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NEW ECIPE POLICY BRIEF:

CHINA'S CHALLENGES

BY GUY DE JONQUIÈRES

The global economic crisis has changed the perception that many Western countries shared on China. It is no longer viewed as an unruly and disruptive pupil, but rather a potential financial paymaster. In his [new paper](#), Guy de Jonquières aims to identify and describe the challenges that China is facing in its new role. He argues that Chinese developments in three areas are imposing increasing strains on the country's political system and institutions, and demand new approaches both inside and outside the country. Guy de Jonquières claims that the future for the country is still uncertain due to the much vulnerability in economic, domestic and foreign policy.

Economists forecast that China's GDP is to exceed that of the US within a decade or two. Although these predictions may get investors excited, it is also worth remembering that they are based on extrapolations of the past. Yet, challenges such as the obsolescence of China's growth model, the growing pressure of labour costs, and the lack of diversification lie ahead. Add to that the need to climb the value-added chain and it becomes clear why there is so much discussion inside and outside China about changing its model for economic growth. But reforming its own policy will require tough decisions, that will challenge vested interests in China's economic and political system, and the last five years have seen few real attempts at reforms, despite constant references by Chinese leaders to the need for a new growth model.

Domestic policies face the challenge of rapid escalation of social unrest among China's population. The increasing number of 'mass incidents' across China, the expanding number of people who have access to the Internet and the free exchange of information via 'micro-blogs' and tweeting networks, on which 80 million Chinese netizens (as Internet users are known) express their grievances represent a threat to the existing system. Although the Communist Party still commands big respect among older citizens the level of corruption is alarming and has started to bother younger generations.

And yet, the rulers in China are still a long way from formulating a coherent response to the demands of an increasingly impatient public. As is the case for its domestic policy, China's foreign relations are rooted in one fundamental imperative: keeping its regime in power. The government is ready to do whatever is necessary to maintain rapid growth by keeping export markets open, securing access to energy and natural resources worldwide and preventing the economy from being blown off course by external shock. Since Beijing has few military allies its international influence is exercised largely through the medium of money and the language of brute force. However, the increasing dependency on the global economy will sooner or later become too important for China to remain on the diplomatic sidelines.

There is no evidence of any broad-based popular demand for democracy, yet the pressure for change is increasing. The government's legitimacy – based on performance – is coming under strain

from several directions and these challenges, which are both economic and political, need to be addressed. However, China's Communist Party has not yet formulated a clear, effective response strategy. For the rest of the world, the only realistic option is to continue trying to engage China pragmatically but without conceding on essential principles.

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