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Two Sessions for One Goal High-Quality Development



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China's Unique Path to High Quality Development

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Most economists are obsessed with GDP figures, because they are quantifiable. This simplistic approach tends to overshadow the ends, which is the quality of life for all citizens in a modern society, with means. The report delivered by General Secretary Xi Jinping at the 20th CPC (Communist Party of China) plenary session in October 2022 mapped out a holistic blueprint for Chinese modernization. This grand notion encompasses shared prosperity for all, coordinated development between material and spiritual civilization, harmonious coexistence between people and nature, whole-process democracy and a road for peaceful development that contributes to building the community of shared future for mankind.

The government report delivered by Premier Li Keqiang at the annual session of the 14th National People's Congress in March 2023 produced eight development strategies aligned with the grand goals set forth by the CPC report. These include: 1) expansion of domestic demand, 2) establishment of a modernized industrial system, 3) invigoration of all market players, 4) attraction for foreign investment, 5) prevention of systematic financial risks, 6) rural revitalization campaign, 7) continuing the transition to green development, and 8) meeting people's basic living needs and developing social programs.

In view of the daunting challenges China faces, which include demand contraction, supply disruption, weakening prospects as a result of the COVID contagion, global protectionism, geopolitical conflicts and economic recession among major trading partners, the government work report set a realistic growth target of approximately 5% for 2023. This figure rests upon a holistic perception of a healthy economic paradigm where employment, inflation, trade balance and de-

carbonization are taken into accurate account. Urban unemployment shall be kept in the vicinity of 5.5% with 12 million jobs created annually. This is seen as approximate full employment in economic terms. The CPI inflation marker shall be contained at 3% to ensure real household income increases mirror GDP growth. Bearing in mind the stringent agenda for carbon peaking by 2030 and carbon neutrality by 2060, China is resolved to take decisive measures that increase power utility rate and reduce carbon emission. Energy transition may run counter to economic growth figures in the short term, but definitely serves the long-term interest of the nation as ecological quality is steadily enhanced.

China's development strategy maintains a high level of consistency from conception to implementation. The report at the 19th National Congress of the CPC in 2017 outlined China's primary challenge as the people's yearning for better life versus the imbalanced and inadequate development pattern. As early as 1997, the 15th CPC National Congress officially put forward the Two Centenary Goals, i.e., to build a moderately prosperous society by 2020, and to shape China into a prosperous, strong, democratic, culturally advanced, and harmonious modern socialist country by 2050. Now that China has fulfilled its first centenary goal, the 14th Five-Year Plan and Vision 2035 - effective since 2021 - charted a two-phase roadmap, and the first stage is to basically realize socialist modernization by 2035, which primes achievement of the second centenary goal.

Broadly speaking, a modern social construct is composed of state, market and civil society. Market players are responsible for economic output, and the state is charged with the power and responsibility to safeguard market functionality and cater to civic harmony through regulation and wealth redistribution. The model of mixed economy - state-owned firms, private firms and foreign-invested firms with their respective advantages - has powered China's economic growth and industrial upgrading since the adoption of reform and opening-up policy over four decades ago.

Two important conceptual frameworks laid out in China's new development paradigm are often misinterpreted. The first is "dual circulation," which is misconstrued as an attempt to close China's door against global participation. In fact, when domestic circulation is slated as the mainstay, positive interaction with the global circulation is dynamically encouraged. In addition, unification efforts for domestic market are intended to eradicate regional barriers for business activities across the country. They also facilitate the free flow of productive factors with world markets. The second misconception relates to the promotion of "shared prosperity" along with the third round of wealth distribution, often misconstrued

as depriving the rich to aid the poor. During his first press conference, China's newly elected Premier Li Qiang specifically negated the antagonism instigated by some opinion leaders against Chinese private business entrepreneurs. He reiterated China's protection of private property and the legitimate interests of private businesses. Li Qiang also expressed strong determination to foster an enabling environment of equal treatment and fair competition for all business actors on the track of market orientation, rule of law and globalization.

China is fighting an uphill battle in its drive for high quality development within a complex and uncertain global environment. Faced with the threat of trade decoupling and high-tech containment, the country is left with little choice but to boost indigenous innovation at a number of chokepoints. Amassing the required talent pool for technological breakthroughs and paving a sophisticated ecosystem of industrial upgradation is not a short-term undertaking.

While China's demographic dividend is on the decline, the task to renew the skillsets of its massive labor force through professional training is daunting. The dramatic growth of the silver generation, which hit a record high of 18.7% of population, is a mixed blessing. The extension of life expectancy is a strong marker of human development, but the increasing aging population can also call for a greater responsibility of the social welfare program. The government needs to explore new avenues to foster workforce participation of older people who are able and willing to engage in productive work or social service. Young couples are seeking alleviation of their practical concerns over childcare, schooling and housing before they are incentivized to have more children. Most crucially, they need to be assured of a reasonable outlook for job stability with a decent income.

China clearly understands that green transformation is an overarching trend. A delicate balance needs to be maintained between a reasonable pace of economic growth and ecological conservation. China is seeking all means in the shift to clean energy. Substantial progress has been made to develop non-fossil energies such as solar, wind, hydro and nuclear technologies. However, expected reductions to the heavy reliance on coal for power generation are only achievable in calculated steps. In the continued drive for industrialization and urbanization, increasing energy intensity and boosting the circular economy are the most pragmatic approaches for cost effectiveness. China has begun to realize that consumers are responsible for 53% of carbon dioxide emissions. Therefore, it is imperative to put consumer education at the top of the agenda. Consumer awareness and actions not only help reduce waste, but provide strong leverage to guide supply chain convergence to a greener track.

Government will also have to adapt to changing circumstances by strengthening its governance capacities. While the notion of effective government and efficient markets is a perfect fit for China's model of socialist market economy, further clarification must be made between the roles of government and the market. Government must refrain from excessive intervention when supply and demand is able to bring the market to an equilibrium. State-owned companies can reduce their reliance on franchise and subsidies granted by the government and learn to compete on an equal footing with other private players.

Ultimately, deepened institutional reform, in line with further market opening, provides the means for China to forge ahead on its unique path of high quality development.

China's Cultural Traditions and Chinese-Style Modernization

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“Chinese-style” is the essential thinking of the Chinese-style Modernization. On the 20th Communist Party of China (CPC) National Congress last October, Xi Jinping proposed the future goal of “Chinese-style modernization,” a concept with deep social policy implications. In his *Report on the Work of the Government*, delivered at the opening meeting of the first session of the 14th National People’s Congress in Beijing on March 5, Premier Li Keqiang reviewed and envisioned the government’s work in all respects, including employment, pandemic prevention and control, rural revitalization, housing, education, health care, and social security. He also proposed for work in the areas of finance, taxation, social security, and environmental protection, charting the course for China’s social progress and Chinese-style modernization.

