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China now

Yang Yao Weak consumption threatens China's growth potential

Peter McDonald Demography and economic modernisation

William H Overholt Foreign policy of an anxious adolescent superpower

Yuqun Shao Strategic competition casts doubt on One China policy

ASIAN REVIEW: Robert Basedow on plurilateralism in East Asia ... and more

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From the editors' desk

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While many rejoice in something like 'normality' after the years of disruption by the global COVID-19 pandemic, the world will not resume its former shape. Nowhere is this more evident than in China. So what will China be like now?

The pandemic upturned normal life in China as it did around the world. As 2023 brings something like a return to normality in China, deeper currents are also coming to the surface. This issue of *East Asia Forum Quarterly* canvasses a range of shifts in Chinese society and daily life. It describes how women have been at the forefront of calls for social change, refusing to play their traditional subservient role; it explains how the rapid ageing of China's population is not likely to affect China's economic modernisation over the coming two decades at least; it examines the difficulties faced by rural migrants and in investing in the education of the rural young; and it details how individuals and community groups are responding to the poorly understood social credit system.

After the disastrous economic performance of 2022, recalibration of China's policies was essential, including through a retreat from zero-COVID and relaxation of restrictions on the free market under the banner of 'Chinese-style modernisation'. While the economy is expected by Chinese economists to grow by 5–6 per cent this year, flagging domestic consumption remains a concern. Policy responses to China's macroeconomic challenges include deeper integration with the global market and boosting multilateral engagement, with a specific focus on the World Trade Organization, Belt and Road Initiative and Asian Infrastructure Investment Bank. China is also doing more at home and abroad to confront the looming climate crisis.

As the world watches China's leader Xi Jinping with an increasingly sceptical eye, China is now trying to get back to business.

China's greatest post-pandemic challenge, however, will be the terms of its engagement with the outside world. The tensions between economic progress and individual freedoms, as reflected in Hong Kong, over the status of Taiwan and its role in US–China relations, and between the nature of its domestic political system and globalist foreign policy objectives, all define China, for one of our expert analysts at least, as an 'anxious adolescent superpower', claiming at once both developing nation status and global leadership.

Asian Review explores India's aspiration for a multipolar global order and the opportunity for plurilateral initiatives by Asia's economic powers.

Jocelyn Chey and Ryan Manuel

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COVER PHOTO: People attend a ceremony at Tiananmen Square to mark the 71st anniversary of the founding of the People's Republic of China (Beijing, 2020). Carlos Garcia Rawlins / Reuters.

Weak consumption threatens China's growth potential

YANG YAO

FORECASTS for China's economic growth in 2023 diverge widely. While international organisations and China watchers abroad predict growth of 4 per cent as reasonable, most Chinese economists believe that growth of 5–6 per cent is more likely.

The debate has a lot to do with assumptions about China's potential growth rate. Many models can be used to estimate the potential growth rate,

but the simplest and most credible is the Solow model. According to this model, a country's GDP growth rate depends on the growth rates of its stock of net capital, its population size and its total factor productivity.

China's population has now stalled and its capital growth depends on its national savings. On this count, China has an edge, with national savings accounting for 45 per cent of its GDP. China's stock of net capital is 3.6 times

its GDP and its depreciation rate is 5 per cent. This means that its annual savings translate into 7.5 per cent growth in its net capital stock.

GDP growth brought about by capital accumulation would be half of this, or 3.75 per cent. Previous studies have found that total factor productivity growth contributes 20–40 per cent of GDP growth. Based on this arithmetic, China's potential growth rate in 2023 is in the range of

PICTURE: TANG KE / FEATURE CHINA/ FUTURE PUBLISHING VIA GETTY IMAGES



Shoppers walk beneath a display of shopping bags in a Yantai mall (Shandong province, 2023).

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4.7–6.3 per cent, justifying Chinese economists' forecasts.

But China faces several challenges along the way to achieving this potential growth rate in 2023.

The first is how the COVID-19 pandemic will continue to evolve. Chinese authorities lifted the country's strict zero-COVID policy in early December 2022. Infections quickly peaked in most provinces, but the travel and retail sectors bounced back soon after. The uncertainty is whether a second wave of infections will come in the spring and how severe it will be. Considering this uncertainty, we should not expect high rates of growth in the first two quarters of the year.

The Chinese government needs to prepare for a second wave of infections. This includes promoting vaccination, increasing intensive care capacity and shoring up medical supplies.

The second challenge is declining external demand. The bottleneck to growth of China's economy is clearly on the demand side—on average, 20–30 per cent of production capacity is idle.

Over the past three years, the Chinese government has relied heavily on investment to boost demand. But the incremental returns on this investment are diminishing. Capital formation has at best contributed 2 percentage points to China's growth in recent years.

Exports have made a significant contribution to sustaining China's growth over the same three years. But as recession fears loom large across the global economy, external demand is likely to falter in 2023. China must shift to domestic consumption to generate enough demand to maintain its growth.

This leads to the third and toughest challenge for China's growth in

2023. Before COVID-19, domestic consumption grew by a respectable 7 per cent most years. The share of GDP attributable to domestic consumption increased from 48 per cent in 2010 to 55 per cent in 2019. But over the past three years, domestic consumption has slowed. For China to reach a potential growth rate of 5.5 per cent in 2023, consumption growth will need to make up at least 3.5 percentage points of this. This would require consumption growth of at least 6.36 per cent, which is by no means an easy task.

TWO factors will help boost consumption. One is the recovery of consumer confidence after the pandemic. This may help release excess savings accumulated by households over the past three years. Judging by the quick recovery of the travel and retail sectors after the first wave of infections, there is reason to believe that consumption will bounce back in 2023.

The other factor is the stabilisation of the property sector. Due to government attempts to prevent overheating, the property sector underwent a large decline in 2022. The Chinese government began to reverse its policy in late 2022 and is now encouraging local governments

Chinese authorities have prioritised boosting consumption in 2023 and may roll out more policies in line with this goal.

Reopening a fillip to global recovery

ZHONGMEI WANG

to support the sector. This should halt the property sector's decline in 2023, and that will have a positive impact on consumption.

But those two factors may still not be enough to generate 6.36 per cent growth in domestic consumption. Chinese authorities have prioritised boosting consumption in 2023 and may roll out more policies in line with this goal.

Several local governments have issued coupons to help boost consumption. Consumption coupons are equivalent to price discounts and in most cases are redeemable for a discount of 20 per cent on designated purchases. The problem is that these coupon schemes are still very small in scale. In a province with an economy worth 7 trillion yuan (about US\$1 trillion) the latest coupon scheme was only worth 200 million yuan (around US\$30 million) and too small to generate any noticeable effect.

Preliminary calculations show that GDP growth would increase by 0.78 per cent for every 1 per cent of GDP spent on consumption coupons if restrictions on the items that coupons can buy are removed. Coupons could also help boost confidence in the Chinese government's commitment to its pro-growth policies and may bring extra growth in consumption.

If China is to reach its potential for GDP growth, the government will need to continue to advance these pro-growth policies and make further efforts to promote domestic consumption. [EAFQ](#)

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ACCORDING to data from the National Bureau of Statistics of China, China's GDP grew by only 3 per cent in 2022, compared with 8.4 per cent in 2021, a decline that left growth well short of expectations. In December 2022 exports fell by 9.9 per cent year-on-year and imports fell by 7.5 per cent, the third consecutive month registering negative growth. What is more noteworthy is that the Purchasing Managers' Index for the whole of 2022 hovered at around 50, with most months below the line.

China's population also shrank for the first time in 60 years. The number of new retirees in China will exceed 40 million between 2021–25, an average annual increase of more than 8 million people. With a net decrease of 35 million people, China's working-age population will decrease on average by about 7 million during that period, much faster than in 2016–20.

Despite these headwinds, China's macroeconomic policy shifted gears at the end of 2022. Strict COVID-19 measures were lifted suddenly. All restrictions on venues, transportation and movement of people were eliminated within one month, easing supply chain disruptions. The idea of 'levelling the playing field' was reemphasised by policymakers, along with the promise that protections and

fair competition opportunities would be accorded to private and foreign enterprises.

Interventions and restrictions on investments in sectors including real estate, manufacturing, e-sports, private tutoring and internet finance were loosened. Senior government officials also stated on many occasions that China would not return to a 'planned economy' and reiterated that reactive 'supply and marketing cooperatives' in rural areas were only supplementary business forms.

For Beijing, restoring internal and external confidence is a top priority. China's huge population means that COVID-19 is still an important negative factor in international economic forecasts for 2023. But the market order is regaining its vitality and recovery has been swift. Most domestic think tanks and scholars predicted that the Chinese economy would fully recover in the second quarter of 2023 and bring a new round of exponential growth.

The most important idea in the report of the 20th Party Congress is 'Chinese-style modernisation'. From an economic point of view, modernisation in the Chinese context has focused on improving the industrial system, innovation and international competitiveness. Past experience

A flurry of diplomatic activities in late 2022 and early 2023 shows that Beijing is trying to promote economic cooperation with developing countries and improve communications on trade policy with developed countries ...

shows that in China, deregulation and liberalisation are more effective policy tools than fiscal stimulus. In the next three to five years a China that stands its ground will demonstrate its potential and provide an anchor of stability in an unpredictable world.

Economically successful countries have tended to carry out effective domestic reforms that match global production, trade and investment. With both internal and external driving forces, China experienced rapid growth for over two decades. And China was not the only beneficiary of globalisation. The abundance of goods, services and technologies promoted by the globalised production model of the past few decades was unprecedented. But since 2008, especially after the pandemic, globalisation is being challenged by protectionist and inward looking measures.

Government intervention in markets in the name of ‘resilience’ and ‘security’ peaked during the pandemic, with insecurity exacerbated by supply chain disruptions and crises. A 2022 IMF report showed that 82 per cent of enterprises in the Western hemisphere purchase intermediate inputs domestically. This ‘local preference’ reduces the degree of diversification and actually makes supply chains more fragile.

Emphasis on economic resilience is increasingly focused on critical industries, including semiconductors, biomedicine, alternative energy, large-capacity batteries and cloud services. Subsidy competition for local investment has given rise to US and European legislation on chip production and biomedicine development. Although economists doubt the effectiveness of resurrecting industrial policies, policymakers are overwhelmingly enthusiastic about subsidies and their benefit for redistribution.

But the global supply chain model that has developed in critical industries also makes it difficult for production to return fully to the ‘localisation’ of the past. Industrial policy in the new era of protectionism incorporates external content such as the development of ‘alliance-based’ supply chains and the exclusion and containment of ‘non-partner’ or ‘enemy markets.’ These are discriminatory policy actions that go against multilateral disciplines.

In December 2022 China filed a case at the WTO against the United States over chip export control measures, accusing Washington of abusing the national security exception, which constitutes trade discrimination. The European Union also aired its displeasure with the US Inflation Reduction Act, arguing that

US\$369 billion in subsidies and tax credits to US domestic producers and consumers under the climate change reduction package violates WTO non-discriminatory requirements.

At the 2023 World Economic Forum in Davos, WTO Director-General Ngozi Okonjo-Iweala reiterated the warning—that confining trade within alliances will hinder world economic growth and lead to inefficiencies, duplication and inflation. Okonjo-Iweala has expressed concern about the ‘subsidy competition’ implemented by a number of WTO members, even if subsidies target carbon reduction or consumption stimulus.

The United States and China are key to the outcome of economic conflict arising from protectionist policies. However, the world is not going to be unipolar or bipolar but presents more complex possibilities, like increasingly intertwined production and manufacturing networks. For most participants in globalisation, it is important that the multilateral governance mechanism be revived as soon as possible.

There have been few notable breakthroughs under the WTO framework and no substantive progress has been made in the reform of the IMF and the World Bank. The investment dispute arbitration mechanism among countries in regional agreements is also limited and beset by exceptions. This reflects negative developments in global economic governance.

