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政策研究所

2023

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Recommended Citation

Ho, L. S., & Hung, W. L. (2023). From more growth to better growth : the challenge and the way out (PSEI/CERP Working Paper Series). Retrieved from <https://commons.ln.edu.hk/pseiwip/3>

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From More Growth to Better Growth: The Challenge and the Way Out

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1. Introduction

The Chinese economy's meteoric rise has caused alarm in the West. An article published online on the CNN website states, "China's rapid technological advances have also made it a strategic threat to the United States and its allies. It's steadily pushing American rivals out of long-held leadership positions in sectors ranging from 5G technology to artificial intelligence."³ This, in truth, is the nature of the "threat" perceived by politicians in the West. It was also pointed out that "Until recently, some economists were predicting that China would become the world's biggest economy by 2030, unseating the United States."

⁴ If China is to continue to grow at three times the rate of the US on average, it will leave the US in the dust before long. This is basic to the fear that worries American politicians. Another strand of the fear, of course, is the apparent inadequacy of the western model of governance that is billed as democracy. American politicians, unable to address problems at home, turn to a strategy of "divide and rule": dividing the world between the "democratic camp" and the "totalitarian camp", creating fear among their constituents about an external enemy. All the talk about the China threat is in order that voters will turn their attention away from problems at home.

The CNN story, interestingly, did expose some fundamental problems within China. Citing Neil Thomas, a senior analyst for China and Northeast Asia at Eurasia Group, it correctly pointed out that the developmental path of China "had reached a point of

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³ He, Laura. "China's Economy Is 'in Deep Trouble' as XI Heads for next Decade in Power." CNN, October 16, 2022. <https://edition.cnn.com/2022/10/14/economy/china-party-congress-economy-trouble-xi-intl-hnk/index.html>.

⁴ Ibid.

significantly diminishing returns and was increasing economic inequality, financial debt, and environmental damage.”⁵ Since Xi Jinping took over the helm over the Communist Party of China and as President of the country, he began to address all the concerns that had unfolded prior to his rule. This change of developmental path, however, is not entirely to his credit. His predecessor, Hu Jintao, in particular, was also aware of the need for China to change course. It was Hu who introduced the “scientific outlook of development” that would squarely address sustainability issues as well as the need for more balanced development that fit in with the laws of nature and the laws of the market.

It was Hu Jintao who announced that China was going to launch a 10-year poverty eradication campaign in 2011. His campaign to eradicate extreme poverty is not merely aimed at lifting the incomes of people above the bare minimum that is defined to mark extreme poverty. He announced that China would commit to achieving two bold goals, called “two assurances and three guarantees.”⁶ This means that by 2020, the rural poor will be assured of adequate food and clothing, and guaranteed access to compulsory education, basic medical services and safe housing. In January 2021 the Chinese Government under the presidency of Xi Jinping announced that these had finally been achieved. What is promised in one generation of leaders is accomplished in the next, unlike in the United States, where a newly elected president may overturn what has been initiated by the former president. In contrast, the transition of leadership does not affect the continuity of policy in China.

Peaceful transition of the leadership is something that only the ballot box democracy is supposed to make possible. Readers from the West are likely to be surprised when someone writes about transition of leadership in China, given that there is no political party rotation. Many commentators simplistically jump from China’s unitary leadership and single party political landscape to the conclusion that meaningful transition of the leadership does not exist in China. The fact, however, is that transition of the leadership in China does take

⁵ He, Laura. “China’s Economy Is ‘in Deep Trouble’ as XI Heads for next Decade in Power.” CNN, October 16, 2022. <https://edition.cnn.com/2022/10/14/economy/china-party-congress-economy-trouble-xi-intl-hnk/index.html>.

⁶ “Kaselehlle Press Publishes Ambassador Huang Zheng’s Article Elaborating on Chinese government’s White Paper: Poverty Alleviation: China’s Experience and Contribution”. May 17, 2021, https://www.fmprc.gov.cn/eng/wjb_663304/zwjg_665342/zwbd_665378/202105/t20210519_9169671.html

place regularly and has been peaceful for decades. The style of leadership does change from one generation of leaders to another. Xi Jinping's style clearly is different from that of Hu Jintao; Hu Jintao's leadership style is also clearly different from that of Jiang Zemin. But the heart to serve the country remains the same. As experience is gained and lessons are learnt, it is expected that the Chinese leadership will learn and policy will evolve for the better, even if it stumbles sometimes.

