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China's Economy: Growth Gains, but Challenges Remain



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World Economic Outlook in 2022

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My overall predictions for the world's economic outlook in 2022 are as follows:

- 1 After a “dead cat bounce,” the US economy will fall off a cliff in the second half of 2022, bringing widespread volatility to world financial markets.
- 2 Brexit is yet to be completed. Europe will be more divided, leaving its economy in limbo.
- 3 Due to economic volatility and political upheavals, the UK and the U.S. will both see social conflicts and financial difficulties.
- 4 In 2018, I said the Chinese economy would go through an “eight-year war.”¹ 2022 will be the hardest year of that “war” for the Chinese economy—this is without taking into account of the pandemic that hit in 2020.
- 5 Capital markets will cool down. On a global scale, the scramble will spread from financial markets to commodities, and food security will need to be given the utmost attention.
- 6 The world economy will come to a turning point in 2024, and gradually recover starting from 2025. After this, the East will overtake the West.

I hope to elaborate on my predictions from two perspectives:

First, the international economic environment has undergone many irreversible

¹ The term “eight-year war” is often used in China as a reference to the eight years of arduous fighting against the Japanese invasion from 1937 to 1945.

changes due to the pandemic. We are experiencing a corrosion of globalization, which is the foundation for world economic stability. De-globalization has become a reality and shows no signs of slowing down. With the economic foundation destroyed and the supply chain disrupted, economic development becomes a zero-sum game, leading to major economies fighting each other for resources. For example, the arms deal dispute between the AUKUS and France, the Sino-US economic war, and financial market turmoil in small- and medium-sized economies. We will see more and more such events in the future.

In this context, the world economy will divide into several poles, with one represented by the UK and the U.S., and another represented by the continental European countries such as Germany and France. Due to the over-issuing of US dollars during the pandemic, the leverage ratio in the U.S. and the UK has increased by 30%. The huge financial asset bubble needs to be supported by tangible wealth. But the simultaneous emergence of two contradictions, the inflated US national debt and high US inflation, makes it difficult for the UK and the U.S. to resolve the potential crisis through their own economic development. In view of this, the Fed's shrinking balance sheet and growing expectations of interest rate hike, triggered by high inflation in 2022, will destroy the "engine" of the US economy, namely "money-printing," making it difficult for the capital market to continue the prosperity it has enjoyed since 2010.

In essence, Brexit is the result of a divergence of opinions between Anglo-Saxon culture and the culture of continental Europe in terms of economic development. Europe has a mixture of cultures besides the two mentioned here. Therefore, we will probably see more countries exit the EU. The continental economy depends greatly on globalization. Due to limits on population, territory, and industrial structure in Continental Europe, it lacks momentum and is unable to become a core driver of global economic growth.

Chinese economy in 2022:

In my global economic outlook for 2018, I coined the term "eight-year economic war." I thought 2021 would be the hardest year for the Chinese economy since 2018. However, the COVID-19 outbreak has disrupted the global economic order and prolonged the "war."

Since 2018, China's economic reforms have gradually shifted

“In this context, the world economy will divide into several poles, with one represented by the UK and the U.S., and another represented by the continental European countries such as Germany and France.”

their focus from land to technology. It will take time to deal with the problems accumulated over the 40 years since reform and opening up, and to create new opportunities that spur economic growth. Under favorable conditions, it would take around eight years for China to complete this great transformation. Although progress has been temporarily disrupted by the pandemic, it has not changed the country's established approach. China has been steadily adjusting its economic development guidelines, which will inevitably cause short-term volatility that cannot be explained by the so-called "economic cycles."

China has dealt with its high leverage ratio earlier than the West and it is the only major economy in which the leverage ratio fell before the post-pandemic era began. Nonetheless, the debt risk resulting from land finance and other perceived risks in economic transformation and restructuring, including the risk of frictional unemployment, will become more pronounced from 2022 to 2023. This is an inevitable obstacle that China will encounter. But it is also an adversary that China must overcome during its "eight-year war."

In short, in an effort to reconstruct its debt and economy, create new growth points while debunking the anti-China conspiracy theories from the West, China is likely to reach an inflection point in economic growth and witness a marked improvement in the quality of economic development in about five years, thus completing its transition to a new growth engine.

Pressure on China's Economic Growth

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There is no doubt that China is one of the most successful countries with regard to COVID-19 pandemic control. However, the pandemic has still brought significant challenges and costs to China's economic development. Such impact seems to be persistent and long-lasting because global economic activities are integrated, yet other countries' efforts on pandemic control are quite differentiated. Different policies on pandemic control around the world is just one source of pressure on China's economic growth. It is an external pressure that threatens the world supply chain and China's exports. The most significant pressure on China's economic growth, however, actually emerges internally. The growth of China's total factor productivity (TFP) has remained slow or even negative in recent years. Profitability and survival pressure of private firms, particularly small and medium-sized enterprises (SME), differ sharply from that of state-owned enterprises (SOE) during the pandemic years. Monetary policy has not been working efficiently enough to achieve its objectives, and fiscal policy has been constrained by government budget. China's central government recognized the pressure of shrinking demand and supply side shock, and dampened expectations in its 2021 annual Central Economic Work Conference. Knowing how these pressures come from is the prerequisite to find a way out.

Pressure from the Shrinking Investment Demand

Perhaps the most significant pressure is the so-called shrinking demand, also known as shrinking investment demand. For the past two decades, China's economic growth relied heavily on investment, with an average of over 40% of its GDP invested in fixed asset each year. Because of the diminishing return, the efficiency of this growth model falls, and the problems such as excessive

capacity, high leverage ratio, and low utilization rate of inventory have emerged. The weakness of investment growth is a result of falling productivity. When many firms' investment efficiency fell lower than the cost of external finance, they became more financially constrained, as, technically speaking, they were unable to repay their debt with their investment returns. These firms had to borrow the new to repay the old, and their leverage ratio climbed up passively. Resources were unfortunately lent to these inefficient firms to keep them alive, while other productive firms were more or less crowded out from financial markets. Moreover, the lending banks were not fully supporting these firms' new investment but to roll over their old debt, and this is why we observe the situation that the growth of credit supply diverges from the growth of investment.

“With the development of the pandemic around the world, the global supply chain became unstable.”

The pressure on investment demand increased in 2021. With the development of the pandemic around the world, the global supply chain became unstable. Sporadic outbreaks of COVID-19 within China also forced many local factories to shut down from time to time. The world's leading economies were all increasing money supply to stimulate the economy. All these factors contributed to the sharp increase in energy prices that started in the beginning of 2021. The eruption of energy prices had two unpleasing effects. First, it increased the cost of production. This effect is more damaging to those SMEs, because typically they are downstream firms who purchase the output from upstream firms as input to make their own production. Upstream firms are typically large SOEs. The SMEs lack bargaining power when they make purchase from those upstream firms. As a result, they had to accept the rising prices asked by the upstream firms. On the other hand, when SMEs finished the production and were ready to sell the final goods to consumers, they realized that the demand for final goods from consumers was also weak. Worse, their products were not too significantly differentiated from competitors. This implies that these SMEs cannot mark up the price of their own products to transfer the rising costs of production to consumers. Higher costs of production without an increase in the products meant the profits of SMEs were significantly narrowed. In fact, the majority of SMEs in China made losses in 2021. These firms are now facing the problem of solvency and survival, and they lack the incentives or the ability to increase their investment demand to expand.

Second, rising energy prices and other commodity prices disturbed financial markets. As mentioned, many central banks were conducting excessive expansionary monetary policies to fight the negative shock of the pandemic. These policies first contributed to the inflation of commodity prices, as inflation

is always and anywhere a monetary phenomenon. On the other hand, abundant liquidity in financial market continued to fuel the bubble. As the commodity prices increased, both financial companies and many non-financial firms found it profitable to arbitrage.¹ They diverted significant amount of funds to financial markets. This further caused the investment in real sectors to fall. The expansionary monetary policy, which aimed to stimulate the real demand, failed to achieve this objective because liquidities were searching for yield.

Pressure from the Shrinking Household Demand

Another very strong pressure of the shrinking demand comes from the household side. The weakness of household demand arose for three main reasons, all of which are long-term deep-rooted issues. The first reason is the slow growth of income. The growth rate of China's GDP has constantly outperformed the growth rate of its per capita income. This is also a natural result of investment-driven growth, where a large share of GDP is used to pay for capital or to purchase new capital. The imbalance between labor and capital pushed up the labor cost as well, because in the situation where capital is abundant while labor is relatively scarce, the marginal product of capital falls while the marginal product of labor rises up. The pandemic has further pushed up labor costs, as factories were locked down from time to time and the labor mobility was restricted. Many factories from traditional industries in China's coastal areas find it much more costly to hire labor nowadays. Noticeably, a labor market mismatch has emerged: laborers cannot find a job while firms cannot find workers. The result is a rising unemployment rate coupled with rising labor costs. Income does not increase at the same pace of GDP, not to mention the growth of money supply and price levels.

The second reason for the shrinking household demand is the weakening of their financial balance. In other words, households have been in heavier debt and their leverage ratio has been increasing. Rising household leverage has been widely discussed among academics and policymakers. It is argued that rising property prices have attracted households to issue mortgages and purchase real estate. Indeed, the strong growth of long-term loans to households indicated that money was flowing towards the housing market. This phenomenon was more significant two or three years ago. The housing market calmed down in 2021, and house prices in many major cities even fell to some extent. Indeed, falling house prices discouraged additional demand for houses, which may help prevent the household sector from getting more into debt. However, we must also realize

¹ In economics and finance, arbitrage is the practice of taking advantage of a price difference between two or more markets: striking a combination of matching deals that capitalize upon the imbalance, the profit being the difference between the market prices.

“China’s government announced in its 2021 annual Central Economic Work Conference the orientation of the country’s economic policy in 2022. Stabilization comes back as the main objective.”

that the largest source of wealth of a typical household in China is their property. Falling property prices brought a negative impact on their wealth and this negative wealth effect also dampened their demand for other consumer goods. Because the household sector has already accumulated too much debt and mortgages, and the wealth of individual households depends heavily on property prices, falling house prices cannot help the households improve their financial condition, not to mention to stimulate their demand for other goods.

Besides mortgages, which mainly impact the older generation, the younger generation is also under the pressure of financial imbalance. Consumer loans and cash loans have been devouring this generation’s ability to consume in the future.

The third reason of the shrinking household demand is the aging population. Although the Chinese government has implemented the two-child or three-child policies, on the one hand, these policies came a bit late; on the other hand, the effect has not been satisfactory so far. This can also be attributed to the slow growth of income and the high leverage of the middle-aged group.

