

THURSDAY 26 MARCH 2009

Present

Anderson of Swansea, L
Chidgey, L
Hamilton of Epsom, L
Jay of Ewelme, L
Jones, L
Selkirk of Douglas, L
Swinfen, L
Teverson, L (Chairman)

Witnesses: **Professor Robert Ash**, School of Oriental and African Studies (SOAS) and **Professor Shaun Breslin**, University of Warwick, examined.

Q180 Chairman: Professor Ash and Professor Breslin, welcome and thank you very much indeed for coming along and appearing as witnesses for us in our EU-China inquiry. Could I just remind you that these sessions are recorded. You will be sent a copy of the transcript so that you can amend anything that appears to be wrong there, but we are webcast in these proceedings as well and of course that is a little more difficult to change. Perhaps I could start with one of the key areas and one of the most fundamental things, which is around the current global financial crisis and economic downturn. Will that change the thinking of the Chinese leadership or the people they have to take into account? Will that change the economic model that has been pursued in recent decades? What effect might this have politically? Most importantly from this inquiry's point of view, how should the EU react to these changed circumstances?

Professor Ash: First of all, the impact of the global crisis on China has already been marked. Growth has slowed very significantly and growth is clearly going to continue to slow. In terms of shaping thinking on China's growth strategy, I would say that thinking on possible changes in the direction of the growth strategy was already underway before last September,

but that there is no doubt that the events since then have really underscored the new direction in which the Chinese Government was moving. Let me explain what I mean by that. China's growth record in recent years has pretty clearly been driven by exports and by investment. Of course, now, the immediate and, in a sense, most dramatic impact of the global crisis has been on exports, which have fallen very dramatically. Some people are suggesting that export growth this year will be negative. Whatever it is, it certainly will be very low, and the global environment is such that it is, I think, impossible to conceive of export recovery taking place in China within the next two or three years at least. Fixed investment has been another driver and that already is at an extraordinarily high level - in excess of 40 per cent of GDP. It grew last year by 25 per cent. That sort of trend is surely unsustainable because, in the wake of falling exports, firms have of course been left with excess capacity, to which an obvious response will be cut-backs in investment. So the prospects for investment - at least industrial investment - as a driver, of economic growth, do not look very propitious. This is where we come to the thinking and the change in thinking on a growth strategy. For such circumstances leave the government seeking and hoping - and I think it is hope rather than expectation, and my own view is that it is a hope that it will be difficult to fulfil - for domestic consumption to become a new driver of growth. I have some doubts about that. We are in an environment in which per capita income growth is slowing, unemployment is rising, consumer confidence is likely to be weakening (or, at least, will be uncertain) all of which make the prospects for consumption, as it were, suddenly to become a major driver of growth somewhat unlikely. The other possibility, and of course the direction in which the Chinese government has been moving, is to try to increase non industrial, infrastructural investment. The government, for example, is pouring a lot of money into the health sector - and that is a very good thing, it is much needed - and other forms of social insurance in the hope that this will divert resources from savings, which have been remarkably high into consumption. My view is that the

outlook is quite grim. That is where, of course, people start to wonder about threats not merely to the legitimacy, but to the authority, of the Chinese Communist Party. There have been widespread reports that the effects of the global economic downturn are going to precipitate widespread social unrest. I would be a bit cautious in going along with those predictions, but there is no doubt, given that social discontent is already at a high level and has been rising in recent years, that such discontent will continue to increase in the wake of, for example, high rises in unemployment. We read these reports of 20 million migrant job losses having occurred in recent months, although, I do not know what credence one can give to those.

Q181 Lord Hamilton of Epsom: The Chinese government I think are on record as saying that their growth rate would drop but it had to be eight per cent to stabilise the situation within their country. You are indicating it is going to be much, much lower than that. Surely if you have social unrest now, then that is going to something writ large, is it not? If there is a large number of riots now, will they not have many more people in them and be much more difficult to control?

Professor Ash: Quite likely. That is certainly not an implausible scenario. I do not know how plausible it is but it is not an implausible scenario. There are two things I would add to that. One is that the government, or the Party in the last 20 or 30 years faced some very serious crises 1989 was a particular kind of crisis and there was a particular kind of reaction to that – one which I do not think we will see again. But it has weathered some very serious crises. In economic terms, after all, it did accommodate extraordinarily high job losses associated with the restructuring of the state and enterprise sector. Millions, tens of millions of jobs were lost as a result of that. That had its social impact, of course, but it was a social impact which the government was able to control. The second observation is that I think it is quite possible, given the very formidable power, after all, of the Party and the formidable

military and police powers that it commands, that it will be able to do so in the future. So I would disassociate myself from what seem to me to be rather alarmist projections and predictions.

Q182 Chairman: Could I ask either or both of you to tell us concisely, in a couple of bullet points, how you think the EU should react to this potential big change in China.

Professor Breslin: I think we just have to be very much aware that there is a domestic agenda in China and that is going to dominate all their interactions over the next 12 months and beyond. I think they will get eight per cent because they need to get eight per cent, therefore they will get eight per cent by spending as much as they want.

Professor Ash: I do not think it matters. I think we must not be seduced by numbers here.

Professor Breslin: This is very clearly a year in which not just economically but in terms of the number 9 there is quite considerable significance. 2009 means that there are anniversaries of the foundation of the British Republic of China, of May 4 and of what happened on June 4, and everybody is very much aware of this. The government is. In some respects, I do not think this year is the problem year because everybody is so tuned in to the potential economic problems and the social problems for this year that they are very well prepared for it. I think it could be next year. But coming back for the EU, I think we have to accept that when it comes to G20s, when it comes to WTO, when it comes to any international environment negotiations/discussions, the Chinese will be very much focusing on what they need to do because of these domestic problems, whether that is with the EU, driven bilaterally with the United States, or with anybody else.

Q183 Lord Chidzey: Good morning, gentlemen, and welcome. To carry on from where you left off Professor Breslin, you are familiar with the thrust of what our questioning is, but moving specifically to economic and trade relationships between the EU and China, could

you set out for us what are the main features and issues in the economic and trading relationship between the EU and China? How well has this relationship developed in the last five to ten years? Finally, how well do the summits and other international mechanisms function in the fields of trade and economy?

