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COVID Recovery

Prospects and Problems

Contents

China Remains the Locomotive of Global Economic Growth

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When a year draws to a close, the prospects of Chinese and global social and economic progress in the coming year often spark wide media and scholarly discussions around the world. As the world's second-largest economy, China adjusted its COVID policy in December 2022, and naturally garnered enormous interest from around the world regarding the economic outlook for the country and the rest of the world in 2023.

I. Certainty and uncertainty coexist in the environment of Chinese and global economy in 2023

Certainty refers to the expectation that the COVID-19 pandemic will ease. To gain insights into the Chinese and global economy in 2023, it is crucial to discern the pandemic's trajectory first. After all, the pandemic has been the biggest factor influencing the economic landscape of China and other nations for the past three years. In early December 2022, the Chinese government made a big U-turn on its COVID policy and strategy. Therefore, it is logical to examine the Chinese and global economy from the post-pandemic perspective. As most countries have eased pandemic restrictions to some extent, it is unlikely that we will see another widespread shutdown of economic and social activities, although there remains a chance of major outbreaks in the coming year.

Uncertainty comes mainly from the conflict between Russia and Ukraine, which might probably become protracted for a long period of time. Meanwhile, the ongoing disruption of the global industrial chain by the U.S. and Europe is causing a continued chaos in the international economic order and volatility in the commodity market. These negative impacts on the world economy are likely to persist in the foreseeable future.

II. Certainty outweighs uncertainty in China’s economic growth

First, China is expected to have a strong economic rebound or recovery. After China ended its zero-COVID policy, the impact of the three-year-long pandemic on its economy would begin to wane and give way to a restorative growth or robust rebound, particularly in industries that were hardest hit, such as transportation, tourism, retail, logistics, and hospitality and catering. Recently, many local governments launched policies to boost consumption and support the resumption of work and production for private businesses, especially those micro, small and medium-sized enterprises. They were also encouraging businesses to organize all kinds of promotional events. With the coming of the new year and the peaking of the first wave of the Omicron infections, traffic congestion returned in many cities as the economy showed signs of resurgence. A family-hotel owner in Hainan Province reportedly said that a single month’s income now would make up for the losses of the last three years. This may sound quite optimistic, but it is possible, particularly in the first quarter, as travel surges during the holiday season of the Chinese Spring Festival, providing a boost to consumption after the peaks and falls of Omicron’s spread across the country. Even if the economy may not fully recover to pre-pandemic levels in the first quarter, moderate year-on-year growth can be reasonably expected. While the significant month-on-month growth may not be sustained after reaching a certain height, the recovery will not be disrupted or undergo dramatic fluctuations as long as there are no more nationwide infection spikes or repetition of the strict containment measures. Societal confidence in economic growth will be bolstered and economic stability will be fostered as long as economic activities continue to recover and grow at a steady pace.

Second, China’s private sector now has more robust policy support from the government. In the past two years, the COVID-19 pandemic persisted and the government tightened its supervision of the chaotic digital financial platforms. As a result, the private sector’s vitality waned and public confidence in the sector weakened. Some people declared their lack of confidence in the future of

China’s private economy, and some even raised concerns that the reform and opening-up might reverse course. In response, the 20th CPC National Congress reiterated that the Party and the government “must uphold and improve China's basic socialist economic system” and “must unswervingly consolidate and develop the public sector and unswervingly encourage, support and guide the development of the non-public sector.” The recent Central Economic Work Conference provided further clarity to this mandate, emphasizing the need for the government to include a series of unprecedented policy support in the bigger strategic picture. This includes optimizing the business environment, reducing taxes and fees, broadening financing channels, and providing increased financial support, while also lowering the threshold for private investments. The goal is to foster a favorable environment for private enterprises to innovate and generate wealth, instill confidence in the private sector, bolster expectations for its growth, and lay a strong foundation for the long-term sustainability of the private economy. There are also requirements for the governments like “law-based protection will be provided to the property rights of private enterprises and to the interests of entrepreneurs,” “government officials should help private businesses overcome their difficulties with concrete actions,” and “shape a cordial and clean government-business relationship.” Therefore, we are fully convinced that the private sector is irreplaceable in China’s national economic system, and it has a bright future. This viewpoint was also shared by 21 prominent private entrepreneurs who were invited to CCTV’s “Dialogue” program, including Zhang Yong, Board Chairman of Alibaba, and Xu Lei, CEO of JD.com Inc. They voiced their optimism for China’s economy and the private sector.

Third, “from Version 1.0 to 4.0,” China’s private economy will be even more diverse and dynamic. If the communication, air-conditioning, computer, and real-estate companies established in the early stage of reform and opening-up represent China’s private economy 1.0, then Internet giants like JD.com signify the 2.0. Likewise, new energy companies like BYD and CATL are considered the 3.0. The next phase, 4.0, will be propelled forward by the unprecedented favorable conditions created by emerging technologies such as artificial intelligence. We noticed that the industrial restructuring of the private sector appeared to be at a loss in the past two years, likely due to the overlapping effects of the COVID-19 pandemic, the US trade and tech war against China, and China’s own industrial restructuring efforts. In particular, the overcapacity of labor-intensive industries, such as textiles, garment, and shoe-making, which were heavily invested during the early stage of the reform and opening-up, coupled with real-estate bubbles, has made private investors confused, unsure of where to invest. At the same time, the ongoing trade tensions between the U.S. and China, especially in the field of science and technology, have ignited a widespread sentiment for technological autonomy and self-advancement, from central to local governments, from research institutions to industrial sectors, and from state-owned enterprises to private companies. In this context, new technological trends have begun to take shape. Recently, Huang Qifan, former mayor of Chongqing, predicted that the next two or three decades would see the emergence of five industries that each one of them is worth of trillion dollars: unmanned new energy vehicles, household robots, head-mounted AR and VR headsets and helmets, flexible displays, and 3D printers. As a leading manufacturing country, China is poised to gain a competitive edge amid this wave of high-tech industry development. The private sector in China is also expected to experience a surge in investment, giving rise to a new generation of tech-savvy and forward-thinking entrepreneurs. One of the most important contributors to China's private economy is the increasing desire for technological innovation among private enterprises. Not only do private enterprises serve as the backbone of employment across China, but they are also the spearhead of the nation's scientific and technological R&D. Of all Chinese companies, the private sector exhibits the greatest inclination to propel R&D and innovation. In fact, all of the 14 largest private enterprises in China allocate more than 8% of their revenue towards R&D endeavors. With a sense of optimism, we might envision a resurgence of private investment in 2023, which will help improve China's industrial chain and add to its competitiveness, and allow the country to maintain proactive in reshaping the global industrial chain.

However, the Chinese economy is also grappling with the uncertainty that arises from two fronts. First, the torpid real-estate market. Despite the central and local governments' efforts to revive the real-estate market with new policies, there is a question mark over whether these policies will work effectively, particularly given the already high per capita floor area. Second, the lack of confidence among consumers. Consumption decreased and savings increased due to the tumultuous economic environment of the past two years. It remains to be seen whether and to what extent this trend will reverse in 2023 and provide a boost to both consumption and economic development.

III. Uncertainty outweighs certainty in major developed countries

First, as previously stated, the U.S. has succeeded in breaking the energy interdependence between Europe and Russia by inciting the Russia-Ukraine conflict, and forcing Europe to turn to the U.S. for oil and gas rather than Russia.