Pressure on the Government Policies

In light of the two sources of pressure mentioned above, China’s government announced in its 2021 annual Central Economic Work Conference the orientation of the country’s economic policy in 2022. Stabilization comes back as the main objective. As expected, the government will adopt expansionary monetary policy and fiscal policy to stabilize the economy. The central bank lowered the reserve ratio in December 2021, followed by an interest rate cut in January 2022. More monetary expansions are expected to arrive soon as well.

As for the fiscal policy, local governments were given the priority to stimulate the economy, supported by an expected increase of central government spending.

The financial market was inspired by these policies and announcement, as is always the case, but actually, there are hidden pressures on both monetary policy and fiscal policy.

Regarding the monetary policy, the major problem is insufficient liquidity supply. Because the investment return rate was low, commercial banks were less willing to supply credit to firms, and firms were not motivated to borrow to invest more. The transmission mechanism of monetary policy was weakened due to the low productivity and profitability of firms. As mentioned, many firms are living on borrowing new to repay the old. Many SMEs are not profitable and are striving to simply survive. The solvency risk of these firms is very high. Although the central bank cut the benchmark interest rate and imposed on commercial banks the quota of lending to SMEs, these firms still found it extremely costly to borrow external finance. There is no doubt that the natural strategy of commercial banks, if they would be willing to lend to high-risk firms, is to charge a high risk premium on interest rate. This means that although the benchmark interest rate is low, the actual interest rate that these SMEs pay is still very high. What's worse, to meet the quota of loans to SMEs, commercial banks will even make agreements with SME-type borrowers in private, which dictates that the SMEs must immediately deposit the loan back to the lending bank. The lending bank pays SMEs an interest rate spread as a compensation. Of course, this is a waste of resources. But this also shows how bad the situation is when SMEs want to raise external finance. In short, monetary expansion no longer has the same stimulating effect on aggregate demand as before. Instead, we should be alert to the bubbles in financial markets.

Regarding the fiscal policy, the pressure is even stronger. In the old times, government spending and investment in infrastructure were the key toolkits to stimulate aggregate demand. At the current stage, nevertheless, local governments have limited ability to perform such toolkits. While the investment in infrastructure contributed significantly to China's economic development, its investment return is long-term, and the return rate is not very high. Local governments used to resort to the so-called local government financing vehicle (LGFV) to raise additional funds to finance the infrastructure investment and other spending. The interest rate on LGFV was much higher than the investment return rate. As a result, the long history of expansionary fiscal policy, particularly after the 2008 global financial crisis, contributed to the significant increase of local government debt. Around 2015, local government debt became unsustainable, and they had to resort to debt replacement. Still, trillions of government debt needs to be repaid each year. The pandemic further deteriorated the

governments' situation. On the one hand, local governments increased spending to hedge against the negative shock; on the other hand, falling economic growth dampened their income. Local governments are now under severe budget constraints, and 2022 happens to be the year when massive local government debt is due. Therefore, although the central government has urged local governments to stabilize the economic growth, we can hardly expect any strong moves of local governments in 2022.

The Way Out

Massive stimulus is costly, and it may not achieve the objective of stabilization. It is time to consider resource reallocation. The significance of this statement is three-fold. First, reallocate resources from less productive firms to more productive firms. This will increase the aggregate productivity of the economy. Of course, this is a long-term project. It depends on the efficiency of the market. The market will divert resources to more productive sectors and firms if there are no interventions or capital market imperfections. Saying this, the Chinese government needs to remove the distortions and imperfections in its financial markets. This will support the financing of productive firms, including productive SMEs rather than those unproductive ones, much more effectively. Imposing a quota on SME loan cannot divert resources to more productive firms, as there are also many unproductive SMEs. The market can help distinguish qualified borrowers from those who should be rationed from the credit market.

Second, reallocate resources from the financial sector to real economy. While many SMEs and private firms suffered profit loss in 2021, the profits of commercial banks maintained a positive and very decent growth. The health of commercial banks is surely very important for the macroeconomy, but if commercial banks are the only players who are making positive profits, the fundamentals of the

economy are questionable. It is suggested that commercial banks need to moderately give away some of their profits to the production sector. This is not to say that the banks' high profitability is problematic, or that the government should force commercial banks to cut interest rate on loans. Quite the opposite, it is very important for commercial banks to maintain positive profit growth, and they need to be compensated for diversifying risks. What people are worrying about is the super market power of commercial banks. It is well known that a monopoly supplies less output but charges a higher price. Commercial banks, if protected by administrative monopoly, will supply less credit but charge higher

“Massive stimulus is costly, and it may not achieve the objective of stabilization. It is time to consider resource reallocation.”

interest rates. China should further develop its banking industry and develop a multi-layered capital market, where firms can resort to more sources of external financing.

In addition, with abundant liquidity supply, the development of financial markets has gradually diverged from the development of the real economy. Financial markets have a much higher return rate than the real economy, as the asset price has been climbing while the real economy is suffering diminishing return. This attracts more funds to financial markets, which pushes asset prices up further. The real economy finds it increasingly difficult to raise fund to finance its investment. We call this phenomenon financial crowding-out effect. The real economy needs to improve its productivity and return rate to compete for resources; the central bank needs to control liquidity supply that may fuel the financial asset bubble; and the financial regulation should pay attention to the fund that is circulating and arbitraging in the financial market.

Third, reallocate resources from governments to firms. Expansionary fiscal policy has various forms. Government spending is just one of them, and it is a substitute of private spending. To increase spending, the government also needs to finance itself, and, therefore, it competes for the resources with the private sector, usually leading to a crowding-out effect as well. Thus, it is frequently observed that while the growth rate of government investment increases significantly, the growth rate of the overall investment continues to fall. The stimulating effect is limited. But the government would accumulate more debt. Market observers acknowledge that expansionary fiscal policy is necessary under the current situation, particularly if the government wants to stabilize the economic growth in 2022. However, analysts suggest that alternative measures of expansionary fiscal policy, such as cutting tax rates would be better. Reducing costs is the most urgent need for many firms to survive. Cutting taxes also leaves firms with more disposable earnings. When the production sector booms, government tax revenue will not be significantly affected by the rate cut.

To sum up, confidence comes from better profitability and higher productivity, not from additional money supply or government spending. The pandemic caused disorder to the world economy, but China should take this challenge as an opportunity to improve its fundamentals of the economy.

Along the Belt and Road —Breaking the Cycle of Underdevelopment in Latin America

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The last few months have seen a significant expansion of the Belt and Road Initiative in Latin America and the Caribbean. Although this region of the world is not the most obvious fit for an undertaking that was originally modeled on the Silk Road—a network of trade routes linking East Asia with the Middle East, Africa, and Europe—the reality is that the countries of South America, Central America, and the Caribbean share many of the same needs as their counterparts in Central Asia, Southeast Asia, the Middle East, and Africa.

Most Latin American countries won their formal independence from Spanish and Portuguese colonialism in the 19th century, but they found themselves in the shadow of an incipient North American imperialism. The Monroe Doctrine, first articulated by President James Monroe in 1823, denounced European colonialism and interference in the Western Hemisphere, not on the basis of anti-colonial principle but with a view to buttressing US hegemonic designs. Since that time, the U.S. has tended to consider Latin America as its “backyard”—a collection of countries subjected to the control (direct or indirect) of Washington.¹

Eduardo Galeano wrote that the transition from colonialism to neocolonialism made little difference to Latin America’s position within the global capitalist economy. “Everything from the discovery until our times has always been transmuted into European—or later, United States—capital, and as such has accumulated on distant centers power.

¹ Alexander Main, “Is Latin America Still the US’s ‘Backyard’?”, CEPR, accessed Jan. 18, 2022. <https://www.cepr.net/is-latin-america-still-the-us-s-backyard/>

Everything: the soil, its fruits and its mineral-rich depths, the people and their capacity to work and to consume, natural resources, and human resources.”²

Galeano’s words were written almost 50 years ago, but they still ring true. The U.S. continues with its hegemonic strategy in relation to Latin America, a strategy which seeks to make the region’s land, natural resources, labor and markets subservient to the needs of US monopoly capital. The U.S. has shown a consistent interest in Mexican labor, in Chilean copper, in Brazilian land; but it has been indifferent to the needs of the people of these countries to development, to a decent standard of living, to social justice. And when the U.S. fails to get what it wants through quiet pressure and economic coercion, it does not hesitate to use force, for example, supporting coups against the elected governments of Bolivia³ and Venezuela,⁴ or imposing illegal sanctions on Nicaragua⁵ and Cuba.⁶

As a result, Latin America continues to suffer significant underdevelopment in many areas. The emergence of China as a major investor and trading partner is therefore proving to be indispensable for the region’s economic progress.

Steadily Increasing Economic Ties Between China and Latin America

In the last two decades, economic links between Latin America and the People’s Republic of China have been expanding at a dizzying rate. Bilateral trade in 2000 was just \$12 billion (one percent of Latin America’s total trade); now it stands at \$315 billion.⁷ In the same time period, China’s foreign direct investment in Latin America has increased by a factor of five.⁸

Since the launch of the Belt and Road Initiative (BRI) in 2013, 21 of the 33 countries in the Latin American and Caribbean region have signed up to the China-led global infrastructure development strategy. Infrastructure projects have been a particular focus for Chinese firms. Writing in *Foreign Policy* in 2018, Max Nathanson observed that “Latin American governments have long lamented their countries’ patchy infrastructure.” China has “stepped in with a solution: roughly \$150

2 Eduardo Galeano, *Open Veins of Latin America: Five Centuries of the Pillage of a Continent* (New York: Monthly Review Press, 1997), pp. 190.

3 Mark Weisbrot, “Silence reigns on the US-backed coup against Evo Morales in Bolivia,” *The Guardian*, accessed Jan. 18, 2022. <https://www.theguardian.com/commentisfree/2020/sep/18/silence-us-backed-coup-evo-morales-bolivia-american-states>

4 Julian Borger, “US ‘gave the nod’ to Venezuelan coup,” *The Guardian*, accessed Jan. 18, 2022. <https://www.theguardian.com/world/2002/apr/17/usa.venezuela>

5 Chuck Kaufman, “Sanctions Kill! End US Sanctions on Nicaragua,” *Alliance for Global Justice*, accessed Jan. 18, 2022. <https://afgj.org/nicarotes-sanctions-kill-end-us-sanctions-on-nicaragua>.