Ontology in contemporary philosophy addresses questions like which of the entities exist at the most fundamental level and how entities are grouped into hierarchical categories, such as the zoological and botanical taxonomy, classifying creatures from family and genus to species level. The same is true for the structure of any society, which consists in a hierarchy from the core (economic interests) to the outer layer (social and cultural traditions). The way of life is a national tradition and encompasses the most prevalent social and cultural phenomena of a nation. Different ethnic groups have different lifestyles and fundamentally different production and consumption patterns for survival. Therefore, academically, a country must adopt a multifaceted and comprehensive approach to social governance.

As a development goal, “modernization” has been a necessary step in the

evolution of contemporary Chinese civilization. The concept of “modernization,” which essentially means “developing towards a modern society,” was proposed to contrast the then latest stages of capitalist development with those preceding the discovery of the New World and the Reformation. According to the Western “scientific disciplines,” it can be broken down into “modernization” in areas such as politics, economy, military, society, culture, science and technology, and more. Modernization is not just an integral part of the evolution of an ethnic group, country, or society, but also an inherent responsibility and duty of those in power. To achieve modernization, a full range of measures must be taken for development in those above-mentioned areas. Premier Li Keqiang pointed out that efforts must be made to promote Chinese-style modernization, pursue coordinated development, keep improving people’s lives, and maintain social stability to lay a good foundation for building China into a modern socialist country in an all-around way. But for the time being, he stressed, comprehensive measures must be taken to ensure “lasting peace and stability,” which should be a long-term goal if the Chinese-style modernization is to be achieved.

First of all, it is a must to comprehensively promote the historical and cultural traditions of the Chinese nation and boost the spirit of the Chinese people.

China has a long history of civilization. As early as in the Western Zhou period, united and well-organized societies had been built in China, where laws and moral codes were developed by the governments for social governance. Administrative officials of prefectures and counties performed their duties taking into account all three aspects, namely “heavenly principles,” “national laws,” and “public sentiment.” In addition, the Chinese people today are fully aware of and adhere to the ethical and moral codes formed over the course of thousands of years of the Chinese civilization. For example, having a large number of descendants was one of the things that would make a family proud when it came to family management. Government officials emphasized “even wealth distribution” because “inequality” rather than “scarcity” is the cause of trouble. To enlighten the people, officials often urged them to get rich through hard work in production and win honors for their clans, saying, “Only when people are well-fed and clothed will they know honor and shame.” In addition, the ideal society for the ancient Chinese was to advance from “moderate prosperity” to “a world of great harmony.” For example, in *The Peach Blossom Spring*, Tao Yuanming (c.365 AD-427 AD), one of the best-known poets in China, wrote about what he saw before his eyes “a wide expanse of flat land with neatly arranged farmhouses, fertile fields, beautiful ponds, mulberry trees, and bamboo groves. Roads crisscrossed the land where the sounds of crowing cocks and barking dogs could be heard all around. Men and women were busy tilling the farmland and they dressed differently

from the people outside of the Peach Blossom Spring. Both the elderly and the children appeared very happy and contented.” Another example, the quotation “all men within the four seas under heaven are brothers” from the *Analects of Confucius - Zilu* expressed the core values of the Chinese people regarding interpersonal relationships, that is, “do not do onto others what you do not want others to do onto you.” These values have never been abandoned by China or its people despite all the tribulations. They constitute our way of life and belief with permanent relevance, just as philosopher Bertrand Russell put it, “... something of the ethical qualities in which China is supreme, and which the modern world most desperately needs.”

Second, it is a must to stabilize China’s population growth and take it as a strategy for long-term development. Western economics originated in modern times, with the aim of maximizing economic efficiency, as illustrated in *The Wealth of Nations* with an example of the division of labor in a British pin factory. Later, the Cobb-Douglas production function in western economic theory further explained the progress of a country and society based on a “production function” with two major factors, “labor” and “technology.” It is an approach simply pivoting on GDP growth, which in fact pits “population” against “technology.” Thus, the notion of “zero population growth” once circulating in the West had great limitations as it was a product of an era that featured a “shortage economy” and a lack of technological advancement. These restrictions are no longer an issue thanks to modern advances in science, technology, and social productivity. We can say for sure that the Chinese-style modernization would make no sense without a certain size of population. In fact, the Chinese-style modernization is the modernization of a huge population. A huge population affords us a more solid foundation for development, a greater ability to serve the rest of the world, and a higher potential for consumption. Therefore, the “two-child” and “three-child” policies promoted by the central government are strategic decisions aimed at building the population foundation necessary for the Chinese-style modernization.

Third, we must promote common prosperity for all people. Since the founding of the People’s Republic of China in 1949, our accomplishments in social development have won praise worldwide, especially because we have avoided falling into the “middle-income trap” characterized by a significant gap between the rich and the poor, which exists for some other countries. However, as one of the main characteristics of the primary stage of socialism, the new China that emerged from the past had to strike a balance between “individual prosperity” and “common prosperity” and implement different distribution policies at

different development stages of productivity. With the advancement of socialism with Chinese characteristics in the New Era, common prosperity has inevitably become one of the goals of the Chinese-style modernization. It conforms to the basic law of development of the Chinese civilization and is the “original aspiration” of the CPC, that is, to strive for the affluent of the Chinese people and the rejuvenation of the Chinese nation.

Fourth, we must promote coordinated material and cultural-ethical advancement. Both material advancement and cultural-ethical advancement have their fundamental tenets as contemporary concepts. Unlike material advancement, which is easy to define, cultural-ethical advancement refers to higher values of humanity in both the East and the West, such as “communism” and “great harmony.” In *The Commentary of Zuo - Twenty-Fourth Year of Duke Xiang’s Reign*, it goes like this: “The highest is the establishment of one’s virtue; next is the establishment of meritorious deeds; and next to that is the establishment of words. Long-lasting and enduring, these are what were called immortality.” This is what we commonly refer to as the “three immortalities,” which have for a very long time motivated the Chinese nation to seek the establishment of virtue, meritorious deeds, and words. Contemporary role models, such as Mao Zedong, Zhou Enlai, Peng Dehuai, Huang Jiguang, and Qian Xuesen, are the embodiment of the “three immortalities.” It is foreseeable that as the Chinese people become “well-fed and clothed,” this outlook on honor and disgrace, which reflects the level of cultural-ethical advancement of the Chinese people, will prevail and will keep persisting as a moral guide for behavior and the core values of society. It will continue to advance alongside “material advancement.”

Fifth, we must promote harmonious coexistence between man and nature. The concept of harmonious coexistence between man and nature has early roots in the environmental ideological tradition of the Chinese nation, which supports the government’s role in the policy-making of environment protection. According to *Yi Zhou Shu - Dajujie*, an unofficial history of the Western Zhou Dynasty (1046–771 BCE), it is prohibited to cut down trees in mountains in spring so that vegetation can grow, and it is prohibited to fish in rivers and lakes in summer so that fish and turtles can grow. *The Rites of Zhou - Diguan*: Situ recorded the social management systems of the Western Zhou government. Official positions such as Shanyu (mountain official), Linheng (forest official), Chuanheng (river official), and Zeyu (lake official) were set up to protect the environment and natural resources and collect taxes. In modern times, the frequently occurring “El Nino Phenomenon” is a result of the overexploitation of natural resources since the Industrial Revolution, and has attracted the attention of visionary people. The harmonious

coexistence between man and nature has been made possible by modernization due to productivity advancement. However, to coexist harmoniously with Mother Nature is neither a privilege of some countries nor an excuse for containing developing countries. China should make the Chinese-style modernization one of its major goals for social progress and, through social transformation and new fiscal and tax policies, promote the development of new energy, new materials, new economic models, and new consumption patterns.

