

# China at the top table

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LORD DAVIES started his current Ministerial role in September 2009, which he holds jointly between the Department for Business, Innovation and Skills (BIS) and the Foreign and Commonwealth Office (FCO). He was previously Minister for Trade, Investment and Business and prior to this joint Minister of State for the Department for Business, Enterprise & Regulatory Reform (BERR) and the FCO. Previously, Lord Davies was on the Board of Standard Chartered PLC and was Group Chief Executive from 2001-06. He was a non-executive director at Tesco plc from 2003-08. Lord Davies is the Chair of the Council of the University of Wales, Bangor and a trustee of the Royal Academy of Arts. He was awarded a CBE in June 2002.

Last month's Pittsburgh summit marked the definitive end to the old system of international decision-making. It could not have come soon enough for China. With the commitment to make the G20 the world's premier economic forum, China has won its rightful place at the top table of international decision-making.

Beijing has also won a breakthrough in the governance of international financial institutions, with a shift of at least five per cent in the IMF quota share to dynamic emerging markets and developing countries. The changes, strongly backed by the UK Government, were long overdue.

As the world's economy moves towards recovery and seeks to make that recovery sustainable, a vital role is being played by China, an economy that could overtake the US as the number one in the world as early as 2025. The events of the last year have shown why.

When Lehman Brothers collapsed on 16 September 2008, I was chairman of Standard Chartered. That day, bankers and Governments alike stared into an abyss. This was a crisis that rewrote the rules and demonstrated how interconnected we all are. Theories that countries such as India and China had somehow managed to de-couple themselves from the global economy were proved wrong. In Hong Kong, a city where I lived and worked for many years, around 29,000 investors saw the value of their life savings collapse along with Lehman's minibonds.

One year on, the picture looks more stable. It's important not to be over confident – complacency is the enemy of recovery, and jobs are still being lost. However, most economies now look like moving out of recession by the end of the year.

With the responsible role it has played in the G20 and its four trillion yuan fiscal stimulus package, China has been a key player in this. Increasingly it is taking on the mantle of the global economic superpower it was always destined to be, and telling the world about it.

I attended the opening ceremony of the Beijing Olympics last year, and recently visited the site of the Shanghai Expo. If the Olympics announced China's new position on the world stage, then believe me, Shanghai Expo will cement it. The UK will play a large part, with what the Chinese acknowledge is the best pavilion design. This new role is one the UK Government strongly supports. As the British Minister

for Trade, Investment and Small Business, I have visited China four times since January, and have hosted numerous Chinese ministers on home turf. Most recently I went out in the summer with a delegation of eager and innovative UK technology companies. We met China's internet godfather Jack Ma, head of Alibaba.com, who has just made London the base for his European headquarters.

Opportunities in China's telecommunications were high on our agenda. The internet in China has over 388 million users – a greater figure than the entire population of the United States. But it was evidence of China's energy, can-do attitude and remarkable pace of change that made the strongest impression. I boarded the train from Hangzhou to Shanghai, as I had done many times when visiting firms in the region. But instead of a five-hour journey, I arrived in just an hour and a half. By next year, I'm told it will take just 45 minutes.

China has to invest in more sustainable levels of domestic-fuelled demand and tackle its overdependence on dollar reserves, however I am bullish about China and its prospects. My view is that if Governments were organised as businesses then there would be few countries that would not have a minister for China.

Strategically, China is a major trade partner. The UK is the biggest European investor in China and the UK is the number one destination in Europe for Chinese investment. This month, China is looking at how far it has come in the past sixty years, but the coming decades will be even more momentous. There are four global challenges where China will be called upon to play a major role. The first and foremost is rebalancing global growth. The Pittsburgh summit ended with a commitment to macro-economic policies that promote adequate and balanced global demand. The G20 countries, which account for 90 per cent of the world's output, also pledged to keep in place emergency economic support until a recovery is secured.

Rebalancing China's growth toward domestic consumption is a task that Beijing has already set out to tackle. China's export-led factories and the workers they employ were hit hard by the US economy falling into recession. But the potential for growing domestic demand in China is enormous. The UN forecasts that the population is expected to reach 1.5 billion by 2050. By this time, the middle class will number hundreds of millions.

Already China is the world's second largest market

for luxury goods. Earlier this year, Jaguar LandRover signed a deal to supply 13,000 vehicles for the Chinese market alone. With homes and offices to be built over the coming years to cope with the expected increase in population, infrastructure and construction is a huge growth industry. UK firms were involved in building for the Olympics, with British engineering behind the iconic Birds Nest stadium. And feted British architect Lord Foster designed Beijing Airport, the world's biggest building.

China's ageing population presents a large market for healthcare. British firm AstraZeneca is already conducting research and development with partners in China, and UK small-and medium-sized firms are working to provide everything from high-tech gel to regenerate bone to technology to help laminate spectacles at a factory that produces one million pairs a week.

As China grows wealthier, financial services will open up and develop. When the Asian crisis shook Hong Kong in the late 1990s, I was among the bankers weathering the storm and saw first hand how the city emerged as a leading financial centre in its wake. Now Chinese banks are establishing themselves in London as they move towards a global reach.

Led by the major cities, China's growth will spread throughout the country. UK Trade & Investment, the trade development body that I lead, is encouraging UK firms to explore outside of the major business centres to Chinese regional cities, such as Wuhan, Changchun and Xi'an. Cardiff's Green Light Products has already done so, and is now exporting biodegradable packaging to the coastal city of Xiamen.

While boosting domestic demand is essential to rebalance the world economy, China is also of central importance for the second global challenge – the international fight against protectionism. Being responsible for 10 per cent of the world's trade, this is an area where China has a vested interest – an interest that all G20 members share. World trade has been the biggest casualty of the global recession. Its collapse in the past 12 months was a shocking experience.

Many jobs have been lost, many firms have gone under. A vicious circle emerged of joblessness causing a further drop in consumer demand. And pressure grew to erect protectionist barriers to seek to isolate domestic economies from external pressures. One of the most important joint actions that the G20 economies is undertaking is to revive global trade, because in the long run, it is free and open trade that creates prosperity.

Statistics show that exporting brings out the best in companies. It makes them more competitive and productive and increases their level of innovation. Historically, trade was the driver of post-war recovery in Japan, Germany, Europe and the US, and the engine of growth in Asia.

This leads on to the third major global challenge – bringing about a successful conclusion to the Doha round of trade talks. Without China's engagement this will not be possible. According to some estimates, a successful Doha round could boost the global economy by US\$300-700 billion a year. This prosperity would spread to all nations via the new trade routes that are already developing between China, Africa and other countries. I visited Jebel Ali three months ago and saw some of the changes for myself.

For the fourth challenge, the countdown has already begun. In just three months, delegates from about 190 countries will come together to reach a historic agreement in Copenhagen on climate change. Speaking at the United Nations last month, President Hu Jintao pledged that China will cut carbon dioxide emissions per unit of gross domestic product by "a notable margin" by 2020 from the 2005 level. There's obviously considerable interest in what that margin will be, but a commitment to tackle the climate change agenda is one that needs to be matched by other countries. It is more important than ever that we all work together to ensure that development does not come at the expense of the environment on which we all depend. In an inter-connected world, the welcome decision to make the G20 the natural home for international decision-making will have profound and long-lasting consequences.

If one good thing has come out of the past 12 months, it is the realisation that we can all pull together in a crisis. And as we face the global challenges of the 21st century, the presence of economies such as China within the G20 means that the right people are seated around the top table.

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A forest of skyscrapers: Beijing's ultra-modern skyline

