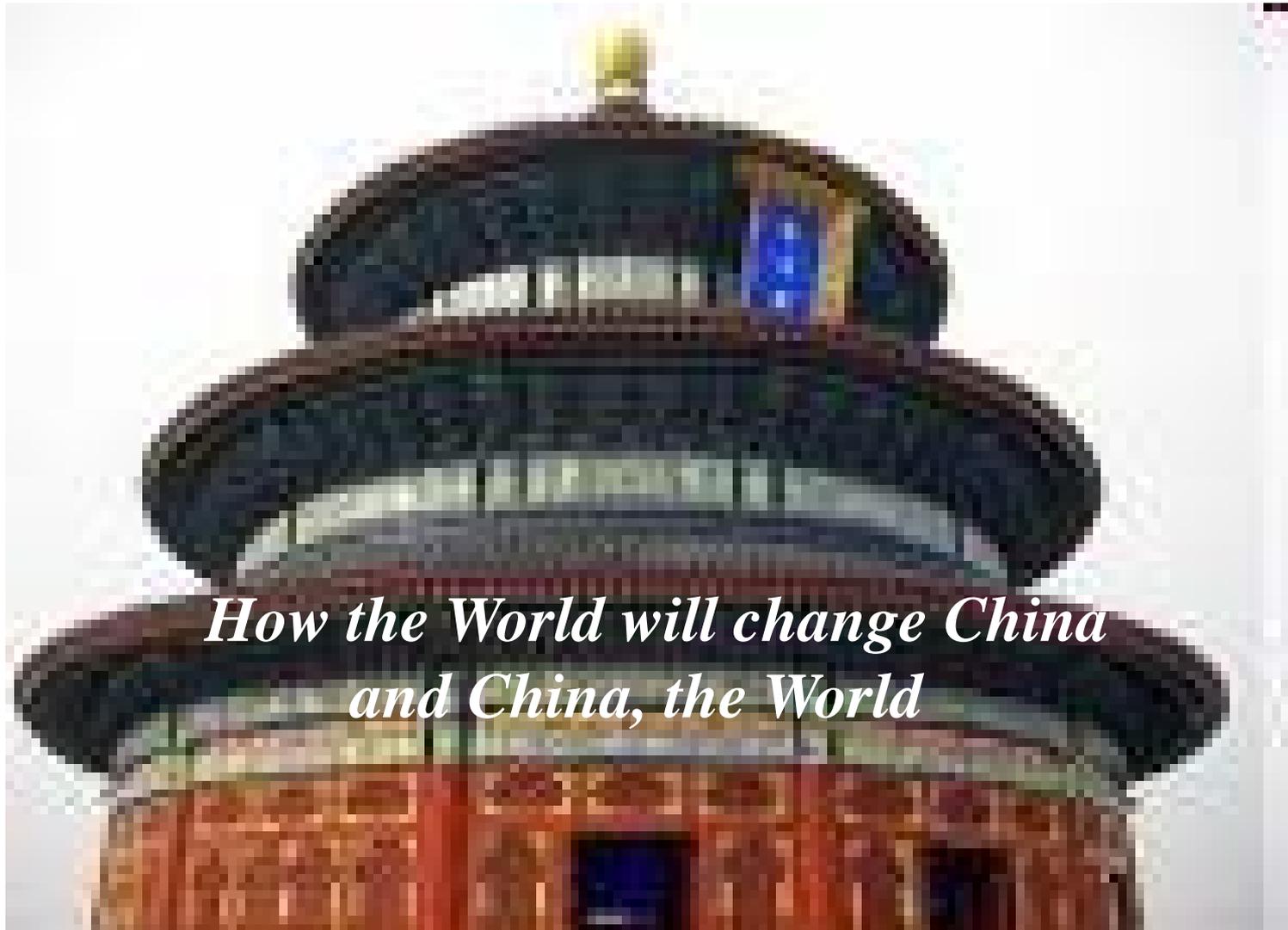


# **A Changing China in a Turbulent World**

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# Uncharted waters (1)

