
CHINA'S CHARM OFFENSIVE

China is taking steps to exert more cultural influence on the international stage. How should this be interpreted by those doing business with the emerging superpower?

BY ST. JOHN MOORE, BRUNSWICK, BEIJING
AND ILSE SCHACHE, BRUNSWICK, SHANGHAI

The press coverage of China's first lady, Peng Liyuan, when she accompanied her husband, President Xi Jinping, on his first trip abroad as China's leader in March, was almost universally fawning. In London, *The Telegraph* talked of "the 'Kate Middleton effect' of China's new first lady;" Spain's *El País*, in a nod to her good looks, dubbed her "La Mejor Modelo para China" (The Best Model for China); and *Time* magazine put her on its "100 Most Influential People in the World" list, in the "icons" category, along with Aung San Suu Kyi, Beyoncé, and Michelle Obama. In China, some of the panegyrics about her public appearances were off the charts.

The coverage was due in part to the fact that Peng is a genuine star who has been wildly popular as a professional singer in her native land for decades. But internationally it was also about the rarity of seeing such a glamorous image projected by a leading figure of the emerging superpower. For many, there was a question lurking behind that new image: as the *Los Angeles Times* put it, "How the Communist Party handles her may be a clue to its willingness to modernize."

Since the transfer from the fourth to fifth generation of communist leaders in November, much analysis has focused on the style, approach, and priorities of Xi.

Even before the emergence of the first lady there were signs that China was undergoing a significant change in the way it wanted to be perceived on the international stage. "The effort began in earnest in 2004 when Hanban, an organization that falls under the Ministry of Education, began establishing Confucius Institutes at universities around the world," Dustin Roasa, a former US diplomat in Asia, wrote in *Foreign Policy* magazine last November.

"There are now 353 of them in 104 countries, part of what [then President] Hu Jintao described in a 2007 speech as China's effort to 'enhance culture as part of the soft power of our country.'" Hanban, Roasa reported, plans to open 1,000 Confucius Institutes by 2020 to spread Chinese culture, much in the way that the British Council and Alliance Française have done for Britain and France over the years.

In another move on this front, China inaugurated its first China Public Diplomacy Association (CPDA) in January, "promoting China's soft power by mobilizing and coordinating social resources and civilian efforts for Chinese public diplomacy," Li Zhaoxing, chairman of the Foreign Affairs Committee of China's National People's Congress, and president of the association, said in a speech at the time.

These missions will also have a somewhat harder-edged diplomatic aim. China has favorable conditions for public diplomacy but also faces serious challenges, Ma Zhengang, Deputy President of the CPDA and former Chinese Ambassador to the UK, said at the inauguration. "A solid job of public diplomacy requires tangible effects and fruits, rather than insubstantial things. Public diplomacy should serve to guard China's lawful rights and interests overseas and stabilize external circumstances," Ma said, according to *China Daily*, an English-language newspaper with the official stamp of approval.





Stepping off the plane in Moscow on her debut diplomatic trip and wearing Chinese designer clothes, China's first lady Peng Liyuan wowed the world

key that opens all doors, secures long-term business access, and solves all problems. However, as China continues to develop, there is a growing maturity to how its government engages both with the outside world and its domestic constituents.

In today's China, foreign companies must adopt a more sophisticated, substantive, and multifaceted approach to public affairs. That means building strong institutional relationships with those government stakeholders that matter to their business – presenting a persuasive, local value proposition is a cornerstone of this approach. This is not to suggest relationships are not important – they are. But they are simply important in the same way that relationships are important in Brussels or Washington.

A NEW MODEL

Knowledge of how China's recent developments have altered its priorities

is also key to understanding shifts in the country's external engagement. For the past two decades, China's economic model has been overwhelmingly investment-led. Provinces and cities vied to attract foreign companies and a well-placed personal connection could indeed open many doors.

Today, the authorities in Beijing see it as a top priority to move China away from its investment-driven, export-focused model. Failure to do so, they feel, will undermine the country's future growth and stability, and potentially undermine the Party's credibility and authority to rule. The incentive for action is clear.

