

EXPLORING CHINA

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Transferring innovation across borders



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On 18th June 2009, the Institute for Philanthropy invited celebrated journalist and analyst Jonathan Fenby to talk to a group of The Philanthropy Workshop alumni and friends of the Institute for Philanthropy about China. The event was made possible by the generosity of Cynthia Wu and the Shinkong Life Foundation.

INTRODUCTION

and Purpose

From the 1st – 6th November 2009 the Institute for Philanthropy will go to China with two key groups of international philanthropists.

The first, a group of current participants engaged in the Institute for Philanthropy's leading international donor education programme, The Philanthropy Workshop; the second group, Alumni of the same programme. Both will venture into this fascinating geography in the hope of understanding how philanthropy and NGOs operate in China, and seek to transfer the most impressive of Chinese innovations across borders.

With a history surpassing more than five millennia, China is at once a modern industrial force and a nation founded upon ancient cultural and political traditions. Enormous changes have taken place within China's economic and demographic configuration, which have led to what is today a complex structure of urban and rural environments comprised of myriad ethnicities. China is also one of development's most impressive victories: the Institute for Philanthropy will travel there to understand a country that has lifted 400 million people out of poverty in the last 30 years and to examine the evolving role of philanthropy and charity in that context.

In order to understand better the present landscape of China's philanthropic sector and the country's most pressing issues, the Institute was fortunate enough to be able to talk with three highly esteemed analysts and academics; the journalist and historian, Jonathan Fenby, Vivienne Shue, Professor of Contemporary Chinese Studies at Oxford University, and Athar Hussain, Director of the Asia Research Centre at the London School of Economics. Both Jonathan and Athar's talks were recorded, and their transcripts follow, containing important observations about the dynamic and changing historical, political and social contexts in which both charities and philanthropy are increasingly emerging. Below we also share our insights into charity and philanthropy in China.

'both charities and philanthropy are increasingly emerging'

'the notion of philanthropic giving is prevalent in both Confucian and Buddhist ideologies, and therefore customary in the traditional Chinese belief system'

GIVING *in China*

Within the imperial Chinese concept of the Mandate of Heaven the state was under obligation to provide for and cater to the necessities of its people. It was the state that made provisions for those in need, and was expected to do so.

However, elements of society were often called upon to assist in an effort to support the people by meeting an emergency together. Furthermore, the notion of philanthropic giving is prevalent in both Confucian and Buddhist ideologies, and therefore customary in the traditional Chinese belief system. The rise of the Communist Party in 1949 ended these embedded practices and the act of donation became extremely inhibited by the barriers of an all controlling government. The responsibility for social welfare and charitable practices then lay entirely in the hands of the state; the ancient custom of giving became redundant.

China's rapid economic improvement and transformation over the last twenty-five years, however, has brought a substantial increase in private wealth as well as a relaxation of the state's control over provision of social welfare. As a result, the custom of giving formerly inhibited by the fetters of a more restrictive communism is now gradually re-emerging, particularly after the reforms initiated by Deng Xiaoping from 1978 onwards. Indeed, as Professor Hussain noted during a discussion the Institute hosted in May, "philanthropy, in some areas, is actually encouraged by the government." Contemporary giving is now a much more accepted endeavour both within the newly emerged mass middle class and the new breed of philanthropists.

For the mass givers both the Tsunami of 2004 and the Sichuan earthquake of 2008 have had a huge impact; soon after the tragedy of the earthquake, the central government responded with the decision to invest nearly \$150 billion over the ensuing three years to rebuild the infrastructure devastated by the earthquake. Thousands of domestic volunteers, NGOs from all over China and foreign aid agencies – assisted by an unprecedented supply of funds – reacted to the disaster with extreme haste. Giving among the emerging Chinese middle class, usually rare, in the moment became the norm. Time will tell whether this initial wellspring of compassion and patriotism will become manifest in a sustained culture of giving in China.



Another notable trend in the Chinese giving landscape is the growing interest in foundation philanthropy. China now has a significant cadre of successful Chinese entrepreneurs with disposable wealth and is working on encouraging this group to assist in efforts for the provision of social welfare. In order to deflect criticisms of growing inequality and to harness the resources of its most successful citizens, the government is working on the formative stages of an enabling environment for philanthropy. In 2004 the Chinese government implemented legislation to allow for the emergence of private foundations: since that first step the sector has mushroomed into over 1 400 foundations. Many of these are fundraising and operating foundations, staffed by volunteers, or fundraising departments of Chinese universities; however, a few are foundations established by wealthy individuals looking to support and partner with other non-profits.

This foundation philanthropy scene is small, but gaining momentum, and despite the complexities and occasional grey areas written into the 2004 law, large private philanthropies and international NGOs (that are in many cases marshaled by the same legislation) are emerging presences in China.

Figures recently published by the Ministry of Civil Affairs clearly portray the rate of growth of philanthropic giving in China. In 2002 the Ministry received US\$140 million in cash donations and US\$24 million in in-kind donations. In 2005, this overall figure had risen to US\$500 million. As mentioned above, disaster relief efforts have also played an important role in stimulating philanthropic giving in China; the Asia Pacific Philanthropy Consortium reports that the China Red Cross and the China Charity Federation jointly received US\$60 million in charitable donations during the first month after the 2004 Asian Tsunami.

Corporate and foreign foundations are also developing in China. Among Chinese corporations, active philanthropists include APP, the Shanghai based multinational, which has given US\$25 million to educational causes and Tsingtao Beer, which has granted US\$2.9 million in a number of different areas.

NGO SECTOR

in China

The relationship between state and social welfare has changed much over time, especially within the last fifty years as the government has gone from complete monopoly to rolling back its service provision.

In 1978 the opening up of China under the leadership of Deng Xiaoping, began the process of privatizing many of the spaces in which the state once dominated. The so-called 'iron rice bowl' that ensured job, food and income security was terminated, with competitive market forces allowed to penetrate industries once protected by government intervention. Whilst market forces have driven the growth that has lifted so many millions out of poverty, it has also left a significant tranche of the population with no social security safety net and a government conundrum of how best to cater to the most vulnerable of its people. In this space, citizen led innovation has emerged with vigour. With the first bloom of NGO work emerging in the 1990s, NGOs are providing many services and solutions to those people left behind by a dynamic and evolving economy.

This civilian activity and engagement with social issues from migration to the environment, domestic abuse to citizen participation in decision making, is also informed by another key dynamic in Chinese social welfare: the changing emphasis of driving primarily for economic growth, Deng Xiaoping's "get rich first", to the idea of building sustainability into that economic growth, Hu Jintao's 2005 agenda of an "harmonious society", China is now working towards a more sustained growth, concentrating its energies toward many of the issues that were neglected during the early stages of economic escalation. Consequently there is a need for balance; whether in China's environmental standards, or in the increasingly widening social disparities – both the government and its people are beginning to recognise the importance of a culture of charity and giving. It is in this context that the NGO landscape is evolving. Charity, within certain sometimes significant restrictions, is being nurtured.

Another key element to consider is that independent NGOs were practically unseen in China until the 1990s. Though the Chinese middle class might have started to engage in giving post-Sichuan, these funds were most significantly directed to large government charities such as the China Charities Federation and the China Red Cross. Ongoing efforts to engage in giving are usually based very locally and involve supporting family members. There is little awareness of the efforts of a professionalised NGO community, and there is not the mass fundraising, direct mail, and direct debit culture found in more developed philanthropy markets.

An important issue to therefore bear in mind is the use of language when considering charity and philanthropy in China. 'Charity' as a term has a very specific meaning to Chinese people: it is not a term that encapsulates the whole of the sector as in the UK or US, but, particularly for the government, as Vivienne Shue puts it, "charity functions as an auxiliary to what the state ought to and wishes to be doing, but may not have the capacity to do." When talking about the mass of citizen activity therefore it is best to refer to 'NGO' activity. Charities are registered bodies that have very specific remits, generally working in direct services on key government priorities. To become registered as a charity at the Ministry of Civil Affairs you need a government sponsor who themselves are subsequently held to account for the actions of their proposed organisation; as one expert puts it, "why would they bother to take on the administrative expense and political liability of being a 'mother in law'?"¹ There is therefore little incentive to support the registration of an NGO as a charity.