**National Intelligence Report 2025 Project** (*Global Trends 2025: A Transformed World*, 21.11.2008)

– Undercurrents (*'no pre-ordained outcomes'*):

- Useful as a **navigation map** in a turbulent sea? What, where, how likely, and how to avoid nasty **Black Swans** (*Nassim Nicholas Taleb*) being spawned?
- **US** leadership will remain but hitherto-unchallenged **dominance and capacity to decline** (diminished militarily, morally, financially) in face of rising BRIC + ME + other EMs v 'hobbled giant' Europe heavily dependent on Russian gas
- Rising demand for **energy, food, and water** (*Three Billion New Capitalists*, Clyde Prestowitz, 2005) raise prices - resurgent forces (Russia, Iran, Venezuela) + climate and national security + regional and international geopolitics (E. Europe, SCO, Asia-Pacific, Africa)
- **Medvedev Doctrine**: (a) adherence to international law (read '*Don't try unilateralism*' ) (b) non-acceptance of unipolarity (read '*Russia is here to play*') (c) Russia free to develop relations with Europe, US and others (read '*Don't try encirclement*') (d) right to protect Russian citizens and business interests abroad (read '*Russia will protect her interests wherever they may be*') (e) Russia has areas of 'privileged interests' (read '*former Soviet Union and neighboring countries*')
- '**Arc of Instability**' from Sub-Sahara Africa, to the Middle East, the Balkans, the Caucasus, Central and South Asia and certain areas in SE Asia. Climate or economic migration could magnify any chaos
- Traditional warfare concepts give way to **asymmetric risks** both military and non-military, including small nuclear weapons, portable precision missiles, chemical, biological and pathogenic weapons, cyber and media warfare, and indiscriminate terrorism
- **Religious fundamentalism + growing multi-cultural communities** such as Muslims in Western Europe and Arabs in Israel, is compounding rising concerns about ethnic, religious, and ideological identities
- **Non-state actors**, including NGO networks, international forums, religious bodies and influential individuals

# Uncharted waters (2)

- Emerging economies with common development concerns and growing inter-regional trade and investments have given birth to **regional organizations** such as the **SCO** and **ASEAN+3** (heralding an Asian Community and the Asian Dollar) set to balance the West's influence inc NATO
- How to re-configure the **strained Bretton Woods institutions** like the UN, IMF and the World Bank in tune with the zeitgeist
- **Beijing Consensus v Washington Consensus**, state capitalism v fundamental market capitalism, one-size-fits-all development recipes – debate sharpened by global financial and economic crisis
- **Powerful global dynamics** – the West's **aging** profile (esp Japan and Europe) and soon China (one-child policy legacy), rising **middle-class in EMs**, weakening role of **USD**, **multiple global financial nodes** (inc ME), **poverty, women, religion, civil society, disruptive innovations** and technologies such as ubiquitous computing, bio- gerontechnology, physical and cognitive strength augmentation, robotics, power storage, clean coal and clean water expertise
- **Understanding China's** national psyche – military build-up, a reluctant global power, a quiet Green Revolution (\$200 billion for renewable energy meeting 15% of total energy needs by 2020); and enhancing governance of the CCP
- **How US should lead** in this dramatically-changed, multi-polar, multi-dimensional, and inter-dependent environment with mutually reinforcing actors and uncertainties

# Change 1 – Massive Urbanization

McKinsey Global Institute (*Preparing for China's Urban Billion*, March 2008) :

- **1 b** urbanites by 2025, + **350 m** in **221** cities each > **1 m** population (EU=35)
- **15** super-cities each > **25 m** population
- **11** hub-and-spoke conurbations each > **60 m** population
- **Westward Ho!** Most new urbanization to spawn in currently-less-developed central, north-east and western provinces
- Concentrated mode of urbanization projected to **save** 35% of carbon footprint and 2.5% GDP in government expenditure
- A **YouTUBE** snapshot  
<http://www.youtube.com/watch?v=cBqsSrPhyz4>
- **Global implications:** resources, business opportunities, experimentation, civil society



