Transcript: China’s Economic Rise under Xi Jinping

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Speakers: Jeremy Hunt, Elizabeth Economy and George Magnus

Neil O’Brien

Welcome, ladies and gentlemen, to this China Research Group event on China's rise under Xi Jinping. We have an unbelievably distinguished panel to take this discussion forward this afternoon. I'm really just going to start by introducing Jeremy, who is going to frame the discussion and introduce our unbelievably distinguished guests, George and Elizabeth. Jeremy doesn't need any introduction whatsoever. As our former foreign secretary, you already know exactly who he is. Jeremy, I know he's had a long running interest in this issue. And it's something that we at the China Research Group have been writing about, thinking about and continuing to do work on. The great global economic trend of the last 20 years, and probably the next 10 years, is the rise of China as one of the two economic superpowers of the world and the growth of technological economic competition, primarily between the US and China, but also with Europeans, including UK, having to think through where they will sit in that new global landscape.

Every day, the China Research Group press summary, which many of you will get contains new breathtaking facts about China's economic rise and the many issues it throws up. And the interesting mix of policies pursued by Beijing, which have been a mix of smart and effective policies, also policies that we might have questions about the fairness of, and how we might respond to. So it’s one of the central things that the CRG was set up to do was to think about our economic policies vis-a-vis China. So we’re delighted, delighted to be hosting this discussion this afternoon. And without any further ado, I'm going to turn it over to Jeremy to kick off this discussion. Thank you so much for joining us today.

Jeremy Hunt

Thank you, Neil. And it's a great pleasure to be here. In the year that I was foreign secretary, one of the meetings that had the biggest influence on me was a very early meeting with Henry Kissinger in New York. And I asked him what was the difference between a good foreign minister and a bad foreign minister. And he said, a good foreign minister is someone who thinks strategically, and isn't always just thinking tactically about how to solve the next mini or major global crisis, but someone who's trying to think about the big questions. And it became clear to me that the big question in geopolitics was China. And actually, there was very little strategic thinking about it either in London or in Washington.

And, in particular, this fact that I've talked about with Neil many times, which is that, according to the Centre for Economics and Business Research, 2028 is the big date. Because that is the day they are projecting that for the first time in our lifetimes, the largest economy in the world will not be a democracy. And that's the moment that they think China will overtake the United States, some people think it might be a bit sooner, some people think it might be a bit later. But most people think that moment is going to be within the next decade. Some people say it's already happened when you look at things like purchasing power parity. And of course, that won't be when China overtakes the United States and GDP per head, when it will still be around a quarter of US GDP per head, but it will control the largest economy in the world in dollar terms. So a big moment. And what I wrestled with as foreign secretary is because China is not a democracy, clearly doesn't share our values in many areas, what does that mean for the future of people who do believe in open societies? And what should our response be, given that the Cold War was won, in terms of the underlying reason, because essentially, we bankrupted the Soviet Union? And that meant that Gorbachev woke up and smell the coffee in a way that is not going to happen for Chinese leaders, we are not going to bankrupt them, they are going to continue to get richer. And so we need to be very smart and be thinking how we find a way to live alongside this rapidly growing economy in a way that's consistent with our values and protects our way of life. So to shed some light on those issues. We have two fantastic speakers this evening, George Magnus, and Elizabeth Economy. George, I'm going to take George first. I'm going to ask him to introduce himself. He was the Chief Economist at UBS, but many other things as well. And he's going to speak for five minutes or so. And then we'll go over to Elizabeth. And then please, ask your questions. Julia is monitoring the questions, use the chat function to ask your questions. But we will try and come and speak to you in person to ask your question if we can get that to work. But fire away and type in the question you'd like to ask to either one or both of our distinguished guests. So I'm going to start with you, George. And if you could just start by saying a few words about yourself. That would be brilliant.

George Magnus
Thank you. I will. And so for those who don't know me, I'm George Magnus. I used to be the chief economist at UBS for what seems like a lifetime. And since I left there several years ago, a few years ago, I have two research associateships, one at the China Centre at Oxford, and one at the School of Oriental and African Studies China Institute in London. And a couple of years ago, I wrote a book called *Red Flags: Why Xi's China is in Jeopardy*. And my area of interest basically, is political economy. And so that's what I'm going to talk about. So thanks very much for asking me along here. And we'll get cracking.

