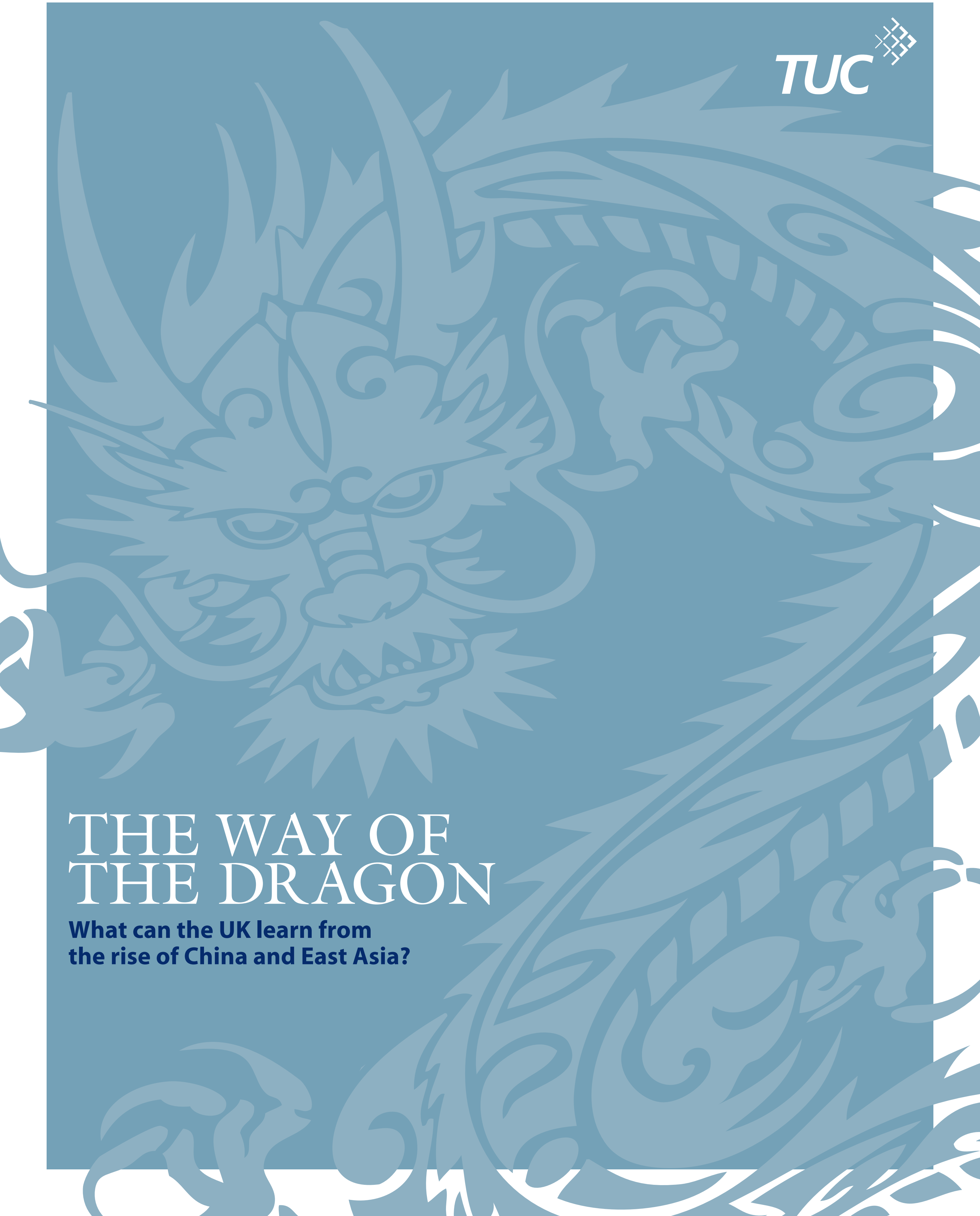

TUC

THE WAY OF THE DRAGON

What can the UK learn from the rise of China and East Asia?

Contents

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Introduction

Industrial policy is back on the agenda.

When the coalition government took office, the phrase "industrial policy" was unmentionable, dismissed by economic neo-liberals as akin to "picking winners" and the "failed" interventionism of the 1970s. To be fair, this attitude had also existed throughout most of the period of Labour Government between 1997 and 2010. Yet today, the Business Secretary, Vince Cable, and his Labour Shadow, Chuka Umunna, both make the case for a strategic, targeted government role in industry.

"The growth of East Asia, in particular, is truly spectacular. The economy of Asia (excluding Japan) increased twelvefold between 1950 and 1998."

The dialogue has changed because, following the financial crisis, there is a consensus across the political spectrum that the UK economy, pre-2008, was unbalanced. The focus on financial services was excessive and not enough attention was given to the importance of manufacturing. To bring about a rebalanced economy, the role of government in promoting strategic sectors is now widely considered to be necessary.

The spectacular growth of the so-called BRIC economies (Brazil, Russia, India and China), and China's state investment model in particular, has led some to question whether the market economy, left to its own devices, can really deliver economic success.

This feels like a very recent debate but industrial policy has been debated for decades, centuries even. What's more, those countries urging neo-liberal solutions on the developing world now are the very same countries that took full advantage of industrial policies throughout their own economic histories.

The growth of East Asia, in particular, is truly spectacular. The economy of Asia (excluding Japan) increased twelvefold between 1950 and 1998; the economies of the US and Western Europe both grew by five times during the same period. If those figures included the fifteen years since 1998, the differential would be even higher.

So what happened, first in East Asia, and then in China? What is happening now? And what does this mean for the West in general, and the UK in particular?