This has not only hindered Europe's green energy transition, but also led to a hike in costs for European industries. As a result, Europe has to contend with increased fiscal expenditures, shrinking industrial investment, capital outflows, and weakened currencies. The European economy has been teetering on the brink of recession for some time. Even if the war eases, the European economy is unlikely to recover in the short term. With a majority of citizens in the UK calling for another referendum on Brexit, and the ongoing wave of strikes in France, the prospects for Europe in the near future appear grim.

The current state of the US economy is marked by a decline in inflation, a diminishing urgency in rate hikes, slowed economic growth, and a peak in the US dollar index. These factors suggest that the Federal Reserve (Fed) may have to consider lowering the interest rates again. However, the question remains whether, after returning to quantitative easing, the US stock and bond markets can regain their robustness. In light of the persistent trend of global de-dollarization, the durability of the strong US dollar remains uncertain. Furthermore, as the outlook weakens for dollar hegemony, it comes into question whether a new round of quantitative easing will continue to manipulate and take advantage of global investors. After all, there are very few reasons to support the possibility of prosperous stock, bond, and foreign exchange markets of the U.S. The conundrum between the US economic structure, the logic of market, and the objectives of the Fed remains a challenging issue to address.

On the other hand, it should also be noted that the U.S. and Europe lifted COVID-19 restrictions long ago, and the social and economic order has since been restored. Meanwhile, the possibility of a negotiated solution to the Russia-Ukraine war cannot be ruled out, which would boost confidence in the European economy. Furthermore, the end of the US interest rate hike cycle and the depreciation of the US dollar may aid in the years-long efforts of rebuilding the real economy, thereby averting a severe recession that could destabilize the global economy.

In conclusion, China, as the world's second-largest economy, portends a promising outlook for 2023. This augurs well for the global economic prospects and serves to mitigate the negative impacts of some uncertainties. Should the U.S. and Europe successfully avoid a recession and extricate themselves from the current predicament, we can anticipate a modest upward trajectory for the world economy in the coming year.

As Moscow's Rift with the West Widens, China Is Now Russia's Crucial Trade Partner

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In October 2021, I attended a friend's birthday party. Among the guests was a guy who was a great fan of travelling to China. Prior to the pandemic, a lot of people in the Russian Far East had been in the habit of making regular cross-border trips to China, mainly as tourists, for the purposes of recreation, entertainment, and shopping. Anton (this is the name of the guy) expressed confidence he would soon be able to go to China again. "No way you are returning to China as a tourist," I told Anton. "China's borders are closed – and will remain so for a long time. Even if they allow some foreigners into the country, those will not be tourists but people who visit on important business." I offered a bet (of US $100) that Anton would not be able to travel to China for at least five years.

It now seems I will lose the bet to Anton. On January 8, China resumed cross-border passenger travel with the Russian Far East, which had been shut for almost three years. Tourist trips are not yet possible, but it is very likely restrictions on two-way tourism travel between China and Russia may be lifted after the Chinese New Year festivities.

The abrupt reversal of the zero-COVID policy, something that few analysts, myself included, anticipated, has served as yet another illustration that predictions are extremely difficult with respect to China. The American economist Tyler Cowen may be right when he says China is one of the hardest countries to predict.[1]

1 Jordan Schneider. "Cowen on China." China Talk. Jan. 29, 2023. https://www.chinatalk.media/p/cowen-on-china.

The failure to foresee China's re-opening may be a blow to my hubris as a political analyst. However, the opening of China's borders is very good news for me as a Russian – and a resident in the Russian Far East. China accounts for more than 50% of the external trade of my home region – Primorsky Territory in the Russian Far East. Also, in-bound international tourism, with a significant share of visitors coming from China, had been the main driver of Vladivostok's economy in the pre-pandemic years. A whole ecosystem catering to Chinese tourists had formed, employing thousands of people in the capital of the Russian Far East. It remains to be seen if, and how quickly, this industry will rebound to the pre-pandemic situation.

The owners of shops, hotels and restaurants in Vladivostok can't wait to see Chinese guests returning to the city. And most of them don't care if guests from the neighboring country call the place the Chinese name of *Haishenwai*, rather than Vladivostok, as long as they bring money. The first post-COVID delegation from China to visit Vladivostok after the border re-opening consisted of officials and business people from the province of Jilin, led by the head of the Eurasia Division of Jilin Provincial Department of Commerce.[2] Symbolism cannot be missed. Vladivostok is the nexus where Russia's immense Eurasian landmass meets the Pacific Ocean.

It's not only the Russian Far East that needs China and is interested in China's comeback. Russia as a whole is increasingly dependent on China's economic health. Roughly one fifth of Russia's foreign trade is now with China. In 2022, the Russia-China trade surged by 29.3%, reaching an all-time record of $190.3 billion. Russia's exports to China grew by 44%, while Chinese shipments to Russia increased by 13%.

The growth of China's share in Russia's foreign trade has been a long-time trend since the 2008-09 global financial crisis. Russia's economic shift toward China has noticeably accelerated since the first Ukraine crisis of 2014, when Moscow's relations with the West spiraled down into an irreversible decline. The second Ukraine crisis, which culminated in Russia's special military operation in February 2022, triggered an unprecedented decoupling between Russia and Europe, which has for decades, even centuries, served as Moscow's main economic partner.

By refusing to join the Western blockade of Russia, China and other major non-Western economies have effectively provided a lifeline to Moscow. Russian companies have been able to literally re-orient a significant part of

2 "Приморьеи провинция Цзилинь КНР готовятся возобновить туристские обмены между регионами." Government of Primorsky Krai. Jan. 29, 2023. https://primorsky.ru/news/277733/

their businesses from Europe to Asia and the Middle East, which was a major reason why Russia's economy proved so resilient in 2022. Contrary to initial expectations (in the West) and fears (in Russia itself), the Russian economy, having been hit with unprecedented sanctions, has so far fared relatively well, losing just 2.5% of the GDP.[3]

It is far from certain that Russia-China trade will sustain momentum in 2023. Last year's record volume of Russian exports to China was, to a significant extent, thanks to a surge in global oil prices in the first half of the year. Since then, the prices of oil and other commodities that constitute the bulk of Russia's exports have been decreasing.

In 2023, one major indicator to watch in the Russia-China relationship will be a possible signing of the contract to supply gas from Western Siberia to China. Could this contract be signed during President Xi's expected visit to Russia in spring? We will see. Russia's Gazprom is already designing a pipeline that will traverse Mongolia before entering China. The natural gas that will be supplied to China through this pipeline is gas from the same deposits that had previously fed Europe's energy needs.

As Russia's rift with the West widens, many fixtures of life in Russia are changing too. For example, Vladivostok has always been Japan's domain in terms of cars. Now Chinese brands, such as Haval, are more and more common on Vladivostok's roads. According to some estimates, 70% of Russia's car market will soon be held by Chinese autos. Perhaps even more consequentially, yuanization of the Russian financial system continues apace, with the renminbi rapidly supplanting the dollar and the euro as Russia's foreign currency of choice – or of necessity.

A few weeks prior to the start of Russia's special military operation in Ukraine, I liquidated my dollar bank deposits, deeming it risky to keep my money in the US currency. I exchanged a part of my former dollar holdings for yuan and opened a yuan-denominated deposit with Sberbank. I think I am going to pay my lost $100 bet to Anton in yuan. He should make good use of the renminbi when he soon goes across the border to China.