So as you know, and as Jeremy has already kind of foretold, there's a strongly held prediction and view that China will become the world's biggest economy in the coming decade, as well as quite a few other self-serving narratives, that China is going to be the top dog in technology, it's going to have the world's next reserve currency, and it's going to be the dominant economic power in this century. And this Party certainly is not shy about aspiring to things that it's very proud to talk about. It wants to be a modernised socialist economy, as they call it, by 2035 with income per head around $20,000 in today's money, it's double what it is today, which is about the same as Mexico. It wants to be the leader in science and innovation, have a modernised military, it emphasises a huge focus on the intersect between economic and national security, defined to include both food and natural resources, commerce and supply chains and technology and the environment. And while we're all cognisant, I think, of the Communist Party's rhetoric, not everyone shares this view that all of this is inevitable. Even the former industry minister, Miao Wei noted quite recently China was a great manufacturing power, but not the most advanced. And in his view, China was about 30 years away from achieving such status. And who knows what could happen over 30 years. So in this, I think he makes a very strong case that we should be cognisant of - about nuance when we're thinking about China's future. And when we do so, we should also remember how our parents' generation have thought about the future for Nazi Germany, the USSR, Brazil, in the 1970s, Japan in the 1980s. In real time, not with hindsight, with hindsight, of course, we're very clever. We know what happened to these places. But at the time, people were having certainly similar views about them, as we have about China today.

There are, of course, huge worlds of differences between these countries' experiences, but all of them, including China today, pursue or pursued a very similar state savings and investment development model, which brought welfare improvements to be sure and much economic success. But they also revealed a number of flaws that came up or evolved in the form of some combination of too much debt, balance sheets, stress, suppression of private consumption, misallocation of resources and investment, unbalanced growth, faltering productivity, and importantly, a failure of their institution. So we should not lose sight about how it's tempting to make these kinds of extrapolations. But often sometimes, not all that, not all that smart. So, we can of course predict, as Jeremy relayed, one forecasting organisation's predictions just before, by using a kind of spreadsheet analysis, but in my view, this is a very lazy way of thinking about China's future, even if it happened that way. Of course, China would claim bragging rights and it would do wonders for their self -confidence. But as you've already heard in per capita terms, that would certainly leave China with maybe 25% of America's per capita income in 2035, compared with 17% today, and it's not preordained, and the implications are more complicated than we think.

And I'll give you briefly six reasons why I think that's so. First of all, many of the things that China has done successfully in the past 40 years cannot be repeated. Okay, so you can transfer labour from low productivity agriculture to high money, high productivity, manufacturing once. You can put all your kids through primary and secondary school once. You can have basic infrastructure building once. You can join the WTO once. You can have financial liberalisation only for a limited period of time, then you can create the world's biggest housing market once. So all of these things were instrumental, highly instrumental in galvanising China's eruption, unique as it was, but can't be done a second time.

Secondly, these kinds of reforms, plus many others, are strongly associated in China's experience and other emerging countries with very, very rapid growth in productivity. But both reform and productivity growth have stalled since Xi Jinping came to power in 2012. And if anything, have become rather less ebullient. Thirdly, it's recognized in China, certainly by many leaders, that the development model needs to change, especially given the very harsh external environment which has now taken root, which has given rise to something that Liz is going to talk about in a second, which is a dual circulation strategy, which is a sort of Chinese version of decoupling, I think, which looks to supply chains, import substitution, innovation and the breakup of industrial and technological monopolies, Alibaba being a current case in point.

Fourthly, the problem in China isn't so much industry or manufacturing, which are world class, but the absence of really coherent policies to promote and develop consumption and services and address productivity. And indeed, the refusal, I would say, to consider the type of reforms which would lead to stronger and more inclusive institutions. So no rule of law with independent contract enforcement, no comprehensive property rights, no programme for wealth and income redistribution to promote consumption, no agenda for the reform of the tax system or local governments and social welfare. And none of the things that we think economists generally think would be necessary to promote the kind of consumption which we think is essential for the future.

And lastly, the key issues that will weigh on China's growth in the future are, in fact, the sort of key subject of my own book. One of them is debt. So even if China manages to avoid a financial crisis, which I think it probably will, the debt eventually has to be paid for, by consumers or by corporations, or by the government's balance sheet, and it will weigh on growth, that's the cost of debt is that it actually reduces the potential for growth. As Rogoff and Reinhart have explained to us at great length since the financial crisis that we had. Demography is a big problem for China, it's the fastest ageing country on the planet, not the oldest yet, but by 2040, or 2050. On most metrics, China will be a substantially older country than the United States, with a much more disadvantaged situation with regards to its working age population. It's also susceptible, like many other countries to falling into what's called a middle income trap, which is basically about stalling productivity. And the harsh external environment is pretty important, because

China remains very dependent on imported technology, and only produces about 16% of its semiconductor requirements, which are the core of all advanced technologies. And it spends more on semiconductor imports than it does on crude oil. It's very good at some things like mobile payments, ecommerce, telecommunications, solar and wind energy, AI and robotics. It's not so good at, apart from semiconductors and integrated circuits, at things like automobiles, airplanes, chemicals, and foundational assets like design, commercialization, and branding.

