

Moving ahead with China: mitmachen

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Former Prime Minister of the French Republic
Chairman of the Senate's Foreign Affairs
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Preface

JEAN-PIERRE RAFFARIN
Former Prime Minister of the French Republic
Chairman of the Senate's Foreign Affairs and Defense Commission

In the course of the past thirty years, China has not only grown. It has changed. The West is welcoming this as a sort of return of the prodigal son, a homecoming to its fold, back to the unchanged system it sees as ideal and therefore eternal.

That conception is misleading on three accounts. First of all, China did not change in order to match the West, but to surpass it once it caught up with it, and thus to recover its millenarian stature as an unrivaled world power. Secondly, it embarked on this venture well before 1979, decisively if awkwardly, and is poised to keep going, well after it outdistances the USA, in forty years' time. Change is a permanent operating mode of its transformation, so this is only a beginning. And lastly because it is no more in thrall to a past to be amended or recovered (depending on the chosen agenda), than to a present of measuring up to the champions of the day: it is already focused on the future with the explicit aim of building a new civilization, replenished at the sources of Sinitude, yet adapted to an increasingly difficult, congested,

competitive world, at a time when our species' survival will be calling for a complete overhaul of the expansionary model that is currently in force.

China's rise, in the midst of today's irreversible globalization process, is producing, like the pull of the moon over a tide, a syzygy effect throughout the world, especially in Europe, where powers that once ruled the world must draw together if they want to weigh in on a scale with the China/America duo-pole and the rising emerging countries.

At this juncture, Europe would be well advised to take stock of the internal evolutions underway in a China which will be increasingly minding its own transformation, and to endeavor to assist it in good faith, by cultivating a persistently synergetic partnership. It is time to let the era of exchanges, which defined the late 20th century, give way to an epoch of earnest, durable, in-depth cooperation. The “win-win” attitude was yesterday's; tomorrow's will be “*To get there, better together.*”

By convening two meetings, one organized at the *Tribunal de Commerce de Paris*, by Mr. Jean-Charles Salmon, and the other in Munich, with the *Vereinigung der Bayerischen Wirtschaft*, the *Fondation Prospective et Innovation* has sought to formulate a number of projections around Europe's critical need to deepen its bountiful relationship with China, calling for an increasingly intimate

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commitment to cultivate mutual interests and a shared global vision, based on a lively, concrete and extensive form of cooperation: that active solidarity which is wonderfully conveyed in the German word *mitmachen*, “making with!”

JEAN-PIERRE RAFFARIN

President of the *Fondation Prospective et Innovation*

“French and Chinese companies: a common path?”

Encounter at the *Tribunal de Commerce de Paris*
12 February 2015

China is no longer a niche

From the outset, China invites one to adopt an intermediary position. That is because, from the Chinese perspective, a truth always supposes its opposite. The path to be taken is then to keep at a distance from both, combining these opposing energies to create a new, appropriate way. That can be baffling to Westerners, who struggle to understand how the world’s biggest polluter can also be leading the path to green growth, or how it can browbeat human rights because it is more mindful of democratic opinion, or how it can be so highly centralized and still unequivocally decentralized, etc.

China is puzzling because its cultural software is basically dissimilar to the West’s. An heir to the Greek *logos*, Western thought sets opposites apart, as theses and antitheses, but demands to conclude, at a third and final point in time, by a resolutory truth. In its turn, Chinese thought combines the opposites, allowing their influences to blend in.

It operates like a valley, with water flowing down from its different slopes and intermingling at the bottom. Western thought, for its part, works like a hilltop, where the water irreversibly divides and spills into different streams. That is clearly a major aspect to consider in any relationship. Westerners are trained to categorize people as trustworthy or untrustworthy, friends or “unfriends” (the basic structuring principle of Facebook), associates or competitors, etc. The Chinese always consider a same person as simultaneously close and dissimilar, friend and detached, associate and rival. Even the most trusting relationship is naturally tempered with a solid dose of skepticism.¹ That does not, in any way, prevent the two partners from placing a premium on what they may perceive, define and formulate as a common good. But both bear in mind that their unity in agreement in no way dissolves the distinct personality of each one. Each keeps an integral part of his or her own separate self essentially intact, undisclosed. As a result, any agreement to be fostered faithfully around that common good must be constantly replenished and

