

CHINA' S LEADERSHIP AND
INTERNATIONAL ECONOMIC COOPERATION:
THE DOMESTIC CONTEXT

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“All Politics are Local”

Tip O’Neill



Chinese Leadership's Key Goals

- ▣ Maintain Party Control

- ▣ Strengthen Legitimacy
 - Pew Global Attitudes Survey (July 2008)
 - ▣ 80% satisfaction level with China's direction and state of economy
 - ▣ Highest ranking of 24 countries

- ▣ Ensure Social Stability
 - Social disturbances on rise

Incidents of “Mass Disturbances”

Year	Number	% Change
2000	40,000	25%
2001	n/a	--
2002	50,400	--
2003	58,000	15%
2004	74,000	28%
2005	83,600	13%
2006	87,000 (<i>“public order disturbances”</i>)	--

Source: Carnegie Endowment Policy Brief, Sept. 2006

Common Causes of Social Unrest

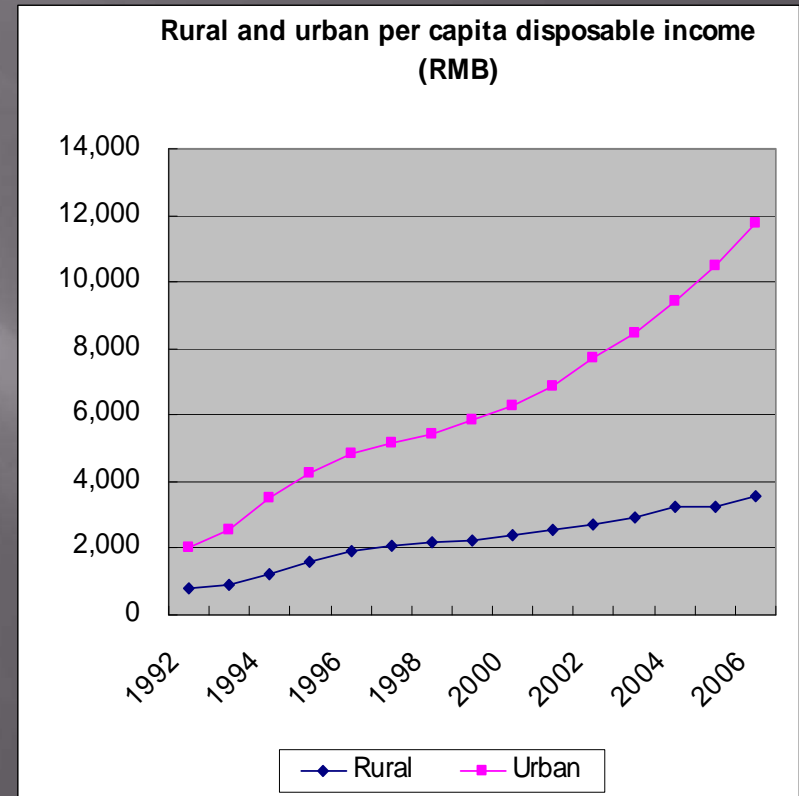
- ❑ Failure to pay wages and benefits and other labor disputes
- ❑ Rural problems: illegal taxation, illegal seizures of land, interference with village elections
- ❑ Legal grievances, such as disagreements with court decisions
- ❑ Forced urban demolitions and resettlements
- ❑ Corruption and illegal behavior of cadres
- ❑ Environmental pollution

Other Challenges

- ▣ Unbalanced Growth
- ▣ Ageing Population
- ▣ Corruption
- ▣ Environmental Degradation
- ▣ Energy Sustainability
- ▣ Business related:
 - Product quality and safety
 - Labor market competitiveness
 - Nationalism/Protectionism

China's Economic Priorities

- ▣ Maintain Growth
 - 8% threshold
- ▣ Increase Employment
- ▣ Narrow Wealth Gap
- ▣ Improve Public Services
- ▣ Protect Environment



Policy Shift: “Harmonious Society”

- ▣ President Hu Jintao’s socio-economic vision for China’s future development
- ▣ Party’s attempt to build a new value system
- ▣ Broadens focus from economic growth to include emphasis on social balance
- ▣ More active focus on health, education, social welfare, rural areas and the environment

Guiding Ideology: “Scientific Development Concept”