6 Ramona Wadi, “The Illegal US Blockade on Cuba Hinders the Island’s Economic Development,” *Politics Today*, accessed Jan. 18, 2022. <https://politicstoday.org/the-illegal-us-blockade-on-cuba-hinders-the-islands-economic-development/>

7 Pepe Zhang and Tatiana Lacerda Prazeres, “China’s trade with Latin America is bound to keep growing. Here’s why that matters,” *World Economic Forum*, accessed Jan. 19, 2022. <https://www.weforum.org/agenda/2021/06/china-trade-lat-in-america-caribbean/>

8 Ciara Nugent and Charlie Campell, “The U.S. and China Are Battling for Influence in Latin America, and the Pandemic Has Raised the Stakes,” *Time*, accessed Jan. 19, 2022. <https://time.com/5936037/us-china-lat-in-america-influence/>

billion loaned to Latin American countries since 2005.”⁹

Chinese investment has been widely recognized across the region for its positive economic and social impact, particularly in terms of facilitating government projects to reduce poverty and inequality. Kevin Gallagher, in his important book *The China Triangle*, writes that “Venezuela has been actively spending public funds to expand social inclusion to the country’s poor. The country... was able to fund such expenditures given the high price of oil in the 2000s—and due to the joint fund with China.”¹⁰

A similar story can be told about transformative social programs in Bolivia, in Brazil (under the Workers Party governments led by Luiz Inácio Lula da Silva and Dilma Rousseff) and elsewhere. Brazil under the Lula and Dilma governments (2002-2016) won global acclaim for its unprecedented campaigns to tackle poverty, homelessness, malnutrition, and lack of access to education and healthcare. As part of its rejection of the Washington Consensus and its embrace of multipolarity and South-South cooperation, Lula’s administration massively expanded economic ties with China. Then foreign minister Celso Amorim said the Brazil-China relationship formed part of a “reconfiguration of the world’s commercial and diplomatic geography.”¹¹

Chinese investment has proven particularly attractive to those governments in the region that seek to protect their sovereignty and improve the living standards of their populations. Investment from the international financial institutions (most notably the IMF) has typically come with punishing conditions of privatization, deregulation, and fiscal austerity. China’s development loans, on the other hand, come with no such strings attached. Gallagher affirms that Chinese banks “do not impose policy conditionalities of any kind, in keeping with general foreign policy of nonintervention.”

Support During the Pandemic

Aside from trade and investment, China gives over \$5 billion in aid to Latin America each year. Since the start of the pandemic, China has provided around half the region’s COVID-19 vaccine doses,¹² with a number of countries including Chile, El Salvador, Brazil, and Uruguay

9 Max Nathanson, “How to Respond to Chinese Investment in Latin America, Foreign Policy,” accessed Jan. 19, 2022. <https://foreignpolicy.com/2018/11/28/how-to-respond-to-chinese-investment-in-latin-america/>

10 Kevin Gallagher. *The China Triangle: Latin America’s China Boom and the Fate of the Washington Consensus* (New York, NY, United States of America: Oxford University Press, 2016), pp. 85.

11 Hal. Brands. *Dilemmas of Brazilian Grand Strategy* (United Kingdom: Lulu.com, 2012), pp.12

12 “China Has Supplied 64% of Bolivia’s Covid-19 Vaccines,” Kawsachun News, accessed Jan. 20, 2022. <https://kawsachunnews.com/china-has-supplied-64-of-bolivias-covid-19-vaccines>

relying almost exclusively on Chinese vaccines.¹³ Indeed, as early as July 2020, Chinese Foreign Minister Wang Yi announced a one-billion-dollar loan to support vaccine access in Latin America.¹⁴

Mexican President Andrés Manuel López Obrador has spoken of his gratitude for Chinese support with vaccines, testing kits, ventilators, and personal protective equipment, “We’re very grateful to China, to the Chinese government, to the President of China...We asked him for support with medical equipment, and a huge number of flights with medical equipment have arrived from China.”¹⁵

Cuba Joins the Belt and Road Energy Partnership

Cuba and China established diplomatic relations in 1960, just a year after the Cuban Revolution. However, the relationship was complicated by the emerging Sino-Soviet split, and the two sides had little to do with one another in the 70s and 80s. With the collapse of the Soviet Union in 1991, compounded by a deepening blockade by the U.S., Cuba faced an unprecedented economic crisis. China’s economy, on the other hand, was starting to take off, and it stepped in to provide Cuba with urgently-needed investment, trade, and aid, starting with the supply of a million bicycles.¹⁶

In 1993, awarding former President Jiang Zemin the Order of Jose Martí, Cuban President Fidel Castro spoke passionately about the successes of Chinese socialism: “Only socialism could have been capable of the miracle of feeding; clothing; providing with footwear, jobs, education, and healthcare; raising life expectancy to 70; and providing decorous shelter for more than one billion human beings in a minute portion of the planet’s arable land.”¹⁷

Since the early 1990s, bilateral trade has grown steadily, and China now accounts for around 30 percent of Cuban imports and exports.¹⁸ China invests heavily in telecommunications, mining, and energy in Cuba, and Chinese consumer goods are very popular on the island. Cuba exports sugar, nickel, and other goods to China.

Most recently, Cuba has joined the Belt and Road Energy Partnership, a Chinese-led program designed to strengthen coordination around

13 Dan De Luce, “China is using vaccines to push its agenda in Latin America, and the U.S. is behind the curve, experts say,” NBC News, accessed Jan. 21, 2022. <https://www.nbcnews.com/news/world/china-using-vaccines-push-its-agenda-latin-america-u-s-n1268146>

14 Karol Suarez, “China offers \$1 billion loan to Latin America and the Caribbean for access to its Covid-19 vaccine,” CNN, accessed Jan. 20, 2022. <https://edition.cnn.com/2020/07/23/americas/china-billion-vaccine-latin-america-coronavirus-intl/index.html>

15 “México y China podría generar tensión con EE.UU.: experto,” Voz de America, accessed Jan. 20, 2022. https://www.vozdeamerica.com/a/america-latina_acercamiento-de-mexico-y-china-podria-generar-tension-con-eeuu-experto/6066012.html

16 Michael Voss, “Cuba past and future: The Special Period,” CGTN, accessed Jan. 21, 2022. <https://america.cgtn.com/2018/04/17/cuba-past-and-present-the-special-period>

17 F. Castro, “Castro Presents Jose Marti Order to Jiang Zemin,” Fidel Castro Speech Database, accessed Jan. 21, 2022. <https://australianmuseum.net.au/chinese-scroll-painting-h533>

18 Scott B. MacDonald, “Cuba’s Changing of the Guard and Sino-Cuban Relations,” Center for Strategic and International Studies, accessed Jan. 19, 2022. <https://www.csis.org/analysis/cubas-changing-guard-and-sino-cuban-relations>

energy investments and promote clean energy. David Castrillon, Research Professor in international relations at the Externado University of Colombia, observes that “Cuba, like so many other countries in the Global South, faces both the basic needs of the population for access to electricity, as well as the global demands to transition to more sustainable energy sources. It is in this context that cooperation with a country like China is so important, as China not only has the experience and expertise in developing these high-quality sustainable energies, but also the willingness to work hand in hand with other countries.”¹⁹

With limited natural resources and suffering under a US economic blockade that has persisted for over 60 years, Cuba has benefited tremendously from its deepening win-win relationship with China. As Chinese President Xi Jinping said when visiting Havana in 2014, China and Cuba are both socialist countries, and the common ideal, beliefs, and objectives have tightly united the two peoples together. The two should be “good friends, good comrades, and good brothers forever.”²⁰

China and Nicaragua Resume Diplomatic Ties

On December 9, 2021, Nicaragua’s Foreign Minister Denis Moncada announced the resumption of diplomatic relations between the People’s Republic of China and the Republic of Nicaragua. As Wang Wenbin, Chinese Foreign Ministry spokesperson, noted, “The two governing parties and two countries share revolutionary friendship and brotherly bonds.”²¹

There is enormous scope for the two countries to advance economic cooperation, particularly in infrastructure construction and renewable energy. Following the announcement of bilateral relations, the two sides signed several cooperation agreements, including a memorandum of understanding on cooperation under the framework of the Belt and Road Initiative (BRI) and the 21st Century Maritime Cooperation.²²

Speaking at the official reopening of China’s embassy in Nicaragua, Moncada stated, “We are sure that we will continue working together, strengthening each day the fraternal ties of friendship, cooperation, investment, expanding communication channels with the Belt and

19 Sergio Held, “Cuba eyes cooperation with China on clean energy,” China Daily, accessed Jan. 21, 2022. <https://global.chinadaily.com.cn/a/202112/28/WS61ca4cd-ba310cdd39bc7dbff.html>

20 “China, Cuba walk together in building socialism,” Xinhua, accessed Jan. 21, 2022. http://www.news.cn/english/2021-08/31/c_1310159352.htm “Foreign Ministry Spokesperson

21 “Wang Wenbin’s Regular Press Conference on December 10, 2021,” Ministry of Foreign Affairs of the People’s Republic of China, accessed Jan. 21, 2022. https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202112/t20211210_10466671.html

22 Liu Xin and Wan Hengyi, “Nicaragua rides wave of China, reaffirming BRI,” Global Times, accessed Jan. 21, 2022. <https://www.globaltimes.cn/page/202201/1245705.shtml>

Road, strengthening peace, stability, security, development, and progress for the mutual benefit of our peoples and humanity.”²³

Nicaragua is another country that has suffered terribly as a result of US intervention, destabilization, and sanctions. Increasing coordination with China will certainly help it to break out of underdevelopment and solve the needs of its people.

A Rising Tide of Multipolarity

With the expansion of Chinese investment and trade, Latin America has the historic opportunity to break out of its status as a “backyard” of the U.S. to climb the ladder of development and to affirm its status as a key player in an increasingly multipolar world. Kevin Gallagher has noted that Latin American governments no longer consider it necessary to submit to the neoliberal Washington Consensus or to endure US domination “in large part because they believe they have an alternative in China.”²⁴ The late Venezuelan president Hugo Chávez considered that an alliance with China constituted a “Great Wall against American hegemonism.”²⁵

In stark contrast to the U.S., China treats other countries on the basis of equality and works to develop mutually beneficial relationships. Since Chinese loans don’t come with punishing conditions of austerity and privatization, Latin American governments have been able to leverage China’s investment and purchase of primary commodities to spend at an unprecedented rate on reducing poverty and inequality. As such, from Chile to Bolivia to Venezuela to Mexico, the relationship is producing tangible benefits for ordinary people in the region.

23 “China Reopens Embassy in Nicaragua, Invites Nicaragua to Belt & Road,” Kawsachun News, accessed Jan. 21, 2022. <https://kawsachunnews.com/china-re-opens-embassy-in-nicaragua-in-vites-nicaragua-to-belt-road>

24 Gallagher, *op cit*, pp. 233.

25 Jonathan Watts, “Chávez says China deal ‘great wall’ against US,” *The Guardian*, accessed Jan. 29, 2021. <https://www.theguardian.com/world/2006/aug/25/venezuela.china>

Effective Implementation of RCEP: Key to Promoting Regional Economic Integration

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Initiated by the ASEAN in 2012 to strengthen its ties with China and other Asian countries, the Regional Comprehensive Economic Partnership (RCEP) Agreement was signed by 15 Asia-Pacific states. On January 1, 2022, the RCEP came into force in ten countries—Brunei, Cambodia, Laos, Singapore, Thailand, Vietnam, China, Japan, New Zealand, and Australia. In the coming months, it is expected to be ratified by the other signatories.