WHILE the road back to multilateralism may be tortuous and long, it may still be possible to address some of the most pressing issues affecting the multilateral framework. At an informal WTO ministerial meeting in January 2023, Chinese trade negotiator Wang



China's Vice-Premier Liu He addresses the World Economic Forum (Davos, 2023).

Shouwen presented China's four priorities for the WTO.

The first is to promote the reform of the dispute settlement mechanism—preserving core features such as neutrality, enforceability and two-tiered adjudication—with the aim of installing a complete and well-functioning mechanism by 2024. The second is to conclude the investment facilitation negotiations in the first half of 2023 and end e-commerce negotiations within the year, so that the WTO rules can keep pace with the times. China's third priority for the WTO is to respond to climate change through trade and investment liberalisation and oppose trade restrictions and subsidy competition. The fourth is to solve the problem of excessively subsidised agriculture and the distortions it brings to international food prices to help deal

with the global food crisis.

Current global economic disarray can be explained by the phenomenon of individually rational behaviour leading to collective irrationality. Even so, economic and trade relations are still the most likely entry point for countries to narrow value gaps and bridge geopolitical fault lines. The abuse of security exceptions and alliance arrangements that foreclose markets are also issues for negotiation under the WTO.

A flurry of diplomatic activities in late 2022 and early 2023 shows that Beijing is trying to promote economic cooperation with developing countries and improve communications on trade policy with developed countries such as Germany, France and Australia. In January 2023, Chinese Foreign Minister Qin Gang signalled this intention, calling on all concerned

parties to alleviate Africa's debt burden in line with the principle of fair burden-sharing.

Despite adverse circumstances over the past three years, globalisation survives. World markets are still integrating and becoming more efficient despite short-sighted political efforts to intervene in and disrupt them. The responsibility of the big powers is to promote integration and help weaker states. Even though current predictions about the world economy are pessimistic, an open China is likely to be an important and positive factor for the global economy's recovery. **EAFO**

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Demography poses no imminent threat to economic modernisation

PETER McDONALD

CHINA'S population fell in 2022 and will continue to do so throughout the 21st century, according to the United Nations Population Division's 2022 *Revision of World Population Prospects*. The data shows a

sharp fall in China's fertility rate from 1.81 births per woman in 2017 to 1.16 in 2021.

This trend is based on data supplied by the Chinese government, indicating China's belated acknowledgement

that the country's fertility rate is very low. The UN projects that China's fertility will rise very slowly and evenly from its low point in 2021 to reach 1.48 births per woman by 2100. This seems an unlikely scenario based on the experience of fertility trends of Chinese populations in Hong Kong, Taiwan and Singapore and, importantly, in China's largest cities. Among these populations, fertility has fallen even further and remained low for many years.

When a country's annual fertility rate falls rapidly to a very low level, it is often because women of younger childbearing age delay their first birth while women of older childbearing ages limit the number of children that they have. The age at which women have their first birth has been rising rapidly in China, but there is still scope for further rises as female education levels increase, employment opportunities for women expand and China urbanises.

There is an emerging trend in some advanced countries—including Japan, South Korea and Italy—that what was initially thought to be a delay of first births was the result of a higher proportion of women opting to have no children. This decision is influenced by the very high opportunity costs of having a baby in economies where employers discriminate against mothers—or potential mothers—and because social institutions provide little support for working mothers.



While falling fertility and an ageing population are unlikely to affect modernisation in the next two decades, the implications beyond 2050 could be more severe (Yichang City, 2017).

This behavioural pattern is likely to occur in China as well.

A more reasonable scenario than the UN's prediction is that fertility might remain very low in China for many years to come. China's population is projected to fall by 658 million from 2022 to 2100. Over the same period, the percentage of the population aged 65 and over is projected to rise from 14 per cent to 41 per cent. Assuming age and gender labour force participation rates are constant at 2010 levels, the size of China's labour force would fall from 796 million in 2022 to 348 million in 2100—a fall of 56 per cent.

While these changes will have major impacts on the economy of China, how these will manifest is unclear because there is no precedent of a population falling by such vast numbers.

Long-term population projections carry a high degree of uncertainty because governments take actions that change the demographic future. Because of this, only the short- to medium- term implications, roughly from 2022 to 2050, are considered here. China will try vigorously to change its projected demographic future, but substantial population decline by 2100 is inevitable.

In the short to medium term, 2020–40, China's labour force will fall by only 8 per cent assuming constant age and gender labour force participation rates. This is because the size of the labour force would increase at older ages while falling at younger ages.

There is also scope for older age participation rates to increase due to government policy—a potential offset to the projected fall in the labour force. Older people will be healthier and have an incentive to continue working as most have little or no pension and a limited number of children to support

them. Older workers, however, are overwhelmingly low-skilled.

TO CONTINUE its economic growth from a middle- to a high-income economy, China must shift from low-skill, labour-intensive production to higher value-added production based on advanced technologies. This approach has been successful in Japan, South Korea and Taiwan and the transition is already well underway in China, which has almost half of the world's industrial robots and is a manufacturer of electric vehicles, lithium-ion batteries and photovoltaic solar panels.

A young, well-educated labour force helps to support this transition. The 2014 National Transfer Account for China shows the very unusual pattern that incomes are highest for those aged 25–34 and fall away very sharply as age increases. The mean income of a 30-year-old in 2014 was more than twice that of a 50-year-old.

High-productivity workers are young and well educated. From 2020 to 2040, China's highly productive young workers will age and increase labour productivity across the age range of the labour force. Each new generation entering the labour force will be better educated than its predecessors. This should ensure healthy economic growth in China over this period.

A challenge to this scenario is that the number of young workers aged 25–39 is projected to fall by 23 per cent between 2020 and 2040 with little scope for increased participation rates among this age bracket. The challenges will multiply after 2040 as the number of young workers in this age group falls even more rapidly for a total fall of 54 per cent from 2020 to 2060.

With present patterns of private and public consumption, population ageing

Each new generation entering the labour force will be better educated than its predecessors. This should ensure healthy economic growth in China over this period.

does not present the same challenges as it does in most advanced countries. Per capita consumption among older people in China is relatively low and is no higher than for adults at younger ages. This is because pension, health and aged care systems are poorly developed and do not involve the high levels of expenditure found in Western countries and Japan.

In contrast with Western countries, per capita consumption for school-age children in China is much higher than for adults. In the short to medium term, fewer children imply reduced expenditure—an advantage to the economy.

While demographic trends may not pose a major problem for China's economy in the next 20–30 years, on current settings, the negative impact is likely to be severe beyond 2050. **EAFQ**

Peter McDonald is Emeritus Professor of Demography in the School of Demography, College of Arts and Social Sciences at The Australian National University.

How China can multilateralise the BRI

HUIYAO WANG

AT THE end of 2022, 150 countries and 32 international organisations had signed more than 200 cooperation documents related to joint infrastructure projects with China under the Belt and Road Initiative (BRI). The 2022 report to the 20th National Congress of the Communist Party of China noted that China should promote opening

up to the world and development. Anchoring the BRI in a multilateral framework could help China achieve these goals.

The BRI is an ambitious plan by China to build global infrastructure while connecting itself to trading partners. Since its launch, there have been diverse responses to it from the international community. Some

countries welcomed the opportunity to form new trade routes, while others— notably, the United States—depicted it as a sign of China’s efforts to overturn the world order. Doubts about the Initiative also emerged around issues related to the environment, labour standards, transparency, government procurement and social responsibility.

The BRI is largely built around

PICTURE: YUDDY CAHYA BUDIMAN / REUTERS

Workers stand beside a high-speed train for a BRI project in West Java (2022).



China's bilateral relations with other countries. Bilateral memorandums of understanding (MOUs) and joint statements supporting the initiative are the main forms of cooperation agreements that anchor the BRI. The legal terms in these agreements, though, are relatively weak. The validity periods stipulated in the MOUs are typically short and signatories can withdraw at any time. To a certain extent, MOUs have become a potentially unstable way for China to codify cooperation with other countries. They appear to be more political overtures than genuine commitments to economic and business cooperation.

Multilateral development of the BRI could increase its global reach and enable the Initiative to play a greater role as a new platform for global governance. China has launched a multilevel and diversified multilateral cooperation mechanism for the BRI and invited countries to participate and ensure its multilateral development.

IT WILL be very difficult to attract support from some key international players in furthering the reach of the BRI. The United States, some of its allies and those in the international community who are suspicious of Chinese 'debt trap' diplomacy will undermine opportunities for China to expand its economic, strategic and geopolitical power. Yet there are ways in which China could build trust and potentially lock in further multilateral cooperation.

First, international and multilateral structures for decision-making could be established to strengthen the BRI and manage how it provides infrastructure. If several countries were offered and accepted real

responsibility over what is considered a Chinese initiative, this could involve establishing a BRI International Steering Committee. Invited countries could send representatives to participate in the committee, helping to form a new order of global and regional governance over the BRI.

A BRI Steering Committee could be aligned with existing multilateral institutions of global and regional governance such as the G20 and the Asia-Pacific Economic Cooperation forum. Countries could regularly gather to discuss BRI-related agenda items and carry out extensive exchanges and consultations. The agreements, plans, mechanisms and projects jointly implemented would promote sequential development at various stages of BRI projects.

Second, the BRI could attract international organisations under the United Nations system to connect and participate in BRI projects. The initiative could encourage the United Nations to establish a BRI cooperation agency, giving full play to the bridging role and global influence of the United Nations. UN involvement in the BRI could also establish alliances with UN system agencies such as the United Nations Development Programme and WTO. While obtaining the support of the United Nations would encourage participants, doing so is likely to be difficult as the United States and certain other nations are likely to block UN agencies from assisting the BRI.

Third, China could engage more developed countries in BRI third-party market cooperation and enhance its cooperation with the United States and Europe in infrastructure construction plans. China has signed cooperation agreements with France and Japan in third countries and such agreements could be expanded to other developed countries. Third-

party market cooperation agreements emphasise complementarities. These complementarities include China's high-level production capacity, the advanced technology of developed countries and the infrastructure needs of developing countries. Bringing these together will provide a new model for high-quality joint construction of BRI projects and an effective means of promoting multilateralism. China could propose infrastructure cooperation between the BRI, the EU-led A Globally Connected Europe and the US-led Build Back Better infrastructure initiatives—despite the Build Back Better plan being initially created to counter BRI.

Fourth, China could cautiously consider joining the Paris Club. The construction of the BRI involves huge sums of lending. China can greatly relieve the international community's doubts about the BRI if its lending practices follow internationally accepted rules. As an emerging creditor, China still lacks experience in managing and controlling external debt risks. The Paris Club enables regular communication between major creditor countries. China could

Multilateral

development of the BRI could increase its global reach and enable the Initiative to play a greater role as a new platform for global governance.

consider joining the Paris Club and signing on to following transparent and sustainable international lending rules and become a responsible creditor country. The move will help mitigate China's external debt risks and safeguard global financial stability.

Fifth, China could update the Asian Infrastructure Investment Bank (AIIB) and encourage cooperation between international development banks and the BRI. Improving and renovating traditional infrastructure in developing countries, building digital infrastructure and enabling the green transition to achieve carbon neutrality offer potential areas of cooperation. Infrastructure spending can spur investment demand and boost job opportunities, though there are

funding gaps.

China could expand the AIIB's target sectors and regions and provide support for eligible infrastructure investment projects worldwide. A repurposed AIIB could work with the World Bank and other continental development banks such as the European Bank for Reconstruction and Development, Islamic Development Bank and African Development Bank. So long as the global geopolitical environment allows, the arrangement could form an international, standardised, open and transparent infrastructure development system and expand the supply networks for global products.

