

Building a unique partnership

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was educated at King's School, Canterbury and New College, Oxford. Following a distinguished career in the Diplomatic Service, culminating in his appointment as Private Secretary and Foreign Affairs Advisor to two successive Prime Ministers, he established a career in international business. He sits on a number of international advisory boards and is a Trustee of the Saïd Business School, the Aspen Institute and the British Museum. He is Chairman of the Atlantic Partnership and President of the China Britain Business Council.

One of the wisest conclusions of the Government's recently published foreign policy and defence review is that our foreign policy should give greater weight to building relations with China and India. The fact that the Prime Minister is himself visiting China only a couple of weeks later underlines his serious intent. China matters to Britain. We must make Britain matter more to China.

There are two particular reasons which make it an opportune moment to upgrade the relationship further. First, both countries are experiencing or are about to experience a generational change of leadership. And second, both are embarking on major changes of direction in key policies.

That makes it a good moment to re-examine old attitudes and stereotypes about each other and set some new directions in our relations. The Foreign Secretary, William Hague, has proposed the goal of building a "Partnership for Growth" between Britain and China. It should certainly be that but preferably more ambitious still, going beyond the purely economic sphere into much wider and deeper engagement between the two countries.

The generational change in leadership has already happened in Britain with leaders in their early 40s taking over all those main parties. The new policy direction is also clear in the Coalition Government's determination to shrink the state, reduce government spending and release individual initiative and aspiration.

China's leadership change will take place in 2012 and the incomers will be a decade or more older, though young in terms of China's traditions. Some pieces of the jig-saw are already being put into place with the confirmation that Vice-President Xi Jinping is being positioned for the top slot of Party Secretary and President. Those who join him in the leadership will of course all be Party members but no less than in Britain will represent a coalition of interests.

My sense is that the changes in China's management of its economy and society which are beginning to unfold will match in importance those introduced by Deng Xiaoping in the 1980s and early 1990s. That was when he unleashed the market forces which have led to China's extraordinary growth and to the lifting of hundreds of millions of Chinese citizens out of poverty. The result has been to propel China in record

time to become the world's second largest economy. China's leaders are quick to point out that even so the country still only ranks 99th in the world in per capita income and thus remains in many respects a developing country, needing continued rapid growth to accommodate the 20 million extra bodies entering the labour market every year.

They also make clear that a decisive shift in policy is under way towards "putting people first" and "all-round development". The future priorities will be to close the income gap between rich and poor by paying higher wages: to spend more on education, health-care and pensions: to improve the quality of life by tackling China's horrendous environmental problems: and to invest heavily in science and in 'indigenous' technology so that China can move up the scale towards more high-value manufacturing, leaving low-cost labour-intensive industries to other Asian countries.

This is a bold target to set. If achieved it will propel China a further major step towards catching up the technological and quality of life levels of the advanced nations well ahead of the target set by Deng Xiaoping of doing so by 2050. I was present when he explained that target to Margaret Thatcher in 1984 and it seemed improbable at the time that China could possibly achieve it, particularly within the constraints of its political system. But the delivery capability of the Chinese model has proved unexpectedly effective.

This re-balancing of China's economy should also alleviate some of the strains on the global economy caused by China's all-out race for growth based on exports and an undervalued currency. As China shifts towards focus on domestic consumption the allegation that China is stealing American and European jobs will become less credible, and the pressure from the US Congress for protectionist trade measures against China should reduce.

Absorbing a fast-growing China into the world economy was never going to be easy and it is inevitably causing dislocation for business in other countries which face Chinese competition. But we need to keep a sense of proportion. It has been China's growth through the present global recession which has saved the advanced economies from an even worse fate. And whatever the complaints of Western businesses about China's trade practices and discrimination – and more than a few of those complaints are well-justified – it has

not apparently blunted their determination to keep on coming to China. As a Chinese leader remarked to me recently: “show me the queue of Western companies waiting to leave China!”

What is less clear is how far this change of direction in the management of the economy will be matched by political change. But clearly something is stirring. Premier Wen Jiabao’s recent statements about democracy and freedom of speech are unlikely to have been casual throwaway comments. They have titillated speculation that changes may be on the way.

Chinese respond to western criticism of their lack of democracy and record on human rights by arguing passionately that China’s political model is different from ours because of the country’s history, culture and social condition: that the focus at this stage of China’s development has to be on social and economic rights and on living standards: and that stability has to be the priority. They argue that people are basically happy with their lives and rising levels of prosperity and do not need to be told by outsiders how to run their politics and society. They want democracy but at their own pace.

One is entitled to question this response since the proposition is never allowed to be put to the test in China. Yet while from afar China’s political system may appear unremittingly monolithic and authoritarian, from close up one detects modest movement. People participate more in the processes of government through on-line polling and citizens’ forums. They have greater, though still circumscribed, freedom to criticise government and particularly the behaviour of local officials. The processes for public appointments at senior level are becoming more open and transparent. The media is constantly pushing forward the limits of permissible comment. Government is sensitive to opinion expressed in the blogs among China’s nearly 500 million internet users.

None of this is to suggest that free elections let alone a multi-party system are just around the corner: they are most certainly not. But the question remains: can a political system which developed in China when per capita incomes were far lower possibly survive when they reach significantly higher levels?

These changes in China offer opportunity for Britain which I am sure the Prime Minister will want to grasp. Britain is particularly well-placed to do so because we have much of what China most wants – the English language, a first-class higher education system, high-tech industry, an open market, and a significant influence in world affairs – without being seen as a strategic competitor and possible threat in the way the United States is. The appetite in China for British education seems insatiable and is now expanding below university level as well. And it’s not just one-way: more

children in the UK now study Mandarin than learn German. Building education links helps establish long-term relationships under which former Chinese students look naturally to the UK when it comes to business and other activities.

Our political dialogue has widened in recent years but can be extended further still, particularly through informal gatherings like the UK-China Leadership Forum which brings together younger British ministers and MPs with high-flying Party officials at the heart of the Chinese system for hard-hitting debate on the policy dilemmas which both sides face. Other areas of collaboration where we need to build are science and technology and inward investment. In the 1980s Britain succeeded in capturing the lion’s share of Japan’s inward investment into Europe and there is no reason why we should not do the same with China given our open attitude to investment in contrast to some other Western countries.

We have in David Cameron a Prime Minister who has shown himself admirably capable of big strategic moves in our political life in Britain. I am optimistic that he will spot the potential for Britain to enter a unique partnership with China, not just for now but looking ahead over the next half-century. Both countries have talented and forceful Ambassadors in place to drive new initiatives. The forthcoming visit should mark the launch of an ambitious new phase.

Now is the moment for us in Britain to be engaging with China as never before

Lord Powell with China’s President, Hu Jintao