# Change 2 – Rapid Mobility

- Extensive **inter-provincial highway network** 2<sup>nd</sup> only to US Interstate in **17 years**
- Railway (6% of world' total length, 25% total traffic) to increase from 78,000 km to 100,000 km by 2020 (world's **largest railway expansion since 19<sup>th</sup> century**)
- More city conurbations to be linked by **integrated transport infrastructure** e.g. \$ 1.64b sea-spanning bridge over Hangzhou Bay linking Shanghai to Ningbo and other cities in the Provinces of Zhejiang and Jiangsu with a combined population of 72.4 million
- **Global implications:** rapidly developing Chinese middle-class, changing lifestyles, vast supply chains



# Change 3 – Rise of the middle-class

- Combined urban disposable income of @annual household income > **RMB 100,001 to 200,000** to grow from **0.1%** of total 2005 to **36.4% by 2025** (*Serving the New Chinese Consumer*, The McKinsey Quarterly, 2006 Special Edition).
- Largely come from **100 m ‘single-child’** generation, inc post-80s, post-90s, and 21<sup>st</sup> century new-comers
- Luxury goods sales already **12%** by value of **world’s** total, to grow to **33% by 2015**
- **Car ownership** to expand from 11/1,000 towards world average 120/1,000 (<US 500/1,000) 500 m cars by 2050 (Goldman Sachs)
- **Young entrepreneurs** to jump from current 300,000
- Average **50,000 USD millionaires** to be added **annually**
- A more **consumer-oriented economy emerging** in coming decades
- **Global implications:** reducing over-reliance on exports, mitigating economic imbalance with the US.



# Change 4 – Largest moderate-income economy

- China > US by **2027/28** and > by 75% by **2050** (when India = US) (*Goldman Sachs, The Economist*, 30.6.2007)
- China's @GDP ranks < **100** in the world = some poorest countries in Africa. By **2050**, @GDP = **middle-income** nation in Asia or Eastern Europe
- **Aging population profile** (> **30%** to be aged 60 or over by **2050**) Subsidized voluntary basic pension plan for rural population to grow from **60%** in 2010 to **80%** by 2015
- Legacy of **One-Child Policy**, **4-2-1** phenomenon, relaxed if both parents single children, likely to be relaxed further
- Still > **100 m** with < **\$1 a day** v 800 m such in 1978. Poverty to shrink significantly in coming decades
- **Global implications:** China will get old before getting rich. Needs a benign internal and external environment to consolidate an economic foundation to face social and financial burden of a looming aged profile



# Change 5 – Quiet Green Revolution

- **Green Great Wall** 4,480 km forestation absorbing 8% or 500m tons emissions p.a.- 20% or 1 b tons absorption by 2010.
- **Small coal-power plants** of < 10m kW capacity **closed** by 2007. Most of < 50m kW likely to be cleared or expanded within a decade.
- To invest \$2.3 trillion in energy development 2001-30, inc **\$200b to increase renewable energies** from 8.3% to 10% of **primary energy** by 2010 and **15% by 2020**, + 7% to 10% p.a. by 2010 and 20% p.a. by 2020, inc hydro-electric, nuclear, coal-seam gas, biomass, wind, solar, terrestrial heat and wave energies (IEA)
- **Hydro-electric power** world's first in installed capacity 145 m kW and 482.9 billion kWh power generation
- Total of 110 million square meters of **solar panels** by far the world's largest
- **Wind power** has increased 7 x to > 6 m kW, 5<sup>th</sup> largest
- 2 **nuclear power** stations p.a. for the next 15 years.
- BYD, (Shenzhen) introduced 15.12.2008 world's first mass-produced **plug-in hybrid electric vehicle** @US\$22,000, range 100 km on electric engine. Miles XS500, range 120 miles at 80 mph, to launch in Tianjin in 2009 (Iain Carson and Vijay V Vaitheeswaran, *Zoom: The Global Race to Fuel the Car of the Future*, Hachette Book Group, 2007)
- **Dongtan eco-city** concept of sustainable housing and urban design on the cards for new cities, towns and villages. **Eco-friendly lifestyle** catching on with rising middle-class. **Methane gas** from human and animal waste in villages
- **Law on the Circular Economy** effective 1.1.2009 mandating energy, water, and material recycling, conservation and emission reduction supported by tax breaks and fines.
- **Global implications:** an ecologically-conscious society with 1/5 mankind; world's car industries to be revolutionized



