



FOREIGN POLICY ASSOCIATION
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David Denoon Speech

Featuring:

David Denoon

DAVID DENOON: Well, it's a great pleasure to be here and I want to also thank Hugh Rome for his very gracious provision of the space and the support for your conference and also for the future activities that we have in mind for Great Decisions. Since I'm playing a role in soliciting ideas and trying to shape the agenda for Great Decisions for those of you who are close readers of that if you have suggestions please channel them my way. What I'd like to do tonight is to try to stimulate some discussion about China, it's been hard in the last five years to hear anything other than accolades about where China is going. In the last year some things have come onto the horizon which have made people think more deeply about the structure of the Chinese economy, what's happening in the political system and what's going to happen in U.S. China relations. I'm not going to go through all of that I know you all want to have dinner and unfortunately I have another commitment so I will try to limit my remarks to about 15 minutes but we then should have time for your questions.

But I want to start with the economy. All of us are familiar with articles and books that have been written about the blooming Chinese economy, the news however is the Chinese economy is slowing rather precipitously. The Chinese economy is driven by its exports, exports have been growing at over 20% a year for the last decade and they are now down to 4.8% in April. The other thing which is really important in terms of its effect on the United States and the effect on other countries around it is that China's economy is now importing or the growth rate of imports is less than 1%. So the engine where China was bringing in imports from other parts of the world, raw materials, spare parts, parts for assembly and so on is beginning to slow significantly. I assume that you may have some questions about this but I'll just say that this is a significant development and the real question is where will China's future growth come from. It's most recent growth has come

from a variety of factors which I'll just touch on but you'll see that each of them is not something that will propel the country in the future. So we now have a sense of asking questions about the viability of its growth rate.

One of the first sources of their growth obviously has been cheap labor that is beginning to fade. All of you know I'm sure are familiar with the one child policy but the one child policy is now beginning to have an effect on new entrance to the labor force. The second thing that has happened of course is that as the modern sector has grown, still roughly 80% of the Chinese live in a rural areas, but as the modern sector has grown wage rates have risen and people have other options than to work in a low wage employment. So that is beginning to effect the capitalist of foreign investors, it's beginning to effect to the way the Chinese see their own economy. Another really critical factor, I don't want your eyes to glaze over but economists love to talk about productivity growth, and productivity growth comes from things like improving the efficiency of transportation, improving the efficiency of factories, bringing capital labor together in a more efficient fashion and in low income economies, less efficient economies, it's relatively easy to get growth in productivity if you have the right policies. As the economy grows and you get more sophistication it's harder to get that and China is beginning to face that problem as well.

Another issue is that when China came into the World Trade Organization it immediately got access to markets which it didn't have before, countries could no longer limit Chinese goods coming in and so there was an enormous surge of exports as I mentioned going out of China into other markets. That surge is over, particularly if we look at the major growth areas of the world, Europe, the United States, Japan, even Korea and now Southeast Asia all slowing in terms of their growth. So the Chinese can't count on this export surge and maintain things anymore and they don't have the benefit of this early access to the World Trade Organization. I'll just touch on those, we can talk further about other issues, on the outline you can see other issues as well but those are the critical ones.

Now let me say something about the political transition. I think it's now a generally sort of accepted view that the current leadership of China, Hu Jintao and Wen Jiabao, have been mainstream technocrats. They have current leadership of the Chinese communist party, in standing committee - - are all engineers, every one of them. They're shrewd technocrats but Hu Jintao and Wen Jiabao are considered today, certainly many Chinese and lots of outside observers, to be relatively lackluster leaders and the question is when the new leadership of Xi Jinping who visited here in this country, many of you may have followed his visit to Washington and also to the Midwest, as probably the new President of the country and Li Keqiang will be the new premier. Both of them are from different factions of the communist party, both of them are again shrewd, each of them has gone to a top university but neither of them is well known to the Chinese public. This is a sort of anointment process within the communist party where different factions are being rewarded. Xi Jinping is from what is called the Princeling faction, his father was a former deputy premier, head of the propaganda department of the

party, whereas Li Keqiang represents the Communist Youth League and in China it's often common to marry within your political faction, Li Keqiang married a woman who is the daughter of the former head of the Communist Youth League so it's a second generation strength within that area. I'm sure that some of you will be interested to talk about the Bo Xilai affair which I'm willing to do but the Bo Xilai affair has meant that the communist party has many concerns about how it's viewed by its own public and certainly how it's viewed by people outside the country. But the real issue is even if the political transition takes place this fall as anticipated that China faces a transition from one set of technocrats to basically another set of technocrats and the public will play only a minor role in sort of saluting and clapping for this transition. So it is not equivalent in any sense to the mortal and political system that you're familiar with.

Let me wrap up by just saying a couple things about human rights. I'm sure all of you followed this Chen Guangcheng affair over the last month, Chen is now here at NYU. I actually passed him on the street the other day and very sadly noted that he was in a wheel chair and some of you may know that when he tried to get away from his house he jumped over the back wall and has seriously damaged one of his ankles and feet. But he will be staying here at NYU at least for the next year and I think the combination of the Bo Xilai and the Chen Guangcheng affair have put the Chinese leadership somewhat on the defensive because the outside world certainly sees them in a less positive way than they used to.

There are also a whole series of foreign policy decisions which the Chinese government has made, which again I presume you may have some questions about but I'll just note that the Chinese view foreign affairs today in a very pragmatic light, they are less ideological than during the Mao Zedong era and they pursue what they consider to be China's interest. So when they support a regime that we find less than attractive in a place like Sudan or in Serbia or Iran or North Korea, they do it because they see it as being in a national interest. That isn't all that different than some countries that we know in Europe that begin with F as the first name of their country, first letter for their country. But within China there is growing debate about whether these are wise decisions. So I would say among the elite in China, in the journalist community, among academics and among the senior government leaders there is a sense of transition not just the individuals for change but that the buoyancy of the last decade is over and the question is where does the country go from here.