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The Cultural Impact on China's New Diplomacy

by Wilfried Bolewski and Candy M. Rietig

*China takes the path of peaceful development. This is made necessary by its national conditions, cultural traditions and its embracing of the global trend of development.... It is thanks to following this policy that we have been able to gain more room for the conduct of China's diplomacy.... We should be good at using flexible and diversified ways in conducting public diplomacy programs.... We should work to enable the international community to develop an objective and balanced view on China's development and international role, so as to foster an environment of friendly public opinion for China.*¹

Wen Jiabao, Chinese Premier, February 27, 2007

China is in a state of universal change—economically, culturally, politically and diplomatically—and the international community is taking note of the Chinese posture as an ascending global power. As a nation, China has economically liberalized and opened up to the world while retaining a government that by some definitions would be considered authoritarian. Previously an aloof international actor, increased participation in international organizations like the United Nations and dramatic increases in contributions to peacekeeping missions are just two examples of the larger soft power network Beijing is establishing. These activities in public diplomacy are aimed at raising international popularity and acceptance of an ascending China through cooperative behavior and international engagement. As Jamie Roth puts it, "China's new public diplomacy seems to have taken careful note of how to strengthen the country's image abroad through cultural relations."² Because the Chinese want to be able to deal with the challenges of a globalized world,³ they have adopted a strategy of learning from other participants.

In 2008, China is at the forefront of the world stage—and is therefore eager to take this opportunity to position itself as a state worthy of acceptance and respect among the major global players. When it comes to issues concerning the Beijing Consensus,⁴ today's China could be described as, "certainly smarter and more sophisticated—but not necessarily kinder or gentler."⁵ As a result of more than two decades of unprecedented economic development, China has begun to officially

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abandon its "long-held victim mentality (*shouhai'zhe xintat*)" and replace it with the "adoption of a great-power mentality (*daguo xintat*)."⁶

Assuming that China is using the tools of diplomacy to achieve common interests and the common good, what could be China's motivation for a new diplomacy? What role does culture play in the concept of common values and how does it affect the creation of a new Chinese style in diplomacy? Non-state actors like NGOs, civil society and transnational companies will play an increasingly crucial role in future relations. China's response to these developments is a shift in its policy towards public diplomacy and the strengthening of its soft power. So how does China practice diplomacy and what role does the rich Chinese culture play in the new public diplomacy? [The world is curious to know the consequences of Chinese ascendancy and speculation abounds with several possible scenarios like the "China-threat-theory"⁷ and China's "peaceful rise" as a "responsible, peaceable, and nonthreatening global power."⁸

China's ideological orientation towards a communist world revolution has been replaced by pragmatism. Measures and operations that support its economic development or fulfill other top priorities are implemented at all costs, even if they collide with former ideological preferences.⁹ As a result of China's economic opening process China's New Diplomacy is characterized by activism, cooperation, multilateralism, and pragmatism. China's new diplomacy is motivated by the "need to manage the country's growing interdependence with the outside world."¹⁰ Therefore, China needs to strive for an internationally positive perception of its positions and actions by world public opinion.

IMPACT OF "OPENING" PROCESS ON CHINESE DIPLOMACY

Chinese diplomacy has experienced two major periods of change in the last two decades; the first, in the aftermath of the Tiananmen-incident in 1989, and the second at the beginning of the 21st century. In the 1990s, China overcame post-Tiananmen isolation by either establishing or normalizing diplomatic relations with Russia and European countries, as well as by negotiating different levels of strategic partnerships. These measures were taken to protect and promote economic interests, restore China's worldwide image, enhance security and to "demonstrate an attempt to hedge against American influence around the world."¹¹ This opening process led to a new sophistication and flexibility in Chinese diplomacy, denoted by China's approach to multilateral organizations, bilateral relations, and security issues. China has also settled many territorial disputes, even on less-advantageous terms in many cases, increased its engagement with the United Nations Security Council, and increased its involvement in peace operations.