So conformity and control, of course, are very good from a political point of view if you really want to order things in your society. But we don't think they tend to be that good at entrepreneurship and true innovation, which is really about business and well-regulated markets, not science and engineering, per se. So, in conclusion, how do we think about China's future and the aspirations which it has to be a dominant power? I think a suitable amount of humility is basically in order. We shouldn't be so confident, I think, to dismiss out of hand, China's determination to win, nor to dismiss its views about wanting to shape values and governance in the global system, based on its economic heft, and rising, expanding military assets. Equally, I think there's no place really for the kind of siege mentality we often hear about, in which China's slogans and rhetoric about the future for itself and for liberal leaning democracies are, in effect cast in stone, to do this, I think, is to underestimate potential for volatility and instability in China in the next decade or two, and also to blind us to what we might call our own home improvements, which I think are essential for the challenge that China presents to us. Thank you.

Jeremy Hunt
Thank you, George. Just before we go on to Elizabeth, just a factual question about what you said, you talked about their debt issue, and just explain, what's the scale of the debt that China has? And why is it that we tend to think of them as a creditor nation who the United States owes a lot of money to? Could you just explain what it is? And how do their debt levels compared to ours?

George Magnus
Yeah. So think about China the way that we used to think about Japan in the 1980s. So it has net external assets, right, because it's running balance of payments surpluses year after year. They're much smaller now than they used to be a decade or so ago. But they're still running surpluses. So China has net external assets in terms of foreign direct investment abroad, holdings of Treasury securities, gilts and so on, so forth. So in that sense, it is a net creditor, but it has a huge amount of domestic debt, denominated in renminbi as the Japanese did during the 1980s. They built up this huge mountain of domestic debt, which is basically created in China and owned by Chinese lenders and incurred by Chinese borrowers. So they don't have a debt problem in the way that, let's say Thailand, or South Korea or Indonesia did and then in the Asian crisis in the 1980s-1990s where foreigners basically called time and can withdraw their capital. They have a domestic debt issue. The size of their debt is about 330% of GDP. Their consumer debt, which has been rising particularly rapidly, mostly mortgage debt is now higher as a percentage of disposable income than it is in the United States where it's been declining since the financial crisis.

We don't know that there's a particular number at which there becomes, you know, that it's a kind of a tipping point. But we know that the greater is the accumulation of domestic debt, the more likely it is that it will manifest itself in weakening growth in the future. And I think that is already starting to happen, because a lot of the debt is, is, is bad debt, non-performing loans are much higher than they acknowledge. And to be fair to the government of China, they are trying to lean against this sort of egregious forms of risk taking, which have got a lot of their state enterprises and local governments into a lot of financial trouble. But it's very difficult for them to wean themselves away from it, if they want to continue to emphasize elevated rates of economic growth, which are dependent on debt creation.

Jeremy Hunt
Thank you. Well, we'll come back. I'm sure lots of people have got questions for you, George. That was fascinating. Let's move on to Elizabeth Economy, who has written her book called *Xi Jinping: The Third Revolution and the New Chinese State*, and she's going to talk to us about some of those issues, but particularly the decoupling dual economy issues. Elizabeth, lovely to see you. Over to you.

Elizabeth Economy
Thank you. It's great to be here with you. And also with George. So I was asked to talk about dual circulation. But I have to say, I hope in the Q&A, we can get at some of the issues that you raised at the outset about sort of China's role in the world and how democracies ought to think about responding. Because those are the really important questions that we need to be addressing at this point. But let me say a few words about China's dual circulation, which is really the newest initiative that China has put forth.

Xi Jinping raised it at the outset, a little bit less than a year ago, last May, and then came up again, at the Two Sessions this past March. Basically, the idea behind it is to increase domestic production demand and reduce reliance on imports from the rest of the world. You know, it's almost like China's trying to create its own mini global economy and maximizing the degree to which you know, in an internal loop, right, the domestic part of the dual circulation, China can innovate, manufacture and consume at home. At the same time, it still wants and needs to engage with the global economy. And that's the sort of international loop through exports. And through liberalisation of capital flows, it still has a need to import commodities and technology and know how, I think at the heart of this is a concern about the stability of the external market, both as a destination for Chinese exports, and as a source of imports, particularly given the US trade war and the entities list, that the Trump administration certainly expanded, and everything that we're hearing now about secure supply chains. But it also fits very easily within Xi Jinping, his larger trend and preference, I would say, for insulating China from influence and reliance on the outside world. And that's true, I think, whether we're talking about the economy, or we're talking about politics, I think there were really three push factors for this initiative.

You know, first, as I suggested that the multinationals were going to move parts of their supply chains out of China. This was already happening, you know, beginning in 2016, and 2017, and started to accelerate because of rising labour and production costs in China, then you had the trade war and COVID. And I think, broader concerns in many countries about having to greater reliance on China for things like PPE, but also rare earths and other critical goods and countries, well nations I should say, like Japan and Taiwan, both put in significant incentives to reassure their industries. So one thing you've seen now with Xi Jinping is that, you know, he's become very committed to enhancing supply chain dependence on China. He wants foreign investment and multiple sources for every important product. So one of the things that he said during the Two Sessions was that he wants to have, you know, powerful retaliation and deterrence capabilities against supply cut-offs by foreign parties.

