

13 September 2010

Dear Member

I had a great trip to China last week, scheduled to coincide with British National Day at Shanghai Expo. The UK pavilion itself is a knock-out – which by National Day had become the first foreign site to receive 5.5 million visitors, the great bulk of them Chinese nationals.

It must have taken real courage by the UK authorities and private sector sponsors to push ahead with this extraordinary Thomas Heatherwick-designed “seed cathedral”, which is intended to challenge preconceived ideas about the UK. It certainly does that: no beefeaters; no pictures of Big Ben (indeed, no pictures of anything). If you can’t get to Shanghai, at least be sure to visit www.ukshanghaiexpo.com. You’ll then understand why the Chinese refer to the pavilion as “the dandelion”.

The other big event in Shanghai last week was the British Business Awards dinner – quite a few hundred people gathered to celebrate the success in China of UK businesses of all shapes and sizes. The place fairly fizzed with energy.

Congratulations to CBI members ARUP and Royal Sun Alliance for winning the sustainability and financial services awards respectively.

The latest economic data, for August, are stronger than expected with industrial production up by 13.9 per cent year on year. The suggestion is that the authorities have loosened policy a little in the past couple of months, with credit expansion picking up and a resumption of investment in new industrial projects.

Annual inflation as measured by the consumer price index is put at 3.5 per cent, with food prices pushing ahead by 7.5 per cent. But the really interesting question is about what’s happening to wages. There’s lots of anecdotal evidence about the pressure for wage increases, and Stephen Green of Standard Chartered suggests in a recent study that a “seismic demographic change” is getting under way in the labour force, with labour demand beginning to outpace supply.

The consequences, he suggests, will include tighter margins for manufacturers, higher prices for consumers in the developed world, and a long period of growth in domestic consumption as labour’s share of the economy picks up from its current compressed levels. That would add up over time to a significant change in China’s growth model, and a healthier balance for the global economy.

Meanwhile, UK exports to China bounced back by well over 40 per cent in the first six months of this year.

Are European businesses getting fed up with China? That's what you might conclude from comments in recent months by the CEOs of BASF and Siemens about their treatment at the hands of Chinese authorities. And in the latest survey of its membership, the European Chamber found that 36 per cent of respondents believed the regulatory environment had become less fair to foreign companies in the past two years, while 39 per cent thought things would get worse in the next two.

A particular source of concern is the proposed regulation on "indigenous innovation" which if enforced would effectively require foreign companies to hand over IP if they wanted to win public contracts.

The government has been going out of its way to reassure foreign companies. Just last week, Vice President Xi Jinping stressed the importance of international investment to the country, and promised that foreign companies would be fairly treated. The sense, though, is that China is today in a stronger position to set the terms it chooses on inward investment – and knows that its markets remain very attractive to companies from around the world.

A new book being much discussed by expats in Beijing is "The Party", by Richard McGregor (full disclosure: we were colleagues years ago on the FT). It's a riveting guide to the power structures of China, and shows how the Party retains a tight grip through its control of personnel, of propaganda, and of the People's Liberation Army.

Among other things, this adds up to a very different set of ideas about the role of corporate governance. The chapter on Sanlu Dairy Corp, which discovered two years ago that its best selling baby formula had been laced with large doses of an industrial chemical, shows what can happen when things go badly wrong.

I hope all this is helpful.

Best regards

Richard

Richard Lambert

CBI Director-General