To this end, traditional measures, such as an increase in the number of official visits of strategic partners at home and abroad, help with visibility. Furthermore, the involvement and modernization of the news media, along with hosting major international events, should focus the world's attention on a modern, environmentally clean China, which is setting new state priorities. It is molding its

CHINA'S NEW DIPLOMACY

state-directed economic model with economic pragmatism and prefers cooperative partnerships to its former diplomatic isolation. It has been proactive, outward-looking global player that actively communicates with the world and benefits from globalization. The new activism is accompanied by constructive and cooperative behavior, visible in China's participation in regional international organizations and treaty discussions. The willingness to cooperate in hand with an increased focus on multilateralism and a preparedness to responsibly in a globalized environment. Beijing has given up its traditional inflexibility and rigidity concerning sovereignty. In 2002, China supported Nations Charter Chapter VII measures authorizing the use of force against rather than abstain from voting.¹²

TOOLS OF CHINA'S NEW DIPLOMACY

Foundations of Chinese Negotiating Behavior

Traditionally, the Chinese negotiating culture can be described as a relationship high-context culture, where most of the communication is non-verbal or unspoken because of shared values.¹³ In high context societies, people have close relationships over a long period of time; decisions and activities are focused on relationship. Communication is more unspoken and less verbally explicit. Conversely, context societies, individuals usually have more connections of shorter duration for specific reasons; they are rule and task-oriented, and information communicated explicitly. Many Western negotiating cultures are low-context which stress the information transmitted in the explicit code.¹⁴ As men in high-context culture, the Chinese do not explicitly and openly express their opinion on a controversial topic and opt instead for subtlety. Members of low-context usually Western cultures, pay little attention to hidden contexts, but are usually appreciative of directness and prefer to get straight to the point under instead of losing time by conducting a number of meetings regardless of outcome.¹⁵

The negotiating foundations of New Chinese Diplomacy in the 21st century are highly influenced by Chinese cultural tradition, are *Confucianism*, *Guanxi* (relationship) and *face saving*. Confucianism is the cultural backbone of the Chinese society and has been fundamental to Chinese culture for more than 2500 years. It emphasizes responsibilities of "individuals toward one another within five important relationships: between ruler and subject, husband and wife, father and son, and brother, and friend and friend."¹⁶ This has produced a strong hierarchy in Chinese society still in place today, despite modernization of family structure. Confucianism retains a strong influence on education and personal relationships which also influences negotiating style and will continue to set the Chinese apart from those of other cultures.

In addition, Confucianism stands for a social order which appreciates harmony, friends, obedience to and respect for superiors and parents, duty to

personal honor and sincerity.¹⁷ This explains why Chinese prefer to delegate authority and are very careful in taking responsibility for the outcome of a negotiation. Another strong implication of Confucianism for the Chinese negotiating style is its emphasis on righteousness and relationships rather than profit. The cultural impact of Confucianism explains why Chinese negotiations take time, as trust is established with negotiation partners and assessed. Chinese tend to rely more on trust than on law since business is said to be governed by a moral obligation of sincerity. For example, the Chinese government negotiates and signs 15-20 free trade agreements concurrently, without paying much attention to the content of the treaties — they sign an agreement and work out the substance later. This approach “brings a lot of goodwill,” but also requires a high level of personal trust and sincerity between the negotiation partners.¹⁸

Moreover, Confucianism endorses the importance of getting to know others rather than being known and standing in the center of attention, an important cultural distinction.¹⁹ Therefore, Chinese negotiators often prefer to learn more about the personalities and backgrounds of their counterparts and are very good listeners.

In the 1990s, China overcame post-Tiananmen isolation by either establishing or normalizing diplomatic relations with Russia and European countries, as well as by negotiating different levels of strategic partnerships.