Within the constraints of this context then, as of June 2008, there were 386,000 registered social organizations, among which social groups comprised 211,000 (shehui tuanti – these are generally membership organisations, including anything from a sports club to an academic society), grassroots non-profits 174,000 (minban feiqiye danwei), and foundations over 1400 (both fundraising and those grant-making foundations of wealthy individuals) with an annual growth rate of 40% since 1998. Organizations at the county level and below, account for 60% of the total amount of organisations. In terms of geographic distribution, over 45% are concentrated in the nine eastern provinces and municipalities.²

Though the Communist Party has encouraged private enterprise in business, it is as yet disinclined to cede control when it comes to civil society; the biggest players in the NGO community are therefore government-founded. These organisations are known as GONGOs and act very much as the government's supporting arm, receiving high press coverage and good cooperation. A key player is The Youth League, which although working as a government agency, actually performs as a non-profit organisation. The organisation has raised more than \$320 million for its Project Hope that provides support to rural schools and children of poor families. These public benefit organisations are created by Communist Party agencies to integrate social welfare, charity and education in an assortment of areas.³

As expected, GONGOs have little issue registering as charities, but for foreign NGOs registration can be a significant issue. As one expert has noted INGOs have had a long struggle registering in China, and though of course, there is no official number, there are estimated to be approximately 200 INGOs working in China, not necessarily under the radar, but without government registration.⁴ The government tightly controls the presence of foreign NGOs, though it does maintain the belief that a well supervised social organisation can be valuable to both the people and state. Registered organisations are actively worked with, and the unregistered are left to operate but can only receive funding through personal bank accounts, and are unable to acquire visas and work permits for Chinese and foreign employees.





‘a well supervised social organization can be valuable to both the people and state’

Grassroots NGOs are established by Chinese citizens for a series of purposes, such as educational services for children of migrants, or entities devoted to environmental sustainability. The difficulty of becoming a registered charity drives many to set up as different entities; a number of these are registered as businesses with the Industry of Commerce, some are registered as social organisations, and others are not registered at all. The volume of unregistered grassroots NGOs is estimated to be between 800,000 and one million in China.⁵ Though it is highly unlikely that these kinds of NGOs have any intentions of dissidence towards the state, this model may be running a mission that the party finds difficult to tolerate and hence will not sponsor. The legal grey area in which they operate in terms of regulation makes grassroots work susceptible to rapid dissolution. Setting up as a business has tax implications that can be interrogated and other ancillary features that can make them vulnerable to state incursion.

Each of these groups differs greatly with regards to innovation and independence from the government, in addition to their capacity to fundraise and to market themselves. Capacity is a key issue for non-profits in China; as the sector transitions from the first wave of NGO leaders to the second, many tensions arise. Organisational development often takes second place to the dynamic individuals that run them. This again, is an evolving context, as the sector strives to become increasingly professionalised, and develop its own unique Chinese identity.

The sphere of rapid economic growth and the challenges that ensue within an ever-developing civil society create a dynamic and evolving space for both philanthropists and NGOs. Chinese philanthropy and charity have witnessed many transformations since the very beginning of their strong presence in imperial China through the more repressed environment of the early years of Communism. Today there exists an exciting and evolving market for philanthropy in China, and as such there are many potential capacities and significant assets. Our undertaking is to explore that market, understand its rapid evolution, and learn from some truly inspiring Chinese models.

PROFESSOR ATHAR HUSSAIN

Director of Asia Research Centre, London School of Economics

On 15th May 2009, the Institute for Philanthropy was delighted to host Professor Athar Hussain Director of Asia Research Centre in sharing his views on the current Chinese political and social landscape with Cohort 15 of The Philanthropy Workshop.

Professor Athar Hussain is Director of the Asia Research Centre at the London School of Economics. He has served as consultant on a wide range of economic and social policy issues to numerous international and national organisations, including the World Bank, UNDP, ILO, Asian Development Bank and the Department of International Development of the UK.

He has been engaged in research on various aspects of Chinese economy and society. He is the author of numerous books and papers including 'Chinese Economic Reforms from a Comparative Perspective', 'Social Welfare in China in the Context of Three Transitions', 'Urban Poverty in China', 'Chinese Economic Reforms from a Comparative Perspective' and 'Social Implication of China's Membership of WTO'. The books authored or edited by him include 'The Chinese Economic Reforms', 'Transforming China's Economy' and 'Political Economy of Hunger'.

Thank you very much, it's a great pleasure to be here. So let me start with a few background facts, and I apologize if they are already obvious to you. Firstly, China is the most populous country in the world, and accounts for between 21 to 22% of the world's population, but it will be overtaken by India in about 20 to 30 years time. There are officially 56 nationalities in China but the Han Chinese account for 91% of the population, so they are the overwhelming majority. The population's most interesting feature is that many of the minority nationalities are concentrated along the peripheries, so that can be a sensitive issue, especially in a place like Tibet. With respect to the physical factors, the country obviously covers a large area but much of the population is concentrated on the eastern rim, so the western part of the country is relatively empty and the eastern

rim, the cultural belt, is very heavily populated. The other feature which has quite an important bearing on day to day activities is that the northern part of the country is arid and short of water. Water shortage is quite a serious problem in China and is likely to grow in future, as the water balance may be very seriously affected if there were actual climate changes and global warming; much of northern China may be rendered unfit for any form of agriculture if global warming takes its toll.

The country has been undergoing a massive change and for the last thirty years it has been the fastest growing country in the world. The growth rate records recorded by China are not unusual, we have seen similar growth rates among East Asian countries, but what is dramatic about the Chinese growth rate is its size and population. In the sixties and seventies the so

called four dragons grew very rapidly, these being South Korea, Taiwan, Singapore and Hong Kong, but their combined population is slightly smaller than the population of the southern Chinese province of Guangdong. Therefore I think it is the size and diversity of the country which makes the rapid growth rate very significant. Secondly, the Chinese growth rate had brought in its train a massive reduction in poverty, the number of the poor living below the poverty line has gone down by 600 million, so it is by far the largest reduction in world poverty ever seen. In fact, of the reduction in poverty which has taken place in the world over the last twenty years until now, most of it is in China, followed by Vietnam, which again has seen a very rapid reduction in poverty, such as may also be happening in India but at a slower pace.

'transformation from a developing country to a developed industrialized country'



One way to look at the change which is taking place in China is seeing the country as undergoing three transitions simultaneously. The first transition is really the demographic transition, which started with a massive decline in the fertility rate. The average number of births per woman over a life time is now less than two, below the replacement rate of 1.5/1.4. Since the 70s one factor that has had some major effects is the so called demographic dividend. The number of school aged children in China is now slightly smaller than in 1982 when the first census was taken. So unlike some of the Asian countries especially in South Asia, China doesn't face the problem of how to educate an ever expanding school population, so they can concentrate, or they have the option of concentrating, on quality instead of quantity.

The fertility transition will bring in its wake ageing of the population, so the population is getting older and one effect we are likely to see not just in China, but increasingly in India also, is that the ageing problem will no longer be thought of as a problem particular to rich countries. In 10 or 20 years time how to support the elderly will be an important issue in large Asian countries, and poverty may increasingly take the shape of poverty among the elderly. So that is an aspect which is important.

The second transition is that China started as a planned economy or administratively directed economy and is in transit to a market economy, so it has undergone change. The principle aspects of that is the transformation and dismantling of a collective agriculture and redistribution of land to rural households. The land that still remains in collective ownership is leased to each household for an average term of 30 or so years, and that also has some important effects on China. The countryside itself has changed and a peculiar feature of Chinese countryside, especially in developed areas along the coast, is that it is heavily industrialized, so there is really countryside only in name but in population density and sources of income they are probably more urban, rather than a sort of agriculture.

The other transition which is taking place in China is the transformation from a developing country to a developed industrialized country. Much like other developing countries, in China in 1978 something like 80% of the population was rural. Farming accounted for a substantial share of national income and was also a significant source of employment for the population. What has happened over time is that this process of development phenomena has seen a massive migration from rural to urban areas. Much of this migration is circular, so when you are doing China, you have to readjust your scale and frame, so at the moment the

number of migrants, that is people who are living in places other than their registered place of residence varies between 140 to 180 million. That's larger than most countries, so urbanization is taking place and it will accelerate. The government has started with the assumption that China can buck the trend so that it could instead develop industry in the countryside which has happened in some of the greater rural areas, but basically, the government has accepted that over time there has to be reduction of population in rural areas and expansion of cities. So urban issues and urban governance will loom large in the problems of China, which include for example water supply, which is a major issue in all Asian countries. Water supply is a major problem as is urban infrastructure and providing social services to an ever expanding population. These are the main issues.