This report looks at how industrial policy in China and East Asia has supported economic growth, and at China's entry into the world economy and its spectacular industrial development. It then focuses on China, South Korea and Singapore as they are today. The report looks beyond the stereotypes to ask:

- What is happening in the economies of East Asia today?
- Can the UK compete with them and, if so, how?
- What effect does East Asian culture have?
- Are there lessons that we could learn from them?

The TUC is not claiming that these economies provide a template we could or would want to import wholesale. There is much wrong with the economies of South and East Asia and, in particular, we draw attention in this report to the poor record they have on workers' fundamental rights and trade union freedoms. This is not about cultural differences, as some regimes in the region would argue for their own self-interest – but about the core ILO conventions that set down universal human rights applicable everywhere. And each economy will have its own drawbacks and shortcomings. The Chinese freely admit that they need to expand their social protection system, not least to discourage a high rate of household saving, for example.

Yet economic power is moving east and, if the UK wishes to enjoy continued growth and prosperity, our interaction with China and East Asia cannot be ignored.

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Key facts and figures

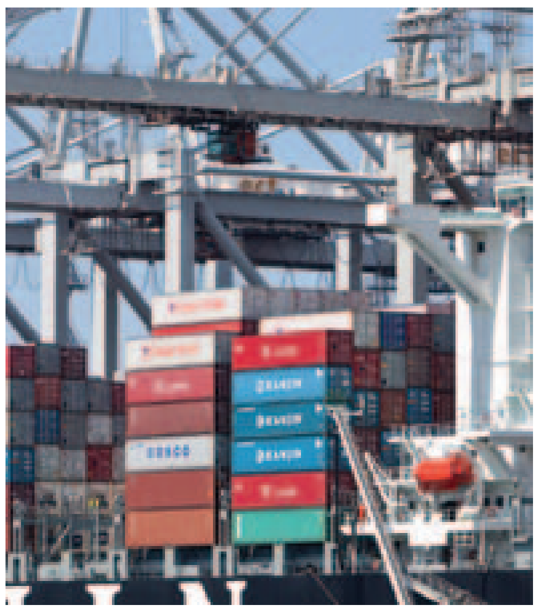
China and East Asia

- South Korea spends five times as much on research and development as most European countries. In China, Huawei invested $3.75bn in R&D in 2011.
- China will replace the US to become the world's largest economy by 2016.
- The first decade of this millennium has delivered 10 per cent GDP growth per year in China.
- State-Owned Enterprises (SOEs) account for about 25 per cent of China's GDP.
- Guangqi Honda Automobile Company (half owned by the state) produces 470,000 cars per year and employs more than 80,000 workers.
- From 2007 to 2013, Singapore's GDP growth averaged 5.4 per cent.
- Samsung is the largest 'chaebol' (benefiting from guaranteed loans and government protection) in Korea; it is also the largest electronics company in the world.
- In South Korea, all companies employing more than 30 people are required to establish works councils.

The challenge for the UK

- How can the UK compete with East Asian levels of research and development?
- How can the UK compete with a country the size of China?
- How can we maximise export opportunities to growing Asian markets?

"South Korea spends five times as much on research and development as most European countries."



Post-war industrial policy in East Asia

The term 'industrial policy' is used by economists to describe interventions, usually at a government level, to encourage, support or develop certain industrial outcomes which the free market, left to its own devices, would not necessarily deliver.

The post-war growth of Japan and the so-called Four Little Dragons (Singapore, South Korea, Taiwan and Hong Kong).was based on determined government action to develop their economies. When China opened its economy after 1978, it based its development on the lessons of the five East Asian countries that had preceded it.

Japan

In 1958, the Japanese car company, Toyota, tried to export to the United States for the first time. This attempt failed, despite heavy government backing. Yet Japan continued to protect its motor industry from open competition, in an ongoing, ultimately successful effort to promote its growth. As Ha-Joon Chang, author of *Bad Samaritans: the Guilty Secret of Rich Nations and the Threat to Global Prosperity*, reminds us, "had the Japanese government followed the free trade economists back in the early 1960s... Toyota today would, at best, be a junior partner to some Western car manufacturer, or worse, have been wiped out. The same would have been true for the entire Japanese economy."

Japan's not-so-secret weapon was MITI, the Ministry of International Trade and Industry, which was established in 1949. One of MITI's major objectives was to strengthen the country's industrial base. Its close relationship with industry allowed trade policy to support its efforts to strengthen Japanese manufacturing.

The Japanese government also:

- subsidised key sectors through 'directed credit programmes'
- heavily regulated foreign investment by transnational corporations
- regulated the inflow of technologies
- encouraged life-long employment through profit sharing.

"The post-war growth of Japan and the so-called Four Little Dragons (Singapore, South Korea, Taiwan and Hong Kong). was based on determined government action to develop their economies."

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Singapore

A former British colony, Singapore has experienced a dramatic rise in its economic fortunes since its separation from Malaysia in 1965. Its strategic location has given it an importance disproportionate to its size (it has a population of 5.2 million and a workforce of 3.2 million). Singapore began by exporting labour intensive manufactured goods to world markets, followed by a move up the technology and value added ladder. This development was largely state directed, but was carried out with free trade and capital flows.

In the late 1970s, fearing the export of Chinese industrial products, Singapore pushed the development of higher technology by means of substantial wage rises.

Singapore differs from other Asian tigers in three main respects:

- It relies heavily on state promoted immigration.
- It continues to be dominated by multinationals and government linked corporations in sectors of the economy that, in other countries, have strong private sector participation.
- Its economy is less integrated into the economies of other Southeast Asian countries.