Guanxi (friendship) has the strongest cultural impact on the Chinese negotiation style and is closely related to the Confucian tradition. Guanxi results from the Chinese high-context culture and can be described as the Chinese version of friendship, connections, or the character of the personal relationship between negotiators. The focus in Chinese negotiating style is on long-term relationships and the orientation towards people, not towards tasks or short-term issues as within many Western low-context cultures. The reason for the high value of guanxi is the confidence and trust that grows between the negotiators out of positive and lengthy personal relationships. “Without the confidence borne of a long acquaintance, a Chinese negotiator could not know whether or not he would be hurt by his interlocutor. He would never make concessions if he could not trust (his counterparts) discretion and integrity.”²⁰ Personal encounters before formal negotiations are common and highly valued. Sightseeing trips, the broad discussion of issues and banquets concurrent with formal negotiation—though seemingly unrelated—are used as tools to establish personal relationships and mutual trust. They also serve the purpose of identifying the interests and motives of a counterpart in order to place the Chinese negotiators in a better position in the game of guanxi.²¹ The need to build mutual trust before entering into a negotiation on a specific topic includes gaining a shared commitment to “basic understandings that will guide interaction on key issues over the long term”, like the search for a common ground

CHINAS NEW DIPLOMACY

and shared values on a specific issue.²² This common perspective allows negotiators to establish a basis for resolving more contradictory issues in the negotiation process.

Face saving is an important characteristic of high-context cultures, and is often referred to as “shame cultures”. In China, honor, reputation, and status are extremely important and outward appearances must be maintained at all costs. The worst case scenario for a negotiator from a high-context culture involves the loss of face. Saving face for both parties becomes the highest priority and this loss can result from developments Richard Cohen describes such as:

...a premature or overzealous overture that is rebuffed by one's opponent; exposure to personal insult, in the form of either a hurtful remark or disregard for one's status; being forced to give up a cherished value or to make a concession that will be viewed by the domestic audience as unnecessary; a snub; failure to achieve predetermined goals; the revelation of personal inadequacy; damage to a valued relationship.²³

In order to avoid a loss of face, the negotiator will make any attempt to minimize uncertainty—the risk of the unexpected—by foreseeing every testing one's own chances by employing a variety of pre-negotiation strategies: “testing the water”, and preparing the negotiation like a choreography.

Besides Confucianism, guanxi and face saving, there are various other features of Chinese negotiating behavior, such as the tendency to let the counterpart talk first and establish a frame for the negotiations,²⁴ as well as a stricter hierarchy than that of their Western counterparts, which is due to the high order within the Chinese society.²⁵ The Chinese often show extreme respect and distance within the Chinese society.²⁵ The Chinese often show extreme hospitality to their guests, in the form of dinner banquets, precious invitations. Partly, this is connected to the tradition of Confucianism, in which the guest is highly valued, but this hospitality often also has the effect (and it is intended to) impose a feeling of obligation on the counterpart, which might be utilized in the next round of negotiation.

The cultural impact on diplomacy and creation of the “Chinese style”

With the remarkable economic development under the Beijing Cooperation, Chinese negotiation style has shifted to match the new international state and created a new style of negotiation, strongly influenced by determinants. In the last 30 years much of Chinese negotiating behavior has changed dramatically as the Chinese diplomatic corps adopted many globalized negotiating styles. Nevertheless, many aspects of the traditional Chinese negotiation style and cultural characteristics have remained in use and still today strongly influence the outcome of every negotiation and diplomatic effort.

In this article the term “negotiating style” is understood as the framework of interaction of a diplomat or person currently involved in negotiation. Influences from public diplomacy and cultural particularities of a society and a group of people with specific common characteristics. In conclusion, “negotiating style,” the term “negotiating behavior” refers in this article

behavior of a person during negotiations which is also influenced by the situation, the person's mood, character, and personality. The terms "negotiating behavior" and "negotiation style" refer to both diplomats as civil servants and representatives of the state, as well as to other actors who are participating in negotiations and practice diplomacy, such as representatives of transnational companies, international organizations, non-governmental organizations, and civil society.