# Change 6 – Science, Technology and Innovation

- Chang'e-1 Moon Probe (2007), Shenzhou-7 **Space Walk** (2008). Planned Tiantong-1 small space station in 2010 -11 + docking with Shenzhou 8, 9, & 10; Lunar Rover on moon surface 2013-17; Lunar Rover exploration and return 2017-20; planned satellite Yinghuo-1(+ Russian Phobos-Grunt) to fly towards Mars 2009; possible participation in European Space Agency's Aurora manned Mars exploration program 2030
- **5m university graduates** p.a. mainly engineers and technologists, top in nos.scientific papers. Vast majority no productive research. Still no home-grown Nobel Prize laureates. Committee representation, let alone chairmanship, extremely low in world-class scientific organizations
- But **fast developing technologies** in energy and water resources, environmental conservation, proprietary technologies, life sciences, aeronautics, and ocean sciences
- Various **silicon valleys, leading science parks** e, g. Beijing's Zhongguancun and high-tech cities like Hefei, Anhui. 40% of overseas post-doctoral students in US are from China. Growing numbers of **scientific returnees** to seek greener pastures
- **International corporate R& D centres** 750 (100 in India), 35% v UK 47% and US 59%
- Shenyang Aircraft Corporation joint ventures in **assembly and fuselage manufacture** with Boeing, Airbus and Bombardier. May 2008, **Commercial Aircraft Corporation of China** formed with capitalization of \$2.7 billion to compete with Boeing and Airbus. China's **home-made regional jet ARJ21** maiden flight on 28.11.2008 with an order book > 100 aircraft
- **Global implications:** China's aerospace industry, including commercial satellites, is set to grow by leaps and bounds. International space program cooperation. Growing competition in world's aircraft industries. Advances in life and environmental sciences and commercialization



# Change 7 – A even more global China

- **3 Chinese corporations world's top 5** by market capitalization - PetroChina (\$1trillion, 2 x ExxonMobile), ICBC (world's largest bank), and ChinaMobile
- **Chinese corporations + SWFs** taking equity in financial and energy companies: ICBC 20% in Standard Bank, Africa's largest bank; CHINALCO (Aluminum Corp of China) planned 30% stake in bauxite mine of Rio Tinto
- **Foreign currency reserve** + \$1.7 billion a day needs outlets > US Treasuries e.g. much needed natural resources, technologies and international business expertise.
- 4 of Big Five state-controlled banks have embraced **foreign equity**: HSBC 19.9% of BoCom; BoA 10% of CCB; Goldman Sachs 10% of ICBC; RBS's (recently divested) 10% of BoC
- **RMB** as storage of value and stable means of exchange. **RMB-denominated transactions and financial products** to gain even greater acceptance amongst China-related businesses. Eventual full convertibility but still distant until more comfortable with speculative two-way capital flows
- **Fuller global integration of Chinese skills and people.** Vast developing internal market multiplies global supply chains; Top Tourism Destination before 2020
- **Global implications:** Full integration of China into global community, future Asia Dollar?, more diversified central bank reserves, linked stock exchanges, IPOs across continents, Chinese M & As, cross-cultural management