Professor Ash: The context in which trade and economic relations have developed in recent years is very important to keep in mind. I remember well that for a long time the economic relationship but in broader terms other aspects of the relationship too - between the EU and China was often referred to as a very secondary relationship. That I think has changed. It has changed officially to a “partnership” and that does reflect, I think, changing perceptions - perceptions by both sides of the increasing importance of each to the other. In terms of the main features of trade and broader economic relations, of course the most obvious features has been the very remarkable growth in trade that has taken place that has resulted in the EU becoming China’s largest trading partner in the world, and China becoming the EU’s second largest. Another very important feature is that those trends in trade have left China with a massive surplus vis-à-vis the EU and that has become, an important issue and an important challenge. The other thing to say is that the EU has become an increasingly important source of capital, of foreign direct investment for China, though of course it is not nearly to be compared, any more than the American role in the same regard is to be compared, with the role of Hong Kong and Taiwan and other parts, particularly of the Chinese diaspora in Asia. As to how one assesses those relations, as we know it is a very mixed picture. Through the quantitative measures that I have just mentioned, it has been very successful, and closer economic ties can, indeed, be said to have benefited both sides - the EU Member States as well as China - but there are many qualifications and I am sure we are going to get on to those in due course. There is a very strong consensus, not only within the Commission but also among European companies that, for example, maintenance of non tariff barriers and other

kinds of restrictions really still prevent a genuinely reciprocal trading relationship from existing.

Professor Breslin: I would agree with all that. Let me try to add a couple of things. It is quite difficult to answer this question without moving on to some of the issues that I can see are going to come up later. Indeed, I know that the European Chamber of Commerce in China thinks that for small and medium enterprises it has become more difficult to access the Chinese market over the last two or three years rather than easier as was expected with World Trade Organisation entry. There is something called “the catalogue”. It is a huge document that, industry by industry, stipulates whether these industries are open to investment and, as they have been opened and moved into the areas people can invest in, lots of footnotes appear with the proviso: “Yes, you can invest but look at footnote 4: ‘You can only open one branch of a bank every year’” and so on and so forth. There is a whole range of new regulations that have come into place, particularly in some of those sectors where Europe thought that it was going to do very well in China, particularly around financial areas, for example. Another area that perhaps is going to be raised later on is the extent of Chinese investment into Europe. I will mention that now and we will perhaps come back to it later on. In terms specifically of the institutional mechanisms and relationships, often in China and perhaps elsewhere it is not always clear where the locus of governance is when it comes to dealing with Europe. Is it at the EU level? Is it at the national level? Indeed, in many cases I think there has been a focus on local governance as well. There is sometimes a lack of clarity over who is acting for whom. If the French President goes to China, is he acting on behalf of French industry or on behalf of the European Union if he happens to be President of the European Union?

Q184 Chairman: That is obvious: it is always the French!

Professor Breslin: That is simply an example – we could have chosen any of these countries. I think there is some concern within China to the extent to which EU-level policy, if you like,

represents some form of trade off between the producers of Southern and Eastern Europe and consumers/distributors of Northern Europe. I think there is still some lack of clarity there in terms of what role does the EU play? Obviously when it comes to the WTO the EU is acting with one voice but particularly when it comes to investment into Europe and Chinese activities over here, I think there is still some lack of clarity over who does what – and perhaps understandably so at times.

Professor Ash: That is a very interesting, I think, and valuable comment. One might turn the coin over and just remind ourselves that the EU - through its dialogues, through its summits and other meetings, its various mechanisms - is talking to the central government in China and to agents of the central government of China. That poses a big problem, because I think there is a pretty strong consensus that the system of governance in China is really quite dysfunctional and that there are really very serious tensions between central government and local government. One of the consequences of that is that there is no guarantee – it is a fundamental weakness in the system – that the policies, often very rational policies, that are formulated at the top, in the central government, are implemented when they reach the local levels (provincial governments and, indeed, sub-provincial, municipal governments).

Q185 Chairman: If that is the case, should there be a specific EU response to that? If that is an issue, should there be a specific response? Is it possible to have a specific EU response to that?

Professor Ash: I think that is the question: Is it possible to? Yes, there should be. In an ideal world there would be, but I think it would be very difficult.

Professor Breslin: Relating this back, first of all, to the first question, we should bear in mind that when we are talking about the financial crisis in China it is geographically uneven.

Professor Ash: Absolutely.

Professor Breslin: Zhejiang province has basically closed down. I think it has just put the For Sales sign up. Guangdong, the Pearl River Delta, has had huge problems. It is not an even problem. If we are thinking about how does Europe respond to China's problems, it is which part of China? First of all, we have to retain in our minds the idea that this is some form of de facto federalism or fragmented authoritarianism and remember that anything that is done will be, shall we say, influenced by this fragmentation. Also, we can take a leaf from individual nations - and not always national governments - and see what they are doing. If you look at the activities of the China-Britain Business Council, they have offices now in six or seven different cities within China and have very different regional activities. The activities of the European Union Delegation in China are relatively concentrated on the political centres. Maybe it is an issue of funding, maybe it is an issue of political will, but it certainly would do no harm, I think, to spread the representation to different parts of China, either in formal offices or in some other way, so that there is a more even representation in those parts of China that people often forget about when they visit China. We go to Beijing and we go to Shanghai and often we do not go much further.

Q186 Lord Hamilton of Epsom: We have the G20 Conference coming up. Where do you think China will be coming from at that conference in terms of the economic and financial crisis we now have? To what extent do China and the EU share a common approach to global economic trade and financial governance, including the reform of the World Bank and the IMF?

Professor Breslin: I have just come back from three weeks at Beijing University and one of the professors there said, "Do you know, the problem with the global system is that it thinks it is still the end of 1944" – and of course he did not mention the United Nations which benefits China from being trapped in 1944. The major financial institutions still have power structures that are based on balance of power from a very different age and there is now, of course,

a growing demand within China for a fundamental reform of not just the voting power in places like the IMF and the World Bank but also, as we have seen recently in the dominance of the dollar as a global reserve currency. There is a very strong desire to see not just reform but I think the rules of the game fundamentally changed and altered to reflect the growing significance of Chinese financial power. We have this sort of odd dilemma that China domestically is suffering from the global crisis but in some ways globally its power is enhanced because of the increasing significance of its foreign reserve holdings and its overseas currency accounts. It wants to buy IMF bonds, if they are issued. It wants to replace the dollar with a more variegated basket of currencies on the global system. There was a lot of talk in China over the last couple of weeks of: “Why are countries like China being expected to pay money to the IMF so that rich Western countries can be bailed out?” Per capita income in China is still by official figures only something like US \$3,000 per annum and yet they think that Chinese money is being demanded so that the West can bail out their own economic system. I think there is reluctance to be seen to be bailing out the West, but at the same time they want the West to grow because of the importance of the Western economies as consumers for markets. It is not an antithetical position to the basic need, desire if you like, for growth and stimulated economies in Europe and the West, but if China is going to participate, it feels that it needs to be respected – “respect” is a word you hear quite a lot in China – but also given full weight for its financial interests and its financial power. Of course if the dollar declines, and you have perhaps a trillion dollars worth of dollars and that value of those dollar reserves declines as well, there is a lot of self-interest involved here as well of course.