3 "Путин ждет снижения ВВП России за 2022 год на 2,5%." Finam.ru. Jan. 29, 2023. https://www.finam.ru/publications/item/dinamika-rossiyskoy-ekonomiki-okazalas-luchshe-mnogikh-ekspertnykh-prognozov-20230117-1449/

China’s Economic Recovery in 2023

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The Chinese government adjusted its COVID control policy in December 2022, and now full emphasis has been placed on economic recovery. With the previous three years’ focusing on a tight prevention of the pandemic, sacrificing production and consumption, the Chinese economy has seen serious challenges, from both domestic market as well as the broader world market.

Government policy has given priority to consumption recovery, with the assumption that the key to solving all the problems is to stimulate aggregate demand. Indeed, consumption has been significantly affected by the pandemic, with its growth rate fluctuating abruptly after the year 2020 (see the black curve in Figure 1 below). However, and more importantly, except for the abnormality in the year 2020, the overall trend of consumption growth has been decreasing, and this started way back to as early as the end of the year 2016 (see the red arrow in Figure 1).

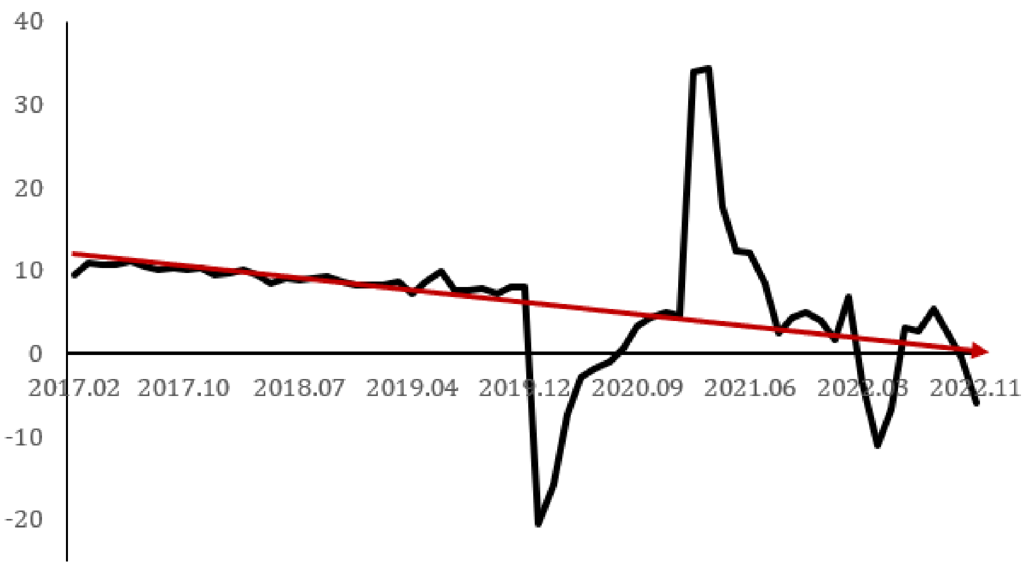

Figure 1
Growth rate of China’s aggregate consumption (black curve, %). The red arrow indicates the trend (source: NBS).

In response to the fall of consumption growth, the government recently published a series of policies and proposals, among which the encouragement policies of house purchases, new energy, travelling, etc. have been put under the spot light. Nevertheless, these seemingly over-reactive policies and proposals have only considered the short-term, with their effects actually being less clear. More attention should be given to address the causes for the long-run trend of falling consumption, investment, and GDP.

Falling household consumption

There are several reasons that contribute to the weakening of household consumption. Some are long-run factors, and some are recent short-run factors. The long-run factors mainly affect the capability of household consumption, while the short-run factors mainly affect the willingness of household consumption.

Among the long-run factors, we start with the slow-down in income growth. As shown in Figure 2, the annual growth rate of per capita disposable income has been falling since around 2008. Two reasons are most responsible for this result. The first reason is that China's economic growth is largely investment-driven, with a large share of income paid to capital or used to purchase new capital. Labor receives a smaller share of income as a result. This phenomenon has been long rooted, but it deteriorated after the 2008 global financial crisis when China implemented a large investment stimulus plan in 2009 and 2012. The second

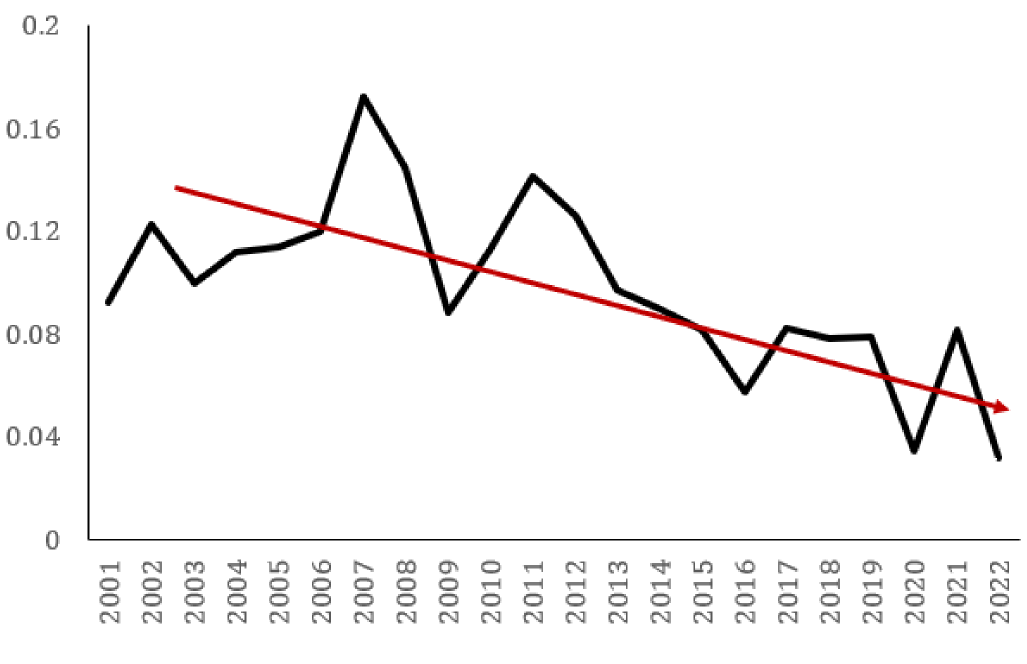

Figure 2
Real growth rate of per capita disposable income (source: NBS). Note: Data for 2022 is the growth rate for the first three quarters.