The negotiating style of Chinese diplomats varies according to the circumstances of interaction — there is no unique common style. The Chinese use a mixture of styles, depending on the subject and on the level of importance for the Chinese. It also depends on the character of the traditional relationship between the Chinese and the negotiation partner and the setting of the negotiations, for example, whether it is a multilateral meeting within international organizations or a bilateral negotiation. Having knowledge about the opponent's cultural background is essential, so that negotiations are not endangered by misunderstandings or disagreements, which not only have the capacity to harm the outcome of the negotiations, but eventually the relationship between countries.²⁶

China participates in many international institutions and accepts international rules and practices, and accordingly has also become a much more capable and well-versed player of the diplomatic game.

The importance of ideology and all related negotiating behavior has declined over the last two decades.²⁷ Chinese diplomats are no longer beginning negotiations with objectives "to set limits on the policy range within which the negotiations will be conducted and to define basic objectives which China will insist must be achieved."²⁸ In bilateral negotiations between the U.S. and China, it is no longer necessary to negotiate about basic principles such as the "one-China policy" before starting talks on the topic of the meeting, such as the organization of a high level visit or extended trade agreements. On the contrary, an important characteristic of the new Chinese diplomacy is generally increasing pragmatism, consistency, and nuance.²⁹ China's new flexible and moderate approach in both foreign policy and negotiation style, which could be described as friendly diplomacy, stands in contrast, for example, to the United States' unilateralism and its myopic focus on the war against terror.³⁰

The frequency of bilateral and multilateral negotiations with the United States and Europe, especially in foreign economic policy and commercial relations, has grown to reach a new level. As a result, the Chinese negotiating style has been increasingly adopting elements of Western negotiation style. The old style, with its roots in ideology and principles, has been replaced by a new Chinese style in diplomacy committed to openness, globalization, interdependence and multilateralism; but nevertheless, it remains highly linked to Chinese culture and values. The cultural differences between Chinese people and other societies are

constants in the frequent changes of a globalized world and they affect international relationships as well as negotiations. For negotiation purposes, these differences should be identified as soon as possible in order to facilitate the further negotiation process. Only when both sides are aware of cultural differences can they understand each other's cultural background and develop a deeper understanding and appreciation for the partner's negotiation style; and, in the next step, identify common positions and possible areas for compromise and cooperation.³¹

Adoption of globalized elements into China's new negotiation style

The Chinese are curious and eager to learn from other countries, in terms of economic policy or technology, but especially how best to use technology in diplomacy. One can find various elements in China's New Diplomacy that are drawn from other countries.³² These "globalized" elements, which are a majority of diplomats worldwide, are combined with the Chinese particularities and "make for an original model."³³

The frequency of encounters between Chinese and Western negotiators reached new dimensions because China is increasingly participating in international organizations, with its economic development driven by foreign direct investment (FDI) and export. Consequently, the Chinese have developed a closer relationship with the cultural particularities of Western representatives and adopted some negotiation style after they have learned what strategy works best in a counterpart from a low-context culture.³⁴ Significant for the adoption of Western elements into the Chinese negotiating style is the willingness of the Chinese negotiators from their Western counterparts in order to successfully participate in interdependent, globalized relationships in order to expand China's influence as to better protect its own interests, especially against those strategic interests of the United States or Europe. The strategy of adopting globalized negotiation style the Chinese style supports the aim of being accepted as a major player in the international arena of world politics and of raising the international understanding of, and respect for, the Chinese point of view.

