

# China's strategic role in the world

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**T**his year China celebrates the 60th anniversary of the founding of the People's Republic. As Mao Zedong memorably announced from atop the Tiananmen gate, "the Chinese people have stood up".

In the six decades since that pivotal moment in Chinese history, China has undertaken a path of development that has transformed the country. The rate of growth and pace of change are unprecedented in any country, let alone one the size of China.

The transformation of the country can be seen in everything from sparkling new airports, bridges spanning several kilometre-length gulfs of water and land, high-speed trains operating on magnetic levitation and world-leading architectural creations, including the breathtaking stadia for last year's Olympic Games in Beijing. Whole cities have been created out of paddy fields and fishing villages.

The lives of many of China's 1.3 billion people have also taken a dramatic turn for the better. Hundreds of millions have been lifted out of poverty. Millions more have moved to China's increasingly prosperous cities on the eastern seaboard enjoying a lifestyle of which their parents could only have dreamed: owning and furnishing their own homes, buying their household goods and clothes from an ever-widening range of shops, and having access to extensive leisure and cultural facilities.

China's countryside is also undergoing considerable change, although at a slower pace than the city landscape. Narrowing the gap between growth of rural and urban areas and the diverging lifestyles of rural and urban residents is a main focus of government policy in the coming years.

China has risen after decades of double-digit growth to become the world's second largest trading nation and its third largest economy. With more than US\$2 trillion in holdings, China holds far and away more foreign exchange reserves than any other country.

At the same time, China has come to be known as the workshop of the world, making two-thirds of the world's mobile phones and half of the world's computers, among many other products that we all have in our homes and offices.

China's economy has become increasingly interdependent with that of the rest of the world. This is a natural consequence of the inspired policy, launched by Deng Xiaoping in 1978, to base China's

economic development on a platform of external trade and inward investment. The interdependence was cemented with China's accession to the World Trade Organisation in 2001.

Now, as governments around the world grapple with the challenge of a severe economic downturn triggered by the banking and financial markets crisis of autumn 2008, China's role has become ever more critical. The world is looking to China to kick-start global growth, just as it led the global economy during the boom years that preceded the banking collapse.

It is also a changing role: while, in the past three decades, China's contribution has been founded primarily on its role as a manufacturer and supplier, China is now becoming a major external investor. China Investment Corporation, China's principal sovereign wealth fund, has invested in a number of diverse businesses, including, most recently, in the ownership of Canary Wharf in London. There are Chinese manufacturing operations in central and eastern Europe. China is one of the joint venture partners investing in and developing one of five or six complete new cities being built in Saudi Arabia. Other significant investments should be expected.

China is investing abroad predominantly for reasons of self-interest – to acquire technology and expertise, to learn from Western business, to gain market share, and to earn profitable returns. But the rest of the world gains from Chinese investment as well. With capital in scarce supply in the West, Chinese investment is certainly to be welcomed. Moreover, such investment provides yet more opportunities for engagement with an economy that at some point this century will supersede the US as the world's largest.

Other key indicators point to China's increasingly important strategic role in the world economy. On the strength of its increasing trade, the Chinese currency is moving towards becoming a major world currency. HSBC expects as much as half of China's trade to be settled in renminbi (Chinese yuan) by 2012.

Additionally, China is becoming a major market in its own right for international business. The drivers here are three-fold: from manufacturing, as Chinese companies move up the value chain and develop higher-tech processes; from the services sector, as China continues its natural economic evolution from its agricultural base to manufacturing and then to what are referred to as the

“tertiary industries”; and from the increasing number of cities in the country’s interior that are looking to build their own thriving local economies.

UK business is certainly keen to take advantage of the new opportunities for business in the coming years, just as it has done not just since 1949 but stretching back beyond the foundation of the People’s Republic. In more recent times, British exports to China have been rising steadily, quadrupling in value between 1999 and 2008. UK companies have invested in total some US\$16 billion in Chinese operations, making Britain the leading European investor in China.

Our businesses are superbly supported by successive British governments, who have recognised the huge opportunity of the China market. Last month, First Secretary and Secretary of State for Business, Innovation and Skills, Lord Mandelson, took a high-level delegation to China showcasing British excellence.

UK has world-leading strengths in a variety of sectors, ranging from financial services and environmental technologies to agriculture and life sciences, that mirror the requirements of China’s industrial and services sectors as they move into a new phase of development.

So what is China’s strategic role in the world economy likely to be over the coming decades? In short, one of expansion and greater involvement. The Chinese government was among the first to put in place a fiscal stimulus to boost domestic demand in response to the collapse in world trade. At the same time, it also conducted a series of procurement missions headed by the Chinese Minister of Commerce, Chen Deming, to invite other countries to step up their sales to China. The leadership has reiterated several times that China will

play a full part in helping the world out of recession.

While the focus of the fiscal stimulus has been on boosting domestic demand, the policy of attracting inward investment is by no means being abandoned. Indeed, the process for approving inward investment has been simplified. This is because China benefits from foreign investment which, even though last year made up just 3 per cent of total investment, nevertheless accounted for almost a third of China’s industrial output, more than half of imports and exports and created 11 per cent of urban jobs.

Foreign businesses, therefore, should continue to explore opportunities. While the main centres of Beijing, Shanghai, Guangzhou and Shenzhen have certainly not reached saturation point, rising costs and intensive competition certainly make them more challenging places in which to do business. Instead, foreign investors and traders should look more to the country’s regional cities and areas where they will find a welcome mat laid out for them.

In the past 30 years we have watched China going global, in terms of trade and investment. Now we are seeing the political globalisation of China. China is taking its place and sharing responsibilities in world organisation. As China enters the next chapter in its remarkable story, it will do so from a position of considerable strength. China has proved itself to be an indispensable member of the world community, and must be a partner of vital strategic, diplomatic, economic and commercial importance for all of us in the future.

I congratulate the Chinese leadership and the Chinese people as they celebrate the 60th anniversary of the founding of the People’s Republic of China. **F**

## China is taking its place and sharing responsibilities in world organisation



Beijing’s Forbidden City: a symbol of China’s rich cultural heritage