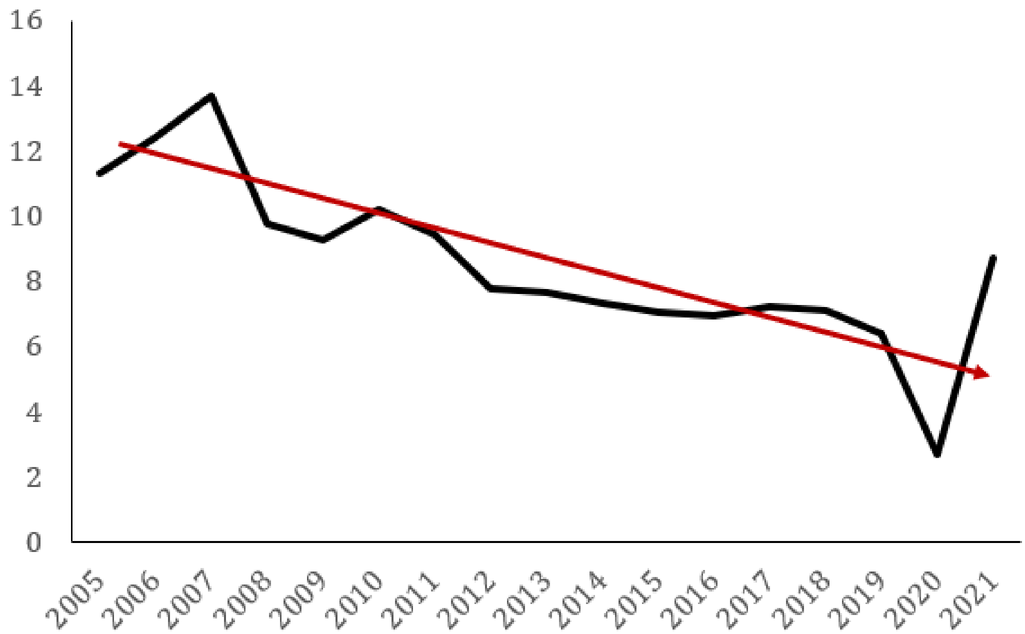

Figure 3
Labor productivity growth (source: CEIC). Note: The year 2021 was abnormally high due to the low base year of 2020.

reason is the slow-down in labor productivity growth. As shown in Figure 3, the labor productivity growth rate has been falling since 2006, and its falling speed and pattern are consistent with that of income.

Another important long-term factor that contributes to 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. For the past many years, rising property prices have attracted households to issue mortgages and purchase real estate. This phenomenon was more significant three years ago, when the strong growth of long-term loans to households indicated that money was flowing towards the housing market. In the past two years, the housing market has cooled down, and house prices in many major cities have been falling. While this has discouraged households' further demand for properties, falling house price also dampens households' potential wealth. The development of China's housing market has worsened household financial balance in two directions: when house price rose years ago, households accumulated too much debt; when house price fell down in recent years, households lost the value in their assets. The leverage ratio, defined as debt over asset, rose as a result. Higher leverage means less capability to afford consumption growth. The development of cash loan in recent years also generated negative impact on households' long-run capability of consumption.

Besides the long-run factors, there are also several short-run factors that happened in the past two years. The COVID pandemic significantly affected firms' production. As we will discuss more in detail in the next section, firms' profits and cash flow suffered great losses. To survive, firms had to cut spending, and a common method is to postpone or reduce labor wage payment. Many firms also laid off employees, or even shut down. The unemployment rate increased, particularly among young people. Without sustainable income, these younger workers are less likely to consume as before. In addition, due to the poor performance of firms, many financial products whose base assets are firms' stocks or bonds suffered great losses as well. For example, more than 90% of equity funds earned a negative return rate in the year 2022, and the average return rate of all incumbent equity fund is -33.07% (excluding index fund). Considering that the total size of fund in 2022 was larger than 27 trillion RMB, the loss from financial investment in China was very high. As a consequence, households' willingness to consume has been significantly reduced due to their losses from investment.

Firms, investment, and profits

Firms were more severely affected by the pandemic. But again, the pandemic was a temporary shock that hit Chinese firms who had already had several problems.

The long-rooted problem of Chinese firms is the slow-down in productivity growth. As can be seen in Figure 4, the total factor productivity (TFP) in China remained low after the 2008 global financial crisis, and has been decreasing for the past decade. A recent estimate shows that the TFP has been dragging down the GDP growth in China. Without sufficient efficiency, the investment return

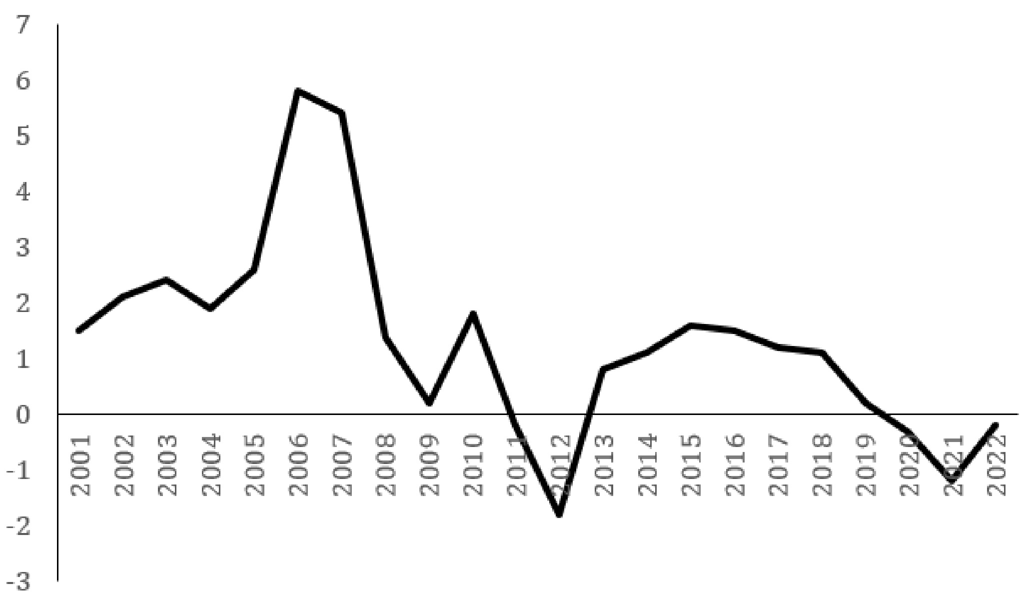

Figure 4
Growth rate of Total Factor Productivity in China (source: Guanghua School of Management and author's own calculation).

rate would be lower than the interest rate, and firms have to borrow new debt to repay the old debt. This is why we observe that while lending to firms and M2 supply were growing fast, the investment growth rate has been slowing down. Money has been hoarded in financial market due to low return rate in the real economy.

Another significant problem among firms has been the polarization of profitability and resource misallocation. While the overall trend of total profits growth has been decreasing (see Figure 5), there is an increasing discrepancy between the upper stream industry and the downstream industry. For example, among the 41 industries, 21 of them experienced negative profit growth in 2022. These industries are mainly downstream industries (e.g., food, general equipment manufacturing, textile, and ferrous and non-ferrous metal manufacturing). The profit growth of upper stream industries, such as oil, gas, electricity, and coal mining, by contrast, remained significantly positive. This discrepancy has aroused and stayed for around two years. Apparently, it is not the discrepancy between upper stream and downstream industries, but in reality the discrepancy between

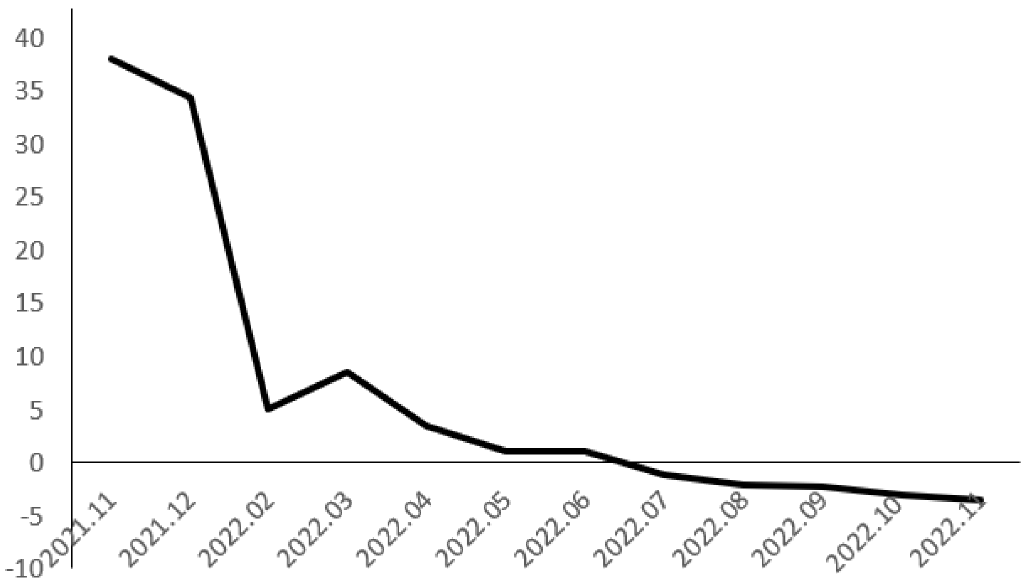

Figure 5
The growth rate of total industry profits (source: NBS).

state-owned enterprises and private enterprises.