Taiwan

Taiwan had been a Japanese colony for half a century before 1945 and, as a result had traded almost exclusively with Japan and its other colonies, Korea and Manchuria. After the end of the Second World War, Taiwan re-orientated its trade towards China, but this phase of its history was short-lived: after the Communist victory on the Chinese mainland in 1949, this trade was cut off.

The Kuomintang (Nationalist Party) leaders, who arrived in Taiwan from China in 1949, began trying to increase production to meet local demand. However, as Taiwan began trying to boost its manufacturing capability, it was flooded with cheap manufactured goods from Japan. Import restrictions, to protect Taiwan's fledgling industries, were put in place by the Kuomintang leaders.

During the 1950s and '60s, the Taiwanese government played a very direct role in managing the private sector. It provided basic commodities for private enterprises, used tax incentives and proprietary loans and assisted in technology transfer.

The industrial transformation that had taken Western nations and Japan a century, perhaps longer, was completed in Taiwan in essentially four decades. During this time, the average per capita income rose from less than US$100 to more than $7,500. At the end of this four-decade process, Taiwan's infrastructure was in the range of that of modern Western societies.

South Korea

Like Taiwan, South Korea's development took place in the shadow of its existence as a Japanese colony and the devastation of the Korean War.

Korea's understanding of Japan has been a major factor in its development. South Korea has detailed knowledge of Japan's government, business, technology, and even language. However, its economy being smaller than that of Japan, South Korea could not rely as much on its domestic market and became far more dependent on exports. It tried to upgrade technology, remaining internationally competitive whilst raising wages.

South Korea's electronic and machinery industries often began as assembly plants for parts produced in Japan, so when shipbuilding began, the entire engines came from Japan. However, as quickly as possible, Koreans learned to make more of the parts for the products they assembled.

South Korea was unrivalled in the speed with which it went from having almost no industrial technology to becoming one of the world's most industrialised nations.

Ha-Joon Chang comments: "The Korean economic miracle was the result of a clever and pragmatic mixture of market incentives and state direction."

Hong Kong

For 135 years, Hong Kong was a British colony, and used as a platform for Britain's trading and financial interests in Asia. The economy was dominated by shipping, banking and merchant companies.

After the Communists took control of China in 1949, Hong Kong saw an influx of some 1 to 2 million refugees from China, including entrepreneurs, professionals and intellectuals, who helped to transform Hong Kong into a city more like the one we know today.

The industrialisation of Hong Kong was distinct from that of the other Asian tigers:

- First, it was and remains dominated by small and medium sized enterprises (SMEs). By the end of 2002, SMEs still amounted to 98 per cent of enterprises, providing 60 per cent of local employment.
- Second, at least in comparison to other tiger economies, Hong Kong was the one that followed a more laissez faire approach to industrialisation. Until the late 1960s, the government did not engage in industrial planning.

Hong Kong government officials did, however, use public funds to develop many areas as industrial estates and then made the land available to manufacturing firms.

In the 1970s and 1980s, Hong Kong firms diversified into higher grade electronic products and improved the quality of their trade and international financial activities.

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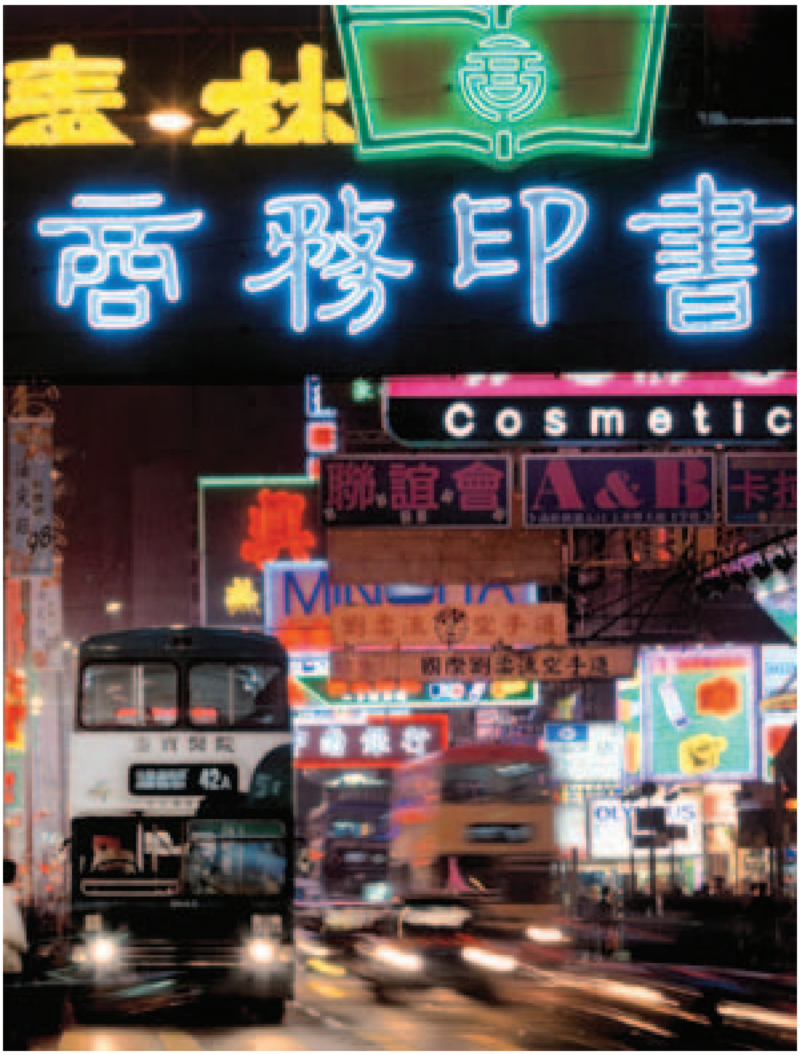

China

The Chinese economy is the fastest growing in the world. According to the OECD in November 2012, China will replace the US to become the world’s largest economy by 2016.