# Change 8 - Defense

- **Historical trauma** with continental-sized borders and coastline anxious to protect territorial integrity (including Taiwan) + choke-points of life-blood energy supply
- Total **defense expenditure** (2/3 for personnel, training and maintenance) < UK, Japan, France, and Germany v US expenditure > rest of world combined. As % GDP, much < UK, Russia and France v US (China's 2006 *National Defense White Paper*)
- In light of US repeatedly rejection of call from 160 countries, China included, to de-militarize space, China showed capability of killing moving satellite as **space defense deterrence**
- Already a nuclear power, only major country without a single aircraft carrier, doubt about cost- benefit of **blue-water navy** + regional diplomatic interests giving way to clear signal (Defense Minister, 20.3.09)
- Likely to to keep up with modern military technology for more cost-effective **credible deterrence**, including submarines and asymmetric warfare
- **Global implications:** need for more transparency to ease ungrounded fears (China needs benign environment to continue survival); scope for more international cooperation for peace-keeping and fight against piracy



# Change 9 – Building a Harmonious World

- **Best defense is having no enemies** – Confucian Harmony Also joining **no blocs**.
- **Simply cannot afford to be aggressive**. Need for benign environment to build solid foundation - numerous challenges and contradictions + looming aging population profile
- **US** - Leadership accepted except where national interests undermined, but differences on China's internal issues and international approach to conflict resolution remain
- **EU**- main trading partner and plenty of scope for economic, trade, investment, technological, and scientific cooperation, but differences on China's internal issues remain, less so v US
- **Russia** – Energy partner and balance against uni-polarity
- **ME** – Main oil supply source – eager to see more stability (geopolitics) but unlikely to intervene in ME politics
- **ASEAN and the Asia community** growing importance in global supply chain + geopolitical advantages in the Asia-Pacific
- **Central Asia** - Shanghai Cooperation Organization – harmony in neighboring region and alternative energy supply route – national security
- **Africa** for 3<sup>rd</sup> world cooperation and trade/investment in resources
- **Latin America** – also 3<sup>rd</sup> world support + Venezuela (energy + support in US backyard); Brazil (soybeans and resources)
- **Global implications**: Waning dominance + economic symbiosis, US needs China as much as China needs US (*Global Trends 2025 – A Transformed World*, National Intelligence Council, Washington D.C., November, 2008). China growing global influence likely more active in UN, World Bank and the IMF, dynamics for a more harmonious world best suited to China's national interests.





# Change 10 – A Renaissance China

- **Vibrant civil society rapidly developing**, e.g. spontaneous response to Sichuan earthquake
- **Quarter of a million local NGOs** campaign for consumer rights + environment + the under-privileged
- **80 to 100 million practising Christians** (*Jesus in Beijing*, David Aikman, 2003)
- Vibrant **36 million blogs**.
- More **public hearings** for major polices, often mandated by law
- **Local elections** held for all village and county chiefs and urban neighborhood committees
- More party secretaries and senior officials monitor **public feedback through the internet**
- CPC '**government for the people**', law-based governance, official accountability, public transparency, public consultation, fight against corruption, more freedom of expression **as instruments for legitimacy**. Direct entry to government through public examinations. Competitive progression to high office. Confucian ideal of **Mandate of Heaven** '*shi ren xinze, shi tianxia*' (He who loses the hearts and minds of the people, loses the world).
- CPC think-tank on reform of political system post-17th Party Congress – NPC and CPPCC, centralizing power to appoint judges in the provinces (*Storming the Citadel*, Professor Zhou Tianyong et al, November 2007).
- Global network of Confucius Institutes, ultra-modern CCTV English channels, ancient culture and architecture, UNESCO-designated world heritage sites, colorful arts and customs all attracting an ever-mounting number of foreign tourists + trade, business, professional, academic, and educational **visitors from all corners of world**
- Renaissance China defined by 21<sup>st</sup> C interpretation of the Confucian **Golden Mean**, calibrated balance between opposites, + prudent harmony between contradictions
- Global failure of market fundamentalism + looming ecological collapse - a blindness to **excess** and a disregard for **prudence**. A renaissance China stands a good chance of restoring a measure of global balance and harmony.

**Thank you**

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