1. Ed: the notion of intimacy is fundamental to Christian thought, since it gives access to God (« *God ... more intimate than the intimacy found in myself* », wrote Saint Augustin), but is foreign to the Chinese Civilization, where it is never possible to avail oneself of a « heart of hearts » which could be deemed as good as gold or as two-faced as a bad penny depending on how one judges that unique personality which might have either a virtuous or a vicious interior essence. Personality for the Chinese is something that is always in a relationship, so it is always composite, responsive to what conditions, surrounds and shapes it. The subject is thus by definition dealing and partaking as best (s)he can with this combination of flows. See François Jullien's work, especially « *De l'intime* », Gallimard, 2012.

rethought in light of an influence that lies beyond the reach of any formal pact, but is no less inherent to each of the partners involved.

One might find this too complicated and try to ignore it, but it so happens that China is the 21st Century's foremost world economy in terms of purchasing power parity. It is an outstanding geopolitical player; it has performed exceptionally and unerringly over the last thirty-year span, tirelessly laboring and steadily saving as it went along.² When negotiating the twinning of Chatellerault (population 32,000) and Shenzhen (population 30,000) in the 1970s, President Monory had a visionary insight into China's future, and proposed that Shenzhen should instead be twinned on a broader scale, with the Department of Vienne (then 380,000 inhabitants, and now 450,000). In the meantime, however, Shenzhen's population has risen to over 7 million, which only goes to show the extent to which growth differentials have worked in the last forty years. China has become an unavoidable destination and efforts must be made to adapt to its ways.

2. Ed: «*Get rich through work and savings*» was the mot d'ordre of François Guizot, Minister to Louis-Philippe. Under his 19th Century watch, France saw the beginnings of a great boom. In the 1960s his maxim was ritually quoted in history courses with a disapproving sneer, meant to elicit (which it did, without fail) unanimous indignation against the villainy of the triumphant bourgeoisie. Pierre Rosanvallon would later create a disturbance among contemporary scholars by arguing (in *Le moment Guizot*, Paris Gallimard, 1984), that Guizot's thought had been central to shaping the principles as yet to be defined of a healthy and fecund democracy. It seems that, from 1979 onwards, the idea has been embraced by the Chinese, and again, sneeringly dismissed by the French!

It is fortunate that France and China have good relationships, and all the more so since the Left, currently in office, has softened its rhetoric on Tibet. That rhetoric had turned into a sort of refrain,³ and become a sure way to irk the Chinese. Here again, Westerners have been slow to grasp the extent to which imperial unity is central to China, anchored as it is in a millenarian culture with bitter memories of dismemberment, and a vision of prosperity that cannot dispense with the idea of a cohesive Chinese space. Westerners envision unity as a means to a project or a project for means (“Unity”, the title of the second volume of the *War Memoirs* of General de Gaulle, comes to mind). Its value is inestimable to the Chinese, however, and inextricably bound to their view of the world: they are stirred by opposing forces which they have a vital urge to harmonize in one dynamic unity. That is something that clearly runs deeper than any geopolitical appreciation or ethno-religious preference. To the Chinese, Gorbachev’s dismemberment of the URSS is the model to be avoided at all costs, and however difficult it is to foretell China’s future, one can be certain it will never go down that route. There is much to be gained from bearing this in mind when taking the actions we deem opportune and useful in relation

3. Ed: The rebukes egged on by high profile left-wing personalities during the Olympic torch relay in Paris on 7 April 2008 were so wounding to the Chinese that on his State visit to France, President Xi Jinping entered France through Lyon. The incident has not been forgotten.

to options we defend on an entire range of issues, among which Tibet is the most emblematic. In any case, the rapport is currently good, as recently verified by the reciprocal hosting of two presidential visits, and the French Prime Minister's follow-up trip to China.

China's government is extremely powerful and has shown an exceptional capacity for governance. It has enjoyed a continuity that enables it to work for long term results, while still periodically adjusting its priorities. In consequence, a sensible hardening of the system is underway. That is intriguing to observers with preconceived notions because it is occurring under an anti-corruption banner and visibly in deference to public opinion – in a spirit that is evidently quite democratic. Such blending of opposites is mind-boggling to a Western critic, but follows a coherence that is perfectly intelligible and visibly satisfactory from the Chinese point of view. Indirectly but clearly, the Party's purging of its henchmen is also a signal to trade partners who are used to dealing with venal local potentates; it invites them to revise their understanding of a country that is now embarking on a new path.

