nuclear power and there is no sitting on the sidelines saying ‘It is none of our business.’ I welcome China as a global power, but this is nothing you can do by whispering.”

- Thomas Friedman, 2007
New York Times columnist

“The Chinese philosophy is that the more you want to exercise your power, the less you will actually do so. We do not believe that outside forces can result in changes in a country. Only internally generated forces can.”

- Li Ruogu, 2007

Chairman, Export-Import Bank of China

“There is the impression that China is there [the Sudan] only for the oil. That is the biggest lie I’ve ever heard.”

- Sha Zukang, 2007

Undersecretary-General, UN Department
of Economic and Social Affairs

China - U.S. Relations

- Inside the Beltway: currency, Iran, Sudan, trade, food and product standards, the anti-satellite weapon
- Strategic Economic Dialogue - a new framework for managing the bilateral relationship (Third round in Dec. 2007)
- Presidential politics and the Olympics - boycott movement
- Foreign policy platforms on “Foreign Affairs”

China - Japan Relations

- Recent improvement
- PM Fukuda is seen as pro-engagement and against shrine visits
- Economics trumping politics
- Japan is hedging its bets (Vietnam, India)
- Japanese technology, particularly for energy conservation

China and East Asia

- 1980s-1990s: Fear of the emerging juggernaut
- 1997: Hong Kong handover
- 1997-8: Asian financial crisis - China holds steady on the renminbi
- China lifts the other boats
- Spratlys issue - code of conduct
- 2003: China proposes FTA with ASEAN, prompts Korea and Japan to jump in
- China's key role in Six-Party Talks on the denuclearization of the Korean Peninsula
- China and Myanmar
- China and the Philippines - ZTE controversy

China and Africa

- Compatibility - strong state approach, non-interference
- Energy requirements
- Mercantilist, non-judgmental, value-neutral
- New colonialism?
- China's role is evolving
- Cooperation with the World Bank
- Engagement in Sudan
- Soft power - Chinese business - "the Ugly Chinese"
- China and the U.S. - on a collision course in Africa?

China and Latin America

Latin America should create a similar forum with China that Africa and Central Asia have

Find your niche in the global economy.

Find your niche in relations with China.

During the good times - with the commodity price windfall - do what is necessary to become a more competitive economy.

“As Good As It Gets” - Helen Hung is China

Olympics Effect

- Internal and external change -Japan and Korea
- Infrastructure - Beijing-Tianjin in 30 minutes!
- Catalyst for changes already underway, boost to services sector
- China in the spotlight - ready for the unexpected?
- China the Unready?
- China the Free Rider?
- China the Superpower-in-waiting?
- China the “responsible stakeholder”?