Another push for dual circulation, I think, is the realisation within China that it was becoming more difficult for Chinese companies simply to go out and acquire high end technology from outside the country, that there was increasing scepticism in many countries, including the United States and Germany in particular, but I think also in the UK, that China was going out and was basically hollowing out some of the core technologies and most advanced technologies. And again, this began around 2015/16/17, I would say, and we've seen a pretty steep drop in Chinese outbound investment in those, you know, sort of core technology areas as a result over the past few years.

And then the third push factor is, I think, concern in China about not having access to critical goods. And again, this was, I think, highlighted or accelerated by the actions of the Trump administration and the use of the US entities list. For example, banning technologies, as George talked about semiconductors, and the equipment that's used for designing and manufacturing advanced chips to some of the companies in China, I think what's important to remember is that, you know, China, because oftentimes, the narrative is that the United States started this process of decoupling, but in fact, Made in China 2025, which came out in 2015 in China, which was basically China's commitment to have Chinese companies controlling manufacturing of components in 10 areas of critical cutting edge technology, like artificial intelligence and new materials and new energy vehicles. That they had that in mind that that was really actually a fairly significant decoupling effort.

So in semiconductors, for example, the plan was for Chinese firms to command 40% of the manufacturing of high-end chips that it needed by 2020 and 70% by 2025. And is, you know, George mentioned, I think it's somewhere between 16 and 17% today, so they clearly missed their target to begin with. But they have that in their mind, what the US trade war did, what the entities list, you know, has done is basically forced them to accelerate their plans. And it's put them a little bit off their game, but this was, in many respects their own intentions. So let me just finish up by saying a couple of words about implications for foreign firms. I think, you know, initially I had understood dual circulation is focused primarily on technology and high end manufacturing, that these were really the areas that China was focused on sort of a Made in China 2025 on steroids. But it is also designed to reduce China's reliance on the outside world for energy and for agricultural products.

And one of the interesting things that the Two Sessions, this gathering of the National People's Congress and the Chinese People's Political Consultative Conference that took place in March, one of the interesting things that was sort of talked around at the time, was the idea of expanding this, to include sectors like tourism, and sports and entertainment, cosmetics and pharmaceuticals. And if you look at all those areas, one of the things that you notice is that they're all areas where multinationals capture a significant portion of the high end of the Chinese market. So why have a National Basketball Association or a Premier League, you know, when you've got 1.4 billion Chinese who ostensibly are capable of playing basketball or soccer, or football in the UK context? So it's interesting, I think, to look, you know, ahead for industries for companies in these areas, and think about what the steps that China might take, in order to raise, you know, Chinese sort of competition, that we tend to think of these areas as relatively safe foreign participants, but in fact that China has, or Xi Jinping has, in his mind, ultimately replacing those areas as well with Chinese competitors.

Let me just finish by saying I think Li Keqiang, the Premier, and the National Development Reform Commission - basically, the planning agency, the old planning agency of China - recently, just over the past few days, had a meeting with 50 or 60 US firms, and they really made it clear that China is open for business. And to some extent, they're wooing these companies. And they still want foreign capital. But I think it's important to remember that this is in the near term, that, you know, China's vision, Xi Jinping, his vision, again, is to ultimately to substitute right Chinese capabilities and Chinese companies, for their international competitors. So, I think all of this should be looked at with a grain of salt, because it's, over time, I think there'll be increasing restrictions and regulations that will seek to limit the participation of many more types of companies and sectors in the Chinese market. So I'll stop there and welcome any questions, and hopefully, broader engagement as well.

Jeremy Hunt
Well, we've got lots of questions that have appeared in the chat function, and I'll come to those in a moment. But let me just kick off with a couple to you, Elizabeth, if I may. Thank you for a fascinating talk.

First thing is this dual circulation strategy. What does that mean, for example, for the City of London? I mean, if basically, China is planning to become a giant financial hub in its own right, then, does that mean it's pretty crazy for the City of London to get really stuck into China, because actually, in the end, they're going to work out how the City of London does things, when they figured it out, kick them out is that that's been a pattern that's happened in other areas. But I'm just wondering if that should be a big, red flashing light for companies, businesses sectors, looking at investing in China?