The pandemic seriously dampened the profitability of firms, particularly small- and medium-sized enterprises. However, due to lack of credit support and price bargaining power, downstream private firms' profits have been further squeezed. There is clear evidence of redistribution of profits among firms, and the redistribution is not driven by market force or efficiency.

Unoptimistic external environment

The rest of the world is also experiencing economic recession in general, and this brings further challenges to China's economic recovery. The World Bank recently lowered its prediction of the world GDP growth to 1.7%, which is the lowest in the past 30 years. High inflation, high interest rate, reduced investment demand, wars and regional conflicts, and financial risks are all important factors that contribute to the world economic recession.

The high inflation rate in the U.S. started with rising commodity prices, followed by rising house prices and labor costs. The path clearly shows that the inflation is mainly driven by excessive money supply in the U.S., particularly after 2020. The Federal Reserve has raised up the interest rate seven times and up to 4.5% in 2022. As the inflation rate has not yet fallen to its target level, the Fed is expected to continue to raise up the interest rate quickly, which is pretty much similar to what happened in 2005 and 2006. Given that most of money supplied in the U.S. is also in its financial markets, stimulating the prices of financial assets such as stocks and real estate means that there are increasing risks in the US financial market. Rising interest rates have further discouraged investment, and this can lead the US economy towards further recession.

With rising interest rates in the U.S., emerging economies have also been significantly affected. Two largest problems are rising costs of external debt and potential risks of currency crisis. Global speculators have already started their attacks in the foreign exchange market, causing significant disturbances of exchange rate of many economies such as Greece and some African countries.

On the surface, the cause of the world economic recession is the COVID pandemic, but the root is excessive money supply and debt accumulation, and the loss of production efficiency. The global economic recession of course has a negative impact on China. Foreign demand and China's exports are expected to fall, dampening the aggregate demand of China further. The world supply chain is also affected, making it more difficult for China's manufacturing sector. The frictions between China and the U.S. may be even stronger in 2023.

Economic outlook and policy implications for China in 2023

The overall economic outlook of China in 2023 is not very optimistic, with shrinking world and domestic demand, shrinking profit margins and investment by domestic firms, and rising unemployment. Confidence urgently needs to be restored. In response to these problems, the Chinese government has announced several policies and measures, most of which are to stimulate domestic demand, including expansionary fiscal spending and money supply, encouragement of house purchases, and allowing the fiscal deficit to increase, among others.

However, as we have analyzed before, these measures are more for short-term challenges. They are not able to solve the fundamental and long-term problems of the Chinese economy. These policies cannot help it to recover in the long run.

Taking consumption as an example, policies should emphasize how to promote the growth of household disposable income. The income growth should not rely on short-term government measures such as temporary government expansionary fiscal policies. Instead, it should be sustainable and derives from the improvement of labor productivity and better structure of the economy. Without sustainable improvement of income growth, households' willingness to consume will not be effectively restored. Without efficiency improvement, stimulus of government increased spending and expansionary fiscal policies will cause high inflation. Inflation risk in China remains high in 2023 because of the reduction of inventories by many firms as well as the dampened capability of restoring production.

Policies to help firms should focus on reducing their costs rather than creating artificial demand for them. Artificial demand from the government is only temporary and it may distort firms' incentives and their expectation of the market. By contrast, lower costs of firms will enable them to restore investment in R&D and new projects, and thus to restore production. In addition, it's a good opportunity for China to improve its structure of the economy, allowing unproductive firms to exit the market and facilitating reallocation of resources from unproductive sectors to productive ones. This will improve the total factor productivity and help firms upgrade.

Final word

2023 will not be easy. However, China still has a large potential for economic growth. The Chinese government should continue with its economic reform, restructuring the economy, upgrading its industries, and improving its productivity and global competitiveness. There is no need to over-react to the temporary recession caused by the pandemic, because over-reaction may bury the seed for more problems in the future. Restore the market order, reduce the cost of firms, and reduce the market frictions. Better reallocation of resources will increase the overall productivity and the income level of households.

South Africa's 2023 Power Play

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South Africa's 2023 outlook remains grim primarily due to self-inflicted crises. The most pressing concern is the state electricity provider Eskom's inability to provide sufficient capacity to meet power generation needs and the consequent supply chain issues. As a consequence, South Africa has experienced unfaltering nation-wide timed electricity blackouts, which have severely impacted economic activities. Farming and mining activities, the largest contributors and employers in the South African economy, have also declined steadily due to erratic power supply. The current conditions have given many investors concern that the *Mandela Magic* South Africa is associated with is no longer fit for purpose.

Much of the context finds its origins in the post-1994 democratization euphoria. A previously sanctioned apartheid government expedited a period of opening up. However, past leaders' willingness to embrace international markets caused irreparable damage to domestic industries, like textiles. While the South African government was figuring out what degree of government facilitation was needed to protect industries for future development and growth, industries such as mining thrived.

The commodity boom of the late 1990s allowed South Africa to experience a golden age of politics and contributed to an acclaimed African Renaissance well into the early 2000s. Against this backdrop, South Africa's image as a diplomatic darling and economic powerhouse that boasted a diverse market offering and infrastructure construction and that made contributions to African peacekeeping, has changed significantly. And the panacea of promised South African growth was very much under pressure at the onset of the 2008 recession.

The unimaginable arrived with the impact of the COVID-19 pandemic on the

South African local economy and a series of rating downgrades. And South Africa's highly unequal population further contends with the overall impact on the health sector and local economy sectors has further increased the challenges for economic recovery.

In addition, the pressures of climate change are limiting the agricultural sector's ability to implement sustainably, and are devastating living standards of people inhabiting informal settlements. It appears that the Just Energy Transition, a vision aimed to achieve net-zero carbon emissions by 2050, may be put on hold as integrating job creation and rapidly installing generation capacity to sustain domestic supply requirements and regional trade demands cannot find synergy as yet.

The political economy of the Southern African region has been similarly impacted by global market conditions and the pressures of climate change. South Africa's neighbors also struggle to improve local conditions and fight poverty exacerbated by political instability. In cooperation with the Southern African Development Community (SADC) Mission in Mozambique (SAMIM), it remains in South Africa's best interest to continue supporting regional efforts to quell the insurgency along with its northern border Mozambique. With no clear exit strategy, South Africa is obliged to sustain the costly mission to prevent further regional instability.