1978 was a crucial year for China. During the years from 1949 to 1976, Communist China had been led by Mao Zedong. But in 1978, a new leader took power in China who understood the interaction that was needed between the market and the state if China was to enjoy prosperity. That leader was Deng Xiaoping.

In 1979, after studying the growth of countries in both Europe and Asia, China established what would later become the Shenzhen Special Economic Zone (SEZ). The following year, the first case of foreign investment was approved in Guangdong province. With this small decision, a precedent was set for the future.

Chinese officials were especially impressed with how MITI, Japan’s Ministry of International Trade and Industry, analysed what was needed in each sector for Japanese firms to have the resources and technology to compete in world markets – and then let the companies themselves find the way to create the products which would bring rapid growth for the country as a whole. China could see the value, but also the limits, of planning.

In October 1984, Deng Xiaoping was more popular than ever. Taking advantage of this situation, he pressed ahead with the most comprehensive statement of economic reform to date, 'socialism with Chinese characteristics'. Deng travelled the country agitating for further market opening and faster growth, and China enjoyed some of the fastest growth rates the world has known. From 1992 to 1999 China, with the world's largest population, grew by more than ten per cent per year.

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What we can learn from China and East Asia today

South Korea

Economic overview

South Korea today is a high-tech, high-growth and high-income economy. Its development, over the past 30 years, has been based on manufacturing; the sector accounts for 25 per cent of Korea's GDP, dominated by electronics, shipping and automotives.

However, as Korea moves from being a developing to a developed country, it now needs to diversify or 'rewire' its economy. So the Government of President Park is seeking to develop Korean expertise in new industrial sectors, including nanotechnology and biotechnology, as well as the creative sector.

South Korea spends five times as much on research and development as most European nations and has the world's fastest internet bandwidth. These are incredible statistics for such a newly industrialized country.

Government drives productivity in other ways too. The Korea Labour Institute (KLI), established in the Prime Minister's office, is a think tank that researches developments in human resources, industrial relations and workplace innovation, to support Korea's growth. The Korea Institute for Industrial Economics and Trade (KIET), also based in the Prime Minister's office, advises the government on regional development and the nurturing of small and venture businesses, and provides private companies with effective strategies to enhance competitiveness.

Chaebols

Samsung is an example of a chaebol, a type of conglomerate that was guaranteed bank loans and enjoyed wider government protection. Other chaebols include LV and Hyundai. Chaebols account for about 80 per cent of Korea's GDP and were central to its industrial development.

Green growth

Korea is Asia's leader on the issue of "green growth". Korea is a world leader in smart grid technology and is also strong in offshore wind generating technology. As part of the government's push to identify growth sectors of the economy, it has offered subsidies to companies to "go green".

The challenge of China

The rise of China, of course, overshadows everything in Asia. China is both an opportunity and a threat to Korea. Chinese companies can beat most chaebols on input costs, such as labour and capital. This means that chaebols spend enormously on R&D, in order to try to stay ahead.

"Korea is Asia's leader on the issue of "green growth". Korea is a world leader in smart grid technology and is also strong in offshore wind generating technology."

The opportunity for Korea, as for the UK, is in the size of China's market. Chaebols have many strengths that allow them a foothold in the Chinese economy. Korean managers and workers, like others from East Asia, also have a cultural understanding of China that Europeans could not match. A downside, however, is that some chaebols are expanding their workforce in China at the expense of their workforce in Korea.

The role of trade unions

Korean trade unions have grown stronger over the last thirty years, and are organised in two main confederations. Trade union recognition is widespread in large manufacturers but is much lower in SMEs. Unions are also represented on a trilateral council to set the increase in the minimum wage, a situation not unlike the UK's Low Pay Commission, but there are serious concerns about Korea's commitment to the international labour standards of the ILO (only four of the eight core conventions have been ratified). At present, global unions are concerned that progress towards compliance with such standards is going backwards, and strikes and demonstrations against repression and harassment of trade unions are commonplace.

Demography

Korea's biggest medium to long-term problem is its demographic timebomb. While older people are living longer, the birth rate has fallen. Ambitious people want a college education, but the country's industry needs more blue-collar workers.

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> "Singapore's strategy is to position itself as either cheaper or better than its competitor, depending on where its comparative advantage lies."

What does Korea do well?

Korea is clearly impressive for its levels of R&D and countries in the West, including the UK, should take note. This is what the competition is doing and if the UK is serious about rebalancing its economy, it needs the same sense of urgency.

The Korean government has targeted industrial sectors, from the chaebols at the start of its development to its identification of the importance of biotech and nanotech, and its emphasis on green tech companies now. This demonstrates, once again, its belief in the active role of government.

Other strengths include:

- export awareness, with even SMEs seeking to export
- Koreans' ability with foreign languages, especially Mandarin and Japanese
- a taste for benchmarking against the performance of other countries
- and strong dialogue between companies and government.

What challenges does Korea face?

An ageing society is a threat to Korea's growth. Another is that Korea has put a lot of its eggs in few baskets. Growing new companies in diverse industrial sectors is a major challenge. Chaebols also need to do more to protect and nurture their SME suppliers.

Singapore

Economic overview

As we have seen, Singapore is a small country. Manufacturing accounts for about 25 per cent of its GDP and about 20 per cent of its employment. Major industries include electronics, biotechnology, life sciences, engineering and the chemical sector. Singapore is the world's number one constructor of oil rigs. With few natural resources, exports are critical to Singapore's economic success and the education and skills of its workforce are central to its strategy. In recent years, Singapore has had one of the highest rates of GDP per capita in the world. From 2007 to 2013, its GDP growth averaged 5.4 per cent.

