The Chinese Economy in 2022: Seeking Progress While Maintaining Stability—Comments on YANG Weimin

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Introduction

- Mr. FANG Jin, Prof. YANG Weimin, Prof. CAI Fang, Prof. Stephen Roach, Prof. ZHU Min and Prof. Bert Hofman, Ladies and Gentlemen: Good evening and Good morning, wherever you are. I am honoured to serve as a discussant on this panel.
- Prof. YANG has offered an important insight on the setting of the Chinese target rate of growth at 5.5% for 2022, despite a rate of growth of 8.1% in 2021. This is because of the multiple objectives that China has with respect to the development of its economy—the emphasis is no longer on the quantity of growth, but on the quality of growth.

The Multiple Objectives

- The multiple objectives are:
  - Ecological and environmental protection (blue skies, green mountains and turquoise waters; total carbon emission and total energy consumed per unit GDP; carbon peaking by 2030 and carbon-neutral by 2060—a different metric (perhaps a green GDP?) is needed.
  - National security, including economic, financial, energy, food, and supply chain security
  - Common prosperity (perfecting the market system, restraining monopolistic tendencies, supporting small and medium enterprises (e.g. the establishment of the new Beijing Stock Exchange), which are predominantly private, and preventing the emergence of a plutocracy, elimination of extreme poverty in remote locations may result in nominally negative net benefits)
  - The maintenance of a dynamic balance among the various objectives

Potential Sources of Disruptions of Stability

- There are many potential sources of disruption. We consider only three:
  - The COVID-19 epidemic. It has so far been very well managed by the Chinese Government. The numbers of infections and number of deaths per capita are the lowest in the world. There were recent surges in the number of cases in both Shanghai and Shenzhen, but they were quickly contained.
  - The Russia-Ukraine conflict.
  - The China-U.S. strategic competition.
- Others include the possibility of another epidemic, cyber-attacks, a war in space, etc.

The Economic Impacts of the Russia-Ukraine Conflict

- The Russia-Ukraine conflict and the sanctions that it has caused is effectively a massive economic de-globalisation, which will result in lower GDPs for everyone.
- However, in the aggregate, both the demand and the supply of both oil and gas in the world should remain approximately the same, so that with an appropriate re-matching of demands and supplies, the prices should remain approximately the same, on the condition that the logistical problems can be solved.
- Basically, the European Union will buy more from the U.S. and less from Russia, and China and India will buy more from Russia, and perhaps less from elsewhere.
- Continued diversification of the sources of its energy supply will be the Chinese policy.

The Economic Impacts of the Russia-Ukraine Conflict

- The financial sanctions imposed by U. S. and European countries, including even Switzerland, on Russia and its enterprises and individuals are likely to undermine long-term confidence of foreign depositors in the potential safety of assets kept in these countries. We may have indeed reached a turning point on the international monetary system. The US$ will gradually lose its status as a "safe haven" currency; and more active diversification by every major asset owner, including Chinese asset owners, in both currencies and geographies will be the result.
- It is likely that more and more international transactions may be cleared and settled in the own currencies of transacting partner countries, reducing thereby both transaction costs and currency risks, e.g., between Russia and India, China and Indonesia, etc. The wider use of own currencies for international settlement is more likely than the use of gold. This will effectively reduce the seigneurage enjoyed by any particular currency such as the U.S. Dollar as an international medium of exchange and the power of international clearing and settlement organisations such as SWIFT.

The Economic Impacts of the Russia-Ukraine Conflict

- The long-term trend of the exchange rate of the U. S. Dollar is likely to be downwards relative to other major currencies such as the Renminbi as the world reallocates its assets among currencies and geographies.
- However, the U.S. Dollar will probably continue to be the dominant international medium of exchange even though alternative systems of international clearing and settlement, such as China's CIPS, will rise by necessity.
- Personally, I do not believe it is in China's interests to have the RMB become an international medium of exchange like the US$. But China and its trading partner countries do need a viable multi-currency alternative to SWIFT for the settlement of their international transactions.

The China-U.S. Strategic Competition

- The China-U.S. strategic competition is likely to be the new normal in the coming years. It is one of the very few ideas that are broadly supported by both the Democratic and the Republican parties in the U.S.
- De-coupling of the two economies to a certain extent is inevitable. While in 2008 we experienced the de-coupling of demand, beginning in 2020 we experienced the de-coupling of both demand and supply.
- The artificial de-coupling of the global supply chains will cause some transitional problems in both economies. It also encourages the search for a second source. But once a second source is developed or found, export controls are no longer useful, and will likely be discontinued.
- A second source can also reduce monopolistic rents, and the resulting "redundancy" can enhance global resiliency, so that not everything will fail at the same time. It is really a form of insurance.

The China-U.S. Strategic Competition

- It is possible that there may be some easing of U.S. tariffs against imports of Chinese goods because of the rising rate of inflation in the U.S. However, sanctions and export controls against China and Chinese enterprises and individuals are unlikely to ease up significantly in the near term.
- China is not a threat to the existence and continued prosperity of the U.S., but it may be perceived as a threat to the maintenance and continued sustainability of U.S. global hegemony.
- A hot war between China and the U.S. is, hopefully, unlikely because such a war has no winners, only losers. If even the former Soviet Union and the U.S. did not go to war in the last Century, there is little reason for China and the U.S. to go to war. However, in order to maintain peace, China must have a minimally effective deterrent against a possible first strike at all times.
- It is somewhat more likely that the U.S. will try to provoke a proxy war in the Taiwan Straits.

Concluding Remarks

- The Chinese Government has set a modest goal for its economy in 2022: a rate of growth of about 5.5%. On the basis of China's economic fundamentals, this should be quite feasible. The IMF and World Bank projected rates of growth are 4.8% and 5.1% respectively.
- The long-term prospects of the Chinese economy are on the whole excellent. While it is true that as the real GDP per capita of an economy rises, its real rate of growth will fall, China's per capita real GDP of slightly more than US$10,000 is still within the range of GDP per capita at which Japanese and U.S. rates of growth were higher than 6% on average. China should be able to achieve an average annual rate of growth of approximately 6% over the next five years.
- Moreover, the Chinese economy will be domestic demand-driven rather than export-driven. Technical progress, or growth in total factor productivity, will also become an important source of Chinese economic growth.
- It is essential for the Chinese economy to maintain openness. Self-reliance should not be equated to total self-sufficiency. We should always remember it is a dual-circulation and not a mono-circulation development strategy.