The RCEP covers a market of 2.2 billion people and \$26.2 trillion of global output. The Brookings Institution estimated that the RCEP could add \$209 billion annually to world income and \$500 billion to world trade by 2030.¹

Amid the slowdown of economic globalization, the RCEP is to inject new momentum into the Asia-Pacific region in terms of economic integration. Given the rising trend of de-globalization and trade protectionism, the RCEP will improve market transparency and promote exports of services in multiple sectors, including professional services, computer services, commercial services, logistics, and distribution. Investors can benefit from the stability of host markets, and companies in member countries can enjoy tariff reductions up to 92%. In other words, the RCEP helps lower business costs and facilitates market access.

The RCEP will also bring together member countries to explore how they can improve the resilience of the Asia-Pacific supply chains. For example, these countries may seek to simplify the customs processes and clearance terms to make logistics, distribution, and supply chains more resilient. In short, the

¹ "U.S. on Sidelines as China and Other Asia-Pacific Nations Launch Trade Pact," The Wall Street Journal, Jan. 1, 2022, accessed Jan. 19, 2022. <https://www.wsj.com/articles/u-s-on-sidelines-as-china-and-other-asia-pacific-nations-launch-trade-pact-11641038401>

RCEP will promote trade cooperation and integration between ASEAN members and other Asia-Pacific countries, giving a big boost to free trade, multilateral mechanisms, and confidence in regional and global trade.

The most notable feature of the RCEP is the flexible rules of origin. Within the RCEP framework, only 40% of the components of a product has to originate within the RCEP bloc to qualify for duty-free treatment. RCEP “provides a lot of opportunities for building and strengthening intra-Asian supply chains,” said Jeffrey Schott, Senior Fellow at the Peterson Institute for International Economics.²

As the first free-trade agreement that links China, Japan, and South Korea, the RCEP is expected to help boost trade between these nations significantly. Analysis shows that the RCEP has a fairly positive impact on Japan’s economic outlook, with tariffs to be eliminated on 86% of industrial goods exported from Japan to China, up from the current 8%. That, according to the Japanese government, includes the elimination of levies on 87% of auto parts exports. In addition, some 92% of Japanese industrial products will be exported to South Korea duty free, compared with the current 19%.

According to a recent report by the United Nations Conference on Trade and Development (UNCTAD), Japan will benefit the most from RCEP tariff concessions, largely because of the trade diversion effects. The RCEP will turn the Asia-Pacific, a region that includes China and South Korea, two of Japan’s main export destinations, into a “new center of gravity” for global trade.³

Japan’s annual exports are expected to rise by about \$20 billion, an increase equivalent to about 5.5% relative to its exports to RCEP members in 2019. The Japanese government estimated that the RCEP will boost the country’s GDP by 2.7% and create around 570,000 jobs. Due to many reasons, negotiations on the China-Japan-South Korea Free Trade Zone have made little progress since it was proposed in 2002. The RCEP, however, has made the free trade vision partially come true, paving the way for further tripartite talks on this matter.

The series of economic reforms that RCEP triggers will contribute to the post-pandemic recovery of the Asia-Pacific economy in a sustainable way. Recently, the rapid spread of the Omicron variant of COVID-19 has added uncertainty to the regional economic recovery. The RCEP will not only help the afflicted areas with economic recovery, but also invigorate the regional and global economy in the post-pandemic era by promoting cooperation in e-commerce and other digital areas.

² *Ibid.*

³ “RCEP’s benefits come with challenge of keeping China in check,” *thejapantimes*. Dec. 31, 2021, last accessed Jan. 19, 2022. <https://www.japantimes.co.jp/news/2021/12/31/business/economy-business/rcep-benefits-china-challenge/>

The RCEP will also have multiple positive impacts on China. As more than 90% of the merchandise trade between RCEP members will eventually be subject to zero tariffs, the economic and trade ties among these countries will become closer. Furthermore, the RCEP will promote the free flow of trade and circulation of commodities and deepen the integration of supply chains in the region, serving as a stabilizer for the industries, supply, and value chains.

Still, challenges remain for the effective implementation of the RCEP across the region. The biggest challenge lies in regional imbalance of development. Both developed countries like Japan, Australia, South Korea, and Singapore and the least developed countries (LDCs) such as Cambodia, Laos, and Myanmar can be found in the RCEP region. Given the striking differences in their interests, the RCEP's implementation might turn out to be patchy. Moreover, the RCEP's dispute settlement mechanism is less favorable for the LDCs, and provisions on extraordinary remedies are missing. Such problems might dampen the enthusiasm of the LDCs within the region to enforce the agreement.

The second challenge is that the RCEP covers an expansive region. The member countries have different political systems, ideologies, and cultures; their peoples belong to different races and believe in different religions. All these bring uncertainties to the implementation of the RCEP. And surely, the problems left over from history and the ongoing territorial disputes among some member countries threaten regional harmony required for RCEP's implementation.

The third challenge is that the RCEP might clash with a U.S.-led Indo-Pacific economic framework. If so, some regional countries will have to take sides, which is bad news for regional economic integration.

TIO Spotlight Talk



B3W: A Western Alternative to the BRI?

An Interview with Maria Adele Carrai

Maria Adele Carrai



Assistant Professor, Global China Studies, NYU Shanghai

Background: The Belt and Road Initiative, the massive global infrastructure project launched by China in 2013, is a project that has attracted great interest, debate, and controversy. Whilst some have praised the need to help the development of the Global South, others have criticized it as a symbol of China's geopolitical expansion and ambitions through the notion of the "debt trap," leading Western nations such as the U.S. to try and build their own alternatives to it. But where does the truth lie? Will efforts to counter it succeed?

TIO Thank you, Dr. Carrai, for granting this interview with TIO. The topic for today's discussion is America's infrastructure agenda. The Build Back Better World (B3W) agenda, or the American infrastructure initiative, was first proposed by President Biden at the G7 summit in 2021. Can you, first of all, tell us a little bit about this initiative? What is it all about? How should we understand it?

Carrai Sure. First of all, thanks for having me here. Let me talk about the Build Back Better initiative. It is an international economic initiative that is led by the United States. It is about building infrastructure, and it was launched, as you said, in 2021 by the G7 countries and is expected to set new standards that better reflect the values of Western democracy, and most importantly, balance against the Belt and Road Initiative (BRI) and China's global reach.

The aim of the initiative is to catalyze funds from the private sector and build better quality

“The U.S. hopes to promote an upward competition of standards that will force Chinese companies to accept the Western rule of law and governance standards and help extend US influence in the Indo-Pacific region and beyond.”

infrastructure. The idea is to create a high standard certification process as part of this Build Back Better World initiative, which leverages a wide range of private capital, especially pensions and insurance funds, to invest in infrastructure and obtain long-term returns.

The U.S. hopes to promote an upward competition of standards that will force Chinese companies to accept the Western rule of law and governance standards and help extend US influence in the Indo-Pacific region and beyond.

I want to tell a bit more about previous initiatives that preceded this framework. The initiative builds on the International Development Finance Corporation (IDFC) and the Blue Dot Network (BDN) of the Trump administration.

According to the Better Utilization of Investments Leading to Development Act (the BUILD Act) of 2018, the Trump administration integrated and upgraded the US Overseas Private Investment Corporation (OPIC) before merging it with the Development Credit Authority (DCA) and the United States Agency for International Development (USAID). And then the agency that emerged from the restructuring was known as the International Development Finance Corporation, which has an investment cap of \$60 billion.

Another initiative that helps understand the B3W initiative is the BDN promoted by the Trump administration. It was established, once again, to promote the private sector and civil society participation in infrastructure construction. This also should have reflected principles of good governance, environmental management, and transparency. The higher standards, in theory, would have attracted private capital to invest in infrastructure.

The BDN was launched in 2019 with a coalition that comprised the Japan Bank for International Cooperation, the Australian Department of Foreign Affairs, and the United States International Development Finance Corporation.

So this is the context. Historically, there were these previous initiatives from the Trump

administration. The B3W has a similar focus as the BDN. It aims to promote good governance, high transparency, and again, attract the private sector. The initiative was also motivated by the US foreign policy that is dictated by its obsession with China. The U.S. is using this initiative to balance against China. Rather than targeting a domestic audience, it serves as a geopolitical and international strategy that aims to counter the BRI.

TIO Going off what you've just said, this agenda of infrastructure-building is not just a political innovation of Joe Biden. Obviously, it started, as you said, from the BDN during the Trump administration. But from Trump to Biden, where does the B3W agenda depart from the BDN? How are they different?

Carrai I think the B3W reflects Biden's willingness to approach China by collaborating with US allies. It's a G7 initiative. Before, it was just Japan and Australia. But now the U.S. really tries to foster its relationship with other G7 countries, its allies. This is a key aspect. Trump alienated the US allies while Biden is trying to leverage these existing relationships against China. Now, it is not the U.S. alone, but the U.S. with its allies that can contain China.

TIO If we think about the domestic situation in the U.S., Biden's emphasis during his administration, another very important point, is to really focus on infrastructure-building in the United States. Obviously, Biden wants to build infrastructure. Trump wanted to do that, and Obama also wanted to do that. The agenda has been there for a long time. So, one question is: what is blocking this policy implementation process? Why is the infrastructure-building plan so inefficiently carried out in the U.S.?

Carrai Yes. So, one other initiative or framework that needs to be mentioned is the Build Back Better initiative. That is a domestic initiative, unlike the B3W, which is more tailored to an international audience.

This package of Build Back Better has a bipartisan consensus. Again, it's more domestic. Basically, in the past decade, the U.S. has cut back its spending on infrastructure. And already in the 1980s, there was this great book by Pat Choate and Susan Walter titled *America in Ruins* that was published by Duke University Press. It shows that spending on public work projects was already decreasing in the 1980s, and that the nation's infrastructure was crumbling and needed to be repaired.

Today, the situation that dates back to the 1980s has perhaps worsened. In 2021, the American society civil engineers gave the U.S. a C minus grade for the state of infrastructure across the nation. It also warned that 43% of the US roads and highways were in poor to mediocre condition and that more than 46,000 of the nation's bridges were in such a bad shape that it would take over 50 years just to complete all the currently needed repairs.

What caused it? I think that one of the major limitations is political. There is not a strong incentive for politicians who face reelection to spend money on maintenance and renovation of existing infrastructure, rather, they start new and shiny projects that will impress their voters.

The reason for this is that in America, as in many other countries, money for maintenance and renovation mostly comes from taxpayers. It will be unpopular to increase taxes, a very sensitive issue in the United States. Moreover, many of the most important infrastructure projects are invisible, like sewage and waterline. But when it starts to fall apart, people or voters start to notice them, as we can see from the case of the Flint water crisis.