Relationships with other countries are critical to Singapore's success.

Singapore's competitive strategy

Singapore's strategy is to position itself as either cheaper or better than its competitor, depending on where its comparative advantage lies.

Because of its size, Singapore was not able to impose the conditions on foreign companies operating within its borders that other East Asian economies introduced during their development phase. Singapore welcomes any company that brings growth and good jobs.

Singapore puts great emphasis on industrial clusters. Lim Swee Say, Secretary General of Singapore's National Trade Union Congress, told this report of an eco-system, bringing suppliers, customers and co-partners together. When Singapore decided to introduce a focus on life sciences, it introduced courses in its polytechnics, but it also sent students to the best universities in the world, to study for Masters degrees and doctorates. It hopes that these students will return to work for Singapore-based companies.

Competing with China

China is both a threat and an opportunity, depending on the economic position that a country finds itself in. Lim told us: "I would say that for any economy not able to compete with China, China will be a big threat. Probably the biggest threat. But for any economy that's able to compete with China, then China will be probably one of the biggest opportunities."

The 'greening' of Singapore

Singapore, like South Korea and China, is trying both to develop a sustainable economy and to become a sustainable society. Singapore is the global leader in water recycling. Eventually every drop of water will be used twice: once by people and a second time for non-potable consumption.

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"Singapore, like South Korea and China, is trying both to develop a sustainable economy and to become a sustainable society."

The culture of Singapore

The founding father of Singapore, Lee Kuan Yew, described himself as a socialist, but he tried to find a balance between the needs of businesses and those of working people. Singapore sees itself as doing more for business than a capitalist country and more for the people than a socialist country.

Tripartism is central to Singapore's philosophy. The concept of 'win-wins', those wins being economic growth (for the government), business expansion (for companies) and jobs, with better salaries and a better work-life balance (for the labour movement) is important. Employment law in Singapore offers protection for workers, but trade unionists enjoy additional protection. This means that everyone has minimum rights at work, whilst an incentive remains for workers to join trade unions.

What does Singapore do well?

Singapore's belief in clusters and its stress on the educational value of every student works to the country's advantage and it is perhaps this aspect of Singapore's economic strategy, more than any other, that has resonance for the West.

The role of trade unions is very specific to Singapore. Trade unions have a key role in economic and industrial decision-making, are well-resourced and have many members. They are able to exert influence through a seat at the table, although they do not seek the independence of trade unions in Europe and are closely linked to the governing party, with the General Secretary holding a ministerial position in the Prime Minister's office.

China

Economic overview

China is the world's largest country and the world's second largest economy. China's development has been distinctly uneven. If the most successful part of China's development has taken place in the east and south of the country, a great gap exists between those areas and many western and rural parts of China.

Planning

Like much else in China, the country's GDP growth has been planned, as far as is practically possible. In 2000, China set out to quadruple its GDP over a 20-year period. The first decade of this millennium has delivered 10 per cent GDP growth per year, but this is expected to fall to about seven per cent per annum for the second decade.

Industry

The success of Shenzhen, Guangzhou and other parts of China has rested on the development of industry. But China's industrial profile is changing. As is normal in countries that become richer, China is seeking to move up the value chain.

Shenzhen and Guangzhou are home to some of the world's most important companies. For example, Huawei, based in Shenzhen, is the largest telecommunications equipment company in the world. It employs 140,000 people and an incredible 46 per cent of them work in research and development. In October 2013, Huawei announced plans to open a £125m R&D centre in the UK.

Tencent Inc. is China's largest internet service portal. Founded in 1998, it is now the third-largest internet company in the world, behind Google and Amazon.

In its Twelfth Five Year Plan, China is trying to:

- diversify its industry away from heavy manufacturing into more specialist industry further up the value chain
- develop a larger services sector
- reduce income inequality.

Green China?

The Twelfth Five Year Plan seeks to develop seven priority industries, with the aim of increasing the GDP contributions of each from two per cent to eight per cent by 2015. Four of these are consistent with China's ambition to move up the value chain: biotechnology, new materials, new IT, and high-end manufacturing.

The other three align with the theme of sustainable growth: energy savings and environmental protection, new energy, and clean energy vehicles.

Is this realistic? Many things are written about China's resource intensive industrial sectors that contradict the idea of the country "going green". For example, about ninety per cent of China's energy is produced using fossil fuels.

In the long term, China needs to move towards a greener industrial model.

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> "Trade unions are integrated at the highest levels of the Chinese political system, but they are top-down organisations, with little autonomy even at local level."

According to the law, at the enterprise level, workers' congresses allow the workforce to participate in the management of the company, electing workers representatives to join the Board of Directors and Board of Supervisors, although these representatives are often related to managers of the company.

Employment

China under communism had been famous for the "iron rice bowl", a system designed to guarantee jobs and minimum living standards for Chinese citizens. Unemployment is a key Chinese concern: fear of lower Chinese economic growth in years to come raises the spectre of inflation and unemployment.

How will China meet this challenge? By seeking an industrial policy that is employment-intensive, specialising in those future industrial sectors that both move the country up the value chain and provide quality jobs.

Trade unions in China

There is no independent trade union representation in China. The All China Federation of Trade Unions (ACFTU) is part of the Chinese state, and it has traditionally been part of the ACFTU's function to minimise industrial disruption through strikes, and secure support among workers for the policies of the governing Communist Party. Trade unions are integrated at the highest levels of the Chinese political system, but they are top-down organisations, with little autonomy even at local level.