Q187 Lord Hamilton of Epsom: They will contribute to the funding of the IMF, although they resent the fact that it is the rich countries that will be using the fund to bail themselves out.

Professor Breslin: The extent of it I am really not sure about.

Q188 Lord Hamilton of Epsom: Do you think they may draw back at some point.

Professor Breslin: Let me take a step back. When the China Investment Corporation was first founded, I think a lot of people thought the Chinese would go and invest overseas, which they did, but of course some of the original investments lost a lot of money in the United States. There was an outcry: “Why are we spending money overseas when we do not have a health service back home that we can really count on?” There are voices within China that think that if money is going to be spent on bail-outs, it should be bailing out Chinese pensioners, the Chinese medical system, and so on and so forth. This is not a political system that is immune from the demands of the population. Wen Jiabao has been criticised quite heavily in some quarters recently for his economic policies. I do not think there are any guarantees. If you stood back and looked objectively at the voting power, for example, in the IMF and then looked at the countries that have the money that we would want to be invested in the global system, there is a bit of a mismatch. You do not have to be Chinese to see that, I do not think.

Q189 Lord Anderson of Swansea: In terms of diversifying their basket of foreign exchange holdings, have they significantly moved away from the dollar into the euro? What, if any, effect does that have on the relationship with the EU generally?

Professor Breslin: The answer to that is yes, but the extent we do not know. It is a state secret to know the exact holdings, the balance of the different foreign currency reserves. There is an institution called the State Administration of Foreign Exchange and they have been, as I understand it, moving funds into other currencies, primarily through intermediaries in Hong Kong and, also, as I understand it, through stockbrokers and other agents in other countries. But when you ask the questions of who is doing this and how much, the answer is:

“We don’t know.” Whether that is really “We don’t know” or “We know but we’re not telling you” there is certainly no move to disclose. When the euro was first suggested and first came into being, there was great enthusiasm in China that this would provide, if you like, a financial strategic triangle.

Q190 Lord Anderson of Swansea: A counterbalance.

Professor Breslin: A counterbalance to the dollar. There was concern, obviously, that it might be unstable and people wanted to see the stability of it. At the moment Chinese academics are debating whether the euro can hold, given the different economic situations in a number of the different euro zone countries. But there is a diversification into different currencies – the yen as well, obviously – in an attempt to reduce that reliance on the United States, and also, now, to reduce the amount of dollar holdings and American debt, effectively because they have been caught out. They are holding a lot of toxic money that they have basically used, to some extent, to keep the American economy running for the last two or three years in the way that it has been running.

Q191 Chairman: Could I bring you back to the beginning of Lord Hamilton’s question about the G20. I want to ask not so much about this meeting in April but what does China want out of G20?

Professor Breslin: The Chinese will, of course, attend the G20 and of course they will make their points very clear there, but I am not sure that the G20 is necessarily the preferred long-term forum for multilateral dialogue.

Q192 Chairman: What is?

Professor Breslin: Some form of Chinese participation in the expanded G8, G9, G10, whatever we are going to call it. The G20 I think appears to be too big and too diverse.

I think they see it as too big and too diverse to be able to make the decisions that will affect them.

Professor Ash: But not the G2.

Professor Breslin: Not the G2, no.

Professor Ash: One of the questions that was asked related to a common approach specifically in the face of a global crisis. It is a very obvious thing to say but, since it is proving very difficult to get a common approach within Europe, let alone within the Western world more broadly, it does seem a little bit premature to be asking whether China and the EU can identify a common approach to the crisis. What we have heard so far have, essentially, I think, been fine words. When Wen Jiabao was in Brussels a couple of months ago, he and Barroso pledged both sides to the promotion of further growth of trade and investment, and to strengthen, I think the term was, “practical co-operation”: but what form this practical co-operation was going to take remains to be seen. Even more fundamentally, whether such co-operation really will be possible, also remains to be seen. We do not actually know what the full ramifications of the crisis are. At least that is my view. There is a lot of floundering around still. I am not sure that we can say that the crisis has played itself out. One of the questions, for example - an intriguing question - is what would happen if China’s surplus continued to grow vis-à-vis the EU in the context of recessionary conditions developing – as they are already developing – in Europe. Would that prompt – I am sure it would do so from *some* constituencies – protectionist tendencies? There are so many uncertainties that I think it is simply premature to be addressing such issues. It is almost a redundant question to ask that.

Chairman: We will take it as that.

Q193 Lord Jones: Thank you, my Lord Chairman. We have already heard the phrase in passing “the significance of Chinese financial power”. Formally, what is your assessment of

the role of Chinese capital in the current international system? Is the EU concerned by the role of Chinese sovereign wealth funds or acquisitions by Chinese companies in strategically important sectors? If so, what do you think the European Union should do to address these concerns?

Professor Ash: China's emergence as a supplier of capital is a fairly recent phenomenon but one that has developed very fast. Clearly China is now one of the top global investors. There is no question of that. If you are talking, for example, of outward FDI from China, the drivers of such flows have been big Chinese companies, some of which now have very sizeable overseas holdings. If you mean by "role" what are the motivations of such investment, they are the fulfilment of one or more of a number of goals: of course, to secure resources – that is very evident in Africa, but also elsewhere; to access markets; to obtain know-how – and I mean managerial and organisational know-how as well as technology in order to enhance efficiency: and to acquire strategic assets. In a European context, if one is trying to define the role in those terms, the most important motivations would be regarded as trying to access markets – that is important, particularly for goods that are in excess supply in China, for example, and where the profitability of domestic operations has been falling-to acquire managerial know-how and to acquire high level technology, and perhaps, also, to extend brand imaging. I think that this last is also important. The sovereign wealth issue is also a recent phenomenon and you have asked about concern about this. I think there *is* concern. There certainly is concern within EU Member States, and my understanding is that, for example, last year the German government introduced new legislation precisely to give it the power to block acquisitions and some have seen that as very much aimed at the potential activities of China's sovereign wealth fund.