The abilities of the Chinese diplomatic corps have been increasing. The outcome is an institution that is more professional. This has been achieved by adopting elements of American-style traditional diplomacy and universal cultural particularities with Western diplomatic tradition.³⁵ A spill-over effect observed with the adoption of diplomatic styles and practices, as well as procedures such as courtesy, respect, or multilateralism, are grounding world interests like peace, protection of the environment, or economic development. According to the concept of communitarianism, common norms and values practiced within diplomatic interactions by policymakers and in public discourse spill over to the level of substantial foreign policy, and become "an integral part of the ongoing transformation of globalized relations."³⁶ This logic leads to the perspective that the international community including China adopts the

“global good governance”, which could lead to a new, cooperative and consent-oriented multilateralism in international politics.³⁷

In order to raise understanding of Chinese culture and its impact on negotiations, the Chinese government encourages students from all over the world, especially from Western low-context cultures, to study the Chinese culture and language.³⁸ At the same time, an increasing number of Chinese learn English and their proficiency in English is improving, since many members of the functional elites have studied in the United States, Europe or Australia. They have adapted to Western negotiating styles and gained an understanding of Western mentalities and cultural roots. These exchanges raise the awareness and understanding of cultural differences by providing the students with first hand learning experiences and deep insights into the counterpart's culture.

The Chinese diplomatic corps today is highly internationalized. More than half of the diplomatic corps has been replaced by a new generation of diplomats, who are “much more open, much better in English and local languages, and more able to interact with other countries.”³⁹ Chinese diplomats often spend three or four rotations in the same country, building extensive relationships and enhancing their language skills before they rise to the rank of ambassador in the particular country.⁴⁰ China participates in many international institutions and accepts international rules and practices, and accordingly has also become a much more capable and well-versed player of the diplomatic game. This means that when Beijing has identified opportunities for cooperation, which promise benefit in one way or the other, it will bring more to the negotiating table than in the past⁴¹ in order to participate as a respected major player in the global diplomatic game for power, influence, economic benefit and international status. China has “become increasingly aware of the importance of acting in ways that are consistent with the role of a responsible major power,”⁴² and makes active use of the advantages of cooperation and flexibility. The framework for the related new negotiation style includes higher professionalism in foreign policy related bureaucracies by the employment of young, internationally educated diplomats,⁴³ and accepting a more pluralized environment. China has identified the necessity of a stable and peaceful international environment as a framework for the domestic reform program and further economic development.⁴⁴ Only by reaching out into the interdependent and globalized community through the means of public diplomacy and soft power, can China live up to its role of a responsible major power.

CHINA'S NEW PUBLIC DIPLOMACY

China's "soft power"

Public diplomacy can be described as a “government's process of communicating with foreign publics in an attempt to bring about understanding for its nation's ideas and ideals, its institutions and culture, as well as its national goals and current policies.”⁴⁵ The three characteristics of China's public diplomacy are the

CHINA'S NEW DIPLOMACY

management of public opinion abroad through external publicity and cultural exchanges, the spreading of information to the outside world, and on selected issues in its public diplomacy.⁴⁶ The need to project an attractive friendly image to the world has inspired China's new public diplomacy. It is the major tool to promote the peaceful rise of China and to eliminate fears of superpower rising through “hard power”. China emphasizes that its development is strongly intertwined with the development of the rest of the world so that all countries can benefit from the peaceful rise of China in a new arrangement.⁴⁷ The New China intends to use the tool of public diplomacy “soft power” by building a harmonious world in the spirit of cooperation and consensus.

Significant for the adoption of globalized elements in the Chinese negotiating style is the willingness of the Chinese to learn from their Western counterparts in order to successfully participate in the arena of interdependent globalized relationships in order to expand their influence as well as to better protect its own interests.