That was a public health crisis that started in 2014 and lasted well until 2019. The water in the city of Flint, Michigan, was contaminated with lead and Legionella bacteria. It was a bad situation that revealed a bit about the state of infrastructure in the U.S. It is also evident by the amount of time it took to solve the issue. It took five years to solve the issue, from 2014 to 2019. Moreover, the cost for building infrastructure or maintaining the existing one is very high in America.

I encourage everybody to read an article by the New York Times, titled “The Most Expensive Mile of Subway Track on Earth,” which is the New York City subway. It discusses how excessive staffing, very little competition among contractors, and very generous contract as well as archaic rules inflated the cost of transit in New York and made it one of the most expensive subways in the world. Political factors and high costs of infrastructure created this gridlock, but I think the major issue is really political.

“In America, the China question is probably a topic with most bipartisan agreement...both Democrats and Republicans are very harsh on China.”

TIO As you said, the Build Back Better plan is bipartisan within the United States. What about the B3W? Is it also bipartisan? Have both parties reached a consensus on countering China through building infrastructure but by different approaches? For example, Biden wants to do it with the US allies, but then in 2024, if the U.S. elects a Republican president who wants to do it the Trump way. Is it possible?

Carrai In America, the China question is probably a topic with most bipartisan agreement. Although the methods might be different, both Democrats and Republicans are very harsh on China. They think China is a problem. China needs to be contained. The U.S. needs to be tougher on China. And in terms of the method, which we will perhaps have the chance to discuss later, the B3W is a very preliminary initiative. The document that was released is

basically one page. It has very general goals with not much meat or substance. There are all these intents and there is a need to compete with China. But first of all, there are no clear details on how this is going to happen. And also, if it's going to happen, it's difficult to coordinate among the G7 members and successfully build infrastructure in the world.

That's why I also started by talking about previous initiatives made by the Trump administration that align very much with this new initiative of Biden, with the difference that Biden probably tries to leverage more its allies, like other countries, rallying a group of democracies against an authoritarian China.

So, this is a major difference. And probably in terms of the ways on how to do "Build Back Better World," there will be transformation. But I don't see a future where if Trump gets reelected, he will dismiss the Build Back Better World. Maybe he will try to do it alone or with other partners, but I think it will probably stay.

TIO Their similarities are that both are against China and that both focused a lot on infrastructure. But as you summarized, Biden prefers a multilateral framework, whereas Trump prefers an "isolationist" approach. Then, if there is this kind of zigzagging or jumping around, how would countries in the middle feel about this?

Carrai There is a lot of money or at least commitment to investments in infrastructure in the developing world. It is a golden age for developing countries to take advantage of the competition between the U.S. and China to get money, choose what works best for them, whoever gives them money. It fits their own national interests and values.

And I think there is a tendency in the U.S. to frame the current U.S.-China competition as a new Cold War. China opposes that and tries to avoid this ideological competition. The same is true for host countries. If we look at Africa, African countries try to avoid getting trapped into this Cold War narrative, as they did in the past. There is a historical context that explains why African countries oppose this dichotomic vision of the world that dates back to Bandung Conference and the Non-Aligned Movement. They try to avoid taking sides. I think, again, they should make the most of the money that is there, at least in terms of commitment, and take advantage of this competition and get the money and try to find, again, synergies between the U.S. and China and get infrastructure done in their countries.

TIO Given the current geopolitical landscape of the U.S.-China competition, given that they are competing on almost every front, what would you suggest these two countries do in the future?

Carrai I think that they should continue the dialogue. What saddens me the most is, especially now

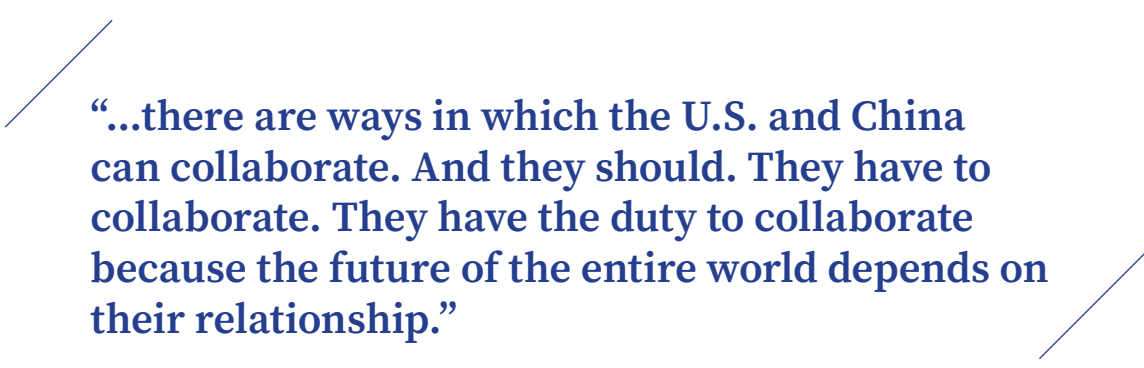
during the COVID-19 pandemic, a lack of dialogue and people-to-people exchanges. It is important to have dialogues between the top leaders, but I think the dialogue should take place at every level.

I think the two countries should continue the exchange rather than reduce everything to an ideological division. It is also important to look at facts. And that's why I think it is important to rely on scholars who study facts and are detached from more ideological position. China is a competitor of the U.S. It is posing a challenge to the hegemonic position that the U.S. has occupied all these years. This is true. But at the same time, there are ways in which the U.S. and China can collaborate. And they should. They have to collaborate. They have the duty to collaborate because the future of the entire world depends on their relationship. This relationship determines how future norms will be written and whether there will be peace or war. So, it's very important that they cultivate the relationship given that they are competitors, but there are still ways that they can collaborate and coexist peacefully.

For instance, if China builds infrastructure in a country, the U.S. can come in with its software. There may also be better ways for the U.S. to assert its soft power. There may also be better ways to leverage Chinese constructions of basic infrastructure around the developing world. Just to give you an example, the U.S. can rely on its advantages in service sector, education, health, and foster education, or diplomatic ties instead of building infrastructure.

The U.S. cannot compete with China in terms of infrastructure-building in the developing world. To China, the U.S. represents an essential partner for dealing with global challenges from the environment to global health. So, there are many aspects for the U.S. to be an important partner of China. Given the differences of their political and development models, both the U.S. and China should try to find synergies.

TIO On a related note, let's now talk a bit about China's Belt and Road Initiative. Ever since the BRI's launching, it has been criticized by the Western press as China's "debt-trap diplomacy." Some people even describe it as neocolonial, depicting China as a neocolonialist power. So,



“...there are ways in which the U.S. and China can collaborate. And they should. They have to collaborate. They have the duty to collaborate because the future of the entire world depends on their relationship.”

based on your study, what is the reality of how the BRI initiative functions in the developing world like Africa?

Carrai The BRI is a huge initiative, a huge enterprise. It has been having mixed effects. As some critics complained, some of its projects are white elephant projects, projects that didn't really generate the economic return that they had hoped for and that were done superficially without enough investigation of the host country's situation. These projects mostly were, if not all, requested by the host countries. So it was not China imposing a certain project, but China saying okay to these requests. For countries like Sri Lanka or Pakistan, for instance, they went to China and asked: can you help us finance this infrastructure project? China, out of friendship and to increase its soft power, said yes, although this approach has been changing more recently.

And in Africa, again, there's been a mixed series of projects, some successful, some less so. I have done work in Kenya and Ethiopia, looking at how China built and financed railroads. I can tell that the Ethiopian project was not as good as the Kenyan one in terms of economic returns and operations.

I've written a lot about this, and it is not just me but also many other authors. Based on facts and data, we don't think China is trying to put these countries in a debt trap. It is not in China's interest to do so.

That said, there are some projects that have been problematic. And we can also see efforts from China, from the Chinese central government to improve its operations abroad. But again, one should understand that actors that operate abroad are both private and public. There are also private actors that contribute to the Belt and Road Initiative, some of which are not completely accountable. So, it's hard for the central government to have a direct and complete control over these actors. There is always something that gets out of Chinese government's hand.

So, we see a gradual amelioration of BRI. We also see a decrease in investments from China to Africa and a much more rigorous selection of projects that China takes on and decides to finance and build. So, there has been an improvement both in terms of regulations and the principles China follows when it builds abroad and stricter rules. These, however, need to be followed on the ground, and it is not always the case.

TIO Just like you said, in some partner countries, the initiative is working well, but in some other ones, the outcome is not very good. Looking ahead in 2022 and beyond, how would you project the BRI to facilitate China's economic growth in the future, if there is any?

Carrai The BRI also has a domestic component, to build infrastructure domestically. And that is what China has done in the past. For the financial crisis in 2008, China decided to give a huge stimulus internally for infrastructure development. And then there is an international aspect of BRI in terms of resources, access to resources. The policy banks that financed the BRI, when I interviewed some of the EXIM bank officials in Ethiopia and Kenya, one of their goals is to profit. But then some of these projects are not profitable. There is a huge debt problem for the host country, especially now after COVID-19, debt was partly suspended.

But then the money must be paid eventually. It's very rare that China completely forgives the debt to these countries. In terms of the economic development of China, the BRI internally can help foster China's economic development more directly and you see the effects more directly.

Internationally, the effects are a bit more mixed, because the environment is a bit riskier. And I think it's more about securing China internationally. Now we have Djibouti, where the first Chinese overseas military base was built. China is striving to expand its military presence abroad very gradually and its soft power, creating a good image of China. For instance, the BRI during the pandemic was transformed into a "medical BRI" so that China could export masks and medical equipment. Therefore, to be honest, I don't know whether there was an economic return for China. Even now with the vaccines, it is more about China's image and its soft power. So, I think the BRI should be understood more broadly, not just in terms of economic return, but also soft power, security, and access to resources. There are many different aspects of it.

“When China goes abroad, there are risks involved, risks of doing business in a country that is not your own where you have even less control over all these economic actors, changes in regulations, and wars.”

TIO It seems rather difficult because while China's doing all this, then at the other side of the world, somebody is sabotaging all the efforts, saying what China is doing is essentially a debt trap...

Carrai When China goes abroad, there are risks involved, risks of doing business in a country that is not your own where you have even less control over all these economic actors, changes in regulations, and wars.

This is complicated by the current geopolitical situation and the current rhetoric. Very toxic rhetoric, like ideological clashes, China's debt trap, Chinese this, Chinese that. It is very

challenging for China, but I also feel that, for instance, in Africa, China has won the trust of many governments. China has become the key trading partner of most of African nations, and a key source of investments.

As to the U.S. and the G7 countries with the B3W, I don't know how effective they will be. For instance, in Africa. Africa is one of the regions that they particularly tried to target with this initiative, because they feel Africa has been lost to China. But Africa has been long neglected by Western countries, while China has fostered its close ties, sending top officials to Africa to foster the diplomatic relationship.