All in all, we must align fiscal, taxation, and social policies to balance current policies of expanding domestic demand with the long-term goal of the Chinese-style modernization. First, annual budget should be made to promote economic growth as well as social progress. We should appropriately boost funding for social policies in the budget. To address the issue of low fertility rate under the conditions of a market economy, efforts should be made to ensure stable employment and income for the large number of married and childbearing women working in enterprises. In addition to administrative regulations, other measures such as subsidies, tax breaks, and reductions in social security contributions can be taken to ensure enterprises' wish in political efforts to increase the birth rate. In particular, we should encourage local governments' initiatives (especially their support for labor-intensive enterprises), in their efforts through the division of fiscal powers between the central, local and city levels, to ensure that enterprises will not suffer economic loss from women's marriage and childbirth leaves, which has been a cause of reluctance to create jobs on the part of the enterprises. These efforts will also contribute to common prosperity. Second, we should study how to address the huge gap between the rich and the poor in certain fields and among different groups of people through direct tax reform. We should also introduce policies on capital gains tax to prevent the "profiteering" of some special industries during special periods. Third, to protect Chinese cultural traditions and way of life, we must push forward the progress in converting economic strength into national defense strength. China has made economic and social advancements over the past 40 years on the basis of its national defense capabilities. High-quality economic and social development is impossible without sufficient national defense investment. Some world powers have long been well ahead of China in military spending in terms of size and efficiency as competition between big nations has intensified. We must be fully aware of it and move quickly to implement political consistency on defense spending.

Two Keys to Driving Domestic Demand: Enhancing Confidence and Targeting Priorities

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In the late 1990s, China grappled with significant economic and social challenges, both domestically and internationally. The nation was hit by devastating natural disasters and felt the impact of the Asian financial crisis. In response, the Chinese government launched a series of reforms aimed at stimulating domestic demand. These reforms were centered around the industrialization of education, the commercialization of healthcare, and the monetization or commodification of housing. Since education, healthcare and housing had long been considered the three main burdens on the Chinese population, the implementation of these reforms was met with widespread interest and concern. Many worried that such sudden changes could lead to social instability. In reality, the reforms in education and healthcare have undergone reversals and zigzags over the past 25 years, and ultimately the public roles of the two sectors were reiterated. The real estate market, however, has experienced rapid development and emerged as one of the primary contributors to China's sustained and high-speed economic growth.

The year 2023 holds great significance for China. It is the first year of implementing the guidelines of the 20th National Congress of the Communist Party of China (CPC), and the first year of eased COVID-19 restrictions following a three-year pandemic fight. It also marks the halfway point of the 14th Five-Year Plan for national economic and social development, and the 10th anniversary of China's "Belt and Road" initiative. However, the current economic and social landscape in China remains severe, arguably more challenging than it was 25 years ago. The report of the 20th National Congress of the CPC employs the metaphor of "high

winds, choppy waters and even dangerous storms” to describe the potential risks ahead. Therefore, the *Report on the Work of the Government*, delivered by Premier Li Keqiang at the opening meeting of the first session of the 14th National People’s Congress in Beijing on March 5, emphasizes “expanding domestic demand” as the foremost of the eight recommended tasks for the government in 2023. Here I offer some personal analyses and perspectives on how to effectively stimulate domestic demand.

I. The bleak global economic outlook renders it unrealistic to place high hopes on external demand

Ever since the United States started its trade war against China in early 2018, frictions between the world’s two largest economies have been extended from economic and trade domains to military, technology, information, diplomacy, and other areas. Bilateral relations have yet to see substantial improvement, and the risk of decoupling is on the rise. Major global supply chains and industrial chains have suffered severe disruptions and are undergoing a period of relocation and restructuring due to factors such as the COVID-19 pandemic and deeper geopolitical conflicts. This has resulted in factory closures, worker layoffs, and sluggish consumption. The Russia-Ukraine conflict in the spring of 2022 triggered a sharp increase in global food and energy prices, resulting in severe inflation in nearly every country. To combat inflation, the U.S. continued to raise interest rates, prompting a global capital influx back to the U.S. Many other countries followed suit with tightening policies. Therefore, the world economy is likely to endure a prolonged period of recession. In the short term, it is not viable for China to rely on exports to sustain high-quality economic growth. According to the data released by the General Administration of Customs of China, China’s imports and exports in the first two months of 2023 totaled USD 895.72 billion, down 8.3%. Specifically, exports totaled at USD 506.3 billion, down 6.8%, and imports were at USD 389.42 billion, down 10.2%.

II. Boosting confidence is urgently needed to drive domestic demand

Now that we cannot rely on foreign demand to boost the economy, our priority should be to expand domestic demand and foster a new development dynamic

centered on domestic consumption, while remaining open to international engagement. However, domestic demand remains weak. The monthly data released by the National Bureau of Statistics indicate that China's total social consumer goods retail sales for October, November, and December 2022 were RMB 4.02 trillion yuan, 3.86 trillion yuan, and 4.05 trillion yuan respectively, representing a year-on-year decline of 0.5, 5.9 and 1.8 percentage points. Increasing the income of urban and rural residents through various channels can certainly help revitalize and expand domestic demand, but the impact of such measures may be limited. The primary cause of weak domestic consumption is a lack of confidence rather than insufficient income. According to the *Statistical Communiqué of the People's Republic of China on the 2022 National Economic and Social Development*, the income and savings of domestic residents increased, while consumption decreased. The per capita disposable income of residents for the whole year was RMB 36,800 yuan, representing a nominal increase of 5% from the previous year and a real increase of 2.9% after adjusting for inflation. The total balance of deposits in all currencies held by financial institutions at the end of the year stood at RMB 264.4 trillion yuan, an increase of RMB 25.9 trillion yuan from the beginning of the year. RMB deposits rose by RMB 26.3 trillion yuan to RMB 258.5 trillion yuan. The per capita expenditure of residents for the whole year was RMB 24,500 yuan, representing a nominal increase of 1.8% from the previous year but a real decrease of 0.2% after adjusting for inflation. In the past two years, Chinese residents showed a marked interest in acquiring large-denomination certificates of deposit from major domestic banks. Such deposit products typically offer a three-year term with an interest rate of around 3%, and are often in short supply as people compete to buy them. Three possible reasons may explain this phenomenon. Firstly, residents may have enough money but lack confidence in the economy, so they choose to save for a rainy day rather than spend the money. Secondly, they might not have suitable investment channels or options. The property market has been in a downturn, and bearish performance persisted in the Shanghai and Shenzhen stock markets, with low trading volumes and turnover rates. Also, in major Chinese cities like Beijing, Shanghai, Guangzhou, and Shenzhen, the automobile market has become saturated, as evidenced by the high number of cars on the roads and the limited road infrastructure to support further growth. Thirdly, residents might be expecting that the loose monetary policy of the past few years would continue, with further cuts to bank interest rates to stimulate the economy. As a result, they opted to purchase large-denomination certificates of deposit with acceptable interest rates. Data from the People's Bank of China reveals that RMB deposits grew by RMB 2.81 trillion yuan in February 2023, an increase of 270.5 billion yuan compared with the same period last year. Household deposits accounted for RMB 792.6 billion yuan.