“Soft power,” as referred to by the Chinese government, usually means of power outside the military sphere, including diplomacy, aid, and economic tools.⁴⁸ In times of globalized information technology, “soft power” stands in contrast to the traditional “hard power”, which basically refers to military power. “Soft sources of power such as culture, political values, and diplomatic power.” “Soft power makes a great power. Success depends not only on whose part of what makes a great power. Success depends not only on whose part of what makes a great power.”⁴⁹ China, whose traditional culture has at all times been attractive to foreigners, most notably to European monarchs during the 18th century, has even entered the global arena of popular culture. Whether in the area of art, sports, movies or literature, Chinese culture is becoming increasingly popular around the world.⁵⁰ To strengthen this development and popularize Chinese culture throughout the world, the government further stimulates the cultural attractiveness with deliberate official campaigns – this form of public diplomacy aims at generating a positive international reputation.⁵¹

China is also permanent member of the Security Council, participant in multilateral negotiations with other regional organizations such as APEC, joined the WTO in 2001. Furthermore it demonstrated cooperative behavior at the Bali Conference on climate change in 2007, and assumed a leadership role in the leading economies of the developing world. However, the high profile example of public diplomacy can be seen in the hosting of the 2008 Olympic Games, and to a lesser extent the Universal Exposition in Shanghai. China makes every effort to present itself to the world public as a friendly, modern, architecturally impressive, and culturally rich country. Fu

welcomes the chance to stand before public opinion for several months, supported with positive headlines and creating the permanent impression of a friendly China among all citizens of the world.

China actively uses its culture as a tool to pursue peaceful relationships with other states' civil societies and to project its fascinating attractiveness throughout the world. One major asset of the new Chinese public diplomacy is the increased promotion of cultural exchange. China spends huge amounts of money to attract more students to the Chinese language and culture, funding language programs at primary school level in developing countries and at university level in more than 100 countries worldwide.⁵² It also attracts 110,000 – 140,000 foreign students annually to study at Chinese universities; among them future opinion leaders, heads of states, governments or transnational companies.⁵³ These students experience the Chinese culture and language firsthand and build lasting friendships with Chinese students and future leaders. China has not only created twenty-six Confucius institutes worldwide to teach its culture and language, but attracted forty-six million foreign visitors in 2005.⁵⁴ These visitors are getting an impression of the new modern and culturally attractive China. Chinese cultural products seem not only to be “in vogue, they also seem to be surrounded by a new-found chic.”⁵⁵

These cultural relations provide an excellent framework for the creation of long term friendships (guanxi) among Chinese and key social actors in other countries with the result that credibility and confidence are established on a long term basis.⁵⁶

China's “charm offensive” and civilian diplomacy

Part of China's charm offensive is being involved in development aid and investment. In some countries, especially in Africa and South-East Asia, China has become a major investor and even a larger donor of aid than the United States or Japan. Via guanxi, the building of personal relationships and contacts between people, China extends soft power to developing countries. China seeks to win the hearts and minds of people in these countries with investment into trade and development projects, bringing politicians and officials from other countries to China for the purpose of expanding commercial relationships and building a Chinese equivalent of the U.S. Peace Corps for example.⁵⁷

China's charm offensive also aims at the civil society, at home and abroad. China is becoming increasingly self-critical, abandoning its ideological propaganda and replacing it with the willingness for dialog, openness and explaining progress in the mass media. The government has found ways to include “civilian diplomacy,” which has an increasing influence on China's perception in the world, into its concept of public diplomacy. Civilian diplomacy is diplomacy practiced by the civil society. The government is aware of the civil societies' influence on the international community when it expresses its pluralistic views on foreign policy issues by the use of mass media such as the internet, especially blogs, forums, podcasts and viral video. In order to establish a dialog and to raise acceptance of the domestic and foreign policy among the civil society, the government contributes expertise to the discussions. The

CHINA'S NEW DIPLOMACY

government deploys a large number of moderators and administrators, 1 government experts in international relations and retired Chinese ambassadors communicate and explain the government's position and discuss it with users in chat rooms.⁵⁸ These measures are part of a new civilian diplomacy an answer to the masses' potential to influence the policies of foreign towards China. The Chinese government is actively working on positively in its public opinion, so that Chinese people speak on behalf of their government participate with their means of civilian diplomacy in the overall public diplo-