And so, I think China can leverage these deeper ties, whether they are political or economic, vis-à-vis other countries. So even if other countries launch a campaign against China, then there are the facts: who's building the roads here, who's building infrastructure, who's giving us options that would otherwise not be there?

TIO How do you gauge whether the BRI is a success or not? Oftentimes, we hear about judgments that the BRI was not a success and China lost a lot of money along the way and people in the partner countries are not happy with it. Some also claim that with all the money that has been invested, there's no economic return at all. Do you think it's still too early for us to jump to conclusions of this sort?

Carrai First, I think it's difficult to assess the BRI both now and, in the future, because the BRI, for its very nature and the way it was framed, is a bit ambivalent and ambiguous. Still, now, there isn't a clear list of countries or projects that are part of an official BRI list. There are some that were incorporated into the BRI but it's a bit of everything. So it is difficult to really define what is BRI and what is not. If you cannot define what a BRI project is, it is hard to tell whether it's successful or not.

I think that the BRI has been successful in some ways. For instance, if one of the objectives of President Xi Jinping launching the BRI was to make China more prominent, I think he was successful in that regard because everybody is talking about the BRI and I don't think it is going to disappear anytime soon. He launched this massive idea. In terms of ideas, it was successful because it created new imaginaries of China's global power. All countries now start to talk about infrastructure, connectivity, China, China as a great power, etc.

But at the same time, there are negative effects, because while before, China was hiding its strength, it is now very exposed as a great power. And I think this is freaking out the United States and European countries that are taking preventative measures to contain China even more. In that sense, the BRI created a bit of a backlash. It shows China's power and global reach, and many countries recognize it, which is why the United States tries to contain the

initiative and the B3W agenda is an example.

Then in terms of actual projects, we see that, as I said before, some projects were white elephants that didn't generate the economic return that they hoped for. But we also see an improvement, a very steep learning curve from China. It is increasing its regulations, its guidelines for state-owned enterprises and private companies operating abroad. China has also become more selective in terms of the projects that it finances.

So, there's been improvement, but the world is complex and operating in these different countries is also very complex and risky. There are still issues. I think the major issues that the countries complain about in relation to the BRI are environmental issues, some human rights issues, and labor issues. But this can be the case also for other companies operating abroad. I think what is important is China's improvement in the past years and its willingness to improve. A case in place is President Xi saying that China will stop building coal plants as part of the BRI in order to reflect China's commitment to environmental sustainability. It is one of China's attempts to ameliorate its impact of operating abroad.

TIO

Building or developing infrastructure is something that all states and governments care about. With greater infrastructure comes greater connectivity, which then brings economic development, and this further helps transcend misunderstanding and delusion. It is arguably true that the developing world hopes to advance their economy and further integrate with the world more than anyone else. Given this dynamic between China and the U.S., is there a way for the two countries to constructively work together to accomplish the shared goals of advancing infrastructure in the developing world?

“But we also see an improvement, a very steep learning curve from China. It is increasing its regulations, its guidelines for state-owned enterprises and private companies operating abroad.”

Carrai

As I said, I think the initiatives are also different. The B3W of the U.S. aims to counter the BRI but it is conducted in a fundamentally different way. There are possible synergies. As China builds infrastructure in a country, the U.S. can focus more on its own software, education, medical health, and so forth, so they could collaborate. But I feel that we are in a gridlock right now with U.S.-China relations, in which everything has become ideological and divisive. And there is real competition, both from the U.S. and China. China lamented the fact that the U.S. has been dictating China on what to do.

Now China wants to become a great leader, a great power, so it doesn't want to have that

anymore. And the U.S. sees its leading position in the world completely challenged by China, whose system is different and doesn't follow the political principles set up by the U.S.

So, I think that there are definitely ways in which the two countries can collaborate and find synergies because these two projects are different. But then I feel that they are blocked by this political and ideological attention that is here to stay in the longer run.

TIO Certainly. Everything seems to eventually come down to a power game. Maybe both governments want to do something good for the world, but then in this context where all is about competing against each other, nothing will be achieved in an effective and constructive way.

Carrai This is very detrimental to both countries. I think with this kind of mentality, both risk to make very bad decisions based on ideology. But the countries in between, instead of taking sides, can take advantage of all this committed money that is out there and take advantage of whatever is there without taking either side. It's a pity that we are currently in this very tense moment between China and the U.S. And again, very poor decisions are made based on ideologies, not facts.

TIO With regards to this competition, the BRI and the infrastructure plan in the U.S., is there going to be a winner?

Carrai I think that there are lot of challenges for the B3W as well as for the BRI, but the difference is that the BRI has been around for longer since 2013 and it has caught the imagination of many countries. So, it is going to stay, develop, and improve. Its standards have become more selective, which hopefully will lead to better projects.

For the B3W, I think it's more declarative and there's much fanfare, but it remains very preliminary. In terms of who will win, in terms of their respective infrastructure initiative, I can say that probably will be China.

I want to just mention a few challenges that the B3W will face. The first challenge is securing long-term funding. Struggling with the cost of the pandemic in developed countries, investors are unwilling to take on risky projects such as building infrastructure. Even if there are investors that are willing to invest in such risky projects, it is quite doubtful that the G7 countries will guarantee lending conditions as competitive as China. It is also challenging to coordinate among the G7 countries that have different positions towards China and limited fiscal and institutional capacity overall for large-scale investments. Even if they've managed to find public funding, it is difficult to approve, especially given that now the U.S. has a national debt of over 130%. So, it is difficult to imagine where to find public funding.

Another aspect is that given the high environmental and governance standards that the B3W and the BDN initiatives promote, the investment will incur even higher costs for the developing countries. In addition, the U.S. is not the leader, as we discussed before, in infrastructure development. It is unlikely that it will become a global leader in infrastructure construction overnight.

So, I think there are serious limitations in the American B3W plan. In terms of standards, it has positive impact because it pushes China to pursue even better standards. But in terms of substance, I think it is not comparable to the BRI because the BRI offers a unique package where you have banks, investors insurance, cheap constructors, and very high efficiency. Chinese constructors usually finish projects even before the deadline. So it's very hard to compete.

TIO Very interesting. Thank you, Dr. Carrai, for sharing your views. This has truly been fascinating and we look forward to reading more into this topic along its development. With that, there is no further questions on our side. Thank you again for granting this interview with us.

Carrai It is my pleasure to be here. Thank you.

Youth

Voices



Opportunities and Challenges Presented by RCEP for China



Brian Wong Yushun

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The Regional Comprehensive Economic Partnership (RCEP) is the latest free trade agreement to emerge from the rapidly growing cluster of Asia-Pacific economies. With 15 member countries that collectively comprise 30% of the world's population and global GDP, the RCEP is the largest free trade bloc in the world today.¹

The RCEP plays a pivotal role in reducing tariffs and other trade barriers between its signatories, as well as facilitating harmonization of rules of origins and regulations undergirding trade between its members and others in the world. The agreement places a substantial premium on ensuring maximal coverage and participation from regional actors—with six out of ten ASEAN countries and five non-ASEAN countries counting amongst its signatories.²

The trade pact came into effect on January 1, 2022, for most countries—including China, which ratified it in April 2021.³ For the first time in history, four of Asia's five largest economies: China, Japan, South Korea, and Indonesia, are connected by a free trade agreement.⁴

The Pivotal Role Played by RCEP in the Region's Pandemic Exit Strategy

The pandemic has posed large challenges for the world, especially amongst large-scale economies that have strained to balance and satisfy the demands for upholding public health (through restrictions)

1 "Summary of the Regional Comprehensive Economic Partnership Agreement," Association of Southeast Asian Nations. Nov. 15, 2020. <https://asean.org/summary-of-the-regional-comprehensive-economic-partnership-agreement-2/>

2 "RCEP Agreement Enters into Force," Association of Southeast Asian Nations. Jan. 1, 2022. <https://asean.org/rcep-agreement-enters-into-force/>

3 Sithanonxay Suvannaphakdy, "RCEP Will Drive ASEAN Economic Recovery," Dec. 17, 2021, <https://thedi diplomat.com/2021/12/rcep-will-drive-asean-economic-recovery/>

4 Kentaro Iwamoto, "RCEP Kicks in as China Seeks to Lead Regional Economic Integration," Jan. 1, 2022. <https://asia.nikkei.com/Economy/Trade/RCEP-kicks-in-as-China-seeks-to-lead-regional-economic-integration>

and keeping economic activities related to consumption, capital inflow and labor ongoing.⁵ The tightrope's ramifications have manifested themselves in shrinkages and declines in countries' manufacturing sectors and supply chain disruptions.⁶

China was no exception. 2020 proved to be a difficult year, as large-scale lockdowns and fears over the spread of COVID-19 culminated at a significant economic slowdown. China's GDP growth rate dropped from 5.9% in 2019 to 2.3% in 2020.⁷ With that said, with much of its fundamentals intact, China has made a speedy recovery from the pandemic with KPMG forecasting a growth rate of 8.8% in 2021.⁸

RCEP offers its member states several critical benefits, which cannot be overlooked, as the region seeks to make a viable exit from the ongoing pandemic.

Trade Creation. Firstly, through removing a large number of prohibitions on internal trade, RCEP is projected to drive up imports and exports, including between less-covered or exposed ASEAN and Asia-Pacific economies, and China. Articles 2.4 and 2.5 of the agreement call for an immediate reduction to customs duties, with heightened transparency requirements and commitment to accelerated removal of tariffs.⁹

Additionally, the temporary admission of goods—per Article 2.10—will be helpful in reducing frictional costs, smoothening supply chains and encouraging the expansion of trade into other industries.¹⁰ The commitment to eliminating “quantitative restrictions” such as quotas, bans and embargoes, or other artificial restrictions for goods in Article 2.17, is an important first-step in handling the inefficiency induced by the protectionist measures of some ASEAN and Oceanian economies over industries of domestic importance. As much as 90% of tariffs on goods between signatories—over the next 20 years—will be eliminated, with China itself clearing 70% of its tariffs on imports from ASEAN.¹¹ It is anticipated that this reduction in trade barriers will yield up to 0.4% - 0.6% additional growth in GDP across most of the signatories, which will be important throughout 2022 and 2023, as signatories seek to emerge from the disruption of COVID-19.¹²

Standards Unification. Secondly, the RCEP provides all of its

5 Peter J. Morgan and Long Q. Trinh, “Impacts of Covid-19 on Households in ASEAN Countries and Their Implications for Human Capital Development,” *SSRN Electronic Journal*, no. 1226. Mar. 2021. <https://doi.org/10.2139/ssrn.3870909>

6 Rajiv Biswas, “ASEAN Economies Hit Hard by Escalating Covid Delta Waves.” Sep. 3, 2021, <https://ihsmarkit.com/research-analysis/asean-economies-hit-hard-by-escalating-covid-delta-waves-sep21.html>