- ▣ Sustainable Development
 - Environmentally friendly/energy saving
 - Indigenous Innovation: decrease dependence on foreign technology
- ▣ Shift focus to rural development & domestic consumption
- ▣ Shift from coastal development to balanced regional development
- ▣ Protect vulnerable social groups

China's Approach to International Economic Cooperation

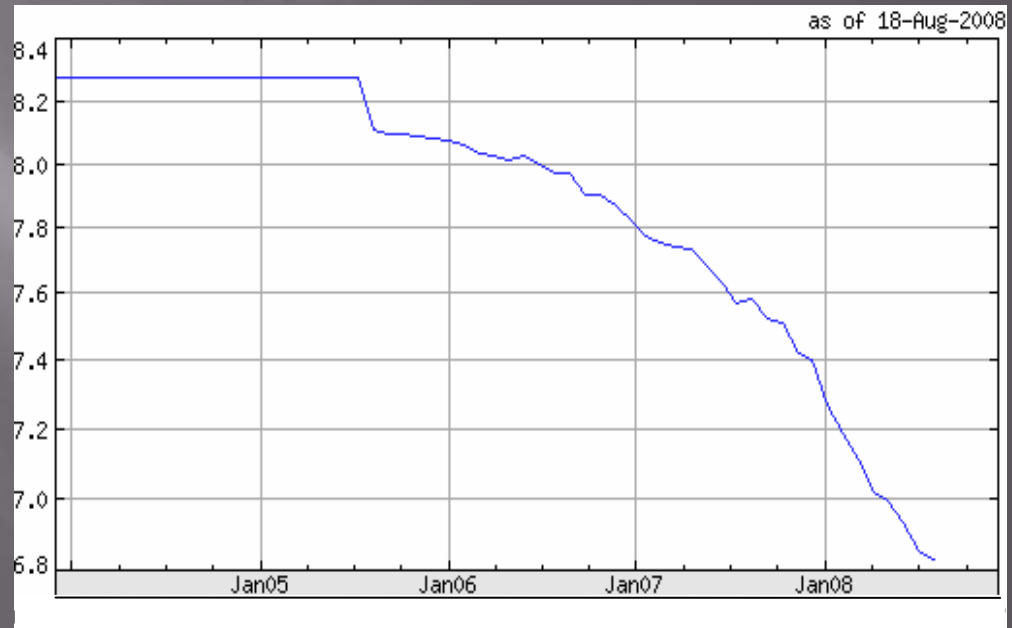
- ▣ Parallels approach to political cooperation
- ▣ Deng Xiaoping:
 - Keep a low international profile
 - Focus on internal challenges
- ▣ Leadership has used international obligations to overcome domestic resistance to reform
 - WTO accession
- ▣ But also exploits loopholes and weak enforcement to pursue national interests

Some Barometers of China's International Economic Cooperation

- ▣ Multilateral Institutions & Regional Groups
- ▣ Free Trade Agreements
- ▣ WTO Accession Process & Membership
- ▣ Doha Round
- ▣ RMB Valuation
- ▣ Bilateral Dialogues (SED)
- ▣ Energy Policy
- ▣ Environmental Cooperation
- ▣ Sovereign Wealth Funds
- ▣ Global Financial Crisis

USD to RMB Exchange Rate

- Fixed link broken July 2005
- Appreciation as high as 1% per month
- Total appreciation over 20%
- With inflation tamed and global slowdown, RMB appreciation against USD has now slowed
- Already signs that RMB may depreciate against USD



Strategic Economic Dialogue

- ▣ U.S. Motivation
- ▣ China's Reaction
- ▣ Achievements
- ▣ Staying Power?

Global Financial Crisis

- ▣ Relatively insulated from financial woes
- ▣ Inflation tamed
- ▣ Wants to stimulate domestic demand
 - Fiscal stimulus package and other measures
 - Keep growth at 8%
- ▣ Leadership statements: keep house in order and maintain growth
- ▣ Can China save the world?

Conclusions

- ▣ China is a major player, but not an active one
 - International mindset lags behind economic stature
- ▣ China wants to be low profile, but can't avoid spotlight
 - Rule taker, not rule maker
- ▣ China's response to external pressure defined by domestic priorities and traditional approaches to problem-solving

Thank You!