Since 2013, the BRI has grown from a vision to a series of bilateral

arrangements. But the Initiative has the potential to serve as a multilateral platform for international infrastructure development. Harmonising global infrastructure standards and norms of open development could enable more countries to participate in the BRI, help countries explore cooperative development opportunities and promote the recovery and development of the world economy. [EAFQ](#)

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MAN OR STATE

The changing face of Chinese governance

RYAN MANUEL

CHINESE President Xi Jinping had only just launched his third term in power when questions about his leadership began to circulate at home and abroad. China's complete turnaround on its zero-COVID policy was so rapid and extraordinary that it caught almost everyone by surprise.

But China's course correction was signalled well before policy shifted

in December 2022. In February 2022 responsibility for controlling COVID-19 was devolved to local governments, which made China's shift from 'dynamic clearing' or zero-COVID possible. Before the 20th Party Congress, the Yangtze River Delta was slated as the centrepiece of China's COVID-19 recovery. After the Party Congress, local governments

began to loosen restrictions a week before official central word. But the national scale of the reversal was more surprising than the implication that some areas could follow different policies.

Following the zero-COVID turnaround, there was central silence until February, when Xi's role was portrayed as visionary and the Chinese



Chinese President Xi Jinping leads applause at the closing session of the Chinese People's Political Consultative Conference (Beijing, March 2022).

Communist Party (CCP) united behind the new policy direction. That was more than three months after the decisions were taken, and they were then announced by the health authorities rather than by Xi himself.

A similar transfer of political credit had earlier trapped China into its COVID-19 problem. Xi did not take over COVID-19 policy until August 2020, when he was confident enough to declare that China had dealt with the pandemic. He then took all credit for the success of the national lockdown. China's response to COVID-19, Xi claimed, 'show[ed] the superiority of the Chinese system.'

While COVID-19 policy is only one area of public policy, it is a critical

illustration of the nature of China's governance. And it offers hints as to how Xi runs China.

Since his assumption of power, Xi has had a profound impact on the institutions of Chinese governance. The biggest change was to remove the critical safety valve for attribution of political responsibility—to throw out the idea of collective decision-making. In the post-Mao era, all decisions were linked to a committee. Documents issued by groups outranked those issued by individual figures of authority, including the paramount leader.

Under Xi's new rules, one person carries responsibility for every policy decision. Xi has put himself at the

head of many of the groups issuing China's most important decisions. This certainly means that more power and responsibility are in his hands. But it's less clear whether he knows, or how effectively he is now advised, what to do with that power.

Xi is practically limited in what he can do. It is very hard to have direct influence over the direction of one of the world's most complex organisations. Tracking his policies from start to finish suggests that Xi has his subordinates regularly nudge the rudder, while he now and again comes in for grand swings of the wheel.

The practical challenges of control are redoubled by the lack of a masterplan. There is no Xi doctrine. Xi

is a true believer in the CCP's role as the only political machine suitable for running the nation. His contribution to the theoretical canon could be pithily summarised as 'follow the Party'. It is far less clear what Party matters people are to follow. We see an inconsistent set of policy stances expressed through Xi's speeches that range from stridently anti-Western diatribes to strategies that warmly welcome Western enterprise.

Judging from his speeches, Xi believes that policy missteps and public backlashes are the result of poor implementation of central directives and that a stronger, more disciplined and centrally controlled Communist Party can deliver better governance. He sees this as the way, for example, to help build modern finance and tech sectors that can make China strong. The battle is how to achieve technocratic excellence while still having constant reporting upwards and centralised political direction from the Party.

This system manifests itself in regular swings back and forth. The

How the rest of the world views China and how China relates to the international community is now dominated by strong international pushback against the CCP.

COVID-19 policy shift was not the first abrupt turnaround under Xi's leadership. There was a disastrous stock market intervention in 2015, from which Xi was rescued by the technocrats. Then there was cancellation of the Ant IPO in 2019 and the sudden so-called 'big tech crackdown' on online education that created uncertainties in business.

Xi sent signals on governance during his first two terms in office that create a range of mixed incentives that will now guide Chinese governance over the next five years.

INSTEAD of a government pushing an agenda that is developed through multiple inputs and broad buy-in, there is a much higher risk of decisions being pushed upwards until there is a sudden policy lurch that everyone is stuck enforcing.

This is magnified by the lack of a discernible framework and a lack of incentives to deliver technocratic policy successes. In personnel matters, Xi has not rewarded those who have delivered his reforms, as seen in the demotion of former vice premier Hu Chunhua. Now, general executors with experience in regional government rather than policy specialists dominate China's peak leadership bodies.

In business matters, the relationship between the CCP and China's giant tech firms remains uncertain. While there have been cases of strict regulation involving the destruction of market capitalisation, these firms are essential to Xi and the operation of Chinese policy. Without their distribution channels, reach and large financial contributions, Xi's signature poverty alleviation program would not have been effective. It has not gone unnoticed that Xi lists solving extreme poverty as his greatest achievement and yet has marginalised both the

individual (Hu Chunhua) and private sector actors (tech giants) who executed it.

These tensions, and Xi's constant leaning on Party bodies rather than ministries to get things done, point to greater divergence between China and the West—if not the entire international community.

How the rest of the world views China and how China relates to the international community is now dominated by strong international pushback against the CCP. The West sees the political control of the CCP as inconsistent with a market-based economy and an open society. But the entrenchment of the market economy is deep and China's leadership remains resolutely pro-market—capital market reforms during Xi's second term were dramatic and wide-ranging. The resolution of this tension will be essential for stabilising China's place in the international community.

Xi's policy statements since the beginning of his third term remain mixed. One focus has been on security and localising Chinese research and development. At the same time, there is a push to access overseas markets and talent, and to attract and utilise foreign investment. Moreover, China's self-proclaimed new growth engines—advanced manufacturing, artificial intelligence and big data and a green economy led by electric vehicles and renewable energy—require deep international engagement.

The question now is what the terms of that engagement might be and what influence it might have on the future of China's governance. **EAFAQ**

Ryan Manuel is Founder and Managing Director of Bilby, a company which uses artificial intelligence and big data to predict Chinese policy developments.



US President Joe Biden meets with Chinese President Xi Jinping on the sidelines of the G20 leaders' summit in Bali (November 2022).

Foreign policy of an anxious adolescent superpower

WILLIAM H OVERHOLT

CHINA'S incredibly successful economic development brings two predicaments, one domestic and one foreign. Domestically, rapid development quickly makes the economy and society more complex. An agricultural economy with basic industries suddenly has thousands of interconnected industries, a complicated technology sector and a highly differentiated services sector. A complex economy brings with it

a complex society. People who were satisfied by having enough to eat now want different things. This complex economy is much more difficult to manage centrally and hierarchically.

Among all the Asian miracle economies, this emergence of social complexity leads inevitably to a crisis of success. Big government-supported companies get into financial difficulties. Government experiences a financial squeeze. Demonstrations

of people affected by change rise. Businesses challenge government policies. Such crises happened in South Korea, Taiwan and Japan in the 1980s. All three responded by accommodating complexity through more market-oriented economics and politics. They achieved stability, high incomes and high technology.

Elsewhere, established economic and political institutions frequently become so entrenched that they resist

While official policy prioritises economic development, the reality is a proliferation of security impositions that reduce growth.

further reform. This ‘middle-income trap’ often halts rapid development. The Asian miracle economies avoided this trap by insisting that state-supported firms—the South Korean *chaebol*, the Taiwanese Kuomintang infrastructure conglomerates and the Singaporean government-linked companies—accept market disciplines. This often means government-affiliated firms are surpassed by those

without government affiliations but the strategy worked.

The alternative to accommodating complexity is fighting it—apparently China’s current path. This requires further centralisation of the economy and more hierarchical politics. Because further economic success brings further complexity, this strategy requires ever tighter controls on political, economic, security and social institutions. Contrary to what one would expect after decades of broad economic improvement, China’s development success brings with it heightened security fears.

While official policy prioritises economic development, the reality is a proliferation of security impositions that reduce growth. They weaken private sector credit and investment, impose political controls on the private sector, suppress innovation, increase discontent among various elites, frighten bureaucracies into

inaction and limit global connections. As a result, total factor productivity growth has declined by about two-thirds. Hence mainland China may never catch up with the United States, the European Union, Japan, South Korea, Taiwan and Singapore.

ALTHOUGH China is stronger than ever, its leaders fear that—like the Soviet Union—its system might collapse due to a lack of political will. But the Soviet Union collapsed due to bankruptcy. Decades of labour, capital and goods shortages, falling productivity and the economic cost of the Soviet empire finally led to collapse. In contrast, China has a sustainable, competitive and diverse economy.

Russia shares the same weaknesses as the old Soviet Union. Its structurally unsound economy is largely a raw materials quarry for China and Germany and is structured to benefit

PICTURE: ERIK DE CASTRO / REUTERS



China Coast Guard vessels are seen patrolling alongside a Chinese fishing boat at the disputed Scarborough Shoal (April, 2017).

a small group of oligarchs and the military, not to provide broad social benefits like China's economy. The flawed sense that Russia and China face the same risks leads China to align with Russia. But Russia is a risky partner because it associates China with a dangerous, potentially nuclear militarism.

China also expresses fears of foreign manipulation. But the United States failed to manipulate China's politics even when China was poor and weak. And a change of political structure in Uzbekistan is no more consequential for China than an election in Malaysia. Yet China's leaders blame foreigners for the dilemmas of social complexity and have become gratuitously fearful of foreign influences.

Equally important, successful development like China's leads to a crucial international transition. When countries are poor and weak, they receive special forbearance to encourage development. All successful developing countries, including the United States, stole intellectual property, denied foreign access to their markets and subsidised their companies. Rich countries reluctantly tolerate this and celebrate successful growth.

But success builds scale that increasingly distorts and damages global markets. Japan's subsidised and protected cars and consumer electronics threatened to destroy competitors through unfair competition. The United States and the European Union reacted strongly with tariffs, quotas and other measures. After a difficult decade, Japan mostly accepted rules of fair competition. Subsequently Toyota has led the motor industry, but US and European consumers welcome Toyota because its success results from making better cars, not because of intellectual

property theft and subsidies.

China has reached that transition point. When Chinese fishermen were small and poor, subsidies were acceptable. Now coastal communities in North Korea, Latin America, Africa and South Asia are impoverished by China's huge, government-supported fishing fleet.

LIKEWISE, when China was poor, copying US CDs caused a noisy but minimal response. Now, intellectual property theft costs to the United States are estimated at hundreds of billions of dollars annually and even small venture capital firms report over 100,000 daily computer intrusions from China.

When China was weak and had been invaded by imperialist Westerners, no one could reasonably object to China building a stronger navy. But now China asserts 'historical rights' over its maritime neighbours. A great power seeking stability would pursue other stabilising alternatives: acknowledging the historical rights of others and compromising, as China did with most of its land borders; accepting United Nations Convention on the Law of the Sea (UNCLOS) rules; negotiating alternative rules; or negotiating a collective solution. Instead, China seeks to divide and conquer, rarely compromises and imposes its will by force when it can.

The clash with the Philippines over Scarborough Shoal exemplifies the problem. The Philippines undisputedly claimed the shoal in 1938. But in 2012 Philippine patrols caught Chinese fishermen harvesting protected species there. China forcibly quashed Philippine intervention and has largely controlled Scarborough Shoal ever since. Many Filipino families have lost their livelihoods. In China's view, its historical claim—an unsubstantiated

event in the 18th century—nullifies the Philippines' historical claims, UNCLOS and humanitarian rights.

China now has sovereignty disputes with North Korea, South Korea, Japan, the Philippines, Brunei, Malaysia, Indonesia and India. Even Bhutan is affected. China has evolved from a victim to a bully. This is how a small power behaves, not a great power trying to create a stable system.

Smaller countries want China's money and fear China's power, but their sense of injured sovereignty persists. This could become a problem for China if, as is likely, from 2030 to 2050 its maritime neighbours grow twice as fast. A China growing at 2 or 3 per cent annually will still be a great power, but its economic magnetism will be comparable to that of the United States and the European Union. Smaller countries may then grow confident and unite.