Elizabeth Economy
Well, again, I think the smart thing to do would be to have a near and mid and long term plan. Right. So there's the ability to take advantage of the Chinese market today. But then to pay attention to what the ambitions are, you know, by 2035, as George mentioned, and beyond. And so I don't think it's necessary for companies to start pulling out this minute, but I think in certain sectors, sector by sector, you know, China is opening in financial services, for example, that's an area that over the past six months to year, we've seen fairly significant opening. At the same time, in the past few weeks, there have been a number of new little restrictions and regulations on some of the banks, on foreign banks, suggesting that maybe they're going to trim their sails a little bit. So you just always have to be aware of, you know, the fact that you can go in, but China can always pass new regulations and restrictions that are in some way going to compromise your ability to operate the way that you want to. But I would say that this would be a great question for George because this is exactly the kind of topic that he works on. So I'm gonna I'm gonna pump that one to him.

George Magnus
So if you're a City firm, or a New York firm, for that matter, but we're talking about the City of London here. I mean, what you see is a relatively welcoming attitude, particularly if you have capital to bring into China, because they want foreign capital, dollars, basically. A welcoming attitude, if you have expertise in asset management, in investment banking, both of which are not China's forte. Well, neither of which I should say are China's forte. And there are certain products, financial products, which they’re not that good in either. And they certainly like the idea of what the City can do in terms of helping them to internationalize the yuan, as they call it.

But, you know, I mean, my view is, I think foreign firms should be quite wary, in the way that Liz described, about the commitments that they make in and to China. Because the strength of those commitments from the Chinese side, actually, is suspect. The rules can change. I mean, there's nothing more that China would like than for, particularly with Hong Kong under the kind of pressure that it is now. Nothing more than it would like them to make places like Shenzhen and Shanghai, you know, Asian financial centres, which will have a strong kind of competitive position. When I think these things are very likely, because capital markets, because the way we really understand capital markets, require something more than just about money and expertise, both of which are important. It's about, you know, the rule of law, about deep financial institutions, about the, you know, coherence and strategies that have been devised over years to, to develop products and commercialise them and so on. But yeah, I mean I do understand why, like financial firms are drawn to go to China, and many of them show, you know, no qualms about doing so. But I think, I think it must, I think it should come, you know, tinged with a warning that actually the rules of the games can change quite suddenly.

Jeremy Hunt
Thank you. Now, the second question I wanted to ask you both, actually, is the dual circulation strategy that came out a year ago. What does that tell us about Xi Jinping, thinking about the global order, if he basically wants to insulate China, from any foreign economic leverage by making sure that in every key area, China is self-sufficient, where it needs to be? Is that basically saying that he believes in Thucydides

trap, that there is inevitably conflict between a rising power and the existing hegemon and that's just how life is, and that he's preparing for that much more confrontational, geopolitical arena. Elizabeth.

Elizabeth Economy
So I would say it can't get much more confrontational short of war at this point. I think, certainly, if you're looking at the United States and China, I think the relationship, you know, by the end of the Trump administration, and now in the early months of the Biden administration is as low as it's been, since Tiananmen Square, and in some respects lower, because this is a sort of structural challenge. The rhetoric that's coming out of Beijing right now is the East is rising, and the West is declining. It's a little bit reminiscent of what happened after the global financial crisis. When China, basically, the understanding was that, yes, China was always going to surpass the United States, but it was happening earlier than anybody had anticipated. Then the United States, you know, the economy bounced back, and the Chinese took a step back and said, OK, well, whoops. Whether that happens, again, I think remains to be seen, I wouldn't count the United States out yet. And I think as George so beautifully articulated, China faces its own set of of domestic challenges that's going to need to address.

But I would say I think Xi sees a reordered world order, essentially. I think in his vision, China is not only what happens inside China, but it's sort of China is the preeminent power in the Asia Pacific. Right, China has joined on the trade front; not only does it have the Regional Comprehensive Economic Partnership, but it has CPTPP, wants a regional free trade agreement with South Korea and Japan, then it has its Belt and Road, right, which, of course, is not just hard infrastructure, but it's digital. And it's, you know, Health Silk Road and this massive enterprise. It has its digital currency that it's going to launch. And, you know, when it's trying to set norms and regulations at the global governance level as well, to reinforce what it's trying to do through the Belt and Road. So I think the thing about Xi is he really does have a pretty grand vision. Now, all the details may not be filled out, some of them come about as things move along, certainly. But I think does he anticipate conflict? I think he would like to avoid, you know, kinetic, you know, conflict within states. But I think, look, he talks about having the People's Liberation Army be prepared to fight and win wars.

Jeremy Hunt
Let me bring in George on that, then I'm gonna go to Neil, and then we'll come to the questions in the chat function.

George Magnus
Yeah, I'm not sure. I want to add much to what Liz is already perfectly said, really. I mean, I think it's something that we do need to remember. And we, you know, and there are some very famous speeches that Xi Jinping has made, particularly at the 19th Party Congress, for example, as a sort of a well-repeated passage: about China being involved in a long-term struggle between capitalism and socialism, which China wants to win. So, obviously, we can't pretend that it doesn't exist. It clearly, you know, we have to find some way, some modus vivendi with China. But I don't think we should be under any illusion that they're in spirit to, you know, to make huge compromises to what we think unnecessarily important any more than it would be the other way around. I mean, this is, this is a values-based adversarial struggle, and it's a very delicate one because of that.

