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Global Implications of China's Challenges – Part I

Challenges facing the most populous nation with its fast-growing economy could quickly become global problems. This two-part YaleGlobal series analyzes trends and challenges for China as well as the potential for cooperation. Integration with the global economy, an accomplishment for China since 1978, has the potential for triggering domestic disruptions, and “China may be uniquely vulnerable to developments beyond its borders and beyond its control,” writes Thomas Fingar of Stanford University. He identifies four trends that require response from China's leaders: a strategic decision to pursue easiest tasks and procrastinate on tougher ones; scrappy competition from other emerging economies; needs of a swelling elderly population; and a highly centralized political system, overseeing an increasingly complex policy environment, failing to catch mistakes in a timely way. China and other nations have many common interests, challenges and opportunities for cooperation. Fingar concludes that recognizing the trends and encouraging cooperation, both domestic and global, are early steps to finding solutions that confront China. – YaleGlobal

Many of China's challenges center on rising expectations in the face of increasing competition

Thomas Fingar

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PALO ALTO: For the past two decades China has been a poster child of successful globalization, integrating with the world and in the process lifting millions of citizens out of poverty. But China's integration into the world economy and global trends drive and constrain Beijing's ability to manage growing social, economic and political challenges.

Global trends affect all nations, but China may be uniquely vulnerable to developments beyond its borders and beyond its control. Chinese leaders recognize the diversity and complexity of the challenges they face but appear determined to confront them individually and incrementally. How – and how well – they respond to those challenges will have significant consequences of China and the world.

Many of these challenges center on rising expectations in the face of increasing competition.

Thanks to a fortuitous combination of wise decisions and good timing, China has made phenomenal progress in the three decades since Deng Xiaoping launched the policy of reform and opening to the outside world in 1978. More Chinese citizens live better today than ever before and many more expect to join the privileged ranks of the middle class. Aspirations and expectations have never been higher. That's a very good situation to be in, but it also entails enormous challenges for China's leaders because several

Society of seniors: With China's shrinking family size, the well-being of many elderly rests in state hands

trends indicate that meeting expectations could become increasingly difficult.

Specifically, China will find it increasingly difficult to sustain past rates of growth and improvements in living standards.

One visible trend results from the strategic decision to take on the easiest tasks first in

**Chinese aspirations
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order to produce an “early harvest” of tangible benefits that build experience and confidence to tackle the next set of challenges. By design, each successive set of challenges is more difficult than the ones that preceded it. There are many different manifestations of this phenomenon, including the decision to focus on the more developed coastal areas and move inward to less-developed regions characterized by less infrastructure, poorer nutrition and less education. Other manifestations include the consequences of joining international production chains as low-cost assemblers of goods that are designed, manufactured and marketed elsewhere. Sustained success requires moving up technical and managerial ladders to perform more demanding and better paying tasks. Other daunting challenges result from policies that have deliberately constrained domestic demand with predictable consequences that include increasing inflationary pressures and a nationwide property bubble.

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A second category of challenges results from the fact that China now has, and will continue to have, more competition than in the past. When Deng announced the decision to pursue the longstanding goal of self-strengthening by following the model of Japan, Taiwan and other rapid modernizers, he was responding to a de facto invitation from the Carter administration for China to take advantage of “free world” economic opportunities without becoming an ally or having to change its political system. This gave China a 10-year head start with virtually no competition until the Soviet Union collapsed and the Cold War ended. China made good use of this opportunity and has since taken advantage of experience and ties forged with foreign partners before Central European states and the states of the former Soviet Union joined the game.

India, Brazil, Indonesia and other “non-aligned” states stayed out of the game for a few years longer, thereby increasing China’s advantages. Now there are more players and potential competitors climbing the learning curve more rapidly than they otherwise might have done because they can learn from China’s experience. Foreign investors and international production chains now have far more options than they did when China was essentially the only large developing country in the game.

A third set of challenges centers on demographic trends and implications. One is the oft-cited but nonetheless extraordinary challenge of being the first country in history to have a population that becomes old before it becomes rich. Many countries have graying populations – Japan and South Korea in Northeast Asia and most of Western Europe – but the others are much more highly developed than China and have extensive social safety nets to meet the needs of their senior citizens. China’s one-child-per-couple-policy has accelerated a demographic shift that normally occurs in response to higher standards of living, greater educational and employment opportunities for women, and the independent choices of millions of people.

China now has, and will continue to have, more competition than in the past from other emerging economies.

China must put in place an extensive and costly system to support its elderly – reducing the amount of money and other resources available for other goals – or live with the consequences of making individuals and couples responsible for the wellbeing of parents and grandparents. This challenge is compounded by the broader consequences of becoming a society in which there are few siblings, cousins, aunts, uncles or other relatives beyond the nuclear family.

A fourth challenge derives from the highly centralized character of China’s political system. For three decades, China arguably has been able to develop as quickly as it has because it is a unitary state – not a federal system in which the provinces have significant independent authority – with a single-party regime. This facilitates timely and decisive action in response to perceived needs and opportunities and makes it easier to coordinate multiple components of an increasingly complex system. There are advantages to this type of system, but also risks and costs. One set of risks results from the fact that “all” key decisions must be made at the apex of the system by a relatively small number of officials who have only finite time, attention and knowledge. As China has become more modern and prosperous, it has also become more diverse. Different locales, sectors of the economy, interest groups and other constituencies have diverse expectations of the political system. Keeping the many concerns and requirements straight, and successfully juggling and balancing competing demands, will continue to become more complex and difficult.

As this happens, it will intensify another challenge, namely, the challenge of being “right” most of the time with little to no cushion for error. Systems with distributed authority are more cumbersome, but they avoid single points of failure. The danger of single-point failure increases as the complexity of issues, number of competing viewpoints and volume of information increases. Logically, the chance of mistakes increases as decisions become more demanding. Theoretically, there exists a point in any system at which the system can be overwhelmed by the magnitude of the task. The eurozone crisis may be a cautionary example.

Looming challenges are under study, increasing the likelihood of avoiding the most negative

Recognizing these challenges should not be read as a pessimistic prediction of **consequences.** inevitable failure. Indeed, the fact that looming but not yet imminent challenges are already the subject of study, deliberation and debate around the world increases the likelihood of avoiding the most negative or disruptive consequences; mitigating those that cannot be avoided entirely; and capitalizing on the many positive trends toward greater cooperation, acceptance of interdependencies and ability to learn from others' experiences.

Clearly discernible trends point to common interests and opportunities for cooperation as well as to challenges of unprecedented complexity. Whether China continues to eschew active engagement to address challenges at the global level in order to concentrate on domestic problems will shape possibilities for international cooperation. So, too, will actions of other nations that help or hinder China's ability to solve its problems.

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