Zimbabwe, which also shares a border with South Africa, has been plagued by instability and hyperinflation for more than 20 years. Hopes remain that the 2023 elections will change Zimbabwe's political dynamics and engender greater power sharing between the ruling party ZANU-PF and opposition parties, including Citizens Coalition for Change (CCC). However, poor overall access to consumer goods and social infrastructure and reports of continued unlawful detention and arrests impact the human security of Zimbabweans, continue to drive migration to South Africa and surrounds. Increased migration places pressure on South Africa's welfare system and the economy of many South Africans who are dependent on access to free or subsidized health and education infrastructure, as well as low skilled jobs. Local South African discontent has roused xenophobic and anti-African sentiments, which erupt in sporadic community violence. In 2022, protests erupted in Eswatini, landlocked in South Africa and Mozambique, with activists calling for the removal of the King of Eswatini and implementation of democratic reforms. South Africa brokered a series of negotiations. However, King Mswati III is reluctant for change.

South Africa is a major trade partner of the Southern African region through

SADC and the Southern African Customs Union (SACU). In addition, there's also the African Continental Free Trade Area (AfCFTA), which holds promise for creating an equitable trading space, but progress is incremental. The AfCFTA focuses on formalized sectors and a large proportion of intra-African trade takes place informally, but impetus to improve mechanisms in this regard has grown.

Structural inequality impacts the developing world hardest. While great store was placed on "the Great Reset" – an economic recovery plan drawn up by the World Economic Forum (WEF), economic anaemia, pandemic recovery, populist leadership and renewed geopolitical competition severely hinder the developing countries' ability to adopt any common advance. In 2023, levels of inflation, partially caused by the Russia-Ukraine war, continue to impact global growth. For developing countries with high levels of debt and rising interest rates, inflation weakens business investments, stymies social infrastructure investments in education and health, and interrupts climate change mitigation strategies.

Davos 2023 was an opportunity for Team South Africa to rally captains of global industry. However, President Ramaphosa skipped the meeting to tackle South Africa's loadshedding electricity crisis and address discontent within the ruling African National Congress (ANC). Once again, the country's progress was constrained by both domestic exigencies and regional instability.

What plans are in place to mitigate this?

In addition to several economic recovery and industry building plans, the 10-point plan to radically reverse electricity supply issues cannot avoid the negative impact of governmental bureaucracy and other red tape.

In 2023, political parties will orient themselves to the 2024 national and provincial elections. South Africa's strong democratic history of independent elections is a reaffirmation of South African political legitimacy, strong institutions, rule of law and independent judiciary. However, election orientation limits political focus on coping the existing service delivery issues.

South Africa maintains its international image as a middle power, crafting a niche for itself as a bridge builder due to its capacity to mediate difficult conversations. Its BRICS presidency in 2023 draws attention to the African agenda focused on issues of trade and finance, and the Just Energy Transition, among others. However, administrative inefficiency, stale leadership, sluggish change, and strife within the ruling hierarchy may mar the remainder of 2023. It is hard not to vacillate between extreme pessimism and tremendous optimism for the extensive opportunities that structural reform generates. The government must set a positive tone for achieving South Africa’s national interest and maintaining both African and global relevance.

Youth

Voices

Sonnets of China's Post-COVID Economic Recovery

Lessons for the World

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As the third year of the COVID-19 epidemic drew to a close, China's strategy moved from managing the spread of the virus to encouraging economic development. China's economy and social order responded positively, and major cities began to recover, despite the epidemic being far from over. In late November 2022, China relaxed pandemic restrictions and ended its "zero-COVID" policy, which almost immediately revived economic growth.

Worldwide, policy makers paid close attention to China's economy in late 2022 as the country streamlined its COVID-19 legislation. According to China's Ministry of Culture and Tourism, over 52.7 million Chinese citizens travelled throughout the country over the three-day new year's vacation. Tourism receipts for the 2022-23 new year period of approximately US$3.8 billion surged from the US$2.2 billion generated 12 months earlier. On December 15, 2022, the Economist Intelligence Unit predicted that once the public health crisis was resolved, demand for Chinese products would increase in the second half of 2023. Goldman Sachs predicted that once China was fully reopened, Thailand's GDP might increase by 3%. Arup Raha of Oxford Economics suggested that China's growth effect on Thailand would lessen the unpredictability that influences the pricing of local assets like the value of the currency. *The Economist* noted that Thailand's central bank would be less likely to raise interest rates, a desirable impact since the country's output is still below potential. Moreover, the post-COVID flow of Chinese visitors would be beneficial to both the tourism and retail sectors. Retail sales in Singapore are projected to increase by SGD$2 billion in 2023. For *The Economist*, China's economic revival, and its significant role in global trade and production contribute to overall global expansion.

As the COVID-19 pandemic recedes, its impact on the economy and industry has also declined and China's resilient economy has entered a new phase of recovery. Moreover, the complex industrial network that the pandemic catalyzed has been progressively developed and refined, paving the way for a new path to economic recovery. To halt a prolonged decline in the real estate sector, China has recently introduced new initiatives designed to boost developer finance and stimulate house sales. On the downside, the government's new measures may also cause a substantial drop in near-term economic activities. Research, however, shows that tougher rules are more effective in helping an economy recover from the shock of a pandemic over the long term. Moreover, China's massive domestic market has provided impetus for advancing the pandemic-era commercialization of technological innovations. To generate a significant increase in sales, public confidence must be restored over time and families convinced to adjust their approaches to building wealth. China has determinedly called for international cooperation in the battle against the COVID-19 pandemic and swiftly joined collective responses.

Economic resilience is measured in a country's capacity to rapidly recover from severe setbacks. As a consequence of pro-growth initiatives, 2023 is expected to be a stronger economic year for China. The country's GDP is predicted to expand by 4.8% or more in 2023, which is comparable to projections for 2021. Exports, among other things, have been crucial to China's economic revival. Red flags for China's economy in 2023 are the potential recessions in the United States and Europe and projected downturn in the global economy. To better weather the post-pandemic economic storm, China has the capacity to make the following policy adjustments:

In 2023, confidence and domestic demand underpin China's economic policies and the short-term and long-term policy frameworks needed to stabilize the economy. As normalcy returns and income growth are restored, private spending is emerging as the key driver for China's economic recovery. However, market participants are naturally concerned with China's implementation of such growth measures. Consumer spending is hampered by three years of lockdowns that decreased salaries, and the severe financial pressure placed on many families, especially those with lower incomes. As such, families have reduced discretionary spending and focused on returning to work and saving money. To stimulate household spending, the central government needs to increase public services and target the 300 million migrant workers living in metropolitan areas that have long been excluded from state welfare and healthcare programs.

Consistency and continuous reform efforts remain the cornerstone for boosting market expectations and rebuilding market confidence. To maintain robust government expenditures in 2023, the government will need to increase tax revenue or expand the budget deficit substantially. Fiscal deficits, special-purpose bonds, and interest subsidies are some of the tools employed to ensure fiscal sustainability and manage the risks associated with local government debt. Green development and small businesses, among others, will continue to receive policy attention and funding from the government. Additionally, China's central bank is expected to renew a number of the targeted loan instruments utilized during the epidemic as they reach their expiration dates.

How the world's second-biggest economy will function in 2023 remains a major international concern despite China's positive record of previous economic efforts and policies. The Western media reported in 2022 that the unemployment rate in China was increasing and that youth unemployment had risen to 20%. Predictions that the Chinese economy would eventually have a higher GDP than the US economy were also contested.