George Magnus
Thank you - Neil.

Neil O'Brien

Thank you, Jeremy. My question is really partly one of analysis and partly one of policy. In terms of analysis, how should we think about the way that China's kind of import substitution/industrialization differs from other stories in East Asia. There's a really interesting piece by the Rhodium Group looking at what makes it different about having such a huge market, even if you don't have policies to subsidise exports and the like, just having a protected home market, that scale is just a huge competitive advantage. And then in terms of policy and what we do - I'm interested in both George's view on how we should respond. Is it that we are working with others to try and get China to change its behaviour? Is that realistic? Or is it as individual countries, you just got to kind of fight fire with fire and say, look, you have a negative list, we have a negative list, you are violating the spirit and substance of WTO rules with industrial subsidies. To what extent is it a ‘get tough’ thing and are there other places where there's more scope for kind of cooperation, for example, in the environment, you know, - given COP obviously, we're thinking quite hard about this. How do you avoid these things just turning into leakage and to China? So, yeah, sort of set of questions about how we respond really, and how we should see what they're doing.

Elizabeth Economy
You start George and I'll come in.

George Magnus
I mean, these countries, you know, they did in their sort of early developmental stages, in the last 50 or 60 years. I mean, they did rely a lot on state enterprises, the guidance of the government, protectionism, export-led growth. I mean, all of these things were common features there. I think Japan, too, after the war, relied on these things. And these are the things which are sort of endemic in China as well.

The difference is, I think that, as the Tigers and Japan got richer, they basically went through important processes of political reform, in which some of the old relationships between the state and industry or the state and the private sector, I'm not saying that they broke down, because you can still detect very strong associations between the state and industry in these countries still today, but they're very different from the way they were in the early stages of development. Now, if you kind of quickly sort of jump to the current 21st century and China's experience, China is already a middle income country, a very high middle income country. It's obviously not poor anymore, and it's not a rich country, either. So at this stage of the development of the Asian tigers, you know, they were already starting to dismantle a lot of these kind of protectionist features, which China seems to want to be emphasizing really, but for very, very different reasons. So, I mean, I don't think Liz used the term but I think they certainly would like to de-Americanise their economy to the extent that they can, even though perhaps for the moment, at least, European firms aren't facing the same kind of reaction.

But yeah, I think, I mean, I don't see China as wanting to be autarkic in the way that that we might have remembered, for example, China under Mao. But self-reliance, I think they're very, very serious about, I think there are aspects of the decoupling, which Xi Jinping often castigates the United States for pursuing but actually, you know, sort of started really, in China many years ago with the separation of the internet and so on and so forth. So there's a much more kind of political edge, I think, to what China and Xi Jinping is trying to do, which which separates it really, from the experience, I think, of the protection of domestic industries, which were very much part of, and have been part of, a lot of emerging countries experiences - and which the IMF, to be fair, is much more partial to nowadays, than it used to be.

Jeremy Hunt
Elizabeth.

Elizabeth Economy

I'll just say a couple words, I think in terms of policy response, you know, it's going to require the full array of tools, which means pushing on them to keep sectors open, right, using the WTO. I think a fair degree of reciprocity might be in order in the end. And I think that's going to require partnerships. So it's going to be not just the United States, but it's going to have to be working with the UK and the EU and Japan and Korea to be effective to bring the kind of pressure that would be needed in order to even have a hope of bringing about change in China. So, I think there are going to be a lot of tools that are going to have to come into force because I think Xi Jinping's natural inclination is not not going to be an economic reformer. It's not reform and opening up, it's kind of reform and tightening up. And then the last point, I guess, on the issue of you know, we still want to work with them on the environment and this kind of thing. I'm somebody who does not believe in issue linkage. And so China has its own reasons to do the right thing when it comes to climate change. And so they need to step up and do the right thing and we can bring pressure to bear on them as well on that front given their export of coal-fired power plants and other things.

Jeremy Hunt
Okay, thank you very much indeed. Just because we have to finish in 12 minutes, I'm going to group together some of the questions that have been asked in the chat to the panellists and ask you both to respond. So there's a couple of questions on the Belt and Road Initiative. Simon Hampshire asks whether it's now yesterday's news, and how the Chinese leadership view Belt and Road. And then Patrick Sinnott has asked whether the Commonwealth could be a foil against the Belt and Road and could have a role in providing an alternative. Stewart Paterson, on a linked economic issue, has asked what's the motivation behind China recently liberalising inbound capital controls for portfolio investors. Is this an act of desperation to attract foreign currency? A genuine reform aimed at improving domestic capital markets? Or is there a geoeconomic element to create Western constituencies who lobby in favor of Beijing in Western capitals? So those two economic questions. Let me go to George first, and then come to Elizabeth.

