

How can Chinese investors and entrepreneurs navigate populism in the West?

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Lord Mandelson is Chairman of Global Counsel and President of the Great Britain China Centre, helping build UK-China relationships for shared prosperity. He is a former European Trade Commissioner and British First Secretary of State. As Trade Commissioner between 2004 and 2008, he negotiated trade agreements with many countries and led European negotiations in the WTO Doha World Trade Round. Prior to this, he was Minister without Portfolio, Secretary of State for Trade and Industry, Northern Ireland Secretary and Secretary of State for Business, Innovation and Skills in the British government under Tony Blair and Gordon Brown between 1997 and 2010. He is also President of the Policy Network think tank, Senior Adviser to Lazard and European Chairman of BlueVoyant, a cyber security company.

I want to argue that inequalities are increasing amongst people in Europe and the US; that this is having a profound impact on politics, creating resentments and instability; and this is impacting the way in which policymakers see China. It is putting trade and investment relations with China under closer scrutiny. This is creating a more complicated environment for Chinese businesses in Europe and the US.

I will offer some advice on how Chinese entrepreneurs should operate in this more challenging environment. You can analyse the data in many ways, but it is clear that just as trend growth is declining in many Western countries, the benefits are increasingly concentrated on those who are already the richest and better off. In the US and Canada, the bottom half of those on the income distribution ladder has captured just 2% of income growth since 1980, while the top 1% has taken two thirds.

In Europe, the bottom half did better, capturing 14% of growth, but the top 1% still took a bigger share. The top 1% has also benefited disproportionately from the increase in non-housing financial wealth. In Europe, the increase in wealth is spread more widely than in the US, once housing wealth is factored in. But this disguises another inequality - between those with property and those without.

Even more insidiously, it obscures the new phenomenon of intergenerational inequality, as older generations benefit from higher property prices, while younger generations cannot afford to buy a home of their own. This picture of income and wealth inequality is not unique to richer Western countries. It is even starker in fast growing emerging countries and nowhere more so than in China.

But how this inequality is perceived, and its impact on
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social and political stability, is quite different when growth rates are contracting, and the average income standard is not rising as fast as before.

While in the UK the post-tax household income grew 3.25% on average each year in the decade before the financial crisis in 2008, the Bank of England believes the trend is now about half that.

The result is a greater sense of economic pessimism. While over 80% of Chinese think their children will be financially better off than they were, only 37% of Americans do. In Britain, the figure is 24% and in France just 9%.

To compound matters, there is anxiety about the impact that artificial intelligence and automation will have on jobs. In Europe, half the population believes their jobs are vulnerable. Whether or not they are right is not the point; what matters politically, is the anxiety.

So we are in the middle of an economic transformation. Some of it is positive. Quite a bit is negative. The fact that the costs and the benefits are not being shared equally is not new. But a large part of the population being losers is. It is hardly surprising that this is having profound political effects: angry populism, a desire to take back control, and a blame game. Let me say something about each, before turning to what it means for you and how you should respond.

Populism is not an ideology, but a method, a political technique, which can be very effective in divided societies, irrespective of whether they are democracies. It is about challenging the power of incumbent elites on behalf of those who feel penalized and disempowered. It is about exploiting divisions and telling people whose side you are on. Populists do not need to offer effective solutions; they just need to send messages that resonate

with the population at large. Populism is rife in politics in Europe and in the US, and it is a powerful force in many emerging countries too.

It means political attitudes that are less based on evidence or sound principles. Long-established policy orthodoxies are being challenged, and there is much more policy uncertainty.

One of the most effective strategies of populists is to promise to take back control - from political elites, from banks, from big business, from bureaucrats in Brussels, or from foreigners.

This is what lies behind Brexit and Trump's isolationist policies, from his border wall to his protectionist trade policy, or pulling out of the Paris climate accord. This unpredictability will continue. It's also what lies behind the more hostile atmosphere to foreign direct investment that we are seeing across western countries, in Australia and Canada, as well as Europe and the US.

Policies towards FDI are changing in two important ways. Policymakers are not only tightening the rules; they are also exploiting ambiguities in their policy frameworks to slow acquisitions they do not like, either to extract commitments, or to encourage other investors to step forward. Midea's acquisition of German robotics company Kuka in 2016 is a good example. German politicians objected to a Chinese firm buying up a technology business, to do what an independent German firm could not, which is to fully exploit that technology in China. But they found they could not block the deal. The result was a watershed moment for Chinese investment in Germany and a rewriting of the rules to make similar investments harder in future.

You don't have to look hard to see a blame game operating - foreigners don't have votes so they are easy to scapegoat. China is being targeted because of the speed of its growth and the dominance that people in the West fear. It's true that China invests and extends its influence by promising non-interference in the political and economic lives of other countries.

But the Belt and Road Initiative is not just about infrastructure investment. It's about China re-shaping its external environment and building a multi-dimensional ecosystem on a grand scale, almost creating a parallel global order with China at the heart of it. It shows massive confidence and determination to put in place a long term plan to secure China's future. The world's biggest fight over economic power will focus on the development of new information technologies. The US and China will compete to master artificial intelligence

and supercomputing. So the political contours are shifting in interesting ways. The concerns of Western politicians are as often about jobs and value chains as national security and the nationality of investors but China's re-emergence, for so many decades done quietly, is now becoming more controversial in the West.

So how should individual Chinese entrepreneurs and investors respond to this tougher international political climate?

I have three pieces of advice.

First, take time to understand the political context you are operating in. You need to anticipate local political sensitivities and be ready to respond. Japanese Softbank is an example of a foreign investor which has done an excellent job of this in the UK.

Tech firms, especially, need to think about their social permission to operate, as well as their legal license. This means aligning commercial plans with local political interests, as best as possible, or at least avoiding outright conflict. Uber in Europe is a textbook example of what happens when you get this wrong. Remember that every marketplace - and political context - is different, which means you must tailor your approach, while recognising that your reputation in one market will have implications for how you are received in others.

There are plenty of opportunities for Chinese entrepreneurs and investors in Europe, as COSCO's acquisition of a majority stake in Greece's largest port, and Geely's successful acquisition of a London taxi company in 2013 have shown. But the more difficult political environment means the firms that succeed are those who consult, understand the environment, prepare and adapt.

The last thing I would say is that China, as a nation, needs to pursue its interests as a key member and shaper of the international system, not as a challenger or competitor. China's interests need to be embedded in international rules which it has influenced and changed to reflect its own priorities.

China needs sophisticated international soft power as much as hard power in order to provide a useful platform for the global ambitions of its investors and entrepreneurs.

About Global Counsel

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