Professor Breslin: In some respects I think there has perhaps been a little bit too much of an emphasis on the China Investment Corporation as a sovereign wealth fund – I think partly

because it came along and it was new and people got quite excited about it. In fact the China Investment Corporation is a political compromise: it is a fudge that came about because different agencies at the centre in China were arguing over who should have control over financial resources and so they established this as something that would satisfy or not dissatisfy the different ministries, the People's Bank of China and the Ministry of Finance. The China Development Bank has also been a major player. It is the China Development Bank that provides much of the loans for these major state-owned enterprises to go overseas, and that is politically directed lending. The State Administration of Foreign Exchange is probably the most significant supplier of outward capital, and I suspect will become even more significant in the future, particularly in terms of getting rid of some of these dollars and perhaps creating a more balanced portfolio of holdings. I think they are going to be more significant. We also see the Import-Export-Bank of China operating quite significantly. So there are different agencies and I think it is important that we do not become too myopic and do not focus in too much on this sovereign wealth fund and bear in mind the whole range of different agencies that are sometimes competing with each other. I think it was at Citibank in New York there were at least two Chinese agencies that were looking to take holdings at the same time. Also, in terms of smaller medium enterprises from China coming to Europe, often with the support of local government and local branches of the China Development Bank, they are looking increasingly for know-how, technology, expertise. I think the European response should accept or be based on this reality of a multiple set of players and multiple sets of ambitions and objectives of the different actors involved. Clearly some of these issues are going to be more politically sensitive and strategic than others and, of course, we cannot get away from mentioning the United States because there are clearly going to be problems between Europe and the United States if Europe or European countries allow China to buy assets in areas that the United States would deem to be military-related and therefore

contravening the arms embargo. So I think the trilateral relationship needs to be taken into account here as well. Personally, I think the more co-ordinated this response can be, the better, because otherwise there might be a case of countries playing against each other in terms of their openness to Chinese investment, which could have long-term significance.

Professor Ash: Meanwhile one might just add that it is incumbent on all those concerned to try to keep an eye on the sovereign wealth fund, the activities of other institutions that Professor Breslin has mentioned, to try to identify to what extent, for example, the China Investment Corporation is seeking to diversify its portfolio. That is going to be an important indicator of, in a sense, the goals of China's sovereign wealth fund.

Professor Breslin: But it is not always clear, because a lot of the activities of the state, in particular, are carried out through third parties in other countries.

Professor Ash: Sure.

Professor Breslin: So it is not even always very clear that it is a Chinese investment.

Q194 Lord Hamilton of Epsom: We do not seem to have a question here on Africa. Do you see the deals that have been done in Africa being maintained or do you think they will go more slowly because of the economic situation?

Professor Breslin: I think they will be maintained. China is now helping – that is an interesting word – a number of African countries set up special economic zones. Whereas the Chinese special economic zones were intended to maintain some form of Chinese sovereignty as it engaged with the global economy, so the African special economic zones are there to allow Chinese interests to be maintained in Africa. Resources are clearly important. I would just like to add one thing that I sometimes think gets missed off, and that is food security. The Chinese are very concerned at the long-term access to enough food to feed the population. Within the energy security debates and actually within the journals produced by the military a number of people have been saying that in the long-term food security is

more important. Feeding people and having a sufficient amount of relatively cheap food is the basic starting point for most governments. It is noticeable, if we track back 12 months, that the big debate in China at the time was high prices and particularly high food prices. I think China is now going back into the global markets of investment after a little bit of a hiatus – after the crisis really came to light there was a bit of a slowdown – but they are going back and I think we can expect to see continued acquisitions in Africa in terms of resources but I also think we need to think in terms of long-term access to food as being an additional objective of some of these overseas operations.

Professor Ash: I think with an emphasis on long run.

Professor Breslin: Long run, yes.

Chairman: We will have a specific evidence session on Africa in a few weeks time.

Q195 Lord Anderson of Swansea: In terms of those investments, can one discern some central direction, some wish to invest in not just the food matter but strategically in terms of things which we in Europe should be concerned about? Think of Kuwait Investment Organisation, relatively small investments in many firms, no fear that they would be used for political ends. Should there be any such concerns in respect of what China is doing?

Professor Breslin: In terms of political ends? I guess I want to say the emphasis is more on, first of all, the price and distribution of global resources rather than on them being used for some sort of political purpose. But if you are taking evidence on Africa I will just mention the idea that China provides an “alternative”. The political objectives of the West, not just in Africa but in Latin America and other parts of the world, are being undermined, I think, because China presents this financial ideational alternative to the Western way of doing things. I think that in the longer term is perhaps the greater significance.

Q196 Lord Jay of Ewelme: I would like to come back to some of the commercial issues we were talking about a little earlier, in particular the extent to which you think that the EU have made progress towards persuading China to open its markets to European goods, services and investment, and what the main obstacles are to market access, really, for large companies and SMEs. Clearly there are quite a few European companies, including British companies, which have done very well. On the other hand, there are those and, indeed, others who find the regulatory burdens and the shifting regulatory burdens quite a constraint. I just wondered what your views were on the trends really. Do you sense that there is a European company view or a corporate view? Does it really depend on what sector you are in, whether you are large, whether you are small?

Professor Ash: Yes, progress has been made, I think. I was interested in the way you framed your question, which asked to what extent the EU had “persuaded” China to open markets. I would say that it is perhaps not so much the EU that has done so. I think the impact of China’s accession to the WTO was a rather more important watershed because, since then, it has become very, very clear that China has not only reduced its tariffs but it has opened up a growing number of industries – not as many as would have been hoped for, but a growing number of industries – to overseas investors and to traders. Are there positive signs? Allowing the currency to rise has been one encouraging aspect. There have also been some important institutional initiatives. I note that at a number of points this morning reference has been made to small and medium-scale enterprises and the difficulties which they have faced. We wait, of course, to see what the impact will be but there is now a new EU centre in Beijing that has been set up and I believe that its remit is very much geared towards helping facilitate the activities of SMEs in China. There is also the high level economic and trade dialogue mechanism that has recently been set up. I think a number of promising and potentially important – alas, we still talk in terms of potential rather than in terms of reality – point to

progress having been made. That having been said, of course, as has been stated there are many qualifications to be made, which would include the continuing maintenance of tariffs in some industries - including a number that would be regarded as key industries, I suppose, from an EU perspective - and the use of other barriers to imports of certain goods: price controls, discriminatory licensing requirements, discriminatory registration requirements, restrictions on investment in particular regions of China. And there are other barriers: discrimination against investments in particular sectors – not that I am particularly surprised that that should have been the case, but of course it runs contrary to the rules of the WTO – and investment restrictions that prevent European investors setting up wholly European-owned, wholly foreign-owned enterprises (in other words, insisting upon joint venture arrangements). An EU corporate view? I do not know, although I do recall a very interesting survey of a couple of years ago that was conducted, I think, by the Hay Group, which revealed very, very clearly that these values were real and that they were very serious. I remember the finding that a significant proportion - maybe half, maybe more than half of the respondents - said that they expected that their operations would be affected by violations, for example, of IPR in the coming five-year period. So those barriers I think are serious.

