

EVENT SUMMARY

Book Release for *China's Rise: Challenges and Opportunities*

C. Fred Bergsten, Peterson Institute for International Economics

Nicholas R. Lardy, Peterson Institute for International Economics

Trevor Houser, Rhodium Group and Peterson Institute for International Economics

Charles Freeman, Center for Strategic and International Studies

Derek J. Mitchell, Center for Strategic and International Studies

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The Peterson Institute for International Economics book, *China's Rise*, was released at an event at the Institute on November 24. The book assesses China's growing role in the world and the implications of its increasing importance for both the world and the United States. The book's authors looked at specific components of China's rise, integrating them into a larger overall analysis in order to suggest US policy responses. Fred Bergsten spoke on China's role in the world economy, Nicholas Lardy on China's domestic economy, Trevor Houser on China's energy and environmental development, Derek Mitchell on China's foreign policy and military posture, and Charles Freeman on China's domestic policies.

Fred Bergsten talked about China's rise as a global economic superpower and the substantial responsibilities China must take on as its economic clout grows. As only two truly unitary economic superpowers, the United States and China should take responsible actions on global economic issues. However, due to its unique characteristics China poses serious challenges to the international economic system. Despite some positive developments, China's record on providing constructive leadership has been mixed. By setting up an informal G-2 with China, the United States should further engage China so as to construct a new global economic architecture.

Nicholas Lardy explained the reasons for China's recent slowdown in economic growth and provided policy recommendations for how the country can rebalance its economy toward a more consumption-driven growth pattern. China's economy has slowed down in recent years mainly because of shrinking external demand for its exports and a decline in construction activities. China's policy responses on the monetary front are unlikely to be effective. Its recent fiscal stimulus package will certainly contribute to economic growth; however, in order to rebalance its economy, China needs to expand government spending on its social safety net, liberalize interest rates, and appreciate its currency.

Trevor Houser focused on the energy and environmental implications of China's macroeconomic policies. Since 2002, the reduction of China's energy intensity trend has been reversed and its future energy demand has recently been revised substantially upward. This new development poses serious challenges to the stability of global energy markets and increases the risks from climate change. However, since China's energy consumption is greatly concentrated on the heavy industrial sector, it is possible to

successfully reduce energy consumption and environmental degradation by changing the country's economic structure.

Derek Mitchell discussed five themes of China's foreign policy. The communist party's fundamental insecurity regarding the maintenance of its power and various social challenges guide China's external policies. China tends toward a defensive stance on foreign policy issues, but domestic economic development remains China's main consideration in determining its foreign policy. The country also takes an opportunistic approach especially when the United States stumbles in dealing with other countries. China is continually listening and learning. Finally, it is interested in the development of new norms and rules of the international system.

Charles Freeman's presentation centered on the domestic challenges of China's rise. The communist party's main concern is maintaining its grip on power. Due to the absence of ideological appeal, the party has been trying to find legitimacy in economic growth. However, various issues such as environmental degradation and income disparity caused by economic growth create challenges to the party's legitimacy. In addition, central-local divides and corruption limit the government's efforts in dealing with these challenges.