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New ECIPE Policy Brief

China and the global economic crisis

What to expect from China in the current economic crisis? Will the crisis change China's role in the international economy? In this Policy Brief, Guy de Jonquières analyses the main trends in China's economic policy-making and positioning in the international policy arena. He argues that China still has an uncertain commitment to economic rebalancing, which might lead to frictions with its partners. Despite its new political assertiveness, it remains ambivalent on exerting international leadership. Yet as China's economic and financial importance continues to expand and world leaders seek global stability, deeper engagement between Beijing and other power centres will remain indispensable.

From being considered a source of disruption engaging in unfair trade practices, stealing jobs, running up excessive current account surpluses and manipulating its exchange rate, China is now seen as an indispensable partner in helping the world surmount the current recession. In this respect, the first G20 Summit last November provided a turning point, in which China became a *primus inter pares* among emerging economies. In the run-up to the London meeting in April this year, China made headlines by coming up with a proposal to gradually replace the US dollar as a reserve currency by IMF Special Drawing Rights, revealing greater assertiveness and willingness to exert leadership.

But what can China's partners realistically expect from China? Guy de Jonquières' analysis addresses two main issues: how China will act to rebalance its economy and therefore the global one, and whether it will be able and willing to exert long-lasting leadership in international fora.

His assessment is that China maintains an uncertain commitment to economic re-balancing. China's recovery hopes rely to an extent on expanding exports. This involves measures that could trigger a protectionist backlash elsewhere. Furthermore, its rescue package strongly focuses on fixed asset investment that would repeat the flawed formula on which China's growth has been based so far.

Furthermore,
“Although spending on social services has been rising sharply, it remains modest in relation to what is needed. Opening up monopoly services markets and accelerating financial reforms are low down, if not entirely off, the agenda.”

Guy de Jonquières argues that China will remain an awkward partner for the rest of the world. But its new international assertiveness and continued “ambivalence towards the world” does not mean that there will be greater confrontation:

“As China’s economic and financial importance continues to expand, so, inexorably, will its inter-action with the rest of the world. The impact will be felt as much inside China as outside it, as its rules are increasingly obliged to cope with the intrusion of external factors that impinge directly on domestic concerns. If global stability – that condition is so highly prized by the Middle Kingdom - is to be maintained, deeper engagement between Beijing and foreign power centres will not only be desirable, but unavoidable”.

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