Given the status quo, confidence is indeed more valuable than gold. Enhancing residents' expectations and boosting their confidence are crucial to stimulating domestic demand. The first step should be to stabilize employment and restore residents' confidence in the main breadwinners' ability to retain their jobs. If this primary source of income is secured and their adult sons and daughters can find employment to support themselves, it means a steady stream of income and capital, allowing residents to confidently consume and even moderately overspend. On the other hand, if the economic situation worsens, with mass layoffs from big companies and young people struggling to find jobs, the consequences could be dire. The second step that ought to be taken is to safeguard people's livelihoods and restore residents' confidence in the country's basic social safety net. Public security needs to be strengthened through a combination of commercial insurance, social intermediaries, family support, and personal efforts. However, in areas such as education, healthcare, and elderly care, providing basic safety nets for all residents can greatly alleviate people's concerns and boost consumption. In recent years, China has made some efforts to reform its public social security system, such as implementing a nationwide basic pension insurance program for enterprise employees, and healthcare reforms that include reimbursement of cross-provincial medical expenses and the expanded use of personal medical insurance accounts to pay for the medical expenses of other family members.

III. Focusing on key demographic groups and areas

To drive domestic demand, it is not sufficient to focus solely on the aggregate demand level; the composition of demand must also be considered. One significant factor contributing to China's sluggish domestic demand is the untapped and unmet consumption needs of many middle-class and wealthy individuals. According to the *Yi Tsai · Hurun China Wealth Report 2022* released by the Hurun Research Institute, the number of high net-worth families in China with RMB 10 million yuan of total wealth increased by 2.5% or 50,000 households year-on-year to 2.11 million households in 2022. In economics, the law of Diminishing Marginal Propensity to Consume (DMPC) suggests that as income increases, the proportion of that additional income used for consumption decreases. Therefore, it is crucial to tap into the consumption potential of these groups by targeting specific demographics and implementing well-defined strategies. This may include promoting incremental changes in sectors such as high-end luxury goods, education, and healthcare, and exploring opportunities to develop high-

end luxury markets (such as Beijing's SKP), high-end education and training, and private medical services. One of my articles published in *National Governance Weekly* (Issue 1, 2023) also emphasizes the importance of addressing the consumption needs of two major demographic groups—digital natives and the elderly.

The government has charted a roadmap with numerous measures to boost domestic demand in critical areas. The *Report on the Work of the Government* delivered at the 2023 Two Sessions highlights the need to stabilize bulk consumption and revive the consumption of everyday services. The Ministry of Commerce has announced its guidelines in this regard to target the “four pillars” of consumption—automobiles, home appliances, home furnishings, and catering—and introduced policy measures accordingly to restore and expand consumption in these sectors. Additionally, I suggest we take advantage of the ongoing rural revitalization campaign to stimulate the rural consumption market. The State Council made it clear in its policies on “further unleashing the potential of consumer spending and promoting the sustained recovery of consumption” in 2022 the need to vigorously develop green consumption, tap into the consumption potential in counties and townships, promote the healthy and sustainable development of consumption platforms, and further consolidate the foundation for high-quality consumption development. Although the CPC Central Committee and the State Council, in their joint document issued in January 2023 on the priorities in the country's rural revitalization drive, did not directly emphasize the need to stimulate the rural consumption market, they did include several measures that focus on agricultural infrastructure construction, agricultural technology and equipment, and rural development, which could potentially create significant consumption opportunities. However, it is important to recognize that the rural population is vast in number and geographically dispersed, making it challenging to unlock their consumption potential. To address this, steps should be taken to improve the rural commercial system, further develop the urban-rural public transportation system, extend the reach of express delivery services in rural areas, and enhance the enabling role of digital platforms, particularly e-commerce. In addition, it is essential to optimize the supply of goods and services available to rural consumers to ensure that their consumption needs are met.

Youth

Voices



A Comprehensive Strategy for Boosting Domestic Consumption Is Very Much Needed

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The recently concluded “Two Sessions” saw substantial attention allocated towards the boosting of domestic consumption as a primary engine for China’s next stage of economic development.¹ As emphasized by President Xi Jinping in a speech delivered in December - reprinted in the mid-February issue of *Qiushi*, the leading official theoretical journal of the Communist Party of China² - there is a clear and unmistakable need for China to boost domestic demand through “prioritizing the recovery and expansion of consumption,” as well as “effectively driving investment of the whole society.” The shift towards consumption-led growth is not only a prescient and valuable move, but also indicative of China’s undergoing a fundamental transition towards an upper-middle-income country with a self-replenishing economic structure.

The Unmistakable Impetus for Boosting Consumption

China has long sought to undertake a comprehensive shift towards domestic consumption. This has been for several reasons. First, China’s export-led and investment-driven growth model, as noted by famed economists such as old China hand Stephen Roach, financial economist James Fok, and academic Michael Pettis, is increasingly running out of steam.³ Saturation of existing investments, a dearth of destinations for transformatively lucrative

1 GT staff reporters. “China Keeps Development as Top Priority in 2023.” *Global Times*, September 9, 2023. <https://www.globaltimes.cn/page/202303/1286998.shtml>.

2 Xinhua. “Xi’s Article on Economic Work Published.” *Global Times*, February 16, 2023. <https://www.chinadaily.com.cn/a/202302/16/WS63eddfc9a31057c47ebaf32f.html>.

3 Fok, James A. “The Roots of the China-US Financial Cold War.” *Asia Global Online*, December 9, 2021. <https://www.asiaglobalonline.hku.hk/roots-china-us-financial-cold-war>.

investments, as well as the exogenous constraints imposed by international credit climate (e.g. the Fed is tightening its rates, and the world is shifting towards a seemingly anti-inflation consensus on macroeconomic policies that sacrifices growth via investment), have rendered it the case that investment is no longer the primary bread-winning strategy for countries, not even in a country as expansive and sizeable as China. Most fundamentally, as flagged repeatedly by leading regulators and bureaucrats in the country, an over-reliance upon capital-oriented economic growth generates an unhealthy volume of household savings - China's household savings rate, hovering between 35% to 40% over these past few years,⁴ is much higher than that of many of its international counterparts. After exhausting the conventional runway for capital-induced growth, the economy as a whole must look elsewhere for sources of growth.