7 “China GDP & Annual Growth Rate,” *Trading Economics*. Jan. 16, 2022, <https://tradingeconomics.com/china/gdp-growth-annual>

8 “China Economic Monitor: Q3 2021,” KPMG. Jan. 16, 2022, <https://home.kpmg/cn/en/home/insights/2021/08/china-economic-monitor-q3-2021.html>

9 “Regional Comprehensive Economic Partnership Agreement (Chapter Two),” pp. 2-3. <https://rcepsec.org/wp-content/uploads/2020/11/Chapter-2.pdf>

10 “Regional Comprehensive Economic Partnership Agreement (Chapter Two),” pp. 6. <https://rcepsec.org/wp-content/uploads/2020/11/Chapter-2.pdf>

11 Suvannaphakdy, “RCEP Will Drive ASEAN Economic Recovery.”

12 “Macroeconomic Review Volume XX Issue 1, Apr 2021,” Monetary Authority of Singapore. Jan. 17, 2022. <https://www.mas.gov.sg/publications/macroeconomic-review/2021/volume-xx-issue-1-apr-2021>

signatories with the unique opportunity to harmonize diverse rules on investment, e-commerce, intellectual property, safety, and packaging and labelling requirements. More specifically, Articles 5.6, 5.7, 5.8, 5.9, and 5.10 outline the ways in which standards on disease control, risk analysis, auditing, certification, and import checks can be reconciled.¹³ These reforms are vastly important—not only do they render RCEP participants more attractive to each other and boost trade, but also protect the interests of consumers and investors as they engage with goods of foreign origin whilst ensuring they retain the right of complaint should their interests be violated.¹⁴

The reopening of regional economies to international travel and re-entry into consolidated supply chains is likely to be gradual and continuous throughout 2022 and 2023. The RCEP plays a role in accelerating the process by vastly reducing the costliness of trade, investment, and informational exchanges. Such unification of standards could even pave the way for accelerated medical research collaboration, which is an important factor in enabling a cogent COVID-19 exit strategy. All of these are active pluses for countries such as Malaysia, Indonesia, and China, which are seeking to step up to more regional leadership in coordinating intra-regional trade, and liaising with external economic blocs including the EU, MERCOSUR, and the African Free Trade Zone on behalf of other economies in Asia.

New Markets. Thirdly, the RCEP will open doors for Southeast Asian producers and firms to new markets and sites of production, which will facilitate the creation of jobs and economic opportunities across struggling economies in the region such as Cambodia and Laos.¹⁵ As China's Vice Minister of Commerce Ren Hongbin notes, the RCEP "will effectively hedge against the negative economic impacts of COVID-19."¹⁶ Tariff-free access to key and developed consumer markets such as Japan and South Korea would prove to be immensely helpful to production-centric and export-driven economies.¹⁷ Such is the win-win nature of the agreement, as it boosts investment in countries with lower production costs and widely available low-skilled labor, redirecting capital and resources to countries that need them the most, especially in the aftermath of the past two years of economic downturn.

Tariff-free access to these key export markets will be a vital engine of

13 "Regional Comprehensive Economic Partnership Agreement (Chapter Five)," pp. 3-7. <https://rcepsec.org/wp-content/uploads/2020/11/Chapter-5.pdf>

14 Takaki Tominaga, "RCEP's Benefits Come with Challenge of Keeping China in Check," Dec. 31, 2021, <https://www.japan-times.co.jp/news/2021/12/31/business/economy-business/rcep-benefits-china-challenge/>

15 "How the RCEP Will Benefit Asia's Impoverished," The Borgen Project. Feb. 24, 2021, <https://borgenproject.org/rcep-will-benefit-asias-impoverished/>

16 Orange Wang, "RCEP: China Says World's Largest Trade Pact Gives It 'Powerful Leverage' to Cope with 2022 Challenges," Dec. 31, 2021, <https://www.scmp.com/economy/china-economy/article/3161601/rcep-china-says-worlds-largest-trade-pact-gives-it-powerful>

17 "RCEP: Asia Readies World's Largest Trade Deal," Deutsche Welle. Jan. 16, 2022. <https://www.dw.com/en/rcep-asia-readies-worlds-largest-trade-deal/a-60267980>

China's emergence from the shadows of the pandemic.¹⁸ For China, which sits on the divide separating the two groups of states within the RCEP: the more advanced, and those catching up, the agreement equips it with an opportunity to both attract and offer significantly more entrepreneurial talents in the region. Investors from the developed economies like Japan, Korea, Australia, New Zealand,¹⁹ and emerging markets looking to advance their returns in a reliable, expansive, and mature investment market, need look no further than setting up operations in Southeast Asia.²⁰ On the other hand, Chinese firms, facing troubled relations between China and the West, are provided with a secure arena of economic operations, especially in relation to e-commerce and information-centric industries.²¹

Consolidation of the Pre-eminence of Supply Chains. Fourthly, and in the short to medium term, the RCEP offers a boost to its members' status as the nexus of global supply chains. The drastic reduction to costs related to production provides RCEP states with the necessary wherewithal to slash costs.²² Indeed, in China's context, its entry into the agreement has provided Chinese manufacturers with a much-needed buffer as they aim to transition into alternative industries in preparation for the long run. The four advantages above render membership in the RCEP uniquely strategic and valuable for many countries.

Challenges for China—The Case for Dynamic, Compassionate Cooperation

China's vision for the RCEP remains one undergirded by a commitment to regional cooperation and largely equal access to dividends from the operations undertaken by RCEP states. Yet, there remain important barriers, challenges, and concerns that must be duly addressed, in order for true multilateralism to emerge.

With Great(er) Power Comes Great(er) Responsibility. As by far the largest economy in the RCEP, China bears the unique onus as acting as the lynchpin to the bloc. Its ability to engage in responsible rulemaking has never been as important, especially in relation to shaping the fortunes and reflecting fairly the interests of its neighbors. A skeptical Japan Times headline reads, "RCEP benefits come with challenge of

18 *Ibid.*

19 Wang, "RCEP: China Says World's Largest Trade Pact Gives It 'Powerful Leverage' to Cope with 2022 Challenges."

20 *Ibid.*

21 "Regional Comprehensive Economic Partnership Agreement (Chapter Twelve)." <https://rcepsec.org/wp-content/uploads/2020/11/Chapter-12.pdf>

22 "RCEP: Asia Readies World's Largest Trade Deal."

keeping China in check.”²³ If mishandled, China’s position in the regional bloc could be easily portrayed by critics as further evidence of its hegemonic tendencies for one over smaller or weaker economies. A related downside is the dangers of alienating those that depend upon China for bilateral and preferential trade. How the close economic ties between China, Cambodia, and Laos will fare under RCEP liberalization remains to be seen.

Protectionism May Well Be Necessary for Economies with Uncompetitive Production Sectors. Producers in certain Northeast Asian states have been steadily losing out to their rivals in ASEAN, which manage to not only produce the same quality of goods at lower costs, but also disseminate them to a larger range of consumers domestically and abroad. How such countries could ensure that employment and interests of firms in their vital industries are upheld whilst preserving a push for greater efficiency, competitiveness, and organic growth is a critical balancing act.

Harmonization of Standards is Incomplete Without Labor Standards and Rights. Domestic investors, businesses, and manufacturers’ interests obviously matter. Yet what is equally important are the interests of laborers and workers. Laborers’ lives matter. Concerns have been voiced in the media over the agreement’s negligence of working hours, minimum wages, and conditions of labor.²⁴ As President Xi Jinping notes repeatedly, common prosperity constitutes a core pillar of his vision for China’s economic trajectory and future, “common prosperity is an essential requirement of socialism as well as an important feature of Chinese modernization.”²⁵ Whether this is obtainable could be a vital litmus test of whether China’s vision of responsible governance could be transferred and implemented successfully across the region.

What is needed here from the RCEP is dynamic, compassionate cooperation driven by leadership that is considerate of the interests and concerns from not only regional players but also domestic stakeholders of interest within each of the agreement’s signatories. All RCEP participants could stand to gain from this advancement in the region’s globalization efforts, but such gains can only emerge if policymakers engage in restraint and prudence over the liberalization of trade, capital, and information. It would behoove regional stakeholders and partners to engage in consultative and deliberative processes,

23 Tominaga, “RCEP’s Benefits Come with Challenge of Keeping China in Check.”

24 Patricia Ranald, “RCEP Has Limited Trade Gains and Ignores Labour and Human Projects.” Nov. 27, 2020. <https://www.internationalaffairs.org.au/australianoutlook/rcep-has-limited-trade-gains-and-ignores-labour-and-human-rights/>

25 “Xi Urges Financial Risk Prevention While Seeking High-Quality Growth,” CGTN online. Aug. 17, 2021. http://eng.mod.gov.cn/news/2021-08/17/content_4892182.htm



If managed with caution and precision, the RCEP could well be a first of many trade agreements to come for Asian states, and a cornerstone in Asia-Pacific economies' forging a common consciousness and solidarity. If mishandled, or if runaway growth and vast imbalances are permitted to emerge, however, it could well be confronted by the kind of existential crises that have precipitated much unrest and fragmentation among its predecessors in other regions, such as the European Union. Compassion is indeed a virtue.

How Is the Pandemic Reshaping China's Consumer Journey?



Kang Yingyue

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Emergencies cause disruptions. But disruptions bring opportunities.

The indelible link between the SARS outbreak in 2003 and the rise of the e-commerce sector in China is an oft-cited example. In 2020, with the spread of the COVID-19 pandemic throughout China, the same story happened again: technological developments grew out of this need to respond to the challenges posed by COVID-19 and they have facilitated the country's economic recovery by "moving" traditional industries like agriculture online. With a supportive policy environment, it is only reasonable to project that e-commerce will assume an increasingly dominant role in shaping the country's economic development as the world continues to adjust to a post-lockdown new normal.

A long-time issue of interest to policymakers, economists, and business influencers alike is China's economic performance during the pandemic. While many cast a dim light on China's economic growth, asserting that its policy for COVID-19 containment has and will keep weighing on consumption, others show that Beijing has demonstrated great adaptability in adjusting its policy stance towards innovators, which means that the pandemic has in fact witnessed an amplification of creativity and a transformation of business climates.