George Magnus
I'll go really light on the Belt and Road because I think Liz probably has a lot of interesting things to say about that. I mean, it's definitely not yesterday's news. This is Xi Jinping's signature foreign policy, I think is the expression people use. And as she's already suggested, you know, it now has other manifestations. It's not just kind of minimal infrastructure., but Health Silk Road, the Digital Silk Road, Arctic, Polar Silk Road or whatever it's called up in the north, and so on, so forth. So these are things that I think liberal-leaning democracies can respond to, I think we've already seen some belated but early attempts, I would say, amongst the Quad countries, so America, India, Japan, and Australia. Things that I think certainly that Britain and Europe can do as well. But moving on quickly to the other thing, the inward relaxation of capital restrictions. I mean, this was something that was undertaken specifically because of the strength of the Chinese currency. During the last year, whilst the dollar has been particularly weak, I think this is pretty much ended. Now, by the way, I would not expect this liberalisation to continue. I don't know whether the question actually meant to say inward liberalisation or outward, but in any event, outward controls are here for the duration. Inward relaxation is something which kind of switches on and off. China certainly welcomes foreign capital. They're not very keen on it to leave them.

Jeremy Hunt
Okay, Elizabeth?

Elizabeth Economy
Yeah. A few words on the Belt and Road. Yeah, I completely agree with George it's not yesterday's news. I think yesterday's news is probably the focus on hard infrastructure, I think there's going to be a move

away just from building ports, and railroads and highways and coal fired power plants, to thinking more strategically. Well, ports, I think will be strategic, because they're strategic for China. But I think the emphasis is going to be on the Digital Silk Road. So fibre optic cables, ecommerce, satellite systems and DCEP - the digital currency. It's going to be on the Health Silk Road, there's an effort now, a big push to think about how China can export its culture, its voice, so media content, whether in print or television, and sort of also rationalising legal systems and things and doing scientific and technology development in these countries. So I would say what we're going to be seeing moving forward is going to be a deeper integration in some of the softer areas of policy, you know, they're talking about closer ties with think tanks and research institutions in the Belt and Road countries. So an effort to bring these countries on board, not only in terms of the actual linkages of hard infrastructure, but also I think more in a political and social context.

Jeremy Hunt
Thank you. Now, a couple of slightly more general questions about political issues. Is there any hope left for democratic political change in China? And David Johnston asks, will Western discomfort and outrage at China's human rights violations reach a point where it hurts China economically, because countries and companies decide they can't continue trading with them? So if we could just try both of those, I'll start with George. And then to Elizabeth.

George Magnus
Well on this first, I don't really have very much to say. We never say never, should never give up hope, but the likelihood of democratising China under Xi Jinping is about as small a probability as I think we could actually give it. On the other question about outrage on human rights violations. I mean, I'm somewhat cynical about the willingness of multinational companies to basically forego business opportunities in China. I mean, companies are used to dealing with kind of run of the mill ethics issues in the country's host countries where they have direct investments. Xinjiang province, for example, I mean, is something in a different league, I think, particularly because governments do seem to be taking this very much more seriously. Not just in terms of guidelines, as we've issued here in this country, but also this sense of legislation, which I think is going to come out of the Senate quite soon. But also, because I think millennials and customers and shareholders in the home countries of many of these companies actually do take the 'S' in ESG much more seriously. And I am not saying that anything is going to change overnight. But I suspect that during the years ahead, these issues actually are going to become important as they were for Apartheid, for example, in the 1980s, for companies at the time, but this is obviously, as I said before, in a different league.

Jeremy Hunt
Thanks - Elizabeth.

Elizabeth Economy
Sure. I'll say I agree with George, I think the pressure is going to come from the shareholders, sometimes from employees. But the companies themselves? I haven't seen, for example, voluntary mass exodus of American companies who've been sourcing from Xinjiang out. There has been, of course, some, because pressure from the US government, but it hasn't really emanated from the companies themselves. And in terms of whether or not there's going to be democratic change in China. 100% agree. Unless there is a real debacle or an extreme slowdown in the Chinese economy, then I think Xi Jinping is here to stay for quite a while. But I will say it's important to distinguish between Xi Jinping authority, his institutional authority, and his legitimacy. He definitely got a boost in terms of how China managed COVID how successfully they clamped down and contained the virus, the spread of the virus. But we've seen over the past several years, a couple of different times, when there was a leaked conflict that looked like Xi Jinping

might be pushed back to the second line. And right in the beginning, right at the outset of the pandemic in China, when Dr Li Wenliang died, and you had that outpouring on the internet in China, the first time, we've seen it in eight years in China since Xi Jinping came to power, you know, calling for freedom of speech, and you know, people directly criticizing Xi Jinping. So we shouldn't assume that because we can't see, you know, discontent and dissent in China that it doesn't exist.