It is very important to understand that China does not intend to pause in the wake of this thirty-year growth spurt. Neither does it mean to stay on the same path, as if it had finally found its way in the footsteps of developed capitalist countries.

It will continue to push for transformation. That means it will go on changing even as it aligns itself with today's most travelled track, which was laid down long ago by the West. And in due time, it will single itself out from that track and the West will in turn follow in its wake. The effects of its fight against corruption are structuring the strongest concentration of power since the Mao era, but this is just a tip of the iceberg: a wide-ranging, in depth, silent transformation is underway, and there's nothing heedless about it. Its blueprint remains inscrutable, but its compass points sharply to China's grandeur.

One is therefore advised to mind the signals presented in the strengthening of the state of law and citizen protections that we are seeing (originally in the form of harsher punishments) and to realize that foreign companies will probably have a harder time (assuming it was ever easy) in a context where China's governing elite displays a more meticulous vigilance in the general interest of its citizens. Here again, one might wish to take flight, if one ignores the attractiveness of the country's gigantic stockpile of liquid assets.⁴ The Chinese save up to 40% of their revenues as a form of social security or insurance and are eager to protect those savings

⁴ China's foreign investments in liquid assets are estimated at 4,000 billion dollars. In Europe, the United Kingdom (1.7 Billion dollars en 2014) has the lead, followed by Portugal (1.3 Billion dollars), just before France (1 Billion dollars), and then Italy, the Netherlands and Germany (0.6 Billion dollars).

by safely squirreling them away in opportunities at home or abroad. Candidates to invest in are chosen on the basis of the trust they inspire, that is, their credibility in China or with China. This is but another reason to engage in China's development process with a view not only to making lucrative deals, but also to qualifying as credible partners, worthy of enhancing China's savings at home or abroad. Access to the country's plentiful cash resources is at that price, and that is quite natural, after all.

In that regard, it is unfortunate that France has taken so long to tap into those available savings, and even more so that regrettable signals were sent in relation to China's investment in the Toulouse airport: one does not attract partners with hostility! But despite such deplorable blunders, nothing is lost, insofar as China's growth continues to be exceedingly promising, and is bound to continue in full force for a long time to come. Emerging in its wake, there is a new, very different, sort of growth which is as yet difficult to define. Still, it is quite detectable, and it is up to one and all to make sure it becomes delectable. This new frontier in China's great onward leap will render it more open than ever, but with one major difference: this time, China will be doing the choosing and commanding. Partners can no longer be content to present themselves on the strength of what they've done or what they are. They will have to respond

to China's qualitative criteria.⁵ The country is only 53% urbanized and requires a five decades-long urbanization process: the out-and-out renewal of its urbanism and city life is a vast terrain to be explored in view of a Franco-Chinese offer that is yet to be conceived.

Franco-Chinese alliances⁶ like that are poised to generate the bulk of the economic synergies to come. As an incentive, it is essential to promote mixed funding, winning the trust of investors and operators through dependable, steadily developing professional relationships in which they would play a guarantor role of some sort. They might design hybrid financial instruments, bring to the table the capital of trust that is often the major asset in such cases, or procure the multilateral expertise that is needed to iron out difficulties or misunderstandings, as a precedent to laying down the groundwork for gradual confidence building. France, despite its laudable efforts and successful results, is still somewhat late on that plane, possibly because it relied for too long on the expertise and renown of a few large corporations which have held the lion's share of its presence in China — it

5 That, for instance, is a conversion that PSA understood somewhat belatedly, but remarkably : it shifted from its old policy of sending China assembly lines which had seen better days in Europe or Africa, and started to produce in China, for the Chinese, specific lines tailored to Chinese preferences such as the DS line, with enviable success.

6 Or German-Chinese, or Italian-Chinese, etc. The point is that China always aspires to be a key stakeholder in any new cooperative agreement, not just a simple counterpart, but a full-fledged, working partner.

is obvious that when Michelin or Air Liquide show up, their worldwide reputations speak for themselves and make them instantly alluring. But less grandiose players can be expected to form the bulk of tomorrow's swarm of cooperation, which will be playing as vital a role as today's cohort of big corporations. Those lesser-known troupes and, in all probability, those as yet to be born, can be expected to generate high demand for established and trustworthy vectors to assist their offers and to see them generally through.