The role of the state

When one thinks of China, three main differences with countries such as the UK come to mind:

- the fact that China is a socialist economy
- China's size
- the fact that it is a one-party state.

State-Owned Enterprises (SOEs)

State-Owned Enterprises (SOEs) account for about 25 per cent of China's GDP. Their share of economic activity has steadily declined over the last two decades, but they still dominate a number of important sectors, such as energy, rail, basic materials, machinery, telecoms airlines and finance. There are 100,000 registered SEOs on the Chinese mainland.

The scale of China

Martin Jacques, author of *When China Rules The World*, describes China as a "civilisation state": as a political and geographical entity, it is perhaps 100 or 150 years old; as a civilisation, however, it is 2,000, 3,000 or even 5,000 years old.

This helps us to understand the multitude of SOEs. The Asian financial crisis of 1997–98 encouraged China to pursue a more decentralised, competitive enterprise strategy in the years that followed. It is for this reason that so many SOEs exist in the same industrial sector.

Politics

China's one-party state clearly allows government to take decisions, some of them unpopular, in a way that Western governments could not. Evidently, if government action is the winner in this scenario, democracy is the loser. However, the Chinese Government is more sensitive to popular concerns (eg about corruption) than this implies, and is very concerned about the possibility of upheaval if it does not take those concerns into account. Much power in China is also devolved, which means Beijing does not always have the free hand that some believe.

Some argue that there is little political upheaval in China because its people focus more on transparency and accountability than on whether or not they elect their leaders. There is also a strong meritocracy, with leaders spending years running large provinces before reaching high office.

Is the rise of China an opportunity or a threat to the UK?

There is a point of view which says that a strong China is a threat to countries in the rest of the world.

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The UK population employed in manufacturing is small relative to the global workforce. In areas where the UK has invested in capturing innovation, there was some confidence among interviewees for this report, with the automotive industry quoted as an example. Optimism about the UK's potential in manufacturing was evident, so long as we continue to invest in skills and innovation and keep ahead of the game. For as long as the UK is producing goods that China cannot or is not producing itself, the rise of the Chinese market is clearly an opportunity.

Culture

Economic competitiveness is not the only factor to consider. Culture is also important. The UK is recognised as a trading nation that is culturally comfortable with globalisation.

There are, however, things it can do to strengthen this advantage still further. Encouraging Chinese students to come to the UK, and promoting the learning of Mandarin are key areas. Interviewees in South Korea highlighted Koreans' ability to learn foreign languages, especially Mandarin and Japanese, as a major advantage for their country, in terms of its export potential.

What is the role of the Chinese state in modern industry and economics?

China allows for an interesting discussion about the role and limits of the state in a market economy.

In the UK, the post-war economic consensus accepted that there was a role for the state, often in the ownership of public utilities, but also in deciding economic priorities, and a role for the market as wealth creator. The neo-liberal economic revolution of the late 1970s broke that consensus and in the years since, the Western European hegemony has been suspicious of the state and its levels of competence.

At just about the same time, in China, Deng Xiaoping was introducing the market into the Chinese economy. Yet Deng was no capitalist and a large swathe of Chinese companies remain in public hands. China believes strongly in the role of the state in planning economic activity.

What does the rise of China mean for the UK's relationship with Europe?

A British exit from Europe would weaken our influence in this growing part of the world economy. In the TUC's view, the UK needs to export to Europe and to China. These needs are not mutually exclusive. Moreover, UK membership of the EU will increase our influence in some important issues such as international trade rules.

Can the state have a strategic approach to the private sector?

The TUC visited Guangqi Honda Automobile Company in preparation for this report. The company's two factories produce 470,000 cars per year and the company employs more than 80,000 workers.

What is particularly interesting to a British observer is the hybrid public-private ownership of the company. The Guangzhou Auto Group is state-owned and has a 50 per cent stake in Guangqi Honda. Both sides of this arrangement have strong reasons to participate in it. The Guangzhou Auto Group want the know-how that Honda brings. Honda, for its part, wants access to the Chinese market.

Can UK business take advantage of Chinese procurement policy?

China needs outside help to develop some sectors and it is not shy about making full use of foreign companies and their knowledge where necessary. Five Year Plans go into great detail. British businesses that seek to export to China need, as a first step, only to look at the plans to discover if China wishes to develop in a sector that is, or could be, covered by their business. There are major business opportunities in China that are advertised years in advance and for which UK businesses could plan.

> "To take full advantage of the opportunity of China, the UK must connect its economic, industrial and employment policy into an overarching strategy."

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Common themes

Relations with China

The economic and industrial trajectories of the Dragon economies are increasingly defined today by their relationships with China. Singapore and South Korea's efforts focus on how to find niche markets and/or how to compete on the basis of higher quality. In some cases, Singapore seeks to be "cheaper", but it increasingly seeks to be "better". Both South Korea and Singapore see China as an opportunity if they can get their competitive strategy right. From China's perspective, how to reduce inequality between richer and poorer provinces and, increasingly, how to "green" its industries are the biggest challenges that it faces.

Trade

Linked to the relationship between China and the Dragons are issues of productivity and trade. Singapore seeks higher productivity to drive future GDP growth. Korea's trade agreement with the EU is important to its future growth.

Active government

What unites Singapore, South Korea and China is their collective belief in the power of active government. There is an understanding of the role of the government and that of the state in delivering economic and industrial change. There is also recognition of the limits of government and the need for market dynamism. China provides an interesting opportunity to explore what should be an appropriate relationship between both in a modern national economy.