Suppressed but widespread elite resentments at home add to the rising opposition of cowed but proud neighbours and their powerful supporters abroad. Knowing this, China's anxious leaders have doubled down on repression and assertiveness. They demand all the privileges of a weak, impoverished country while asserting China as an imminent global leader reshaping the world into a Chinese-style community of common interest. This contradiction is unsustainable. There are formidable risks for an anxious adolescent superpower that is unwilling to mature. [EAFQ](#)

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India in a world of asymmetrical multipolarity

JAGANNATH PANDA

IN THE past decade, an irreversible momentum has gathered in global geopolitical transitions, involving the fragmentation and reconfiguration of the international order. This is largely due to the emergence of the Indo-Pacific as the global centre of gravity. Obituaries of the US-led liberal international order might exaggerate reality but the shift towards multipolarity is certainly in motion.

The primary reason for this shift in power has been the continued rise of China and the strategic complications this has brought. These include the

India is working towards a multipolar world that revolves around a multipolar Asia. One that brings Indo-Pacific middle powers together to achieve common developmental goals.

growing US–China hegemonic tussle and the geopolitical compulsions of other powers, particularly among the Chinese economy-dependent Asian states. Influential Asian states of varying economic and political weight—often clumped together as ‘middle powers’—have been particularly vulnerable to the dilemma of high-stakes security versus economic interests.

Russia’s war in Ukraine hastened the transition’s reckoning. On the one hand, US treaty allies in the Indo-Pacific—Japan, South Korea and Australia—have chosen to castigate Russia through economic sanctions and non-lethal military aid to Ukraine. On the other hand, a significant number of states—with China and India at the forefront—have remained non-committal. These states have highlighted the growing divergence between the North and South, citing the war’s asymmetric impact on the developing world.

Russia and China proclaimed the emergence of a ‘new multipolar order’ in a February 2022 joint statement and in overtures at the Brazil, Russia, India, China and South Africa (BRICS) and Shanghai Cooperation Organisation (SCO) summits. This new multipolar order weaponises the developing world’s resentment against the West. But authoritarian states are not alone in advancing multipolarism.

Major and middle powers across the

world are also considering their own distinct outlooks in a multipolar world. In 2022 German Chancellor Olaf Scholz noted that Russian President Vladimir Putin’s invasion of Ukraine marks a *Zeitenwende*—a turning point or watershed era—in global politics. Scholz’s statement that an ‘epochal tectonic shift’ towards a decidedly multipolar world order not only seems inevitable, but could also resurrect effective multilateralism with the right leadership. In the Indo-Pacific, most so-called middle powers—from economically rich Japan, Australia and South Korea to rising India and emerging Southeast Asian states—are asserting their growing global profiles. They do not want to remain passive subjects to the whims of US–China bipolarity.

India—a pivotal state and beneficiary in the democracies versus autocracies contest—seems the most committed to the idea of a multipolar Asia and a multipolar world. India has not only raised its global profile via adept diplomacy but has also become the self-appointed leader of the developing world. More importantly, India strives to amplify the voices of the Global South as part of a much larger ambition: to shape a multipolar world that rejects great power politics, reflects diversity and hinges on inclusive cooperation.

A large number of India’s multipolar aims are geared towards creating

opportunities for its own growth and shedding the fetters of a perpetually 'emerging' middle power. India seeks to transform into a globally recognised responsible power that affects meaningful change, through its longstanding goal of gaining a permanent seat in the United Nations Security Council (UNSC).

THE evolution of Indian foreign policy has often been seen through the prism of non-alignment. India's pointed multi-alignment trajectory has embraced realpolitik. This is evidenced by India's recent handling of the Russia–Ukraine war and the West-versus-Russia conundrum. India has adroitly

projected itself as a neutral centrepiece between ideological rivals, with China and the West vying for India as leverage in Indo-Pacific geopolitics. Modi's invocation of peace not war to Putin at the September 2022 SCO summit exemplified India's new push to great power status, a key aspect of its multipolar world vision.

India's so-far successful hedging between Russia, its top security and energy partner, and the United States, its top trading partner, is reminiscent of the US–China dilemma faced by most Asian states. But Russia–China competition presents a distinct challenge to India. Russia is India's historical partner while China has been a constant adversary.

China's contentious rise and its increasingly militant behaviour in the Indo-Pacific has propelled India's inclusion into a US-led Indo-Pacific institutional architecture. This takes shape primarily through forums such as the Quadrilateral Security Dialogue (Quad) and Indo-Pacific Economic Framework for Prosperity (IPEF). With a long-drawn vision to improve its standing, India also seeks to capitalise on the strategic rewards from China's increasingly acknowledged global status as a strategic threat—by expediting security, defence, technological and economic partnerships, from the EU's Global Gateway to the North Atlantic Treaty Organisation's Strategic Compass to

PICTURE: DITA ALANGKARA / POOL VIA REUTERS



Japanese Prime Minister Fumio Kishida, Indian Prime Minister Narendra Modi, French President Emmanuel Macron, Indonesian President Joko Widodo and Australian Prime Minister Anthony Albanese share a light moment on the sidelines of the G20 summit (Bali, 2022).

India's so-far successful hedging between Russia, its top security and energy partner, and the United States, its top trading partner, is reminiscent of the US-China dilemma faced by most Asian states.

Japan's National Security Strategy.

Such fears and antagonism consolidated in 2022 for multiple reasons. China's 'no limits' partnership between Moscow and Beijing—as opposed to India's 'principled' Russian stance based on pure national interests—is one. Other reasons include increased manoeuvres by China in the Taiwan Strait and Chinese President Xi Jinping's absolutist re-coronation at the 20th National Congress of the Chinese Communist Party.

Border clashes have also accelerated mistrust. Tensions following the Galwan Valley attack in 2020, which killed at least 20 Indian soldiers, have only escalated since the Tawang skirmish in December 2022. These

clashes have resulted in an assertive India refusing to kowtow to China's aggressive manoeuvres along the border, with New Delhi prioritising its national interests over piecemeal cooperation with China.

China is India's foremost security challenge and is gradually being recognised as a permanent threat. China-India conflict is not limited to the border dispute along the Line of Actual Control. It also encompasses the maritime domain, particularly in the Indian Ocean region where India has been a traditional security provider. Besides the contentious China-Pakistan Economic Corridor, China's infrastructure development in the Indian Ocean region through the Maritime Silk Road also threatens

PICTURE: ADNAN ABIDI / REUTERS



India's Prime Minister Narendra Modi waves to supporters during a roadshow in Varanasi (2019).

the regional status quo. As a result, India has been steadily consolidating its continental and maritime security through greater security collaboration with the United States and defence pacts with Indo-Pacific partners such as Japan, Australia and Vietnam.

India is pursuing across-the-spectrum bilateral engagements with states that have significant stakes in Indo-Pacific stability, including the United States, the European Union, individual EU members, Japan, South Korea and Vietnam. New Delhi is also working with trilateral, minilateral and multilateral forums such as IPEF, the Quad and I2U2, a new grouping comprising India, Israel, the United Arab Emirates and the United States.

Growing outreach to Central Asian states to counter China's influence also comprises an important aspect of India's multipolar vision for Asia, particularly after the United States' disruptive withdrawal from Afghanistan. India's mostly stable ties with Russia, and its engagement with China in forums largely catering to the developing and emerging economies of the Global South—such as BRICS, the Asian Infrastructure Investment Bank, the Russia–India–China Forum and the SCO—should also be seen in this context.

India hopes to maintain parity between its multipolar ambitions via such varied partnerships. And Prime Minister Narendra Modi's multidirectional policy initiatives—including Neighbourhood First, Act East, Act West, Security and Growth for All in the Region and the Indo-Pacific Oceans' Initiative—have been instrumental in propelling this trajectory.

Regional cooperation and participation are important pillars of these Indian initiatives in the absence of a definitive Indo-Pacific strategy.

India's Asia vision encompasses an inevitable multipolar evolution in the Indo-Pacific strategic landscape. This shift will arise from reconfigured US power dynamics, China's growing might and its geopolitical engagement with Japan, India, Australia and the EU, the changed policy orientation of South Korea and ASEAN centrality.

INDIA'S goal remains the pursuit of development-focused national interests. Besides protecting India's borders and territorial integrity, this includes easing food, health, climate and energy concerns, creating quality infrastructure, helping reform global governance mechanisms and ensuring regional stability. India aims to achieve national and regional developmental goals without getting caught in the US–China hegemonic game, as evidenced by New Delhi's disinclination to join designated blocs.

Preserving strategic autonomy is an essential objective for New Delhi. Foreign Secretary Harsh Shringla has interpreted strategic autonomy as *atmanirbhar*—self-reliant thinking drawn from Indian philosophical practices—and adopted this 'Indian nature of strategic thinking' as the first pillar of Indian diplomacy. This approach has been described by India's Minister of External Affairs Subrahmanyam Jaishankar as the 'legitimate pursuit of flexibility without seeking exclusivity'. That is, India is free to pursue ties with all states that serve its interest, but within the rules-based realm. It is about 'exploiting opportunities' to enhance national interests and using diplomacy to broaden global influence.

India's multipolar focus is its second pillar of diplomacy. India envisages itself as a major pole in global politics, after the United States, Russia and China. For a long time, India has

been dubbed a state with enormous potential due to its economic, demographic and political scope. But it has remained a middle power and has been unable to tap into this promise.

Still, India has started to assume the political clout that will enable it to move beyond the middle power construct and close the gap with major powers. India has been gaining confidence by unapologetically forging relations to maximise its position, without obviously alienating partners and rivals.

Asian unity has always been central to India's future worldview. At the sixth Asian Leaders' Conference in 2015 Modi said that his 'Asia dream is one in which all of Asia rises together'. In other words, India is working towards a multipolar world that revolves around a multipolar Asia. One that brings Indo-Pacific middle powers together to achieve common developmental goals. India's extraordinary push for multidirectional outreach with middle powers is essential to reconfigure the region's stability. But as Modi warned

There is potential for India to resist China's total control over Asian governance through outreach to the developing world within China-dominated forums...

... forging consensus on rules that are acceptable to multiple states with distinct political weightage is itself a challenging endeavour.

in 2015 and 2018, rivalries between regional states will hold Asia back and hinder the transition process.

In that vein, India rejects China's version of a multipolar world that stresses antagonism with the West and propagates an imperialistic 'China dream'. But a bipolar world will not serve Indian interests either. India seeks a multipolar world that keeps both the United States and China in check through a global redistribution of power, commitment and accountability. Achieving this entails reform within international institutions, a goal that it has been advocating for many years.

But China is hindering Asian representation, while serving platitudes for increased diversity in international forums such as the United Nations. Greater Asian diversity would impinge on China's motives for regional dominance, deter Beijing from using its political clout as a diplomatic weapon and diffuse the advantage of China's power concentration. Maintaining the status quo in the UN grants China disproportionate representation as the lone Asian representative.

China's opposition to India's bid for a permanent UNSC seat can

be seen through this lens. China's official policy on India's entry into the UNSC as a permanent member is equivocal. While supporting increased representation of developing countries through democratic consensus, it skirts the India question. Beijing's framing of Kashmir as a UN-disputed territory and its veto on the UN listing of Pakistani terrorists involved in attacks on India suggest that China would never acquiesce to India's bid.

UNTIL India achieves parity with China through permanent participation in international bodies such as the UNSC, it cannot capitalise on its global power projection. Herein lies the China–India cooperation–rivalry conundrum.

It is also foolhardy to compare India to China. Besides the markedly different socioeconomic and political landscapes, China is leaps and bounds ahead in the economic, technological and military domains.

A lack of robust infrastructure and a weak manufacturing sector mean that India is not in a position to steer real growth. Indian policymakers are nonetheless intent on providing momentum to the present 'multi-alignment' trajectory in the hope of solidifying India's regional hold in the long term.