Rethinking the relationship with China

If all these ideas are true, they have an immediate, practical consequence: one must actually live in China for at least three reasons.

The first is that it takes a great deal of time, concentration and empathy to begin to understand its culture. One can only succeed in being profoundly misled if one is content to read up on it. The second is that the longer one lives there, the less one understands it, and the more one begins to reflect – already a good start toward getting the point (at a distance, one might think one has it figured out, dispense with reflection and tune down one's alertness – a supreme error). The third is that making three or four annual visits to a country that is growing at a rate of 7.5% a year is a bit like traveling to a country with less than 1% growth

every three or four years! Who would conceive of running a business in France by spending a few days there, every couple of years?

Constant presence is all the more important insofar as a contract in China is never, for reasons mentioned before, a scripture to abide by to the letter. It is an inaugural document which sets up a relationship one expects to turn out to be largely for the best, of course, but which is always subject to change, for such are the ways of the world. It is therefore essential to be constantly in touch, following up on and breathing new life into one's partnerships. This requires fulltime presence, and not just in order to follow things up on a daily basis. It is a matter of being able to build up a lasting recognition, in more general, composite ways than a narrowly normative framework can foresee. When a Chinese individual enters a partnership, s/he engages not only in an interpersonal relationship, but also in an appreciation of an entire context. If one neglects to build that context, one remains unfinished and therefore exceedingly frail, with no surface to stand in, and therefore vulnerable.

So, one can only have a chance to succeed if one is able to validate, above and beyond the activity one proposes to perform, a credit that is earned quite independently from what one intends to accomplish. That is why large historical groups have an edge : they are preceded by their size,

their relations, their reputation and especially their brand names, which serve as advance guarantees that they enjoy that credit and have the means to make its intangible capital thrive.

Thus, one should question the conventional wisdom that says that China's future belongs to small and middle-sized businesses and industries. Yesterday's China was a country of poorly-run State companies. A comparative advantage was almost enough to strike some very good deals with them. Today's China has an armada of restructured and rather well-managed State companies, but mostly highly efficient private firms. To be able to do business with them, one has to be up to the task. AliBaba, virtually unknown a few years ago, is already bigger than its huge competitors Amazon and E-Bay combined! No small or medium-sized enterprise can stand up to a champion like that, or even turn a profit from outsourcing for it. Today's Chinese champions dictate their own law to any company that is unable to outdo them in terms of bargaining power, and the circle of groups that enjoy that superiority is tending to shrink.

It is fashionable in the West it to give off about the slight drop of China's growth rate in comparison with the 10% it boasted in the good old days of its initial take-off. But the 10% of China's 1979 GNP was a trifle compared to today's 7%. The two economies are not in the same ballpark. Today's

7% applies to a \$10,000 billion economy which bears no comparison to what it was four decades ago. One might add that China is responsible for a 40% share of world's total annual growth. Growth is considerably slower in countries that are already rich. As for the higher rates, they apply to much smaller economies: Ethiopia's two-digits will not make a dent on the global balance for a long time to come.

China has therefore solidly established its lead at the forefront of nations where there's business to be done today, tomorrow and for a long time yet. But it is a difficult country, with accumulating complications resulting from latent protectionism (a Chinese investor was able to purchase Volvo, but the reverse is hardly conceivable), a highly competitive environment, and a legal context that is not always transparent or equitable.

Joint venture setups are still required in the case of Franco-Chinese partnerships, but their days are counted. Such pairings, which place the two partners under the same yoke, are vulnerable to the least misalignment. An increase in parity in the ratio of foreign to Chinese partners has multiplied the odds for such divergences in strategy to arise. Any agreement between parties must therefore give way to a common project, which must be constantly refueled on both sides. The diehard Euro-Nordic belief in signed agreements should be

set aside in favor of developing constantly proven communities of trust. The Chinese are much less committed to what they sign than they are to whomever they sign with.