Professor Breslin: Yes, and they are incredibly detailed regulations. You really have to go down to an industry-by-industry case to see what they are and then accept that the local government will probably act in a different way anyway. In terms of a European response, I really get the feeling that when it comes to China coming to Europe obviously then the European level is hugely significant, but when it comes to Europe going to China the national level still is much more significant. A lot of these companies are self-identified or identified as being a British company, a French company, a German company rather than a European company. I do think there is a much stronger emphasis here on national governments being

seen to support national companies and the companies in some ways a representative of that nation rather than as a wider European identity and effort.

Q197 Lord Jay of Ewelme: Would you say there is a case of both? I agree with you about the importance of national action and national lobbying, but are there particular areas in the regulatory area, for example, where you think a coherent, sustained EU approach over time might have an effect? Rather as a few years ago we were doing the same sort of thing with Japan, trying to get them to change taxes, to open out, and it took a long time, are there areas there where you think the EU/qua EU could have an impact?

Professor Breslin: I think on intellectual property, for example, counterfeiting and the things we are going to come on to later with labour legislation. I think it is very important there for it to be at the European level because I think that contains much more power and also prevents individual European countries being discriminated against for acting in a certain way. I do think there is. But as Lord Anderson will know, when the Foreign Affairs Select Committee had its investigation into relations with China, in 2000 I think it was, one of the messages that came across very strongly from the British companies which gave evidence was that the British Government should be doing something because if they do not then French and German companies will get the contracts. I agree, it is at both levels, and I think there is more perhaps that could be done at the European level but when it comes to lobbying within China and lobbying governments to have a good political relationship to ease economic and commercial processes in China the national level will still probably dominate.

Q198 Lord Jones: Have either of you monitored the attempts by a European company, EAS that makes the Airbus? Do you know of any difficulties they are having or any successes? I understand they are setting out a process to build in China a product that they make. Are you able to give an instance of an industry or of a company going into China and succeeding?

Professor Breslin: A number of companies have gone in. The bluntest way to look at it is if a company goes into China and there is no domestic producer to compete with, then people have often done extraordinarily well. A lot of the major retailers. Carrefour is the local supermarket for Beijing University, for example. B&Q have done very well. The interesting case about Airbus, of course, is that this is a case where the Americans got very unhappy because Airbus made their big breakthrough in China during an American embargo on China related to nuclear technology in Pakistan. In a period when Boeing could not, Airbus stepped in and took up the slack, as it were. So there are lots of areas, but it is where you are competing with existing producers that it becomes very difficult. You will find that often it is the local level protection as well. It is where you are adding something and not competing with the existing strong interests that there are the easiest possibilities for doing well.

Professor Ash: Going back to an earlier point, when we were discussing the EU response and what the EU can do, I would certainly endorse all the things that Shaun has said but I would just add that resolving and making further progress on these issues in the end requires – and it is a truism but it is an important truth – further reform to take place within China and to be undertaken by the Chinese themselves. That is going to be a long-run task. What can the EU do? Of course, it is always articulating its desire to facilitate reform but, in practice, helping the reforms along I think is an enormously challenging task.

Q199 Lord Anderson of Swansea: On the agenda of the EU-China dialogue, let us assume that you are in a non-sensitive sector, again a Carrefour in an area where there is not much competition within China, let us assume perhaps that you have a joint venture, is there then the rule of law in resolving disputes? I certainly have not heard of an equivalent to the Russian dispute on BP and TNK. I have not heard of an equivalent of the Shell problems in Sakhalin. Would a British company, a European company be confident that there were proper arbitration procedures, that there were proper procedures for the protection of minority

shareholders, for example – in short, that the rule of law persists? What about the position in respect of intellectual property rights and counterfeiting? Can you say a little more about the EU using trade defence instruments and anti-dumping mechanisms? Is there the rule of law? How effective, if at all, are representations made by the EU in terms of the rights of companies and arbitration procedures?

Professor Breslin: The simplest way to put it is that it is much improved but there is still quite a long way to go. The Chinese model, if we can call it a model, is something that has tended to move through experimentation. There are a number of experimentations that they can place in different legal forms; for example, the labour courts in Shenzhen and places like that. It is better than it was, and in some places it is better than in other places within China as well. I think the biggest difficulties come when you come up against local governments with a strong vested interest within the companies that perhaps you have a case against. Treaties do work, yes. There are important byelaws that take place. Do you have confidence? I would say you have more confidence. Do you have absolute confidence? No, probably not. Even private economic activity in China, when it exists, exists because of the relationship that private economic activity has with the state. The hand of the state is never totally absent from private economic activity, so there will always be some relationship there with the state. So better, but certainly not total.

Q200 Lord Anderson of Swansea: The fact of corruption?

Professor Breslin: Corruption is extremely significant. Can one say it is endemic? Perhaps that is taking it too far, but even if you look at the documents of the Chinese leadership themselves, they point to the overwhelming state of corruption. Particularly you have a coalescence of power at the local level, where you often have political actors acting as regulators of the local economy and also overseeing the judicial process that might be used to bring them to account. The more that you get into local politics I think, the harder it becomes

and the more you come up against, if you like, the vested interests of the local state, as it were.

Q201 Lord Anderson of Swansea: Are there success stories in respect of intellectual property rights?

Professor Breslin: Yes, there are cases – that have been taken by Chinese companies as well. I think the Chinese companies perhaps find it easier in cases.

Professor Ash: That is an interesting point, I think, because, in looking for improvements in the protection of intellectual property rights, one might be looking again not only at what the EU and other countries can do, but at what is happening within China itself. One of the things that is happening in China is that there has been a very significant rise, a sharp rise I think, in the number of patents filed and registered by Chinese companies in China. Implicit in that, clearly, is a desire for IPR protection and that suggests that perhaps further improvements in IPR protection are likely to come from within the country, as much, if not more than from outside.