There is potential for India to resist China's total control over Asian governance through outreach to the developing world within China-dominated forums, such as the expanding SCO and BRICS+. This is important because it seeks to deter China from coalescing a section of the non-Western world to further its own multipolarity with 'Chinese characteristics' and 'true multilateralism'.

Multipolarity becomes a tool for

India to negate China's impact on its global power access. Establishing 'like-minded' and 'equal' partnerships grounded on shared interests, values and norms could combat Chinese unipolarity.

Criticism of such a multipolar world as transactional politics, which provides only questionable stability, is valid. This is because forging consensus on rules that are acceptable to multiple states with distinct political weightage is itself a challenging endeavour. But some have surmised that deft governance could ensure greater balance among world powers, so as not to endanger the already fragile stability.

The revitalised Quad is one such example of deft governance—among other flourishing Indo-Pacific minilaterals that are committed to values beyond national interests. The Quad is also a harbinger of effective multipolarity, as envisioned by India, in times to come. If India's grand projections for its hosting of the G20 and SCO summits in 2023 are anything to go by, the concrete benefits of multipolarity will become apparent in the near future.

As things stand, we could enter into a world of asymmetrical multipolarity, where stronger poles still dominate but several major powers cooperate and coexist. **EAFO**

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Director-General Ngozi Okonjo-Iweala poses for a picture after a closing session at the WTO's headquarters (Geneva, 2022).

East Asian leverage through plurilateralism

ROBERT BASEDOW

MULTILATERALISM is now in crisis. The crisis manifests itself most forcefully in the WTO. The WTO, which counts 164 states as members, has three core functions in global economic governance. It promotes multilateral negotiations on market access and trade rules, resolves trade disputes among its members and monitors and advises on the implementation of members' commitments.

Today, the WTO struggles to fulfil two of these three core functions. The WTO's Doha Round of negotiations broke down without yielding a comprehensive package on market access or updates to WTO trade rules in view of new economic and trade realities such as e-commerce and data flows. The Dispute Settlement Body—the WTO's court—has lost its quorum to adjudicate trade disputes due to a longstanding US veto against

the appointment of new judges. Hence, the resolution of trade disputes has become more challenging and politicised.

In light of the crisis engulfing multilateralism and the WTO, policymakers around the world have turned to bilateralism and regionalism in the form of preferential trade agreements (PTAs). Often, PTAs have two parties, yet some agreements—such as the Comprehensive and

Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP)—have considerably more.

Modern PTAs are typically ‘broad’ in the sense that they cover a large number of economic sectors and phenomena ranging from agriculture and manufacturing to services, finance and investment flows. They are also ‘deep’ in the sense that they contain legal commitments that apply well behind borders and directly relate to their signatories’ domestic legal and regulatory systems. Many PTAs set minimum levels of protection for private property or contain commitments on the mutual recognition of product standards and professional qualifications.

The stalemate in the WTO has

fuelled a surge in PTA activity in East Asia and beyond. This narrow focus on PTAs obscures the reality that states have another important tool at their disposal to promote economic cooperation and integration within the WTO regime: plurilateralism. What is plurilateralism? What experience do states have with this tool? What are its costs and benefits in relation to multilateral as well as bilateral governance? And how can states best take advantage of this tool in general and in East Asia in particular?

Plurilateralism, as understood among trade experts, exhibits two features. First, plurilateralism sits between bilateralism and multilateralism. It brings together an intermediate number of states as plurilateral initiatives comprise more members than most PTAs yet do not

encompass the full membership of the WTO. Second, plurilateral initiatives are typically narrow, sectorial and deep. They deal with specific economic sectors—such as environmental goods and services—or economic phenomena including e-commerce, services regulation or investment.

Under WTO law, plurilateralism may take the form of critical mass agreements (CMAs) or plurilateral agreements (PAs). CMAs typically focus on market access and rulemaking, apply on a most-favoured nation basis and bring together all key economies in a given sector. CMA parties may, for instance, agree to remove all tariffs and market access barriers on certain goods or services and extend this liberalisation to all WTO members regardless of their formal participation in the agreement.

PICTURE: CFOTO / SIPA USA



Plurilateralism is of particular importance to East Asia as the emerging centre of the world economy (Lianyungang Port, Jiangsu province, 2023).

For CMAs to function, the signatory parties must represent the lion's share of global trade—the critical mass—in the relevant sector. In practice, this requirement sometimes makes CMAs politically difficult to achieve since their feasibility hinges on the willingness of large economies to cooperate. Non-signatory WTO members are typically small developing countries that play no role or only a secondary role in relevant sectors and trade flows.

PAs also focus on market access and rulemaking and only apply on a discriminatory basis among signatories. Like PTAs, they liberalise and govern trade among their signatories yet do not offer benefits to non-participating WTO members. Unlike PTAs, PAs are open agreements. Interested WTO members may join a PA at any time if they are ready to accept the commitments spelled out in the agreement.

SCHOLARS of economics and political economy have conducted extensive research on the costs and benefits of multilateralism and bilateralism. Yet, less is known about the trade-offs between the costs and benefits of plurilateralism.

Three features stand out as benefits. First, plurilateralism may facilitate reaching consensus in today's highly heterogeneous global trade regime. It may allow WTO members with little interest in a given domain to stay on the sidelines rather than block initiatives.

Second, plurilateralism may be particularly suitable for modern intrusive trade policy and negotiations. Since the 1990s, trade policy increasingly focuses on positive integration through joint rulemaking. Tariffs and quotas remain important,

especially in the context of global value chains where products cross borders many times before reaching consumers. Most of the attention of trade policymakers now focuses on rules. This focus reflects how regulatory heterogeneity—such as diverging product safety or environmental standards—may impose considerable costs upon producers.

Unlike tariffs and quotas, rules are intrusive and may interfere with democratic choices and public policies. States may have different preferences regarding the handling of private data or genetically modified organisms. Limiting the number of parties in negotiations may allow states with similar preferences to cooperate and move towards a point of maximum efficiency without disadvantaging one another. Multilateral cooperation on rules may be impossible and lower welfare by 'forcing' states with fundamentally different preferences to adjust to international norms that are not aligned with domestic demands.

Third, the larger number of states involved in plurilateral initiatives limits the risk of harmful trade diversion often associated with PTAs and the rise of bilateralism. Critics stress that PTAs may not generate trade and efficiency gains but merely divert trade flows to PTA partners thus perpetuating economic inefficiencies. The surge in PTAs and related trade volumes seems to partially mitigate these concerns. As plurilateral initiatives are likely to involve more members than PTAs, plurilateralism should further reduce the potential for harmful trade diversion.

Plurilateralism also comes with costs and risks. For one, plurilateral initiatives are likely to further limit interest in multilateralism. As states increasingly resort to PTAs and

The stalemate in the WTO has fuelled a surge in PTA activity in East Asia and beyond.

eventually to plurilateral initiatives, they exhaust their administrative resources and see little value in cumbersome multilateral negotiations.

Developing countries may also get sidelined through plurilateral initiatives. Major economies may push ahead with CMAs and PAs and agree on common rules and regulatory approaches in emerging sectors without giving developing countries a say in the development of norms. Despite not taking part in plurilateral initiatives, developing countries may have to adopt these norms at some point due to their significance for global trade. These states may find themselves transposing regulatory approaches which were developed without their input.

This concern echoes the sentiment in China and other 'latecomer' economies that, owing to their late accession, had no say in developing the rules of the WTO and the General Agreement on Tariffs and Trade. If developing countries refrain from adopting relevant rules it may also have negative effects on their development and harm the world's poorest.

The main drawback of plurilateralism is that it is clearly less inclusive than multilateralism—though more inclusive than bilateralism—and it may have detrimental economic

Well-crafted plurilateralism is suitable to advance global rulemaking. It can ensure greater inclusivity and economic efficiency compared to classic PTAs and mega-regional agreements ...

and political effects on outsiders. It follows that to take advantage of plurilateralism, policymakers need to carefully craft relevant initiatives to make sure that they benefit participants without harming non-participants and the WTO regime.

To better understand how to best use plurilateralism, it is helpful to take stock of experiences with this tool. WTO members have repeatedly sought to advance plurilateral initiatives, mostly through CMAs but also through PAs. In the past few decades, a subset of WTO members have negotiated the Anti-Counterfeiting Trade Agreement, the Trade in Services Agreement, the Environmental Goods Agreement and the Information Technology Agreement.

Only the Information Technology Agreement has been a success. The Trade in Services Agreement and the Anti-Counterfeiting Trade Agreement both failed due to differences in state

preferences, while the Environmental Goods Agreement has been on hold for many years despite the growing importance of tackling climate change through the use of green technologies.

WTO members, moreover, have launched and partially completed the so-called Joint Statement Initiatives (JSIs) on e-commerce, investment facilitation, services and domestic regulation and micro-, small- and medium-sized enterprises. The JSIs on services regulation, e-commerce and investment facilitation are making good progress or are complete in practice. The WTO is no stranger to plurilateralism yet has only limited experience with successful initiatives.

To understand how to design plurilateral initiatives that maximise benefits yet limit costs, it is helpful to look at the European Union and its experience with differentiated integration, its own form of plurilateralism. Differentiated integration does not require all 27 member states to take part in all EU policies and initiatives. This strategy can be temporary or permanent in that member states may or may not be expected to ultimately join initiatives aimed at integration.

Well-known instances of differentiated integration include the Schengen Area, which allows for travel between member states without border checks, and the Euro currency.

Recognising that differentiated integration may create forces that either strengthen or weaken the EU, European policymakers have developed rules and guiding principles around differentiated integration that may inform the WTO community on how to best use plurilateralism.

According to these rules and guiding principles, differentiated integration should be an option of last resort and be used only if multilateral

efforts encompassing all member states have failed. It should require a minimum membership to prevent over fragmentation, be temporary and open to all member states ultimately joining and should be embedded in the institutional and legal architecture of the overarching regime to ensure compatibility and transparency. Finally, despite this legal-institutional anchoring of differentiated integration in the main regime, non-participants should not be made to pay for the operation of these initiatives.

EAST ASIA is one of the world's most dynamic and complex regions. The rapid development and growth of East Asian economies in the past few decades and their high interdependence through global value chains mean that the region badly needs effective regional and global governance. But shifting economic, political and military power balances make resilient governance particularly challenging in the region. What role, if any, can plurilateralism play in moderating geoeconomic tensions and providing the region with effective governance?

First and foremost, 'closed' bilateralism—in the form of mega-regional PTAs such as RCEP and the CPTPP—is not the only game in town. Plurilateral initiatives, like the WTO's JSIs, offer alternatives and an 'open' platform for additional countries to join in the future. Unlike PTAs, that tend to create economic blocks, CMAs and PAs are accessible to outsiders and amenable to bridging economic, political and regulatory divides in the long run. The fact that plurilateral initiatives are anchored in the WTO may ease regional tensions and unite rather than divide East Asian economies.

In short, East Asian policymakers

should scrutinise the costs and benefits of pursuing closed mega-regional PTAs and consider the option of open CMAs and PAs that are embedded in multilateral structures to pursue their economic interests.

For East Asia to tap into the potential of plurilateralism it needs to assume leadership. The centre of the world economy has been shifting from the Atlantic to the Pacific and East Asia. Many new economic and trade challenges will arise in this region. Local leaders must be prepared to invest time, political capital and administrative resources to advance discussions on global economic governance. Many observers would argue that East Asian economies, such as China, may still assume a greater role in maintaining the WTO and modernising its rulebook through plurilateral initiatives.

To that end, East Asian policymakers need to reflect on the sectors and policy domains where plurilateral initiatives are most likely to yield significant benefits and complement PTAs. Two criteria may guide reflections. First, plurilateralism

is most beneficial for issues that are of global reach yet fail to command serious interest among the full WTO membership. Second, plurilateralism—due to its suitability for international regulatory cooperation—is particularly valuable in tackling issues of a regulatory nature occurring within global value chains. These issues include safety standards, transparency requirements or data handling and issues that link trade and other public policies.