Just as Xi Jinping delivered what Hu Jintao had promised on the poverty eradication front, so did he work on and delivered what Hu had promised on the environmental front. As China Dialogue noted: there had been “years of neglect,” and in 2007 Hu Jintao, while “speaking at the opening of a study session for provincial and ministry-level cadres, spoke at unusual length about the ‘ecological civilisation’, a concept he first put forward in 2007.”⁷

It must be admitted that the first three decades of strong economic growth had been achieved at significant environmental and social costs. “China experienced its highest annual emissions of sulfur dioxide (SO₂) in 2007, nitrogen oxides (NO_x) in 2012, and primary fine particulate matter (PM_{2.5}) in 2006, at respectively 2.5, 4.6, and 1.5 times the corresponding values for 1990 in China. In 2017, approximately 70% of all 338 municipal cities in China still did not meet the National Ambient Air Quality Standard (NAAQS), with non-attainment of PM_{2.5} as the most prominent air pollution problem. China faces the dual pressures of the improvement of national air quality and the mitigation of climate change.”⁸ As late as 2015, Beijing declared a smog declared for the first time a smog “red alert” for three days.⁹ According to Wang Jinnan, the president of the Ministry of Ecology and Environment's Environmental Planning Institute, the cost of China's pollution damage roughly quadrupled from 2004–13, and has accounted for up to 3% of annual GDP over

⁷ Si, Meng. “An Insight into the Green Vocabulary of the Chinese Communist Party.” China Dialogue, May 14, 2020. <https://chinadialogue.net/en/pollution/5339-an-insight-into-the-green-vocabulary-of-the-chinese-communist-party/>.

⁸ Lu, Xi, Shaojun Zhang, Jia Xing, Yunjie Wang, Wenhui Chen, Dian Ding, Ye Wu, Shuxiao Wang, Lei Duan, and Jiming Hao. “Progress of Air Pollution Control in China and Its Challenges and Opportunities in the Ecological Civilization Era.” *Engineering* 6, no. 12 (2020): 1423–31. <https://doi.org/10.1016/j.eng.2020.03.014>.

⁹ “Beijing Smog: Images before and After.” *BBC News*. December 7, 2015. <https://www.bbc.com/news/world-asia-china-35028483>.

the past decade.¹⁰ Writing in *Lancet*, Chen Zhu of Chinese Medical Association and Chinese Academy of Sciences estimated that 350,000 to 500,000 died prematurely due to particulates in cities.¹¹ Before he stepped down, in 2012 Hu Jintao declared at the 18th National Congress that environment must be a priority. He devoted an entire section of his speech to “environmental civilization” - a term he first coined in his address to the 17th party congress five years ago to describe his vision of growth and conservation.¹²

After Xi Jinping became President in March 2013, he soon led a major campaign to improve the environment, particularly air quality and water quality. Early 2022, it was reported that “climate advocates are hailing “extraordinary progress” in Beijing’s fight against air pollution.” For the first time ever, Beijing’s air quality targets were achieved fully in 2021, almost a decade earlier than experts expected.¹³ This achievement did not come fortuitously, but with massive input of labor and capital and notable slowdown in economic growth. China’s leaders opted for quality growth rather than the quantity of growth.

2. The Effort to Steer the Economy to High Quality Growth

Better growth requires sacrifice, including unavoidably that of some vested interests who would naturally oppose or at least be inimical to the policies that directly or indirectly led to personal economic losses. The key question is whether the sacrifice is worth it. Moreover, quality growth is multidimensional: it is not just about environment and ecology, it is also about eradicating extreme poverty and achieving common prosperity; health, education, safety, fighting corruption, as well as reducing regional disparity. Some evidence for more balanced growth in China can be presented: in 2020, a year of very weak

¹⁰ Wang, Jinnan. “Revive China’s Green GDP Programme.” *Nature* 534, no. 7605 (2016): 37–37.

<https://doi.org/10.1038/534037b>.

¹¹ Chen, Zhu, Jin-Nan Wang, Guo-Xia Ma, and Yan-Shen Zhang. “China Tackles the Health Effects of Air Pollution.” *The Lancet* 382, no. 9909 (2013): 1959–60. [https://doi.org/10.1016/s0140-6736\(13\)62064-4](https://doi.org/10.1016/s0140-6736(13)62064-4).

¹² Li, Jing. “Hu Jintao Tells Congress That Environment Must Be a Priority.” *South China Morning Post*, November 8, 2012. <https://www.scmp.com/news/china/article/1078152/hu-jintao-tells-congress-environment-must-be-priority>.