The rapid adoption of livestreaming, particularly in the Chinese rural area, is perhaps the most notable example that reflects how e-commerce advanced through the pandemic and helped network different communities during the trying times. Chinese farmers, while used to go online in their daily lives via smartphones, still relied heavily on offline markets to sell their goods. It



Initiated by Tencent and the China Central Television (CCTV), and under the support of the Guangdong Provincial Agriculture and Rural Affairs Department, ten women county magistrates from Guangdong, Shanxi, and Heilongjiang provinces gathered together on March 8, 2020, to host a livestreaming to promote local agricultural produce
Source: news.cctv.com

Poster of a livestreaming hosted by Michael Yu Minhong, Founder and President of New Oriental Education & Technology Group Inc., on December 28, 2021
Source: bbthy.net



- 1 Cheng Li and Ryan McElveen, "Will China's e-commerce reshape a reopening world?" Brookings. Summer 2020 accessed Jan. 11, 2022. <https://www.brookings.edu/articles/will-chinas-e-commerce-reshape-a-reopening-world/>. Also see Yue Jiang, Lei Zhang and Yunhang Jin, "China's e-commerce development and policy relevance," in *Adapting to the Digital Trade Era* (World Trade Organization: 2020), pp. 140-157.
- 2 "Transaction volume of retail e-commerce market in China from 2012 to 2021 with an estimate for 2021." Statista. Sep. 23, 2021, accessed Jan. 11, 2022. <https://www-statista.com/statistics/723195/china-retail-e-commerce-transaction-volume/>. Also see "Chinese e-commerce market to reach US\$3.3 trillion in 2025, says GlobalData." GlobalData. Sep. 14, 2021, accessed Jan. 11, 2022. <https://www.globaldata.com/chinese-e-commerce-market-reach-us3-3-trillion-2025-says-globaldata/>
- 3 "Live-streaming helped China's farmers survive the pandemic. It's here to stay." MIT Technology Review. May 6, 2020, accessed Jan. 11, 2022. <https://www.technologyreview.com/2020/05/06/1001186/china-rural-live-streaming-during-cornavirus-pandemic/>

is thus not surprising that the pandemic, along with the attendant lockdown policies, hit them so badly that they had to throw out mounds of rotting produce even as the demand for groceries soared.

Amid this devastation, Beijing embraced internet infrastructure development and e-commerce expansion more than ever before.¹ In 2021, the value of China's e-commerce amounted to around \$2.14 trillion, up from \$1.87 trillion in 2020, and \$1.62 trillion the year before.² Simultaneously, the private sector was encouraged to mobilize behind these efforts. Both JD.com and the Alibaba-owned Taobao quickly launched rural livestreaming initiatives, helping farmers and small merchants in rural areas set up online stores with expedited approvals and showing them how to design the content of their broadcasts.³ Tencent (WeChat), ByteDance (Douyin—the Chinese version of TikTok), Kuaishou, and Pinduoduo also followed suit to promote new sales channels to link farmers and urban consumers. They made their apps more intuitive and used their logistics networks to ship the products directly from farm to home. China's state-owned broadcaster CCTV joined this effort as well, collaborating with popular Chinese influencers, movie stars, and prominent figures from other sectors like Michael Yu Minhong, who have millions and billions of fanbase to help Chinese farmers sell their local products in live streaming.

There is no doubt that the pandemic has introduced a novel trend of consumption in Chinese people's daily lives. As of March 31, 2020, Taobao reported an 88% growth year-on-year (YoY) in daily active merchants using Taobao live; merchants using the Taobao platform surged 719% in



Mr. Huang Wensheng, a Chinese tea farmer, livestreaming from the tea fields in the mountainous Lichuan area in Hunan Province in 2020
Source: whatsonweibo.com

February compared to January; and 50,000 farmers were livestreaming on the platform, selling 380,000 kg of produce to over four million viewers on Valentine's Day.⁴ According to China's Ministry of Commerce, the number of e-commerce livestreaming sessions topped four million in the first quarter; and more than 100 government officials participated to promote local products.⁵

The trend has not yet disappeared and is unlikely to get reversed in the coming years even after the pandemic is over. Of course, the impact of livestreaming has not been perfect. The opportunity for people to make loads of money and achieve a spectacular rise to fame in a short period of time has led some celebrities to evade millions of dollars of taxes. Moreover, as people become more reliant on e-commerce, data privacy is becoming an even greater concern. However, on the positive note, the thriving of this new industry has empowered farmers, created new economic opportunities, facilitated local development, and enhanced rural-urban linkage. Shan Jialu, economist and scholar in Asian and Emerging Markets at the International Institute for Management Development commented, "Before the pandemic, livestreaming was only seen as an option for brands to reach Chinese consumers. But now, it has become very integral to how people shop."⁶ Li Jinxing, a flower farmer in Yunnan province whose business survived the worst days of the pandemic, said during an interview with MIT Technology Review that the trend represented an overdue update to his way of life, and this was the silver lining of the pandemic. "Once you start livestreaming, you really can't stop," Li said. "Because now you have fans."⁷

4 "Taobao Live's Growth Story Continues," Seeking Alpha. Aug. 26, 2020, accessed Jan. 11, 2022. <https://seekingalpha.com/article/4370859-taobao-lives-growth-story-continues>

5 "Livestreaming is taking off in China, but it's not driving much sales in a market still reeling from coronavirus." CNBC. Aug. 29, 2020, accessed Jan. 11, 2022. <https://www.cnbc.com/2020/04/29/livestreaming-drives-fraction-of-sales-in-coronavirus-hit-china-market.html>

6 *Ibid.*

7 "Live-streaming helped China's farmers survive the pandemic." MIT Technology Review. <https://www.technologyreview.com/2020/05/06/1001186/china-rural-live-streaming-during-covid-pandemic/>

What Does 2022 Hold for China's Economy?



Christian John Hayward

TI Youth Observer

Long before COVID-19, I remember simply walking along the “Freedom Avenue” in Northeast China’s Changchun city, finding it hard not to be offered an English teaching job or sales role. I never took them as I didn’t want to risk my student visa and future employment, but I do remember thinking that I had made the correct choice doing Chinese studies.

This came to an end in 2020, when China adopted the “zero-COVID” policy in response to the pandemic outbreak. While this has made it hard for foreigners to return to work in China, such policy move was done for good reason. In a similar way to the 2008 financial crisis in the West, China has been spared many of the massive numbers of deaths seen in Europe and North America. As frustrating as it is for foreign graduates such as me, we know that this will be a short period in time and history. One day, China will open up its borders and we can see our old friends again.

That being said, what does 2022 hold for China’s economy? There have been several issues facing the mainland’s economic output. Although China was the only major country to report 2.3% economic growth in 2020, there was a fall in foreign and domestic tourism, followed by a slower than average retail growth of 3.9% in 2021.¹ Meanwhile, consumer prices did rise by 1.6% in urban areas and 1.2% in rural China, showing that worldwide inflation seemed to be a current trend as we continued to struggle with the COVID-19 pandemic,² at least in the final quarter of 2021. Accordingly, stability will be a key word defining Beijing’s top priority in terms of its goal for economy.

Given what happened to the Evergrande in 2021, it appears that new

- 1 “China’s economic outlook for 2022,” CBBC Focus. Jan. 7, 2022
https://focus.cbbc.org/chinas-economic-outlook-for-2022/?utm_source=11.+Non-Members%3A+Focus+Digest+-+Civi2021&utm_campaign=5a1426d1f3-FOCUS-EMAIL-11-1-2022-CBBC-NON-MEMBERS&utm_medium=email&utm_term=0_4464c67fad-5a1426d1f3-177978268
- 2 “2021 年 12 月份居民消费价格同比上涨 1.5% 环比下降 0.3%,” 国家统计局 National Bureau of Statistics. Jan. 12, 2022. http://www.stats.gov.cn/tjsj/zxfb/202201/20220112_1826173.html

affordable housing is one area that the central government will promote in upcoming years. Of course, the fall of the Evergrande did not happen for simple reason. But one thing is indubitable. For years, Chinese individual households have been feeling the burn of the excessively high housing prices. In November 2021, the average property price in Beijing was reported at \$6,457.03/sq m³ whereas the per capita disposable income amounted to approximately \$11,822.69.⁴ In Shanghai, the number was \$5,855.42/sq m⁵ vis-à-vis \$12,299.53.⁶ Among all others, the outrageously high number is probably the most important source of income inequality in China. Access to housing is a key factor that helps explain income disparity,

Thus came this introduction of the common prosperity idea that highlights the importance of better income distribution and more equal opportunities. In an article from the Party journal *Qiushi*, common prosperity aims at creating a society that comprises a larger majority of people who are middle class, with greater access to education, training, and wealth for all its citizens. A society of common prosperity is olive-shaped, with few on the extremes of poverty and rich. In China, this is planned to be achieved by 2035.⁷

Reining in the wealth divide will become more important for Beijing. So far, the Chinese government has strengthened its law enforcement on public figures. Increasingly, people are seeing celebrities embroiled in high profile tax avoidance being penalized, and wealthy behemoths being affected by sweeping series of regulatory measures that have led to a broad reorienting of China's economy and society.⁸ Once achieved, common prosperity will not only improve the standard of living for more ordinary Chinese but will also set China as a pragmatic example to the rest of the world. This is important as common prosperity is not just a Chinese goal but should be a world goal too.

Current trends are pointing towards a gradual adaptation to a new normal for the Chinese economy, although people-to-people exchanges will still be largely inhibited by the raging pandemic. In 2022, however, there is no doubt that China will continue to focus on domestic output and wealth redistribution to maintain that all important stability.

Looking back on what I took for granted in 2016, I hope, and I believe that the old days will come back, and I will be rolling my eyes again at how many times I am stopped in my stroll. China is a land of vast opportunity and that is why the West has eyed it so closely for the past 200 years. Like all other

- 3 "Property Price: YTD Avg: Beijing," CEIC. <https://www.ceicdata.com/en/china/nbs-property-price-monthly/property-price-ytd-avg-beijing>
- 4 "2021 年居民收入排行榜公布, 江苏等 8 省份超全国水平," 新华报业网. Jan. 20, 2022. http://news.xhby.net/js/jj/202201/t20220120_7392478.shtml
- 5 "Property Price: YTD Avg: Shanghai," CEIC. <https://www.ceicdata.com/en/china/nbs-property-price-monthly/property-price-ytd-avg-shanghai>
- 6 "2021 年居民收入排行榜公布," 新华报业网.
- 7 "'The time is now': Xi Jinping calls on China to rally for common prosperity," South China Morning Post. Oct. 15, 2021. <https://www.scmp.com/news/china/politics/article/3152563/time-now-xi-jinping-calls-china-rally-common-prosperity>
- 8 Jesse Turland, "China's 'Common Prosperity' Puts Tax-Dodging Celebrities On Notice," The Diplomat. Aug. 30, 2021. <https://the-diplomat.com/2021/08/chinas-common-prosperity-puts-tax-dodging-celebrities-on-notice/>



Source: chinadaily.com.cn

countries in the world, China's growth may be slowing down in certain ways, but it is at the forefront of many new approaches in the global economy from reining in big tech to building a more balanced society wealth-wise for all. China's future is worth waiting for.

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Please note: The above contents only represent the views of the authors, and do not necessarily represent the views or positions of Taihe Institute.

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