East Asian policymakers may, for instance, seek to advance plurilateral discussions in domains such as climate clubs, global judicial cooperation in commercial matters and contract law harmonisation. Or they may consider regulatory issues tied to emerging technologies such as artificial intelligence, digital trade or biotechnologies.

The new Indo-Pacific Economic Framework brings together major economies from the Americas and East Asia and may be a suitable starting point for exploring new open plurilateral, rather than discriminatory, regional initiatives.

The crisis engulfing the WTO and multilateralism has made policymakers around the world look to PTAs and bilateralism to develop trade rules and pursue national economic interests. But greater attention should be afforded to plurilateralism. Well-crafted plurilateralism is suitable to advance global rulemaking. It can ensure greater inclusivity and economic efficiency compared to classic PTAs and mega-regional agreements such as RCEP or the CPTPP, which by design cement rather than bridge economic and political cleavages.

Plurilateralism is of particular importance to East Asia as the emerging centre of the world economy. For East Asia to tap into the potential of plurilateralism, policymakers need to be ready to invest more resources and must reflect on how and where open plurilateral agreements may best complement multilateral and bilateral governance. **EAFO**

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From climate commitments to action

PICTURE: REUTERS



A worker installs solar panels at a photovoltaic power station in Lianyungang City (Jiangsu province, 2018).

ZHONGXIANG ZHANG

AS THE world's largest carbon emitter, China has a crucial role in the reduction of global carbon emissions through its own commitment and its collective international engagement. Fortunately, in the past decade, China has shifted its stance on international climate negotiations and is making significant commitments to global governance addressing climate change.

Before the Copenhagen UN Climate Change Conference (COP15) in 2009, China pledged to cut its carbon intensity—its emissions per unit of GDP—by 40–45 per cent by 2020 relative to 2005 levels. While this was consistent with China's longstanding opposition to hard emissions caps on the grounds that limits could restrict economic growth, the pledge marked a turning point in China's climate policy. It was followed by a commitment at the 2015 Paris UN Climate Change Conference (COP21), to peak absolute emissions and cut intensity levels by 60–65 per cent by 2030.

In September 2020, President Xi Jinping reiterated China's commitment to peak carbon emissions by 2030 and announced a goal to achieve carbon neutrality before 2060. Given the unexpected nature of this announcement it was significant when China's Central Economic Work Conference made 'carbon peaking and

carbon neutrality' one of the eight key economic priorities for government in 2021.

These announcements are welcome, but commitment without action is meaningless and the global community is concerned about how China will honour its commitments.

Achieving peak carbon and carbon neutrality will require China to rapidly decarbonise its economic and energy structures. China has established the 1+N framework, which sets out the policies and actions required across economic sectors and in key industries such as energy, industry, transportation, infrastructure and construction. Huge investment in renewable energy, industry retrofitting and new low-carbon or carbon-free technologies is necessary to realise these objectives. Government financing can only cover a small portion. Private capital must close the gap.

China's national emissions trading scheme (ETS)—launched in July 2021—establishes a price for carbon in the electricity sector to incentivise investment in low-carbon projects. So far, the price for carbon has remained stable and overall compliance with the scheme is high. But there are significant differences across provinces, particularly measured against the number of entities.

China will need to strengthen its national carbon trading regulations to fully realise the benefits of its price on carbon. It also needs to accelerate the expansion of industries included in the national ETS, diversify market players and increase the variety of tradeable market instruments to deepen market liquidity. The Chinese government should prioritise the inclusion of the steel, cement and aluminium industries in the national carbon market. The petrochemical, chemical,

building materials, nonferrous metals, papermaking and aviation industries should be included in the next five years. That will incentivise energy-saving and least-cost carbon abatement.

BECAUSE climate change is a collective action problem international cooperation is required to meet the global average temperature targets outlined in the Paris Agreement. If China fulfils its carbon neutrality commitment it could reduce global average temperature rises above pre-industrial levels by 0.16 to 0.30 degrees Celsius. This would greatly improve the chances of achieving the Paris Agreement's 2 degree target with China's commitment to climate action having the single largest impact of any country.

Cooperation with the United States—the world's second-largest emitter after China—is also crucial to fulfilling global agreements. China and the United States issued the US–China Joint Glasgow Declaration on Enhancing Climate Action in the 2020s. The two countries outlined that they will cooperate on regulatory frameworks and environmental standards, clean energy transition, decarbonisation and electrification of end-use sectors, carbon capture, utilisation and storage technologies and increased action to control and reduce methane emissions. Such statements have enhanced the two countries' commitments to climate action and their follow-through on meeting the Paris Agreement.

China also has a crucial role in helping developing countries to meet their climate ambitions. Developing countries are required to make contributions to global efforts but are not supported accordingly. In 2009, developed countries promised

to provide US\$100 billion annually—by 2020—to developing countries for climate change adaptation and mitigation. Although this climate financing pledge was only a drop in the bucket in terms of the financing required to tackle climate change, the commitment is yet to be fulfilled.

As the largest developing country in the world, China understands the difficulties and concerns faced by smaller developing countries and has been helping them obtain climate financing and technical support. China has also pursued an agreement to set up a 'loss and damage' fund to support the developing countries most impacted by climate change.

China has made large strides towards achieving carbon neutrality and achieving global climate targets but tackling climate change will require more global cooperation. Current global efforts are insufficient to limit global temperature rises to 2 degrees above pre-industrial levels by the end of the century, much less the desired goal of 1.5 degrees. China and the international community will need to work together towards the shared goal of global decarbonisation. By ensuring countries stick to the commitments made in the Paris Agreement and unlocking financial resources to advance the transition to renewable energy and carbon-free technologies, China, in concert with the international community, can help ensure that the Paris Agreement's goals remain within reach. [EAFQ](#)

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Rural underemployment threatens China's growth

SCOTT ROZELLE AND DORIEN EMMERS

ACCORDING to World Bank data, only a handful of economies have risen from middle- to high-income status since 1960, when economic catch-up growth in many developing economies took off. Examples include South Korea, Singapore, Israel and Ireland. Some countries that were high income in 1960 remain so today, such as Denmark and Japan. Others, like Myanmar and North Korea, have stayed poor. Many countries have stayed at middle-income status for decades, seemingly unable to reach high-income status. How does China compare to these other countries stuck at the middle-income level?

One key factor that may account for the disparate development paths of countries is education. According to the OECD, in 2015 the average share of workers—people aged 18–65—that completed secondary education in countries that graduated to high-income status was 72 per cent when they were still at middle-income status. But in countries that have failed to exit middle-income status the share is much lower—36 per cent on average.

Having a large supply of educated workers ensures that enough talent exists to meet and drive demand for high value services, thereby sustaining growth. When too many unskilled workers are squeezed out of upgraded industries their wages stagnate,

curtailing demand and hampering growth. This eventually leads to serious social problems, such as higher rates of unemployment and increased crime and social unrest.

Education attainment metrics help reveal China's potential future development and growth trajectory. The share of uneducated workers in China's labour force is larger than that of virtually all middle-income countries. According to 2010 census data, there are roughly 500 million people in China between the ages of 18 and 65 without a senior high school diploma, which is 74 per cent of the labour force. This makes China the least educated middle-income country in the world.

A large population of uneducated workers was not a problem when China moved from low- to middle-income status. Unskilled wages were low and there was growth in low-cost manufacturing and construction. But China's growth model is changing as it becomes wealthier. Unskilled wages are much higher but the lure of cheaper labour elsewhere and China's massive push to automate is rendering low-skilled workers redundant. Construction jobs have tapered off as investment in infrastructure cools. These factors suggest China's unskilled workers may be increasingly unemployable as the economy upgrades.

The only destination for China's

unskilled workforce—whether new entrants to the labour force or laid-off workers—is the informal service sector. Data from the 2018 *China Statistical Yearbook* shows that informal employment is currently the fastest growing sector in China, increasing from 33 per cent in 2004 to 56 per cent in 2017. This rising supply of workers has ushered in stagnating wages for unskilled workers. Meanwhile, strong demand for skilled work means higher wages are going to those with an education. The result may come to resemble Mexico, where solid macroeconomic performance, export success and an accumulation of physical capital has not translated into growth in the formal economy.

RECOGNISING the critical need for secondary education, China's government has expanded access to high school throughout the country. High school attainment among the youngest cohorts in the labour force is close to 80 per cent. But hundreds of millions of less educated people will remain in the labour force for the next 30 years. The government will face huge challenges trying to either retrain workers or provide a social safety net.

The quality of China's expanded secondary school education is also uncertain. Almost all low-skilled labour comes from rural areas where school and health systems are under-resourced. Many of China's new

secondary school graduates attended poor quality vocational schools. Systemic shortfalls in early childhood education and health in rural areas may also render many young people unprepared to learn complex skills as they age. A systematic review and meta-analysis found that 45 per cent of children in rural schools across China have delayed cognitive development before they reach the age of five.

Investments during the first years of life in a safe home environment with sufficient learning opportunities, healthy nutrition and responsive caregiving are crucial for healthy child development. But a study published in 2017 on passive parenting and early child development in rural China shows that parental investments in cognitively stimulating activities—

such as a game of peekaboo or storytelling—and healthy child feeding practices are low. This type of underinvestment in quality early childhood development jeopardises the skill development of China's future labour force.

The risks of a stagnating China would reverberate far beyond its shores. China's sheer size—one-fifth of the world population—means what happens there will have outsized implications for foreign trade, global supply chains, financial markets and growth around the globe. There are political perils, too. An economically insecure China may turn to nationalism to boost legitimacy. No assessment of China's growth is complete without considering the implications of China having hundreds

of millions of underemployed people in its economy for the foreseeable future. **EAFO**

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This article is based on the book Invisible China: How the Urban–Rural Divide Threatens China's Rise by Scott Rozelle and Natalie Hell.

PICTURE: REUTERS / STRINGER



Children walk along a path to get to their school in the mountain range of Min County (Gansu province, 2011).



Migrant workers gather for a meal in their dormitory after a shift at a residential construction site in Shanghai (2013).

The troubled love lives of China's rural migrants

WANNING SUN

FOR the past decade or so, the Western media has been critical of the Chinese state, the Chinese government and the Chinese Communist Party. This criticism has been made in the context of a small number of issues, such as human rights in Xinjiang, political dissent in Hong Kong and Western citizens detained in China.

The Western media tells us very little about how ordinary people in most parts of China live and think and how Chinese government policies impact on their everyday, even intimate lives. The experience of intimacy among China's rural migrant workers (*nongmingong*), for example, reveals how socioeconomic inequality in contemporary China impacts

the love lives of underprivileged individuals and how emotional loneliness affects their sense of identity and self-worth.

China's National Bureau of Statistics defines *nongmingong* as someone 'who still holds a rural *hukou* [residential registration permit] but who, for the past six months, has either engaged in non-agricultural work or has

Most young rural migrants, uprooted from their village homes, have no permanent housing to their name, no secure employment or income and low social status.

left home to seek non-agricultural work elsewhere.' *Nongmingong* have become ubiquitous in Chinese cities, especially since the economic reforms of the 1980s. In 2016, China's internal migrants numbered around 278 million and in 2020 that number had reached 286 million.

By the first decade of the twenty-first century, about half of the migrant population were young people born in the 1980s and 1990s. These younger workers are usually referred to as the 'new generation of rural migrants,' in contrast to first-generation workers who sought urban employment in the 1980s and 1990s and who are now aged in their 50s and 60s.

While the majority of first-generation rural migrants were married before migrating, more than half of those in the later cohorts are still single. Many of these younger workers are the children of first-generation migrants and have little or no experience in farming.

Sociologists of emotion are concerned with the impact of class inequality on the emotional wellbeing of individuals. Studies have found that people who occupy different

positions in the socioeconomic hierarchy have different emotional experiences and that those in low socioeconomic positions tend to experience more emotional hardship. It is also understood that that access to intimacy and rituals of romantic consumption is stratified along class division.