China is a one party state, and so to some people it may be a strange combination with a market economy which is doing very well. Historically this is not as surprising as it may seem, because many of the European economies actually didn't start off as democratic countries when they developed market economies, it was only after 1989 with the fall of the Berlin Wall that we came to equate democracy with a market economy. My view is that a one party state at the moment looks fairly strong, but it doesn't have an infinite life, and the reason



'the economic gap between foreigners and Chinese has disappeared'

is that ultimately in the kind of age we live in, the only long term source of legitimacy is democracy. So, as has happened in Japan, South Korea and Taiwan, economic development has brought in democracy and we can discuss what its likely patterns are. But there has been a lot of change, the one party rule is certainly ideologically not as stringent, and in a personal way people are much freer.

The previous life of an urban Chinese individual was more or less governed by the place where they worked, the so called "danwei" work unit: for example when you wanted to get married you had to ask your superior for permission. Work units also played an important role for birth control; generally since the introduction of the one child policy you had to inform your work unit before having a child, and you'd be told if you had a second one then you'd be likely to lose your job, or certainly not get a promotion or whatever. Now, these constraints have almost disappeared, the work units have disappeared, the ordinary Chinese, the young Chinese, lead lives which are not really that different from their counterparts in other countries. Although it's still a one party state, the constraints which apply to individuals are much less and you are free to talk with the Chinese as with others in any country. Let me stop here, and see what questions you are interested in.

Q1: Do you have any reflections on the internet in China?

Internet in China is like a double edged sword, and as the government is obviously extremely interested in developing electronic technology, they have to encourage internet. Chinese is already the most widely used language on the internet, so a very large proportion of Chinese households are actually connected to the internet. There is control of internet in what gets transmitted, the stations are blocked, but the general rule is that as human beings write programs to block stations, another human being with similar capacities can write another program to go around it. If you really want to you can go around it. In any case, I lived in China, I got the internet edition of New York Times and you can get all the English newspapers and so on online too. It is very rare that they do block it. Occasionally they do block certain academic sites: for some reason last year in March all the academic sites were blocked for about two to three weeks. I think that my main assumption is that internet is not a problem and in any case, for ordinary Chinese what matters is internet in Chinese, not English newspapers. The foreign press in no country actually has a massive effect, after all, in the UK people read UK newspapers and very few people read foreign newspapers.

China is also, unlike before, a very porous place, and as the government has discovered – to

its detriment – their ability to hide information or control information is extremely limited. When the SARS crisis broke out, they tried to hide the true situation but in fact within a few weeks it was already out and their attempt to actually hide it backfired. It was a doctor from the Chinese army who actually broke the news. So in some sense China is open, for huge numbers of people visit China and there are foreigners living in China.

Another thing which is very important is that with the rapid growth of population the economic gap between foreigners and Chinese has disappeared; you know we're dealing with a 1.3 billion population. Previously if you stayed in a five star hotel in Beijing the only local Chinese you saw were waiters and waitresses. Well, that's no longer the case, as more than about 50% of guests staying in these hotels are local Chinese. Second, is that because of closing of income between sections of Chinese population and foreigners, you'll have both non Chinese and Chinese living within the same block of apartments, and that wasn't the case 10 years ago. So it means the foreigner's block could have piped in television from all over the world, and because the Chinese didn't live in there that was not accessible. In fact in the apartment I lived in for two years most of my neighbours were Chinese and you could subscribe to any television channel you liked. We can see these changes are really taking place.

'huge numbers of non governmental organizations are concerned with the environment'

So my view is that the internet is going to keep increasing. The government has discovered that as they keep on closing internet stations, they keep on sprouting at the same rate, so ultimately this is a war the government cannot win, especially if they want to encourage electronic technology. China is already quite big in electronic technology they account for a very large proportion of Chinese exports.

Q2: If we are thinking about philanthropy in civil society in China, do we need to have a totally different philosophy of it?

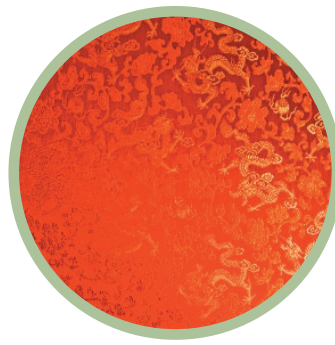
It's not a different philosophy, there are a great many philanthropic and charitable organizations, obviously they have to be registered, but the government turns a blind eye to non-registered philanthropic organizations. Just to give an idea of what these are, there are quite a lot of locally Chinese philanthropic organizations which are concerned with the education of children. There is a rosebud program which covers the cost of young girls in the countryside, because they often may be neglected because of the likely favouring of boys' education. Similarly there are a number of other programs for rural children from poorer families. There are huge numbers of non governmental organizations which are concerned with the environment, and some of them are genuine activist organizations because environmental problems impinge on the daily life of people;

they do not fit under the previously conceived refrain that a cleaner environment is a luxury, "lets first eat, worry about our bread and then when our stomachs are full we worry about the environment." Water pollution affects agriculture and daily living. So that attitude has changed. In general, quite a lot of foreign charities are active in China. There are certainly official barriers to be overcome, but the Chinese are used to it. There may be certain no go areas and areas that are more difficult to address than others, but there are charities working in some of these places including Tibet. There are, in terms of social issues, a huge number of problems in China, but many NGOs are meeting those problems.

Q3: Can I then ask two questions: what are the taboo topics for foreigners visiting for the first time, if any, and if say you were a person who was very opposed to the death penalty and you wanted to campaign, support a charity for that in China, would that be allowed, or is that sort of taboo, no go area?

Well, what is taboo depends on how well you know the people, but language is obviously a barrier: I speak Chinese and in certain conversations I do not find any more constraints on what I can say and how I can say it, than I would have in this country. Government officials can be more critical of government in China than I would find similar government officials here. Basic restrictions are, written

words and public forum, so you can't get up in the middle of Tiananmen Square and make a speech supporting Falun Gong, I mean, you'd be silenced. But in private you can say whatever you like as people are remarkably candid, abuse leaders and so on, nothing particularly surprising. Ideological restrictions are much decreased. Second is that the Chinese press is huge: China probably prints more newspapers than any other country I've seen, and is much more free than one imagines, because if you want to read a story of corruption or mismanagement or whatever, you don't need to ask foreigners, you just read Chinese press. There are some publications which engage in investigative journalism which would be as questioning as you would find in any western country. So yes, there are restrictions, but let me say what the ideological hold of the party is. In September 1989, after the Tiananmen incident in June, I went to give a series of economics lectures in Canton and I asked the ministry of education which was arranging my visit, are there any restrictions on what I can teach? They said no you can teach anything you like, you can even argue for wholesale privatization, but you should say they should be done under the leadership of the party. So, you have to subscribe to the idea that there is one China and you have to accept the leadership rule of the party. So the party is a bit like the emperor without clothes, it is everywhere but people don't talk about it.



Q4: I have only one question, can you tell us about religious suppression? I understand there are quite substantial numbers of Muslims on the western borders and southern parts, and I wondered whether there's restriction on them and other religions?

There is a distinction between what the Chinese call superstition and religion. Falun Gong would not be regarded as a religion, it would be regarded as superstition, so it would be separate. The issues are different dependent on the standing of the religion and its interaction with wider affairs: in some cases the Chinese are quite tolerant.

That said there have been some problems with the Catholic Church because of relations with the Vatican. These have now been much improved. The Catholics have had problems, but for the Muslims the situation, from my understanding, actually doesn't depend on religion but it depends on nationality. Hui Muslims, who are Chinese speaking, are everywhere including in western China, but the impression I get is although they are a bit isolated, they don't suffer any obvious discrimination. With Uyghurs, the Xinjiang Muslims, however, there is discrimination against them and especially now with their attacks on police stations and so on. It's not so much about religion as about nationalities, and some nationalities are regarded as friendly nationalities, and some nationalities are not regarded as so friendly. With the war in Afghanistan etc. there is

obviously a degree of alarm, thus the government has tightened certain rules, for example the Friday prayer ceremonies in Xinjiang shouldn't go on for longer than a dictated time period. But with respect to nationalities, I think it is well worth saying that China is really the first melting pot in the world. A very famous sinologist Benjamin Schwartz of Harvard used to say, there is an awesome power of absorption, whoever came into contact with the Chinese culture lost their identity and became sinofied. The Manchus ruled China, but they don't exist except in name; it's a very absorptive culture. Many of the nationalities do not have antagonistic relationships with Han Chinese because the Han Chinese are exogamous people: often you don't marry within your group, but outside your group. So unlike India which has the caste system, you have endogamous societies. In that sense the issue concerning nationalities can be quite different in China. For political reasons there are some dangerous nationalities, Tibetans are obviously one, and the Uyghurs, people in Xinjiang, and to a degree Koreans living in north east China.