Professor Breslin: I think so. One of the big areas is lawyers training in this area, so that there is legal protection for Chinese companies against counterfeiting. One of the interesting things that happened in Beijing was that rather than try to sue the individual sellers, retailers, they decided – and I cannot remember who it was – to sue the whole market and the owners of the market and that worked. Having said that, there is still something called a silk market in Beijing and, if you want it, you can find it there and I would have a guess that it is not authentic.

Q202 Lord Hamilton of Epsom: A lot of foreign companies have registered in Hong Kong and so they have the protection of the Hong Kong judicial system. I never quite know what

that means. Can you then sue, from Hong Kong, a Chinese company on IPR and have it processed by the Hong Kong judicial system?

Professor Breslin: I would have thought so. The big case was Lacoste and that was done through Singapore, so presumably. I do not know the answer but I am assuming that if it is done through Singapore then the same would be true of Hong Kong.

Q203 Lord Hamilton of Epsom: Are the registrations in Hong Kong still happening and growing or do people find that degree of protection less important?

Professor Breslin: Hong Kong still remains a very important conduit for a lot of foreign investment that goes into China. If we look at the figures for the major sources of investment into China, the British Virgin Islands and the Cayman Islands are quite high – and we can work out why they are there – but a lot of the Japanese companies, for example, still operate in China through their subsidiaries in Hong Kong, so it is not just a European phenomenon. Something like 80 per cent of the Japanese money that is invested into Hong Kong then ends up in the Pearl River Delta, so Hong Kong has retained its place as this financial/legal conduit between the global economy and China to some extent – perhaps more than people expect.

Professor Ash: And from China.

Professor Breslin: And from China.

Q204 Chairman: To conclude on this question, could I come back to Lord Anderson's part on anti-dumping. Does China fear anti-dumping?

Professor Breslin: Yes. Very much so. It is depicted as being a political tool to block Chinese exports in sensitive areas. Just after China entered the WTO there were a number of issues over rabbit meat, shellfish and cigarette lighters that were brought on safety grounds. There is a very strong discourse in China that the European Union and other places use health and safety – and will increasingly, in their view – as an “excuse” for that.

Professor Ash: And China says, “Why not us?” If we are talking about market economy status, for example, which this clearly relates to, China’s view is “You give it to Russia and the Ukraine and they are not on the WTO. We are in the WTO, why not us?” I think there is a lot of bitterness.

Professor Breslin: There is. There was, I think the word is “dismay” that some of these cases were brought so soon after China had joined the WTO, because it came abundantly clear that the much hoped for eradication of what they perceived to be political reasons for trade relationships in their view had not gone away with the entry into the WTO.

Q205 Lord Swinfen: Gentlemen, what social and human rights issues arise with regard to the EU-China trade? In particular, is compliance with international labour organisation standards, including child and penal labour, an issue?

Professor Ash: I think it must be seen as an enormous issue. This is not an area in which I have any specialism, but anecdotal evidence suggests that it is still a very significant problem. In a sense, given the nature of China and given the considerable weakness of its legal framework, and given, not least, the fact that so much economic and trade activity in the end is driven by migrants, of whom there are 200 million ----

Q206 Lord Swinfen: Are you talking about migrants within China?

Professor Ash: Yes, I am talking about internal migrants. I am talking overwhelmingly of rural migrants who move into cities. Of course, often they go on their own as men, but they also go these days with their families. The problem of child labour I think is still an enormous problem. Is non compliance with ILO standards in relation to child labour an issue? Yes, overwhelmingly so. I have little doubt that much the same can be said of the use of penal labour and forced labour exports. The evidence that has been made, for example,

to congressional committees in the United States provides overwhelming evidence of the large scale of this problem. I think compliance issues are a real, real problem.

Professor Breslin: In some cases it is simply not possible to produce to the contracts that Chinese companies have signed without breaking even Chinese law on working times. Foreign companies know this. In some respects, as consumers who have consumed goods from China, we are all slightly culpable because of our demand for ever cheaper produce. I am obviously not going to mention any names but there are companies which are known for driving deals and bargains with Chinese producers that are impossible for them to keep to without breaking their own labour laws, particularly the working hour laws that have come into place over the last few years. Chinese labour laws are getting better and they are more often being applied and they are more often being challenged through the courts, but it is something that, with the global economy and the outsourcing of production, if it does not happen in China will probably happen in other parts of the world.

Q207 Lord Swinfen: Is there any sort of trade union movement?

Professor Breslin: There is no formal autonomous trade union movement. Trade unions in China are official agencies. The All China Federation of Trade Unions would be what Lenin would have called a “transmission belt” to provide information downwards and also back upwards, but of course primarily it works in a one-way fashion. To be fair, these trade unions are now more often, again, representing problems. We have this problem, health, safety, injury, so they are beginning to become more representative of the problems facing their members. But you would not consider them to be an independent trade union as we would recognise them in Europe anyway.

Professor Ash: I think it deserves to be added, in fairness, that legislation has recently been passed and it is clear to me that improving conditions for migrants is a genuinely high priority for the government. It remains to be seen what impact this is going to have. The other thing I

would say in relation to child labour – I seem to keep coming back to looking through the Chinese prism as much as through the European or the EU prism – is that there is a significant problem relating to the way in which China’s educational system works and the provision of education at even a very basic primary and early secondary level. The cost of such education is still beyond the means of many, many Chinese families. They say, “We can’t afford to educate our children” and they send them to work instead. There was a very interesting case I heard recently of a headmaster of a primary school who was hauled up because he had established a factory and in this little factory he was employing the students, the very young children that he was supposedly educating. His claim was, “Yes, but I *am* educating them. They would not be educated unless they could be provided with more money and the way in which I am trying to help is by employing them” – no doubt not in very good circumstances – “to provide them, through their parents, with the money to educate them.” This is a very complex situation.

Professor Breslin: It is very difficult to pick on China, because if you ask questions like this the answer is always going to be, “Yes, there are issues,” but we always need to keep in mind what we are comparing China with. If we are comparing China today with Europe today or our expectations today then it is never going to appear particularly great, but if we compare China today with China ten/15/20 years ago then a lot of our understanding is different. For example, for a worker in a factory in China, the legal protection that he or she now gets is much greater than it was 10/15 years ago. From 1997 the ability to litigate even against the local government. Okay it is difficult, but it is there and it is used sometimes. We always have to think of the trajectory and where we have come from rather than just looking at things as they are now.

Professor Ash: That is why it is important for the EU to keep not just monitoring but pressurising the Chinese government to ensure the implementation of these very important laws that have been passed in recent years. The Company Law, for example.

Q208 Lord Selkirk of Douglas: To what extent do the policies of the EU and the United States towards China over trade and economic issues converge or conflict? Could we be moving towards a G2 arrangement in which China and the United States will be the main actors in global economic performance?