HOW does socioeconomic inequality in contemporary China impact on the love lives of underprivileged individuals? And how does emotional loneliness affect their sense of identity and self-worth? Interviews with around 50 Foxconn workers and four years of longitudinal ethnographic interactions conducted for fieldwork between 2015 and 2018 reveal much about the lives and experiences of rural migrant factory workers in Shenzhen and Dongguan.

Some young rural migrants steal moments of intimacy between factory shifts, incurring outrage from some and sympathy from others. Others, when visiting their village homes, emerge empty-handed from blind dates in which the size of the bride's wealth is assessed more assiduously than conjugal compatibility. Some rush into weddings that are sometimes followed by an equally quick divorce. While most young rural migrant men and women wait for conjugal happiness, some make sexual choices that the state deems immoral and transgressive.

Young migrant workers are typically better educated and more engaged with urban consumption culture than their parents. But they also feel more stuck, angry and disillusioned because, unlike their parents who always intended to return to their villages, they generally want to remain in the city despite having little hope of doing so.

How socioeconomic inequality

impacts on the intimate lives of China's rural migrants is a complex question and the answer is multifaceted. The system is a key factor influencing the intimate lives of rural migrants. It is also a contributing factor to rural migrants' marriage problems. Most young rural migrants, uprooted from their village homes, have no permanent housing to their name, no secure employment or income and low social status. Given their low income, they cannot afford the time, money or energy to go on dates, let alone save enough money for an apartment, a car or wedding gifts, all of which are considered essential by their urban resident equivalents.

A study conducted in 2014 indicates that most rural migrants spent the largest part of their time working. Their main forms of recreation were sleeping and engaging in online activity. Their average monthly income was around 2918 RMB (US\$430). They also spent little on meals and most did not own an apartment or a car.

While the marginalised socioeconomic position of these rural migrants shapes their love lives, some bear the brunt of this inequality more readily than others. Migrant women who subject themselves to unequal or exploitative sex due to their economic circumstances, for example, face relentless stigmatisation. Rural migrant men and women also face difficulties in achieving equal and intimate relationships with spouses within marriages.

The most prominent social problem, however, is the generation of 'leftover men' often found among rural migrants born in the 1980s. The key cause for this phenomenon was China's one-child policy, which led to an imbalance in the ratio of men to women, the tradition of women preferring to 'marry up' and the

widespread practice, especially among rural households, of the bride's family making exorbitant betrothal demands.

While the state and public express anxiety about migrant men's inability to find wives, the anxiety arises from concerns about social order and stability. Policy discussion of the marital problems of rural migrant men assumes that there is a link between sexual frustration, crime, moral disorder and social instability. These narratives fail to understand a gender- and class-specific kind of masculine identity that is characterised by emotional pain, desperation and low self-esteem. Situated at the sharp end of China's inequality, these men typically harbour modest dreams of finding a life partner, starting a family and living with more dignity and less discrimination. But the road to emotional fulfilment is paved with compromise, disappointment and emotional hardship.

More than four decades of economic reform and population control policies have transformed China into one of the more unequal countries in the world. And while the world is fond of talking about 'China's rise', its phenomenal economic growth and its fast-growing middle class, the emotional cost of these impressive developments is little remarked. Without such knowledge, a crucial piece of data is missing from our understanding of China and the problems its people and those in countries undertaking a similar transition are forced to cope with. **EAFO**

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The social credit system as method

HAIQING YU

CHINA'S social credit system is widely viewed in the West as a digital surveillance system to categorise and guide people through reward and punishment. This perception continues despite efforts by scholars to build a morally normalised, rather than ideologically charged, framework to understand the system. The social credit system should be understood as method—a mentality of governance—not just a network of databases and policies to monitor trustworthiness. It is an ongoing social experiment to mould and govern socioeconomics, an experiment rooted in historical and biopolitical structures and systems.

Understanding the social credit system as method entails seeing the history of its role in China's drive towards economic prosperity. The concept of credit rating surfaced in the 1990s when the People's Bank of China established China's first bank-credit registry. In 1999, the idea was expanded upon with the release of the National Credit Management System report by the Chinese Academy of Sciences. The focus was economic—to manage financial and market irregularities including debt default and regulatory non-compliance.

State and non-state actors have

played important roles in the design and implementation of China's social credit system. They associate the need to address financial misbehaviours and China's 'trust' crisis with the post-Mao disintegration of the socialist moral order. But what began as a financial regulatory tool is now being applied to broader moral-legal dimensions. This can be seen in pilot programs conducted by local governments—in Suining in 2010 and Rongcheng in 2013—and by private companies such as Alibaba's 2015 Sesame Credit scoring system.

In 2014, the State Council released its *Planning Outline for the Construction of a Social Credit System (2014–2020)*, the culmination of a decade of joint research, conferencing and consultations. The policy document calls on government agencies, business entities, social organisations and individuals to improve 'trustworthiness', often expressed as *chengxin* (integrity) or *xinyong* (creditworthiness). The social credit system mostly covers financial creditworthiness (*zhengxin*) and social creditworthiness (*shehui xinyong*).

The social credit system at the national level refers to the *zhengxin* credit rating which is authorised by the China Credit Bureau of the

People's Bank of China and supported by endorsed personal credit agencies, Baihang Credit and Pudao Credit. *Zhengxin* credit rating combines data from public and private online sources to provide a searchable database of companies and rate them for regulatory compliance. It is also used as a law enforcement mechanism, notably to blacklist legal persons of companies and individuals in debt default. Those on the blacklist face travel restrictions, reduced employment and promotion opportunities, public shaming and even collateral damage to immediate family members until they comply with court orders. The social credit system as *zhengxin* is still largely applied to the financial and corporate

sectors and is broadly comparable to other credit rating systems in the West.

The social credit system as *xinyong* is more controversial because of its experimental intent to govern the social and moral spheres. Confucian ideas of moral ethics and collective mentality are drawn on to evaluate individual behaviours across administrative levels. This is seen in the local pilot projects that have used points-based systems to steer public behaviour towards China's core socialist values.

Local officials see the social credit system as a tool of moral education and a solution for disciplining unacceptable social behaviours, such as refusing to vacate reserved seats

Viewing the social credit system as method of government evokes both its historical origins and experimental nature in China's use of information technology in social and economic governance.

PICTURE: JASON LEE / REUTERS



A man walks past the headquarters of the People's Bank of China (Beijing, 2020).

The social credit system will continue to follow a dual-track system and be implemented under existing administrative and bureaucratic structures ...

on public transport and failing to show filial piety to elderly parents. *Xinyong* points are also deducted as an additional warning for minor infractions that have already incurred formal fines and punishment. Examples include violating traffic rules in Rongcheng or failing to comply with garbage sorting rules in Hangzhou.

The social credit system as *xinyong* is a patchwork of systems and practices to steer and correct behaviour, enforce rules set by the government and test the boundaries of behavioural manipulation and public opinion. Instead of a one-size-fits-all solution, the Chinese government has encouraged an experimental approach to implementing the social credit system. Incentives—not punishment—encourage good behaviours and compliance. Local governments are tasked with using more nuanced evaluative criteria and downgrading harsh or controversial punishments on residents for minor infringements, particularly those that fall within the moral domain.

Local experiments with the social credit system vary across cities

and regions. The system's vague and flexible legal-moral framework results in uneven implementation. As participation in the social credit system is voluntary, the rates of citizen awareness or buy-in across regions are low. But individuals working for government agencies and public institutions, such as schools and hospitals, are pressured to participate in the social credit system as part of their performance management and promotion requirements.

THERE has been a subtle change in people's perception of the system during the COVID-19 pandemic. Discussions about the boundaries of the social credit system have surfaced, particularly concerning its misappropriation by local authorities as the panacea or catch-all for all social conduct.

Though the COVID-19 pandemic has delayed the establishment of the social credit system nationwide, the system has been repurposed in response to the challenges of pandemic control, illustrating the strategic ambiguity in its design and malleability in application. In November 2022 a new draft social credit law was released to address problems of vagueness and fragmentation and to guide future implementation. Like the social credit system, the draft law is a patchwork of existing policies and regulations that prioritise unification rather than clarification.

Viewing the social credit system as method of government evokes both its historical origins and experimental nature in China's use of information technology in social and economic governance. These dual dimensions have characterised China's socialist enterprise, which can be expressed by the axioms 'crossing the river by

feeling the stones' (Deng Xiaoping) and 'top-down coordination' (Xi Jinping). The implementation of the social credit system, which attempts to balance the rule of law with the rule of morality, is a symptom of what has been called China's fragmented authoritarianism.

The social credit system will continue to follow a dual-track system and be implemented under existing administrative and bureaucratic structures: the quasi-federal *tiao-kuai* institution, the community grid management system and neighbourhood monitoring. Reading the social credit system as a singular authoritarian entity, rather than as a piecemeal collection of actions that China's leaders are trying to make smarter, also denies the narratives of individuals, families and communities—the very people actually experiencing it.

Taking the social credit system as method evokes its historical authenticity and experimental nature. It emerges as one of the most evocative legacies in the mentality of governance in contemporary China. **EAFAQ**

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Gender policies after zero-COVID

CHEN CHEN

IN NOVEMBER 2022 a female undergraduate stood outside a cafeteria at Tsinghua University in Beijing with a blank sheet of paper—a symbol of protest against censorship and control. Tsinghua, which is renowned for churning out future Chinese Communist Party (CCP) leaders and even has an Institute for Xi Jinping Thought, is one of the last places where one would expect a zero-COVID protest.

As the student stood there, classmates began to join her. In the first half hour, all were girls. Interviewed following the protests, she recalled ‘I thought it would just be me, but then everyone else showed up.’ The protest, which would grow into a crowd and make global headlines, was part of a pattern—many urban zero-COVID protests around China were led by and largely made up of women.

Studies on gender and social justice have found that ‘women students are far more likely to identify inequality and engage in actions to achieve social justice.’ Male students at Tsinghua, who benefit from the patriarchal status quo, are less likely to voice discontent and risk jeopardising their privilege. The ratio of male to female students at Tsinghua is 2:1, making the absence of men in the first half hour of the zero-COVID protest at Tsinghua even starker.

Among the urban middle and upper class in Beijing and other cities around China, most women grow up with far greater access to education than their mothers and grandmothers. This is in part due to the one-child policy where a family’s resources have been funnelled into an only child and many urban families had only one girl. These women make up a class of people who are privileged enough to have access to uncensored information and who dare to protest government policies but are also oppressed enough in their career and personal lives to empathise with those suffering from zero-COVID policies.

The highest levels of government are themselves backsliding on gender equity. In 2022 Chinese President Xi Jinping named a 25-person Politburo without a single female member, the first time that it has been all-male in 25 years. The message was clear: women hold up none of this elite, powerful sky. In 2012, the year Xi came into power, China ranked 69 in the World Economic Forum’s Global Gender Gap Index. In 2022 it was ranked 102 out of 146 countries.

COVID-19 lockdowns in China disproportionately burdened women, who are still expected to bear primary responsibility for caring for children and the elderly and who also faced the risk of being locked at home with

abusive partners. For all of China’s economic leaps and geopolitical bounds, women continue to suffer from inequality and gender-based violence.

In September 2022 a young woman in Tangshan rejected a man’s advances. She and her three friends were then brutally beaten by the man and 27 others. In response to the surveillance footage of this incident going viral, Chinese social media giant Weibo released a zero-tolerance policy against comments that ‘incite gender conflict’—a euphemism for ‘discussing women’s rights’ in Party-speak.

A hospital in Xi’an cited COVID-19 protocols in turning away a pregnant woman, who was left outside bleeding on a plastic stool until she lost her baby. In Hohhot, a woman died

The government needs to direct energy toward undoing institutional patriarchal foundations.

by suicide despite her daughter's desperate pleas that zero-COVID personnel unlock her door and assist her. The Internet Culture Association stated that the suicide was a betrayal of 'filial piety and motherly duties.'

