



Introduction by
Lord Powell of
Bayswater KCMG,
Former Foreign Affairs
and Defence Adviser
to Prime Minister
Margaret Thatcher

Generalisations are always a bit of a risk. Some scholar or trainspotter equivalent usually unearths an inconvenient fact or precedent to upset them. But I feel safe in saying that the scale and scope of the changes taking place in China today are unmatched, not just in China's history but in world history.

Obviously that is in part because everything about China is big, most of all its land-mass and its population. Change is therefore bound to be quantitatively large. But the real story about China today is qualitative change, in its economy, in society and in China's world role.

It's difficult for us outsiders to comprehend and judge where China will eventually come out. It's probably no easier for those who govern China to do so. President Hu Jintao speaks of "scientific development" and "harmonious society". These are useful sign-posts to subtle changes of policy and direction in China. But they do not describe an ultimate destination, anymore than did Thatcherism or the Third Way in Britain. The truth is that changes on the monumental scale being experienced by China acquire a momentum of their own and no-one can really be sure what the end result will be. The first step to understanding what is really happening in China is to disentangle reality from myth. For instance:

- China is not going to be the world's largest economy in any meaningful sense any time soon, whether one calculates size using current exchange rates or purchasing power parities (and the latest World Bank figures 'reduce' the size of China's economy by 40 per cent). In per capita GNP, China is way down the world rankings. What counts is the velocity at which China is growing and lifting tens of millions of people out of poverty. And on that scale China's recent record is remarkable and set to continue for some considerable time yet;
- China's economy is not as unhealthily dependent on exports and as vulnerable to slow-down or even recession in its main

markets as is often suggested. In terms of added value, China's exports are a relatively small share of the economy and the real drivers of growth are investment and infrastructure;

- China's sovereign wealth fund is not a scary predator poised to snatch control of choice western companies and technologies. Like other countries, China wants to share in the benefits of globalisation through outward investment, but is doing so in a cautious and prudent manner, focusing on securing stakes in successful foreign enterprises rather than full control;

- China is not a financial basket case. Although its main banks have been plagued by bad loans and its securities markets are still fairly basic, China has extremely skilled financial and market regulators, who are stabilising its institutions to build a solid foundation for future growth, while steadily opening them to outside investment.

In other words, reality is a good deal more reassuring than myth. China is not an unstoppable economic giant hoovering up the world's manufacturing jobs. Nor is it teetering on the brink of financial collapse. It cannot escape the problems of economic growth more than others have. Inflation is rising, and food prices in particular. There are food shortages as a more prosperous population wants to eat more meat. There are bottle-necks in the supply of energy and some other natural resources. These problems threaten the competitiveness of China's economy and particularly the coastal provinces. And they could be made worse if other countries, particularly the US and EU, resort to protectionism. But against that, the rapid opening up and development of China's West and the huge reservoir of potential new consumers are an assurance of much more economic growth to come before China hits any buffers. There are at least four issues crucial to China's future where its interests and ours in the West impact each other directly.

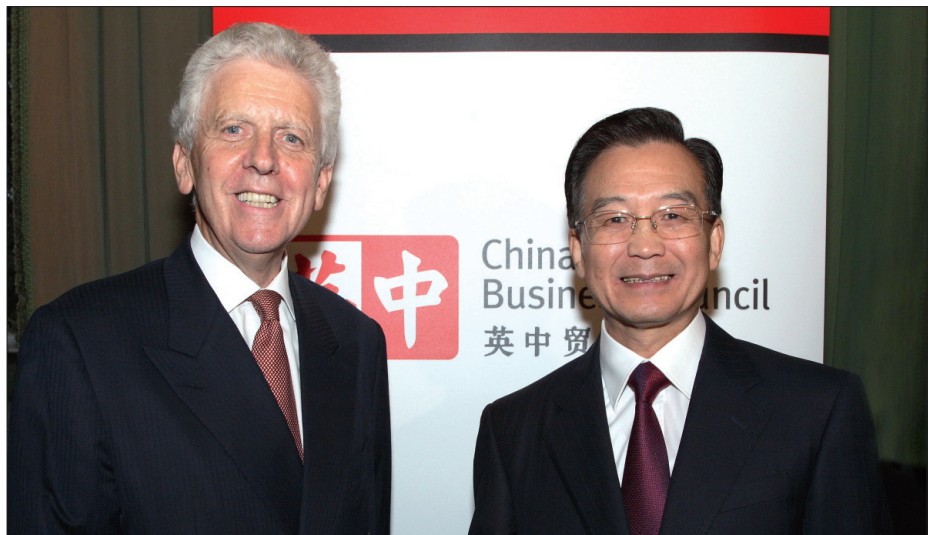
First, market opening and fairness in trade, in other words avoidance of hidden barriers.

This is a two-way concept. China still has much to do in order to meet its obligations to open its markets especially in financial services and prevent pirating of western technology. But it can legitimately point to looming protectionist measures before the US Congress and the EU's continuing refusal to grant China market economy status to argue that the pot should not call the kettle black.