Second, as China seeks to cultivate greater strategic autonomy as a global power, it is imperative that it possesses the necessary economic resilience, free of dependence upon external and international actors that determine the shape, direction, and nature of the country's supply chains. Whilst the sizeable economy has historically served as the manufacturing hub and production nexus for goods ranging from advanced electronic appliances and gadgets to processed and refined energy products, the increasingly stiff competition from rival economies, as well as geopolitical fragmentation induced upon global supply chains, has rendered it the case that China must look elsewhere for real economic security. Domestic consumption allows for the cultivation of an enduring and sustainable "inner circulation,"⁵ thus enabling the central government to be at the helm of a homegrown, domestic virtuous cycle of consumers, producers, and intermediaries engaged in digital platform and services in connecting the former two groups. This virtuous cycle in turn can promulgate further developments in innovation, and facilitate the dual-track expansion of China's high-end manufacturing and professional service sectors. Uniquely, as the 400-million-strong middle class⁶ continually increases in population and consumption power, the industrial and sectoral diversification highlighted here is all the more likely to pay off in supporting the country's developing a sustainable macroeconomic ecosystem of its own. It is then that the country would be less susceptible to external attempts to shape or alter domestic politics, governance, and approaches to policymaking through the leveraging of trade as a tool of influence.

Finally, consumption matters insofar as it allows China to reduce its net

4 "China Net Household Saving Rate," n.d. <https://tradingeconomics.com/china/personal-savings>.

5 Pettis, Michael. "Will China's Common Prosperity Upgrade Dual Circulation?" Carnegie Endowment for International Peace, n.d. <https://carnegieendowment.org/chinafinancialmarkets/85571>.

6 Tang, Frank. "China's 'Common Prosperity' Push Could Boost Key Middle-Class, but Action Urged to 'Bring Back' Confidence." SCMP, October 21, 2022. <https://www.scmp.com/economy/china-economy/article/3196646/chinas-common-prosperity-push-could-boost-key-middle-class-action-urged-bring-back-confidence>.

trade surplus with the rest of the world. As it stands, Chinese consumers often find themselves inhibited by a relatively underappreciated RMB, which hinders their purchasing power vis-à-vis imported and international goods. A comprehensive boosting of domestic consumption would enable China to lift some of these ceilings and caps on domestic purchasing power, thereby creating a sizeable segment of the population that wields an ever-greater influence over brands, businesses, and providers of goods and services abroad. What is oft overlooked as a core explanation and pillar of American dollar's strength and projection over the world, is how ubiquitous the USD is used as a common currency of circulation by tourists and investors alike from different countries. As China seeks to digitalize RMB and champion a world of financial multi-polarization, a critical prerequisite for that is that more tourists, vendors, and consumers around the world must use the (digital, off-shore) RMB. This is where consumption strengthening yields once again material benefits.

Towards a Renewed Framework for Boosting Consumption

Having established the above, how are we to boost domestic consumption? A useful approach would be to decompose consumption into the following components: i) real wages, ii) credit availability, and iii) propensity to consume. The first two factors (i and ii) bear directly on the absolute size of real disposable income; factor iii, in turn, determines how much of the income in fact goes towards consumption. We should consider each of these factors in turn.

On the first, there are relatively straightforward fixes that China can adopt to lift both the aggregate sizes of real wages, as well as redress the uneven distribution of real wages throughout the country. As one of the most competitive and the largest manufacturing hubs in the world, China has long benefited of highly efficient, cheap, and thus cost-effective manual labor. Yet with wage levels appreciating considerably under the substantial contributions of the opening-up and reform era, and as foreign and domestic factories begin to relocate to countries with even cheaper labor prices (e.g. Vietnam and Indonesia in Southeast Asia, India, and Bangladesh in the Subcontinent, to name but a few), China has come to recognize that a mere wage-centered pitch alone is no longer sufficient in retaining the country's competitiveness at large. Instead, the economy must transition

towards dominating and owning mid-income to high-income manufacturing industries, such as bio-technology, digital technology, and medical/pharma technology, where the intensity and quality of human capital matter more than the raw strength and quantity of such labor. Through new industries ranging from developing renewables to organic life sciences, as well as the fostering of more favorable conditions for private enterprises in e-commerce, renewable energy vehicles, and high-end luxury and retail goods, the Chinese economy can and will come to deliver more significant appreciation in real wages of its workers.

Rectifying the uneven distribution of these wages is the key to ensuring that the lower-middle classes can be empowered eventually with the spending capabilities and budgets of the middle class in China today. Hence the “Common Prosperity” and “Rural Rejuvenation”⁷ initiatives advanced by the incumbent administration not only serve a vital role in facilitating China’s modernization, but also go hand-in-hand in boosting consumption in remote areas where infrastructure and credit systems have much room for development. An enlarged consumer class in the suburbs and rural countryside of China not only tackles head-on concerns of socioeconomic and rural-urban disparities - by equalizing life chances and exposure to high-quality goods and services between cities and countryside, it also expands the total size of real wages accrued to individual households in the economy, which serves as a precursor to more household spending and injection into the circular flow. In short, taking on i) is of paramount importance.

Now, some voices have suggested that China must also explore credit expansion.⁸ These voices suggest that in lieu of merely relying upon cuts to the reserve requirement ratio,⁹ China should pursue more aggressive and direct policies designed to stimulate consumption. These measures could feature reduction to VAT, lifting of restrictive criteria designed to prevent (excess) borrowing, as well as the fostering of a general climate and culture in which consumption and borrowing are normalized - as opposed to stigmatized. If China is to become an economic great power, it must learn to spend like one; or so, the argument goes.

Whilst I am sympathetic somewhat to these views, and accept fully that there remains much room for China to constructively expand the availability of credit, it is vital that we differentiate between two core concepts: stimulus-boosted consumption, and purely credit-driven consumption. The slashing of reserve ratio requirements goes a long way in facilitating the former, through

7 CGTN. “China Advances Rural Revitalization across the Board for Common Prosperity.” February 28, 2023. <https://news.cgtn.com/news/2023-02-28/China-advances-rural-revitalization-for-common-prosperity-1hMzehEfFio/index.html>.

8 Hua, Judy, and Kevin Yao. “China’s February Credit Grows Faster than Expected, Supporting Recovery.” Reuters, March 10, 2023. <https://www.reuters.com/world/china/chinas-february-credit-grows-faster-than-expected-supporting-recovery-2023-03-10/>.

9 “Cash Reserve Ratio in China Increased to 11 Percent in March from 10.75 Percent in March of 2023.” Trading Economics, n.d. <https://tradingeconomics.com/china/cash-reserve-ratio>.

propping up small and medium businesses, supporting an extension to the moratorium on debt repayment for companies in distress, and ensuring that inter-bank loans can be granted to tie banks over the edge (avoiding the disastrous fate of the Silicon Valley Bank,¹⁰ for one, would be ideal). On the other hand, consumption that is built upon the basis of encouraging borrowing, must be handled with care. Household debt levels remain at a highly manageable level within China, and this is a virtue, not a weakness, of the system. The culturally engrained ethos of not spending beyond one's means has enabled Chinese consumers to be much less vulnerable to problems of overdraft, indebtedness, and financial unsustainability, as compared with their American counterparts. Hence any solution targeting ii) should be calibrated and designed with much prudence and care.