Another reason to settle in China if one wishes to do business there is to be able to experience *in vivo* the ductility of time and the Chinese suppleness in navigating it. Business in China is rather like rush hour traffic: it alternates between incomprehensible bottlenecks and sudden, all the more inexplicable, accelerations, according to general flow stream laws which definitely elude individual perception. The Chinese are quite familiar with this non-linear movement of things, and cleverly surf it in highly reactive ways, always looking out for propitious moments, while the average Westerners scurry to unroll their charts.

The scope of this observation extends far beyond the business realm in China. What is particular to contemporary economies, and societies along with them, is that they are growing significantly more diversified and fluid than ever before, to the point that advance planning is proving less and less reliable as a predictor. Forecasting may find new tools in data mining and probability calculations, but can only be reliable beyond a certain threshold based on the law of large numbers. On the surface, the world presents like a complex environment that constantly eludes prediction. We need to resort to

faculties that are entirely different from those that prevailed in the days of programmatic anticipation. We need to be reactive, on the lookout, mobile and almost volatile, ready to revise frames of reference and methods at all times, able to adapt, and yet to sustain an appropriate strategic capacity. China possesses these qualities to the highest degree because of its culture as well as because they were instrumental in bringing about its extraordinary reconversion. China blends a sense of the long term with considerable reactivity in the short term. More often than not, it is able to use this advantage in order to position itself on the fast lane to get moving.

It would not be too much of an exaggeration to say that the West has excelled in managing mid-term *complications*, gliding through peaks and slopes for decades on end. China has shown for its part a masterly ability to manage the long term, and even the very long term of civilizations, even as it copes with the incessant influx of short term variables on a virtually day-to-day basis. It doesn't miss a beat when it comes to pushing its current transformation into the future, in an incessant movement of *complexity*. China is massively investing in education and infrastructure on one side, but is always on the lookout for the tiniest change on the other, ready to make instant adjustments whenever possible.

That vibrant, day-to-day energy that is nonetheless able to focus on stable objectives is what we must tap if we want to work with the Chinese. Gone are the days when it was enough to provide China's people with what they didn't know how to do very well. We must now think in terms of channeling their creative energy toward fruitful synergies on the global scale. That is how we were able to interest them, for instance, in making the acquisition of Club Méditerranée. The idea was not to create a chain in China or to bring Chinese tourists to existing villages (that is already happening, as the Club's second largest clientele is Chinese). The point was to invent and to implant, on global scale, a novel concept and a world-renowned brand which was injected with that Chinese dynamic. It is no longer about joint ventures targeting China; it is about forming alliances aimed at the world – a model to be developed also and especially, in France. An investment from China is far more than a capital input. It is a powerful motor for renewal.

We are already familiar with good Chinese assets for such investments in France. Bank of China already employs some 300 people at Avenue de la Grande Armée. But Luxembourg is where most of the great Chinese banks are clustering their European representation.

Such intermediaries, like the bi-cultural funds created by the *Caisse des dépôts*, provide extremely useful interfaces, not only between Chinese

enterprises and the French context in which they operate, but also between French enterprises and the Chinese context. For it is naturally up to the company to adapt, at least in keeping with the Cartesian maxim about “taking charge of oneself, if one cannot change the world.” It is quite easy for a Chinese company to do business in France, but not so much the other way around. The Chinese business laws that are currently in effect came into force in 1987 and were revised in 2009, along with a wide range of by-laws relating to various specific aspects. But this juridical framework, albeit explicit, does not keep the so-called “unforeseeability theory”, which is found in our law books, from being the very matrix of China’s normative thought: we don’t know what will happen, so laws are made to adjust to whatever happens, whenever it does, and to ensure that equity and justice prevail on the basis of whatever information is available at the moment, instead of in light of a pre-established code. In addition, one engages *with* one’s counterpart, rather than engaging *to do* one thing or another. For instance, the one thousand hours recently spent by a large law firm to hammer out a substantial engineering contract, turned out to be a test of the loyalty and determination of the partners involved. When all was said and done, the CEO on the Chinese side was content to ask for and to sign a three-page summary. The necessary trust had been earned in the process of those taut negotiations and required no backing

from a voluminous, verbose legal instrument. The basic understanding was enough. And aside from that, no straightjacket or stifling formality needs to be imposed. Relationships are built to last, and that is far more important than any document. If we get along, the document is useless. If we don't, it is vain.