Second, competition for energy and other natural resources. As a late-comer to securing sources of supply, China looks as though it is engaged in a modern version of the 19th century scramble for Africa, in which other policy considerations such as good governance are subordinated to locking up long-term supply agreements there, and indeed in the Middle East and Latin America. There is nothing illegitimate about China's determination to avoid dependence on western monopoly or cartel suppliers. But if we are to encourage a more cooperative approach, China must not be artificially constrained from investing in the western companies which supply its vital raw materials.

Third, the environment. China is on the brink of becoming the world's largest polluter in absolute though not per capita terms and that is a serious problem for the world as a whole. We cannot blame China for the pollution already accumulated in the atmosphere: that was our fault. Nor can we deny China the fruits of economic growth, which we have already enjoyed. What we can and must do is work cooperatively on projects like coal gasification and other technologies and on sustainable cities which enable China to minimise the impact on the environment of its growth. We shall be pushing on an open door. No-one is more aware of the problems than the Chinese themselves, or readier to cooperate.

Fourth, politics and governance. China's system is certainly not ours, nor likely to become so in any foreseeable time-frame. We are right to criticise egregious abuses and the recent decision to delay universal suffrage for Hong Kong is a disappointment.



Lord Powell with China's Premier, Wen Jiabao, during the Premier's visit to the UK in 2006

But we should not under-estimate the scale of the difficulties of governing a poor country with China's problems and population (twenty times more people than are governed from Westminster). We should also recognise the quality of many of those now leading China, especially the recent intake of "next generation" leaders into the Politburo. Although China's institutions lack the multi-party dimension, transparency and electoral choice of our own, there is no doubt that vibrant debate on policy options does take place within the Party and government (and the number of Party members out-numbers the population of the UK). The challenge for China will be to build on that to develop the more democratic style of governance which its populace will demand as prosperity becomes ever more widespread. It's encouraging that a recent Party publication is entitled: "Democracy is a Good Thing"!

What is absolutely clear from all this is that now is the moment for us in Britain to be engaging with China as never before. China already impacts many aspects of our lives: business, the environment, education, immigration to name a few, and the range ►

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◀ is constantly being extended. Some years ago the British Government took the wise decision to set up a China Task Force, vigorously led by the former Deputy Prime Minister John Prescott, to pull together all the different strands of the relationship and enable us to take a strategic approach across the board. This has paid off in achieving a relationship with China which is better than at any time in our respective histories.

The right example is being set at the top level. Gordon Brown's forthcoming visit to Beijing, his first as Prime Minister, will maintain the pace of annual Summits established by his predecessor. The Conservative leader David Cameron has just returned from a successful visit to meet China's next generation leaders and to put a forceful case for cooperation on the environment. The flow of ministerial exchanges is constant. The Olympic Games in China this year and in the UK in 2012 offer a new axis for practical cooperation. The China Now festival just getting under way in Britain will focus public attention on China and spread awareness of its importance in our own future. World Expo in Shanghai in 2010 will be an extraordinary opportunity for British business to show-case itself to the world's fastest-growing market.

Our companies have made great progress in the China market in recent years and many more are entering the market with the help of the China-Britain Business Council and UK Trade & Investment. But our market share remains disappointing. Opening up of China's service sector, which is the next phase, should benefit us though we cannot afford to be complacent: there will be tremendous competition here too. China's very problems offer opportunities for business, because problems need solutions and in fields like sustainable development, energy-saving, new energy technologies, water-engineering and many others British business can offer the best solutions.

But if Britain is to achieve the market share

which it should have, China has to become a higher priority for British companies and far more of them need to enter the market and show a stronger commitment to it, in terms of technology-sharing, training of Chinese staff and teaching their British employees Chinese. It's a long-term process and there are no short cuts. But successful British companies like Rolls-Royce, BP, Shell and JCB have demonstrated that it can be done.

I shall conclude with a personal comment. My first involvement with China was unpromising. It was the height of the Cultural Revolution, our Embassy in Beijing had been attacked by the mob and relations were at an all-time low. As the youngest and least important British diplomat in Helsinki, I was sent along to represent the Embassy at Chinese national day celebrations as a calculated diplomatic snub! I don't suppose that Mao Tse-tung or indeed anyone noticed! In the intervening forty years I have seen a remarkable evolution in the relationship from that low point. I was present for Margaret Thatcher's turbulent but ultimately successful discussions with Deng Xiaoping about the future of Hong Kong, and present for the return of Hong Kong to Chinese sovereignty in 1997. As Chairman of the China-Britain Business Council for a decade or more I have seen the level of Britain's involvement in China grow steadily and to the benefit of both sides. Above all I have learned a deep respect for China and its thousands of years of history, its ability to think long-term, its determination to claw its way back from isolation to the global status which it enjoyed a couple of centuries ago. I recall Margaret Thatcher asking Deng Xiaoping why he had chosen fifty years as the term of the Joint Declaration on Hong Kong and his reply (in 1984): that's how long it will take China to catch up with the West. He will probably turn out to have been unduly pessimistic about how long it will actually take. But he set China on the road to achieve it and by that alone secured his place in history. **F**