

China and the USA

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1. Financial crisis – hard times

- Jotun feels the heat – or the chill – from a global economy that is contracting
- Try to figure out what is going on
- What are the driving forces in the global economy?
- My focus:
 - What is happening in China?
 - The relationship between China and the USA

2. Some good news

- G-20 in November last year: Protectionism, no thanks, we remember the 1930s
- G-20 in April this year: Recapitalize the IMF and make the international financial system work better
- Also, Mr. Sarkozy makes a courtesy visit to Mr. Hu Jintao. Paving the way for a top level meeting EU and China. Cancelled by the Chinese as Sarkozy did meet with Dalai Lama

3. An unfinished revolution

- 1840: The Opium War
 - China realizes that she is left behind
 - The demise of the Middle Kingdom
 - Goal: Reclaim her place on the global scene
- 1949: Hundred years of humiliation is over
 - Or is it? Nationalism glue holding China together
 - “Unrobust” political system because it lacks legitimacy

- 1949 – 1976: Mao – a tragedy in peace time
 - Remember Churchill? Lost the election in 1945
 - 1957 – 1961: The Great Leap Forward
 - 1966 – 1976: The Cultural Revolution
- 1976 – 1978 Deng Xiaoping emerges as the new paramount leader
 - 1989: Tiananmen Square incident
 - Deng introduces time limits and age limits for leaders, himself at the time more than 80 years old

4. One day with China Daily

- Welcome guest: Taiwan Kuomintang Chairman Wu Poh-hsiung – 8 days visit (Politics)
- Cambridge will publish series of books on Chinese culture to educate the West (Pride)
- Pelosi in Beijing: “Learn from each other” – prelude to meeting in Copenhagen in December. She advised Bush not to show up at opening of Olympics (Politics and Pride)
- Three Sichuan village officials jailed for graft, taking bribes from earthquake victims (Corruption)
- Starbucks, Dragon Boat-ride to Zongzi, Chinese dish (Pride)
- Beijing Development Area (BDA) to lure Chinese professionals back home (Economics)

5. China since 1978

- 1978 – Present: Deng starts catching up, pragmatic, “learn from facts”
- Peaceful transition of power – quite remarkable
- Economic strategy
 - Agriculture – Household responsibility system introduced in early 1980s
 - Manufacturing – SOEs are partly dismantled (1990s)
 - 40 mill lose their jobs
 - Housing in the cities is privatised
 - Asian crisis – but China sticks to her guns

- Service sector – next on line
 - Banking system not lending properly to SMEs
 - Small scale service sectors underdeveloped
- Overdid privatisation on
 - Health
 - Education
 - Pension
- The Chinese econ model must change
 - No more growth based on exports and manufacturing
 - Need to increase consumption – public and private

6. Characteristics and dilemmas

- No democracy please, we are Chinese
 - Meritocracy
 - Harmonious society versus growth
 - China – more of a democracy than you think?
- State capitalism
 - SOEs and state ownership of all land
- Rule of law versus democracy
 - You can have one, what would you settle for? Why?

- Legitimacy
 - Hard to have rule of law and one party system
 - Legitimacy through econ growth and stability
 - Never change a winning team
 - Also, legitimacy by making the Chinese proud

- Stability – threatened by
 - Migrant workers
 - Unemployed students
 - Corruption
 - Pollution

7. China and the USA

- China is awakening – an emerging power
 - Status quo power, utilizing the global, market-based econ system (WTO in 2001)
 - Deng: Hide your capabilities, Abide your time, Do not take leadership
 - Financial crisis and China moves to centre stage – like it or not
- Climate
 - Meeting in Copenhagen and the two shall have to agree
 - Accumulated carbon emission (1805-2005), 1.110 tons per American versus 71 tons per Chinese

- Economics
 - China has accumulated 2.000 billion worth of reserves, of which about 50 % are in T-bills and bonds
 - Responsible stakeholder: USA should not inflate away the real value of its debt
 - FDI – becoming a two-way street. China needs to diversify, real investments all over the place
- Security
 - North-Korea
 - Taiwan
 - Aircraft carrier (Pride)