Employment

Employment is considered to be an important aim of economic policy in China; it is not assumed that the market will deliver quality jobs. South Korea struggles with a mismatch between the employment needs of its major companies and the educational aspirations of its citizens. For a city-state like Singapore, with its very small population, employment policies are often linked to migration issues.

Global blocs

The size of the global economy is leading to the development of a few world centres of power. The US remains one of them. China is fast becoming a second. No individual European country can compete with these vast nations for influence on the world stage, making it essential that the UK utilises its membership of the European Union to shape the future of the global economy.

Industrial strategy and government intervention: how the UK can compete with East Asia

China: opportunity or threat?

UK exports to China will depend on specialising in those products and services that the Chinese middle class wish to buy, and on exploiting undeveloped areas of industrial growth.

In an interview for this report Hu Angang, Director of Tsinghua University's Centre for Chinese Studies and advisor to the Chinese Government, highlighted the importance of trade. The UK needs to take advantage of its status as a trading nation.

An economic, industrial and employment strategy for the UK

To take full advantage of the opportunity of China, the UK must connect its economic, industrial and employment policy into an overarching strategy.

There need to be targets for employment, and industrial rebalancing, as well as inflation. And this report also calls for the Heseltine Review recommendation of an overarching strategy for wealth creation to be implemented.

This report argues that, where possible, a modern industrial strategy should be employment specific, targeting both industries which could be export-rich for the UK, but also industries that deliver high quality, well-paid jobs for working people.

Broadening our understanding of strategic industries

We need to identify strategic sectors of the future. In *The Race to the Top: A Review of Government's Science and Innovation Policies*, published in 2007, the former Science Minister, Lord Sainsbury, wrote:

"It is not possible to predict where the new jobs will emerge in the future but it is possible to see many opportunities for UK companies to create new products and services, and new industries in areas as diverse as aerospace, pharmaceuticals, biotechnology, regenerative medicine, telemedicine, nanotechnology, the space industry, intelligent transport systems, new sources of energy, creative industries, computer games, the instrumentation sector, business and financial services, computer services and education."

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Manufacturing remains vital to the UK's future as a trading nation. For example, according to the Society of Motor Manufacturers and Traders (SMMT), over one million motor vehicles and two million engines are produced in the UK every year. We have the second largest aerospace industry in the world, generating almost £12bn in revenues.

But as Lord Sainsbury notes, strategic sectors go much wider than manufacturing, vital though that is.

One such job-rich sector is the creative industries sector, which directly or indirectly employed 1.5 million people in December 2011. Another is pharmaceuticals, which employ around 73,000 people directly in the UK while also generating thousands of jobs in related industries. Two of the world's biggest pharmaceuticals companies, GlaxoSmithKlein and AstraZeneca, are headquartered here.

We further believe that the public sector should recognise its major role in supporting many modern sectors. In the case of the creative and pharmaceuticals sectors, it does so most obviously through the BBC and through the National Health Service. BBC Worldwide is the largest television programme distributor in the world outside the major US studios. NHS trusts are often the largest employers in their communities, creating significant employment opportunities for local workers.

Industrial eco-systems

There are other, specific factors that should be targeted by UK policy makers. These include the need for eco-systems in particular industries, as described in the Singapore experience of Lim Swee Say. Such eco-systems bring suppliers, customers and co-partners together. For example, 'Tech City' in East London is attracting businesses such as Vodafone, Google, Facebook and Intel.

Strategic sectors rather than strategic companies

In developing the chaebols, Korea supported at least two companies in each sector, as a back-up in case one got into problems. In some cases, one has grown markedly more than the other. Samsung and LG are two chaebols in the electronics sector, but whilst LG is huge, it is about half the size of Samsung in terms of revenues.

Governments should develop strategic industrial sectors, but should resist identifying strategic companies, or "national champions".

Korea expected its chaebols to be world leaders. Samsung is the largest chaebol in Korea; it is also the largest electronics company in the world. British companies need to be similarly ambitious and government needs to support them.

The role of the state in the nation's economy

Since the neo-liberal revolution of the late 1970s, the role of the state has been thought of in largely negative terms. There is a role for the state in correcting market failures, but this role is passive, rather than active. The TUC seeks, however, a more positive role for the state.

The UK and, indeed, the rest of Europe faces a serious deficit in its research and development performance. As we have seen, South Korea spends five times as much on research and development as most European countries. UK R&D spending must increase steadily over time and, again, government should have a target for this.

There are other, obvious strategic steps that the government can take to support the growth of industry. For example, the TUC supports the creation of a State Investment Bank. The UK is the only one of the G7 economies not to have a publically owned credit provider that supports the real economy.

> "A lack of Mandarin teaching will clearly put the UK at a cultural disadvantage in dealing with China in future years and this should be addressed now."

Europe, the US and China have dominated global new investment in renewable energy between 2004 and 2011, with Germany, inevitably, leading this investment in Europe. The China Development Bank invested $47bn after 2010 in solar photo-voltaic manufacturers. This contrasts with the UK's stop-start approach to green initiatives: the current government's 2010 pledge to be the "greenest government ever" has, in fact, seen a cut in spending, leading to the scaling back of green technologies, yet long-term investment in sustainable industries would surely set the UK up for the future.

Culture

As well as hard economic messages, it is also important to think about soft influence.

Students

Deng Xiaoping was keen for Chinese students to go to universities abroad, confident that educational and diplomatic exchanges would be beneficial overall to China's development. Student exchanges are good for both countries involved. In June 2013, the British Council launched a campaign, 'Generation UK', which aims for at least 15,000 students to study or gain work experience in China by 2015.