As a result, it is no longer the size of investment that is important but the quality. For investors, this marks a distinct change. It is critical, therefore, that companies clearly articulate how they can help China achieve its wider objectives – not just their own business objectives. ↗

What people, especially those doing business with China, want to know is what such subtle changes signify about the country's evolving method of engagement with both external and domestic constituents.

China's pace of change means that it is still often misunderstood. There are perhaps as many urban myths about China today as there are skyscrapers dotting its massive cityscapes. For example, just as in reality the Great Wall of China cannot be seen from space, the idea that doing business in the Chinese market revolves solely around *guanxi* (commonly translated as "relationships" or "connections") is not true.

Certainly, Chinese officials want to ensure not just that more people learn to speak Chinese and appreciate Chinese culture, but that Chinese culture positively supports the country's expanded global engagement. Yet, when it comes to doing business in China, many foreign investors wrongly believe that *guanxi* is the master

The emphasis on quality means that investment is no longer enough to maintain one's license to operate. Government stakeholders demand that companies employ best practice in their businesses in China and are responsible corporate citizens. Those that fall short are now more at risk of being called out by the authorities – and the public.

TECHNOCRATS RISING

Another important change is the professionalization of government itself.

During the recent National People's Congress (NPC) in March, this was illustrated by a number of key appointments. The finance portfolio is a case in point, where Zhou Xiaochuan was retained as the head of the People's Bank of China; Lou Jiwei, former head of China Investment Corporation – China's powerful sovereign wealth fund – was appointed Minister of Finance; and Gao Hucheng, in charge of China's global trade negotiations since 2010, was elevated to lead the Ministry of Commerce. These appointments of proven technocrats underlined the growing diversification of China's top leadership, moving away from a purely political to a more managerial mindset.

It is widely accepted now that the challenges China faces can no longer be addressed with blunt instruments, such as sheer scale of investment. If China is to overcome its increasingly nuanced and complicated challenges, it needs a new kind of senior official in the top roles – one who brings experience, knowledge, and expertise. These new Party leaders – from more diverse educational backgrounds, often with international experience – are better equipped to judge the real value of what foreign investors offer, which is good news for companies looking to win business on merit.

Also good news for international companies is the continuing streamlining of the bureaucracy. A new round of administrative restructurings were confirmed at March's NPC, further reducing the number of ministry-level organizations, which have already been cut through three decades of reform from 48 to 25.

Nonetheless, there is still a fairly labyrinthine bureaucracy in place with fewer ministers, meaning that government officials who are already stretched for resources in many departments will be increasingly required to do more with less. In future, officials will have even less time to engage with companies on matters not directly relevant to their priorities. Companies that can offer

practical help to address the issues that keep officials awake at night – improving environmental protection, attracting value-added manufacturing, managing the urbanization process, and so on – will win advocates.

THINKING LOCAL

As part of the reform process, an important internal trend is the changing power relationship between central government and the provinces, with more authority being devolved locally. Of China's 33 provincial level regions, 24 are currently led by officials who simultaneously hold powerful local and federal political positions. This is in order to ensure that national policies are carried out at the local level.

All too often, foreign companies prioritize Beijing at the expense of local government. But companies now need an engagement program that reaches both central and local levels.

These efforts are likely to be rewarded as approvals targeted directly at local needs are granted more quickly.

Indeed, the recognition at all levels that companies have a central role to play in China's "new economy" is positive for foreign businesses. China's private sector currently contributes around 60 percent of China's GDP and 40 percent of its jobs. But the policies of the past two decades have favored

state-owned enterprises. With the investment-led model being diversified, the government's task now is to open more sections of the economy to competition, creating a more level playing field for companies that didn't start out in the state sector.

But the opportunities for foreign companies will be on China's terms, as senior officials have emphasized. In remarks that illustrate the new thinking, Wang Dongbin, member of the International Committee for the Promotion of Chinese Industrial Cooperatives, remarked at a recent Tsinghua University forum: "Now that China has become more assertive and economically powerful, foreign companies may have to adjust their approach when dealing with Chinese stakeholders. Instead of insisting that China compromises on their rules and principles, foreign companies may have to start considering what they can do to accommodate Chinese principles and interest."