Of course, the elephant looms in the room. Chinese consumers have a "savings glut" problem - that is, they save substantially more than their counterparts in countries at comparable levels of average GDP per capita. Fixing consumption in the country requires taking on iii), i.e., encouraging households to save less, and spend more (without incurring excess debt). This is best accomplished through addressing the root causes of the savings glut in China - generalized anxieties and concerns over livelihood questions. Some would argue that the most pressing livelihood problems constitute the surging housing prices and radical socioeconomic inequalities seen in cities, yet such accounts do not seem to do justice to instances where consumption growth has occurred despite widening inequalities (e.g. in America and South Korea). Others would posit that it is the spike in unemployment induced by the past few years of the pandemic and pandemic measures - yet this does not explain the fact that China has long had unusually high savings rates, since the end of the 1990s.

The real answer, I suggest, lies with the challenges confronting private entrepreneurship and businesses in the status quo, as well as the lack of a robust consumption culture. Individuals are more likely to spend if they perceive there to be a moderately viable, clear, and abundant range of economic pathways that they can pursue in advancing their own self-interests. From private entrepreneurship to start-up and innovation, from high-end professional services to retail SMEs, the decades since reform and opening-up had seen China catapulted into unprecedented economic heights through tapping into the creativity of the private economy and sector. At times like these, it is vital that we rekindle the animal spirits of the private sector, and offer the space and room for private entrepreneurship to once

10 Turak, Natasha. "Silicon Valley's 'Greed and Avarice' Have 'Finally Come Home to Roost' in SVB Collapse, Trader Says." CNBC, March 13, 2023. <https://www.cnbc.com/2023/03/13/svb-collapse-silicon-valleys-greed-and-avarice-to-blame-trader-says.html>.

again grow. As Premier Li Qiang aptly declared, “Our private entrepreneurs will continue to write their exciting entrepreneurship stories.”¹¹ This is a most reasonable policy prescription given the trying times in which we find ourselves.

Furthermore, it is vital that consumption be normalized and accepted as a part-and-parcel component of standard economic activities. The thought that we cannot consume, on grounds that it is a signal of flagrant profligacy, should not be conflated with an all-round and total inhibition of the desire to spend. Healthy and balanced consumption of goods - including luxury goods - is critical in developing a multi-faceted culture where individuals are at ease with leading plural, flourishing lives of recreation and leisure. Consumption underpins and drives the modern lifestyle economy, which in turn nourishes the civilizational and spiritual quality of society at large. As China transitions into a higher-income economy, it is vital that consumption be treated as a constructive and serious part of the social fabric.

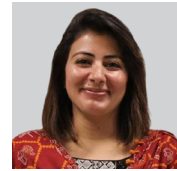
Looking to the Future

As China emerges from the shadows of the pandemic of the past few years, it is high time for the economy to seize upon the opportunities afforded to it by the recovery, in undertaking more systematic and sustainable reforms - to gear the economy up for the challenges that lie ahead. Boosting domestic consumption will indubitably be an arduous and at times frustrating process. Yet uniquely, the Chinese government certainly possesses the staying power and political resolve to see through decisions that may well be temporarily unpopular or difficult to execute. It is with this in mind that we must look towards a future where consumption comes to serve as a core pillar of the renewed Chinese economic miracle.

¹¹ CGTN. “Chinese Premier Promises Broader Space for Private Sector Growth,” March 13, 2023. <https://news.cgtn.com/news/2023-03-13/Chinese-premier-promises-broader-space-for-private-sector-growth-1i8rBAHaF7a/index.html>.

Two Sessions-2023: Blue Print for a Prosperous Future

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One of China's most significant annual political assemblies, the "Two Sessions," offers a crucial window for the international audience to fathom China's development accomplishments, objectives, governance framework, diplomatic convictions, and global endeavors. It also provides the international community with a clear picture of the whole-process of people's democracy in China. By combing political and financial goals, and through the process of consensus-building, this platform allows public opinion from bottom to top to be part of policy making.

The "Two Sessions" is short for the annual meetings for the National People's Congress, the primary legislative body in China, and the National Committee of the Chinese People's Political Consultative Conference, the top political advisory body, normally starting in early March. In addition to economic goals and policy orientation, it usually sets the tone for geopolitics.

In the past, the Two Sessions have seen a growing debate relating to human security, employment, entrepreneurship, education, healthcare, housing, and other livelihood-related issues which Chinese people worry about most. This year, major reforms were expected from the Two Sessions. After the zero-COVID restrictions were eased in December 2022, it was the first Two Sessions to be largely unruffled by the pandemic. As expected, Two Sessions-2023 demonstrated how the state would provide political and policy support for China's economy and people's livelihood, which have been harmed by the COVID-19 pandemic. Major policy announcements frequently came out of the annual event. It focused on social development, a more equitable distribution of national income, raising the standard of living for Chinese citizens, achieving the goal of creating a

prosperous society in all respects, promoting a balance between urban and rural areas, combating inflation, promoting stable economic growth, and intensifying efforts to narrow the economic gap between the rich and the poor, among other concerns. Its special focus was on creating meaningful plans to combat the growth and escalation of unemployment, which came about as a result of many firms ceasing operations when COVID-19 broke out.

As per policy planning by Two Sessions-2023, the provincial representatives stressed the significance of their investigation into the requirements of private financial markets in their provinces. After determining the rate of unemployment, they focused on those who lost their jobs during the pandemic. For provincial representatives, it is crucial to protect the underprivileged, marginalized groups, as well as the impoverished, who had been adversely impacted by the pandemic. Compared to prior generations, China's Gen Z was significantly more concerned about job stability (62%), and chances for a better lifestyle (56%), according to a Wyman study done in October and released in December 2022. Nevertheless, China's development is still bumpy and meager. Currently, it is concentrated on meeting people's fundamental requirements. Moving forward, the emphasis will be on providing individuals with a life that is of higher quality. As per Two Sessions-2023 guidelines, China will particularly increase its potential for technological and scientific advancements, establish cutting-edge industrial infrastructure, and move towards green growth. In this case, increasing the confidence of ordinary people and improving their living conditions should be the first step. During the Two Sessions-2023, the deputies reviewed strategies to lessen the burden on small and medium-sized businesses, aid in the market's recovery, broaden and enlarge the pool of potential employment prospects, and place an exception on the service sector. In spite of that, the international community has concerns over how China will coexist with the rest of the world after the pandemic. The following debate tries to look at some of the important variables to be discussed and considered while chalking out a future map for economic growth and a better livelihood in China. These variables are resilient economic growth, viable small and medium-sized enterprises (SMEs) and livelihood development.