The government, which seems intent on reviving the country's fertility rate to forestall a demographic crisis compounded by zero-COVID, does little to address the patriarchal foundation of these issues. Its short-sighted legislation often makes matters worse. For example, when in 2021 lawmakers mandated a 30-day waiting period to decrease divorce rates, they made leaving abusive marriages harder as marriage rates continued to decline.

As China's population shrinks for the first time in 60 years, women are

expected to take on the bulk of care for an ageing society, putting greater strain on their participation in the workforce and further reducing birth rates. China's birth rate dropped from 1.8 in 2012 to an estimated 1.2 in 2022. China has ended up with a lower birth rate than when the one-child policy was in place.

The real roots of plummeting birth rates are gender inequality, widening gender pay gaps and worsening gender bias and discrimination in the workforce. Addressing this issue will require China to recognise the benefits of women's gaining economic freedom and educational opportunities rather than treating them as the problem.

The early days of the CCP were marked by great strides in women's

rights in China and zero-COVID policies have shown that the Chinese government can change course quite quickly when the commitment is there. The government needs to direct energy towards undoing institutional patriarchal foundations. This would lift women to realising their full potential—instead of pushing them out, devaluing them or restricting them. Bringing gender equality back to the forefront would pay homage to the Party's roots—the remarkably feminist May Fourth Movement of 1919 which paved the way for the modern CCP.

Women at Tsinghua don't always raise their voices about gender inequality, but they are not blind to national policies as they make personal reproductive decisions that will shape

PICTURE: THOMAS PETER / REUTERS



People gather for a vigil and hold white sheets of paper to protest zero-COVID policy at a commemoration for the victims of a fire in Urumqi (Beijing, 2022).

the future of the country. The young woman who took the first stand in front of the cafeteria—politely and quietly, between two entrances—is a reminder that when it comes to defending a free and just society, feminism and gender equality are now at the front lines. In her own words,

‘The more educated women in China become, the narrower the line that they must walk and the more confining their socioeconomic status.’

In a country where debate and actions that challenge the status quo are deemed too divisive, to do nothing and say nothing has begun to say

everything. And from the beginning of zero-COVID to its abrupt end, women in China have spoken. [EAFQ](#)

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HONG KONG'S ECONOMY

Signs of life amid political stasis

JOSEPH YU-SHEK CHENG

AT THE beginning of 2023 Hong Kong followed mainland China as it dramatically relaxed COVID-19 related travel restrictions. This considerably improved the territory's economic mood. The tourism industry and retail trade are expected to be immediate beneficiaries of the change.

The Hang Seng Index—an indicator of Hong Kong's market performance—stayed above the 21,500 mark in the week before the Chinese New Year, a substantial rebound from its low of below 15,000 in 2022. Even the real estate market promised a little optimism, anticipating buyers from mainland China. Government statistics show that Hong Kong's real GDP contracted by 3.5 per cent in 2022, and in January 2023 a Bloomberg survey predicted a growth rate of 3.3

per cent in 2023.

There is still concern that COVID-19 will continue to spread in mainland China and Hong Kong because of the relaxation of social restrictions. The business community is weighed by the danger of a global economic recession in 2023. Talent outflow also remains a worry. The government admitted that 2214 civil servants resigned in the first half of the 2022–23 financial year, compared with 3732 resignations—2.1 per cent of the civil service workforce—in the 2021–22 financial year.

Despite attractive remuneration in the police force, there were still 5706 vacant positions in 2021–22, a rise of 8.5 per cent from the previous year. Many schools complained about a shortage of teachers because

of emigration. The Chief Executive offered initiatives to attract external talents in his 2022 policy address.

Hong Kong Chief Executive John Lee's administration team is expected to remain stable. On the other hand, the Hong Kong and Macau Affairs Office of the State Council in Beijing is expected to have new administrators appointed by the Chinese central government. They will be announced at China's National People's Congress in March 2023.

Recent statements by the Lee administration and Beijing officials indicate that existing policy programs will be maintained. There may be less emphasis on political struggles and more on economic development. Top Hong Kong government officials have plans to travel more and strengthen

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publicity work for the territory in 2023 to attract talent and investors. In February 2023 the Chief Executive visited Saudi Arabia and the United Arab Emirates.

Zheng Yanxiong, former director of the Office for Safeguarding National Security of the Hong Kong Special Administrative Region, was promoted to Director of the Hong Kong Liaison Office in January 2023. In March 2023 there will also be new leaders for the Party's coordination group for Hong Kong and Macau affairs. The Hong Kong community has followed these developments closely because of their potential impact on the territory and has noted the promotions of security personnel within Hong Kong's government.

WHILE a considerable economic rebound is expected in 2023, there are serious challenges for the medium- to long-term economic development of the territory. Given

the significance of the National Security Law and its impact on both domestic and foreign investment, especially on young professionals, the vitality of the economy and society is under watch. The recent failure in auctioning government lands does not bode well. A clearer answer is likely to emerge of the next couple of years.

As expected, the Hong Kong Legislative Council—elected in December 2021—has not fulfilled its important function of maintaining checks and balances on executive government. Serious debate and sharp questioning of government officials have been rare. The pro-establishment media outlets do not report on the Council's deliberations often, as they do not interest the public. Unlike under previous councils, official records of Legislative Council panel meetings now omit the names of the legislators who made statements.

Hong Kong's pro-democracy political parties naturally have no plans to re-engage in electoral activities. In December 2022 the Civic Party decided to wind up its operations. Major independent civil society organisations have not been able to resume their activities. Online media outlets, though, have remained active as most popular commentators have departed Hong Kong and continue their activities in the United Kingdom, the United States and Taiwan. The diasporas have shown their commitment, organisational competence and mobilisation power. They are expected to continue to grow and maintain their advocacy and lobbying work in Western countries.

Two important court cases have attracted public attention as they have become test cases on the implementation of the 2020 *Law of the People's Republic of China on Safeguarding National*

Security in the Hong Kong Special Administrative Region. The results will have a significant impact on the independence of the judiciary and the pro-democracy movement.

Jailed media mogul Jimmy Lai—founder of the pro-democracy media outlet *Apple Daily*—faces further charges of sedition and collusion with foreign powers under the National Security Law. His legal team suggested that overseas lawyers should be employed to defend him. This request was referred to the Standing Committee of China's National People's Congress for a decision in December 2022. It was eventually decided that the choice be made by the Hong Kong Chief Executive. Formal court proceedings are set to begin in September 2023.

The case against 47 pro-democracy activists accused of organising the 2020 unofficial primary election has now gone to court, with the defendants charged for their alleged

While the economy will likely improve in 2023, the people of Hong Kong are pessimistic about the implementation of the National Security Law and its restrictions on the freedoms they used to enjoy.

subversion of Hong Kong's National Security Law. The trial began in early February 2023 and has attracted considerable international attention.

The Hong Kong government will fund newly established District Services and Community Care Teams to 'provide caring services' at the local level for the city's 18 districts, starting with two districts in 2023. There are concerns that the government may attempt to monitor people at the grassroots level through these teams, similar to the model of public security volunteers used in mainland China. The service may also mean that district

councillors' providing local services face unnecessary competition.

While the economy will likely improve in 2023, the people of Hong Kong are pessimistic about the implementation of the National Security Law and its restrictions on the freedoms they used to enjoy. The territory seems to closely follow the policy trends of mainland China now—as in the wake of the massive demonstrations in July 2003, when Chinese authorities considered that economic prosperity would ensure political stability in the territory. **EAFO**

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PICTURE: TYRONE SIU / REUTERS



Hong Kong's sole Chief Executive candidate John Lee arrives at the polling station during the Chief Executive election (Hong Kong, 2022).



Newspapers report on the visit of US House of Representatives Speaker Nancy Pelosi to Taiwan and live-fire drills and military exercises conducted by the People's Liberation Army in regions surrounding Taiwan (Beijing, August 2022).

Strategic competition casts doubt on One China policy

YUQUN SHAO

PESSIMISM surrounds the future of China–US relations and the possibility of conflict between the two nuclear powers. The Taiwan Strait has become the most likely flashpoint for conflict amid US strategic competition with China and growing disagreement over the Taiwan question.

Though the United States' One China policy is different from China's One China principle, there is consensus between the two powers that 'both the Chinese mainland and Taiwan belong to one China' and that the United States does not support 'Taiwan independence' or 'one China,

one Taiwan'. But the Chinese strategic community is losing confidence in US policy and is anxious that China–US relations will be shaken by the erosion of this political foundation.

To further complicate matters, Taiwan's position on cross-Strait political relations is unacceptable on

the Chinese mainland, where Taiwan is seen as promoting a 'one China, one Taiwan' policy. For China, the US engagement of Taiwan for competitive purposes is effectively viewed as support for a 'one China, one Taiwan' policy.

An important part of US President Joe Biden's strategy centres on competition for geostrategic influence. In December 2021, US Assistant Secretary of Defence Ely Ratner testified before Congress that 'Taiwan is located at a critical node within the first island chain ... that is critical to the defence of vital US interests in the Indo-Pacific'.

His testimony sparked widespread debate in Chinese and US policy circles, with many Chinese scholars arguing that the Biden administration may have violated the US One China policy by the perception of Taiwan as a strategic asset of the United States. The US government has denied that Ratner's statements represented any change in its policy.

After the outbreak of the Russia–Ukraine conflict, the Biden administration and the US strategic community believes that the United States has greater reason to strengthen its 'unofficial relationship' with Taiwan, especially its military relationship. Since the Biden administration has failed to deter Russia, it cannot make the same mistake in the Taiwan Strait. The United States believes it must increase deterrence to prevent China from invading Taiwan and that the Chinese mainland has a timeline for resolving the Taiwan question.

IN CHINA'S view, it is the Taiwanese authorities that are changing the status quo in the Taiwan Strait with the support of the United States. China's military operations in the Taiwan Strait are designed to deter

such changes. Beijing has vigorously promoted cross-Strait integration and development in recent years and has made Fujian Province—the nearest mainland province to Taiwan—a demonstration zone for this objective. Some argue that if China was preparing for conflict, it would not be promoting economic development in Fujian. Nonetheless, *the National Defense Authorization Act for Fiscal Year 2022* significantly increased US military spending on Taiwan.

China feels that US deterrence in the name of 'strategic ambiguity' is increasing, while US assurances that it will not support a unilateral change of the status quo by Taiwan are becoming less credible. Some in the US strategic community believe that 'strategic ambiguity' should be replaced with 'strategic clarity'. This is reinforcing China's conviction that the United States will attempt to keep Taiwan separate from the Chinese mainland to prevent China's geostrategic influence from overtaking that of the United States.

Taiwan has an important role in the United States' strategic competition with China in the domains of critical technology and ideology. In October 2021 the Biden administration launched extensive export controls on computer chips to China, while attempting to create a 'democratic semiconductor supply chain' that included Taiwan. For China, this policy has two implications. It means that the United States will prevent China from developing into a first-class power. It also blurs the nature of the Taiwan question by including Taiwan in the realm of US–China ideological competition.

Recent leadership elections for the ruling Democratic Progressive Party ahead of Taiwan's 2024 presidential election, a looming 2024 US

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presidential election and a possible visit to Taiwan by US House Speaker Kevin McCarthy have elevated uncertainty around China–US and cross-Strait relations. Against this backdrop there is less room to seek common ground while preserving differences. The February 2023 'balloon incident' and the subsequent postponement of US Secretary of State Antony Blinken's scheduled trip to Beijing reveals that current crisis prevention and management mechanisms are insufficient when the mutual trust deficit is so large.

Given the importance of the Taiwan question, China and the United States should conduct a strategic stability dialogue and a crisis prevention and management dialogue. If the politics of initiating such official dialogues prove difficult, both nations should actively promote 'second track' dialogues to eliminate misunderstanding, avoid miscalculations and better inform government decision-making.

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