Q5: In this course we have looked at Anglo-Saxon models of philanthropy, which are based in the culture in which they have arisen. They are determined by notions of self, markets, capitalism, doing good for the poor etc. I'd be interested to hear from you what you've seen in terms of an ancient

civilization, China, which in its early days was based on a social rubric which was very different from markets, it was based on notions of the prevailing philosophy at one point, which was Confucianism, advocating the benevolence of the state. Therefore, of the philanthropic activity of those times, do you see any of that in China as you travel there? Or are we talking about different movements in philanthropy?

Philanthropy, in some areas, is actually encouraged by the government so unlike state oriented models in Europe, you actually see much more of a potential role for philanthropy. The campaigning style of politics in China where you actually mobilize people to a certain end does create a place for philanthropy; the government itself would say, it's certainly a very good idea for people to have a real education and philanthropy can assist with that. With particular incidents, such as the Sichuan earthquake in 2008, a large number of volunteers go to help. It is very common for a large numbers of organised groups, including various patriotic groups, to go and help and raise funds. Part of it may be tradition, but it's also appropriated by the Chinese government. Philanthropic efforts are not alien to China as long as they are not antagonistic with the present system. The key concerns are how to control it. Government has no ambition to completely monopolize activity so that creates a space for philanthropic organizations.

'Chinese women are better off than their Korean or Japanese counterparts'



Q6: Any views on the status of woman within China?

Let me start with some scale of comparison. I come from South Asia, Chinese women are certainly much better off than their South Asian counterparts in terms of education. Second is that labour participation rates in China are among the highest in the world, so women's subservience does not have to do with not having a source of income. Obviously, compared to countries in East Asia, I think that Chinese women are better off than their Korean or Japanese counterparts. In Japan it is very common that when a woman gets married she actually withdraws from the labour force and in China this doesn't usually happen. The second thing is the control on birth, so a part of the woman's life, a very small part of an urban woman's life, is actually given up to rearing and producing children, so for her, outside home actually becomes much more important and basically the span of life which is tied to home is less. But yes there are discriminations. First is tradition, the Chinese saying is "Zhong nan qing nu", and it means that man is more important or weighty than a woman. One reason for this is that the family tree of succession goes to the male line. The idea is that if you don't have a son, your family tree stops, so there is this reason. Second is that in old age the parents live with their sons rather than with their daughters. If you ask the urban population most people would say that girls are actually much better

than boys, they are much closer to the parents. Often the Chinese say that girls are like a duvet, giving you comfort and warmth. But this saying is not born out of statistics; thanks to modern technology, selective abortions though illegal are very common, and the sex ratio for Beijing is 118 boys to 100 girls.

Generally women are harder elements, in every age group you look at the death rate among men is higher than among females, that's how nature is. Therefore, in general, if you look at any population there should be more women than men, it wouldn't be 50/50. India and China, two large countries, are actually different, they have more men than women and part of it is birth and higher infant mortality. Maternal mortality in China is not a problem, which is often an important cause of death in developing countries. You wouldn't find that many women in top positions in China, so yes, like everywhere else women operate in labour markets. Certain jobs are reserved for women, their nimble fingers and the clichéd saying that women are better at doing certain things. Of all the electronic assembly factories in southern Guangdong Hong Kong border, 80/90% of the labour force would be young girls, as they say their nimble fingers are better suited for the work than men's are. In education, the proportion of girls is now increasing, and on average they do better than boys.

Q7: I was wondering about the prison system in China, and in particular whether there is a notion of rehabilitation with prison, and how people fare after prison, and whether there's a great deal of recidivism in turning to prison?

Well there are labour camps which are hard physical labour, but I don't find they are the worst thing: there is a very strong belief in reform through work, and that element is actually present in Europe too. I think much more serious is not labour camps, but the mistreatment of prisoners. It's a very black and white society in the sense that if a person is regarded or charged for crime, then he or she has very little rights and mistreatment, torture and beating and so on in prisons is very common. I think international concern has had effect. I used to serve on the executive committee on the Great Britain China Centre, which is a semi-official body, and Lord Howe, the patron of the Great Britain China Centre, has been working to improve the criminal justice system and it has had some effect. The accused now have the right to choose their own lawyers and so on. But I think prison system abuses are very very common. Although there is particular objection to the labour camp system, certainly it may be hard physical labour, but I don't think the worst abuse of human rights actually takes place there. Some people come out healthier than when they went in: the previous president of the Bank of China who was convicted of embezzlement



'historically China has been an expansive country'

was suffering from very poor health before he went in, in particular diabetes B, and when he came out apparently he looked fitter and his diabetes had disappeared.

Q8: My understanding is that one of the barriers to economic growth in a country is large family size. Once a society moves towards two, three, four children in a family that actually liberates the economy, but as you go down and fertility rate drops below replacement value the pendulum swings back again and its only a matter of time before the ageing population becomes a big enough burden to slow the economy down. Some people think that in 30 years India will pass China because of that.

The number of people themselves is important and what age they are also is, but what really matters is what the person is capable of producing. An uneducated man is of no use, he may be young, but it is a question of amount of capital and amount of training which is available per capita. Second is that, people's ability to work longer is also increasing, most people now retire at an age at which they are still physically capable of working. For India my answer would be: it depends on how productive the labour is, and age alone does not count for productivity. I think India still lags behind in women's education and popular education.

Q9: Could you talk briefly to the territorial ambitions that China might have, particularly in the longer term with some of the natural resource challenges that it faces?

Well the Chinese are fond of saying that their attitude towards the world is represented by the Great Wall, but historically China has been an expansive country. The Han nationality started in Xi'an, where the ancient capital is, and then they branched out. At the moment China has some territorial disputes, but these are not huge areas. The border dispute between India and China still has to be settled, but I think there is general agreement between both countries, and this symbolizes the Chinese position not to stop the improvement in economic relations between the two countries. Their most important territorial claims are in the South China Sea, with these atolls and little islands not significant for habitation but because of oil and gas presence they may be important. China has territorial claims with almost all Asian countries, certainly with Vietnam, the Philippines, Indonesia I'm not sure, but Malaysia too and so on. But I think the attitude has changed, again there hasn't been any important friction between Asian countries and China, and the Chinese have moved towards a multilateral position rather than a bilateral position. With Japan there are certain disputes over some of islands, but my feeling is that none of them are really live issues, and the general feeling among the Chinese

is to keep this as an issue, but not something with which to intervene. But I think Deng Xiaoping's approach is a good description of Chinese foreign policy, with emphasis on trade and improving living standards above all else. They would do whatever to avoid conflict, and nothing that detracts from economic development, so that is a reasonably good characterisation of the Chinese position.

Q10: If you had to recommend one book to read before we went to China, to improve our understanding of the country and the culture, what would you recommend?

I've got several books in mind can I get back to you? One history book which is very readable and covers a lot is John King Fairbank who is a very distinguished American sinologist at Harvard and its called *China: A New History*. Similar and extremely readable is Jonathon Spence's *The Search for Modern China*.

The Institute for Philanthropy also recommends Jonathan Fenby's *The Penguin History of Modern China* and James Kynge's *China Shakes the World* as excellent books on China.

JONATHAN FENBY CBE

Director of China Research, Trusted Sources



On 18th June 2009, the Institute for Philanthropy invited celebrated journalist Jonathan Fenby to talk to a group of The Philanthropy Workshop alumni and friends of the Institute for Philanthropy. The event was made possible by the generosity of Cynthia Wu and the Shinkong Life Foundation

Jonathan Fenby is a British journalist, and was Editor of *The Observer* newspaper from 1993-1995 and then Editor of the *South China Morning Post* from 1995-2000, during the return of Hong Kong to Chinese sovereignty. He had earlier been Deputy Editor of *The Guardian* (1988-93), Home Editor of *The Independent* (at launch 1986-8), and Editor of Reuters World Service (1973-7).