Language

Another, obvious soft influence is language. A YouGov poll for the British Council in September 2012 found that only three per cent of primary and nine per cent of secondary schools offered Mandarin. Numbers are actually falling; in 2012, 2541 students took a GCSE in Mandarin, compared to 3,650 in 2010. More than 72,600 students took a GCSE in Spanish in 2011.

A lack of Mandarin teaching will clearly put the UK at a cultural disadvantage in dealing with China in future years and this should be addressed now.

Europe

The UK's future in Europe clearly divides opinion, yet it is clear that global economic power is increasingly concentrated in regional blocs. Opponents of the UK's place in Europe must develop a compelling vision for how the UK can punch its weight in the world outside of one of the regional economic power blocs.

The role of trade unions

The TUC's vision of a future economic, industrial and employment strategy would have an important role for wider stakeholders, including trade unions.

Independent trade unions are fundamental to Western industrial relations, including those in the UK. We hope that, one day, China also embraces free trade unionism.

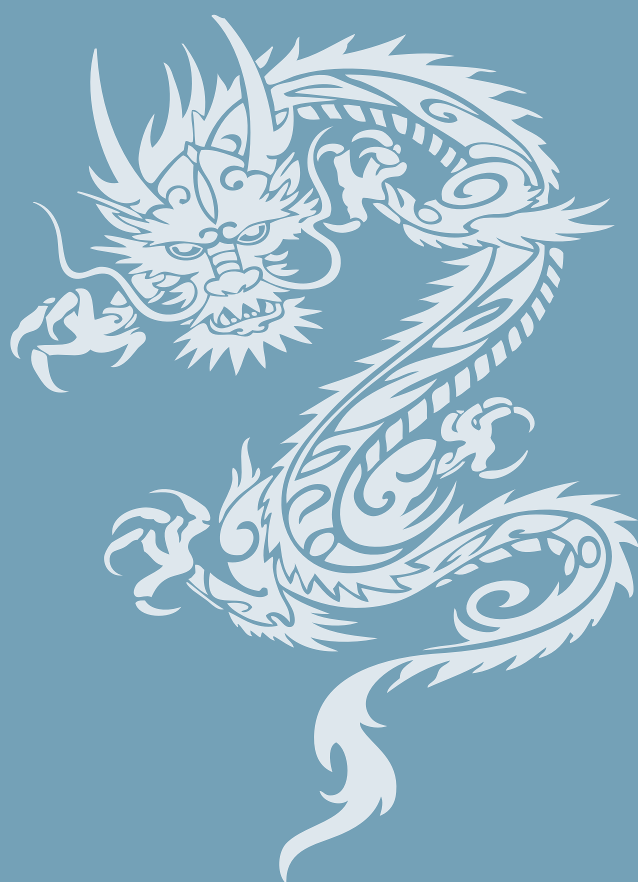
In South Korea, trade union recognition is not compulsory, but all companies employing more than 30 people are required to establish works councils. This means that even anti-union Samsung has been required to establish such a works council. In the TUC's view, works councils could have a place alongside more traditional industrial relations.

Finally, South Korea faces growing inequality between the earnings of those working for chaebols and other workers, including suppliers to chaebols. Korean trade unions sought industry-level bargaining to overcome this problem. The TUC continues to believe that industry level bargaining could make an important contribution to the wage gap facing the UK.

Recommendations

- A major study of where the UK could export to China should be undertaken. This should focus on identifying growth areas of the Chinese economy whose needs Chinese firms themselves cannot meet and where UK companies have the skills, technology and experience to meet this gap in the market.
- The UK needs an economic strategy that addresses the need to build modern, sustainable export industries and the need to create quality jobs. There needs to be an overarching strategy for wealth creation, with concrete commitments.
- The budget of the Technology Strategy Board (TSB) must be greatly expanded in an attempt to raise the UK's investment in research and development.
- The UK should create a State Investment Bank, which would issue bonds, guaranteed by the government, and offer long-term finance to infrastructure projects and SMEs. The mandate of such a bank could explicitly encourage both sectoral and regional rebalancing.
- In addition, in exceptional cases, the government should be prepared to take a strategic stake in a company where it is in the long-term interests of the national economy. An example of when this would be appropriate includes when a company in a strategic, future industry, such as environmental technology, may need an investment partner before committing to establish itself in the UK.
- Government should recommit to the targets set out in the Climate Change Act 2008. Consideration must be given to how to shift the current industrial model to a green industrial model, and to identifying current and future strategic green sectors.
- Student fees for overseas students should be re-examined, with the view to make the UK one of the best destinations in the world for attracting Chinese students. Today's students are tomorrow's cultural and ambassadorial links.
- A sustained effort must be made to increase the number of people studying foreign languages in UK schools and universities. As well as traditional modern languages, the teaching of Mandarin in the UK education system must be stepped up.
- Government should strengthen social partnership across UK industry. Employer and workforce organisations should be consulted on the new economic, industrial and employment strategy. Worker representatives must be given legal status in UK boardrooms. Information and Consultation of Employees (ICE) regulations must be re-examined to ensure that they are fit for purpose.
- The government should ensure its immigration system benefits Britain by assisting those who will work hard and contribute to the UK's success, while providing them and the existing workforce with protection against exploitation and undercutting. (It's worth remembering that the migrant workers whose tragic deaths ten years ago in Morecambe Bay led to the creation of the Gangmasters Licensing Authority were Chinese cockle pickers.)
- The UK should work with its partners in the European Union to ensure trade and investment agreements with South and East Asian economies include respect for workers' rights, and encourage the spread of Europe's social model to other economies, as we learn from their example of state intervention in industry.

"The UK should work with its partners in the European Union to ensure trade and investment agreements with South and East Asian economies include respect for workers' rights."



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