Importantly, the worldwide news cycle is no longer dominated by the COVID-19 pandemic as more countries relax their prohibitions on virus containment. Media focus has turned to geopolitical rivalries, economic crises, supply chain concerns, military conflict in Ukraine, pandemic fallout, and other health crises. While the majority of countries have ensured access to quality medical care for their citizens, several struggled economically to provide adequate healthcare responses to COVID-19. Disruptions to trade and investment, especially at the outset of the crisis in Ukraine, are stark reminders of global economic fragility. While international commerce and investment have both improved significantly in the post-pandemic phase, the upturn is not uniform across countries and industries. Nevertheless, observers see 2023 and China's refocus on economic policy as a turning point. China's sluggish economic development of previous several years was due, in large part, to factors other than China's COVID regulations – the conflict between Russia and Ukraine, US sanctions and restrictions on trade, and the commercial interruptions brought on by tight COVID control processes across the globe.

Half of the increase in global GDP during the first three years of COVID is attributable to China. As such, the international community relies on China to foster greater international economic collaboration. China's revised COVID policy contributed positively to the country's domestic economy as well as the global economic recovery. By enacting rules to protect its citizens and enterprises, the Chinese government has helped to nurture a recovery that is more robust, inclusive, and long-lasting. The following evidence demonstrates why China will continue to play a crucial role in the recovery of the global economy:

I. China's COVID response aid has provided an opportunity for the country to attract new partnerships across the Global South and foster mutual economic and political growth. The vaccination gap, especially in poor nations, is a major setback for international development efforts. China actively aids developing nations in their economic recovery efforts and is a staunch advocate of genuine multilateralism. The populations of less developed nations increasingly regard China as a pillar of human rights and a partner that delivers on its promises, offers timely assistance and produces tangible benefits. Building on its reputational strength, China's global partnership network will expand and strengthen.

II. China's continued reform and opening up and economic aid to partners did not slacken during the pandemic. Recipient countries of China's assistance economically benefited and bilateral commerce, without doubt, rose accordingly. Moreover, global economic recovery benefited from China's COVID response assistance including the export of vaccine doses worth an estimated 120 billion yuan. International support for the COVID response effort was a resonant gesture of peace and generosity.

III. The Chinese government responded to the COVID-19 outbreak by enacting a variety of initiatives and programs, which aimed at maintaining economic activity, but also led to economic and technological progress. China's ground-breaking new technologies, represented by technologically driven pandemic-control programs which monitor population movement and geographical dispersion using big data and face recognition, have bright prospects for future application. Moreover, China's exports are bolstered by the country's international cooperation initiatives, such as the provision of biological products and medical equipment to underdeveloped countries.

IV. China-led regional financial arrangements are beneficial. For vulnerable low- and middle-income countries, the International Monetary Fund's ability to provide finance for investment projects is contingent on their progress toward sustainable development objectives. It is admirable that the international community seeks to help the most vulnerable nations recover from the pandemic's shock, but there are still obstacles to overcome, including economic stabilization of many middle-income countries, least-developed countries, and low-income countries. China, in tandem with other leading countries, needs a more ambitious policy agenda to address debt vulnerability, which continues to receive too little attention. In addition to the small and insufficient sums allocated to poor nations to bridge their financial shortfalls during the pandemic, there are the larger challenges of restructuring the global debt architecture.

V. The Ukraine crisis has caused food and electricity shortages and worsened the bleak economic climate. Humanitarian assistance, particularly large-scale migration management, necessitates reallocation of public resources in developing countries. This has negatively impacted official development assistance, and post-COVID-19 infrastructure and sustainable development goals project funding packages, which were supposed to stimulate future global investment in sustainable recovery. China has a lot to offer in terms of foreign projects and stands to benefit from active participation. For example, China has played an important role in helping low-income countries receive global debt relief and expanded access to vaccines. The severity and length of the pandemic has significantly reduced the capacity of many countries to service previously incurred debt. China's assistance in establishing sustainable debt trajectories would help borrowers make greater future contributions to the global economy.

VI. China's efforts to advance international trade and, in particular, WTO reform, are very important. China leads international climate efforts, such as co-chairing the G20 Sustainable Finance Working Group and working with the EU on green investment requirements, which contribute to a global green recovery. China's contribution to the IMF bolsters the reserves of all 190 member nations by drawing on the collective power of the Fund's membership. Furthermore, China provides liquidity assistance to a wide range of low-income nations, allowing them to better finance healthcare and protect their most vulnerable populations.

The COVID-19 public health calamity severely damaged the global economy. The post-COVID-19 economic recovery trajectory is crucial for achieving sustained and high-quality global economic development. China has manifested its global responsibility by extensive participation in UN peacekeeping missions, providing humanitarian relief in times of disaster and respecting global environmental and free trade principles. Moreover, China's economic resilience has both sustained and significantly increased global economic growth. Looking to the future, China's active policy direction is energizing both the supply and the demand sides and promoting increased resilience in other economies to mitigate future global risks.

China and the Global Economic Recovery in the Post-COVID Era

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The COVID-19 pandemic has caused unprecedented economic disruption and hardship around the world, and the recovery has been, in some cases, slow and uneven. China, the world's second-largest economy, managed to control the spread of the virus during the first years and was an important contributor to global economic growth at both the start and the global peak of the pandemic. However, in a world with recent variants less transmissible than the original strains, China shifted its policy to better adapt to the new reality and co-exist with the virus while preserving a better economic and social outlook for the years to come.[1]

Why international bodies and the media were calling for China to relieve its COVID restrictions?

At the end of November, international bodies and the media began calling for China to ease COVID-19 restrictions due to economic and social concerns. Restrictions were causing many businesses to suffer and decreasing economic activity, and people's lives were being harmfully disrupted.

Reports mentioned how China's extended COVID-19 restrictions on people's daily lives were negatively impacting their health and well-

1 Enderwick, P. (2023). The Economics of Resilient Global Supply Chains in the Post-COVID-19 Era. In Analyzing International Business Operations in the Post-Pandemic Era (pp. 1-14). IGI Global.

being. As a result, some international media and institutions began criticizing China for irresponsible management of the pandemic response. The economic impact was increasingly relevant with many businesses forced to close or reduce operations, resulting in decreased economic activity. The ripple effect on the economy spread upstream and downstream to businesses reliant on supply chains for their products and services.[2]

In contrast with how the West had dealt with the first years of the pandemic, the United States called on China to ease restrictions and initiate steps to prevent the spread of the virus. The European Union called on China to implement steps that ensured people had access to basic services and necessities.[3] Based on its societal concerns and demands, and how the rest of the world had desperately learned to co-exist with the virus, the Chinese government adjusted its policies and replaced the previous strategy of containment with a policy orienting toward co-existence with the virus.

China's policy adjustments

In response to both domestic and foreign concerns, China planned for virus co-existence, commencing December 2022 to March 2023. The new scenario, and its relevant policy changes, would enable a new approach to economic recovery from the impact of the pandemic in 2022. Nevertheless, the policy reversal was accompanied by a rapid increase of COVID-19 cases, causing a significant impact on public health nationwide, raising demand for doctors and hospitals, and raising mortality rate. The country and its society needed to rapidly adapt to virus co-existence and meet domestic economic and social demands. China's "open plan" has fostered mobility and a better recovery while guaranteeing that business activities will return to normal,[4] and thus, increasing consumer spending and stimulating the domestic economy for the benefit of society as a whole.