These comments were echoed by Zhang Xiang, a former editorial writer for the *21st Century Business Herald*, a business newspaper: "Foreign companies should start thinking of changing their mentality. Instead of bringing international brands into



“NOW THAT CHINA HAS BECOME
MORE ASSERTIVE AND
ECONOMICALLY POWERFUL,
FOREIGN COMPANIES MAY HAVE
TO ADJUST THEIR APPROACH”

China, foreign companies may have to consider ways to develop brands jointly with their local partners and bring them into the international market.”

A renewed fight against corruption has accompanied recent government reforms. China’s senior leadership has been increasingly outspoken about the threat corruption poses to the Party’s hold on power, with trust in the Party and the government severely undermined in recent years.

In his first months in office, Xi began a new crackdown that included restrictions on use of public money for banqueting and the purchase of luxury goods. This was in order to assuage growing public disapproval of cadres flaunting luxury possessions they could not possibly afford on their official salaries. Also, for the first time, the workings of the Party’s discipline watchdog have been made public.

The end result is that banqueting and gift-giving (which used to go hand-in-glove with the development of guanxi) has become an embarrassing topic. While the campaign may fade over time, it is helping change the nature of guanxi.

DIGITAL FUTURE

The role of media in China has long been a thorny issue. At the March NPC, a major industry reform merged broadcast and print watchdogs into one “super content authority” with a remit spanning print, radio, and visual media, as well as oversight of copyright issues. While the restructuring follows the general trend of reform and streamlining, it is not a signal of liberalization. On the contrary, the government is likely to tighten control over content to inhibit interference or distraction as it seeks to orchestrate the realization of its policy goals.

The rise of social media and the government’s growing sensitivity to online backlash creates a complex dynamic. In many recent situations, online reaction has hampered the policy options on diverse issues, from building a new chemical factory to changes in traffic rules. Foreign companies must also consider the influence that different stakeholder groups can have through digital media. The pressure can be both direct on the company and indirect through its effect on government policy.

In fact, the media is a good place to look for clues about the direction and limitations of reform. The authorities were happy to see the praise heaped on first lady Peng, for example, but didn’t want to see it go overboard. As *The New Yorker* magazine reported after Peng’s Moscow trip, “She has become the national conversation piece – to the point where even the most mundane of her cyber fan clubs have begun to suffer censorship.” ☹



A Chinese teacher from the Confucius Institute at a school near Pretoria, South Africa. The first Institute in Africa opened at the University of Nairobi in 2005

A single beam cannot support a great house

China’s cultural outreach should not be seen simply as a “soft” effort for international exchange but part of a sophisticated, interlinked strategy to exert its growing power.

In his new book, *China Goes Global*, Professor David Shambaugh of George Washington University, puts it in context. “The Chinese have wisely learned one key lesson from studying the experiences of other previous powers: genuine global powers possess multidimensional strength. Chinese strategists have observed the failings of other powers that possessed strength in only a single dimension or a few, and they have thus concluded that it is important to build and cultivate power comprehensively across a variety of spheres: the economy, science, technology, education, culture, values, military, governance, diplomacy, and other sectors.”

The proliferating Confucius Institutes are a key tool for winning “hearts and minds” by offering people a window into Chinese culture, the chance to learn the language and help open up business opportunities. As former US diplomat Dustin Roasa wrote in *Foreign Policy* magazine last November, “After investing tens of billions of dollars in Southeast Asia, China has now decided that its vaunted economic power, which has bought it significant influence with regional governments, is not enough. Beijing now wants to be loved, too. In this brave new world of Chinese diplomacy, language and culture – and, yes, pop songs – are playing a major role in Beijing’s quest to be understood and, if all goes well, win the affection of Southeast Asia’s 600m people.”

The effort extends across the globe, with new Confucius Institutes opened this year in Professor Shambaugh’s George Washington University, the University of Namibia, and many more.

This article draws from Brunswick’s review of China’s recent leadership transition. The full report can be found at www.brunswickgroup.com

St. John Moore is a Partner in Brunswick’s Beijing office. He provides counsel to Chinese and foreign companies on cross-border M&A, public affairs engagement, crisis management and corporate reputation.

Ilse Schache is an Associate Partner in Brunswick’s Shanghai office. She specializes in financial and public affairs communications to support cross-border investment and M&A.