Professor Breslin: Certainly when it came to negotiating China's entry into the World Trade Organisation, the American negotiators did not think that the European and American position converged much at all. The American negotiators complained quite bitterly about the European Union, and that they thought they would arrange something and then they would find that it had been unarranged because of this peculiar way that the WTO, as a multilateral agency, works through multiple sets of bilateral interactions and negotiations when it comes to country criteria. So there is that element there. I know there is still some feeling in the United States that Europe lets the United States do all the heavy lifting, deal with all the hard issues, and then Europe not just maintains economic relationships but in the case of Airbus, as we have already mentioned, sneaks in the back door in a time of trouble to establish itself at the expense of the United States. There is that feeling and clearly amongst some people in Chinese policy-making circles, who, if you like, go back to the old idea of triangles and triangular relationships and playing off the EU and the United States, it is always good to have counterweights and balances that can be played off against each other within the global system. Could we be moving towards a G2? I suppose we could. I do not see it personally. I think the level of the residual tensions between China and the US over economic issues are still too strong and there is real concern in China at the moment about the United States taking a turn inwards and that this would be massively damaging to the prospects of China exporting

itself out of its own current problems. I think there they are really very wary about the way that the United States is acting and we saw only this week this call to get rid of the dollar as a global reserve currency. I do not see a G2. Chinese strategic thinking when it comes to military or diplomacy or economics prefers triangles and threes, always, to twos.

Professor Ash: The remarks I would make would be largely those of Shaun. I also do not think that there will be any move towards G2. I came across an interesting quote, not by a Chinese government official but by a senior person working in CASS, the Chinese Academy of Social Sciences, to the effect that G7 is too old, G20 is good, but G2 is not the right direction to be going in. Notwithstanding your earlier comments about G20, this seems to me to capture the Chinese position quite well.

Q209 Lord Jay of Ewelme: That is the point I was going to come back to because I was slightly surprised earlier on that you seemed to be suggesting that China would feel more comfortable with an expanded G8 rather than G20. My own experience has been that China has not wanted to join the G8 because there is a residual feeling that China is a representative of the developing countries and that would be swallowed up in the G8 and therefore might be more comfortable in the G20.

Professor Breslin: All I can tell you is that in discussions at Beijing University last week, the comment that was made by one of the professors which they all agreed to was that the G20 was too big and too diverse. Perhaps they do not like any G number.

Q210 Chairman: What is likely to be the US-China-EU relationship after the current recession? I do not know, you said it would be very difficult to look forward to that, but do you think Europe will be more important in trade investments and technology than the US at some point? Is that ever possible? On this balance, does China really see Europe at all on the same level as the United States or is this really something that will never be achieved?

Professor Breslin: I think that in some respects the period of Chinese perception of the role of the EU as an actor in international relations peaked a few years ago. I think there was a very strong hope, even, that the EU would become a key actor in the international system, and some of the messages that were being given to China seemed to suggest this because this would then be a very interesting counterweight to what was perceived to be American hegemony in the unipolar global order. But then with, in particular, the failure to lift the arms embargo there was what is often called a capability-expectation gap: there was an expectation that the EU could act, its capability to act did not fit that and a gap emerged, and then perceptions of the EU's "actorness", if we can use that horrible word, began to dip down again. In some respects, I think it has stabilised now at perhaps a more realistic understanding of the EU as one of the sites of governance in Europe but not the only site of governance, and international relation states still are fairly important.

Q211 Lord Swinfen: Does China have a strategy for greater trade and economic integration with other Asian and Pacific countries? What are the implications of this if they do have such a strategy for the EU? As a side question from that, does it agree with regional economic blocs?

Professor Breslin: China has signed a free trade agreement with the Association of South East Asian Nations, which should be complete by 2010 I think. Everything about China is astonishing. You cannot get away from words like "astonishing" and "remarkable" when it comes to talking about China, but actually the change in policy towards the region really does deserve to be called astonishing because not that long ago China did not have diplomatic relations with quite a few of the states in South East Asia. It thought that the Association of South East Asian Nations was an automatic ally of the United States, hostile to Chinese interests, and China really was not very interested at all in engaging in regional multilateral arrangements. Yet today we see China as one of the major drivers of regional integration –

a vision of regional integration that is not shared by all. You said Asia and Pacific, well one of the ongoing problems is what is the region? Where is East Asia? China has a very clear idea now, I think, that East Asia is the ASEAN countries plus China, Japan and Korea. The ASEAN plus three format.

Professor Ash: Taiwan.

Professor Breslin: Taiwan is a province of China. That format formally came into being in December 1997 after the financial crisis and helped establish the Chiang Mai initiative of currency supports. This vision of Asia is challenged, because when we had the East Asia summit, East Asia was now defined as including India and New Zealand and Australia, and this occurred because, according to officials in Japan, some ASEAN states and, in particular, the Japanese, were not happy about the idea of the emergence of a Sino-centric dominated East Asia. So China has a strategy, it has an understanding, but as much as China matters, we should not forget that Japan matters too – I think that Japan often gets forgotten in a lot of these discourses – and of course the United States matters too. Japan has been trying to push to counter the Chinese influence in Latin America and Africa as well. It has its own development trajectories there. I think perhaps these historical challenges for supremacy within the region are going to be played out also in competing visions of what the region is and the competing regional initiative put forward by Japan and China at the moment and over the next few years.

Professor Ash: I would add that, in many ways, when one looks at what has been happening in terms of trade and economic relations, what is very noticeable is really the process of regionalisation. China's involvement in South East and East Asia is part of this dominant feature. We think of how important now the EU has now become as a trading partner and how important the United States is as a trading partner, but if you add up China's trade with ASEAN and Japan and South Korea and, indeed, Taiwan, it is bigger than its trade with the

United States – about twice as big, I think. It is bigger, not quite twice as big but 80 per cent bigger, than its trade with Europe. So it is a very important dimension. In terms of the implications for the EU, I remember that there was a piece that Fred Bergsten at the Peterson Institute in Washington wrote in 2007, in which he estimated that the immediate impact of certain pan-Asian or pan-Asia-Pacific trade configurations was such that the United States stood to lose something like \$25 billion a year as a result of tariffs discrimination resulting from genuine free trade within this region. Those figures suggest that the implications for the EU could really be quite significant.