Another indicator for China's increasing freedom of opinion and dialog public is the government's web presence, where the state-run news agency conveys state positions on issues and serves to inform visitors.⁶⁰ More “White Papers” report on development in domestic and foreign policy English and many other languages and thereby give the visitor an impression of changing customs, transparency, independence and modernity.⁶¹ Concurrently, the government has even become more reflective of its own policy choices, allowing the media to raise critical and admit the existence of problems within certain limits.⁶²

THE ROAD AHEAD: NEW PUBLIC DIPLOMACY AS A TOOL FOR PEACEFUL DEVELOPMENT

Given the facts presented about China's creeping liberalization, the question that China has committed itself to the “doctrine of peaceful expansion. Recently, it has even replaced the concept of “peaceful rise strategy of “peaceful development” to especially emphasize the non-threatening and nature of China's growth and international involvement.⁶³

Consequently, China is willing to play an active role in the development and prosperity of Asian nations in order to establish and preserve a peaceful environment in which it can continue to rise economically and The goal is simple: present the New Chinese Diplomacy as a non-zero sum winning the hearts and minds of people around the globe.⁶⁴ This is achieved via public diplomacy and the projection of soft power.

The motivation of the government to strengthen its New Public Diplomacy communicating with foreign publics—whether by traditional diplomatic cultural soft power, transnational companies or civil society—is the “art of about understanding for its nation's ideas and ideals, its institutions and well as its national goals and policies.”⁶⁵ China is creating a positive environment further economic development by reassuring Asian neighbors and calm fears related to its rise as a pillar in a new, multipolar global power center. China is also confronted with practices of good governance in a global context. The Chinese government needs to find a way to deal with the challenge integrate this concept into China's foreign policy in a manner compatible

own cultural traditions and particularities. By adopting the tools of diplomacy used in other countries, China also familiarizes itself with the structures and procedures of other countries' norms and values that are embedded into the procedures and practices of diplomacy.⁶⁷ The awakening of the Chinese dragon from its century of self-isolation has seen a remarkable shift as the state identified its political and economic needs in our globalized world and is now curiously adopting procedures, norms, and common values to find its place and build a harmonious world order. Diplomacy makes the world go round and the Chinese have learned to use it while pursuing their own interests on their "path of peaceful development".

Notes

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Microinsurance for Brazil: The GILR-B

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Microfinance, in general, worries about alleviating poverty in the developing world. But, how do the poorest people avoid falling into poverty traps on the middle class? What recourse do people have from becoming poor? Illness, natural disaster, or the loss of assets like livestock? Microinsurance that caters to the lowest income groups in a country and serves them are not usually served by private insurance.¹ The microinsurance entities are comprised of several components and issues. First, microinsurance relies on market penetration. For microinsurance to work effectively, insurance contracts be sold to vast numbers of people at very low rates and provide coverage losses that are usually not large. Thus, microinsurers sell millions of contracts a very small profit, with even total revenue volumes being small.

Second, microinsurers are known for having simple and direct methods, usually charging the same premium to risks that are roughly similar, another Claims handling in microinsurance must also be straight-forward, must guarantee many losses that are not easy to identify, evaluate, and Third, microinsurance contends with problems of commercialization. Consumers in low-income households do not trust, understand, or desire private insurance. Private insurance is regularly seen in these cases as difficult for private insurance. Private insurance is regularly seen in these cases as difficult for insurers might not pay claims) and complex (as there are policy exclusions, insurance contracts that are difficult to explain).³ Overall, private insurance is well understood in the developing world, and is seen as unnecessary.⁴ Most low income populations have lived their whole lives without ever purchasing abstract services.⁵

Fourth, microinsurance is a product that low-income households must purchase in a combined fashion, with one policy covering multiple events. For example, an ideal microinsurance product would cover not only health risks and life insurance, but also the family livestock.⁶ There are many reasons why a combination of risk coverage is important in the commercial microinsurance; consumers need to be convinced that the insurance they purchase is useful. Historically, low income households have been kept away from insurance, and distrust is a cultural obstacle not easily overcome. A