He was also chief correspondent for the *Economist* in France and Germany (1981-6) and wrote three books during that period. Since returning to London from Hong Kong in 2000, he has worked at various on-line services and as Associate Editor of the newspaper, *Sunday Business*. Between 1998 and 2008, he published ten books, five on China and others on the Second World War and France. He contributes to a wide range of publications in the UK, US and Far East and broadcasts often, as well as speaking at conferences and lecturing at universities and public forums on China. He is currently Director, China Research at the research service, Trusted Sources. He was named a Commander of the British Empire (CBE) in 2000 and a Chevalier of the French Order of Merit in 1991. He is a board member of the European Journalism Centre and the Belgian-British Conference.

His latest book, *The Penguin History of Modern China* was selected among the 2008 books of the year by the *Economist* and the *Financial Times*.

Thank you. The danger about what has been said about doing ten books in ten years is that I will be seen as a model worker; the model worker of Maoist China, who was pictured caring for the masses twenty four hours a day, reading Chairman Mao's thoughts twenty four hours a day etc etc. and inspiring everyone. Unfortunately he was standing one day, we don't know if he was reading Chairman Mao's thoughts or not, near a pylon and a lorry backed into it and it fell over and killed him. So, if you spend too much of your time with your nose in books, you're clearly running something of a danger. Well, I'm very glad to be here this evening, very honoured and very pleased to meet you and speak to you. I won't go on at great length to begin with,

because first of all I don't know how much you know about China, and I don't want to repeat things which you do already know, some, Cynthia, know more than I do, but it's probably useful if I try to give a twenty/twenty five minute overview of where China is today. If there are specific questions/areas you want to ask about I'll leave you to raise those, and you'll probably ask a piercing question about the sector of China that I know nothing about, so I'm ready to be humbled. As you've just mentioned I've written the *Penguin History of Modern China* which goes from 1850 to the present day, and the paper back edition which has just come out brings in the economic crisis and runs up to the beginning of this year, so I can claim that

it's the only book that is on sale, despite the history going back 150 years, which deals with the present down turn.

What I find, in writing about Chinese history, is a mixture of enormous continuities, and enormous discontinuities. On the one hand, if you go back to the usual starting point, which is the first emperor in 221 BC, he laid down various elements of state craft in China which remain in the present day: the need for national unity and the need for stability as directed from the top, what is called legalism, which is that the role of the law is basically to keep people in rather scared subservience to the state. There's a famous legalist saying, "men fear flames, but find waters

'the importance of national unity, the danger of division and the need to protect the country'



seductive, so many are drowned and very few are burned to death:" the law is meant to be like the fire which people are afraid of. The whole idea of top down rule is the attempt to standardize China, which is just about unstandardizable. It is a continent rather than a country with huge cultural and linguistic differences, different cuisines, people of different heights in different parts of the country; altogether a very very varied country. But there is still the underlying idea that this is one country, but not just a country, but also one civilization and one culture and that is a very important element that runs throughout Chinese history.

Another key theme, besides legalism, coming from and actually predating the first emperor (but really coming into official acceptance about 2000 years ago), is Confucianism. This teaches benevolence on the one hand, but also lays an emphasis on hierarchy and everybody knowing their place. While it is the ruler who is meant to enjoy the allegiance of those below him in the hierarchy in return for his benevolence, the ruler also defines benevolence. So Confucianism can be used rather usefully as a form of top down control.

What has also run through Chinese history is the importance of national unity, the danger of division and the need to protect the country. These, until the mid nineteenth century, were not sea born interlopers, but were nomads, Mongols and others

attacking China. The Great Wall was not a very good defence; in fact they got through it or went round it easily. Then from the 1830s during the first Opium War, the Europeans of course arrived by sea and again pillaged parts of China. So while China is enormous and very self confident, there has often been a feeling of some kind of precariousness in the country both as regards national unity and as regards the threat from outside. I began the Penguin book in 1850, and I would say that in the period from 1850 when the Qing began to decline, from then until about the late 1970s probably no country on earth went through a longer period of tribulation, woe and very often desolation as China did in that period.

You had, in the mid 19th Century enormous revolts which are hardly known about in the west: the Taiping Rebellion was led by a man who decided that he was the son of the Christian God and led an army out of southern China that conquered 14 provinces. The war went on for 15 years probably killed 20 million people and devastating many parts of China. Another example is the Nien, who were basically huge banded armies in the east of China which again caused enormous devastation. At the end of the 19th Century was the Boxer Rising, a rising in defence of the Qing dynasty and against the foreigners and particularly against the Christians. Of course it brought a punitive expedition by

the Western powers which caused China enormous humiliation and a great price was paid for that. You had the loss of territory by China to foreigners in the treaty ports, notably in Shanghai, and enfeebled the dynasty which fell in 1912. That was meant to usher in a Republic and democracy, but in fact it ushered in 10 years of warlordism, which was anarchy on an absolutely enormous scale. Chiang Kai-Shek then neutralized the warlords, but he didn't really defeat them, his republican government faced a revolt every year from one or other of the regional barons. Japan then invaded China in 1937, part of the huge Second World War, which in China, again nobody knows, perhaps took 20 million lives, perhaps more.

After that there was the civil war, then in 1949 the communists under Mao take power and soon start a whole series of rolling revolutions going through the Hundred Flowers Campaign the anti-rightist campaign in the mid 1950s, the Great Leap Forward, the huge famine that probably killed 30 million people around 1960 and then the 10 years of the Cultural Revolution leading up to Mao's death in 1976. So that is a pretty troubled history, let us say. I go through that, skating over the top, because I think to understand China today (although that history is not written about much in China and history is still a very political issue in China) we need to comprehend that terrible period in Chinese history. That humiliation of going from accounting in 1800 for



a third of global wealth to being a very backward poor country which was pretty much on its last legs by the end of the cultural revolution. This forms an essential backdrop to what has happened in the last thirty years.

As you probably know, in 1978 Deng Xiaoping, the ultimate great survivor of Chinese Communism, who had been through all this and who had been humiliated by Mao, won a power struggle in the Politburo, got rid of Mao's chosen successor and acceded to the leadership. He recognized that China had to get richer; that economic improvement was the way forward for China, but also for the Communist Party. If the Communist Party could establish itself as the bringer of material improvement to China that would make the Communist Party a lot more popular among the Chinese as a whole and that has been basically the equation which has been working itself out for thirty years. I mean Deng didn't implement all the measures himself, he had very able lieutenants around him, but, as one saw at Tiananmen Square twenty years ago on June the fourth, the deal did not include political liberalization. The deal was the Communist Party would bring you material improvement, will open China up to the world, will move forward, will modernize, will use foreign technologies and foreign investment and will liberalize everyday life for individuals (which has been hugely liberalized

in China), but there must be no political threat to the monopoly of the Communist Party. That remains the case today, and according to some, this means that the Chinese system cannot last.

When I was at the *Economist* in the 90s and 80s we were great proponents of the idea that economic improvement would inevitably bring political liberalization. I think that's completely wrong, and I think that China has proved it to be wrong. Whether you think it's good or bad is a completely different thing, the fact is there is no alternative to the Communist Party in China today, and it has been extremely savvy at reinventing itself, not just since the Beijing Spring twenty years ago. Huge studies have been done on why communism failed in Eastern Europe. A book's just come out which lists a hundred different reasons that the Chinese leadership has identified as why communism failed in the Soviet Union, and how the Chinese will avoid making those same mistakes. Some of them they do, some of them they don't, but one of those is you must never give an inch. Gorbachev was an absolute disaster, because he allowed dialogue with alternative power groups within society. You must keep the centralized power.