(i) Sustainable Economic Growth

In spite of unexpected factors such as an increasingly challenging global environment, COVID-19, and natural disasters, China's economy has risen at an

average annual rate of 4 percent during the last three years, much faster than the world average of roughly 2 percent, and has thus maintained its top spot among the major economies of the world. It is still promising and vibrant, and continues to contribute significantly to the expansion of the global economy. However, five crises, namely, employment, exports, private investment, real estate, and debt defaults have affected China's economy during the pandemic, leading it into a downward spiral. Hence, the most consequential goal for the year of 2023 is the GDP growth. The growth targets are flexible, though. It ought to be between 5% and 6%. This year, the Chinese economy is expected to fully resume normal operations. All spheres of life are entering a time of recovery as transportation, tourism, entertainment, catering, and other industries continue to revive, and this year's economic growth is predicted to be stronger than forecasted. However, even while China is progressively recovering, the government will find it difficult to accomplish the goal of 5-percent growth. One of the reasons could be the deteriorating global economic environment, which may have a bad impact on exports and export-related manufacturing. Additionally, the declining external market will be a challenge. The triple pressure of decreasing expectations, supply shock, and demand contraction is still rather significant, and the foundations for the nation's economic recovery are still insufficient. Nonetheless, setting reasonably steady economic growth targets and speeding up the construction of a new dual circulation development model are thus important to boost consumption, stabilize growth, and calm expectations. Moreover, achieving effective quality improvement and fair quantity increase should be given high priority this year.

The Two Sessions members have presented a number of recommendations for the nation's economic recovery, including strengthening China's financial system reforms and directing financial institutions to better support small businesses, innovation, and development. In accordance with international norms, the Chinese government also intends to continue creating a business environment based on markets and the rule of law that levels the playing field for private businesses and supports entrepreneurship.

On top of it, China's Belt and Road Initiative (BRI) turns 10 this year. This initiative has already sparked about \$1 trillion in investment over the past 10 years, developed more than 3,000 cooperative projects, produced 420,000 local jobs, and assisted in lifting roughly 40 million people out of poverty. This year, the third Belt and Road Forum for International Cooperation will take place in China. China intends to take this opportunity to collaborate with all pertinent stakeholders for a more successful Belt and Road collaboration. The country continues to have

high resilience, enormous potential, and remarkable vitality, all of which are excellent economic fundamentals.

Last but not least, the 45th anniversary of China's reform and opening-up is being celebrated this year. China promises to widen its doors to the outside world and welcome foreign investors in future.

(ii) Viable SMEs

In China, small and medium-sized enterprises (SMEs) account for the majority of output, urban employment and tax revenues but are hit hardest by the pandemic since the year 2019. They account for about 80% of total employment and 70% of corporate revenue in China, making them a critical driver of any economic recovery even though the country's most well-known private-sector companies are tech giants like Alibaba and Tencent. The government's current challenge is to restore confidence in the private sector, which is necessary to increase household spending and private investment, and SMEs can play a major role in the process. In fact, the Chinese government has been implementing policies on national and regional level to support SMEs for years. Neutrality in policy making and major programs like "Made in China 2025" ensure that all businesses receive the same treatment regardless of private or state-owned ones, and, to promote innovation and entrepreneurship, China's domestic policies and supporting agendas are largely in favor of SMEs. There is a need to make sure that innovating SMEs may also receive funding from specialized funds.

While China's economy is predicted to grow more broadly in 2023, private businesses will have more room to operate and the private sector will embrace new development prospects. China has to strengthen the foundation for the growth of the digital economy and accelerate the integration of industry and the digital economy.

(iii) Improved Livelihood

In regulating economic losses and protecting people's livelihoods, China has already done well. The Chinese people's basic livelihoods have been guaranteed during the pandemic too. Though, young people in China are still concerned about

jobs as it is considered that a stable employment is critical to people's livelihood. The main goals of the Two Sessions this year are to stabilize growth, create jobs as employment-first strategy, and support private firms. Together with other measures, support will be increased especially in terms of employment services and technical training. Fortunately, the number of college graduates joining the workforce this year has reached a record high of 11.58 million, which is positive since young people can rejuvenate and revitalize the society.

For education, the Chinese government has maintained annual budgetary spending at more than 4% of its GDP and kept a considerable increase in per-student spending. The nine-year compulsory school retention rate increased from 93.8 to 95.5 percent. For rural and non-working urban inhabitants, annual government subsidies for basic medical insurance increased from 450 yuan to 610 yuan. The basic medical insurance program approved the reimbursement of a bigger number of critically needed medications. China has also consistently increased the minimum basic old-age benefits for rural and non-working urban people as well as basic pension payments for retirees. There is still a long way to go to deliver a well-to-do life to old Chinese people.

This year's Two Sessions meetings' top priority is to reach an understanding on creating plans how to address the current state of recession and economic slump following the pandemic, which adversely affected the public's income level. A new development model in the health sector is also being created, with an emphasis on the encouragement of high-quality advancement and improved coordination of the prevention and control of upcoming epidemics. The Two Sessions meeting has shaken up strong confidence, steady growth, and opening of new chapters as keywords for 2023 after three years of enduring the difficult test of COVID-19. The ongoing economic recovery in China will be a strong ally in stabilizing the labor market. The Chinese economy will continue to improve and offer dependable support in stabilizing employment as long as epidemic prevention policies are optimized, adjusted, and implemented further along with several other measures. Moreover, the BRI has facilitated economic growth and already improved people's livelihood along the routes.

From the above analysis, it can be concluded that 2023 is the year of the new journey and the Two Sessions reflected the nation's people-centric democracy. Its economy will continue to grow and the quality of public life will improve in this new journey. The Sessions have provided great confidence and energy to the whole nation to keep marching forward. A Harvard-vetted study shows that over 95% of the Chinese people are satisfied with their government's performance.

This seems to fit very well with China's whole process democracy as Xi Jinping said that "the Chinese style modernization does not follow the beaten track of colonial plunder or the crooked path of hegemony, rather the correct path of peaceful development in the world." The Chinese government has made a commitment to the idea that no one should be left behind, whether this means overcoming poverty, creating an all-around community that is moderately successful, or continuously advancing common prosperity.

However, the government needs to act according to people's aspirations, since most ordinary people do not pay attention to GDP growth or figures, but they are concerned about their daily livelihood situations such as housing, employment, income, education, medical services and environment. In order to raise happiness levels and promote a sense of achievement and security among the public, the government must make significant investments in areas that have an impact on people's quality of life, such as education, employment, health care, and the social security system. In short, it needs to put people's interests above all else. Last but not least, as China develops into a dynamic agricultural country, the central government should aim to support new businesses and new business models in rural areas to stimulate agricultural and rural growth.