Jeremy Hunt
Okay, thank you. Now, we're afraid we're getting close to the end. So I just like to ask you each one final question. My question to you, Elizabeth is on COP26, and climate cooperation. And it was a question really from Jonathan Fenby saying, How can the UK exert more pressure on China on climate change, talking about what you said before about the difficulty of getting linkages? And George, I just wanted to ask you about something we haven't really touched on, which is, what the shape of Chinese economic investment in the UK is likely to be over the coming years. But let's start with Elizabeth on climate, then to George, and then I'll hand over to Tom to sum up.

Elizabeth Economy
Thanks. Hi, Jonathan, good to hear from you. So I think, you know, what can the UK do? It is not about just about the UK. I think it's about all countries. And I think it's going to be a combination of holding Xi Jinping to account. I think this is an area where Xi Jinping himself has kind of stepped up and claimed climate leadership right within the United Nations. He said, especially when President Trump was in power, you know, China's here, we're ready to take this issue on and to be a leader in the international community. Well, if that's the case, you have the opportunity to hold him personally accountable for actually benchmarking, the steps that they're prepared to take to reduce their CO2 emissions, which they have yet to do. And I think one of the disappointments coming out of the the Two Sessions was in the 14th Five Year Plan, there was not a distinct roadmap that China laid out for how in fact they were going to achieve carbon neutrality by 2060 - which, in fact, is not ambitious enough, in any case, but happens to be the only goal. I know that Xi Jinping has set the only target that I know that he set where he certainly isn't going to be alive to see if he's realised it. So I think I think there's a lot of opportunity. And the last point I'll say is he also said that China is going to green the Belt and Road Initiative, that was in the second Belt and Road forum in 2019. Clearly haven't done that, you know, they've increased the role of renewables, but they're still exporting over 100 coal fired power plants. That's a very easy area to target and to pressure China to do better.

Jeremy Hunt
Thank you and George, about Chinese investments in the UK?

George Magnus
Yeah. So in a way, the Chinese have kind of already kind of addressed this question for their own standpoint, because after their sort of miniature - not miniature - but after their own financial crisis in 2015/16, the government came down pretty hard on what they call 'frivolous investment'. So I don't think we're going to see a lot of Chinese investment in football clubs, or yachting firms or things of that ilk. Of course the problem nowadays, and when we look for the next 10 years is, as I referred before to the intersect between economic and national security, what the Chinese would like to invest in the UK are the things that we are least likely to want to exercise kind of liberal scrutiny over, which is telecommunications, energy and technology, those are the things that they really want. Those are the things that we're likely to feel increasingly wary about, for reasons of national security. When it comes to things like real estate, the consumer sector of finance, I mean, I don't really see any reason why we should be particularly worried about these things. But I think the strategic nature, should we say what

China wants in the UK? I think we will be in a position, I suspect, of closing doors that previously were open.

Jeremy Hunt
George Elizabeth, thank you very much. I'm going to hand over to Tom. Now we politicians love to get one up on each other. But the only thing I have on Tom is that I have had my hair cut this week and he has not. But over to you, Tom.

Tom Tugendhat
Jeremy, you have you have many, many things on me as well, you know, and look, thank you very much for very kindly chairing this afternoon's session, a masterclass in how it's done, and certainly many lessons for me. But most importantly, thank you very much to George and Elizabeth. Your perspectives, I have to say, were absolutely fascinating, and I must say I share, I know this is not universally the case, But I share Elizabeth’s doubt that what we're watching is Xi’s full majesty. And I see, certainly, cracks in the firmament. So I have to say, I found that absolutely fascinating. And George, your perspectives on investment, and the issues to come were absolutely riveting. So I look forward to staying in touch with you both. And I hope very much that will have you back at some point.

And on that note, can I just remind everybody that the China Research Group obviously sends out a daily and now a weekly email, they're not quite the same in tone, the daily one is sort of a list of press stories, and the weekly one on Saturday is, is more of a round up, and more discursive. Please do join both. Follow us on Twitter in the usual way, sign up for our website, or follow us on our website to stay in touch. And most importantly, at 10 in the morning on the 27th of April, Tuesday, back to our normal time. We have the Financial Times China editor James Kynge, and for those of us who have been reading his work well, for years now, actually, for an awfully long time and have been very impressed with his insight, I have to say I'm really looking forward to seeing what he has to say and to asking him some questions myself. So please, do join us. You know the format, sign up a bit in advance, advertise it to all your friends and family. It's all public. It's all free. It's all online. And no questions are outside bounds. So thank you very much to Jeremy for, for stepping up and doing a much better job than I've ever done. Thank you to Elizabeth. Thank you to George. And thank you to everybody for joining us.