That remains the way today, hence the control over political bodies, any kind of discourse, while at the same time allowing very large amount of individual freedom in

China. If you go to Shanghai on a Saturday night, it makes London look positively dowdy and old fashioned. Everybody is doing their thing, there is tremendous individual movement, thirty million Chinese travel abroad these days, the internet and everything has made communications much easier. But, one must never forget the Communist Party's insistence on retaining monopoly power; whether it could use force again to do that is a completely open question. As I say, there is no alternative, and given the fact that probably two hundred million people have been pulled out of absolute poverty in the last generation, the fact that more people have been made materially better off in a shorter space of time in China than ever before in human history gives the regime a certain credibility with the people. It has actually delivered after this terrible period, something that is tangibly an improvement. Whereas nobody really lamented when Chiang Kai-Shek went, nobody lamented when the Empire fell, except for a few Manchu diehards and so on. A lot of people would feel considerably worse off, or threatened, if the present regime fell and was replaced with who knows what. There is no replacement, the rule of law in China comes under the Communist Party, and so you've got no independent legal system. Accountability is very weak; the party's corruption is considerable and is one of the ways the system works. The Party admits corruption is a terrible, terrible problem, but

'the Chinese always save a lot, and at present they are saving absolutely enormous amounts of money'

of course when you've got tens of millions of underpaid officials, corruption can look rather attractive. One of the old Maoist officials is said to have once said, we have a real problem in the Communist Party with corruption, if we don't do something about it, the people will turn against us, if we do something about it no one will join the party. That remains true to this day.

Last year was meant to be, as Xinhua official news agency put it, the year when the Olympics hails China's renaissance. Actually what happened last year - apart from the Olympics - in January and February, was a huge freeze in central and southern China that brought everything to a halt. Transport and power lines failed, it was complete disaster. Then, in March you had the riots and repression in Tibet, then in May you had the Sichuan earthquake, 80,000 killed, you have droughts in several parts of China during the summer, then you have the Olympics and come the autumn you have the world economic crisis hitting China. So last year was not precisely a year of celebrating a renaissance, I fear.

The economic crisis has hit China hard, because of exports above all. However the role of exports in China's GDP is always overstated, because lots of Chinese exports are in fact imported semi assembled goods which are then assembled through cheap labour in China and sent out again. The net contribution

of exports to the Chinese GDP is probably about 17/18 percent; a very important marginal 17/18 percent. It's still the most advanced industrial factories which are involved in the export trade.

The decline in external demand, which kicked in last autumn, has undoubtedly had a huge effect. Although these days everybody's rather bullish about China and you'll read a lot saying that some day they're going to get back to 7/8 percent growth, I don't think it can do so on any sustained way until global external demand picks up.

What the government did in November, was to announce a 4 trillion RMB (600 billion US dollars), stimulus package which was directed mainly to railways, the power grid and earthquake reconstruction in Sichuan. At the same time, although they didn't say it, what has now become evident is they opened the bank lending vaults; basically, banks were told to lend, lend, lend like there's no tomorrow, and at the research centre I work for, Trusted Sources, we reckon that bank lending this year will probably be about 1.5 trillion dollars. That's more than the whole 2007/2008 total doubled, causing huge inflation and bad debt problems in the future. There is an enormous wash of money going into the Chinese economy through the infrastructure, the fiscal and the monetary stimulus package, and that has produced, undoubtedly, an upturn as you'd expect in economic performance, but most of that money has gone

into pouring yet more concrete, building yet more infrastructure, rather than what China needs, which is develop its own domestic consumer market so that it is less dependant on exports. If we now go back to Deng Xiaoping, his economic equation was that China has to build factories, China has to get into modern industrial production, but, the problem is, there is not enough domestic demand or enough money around to buy all these goods, so what do you have to do? You have to export, you have to keep the currency low; exports have really been the driver in that sense, and what China needs to do now is to rebalance its economy and rebalance domestic consumption.

But, the Chinese always save a lot, and at present they are saving absolutely enormous amounts of money. The numbers go off the graph there, not just individuals but also companies which are suffering from reduced profits and are using all this bank lending to rebuild their treasuries. Plus the government has always hoarded money, it's going to have a three percent fiscal deficit this year which is nothing compared with the west. Still, in Chinese terms that is quite a lot, and China has to go through a rebalancing of the economy over the next four or five years; the difficulty with that, is that it will mean major unemployment in China, and if there's something the government will worry about, above all, it's jobs. If people haven't got work, they are afraid this will turn

into social unrest and undermine the whole equation, and undermine the whole philosophy of Deng Xiaoping - that the Communist party brings you greater wealth and greater prosperity. So they've got an enormous problem there, I mean Gordon Brown and Obama have enough of a problem, but I think Hu Jintao and Wen Jiabao probably have the biggest managerial job in the world.

This managerial complexity is made even more difficult by a series of fault lines that run through China. Aside from the issues of the absence of proper rule of law and corruption, you've also got others. You've got an environment problem, which is that China is the biggest emitter of gas, carbon gas, also has huge use of coal (70% of energy comes from coal), water pollution and a shortage of water. 200 cities take their water directly from rivers into which raw sewage pours. Desertification is another problem, eating up arable land, particularly in the north. All pollution problems are absolutely enormous, and whether the United States and China can get together is an important question.

Disparities of wealth are also a growing issue: China now has bigger disparities than Europe and the United States, only Brazil beats it among the developing economies, and that disparity (despite what's called the harmonious society which the leadership has launched to try to reduce disparities) is getting bigger and bigger the whole time. You've still got 750 million people living in the countryside and a lot of those while not in absolute poverty by Chinese standards are definitely very backward and left behind. You've got social unrest in China; according to official figure anything between 80 to a 100 thousand mass protests annually, a mass protest being a hundred or

more people rebelling. This sounds enormous, but considering the size of China and 1.3 billion people it's not that enormous, but there is a lot of anger against specific elements. These are very often about land grabs, requisition of land by officials (because all land still belongs to the state collective), they grab it back to sell to developers. Pollution, demonstrations too, corruption obviously, and then local events, such as in Hunan last year, can also spur unrest. The bus fares were put up more than expected, and ten thousand people rampaged through the city and sacked the Communist Party headquarters and so on. When you haven't got safety valves, you can easily get outbreaks of violent protest. So far at least, the predictions at the beginning of the year, that rising unemployment and the economic downturn would bring mass protest against the regime, has not taken place. They're all individual protests on one issue, or localized matters. There is no Communist Party, if you like, organizing the protestors across the country and although the regime uses the big stick, it's also quite savvy at using the carrots too, making sure that prices of household appliances for poor rural people are reduced, or making sure that migrant workers have subsidized train fares to get to the village when they want to, all these kind of things. The Police Ministry issued a statement earlier this year to police, saying that if people demonstrate, be kind to them, they have reason. At the same time, the armed police are being trained for unknown eventualities.

So you've got a very mixed picture of China, you've got the whole international picture too. China is coming into the world scene; it is a global actor not just economically but also politically. Its relationship with the whole rest of the world, however, is still somewhat uncertain

and its relationships in the area, particularly with Japan, still have to be tested. So there is an enormous amount of work in progress in China, if you like, but my feeling is that, and this is no value judgment on the regime, but basically the present state of the present leadership has sufficiently managed the crisis which it's facing now and is getting to grips with other crises which it's facing (perhaps pollution is the exception to this), to remain in power. Ten years ago Gordon Chang wrote a book called *The Coming Collapse of China*, we still ask Gordon "is it this or next year?" Another friend of mine Martin Jenks is publishing a book next week which is called *When China Rules the World*. I think they're both wrong; China is not going to collapse, it's not going to rule the world. Given the complexity of the place, all you'll have to try to be is a realist. Thank you.

Q1: Could you talk a little about migrant labour and the cheap labour force?

Well obviously when people talk of cheap labour in China what they mean is migrant labour. Under Deng that had been encouraged, it stepped up in the 1990s. Nobody knows the exact number but there are probably 120-150 million migrant workers and families out of the countryside and into the cities. These people suffer from discrimination under the Chinese system, what's called the hukou. You are registered where you were born, basically, wherever you live and work. So if you go from, say, Gansu province, in the north, to work in Guangdong, on the coast, you are still registered to your village in Gansu, so you don't qualify for any welfare, education or other services in the coastal place. Migrant workers are very much regarded as second class citizens. The hukou system is a security

'There is a skills shortage in China which the leadership has recognized and is starting to do some vocational training'



mechanism, which the Security ministry and the Communist Party are very keen on keeping. They've slightly relaxed it in Guangdong, but very little. These workers are mostly unskilled, and this is the other problem: You've got a large pool of workers who are there to be cheap labour; not to be skilled up to work in the higher margin value - added plants that China needs. There is a skills shortage in China which the leadership has recognized and is starting to do some vocational training. There are also quite a lot of migrant workers that move increasingly between the provinces in central China, because investment is going into central China and along the Yangtze in particular. The cities there are being built up and foreign investment is going in, such as in Wuhan with the car factories. Chongqing, a city of 30 million people, is being developed as a kind of priority area. So you're getting internal migration, as well as to the coast. It was said at Chinese New Year in February this year that 25 million migrant workers went home, and the prediction was that the 25 million would not be able to come back to the coast and find jobs. The latest statistics, and these are extrapolations from relatively small numbers, is that about half of those have gone back to the coast and most of those have found some kind of job. Either they're back in their previous job, or in service industries or some of them have set up self help groups there. Wages have been cut in a lot of coastal factories, work patterns

have been rearranged to reduce labour costs, so it's not the 25 million unemployed sitting in the countryside. Those that do remain in the countryside do so under the land system in China, which I think is a great part of progress, and are actually given a plot of land, they are actually given a subsistence living. It may not be as exciting as being in Shenzhen, but you've got the basic means to live in the village. The problem is, I think, land rights ought to be free and privatized in China to get the whole rural economy going, otherwise you're always going to be stuck with uneconomic tiny plots where you can't use mechanization, proper fertilizer etc.