Professor Breslin: Again we are talking about the future. At the moment much of the trade that China does with Asia is in terms of producing goods that are then exported on to other markets: the United States, Europe, Japan. China runs a trade deficit with most of the ASEAN countries because they are supplying components. The idea at the moment of this being a closed bloc which is oppositional to global free trade does not quite work, therefore, because it is a result of globalisation, if you like, rather than an opposition to globalisation. As China becomes more of a genuine market in its own right for these imports from other countries and these other countries become more of a market in their own right for the Chinese goods and Chinese investments, that is, I think, when the danger becomes more pronounced for a regional bloc. At the moment much of this regionalisation is contingent on, driven by, part of a wider process of globalisation and needs to be open to the global economy. People have been talking about the emergence of the Chinese markets since the McCartney mission – which I think was in 1793, was it not? – but when it really does happen I think we are in a very different geo-strategic and geo-economic world order.

Q212 Lord Anderson of Swansea: However one defines Asia, whether it is narrowly around China, whether it is Australia and New Zealand, whether it is the Shanghai Corporation Council, clearly there are moves towards a greater integration. You say that the

US is expressing concern about this. Is it something that we in the EU should be concerned about? Is China building up trade balances with that area, however defined?

Professor Breslin: Should we be concerned about it? Yes, but not yet, I think would be my answer to that, because I really do think it does depend on this transition. Chinese domestic consumption at the moment is ... What is it, half that of the United Kingdom? I cannot remember what it is, but it is at a low level. We have been worried about China and people have been seeing China rising and people have been talking about Chinese power and economic power for quite a long time. I am wary of it because I think, “What are we going to call it when we really see it?” It is that market power of China in the future that will be, if you like, the centre of some sort of regional bloc, whatever it is, or even just on its own, that will give China the sort of power that we seem to think it has today. In some respects, some of the policies towards China from Europe, East Asia and wherever else is because people are treating China now because of what they expect it to become in the future. It is almost as if we have discounted its future rise and we are treating it now as the power that it will be.

Professor Ash: It is not going to get to that point for a very long time if you are looking at consumption. Really it is a very, very distant prospect. The other thing I would add is, yes, there has been the extraordinary proliferation of Asian regional institutions – ASEAN, ASEAN plus one, ASEAN plus three, the regional forum, the Shanghai Corporation, APEC and so forth and so on – but one might just observe that not one of these yet has sufficient power to be able to mobilise the region, to get all those countries to act in concert.

Q213 Lord Anderson of Swansea: Can one discount the reluctance of some of those other countries to dance to the tune of Big Brother?

Professor Ash: You bet. Absolutely.

Professor Breslin: I think 1997 was quite important. The response to the crisis and the response to the response of the crisis made a lot of people in Asia think that the West was

being arrogant and pushing them around and trying to impose Western solutions on Asian problems. Now, in 2008/2009, the West has its crisis, and I think there is a little bit of private glee in some parts of Asia.

Q214 Chairman: Should Europe, which is the ultimate in regional and economic blocs, encourage other parts, particularly in East Asia, to follow that lead? Or is that just not possible?

Professor Breslin: I would say no. Because of the peculiar unique circumstances in which the European project emerged in the 1950s and 1960s, it is a million miles away, I think, from the context and the conditions that we are in. I do not think in Europe you can push Asia to replicate the European style integration. Any integration that occurs in other parts of the world will reflect the conditions of those parts of the world and not the conditions that were in Europe in 1950, 1957, 1975, to be quite frank.

Q215 Chairman: The last question stays at geo-politics, to a degree. The question in many ways is saying we have a new development model in China, very different from much of the rest of the world, and does it see itself as a model no longer exporting Marxist-Leninism but as its own new model? Is that a way that it is proud of, that it would see? What are the prospects for this? One of the areas that is not in here is Doha, which is potentially very important, though very slow and maybe impossible, but I would be interested to understand from you what you feel about China's contribution to that agreement not happening in the past or its prospects of happening in the future, and how did it practically work with the EU within that forum?

Professor Breslin: I simply do not know the answer to the last part of the question at all, so I will stick to the first one. The Chinese official position is that the Chinese model is based on China's unique circumstances: you must seek truth from facts, each country must decide its

own way of doing things. So this is not a model that will be exported, other than “Do things your own way.” Having said that, the very idea of: “Do things your own way, work out your development model based on your circumstances” is depicted as standing in stark contrast to what is perceived or depicted as the hectoring Washington Consensus approach, where people in the West try to enforce development models. Not having a model to impose becomes, in some respects, a model in itself, if that makes sense. It becomes an anti-model. It is defined as what it is not: “We are not telling you to do anything. Do what you want.” This I think, given the antipathy towards Washington Consensus in large parts of the developing world, has been very attractive. In many respects I think the Chinese model simply becomes a metaphor for the fact that there is an alternative: “You do not have to do what they tell you to do. You can do it a different way. We have shown that you can do it a different way, and, what is more, we will trade with you and we will deal with you irrespective of your domestic, political, economic situation. We provide an ideation or alternative. We also provide a practical economic alternative.” If you try to dig what the model is – and we could debate it – I do not think that is important. I think that “Go off and do what you want to do, we don’t care. You don’t have to listen to the United States” has become a very powerful message for a lot of people in large parts of the world, and I think, by definition, the no model becomes a model.

Professor Ash: As an economist I think about development models. But I cannot identify a Chinese development model. I can identify various features of what has happened in China in the last 30 years and acknowledge that those offer useful lessons for other countries, but in terms of trying to identify a Chinese development model I am at a loss. Taking a slightly different tack from what Shaun has said, it seems to me that the Chinese development model from an economic perspective is very close to what was once described as the East Asia development model, a model of development that was based on high rates of investment, high

rates of savings, competitive labour markets, significant government intervention, all of which were such important ingredients in the success of post-War Japan and Taiwan and South Korea. Of course what has happened in China is also a product of its unique circumstances.

Professor Breslin: I do not disagree with that at all. I think that is dead right. What is interesting is that it has been called a Chinese model and people in places like Africa are looking at it and calling it that. I think the content is in some ways not important; it is just the idea that there is an alternative that I think presents the bigger significance.

Professor Ash: The other thing about a model is that it is of no real interest unless it is replicable, and I agree absolutely with what Shaun has said, that the Chinese experience, not least because it is the product of its long historical legacy - but also, in particular, of the legacy of the previous 30 years, the Mao Era - quite clearly it is not replicable.

Professor Breslin: Neither of us has answered the Doha question.

Chairman: Professors, thank you very much indeed for the evidence you have given us. You will receive a copy of the transcript and I am sure we will be delighted to send you a copy of the final report in the autumn. Thank you very much indeed.