Indeed, during the central stages of the pandemic, China implemented a series of measures to benefit society and the economy, including tax cuts to stimulate economic growth. Other tax reductions included value-added tax, the corporate income tax rate, and suspended collection of

2 Song, L., & Zhou, Y. (2020). The COVID-19 pandemic and its impact on the global economy: what does it take to turn crisis into opportunity? *China & World Economy*, 28(4), 1-25.

3 Yu, L., Zhao, P., Tang, J., & Pang, L. (2023). Changes in tourist mobility after COVID-19 outbreaks. *Annals of Tourism Research*, 98, 103522.

4 Jiang, D., Wang, X., & Zhao, R. (2022). Analysis on the economic recovery in the post-COVID-19 era: evidence from China. *Frontiers in Public Health*, 9, 787190.

certain business taxes.[5] To create jobs and further stimulate economic growth, the government increased spending on infrastructure projects, including roads, railways, and airports. The country provided financial support to small businesses, including low-interest loans and subsidies, to aid their survival during the economic downturn and maintain competitiveness.[6] The government also launched a series of investment incentives, including tax breaks and subsidies, to encourage business investment. A series of monetary easing measures, including cutting interest rates and increasing the amount of money available for lending, encouraged businesses to borrow and invest, and thus stimulating economic growth while increasing government spending on social welfare programs[7] and providing subsidies to help exporters remain competitive in the global market.

Previous government policies, which allowed China to focus on developing its digital infrastructure, fostered increased competitiveness for Chinese technology firms in the global market. Globally, China's policy updates aimed to support global economic recovery by enabling China to resume its role as a major trading partner and, therefore, help to stabilize global markets and increase international trade. Despite its public health impact in the short term, China's policy adjustment ensures the country's participation in global initiatives. The global economic recovery after the COVID-19 pandemic depends on the success of domestic economies in responding to the crisis.[8] Governments around the world are taking steps to support their economies, such as providing fiscal stimulus, expanding access to credit, and introducing targeted measures to help businesses and households. Together, these individual government measures helped stabilize economic activity and created a platform for better recovery in the medium term. The measures must also focus on structural reforms, such as measures to increase access to finance, reduce inequality, and promote green growth, to strengthen their economies and make the countries more resilient to future shocks.[9]

Global economic recovery also depends on the success of international cooperation. China must collaborate with other countries to ensure the global economy is open and interconnected so trade and investment flows are not disrupted. Further collaboration is required to ensure that the global financial system is stable and resilient, the global economy is more inclusive and equitable, and that all countries have access to the

5 Elgin, C., Yalaman, A., & Yasar, S. (2023). Economic stimulus measures in the pandemic: the role of fiscal decentralisation. *Cambridge Journal of Regions, Economy, and Society.*

6 Enderwick, P. (2023). The Economics of Resilient Global Supply Chains in the Post-COVID-19 Era. *In Analyzing International Business Operations in the Post-Pandemic Era* (pp. 1-14). IGI Global.

7 Hassan, S. C. (2023). Innovative marketing strategies during tourism recovery in the post-COVID-19 period in Nigeria. In Crisis Management, *Destination Recovery and Sustainability* (pp. 67-76). Routledge.

8 Zhang, Z., Fu, D., Liu, F., Wang, J., Xiao, K., & Wolshon, B. (2023). COVID-19, traffic demand, and activity restriction in China: A national assessment. *Travel Behaviour and Society*, 31, 10-23.

9 Jiang, D., Wang, X., & Zhao, R. (2022). Analysis on the economic recovery in the post-COVID-19 era: evidence from China. *Frontiers in Public Health*, 9, 787190.

resources and opportunities they need to thrive.

The role of China in the post-COVID global economic recovery

Despite the pandemic, China remained a major contributor to global economic growth. Some economists have estimated that China contributed half of the world's GDP growth during the first year of the pandemic.[10] This was largely due to China's capacity to contain the pandemic and maintain relatively high levels of economic activity. China's economic recovery has since been driven by strong domestic demand and the government's implementation of a range of fiscal and monetary policies,[11] which boosted domestic demand and investment and supported the labor market as the pandemic was brought under control.

China has maintained its position as the world's largest exporter of goods[12] and has the ability to capitalize on the global shift towards digitalization and the increasing demand for technology products. China's strategy is to finance stimulus measures, while maintaining its relatively low debt-to-GDP ratio. And the Chinese banking system has been, and will be playing a critical role in providing sufficient credit for businesses to support economic activity and recovery.

Looking forward

For the global economy to recover, closer international cooperation is required to increase trade and investment and ensure an open and fair trading system.[13] The benefits that accrue from reduced trade barriers, such as tariffs and quotas, facilitate global investment and trade, and thus support economic growth. Countries must also ensure that their banking systems are well-regulated and have adequate capital and liquidity buffers to safeguard the global financial system from shocks and maintain stability and resilience in the world economy.[14] Furthermore, international cooperation is urgently required to ensure that the global economy is more equitable and inclusive. All countries

10 Song, L., & Zhou, Y. (2020). The COVID-19 pandemic and its impact on the global economy: what does it take to turn crisis into opportunity? *China & World Economy*, 28(4), 1-25.

11 Jiang, D., Wang, X., & Zhao, R. (2022). Analysis on the economic recovery in the post-COVID-19 era: evidence from China. *Frontiers in Public Health*, 9, 787190.

12 Kumari, R., & Sharma, A. (2023). Impact of COVID-19 on International Trade: New Evidence From Economic Sectors. In Research Anthology on Macroeconomics and the Achievement of Global Stability (pp. 1305-1321). IGI Global.

13 Yu, L., Zhao, P., Tang, J., & Pang, L. (2023). Changes in tourist mobility after COVID-19 outbreaks. *Annals of Tourism Research*, 98, 103522. Zou, Z., & Wang, X. (2023).

14 Research on the investment value of China's medical sector in the context of COVID-19. *Economic Research-Ekonomska Istraživanja*, 36(1), 614-633.

must benefit from economic growth and have equal access to resource distribution for the global economy to become more resilient.

According to the latest projections, the Chinese economy was expected to grow by approximately 4.4% in 2022. China's GDP growth remains higher than the expected global average of 2.7%, and the 3.7% average of emerging markets and developing economies.[15] Driven by strong domestic demand, increased government spending, and a rebound in exports, China's growth is expected to also be a major contributor to global trade and investment. Significant Chinese Outward Direct Investment (ODI) is also expected to bolster developing countries and stimulate economic growth both locally and globally. China is a major player in global finance and is expected to continue its Belt and Road Initiative (BRI) infrastructure investment plans, which have been facilitating global economic growth via the dual circulation paradigm. Furthermore, China is an important partner and enabler for global climate change efforts and is committed to reducing carbon emissions by continuing its significant investment into renewable energy sources that help reduce global emissions and contribute to a more sustainable future and green economic growth.

Conclusions

China was the major contributor to global economic growth before the pandemic outbreak and will remain so in its wake. China's leading path, manifested in the Global Development Initiative (GDI), fosters cooperation to achieve full post-pandemic economic recovery and a more sustainable future. China leads the implementation and promotion of trade barrier reduction, the maintenance of stability and resilience in the global financial system and the establishment of a global economy that is more equitable and inclusive in all ways. The lifting of China's dynamic zero-COVID policy restrictions, including mandatory quarantine periods for travelers from certain countries despite the important social and public health effects, is expected to ensure rapid public adaptation to the virus, help stabilize and improve economic prospects, and contribute to global pandemic recovery cooperation and global economic growth.

15 IMF. (2022). World Economic Outlook. International Monetary Fund, October 2022.

About this volume

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