The other side of the story is that the remittances from the migrant workers make up to 50% of the village income in some villages, and that in some sense has been the most serious effect on rural China. Due to the downturn in exports remittances have fallen and with it the amounts of money coming back into villages, plus you've got more people in the villages. Also, one of the most important motors in China's growth, what were called town and village enterprises which were set up from 1981 onwards have been hard hit. These were small scale manufacturers meant to be collectively owned, but usually family owned and individually owned. Some, for instance on the east coast, grew into substantial manufacturing outfits; you've got the famous stories of the little towns

that produce 90% of the world's ties, or playing cards or whatever else it is you want, they specialized in different things. They've been damaged, and again they employ a lot of migrant workers coming from within the province itself. This is not an official view at all, but I think that the way the government at the moment is pouring money into agricultural subsidies and farm subsidies is the wrong way to go about it. In fact, in order to get the rural economy going again, you've got to get the town and village enterprises going again and you've got to get the remittances flowing again. Otherwise the answer to China's rural problem doesn't actually lie in the countryside, but for political reasons. I mean farming in rural China counts for about 25% of the wealth being produced. It is pretty small for farming, and if you look at the graphs for agriculture as a contribution to GDP, it's not big and it's very inefficient. There is not enough water; they use all the wrong fertilizers, the logistic systems for food means that about a third of the food is rotten by the time it gets to the shop or market, it's a twenty year job.

Q2: Do you have a view on how the one child policy is going to play out in the evolution of the national psyche?

It's a problem, whatever other view you may have of it you're getting a diminishing labour force and more and more people are living longer. I can't remember what the statistic is (every statistic in China



'there will be 6 million unemployed graduates in China this year'

is superfluous, I have a competition at the office for who can find the smallest for China). I think it's in 2020 there will be 100 million people aged over 75. And there is no pension system, or the pension system is a complete black hole. There's no welfare system for the elderly and you've got fewer and fewer people working to support that growing older population, so in purely economic terms it's been a complete disaster. In the national psyche it has obviously produced, you know, the little emperors, the only child fattened up on McDonalds, also undoubtedly an anti-woman bias, particularly in the countryside, and the social inequalities we mentioned earlier that do obviously cause resentment. Increasingly richer people just have more children and they pay a fine for having a child, and that's the price for having second or third child. You've got 80 million families who can afford to have two or three children if they wanted, whereas 700 million peasants can't and it becomes another form of disparity within the society. But is it going to change? I don't know, I mean you get occasional references and studies are being carried out, but nothing ever seems to happen. Although food supply and the harvest has been good for the last four years, there is fear, because with such a huge population China has always been on the edge of having a major food crisis, particularly since government policy remains 95% food self sufficiency, except for soy beans which they import from

Brazil. So long as you keep to 95% self sufficiency, you have inefficient agriculture that I was mentioning a moment ago, you have a middle class which wants to eat beef thus needs animal feed production, and you have the prevalence in China of natural disasters all the time, huge drought last summer for instance, there's bound to be worry about feeding the population.

In the immediate though, there are also the unemployed 20 something year old men who are growing; there will be 6 million unemployed graduates in China this year: educated, unemployed, single men. I think they're quite worried about this, what do you do with the people? It used to be said there's a famous Deng Xiaoping remark to Jimmy Carter; "You want some people? How many, 5 million, 10 million?"

Q3: You mentioned corruption being an issue, is it more of an issue than in other countries? And secondly is the government serious about doing something, or is it a part of the culture?

I fear it's part of the culture. I don't know, it goes back so far in Chinese history. Under the empire when a magistrate was appointed for three years it was always not to his home district because he shouldn't set up some kind of feudal barony, he was sent somewhere else and he was expected to make as much money as he could. He wasn't paid anything and he had to support the staff so the idea of using the official

position to make money is deeply engrained, I think. It's recognized as a problem and every year you get an announcement of an anti-corruption campaign but it's usually pretty minimal. The anti-corruption campaigns are used generally for political purposes since everyone is vulnerable. There was a case in which the Communist Party secretary of Shanghai, who was one of the most powerful men in China was banged up on corruption charges. He was running Shanghai completely as he wanted, took no notice of Beijing and he crossed a line, apparently ignoring prime minister Wen Jiabao's wishes. They came down on him and surprise, surprise, he and his associates had been pillaging the pension and welfare fund, such as it is in Shanghai, to the tune of about 100 million dollars.

What happens then, or what happened in Shanghai, was that a lot of projects which he had been the godfather for and which foreigners had invested in suddenly all weren't going to take place. You can be associated with a corrupt official, but if he falls your contract is worth rather less. It also happened in Shenzhen, the boom town across from Hong Kong. It was confirmed that the mayor there has been removed for disciplinary irregularities, which basically involved getting cosy with the main Chinese electronic household appliance company. They were bankrolling him and he was giving them a lot of help on the side, plus the property

'one country, two systems works'

developers, plus organized crime across the board. So it's there, I'm afraid. Local government in China has no money, because the land tax was abolished in 2005 and they have huge allocated responsibilities for education and other things. The classic way that local officials raise money is they grab land which is classified as agricultural land, they pay minimum compensation, they then reclassify it as development first prime industrial land, sell it into a window company with a developer, take 30 % and everybody is very happy, so long as you're not the farmer who lost out. The trouble is land value hasn't exactly been keeping up.

Q4: Can you talk a bit about the one country two systems policy and how that relates to Hong Kong, Macau and Taiwan?

I'll try to keep it short, shorter than my last answer since I lived through the one country two systems. I was editor of the *South China Morning Post* from 1995 to 2000, so I was very much a part of it. One country two systems was originally conceived for Taiwan, it was adopted for Hong Kong, and it's worked, I think you can't deny it. I think Hong Kong deserves a democracy, if you think democracy's a good thing, and it's certainly up to it and the people of Hong Kong deserve it and it's a bit of a slight to them that the British did the deal, but that was done back in 1984. One country two systems works: it's preserved Hong Kong's financial system which is absolutely essential

for Hong Kong vis-à-vis Shanghai. I mean it's not perfect, Hong Kong, but compared with Shanghai it's pretty transparent, I might say. Also one country two system has preserved, extraordinarily in a sense, a few things: the currency is pegged to the US dollar, not to the Chinese currency, freedom of movement and freedom of speech exist, as does freedom to demonstrate. All these freedoms and above all the rule of law exist. The Chinese caved in at the last minute on the court of final appeal: they wanted to have all Chinese judges, or Hong Kong judges, and the British wanted all foreign judges. I was there, and Lu Ping the Chinese negotiator flew down for the weekend and had lunch with about a dozen of the biggest tycoons in Hong Kong, mainly Chinese, and they all said to him, look, if there isn't an independent supreme court here, which can make sure that contracts are worth the paper they're written on, we're going to move our business to Singapore. Monday the Chinese flipped and said, fine we'll have a compromise on that. So that's all very important there.