Ten Commandments

Instead of providing entrepreneurs with a detailed technical manual on how to do business in China, it might be useful to suggest a Decalogue of general guidelines to help them act in Chinese, that is, with a keen sense of opportunity well as a strong set of principles.

1. You shall be fond of the Chinese. Chinese people are sensitive and cultured. They enjoy and are touched by those who appreciate them. That is not an option. There is no point in doing business in China if you start by disliking the food, the people, their lifestyle, etc.

2. You shall strive to build political friendships. In China everything is political. Its people are keen about securing the seal of official consecration even for the tiniest operation. When they sign an agreement in France, they likewise insist on obtaining the patronage of public authorities.

3. You shall deliver yourself from the Cartesian mindset. This is an indispensable starting point. You can always go back to the Western worldview in good time. But you cannot truly relate with the Chinese if you insist on retaining that outlook.

4. You shall not limit yourself to big capital centers. Sichuan province is as big and as populous as Germany – a Germany with a 10% annual growth rate. Carrefour was able to open 50 stores in China without going through Beijing. The country is much more hybrid, decentralized, and extensive than it seems viewed from France, where we readily believe that everything is decided in Beijing or at least in Shanghai. China's future is in its provinces!

5. You shall share your gains fairly with your partners. The Chinese cannot conceive of not sharing the fruits of an activity in which they were involved. That is a given that must be accepted and dealt with up front, lest it be imposed under far worse conditions. The Chinese feel entitled to your success. They want their share. They will impose that. Danone learned it the hard way.

6. You shall regularly cultivate your contacts. Nothing can be built on a simple agreement. Once it is established, a relationship can only live if it is nurtured, and not only for interested purposes. It must absolutely prove its validity and virtue by

extending its scope to aspects that are quiet foreign to its original purpose. It must tend towards building a friendship over what was initially a simple business acquaintance.

7. You shall protect the heart of your trade. Just as they make sure they share what is held in common, the Chinese have full respect for anything protected by a power-based relationship and considered off limits. It is essential to clearly circumscribe what is external to any negotiation and sharing, such as patents or brands. The Chinese are passionate about brands and protecting one's logo is a major aspect of doing business with them. As a matter of fact, the INPI (National Institute for Industrial Property) has been cooperating with China for a long time.

8. You shall wear the European cloak. The Chinese are shocked when they see the French acting like rivals toward Germans or Italians. They appreciate them all as European and don't like to see them conducting themselves as rivals. They love France as the "romantic" standard bearer of luxury and gracious living. That can lead to a number of business opportunities. But there's always a risk that more serious business will be reserved for the Germans. Each must understand he is strong because he represents an aspect of Europe. It is a major strategic error to seek to distinguish oneself at the expense of an European neighbor.

9. Wisely blend your funding sources. France is still poorly organized, despite the € 500 millions Cathay Fund, which is managed by an outstanding bicultural private entrepreneur, but remains rather small. We need composite funding to reassure Chinese investors and to adjust the scale of their funding offers to the often more modest projects that are to be developed, notably by small and medium-sized French industries which are declining due to the aging of their founders, and in dire need of funding to survive and develop. Pleasurable operations at \$ 150 millions, like the purchase of a vineyard, only interest Chinese investors for personal purposes. The Chinese do not like to be shown up by public opinion or trade unions in cases of direct takeovers and prefer to use Chinese funds for themselves and French funds for their partners.

10. You shall develop your publicity strategy with sobriety. As Georges Brassens used to sing, *“Against any exhibition, my nature rebels”*, and Chinese culture is on the same page. In a delegation, you can never tell who the VIPs are. The more one is seen, the less of a seer one is in China. To act like a braggart is a sure way to get snubbed and robbed. On the other hand, good conduct, discretion, modesty and reliability get respect and even protection.

It is time we get used to changing our systems of thought. Our influence and our philosophy

are waning. Chinese thought is complex and adapted to today's world. Its appeal is growing in the emerging countries, where its approach to paradox is regarded as fertile and fitting. Let us not make the mistake of not studying, penetrating and understanding its teachings. They can be very useful to our own governance as the world increasingly finds its most accurate reading in their lessons.

China's great strength is its thought

Five decades ago, Jean-Jacques Servan Schreiber enlightened an entire generation about the influential American model (*The American Challenge*, 1967). Today it is essential to understand the thought that is called upon to shape generations to come.