Major Events in China-U.S. Relations in February

Major Bilateral Events in February

1. The “Balloon Incident” Further Strains Sino-U.S. Relations

On February 2, the US Department of Defense detected a Chinese-operated aerial object, believed to be an intelligence-gathering high-altitude surveillance balloon (or “spy balloon”), in the US airspace. On February 3, China’s Ministry of Foreign Affairs said in a statement that the flying object was a civilian unmanned airship that had entered the US airspace unintentionally due to force majeure. The Pentagon condemned China for “violating” the US airspace and international law. Citing the “balloon incident,” US Secretary of State Antony Blinken then “postponed” his planned trip to China. On February 4 (at 2:00 p.m. local time), a US Air Force F-22 fighter fired one AIM-9X missile at the balloon and brought it down over the Atlantic Ocean. On February 5, the Chinese Ministry of Foreign Affairs said in a statement that China reserves the right to make further responses to the U.S.’ use of force. On February 10, the US Department of Commerce added six Chinese companies that were allegedly linked to the equipment carried in the balloon to its Entity List. At the same time, balloons became the primary attack targets of the US military. In quick succession, it shot down three more unidentified aerial objects. On February 16, President Joe Biden made his first public comment regarding the “balloon incident,” saying that nothing right now suggested the three unidentified aerial objects were related to the first “spy balloon” but that he would not apologize for shooting them down. The National People’s Congress (NPC) Foreign Affairs Committee then released a statement in response to a resolution passed by the US House of Representatives and US Senate regarding the entry of a Chinese civilian unmanned airship into the US airspace. China’s Ministry of Commerce

announced it had put Lockheed Martin Corp. and Raytheon Missiles & Defense on its unreliable entities list. On February 18, Wang Yi, China's Director of the Office of the Central Foreign Affairs Commission, reiterated China's firm stance on the so-called "balloon incident" during an "informal contact" with the US Secretary of State Antony Blinken on the sideline of the Munich Security Conference.

2. "Informal Contact" Between Wang Yi and Antony Blinken During the Munich Security Conference

On February 18 (local time), Wang Yi delivered a keynote speech titled "Making the World a Safer Place" at the 59th Munich Security Conference. Later, in response to a question on Sino-U.S. relations, Wang Yi said, "Today's U.S. has abandoned all pretenses. It simply skips the trickery and goes directly to extortion." During their informal contact on the sideline of the Munich Security Conference, Wang Yi and Antony Blinken discussed the "balloon incident," the Ukraine crisis, and the Taiwan question. Regarding the "balloon incident," Wang Yi said that "if the US side continues to fuss over, dramatize and escalate the unintended and isolated incident, it should not expect the Chinese side to flinch. The US side should be prepared to bear all consequences arising from an escalation." Wang Yi stressed that on the Ukraine issue, China stands by its principles. China is committed to promoting peace talks and has played a constructive role. "We do not accept the U.S.' finger-pointing or even coercion targeting Sino-Russian relations," he said. On the Taiwan question, Wang Yi pointed out that to preserve stability across the Taiwan Strait, one must firmly oppose "Taiwan Independence" and uphold the one-China principle.

3. Frequent interactions between the U.S. and Taiwan

From February 17 to 20, on a covert trip to Taiwan, Mike Gallagher, Chairman of the Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party, met with Tsai Ing-wen, Lai Ching-te, and Koo Li-hsiung, Secretary-General of the Taiwan "National Security Council," and attended a banquet hosted by Joseph Wu, the head of Taiwan's foreign affairs department. While in Taiwan, Gallagher exchanged views

with representatives from all sectors on topics of common interest, such as enhancing the relations between the U.S. and Taiwan. The two sides also planned to hold a hearing in Taiwan before this summer. From February 19 to 23, four members of the US House of Representatives, including two members of the Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party, visited Taiwan. On February 21, Joseph Wu, the head of Taiwan's foreign affairs department, and Koo Li-hsiung, Secretary-General of the Taiwan "National Security Council," met with the US Deputy National Security Advisor Jonathan Finer and US Deputy Secretary of State Wendy Sherman at the American Institute in Taiwan (AIT) headquarters in Arlington County, Virginia. On February 23, in an interview with *The Atlantic*, the US Secretary of State Antony Blinken claimed that the Taiwan question "is not an internal matter" of China, but one to the entire world. He also said, "If there were a crisis in Taiwan as a result of China's aggression in some fashion, that would have I think disastrous consequences for the world economy." According to *The Wall Street Journal*, the number of US military personnel stationed in Taiwan will increase from about 30 a year ago to 100-200.

4. The U.S. Sanctions Chinese Enterprises for Russia-Related Reasons

On February 18, during an informal contact with Wang Yi, China's Director of the Office of the Central Foreign Affairs Commission, on the sideline of the Munich Security Conference, Antony Blinken warned about "the implications and consequences of China providing material support to Russia or assisting Russia with systematic sanctions evasion." On February 23, in an interview with *The Atlantic*, Antony Blinken stated that China had "almost certainly" given permission for its enterprises to provide Russia with "some non-lethal, dual-use type support." On February 24, five Chinese companies that allegedly "violated the export ban against Russia" were included in a new package of sanctions against Russia by the US Department of Commerce.

5. The Biden Administration Takes Additional Measures to Curb China's Economic and Technological Development

On February 16, the US Deputy Attorney General Lisa Monaco announced at Chatham House, London, the establishment of the “Disruptive Technology Strike Force,” led by the Departments of Justice and Commerce, to “protect critical technological assets from being acquired or used by nation-state adversaries.” The program, which targets China, Iran, Russia and the DPRK, primarily covers technologies related to supercomputing, artificial intelligence, advanced manufacturing equipment and materials, quantum computing, and biosciences. On February 18, the US Deputy Assistant Secretary of Commerce Matthew Borman said he was considering a technology embargo against China in the field of brain-computer interface (BCI).

6. China Releases “US Hegemony and Its Perils”

On February 20, China’s Ministry of Foreign Affairs published a report entitled “US Hegemony and Its Perils.” The report, by presenting the relevant facts, seeks to expose the US abuse of hegemony in the political, military, economic, financial, technological, and cultural fields, and to draw greater international attention to the perils of the US practices to world peace and stability and the well-being of all peoples.

Major US Overseas Moves in Relation to China

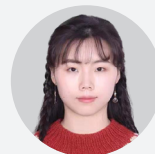
1. The U.S. Increases Its Military Presence in the Philippines

On February 2, in a joint statement, the US Department of Defense and the Philippine Department of National Defense announced plans to fully implement the 2014 Enhanced Defense Cooperation Agreement (EDCA), including the completion of the US projects at five previously agreed-upon locations and the agreement to designate four new bases in the Philippines, three of which are on Luzon Island, just 100 nautical miles from Taiwan, and the other one is on Palawan Island, close to the South China Sea.

2. The U.S. Suggests Deploying Medium-Range Missiles in Japan

On February 4, according to *Sankei Shimbun*, the U.S. suggested deploying medium-range missiles in Japan to bolster its defenses in the East and South China Seas. On February 27, Japanese Prime Minister Fumio Kishida announced at a meeting of the House of Representatives Budget Committee that his government plans to purchase 400 U.S.-made Tomahawk cruise missiles in a one-time deal in 2023 and begin to deploy them in 2026.

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