Macau is, well it's gambling paradise, and I think we have to see Macau in slightly different terms there. As for Taiwan, I've never thought that we were going to have the Third World War breaking out on the Taiwan Strait, and I think so even less now, simply because as I said, China needs a benign and international trading environment, in which to export, import and to operate. If

you had a war in the Taiwan Strait that would just blow everything back thirty years or more. Since the Kuomintang returned to office at the beginning of last year, they obviously opened bridges with China. Hu Jintao has taken a very hard line on Tibet, and that within the Military Affairs commission, which is the army division in China where his position isn't as strong as it is in the Politburo. He's been able in a sense to say to the PLA, ok, you can keep your missiles, we're going to be nice to Taiwan, but we'll be tough in Tibet. There was a moment when people were saying he's being soft on Taiwan, he's in real trouble with the military, but that doesn't seem to have played through. Now Taiwan is more of an export dependent economy than the mainland and needs the mainland more and more. We were just looking at this at Trusted Sources this afternoon: I think there's going to be a big relaxation in the whole technology semi-conductor restrictions which the Taiwanese have always maintained so that their industry doesn't go to the mainland. There's going to be a shift in that you're going to get very high grade chips being made by Taiwanese companies in the mainland simply because Taiwan needs it. There are about 600 thousand Taiwanese now working in the Shanghai area. You've now got cross Strait transport, Chinese banks are going to be able to open in Taiwan, the whole thing is opening up and both sides seem to have sensibly said we'll accept the political fiction, there's one China

'there seems to be a definite move towards renewables, particularly with wind power and increasingly solar power.'



but we defined it differently, forget about that and let's get on with the economy at large.

Q5: What is your view on pollution and energy in China?

They want to clean up, I mean they recognize, above all Wen Jiabao, the Prime Minister, that they've got this enormous pollution problem. Secondly, energy use in China is extremely inefficient because energy pricing is controlled and there is actually no incentive to use energy better. The powers that be have always dragged their feet on renewable energy up to now, but there seems to be a definite move towards renewables, particularly with wind power and increasingly solar power. They're definitely moving towards clean coal too, but the difficulty is that, well it goes back to corruption and involvement of the Communist Party and local officials in business. They've grabbed the land, they've reclassified the land, they've built the factory and the local municipality has a twenty percent stake in this. Right, it is churning out stuff, burning brown coal, polluting the atmosphere and Beijing says, we're going to come down and inspect the pollution standards in your factory. They tell the local officials we're going to send a team down. The factory immediately cleans up its act, or closes down for a couple of weeks, and then the whole thing starts again. There was a case about ten years ago at the Huai River, running through central China, which was notoriously polluted, but it was

marked 10 out of 10 for purity of water. Dr. Elizabeth Economy did a very good study of this. The local officials in the province were told that teams were coming so refuse was not put in the river and it was perfectly clean. 9 months later it flooded and about a million hectares were destroyed by the poisonous water. It is the local problem. But I think there is no doubt a desire to do something about it. I think that China wants the West to pay for China to clean itself up. There is the old argument that you did this in the 19th century, we're doing it today, we're doing your dirty manufacturing for you, bail us out.

Q6: Will there be any reversal to the market economy?

I don't think that's going to be the case, I mean they've committed themselves to the Deng philosophy, to the market economy, but there are a few prominent leftists, Maoists and so on, they will talk and Western journalists will report them, but I don't think they have much following there. There's a consensus. What you've got at the top of China at the moment is Hu Jintao, the party leader, who is much more important than the Prime Minister, as the party is first and the government is very much second. Hu Jintao, in terms of China's emperors, is weak. He can't bang the table and get people to do what he wants because there are factions within the 9 people within the standing committee of the Politburo, (which is the body

that runs China). So it's government by negotiation, at the top, and Hu has to take account of other people. But he's a very good manager of that group, and basically they're all agreed on the market economy that they don't want protectionism, but globalism, and various other big policies they're agreed on. The real revelation was at the last party congress in October 2007 (they're held every five years) and Hu Jintao who will retire in 2012 tried to get his favourite man named as the highest ranking new member of the Politburo (which would have meant that he would have been the successor). He couldn't do it and someone else was voted in instead. So he couldn't impose his own successor, but he accepted the successor who was nominated by a majority within the Politburo. This is very healthy; you're away from a dictatorship, you're in a consensus managerial leadership, which I think is very sensible indeed. It's less exciting and it showed last year, when there was a protracted debate at the top. There are different views on the economy, as to whether inflation which had reached 8% (having been one percent before), was the real problem, and whether you had to have major monetary tightening with which 2008 began. As exports fell, and growth fell, the growth lobby came back, and there was this long period in the summer of last year when policy was all over the place. They were building up the growth economy, but thousands of companies were going out of

business because of high bank interest rates. They sorted all that out in October, by saying go for growth and throw as much money as we can at it.

Q7: I know you said that you don't see China ruling the world in the future, but if you look forward 30 years or so what's China's role going to be on the international stage, can we extrapolate their role in places like Sudan and Zimbabwe and say that will be the sort of self-interested role they will play in international politics?

I think so, I think so. Because they are resource poor, China, and they're going to keep the economic thing going, they're going to make friends with people who've got oil, gas, copper, iron and so on. And of course, because they have the very convenient doctrine of non-interference in the sovereign affairs of other states, it's none of their business what happens in those states. The Rio Tinto affair made them question whether they wanted to get involved with companies, for they're much more comfortable with governments. The one thing that could change (you had this in the Democratic Republic of Congo), is when those kind of government deals go sour, for some reason or other, and China is left standing on one foot. It's a contradictory approach if you like, but they feel confident enough to do it. China wants to be members of the class, the BRIC (who had their summit just now in Russia), the United Nations, the G-20 whatever it is, but they don't want membership of that club to constrain their freedom of action. Whether they can get away with it, I don't know.

Q8: It used to be said that the Western Economies couldn't understand the Chinese culture, not historically but in terms of economics and political structure. The west had a 5 year time scale, the Soviet Union had a 10 to 15 year time scale, and China had a 50+ year time scale, is that still the case?

For Hu Jintao, politically he was named the future leader of China by Deng Xiaoping in 1990. He duly took over in 2002 twelve years later, he stays there for ten years and his successor is already named, who will be there for another ten years. The five potential successors to that successor are already being lined up. From an economic point of view, they are also thinking in very long term goals. The biggest economic policy question in China, for me, is that China needs to get out of the low margin high labour activities, get away from toys and plastics, gimmicks, t-shirts and so on. It needs to get into machinery, which is doing quite well, Airbus has just rolled out, the first Airbus entirely made in China. They're getting into aviation, somebody here will know better than I that they are buying Volvo and so on. Whether that's a good thing or not, I don't know. They're going to produce all the Volvos in China; they're not going to produce them in Sweden because they don't want the Swedish Unions. So they are moving up the value chain, undoubtedly, but the present crisis fighting measures which are being brought in, all perpetuate the old model. They're bailing out low cost exporters, they're pouring money into infrastructure, it's a fixed asset investment which isn't actually a very good way of creating jobs or activity or anything. They're politicians, the leadership, and they are looking after the people, as they put it, so it's going to take a little while for it to happen, but they're working in a 20 year framework.

Q9: Why do you disagree with your mate who's writing a book, why won't China rule the world? Because they don't want to, I don't think. What he's really saying is that China comes up and the west comes down. Knowing him well, I didn't want to review it, even though I was asked to. I don't think China wants to rule the world. It's got enough problems internally to deal with, it's done a heck of a lot in the last 30 years, but it's got a very large population and a long way to go. I think it wants to build up its own strength, it wants to be respected throughout the world, it wants to be able to get its way when it needs to get its way, but it doesn't have the kind of old fashioned western imperial desire to rule other people. Tibet and Taiwan yes, and Xinjiang, but not others. Maybe I'm wrong, maybe the Chinese armada will sail up the Thames.

Q10: Do you think China will be fundamentally undermined by climate change?

Talking of long term things, that's the 20 or 30 year old worry that pollution issues are not dealt with, that Himalayan glaciers melt, the Silk Road is going to be absolutely flooded and then get even drier. The desert will spread there. It's facing a very major change, and the difficulty of China being such a big country is the effect of climate change is different in different parts of China; you're going to be dealing with floods in one place, droughts in another: it's a very, very big problem.

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³ The below is a shortlist of some of the more prominent China GONGOS: China Red Cross Society, China Charity Federation, Beijing Charity Association, Soong Ching Ling Foundation, China Welfare Institute, China Foundation for Disabled Persons, China Foundation for Poverty Alleviation, China Women Development Foundation, China Youth Care Foundation, China Children and Teenagers’ Fund, China Foundation for Guangcai Program, China Education Development Foundation

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