

# 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)