¹³ “‘Extraordinary Progress’ - Beijing Meets Air Pollution Goals after Coal Crackdown.” *Climate Home News*, January 5, 2022. <https://www.climatechangenews.com/2022/01/04/extraordinary-progress-beijing-meets-air-pollution-goals-coal-crackdown>.

growth, of the 20 provinces that outperformed the national economic growth rate of 2.3 percent, many were relatively backward provinces or autonomous regions. The list of 20 includes Tibet, Xinjiang, Guizhou, Yunnan, Hebei, Chongqing, Gansu, Ningxia, Sichuan, Guangxi, Jiangsu, Zhejiang, Shandong, Hainan, Fujian, Anhui, Hunan, Jiangxi, Shanxi and Jilin. In the first half of 2022, the top five provinces in GDP growth rate were Ningxia (5.3%), Shanxi (5.2%), Xinjiang (4.9%), Jiangxi (4.9%), and Tibet (4.8%), in that order.¹⁴

There is little doubt that in the fight for better growth, China sometimes stumbles and makes mistakes, meaning that the sacrifice could be bigger than the social gains. In a sense this is unavoidable. With humility to learn from mistakes, however, China will correct these mistakes. In 2018, the “scientific outlook on development” that was proposed by Hu Jintao was enshrined and became part of the Chinese Constitution. This implies that China’s development path should not be dictated by dogmas and must be based on the scientific and objective laws of nature. Mistakes is part of the cost of learning. The biggest mistake is to refuse to admit mistakes and to correct them.

One big mistake in the past has been the excessive emphasis on GDP growth. The limits to using GDP growth as an indicator of economic success are now well understood. For one thing, GDP growth completely ignores the loss of lives and erosion of social values just because these things do not carry a price tag. Crimes could boost GDP because people spend more on security systems and insurance against losses due to crimes yet crimes obviously undermine national wellbeing. There have been a lot of talk about introducing the concept of green GDP over the years. Green GDP would deduct the costs due to environmental damage, and include the benefits of improved health, among other things. Closely related to Green GDP is a new metric called the Genuine Progress Indicator, which starts with personal consumption spending, and adds positives and subtracts negatives resulting from such things as volunteer work, crimes, and pollution.¹⁵ It proponents had

¹⁴ “China’s GDP across Provinces in H1 2022: Top Performers.” *China Briefing News*, August 1, 2022. <https://www.china-briefing.com/news/chinas-gdp-across-provinces-in-h1-2022/>.

¹⁵ Hayes, Adam. “Genuine Progress Indicator (GPI): Definition, Formula, vs. GDP.” Investopedia. Investopedia, October 30, 2022. <https://www.investopedia.com/terms/g/gpi.asp>; See also Clifford Cobb, Ted Halstead, “If the GDP Is up, Why Is America down?” *The Atlantic*, November 12, 2015. <https://www.theatlantic.com/magazine/archive/1995/10/if-the-gdp-is-up-why-is-america-down/415605/>.

worked out that over the entire period of record the GPI in America has fallen by \$14.41 billion dollars, a 7% decrease.

Xi Jinping is a strategist. Given the sheer size of the country and the differences in natural endowments and even customs from province to province and from county to county, he proposed a “targeted” approach to lift the last person from extreme poverty. He steered China to invest heavily in infrastructure, so that even the remotest county will have access to markets and the use of electricity and adequate water supply. Many well-developed provinces paired up with poorer provinces or autonomous regions, while well-developed cities paired up with poor townships and villages to lend support. Many state-owned enterprises chipped in their effort. Sometimes, even private enterprises were called upon to work with the local governments to achieve identified goals. In January 2021 the Chinese Government under the presidency of Xi Jinping announced that these had been achieved ahead of schedule.

A 1911 policy brief from the Food and Agriculture Organization commended this pairing exercise and described some background to the policy: “This policy brief suggests that innovations focused on standardization, practicability, and operability of east-west pairing-off cooperation can further improve the approach’s impact in reducing persistent poverty in China’s western regions. Begun more than 12 years ago, east-west pairing’s rich experience and results can be further strengthened by creating relevant policies and standards.”¹⁶ The policy brief noted “China’s remarkable achievements in poverty reduction and the tremendous development potential offered by east-west pairing-off cooperation.” Still in the beginning there had been a lack of central government policy on east-west pairing, a lack of institutional and financial commitments, as well as a lack of unified and standardized national guidance documents on cooperation arrangements. Since then these inadequacies have been steadily addressed.

An example of such pairing up ventures is the pairing up of Kizilsu Kyrgyz Autonomous Prefecture, located in the west of the Xinjiang Uygur Autonomous Region, with various provinces in the country that are more advanced in development. According to a report

¹⁶ “Pro-Poor Policy Options: East-West Pairing-off Cooperation for Poverty Reduction in China.” FAO, 2011. <https://www.fao.org/publications/card/zh/c/9e01aefa-b2aa-4d31-9301-5160b2f4140d/>.

from CGTN, the latest round of pairing assistance that started in 2010 “has involved ministries, 19 provinces and municipalities, which are economically advanced, to help all of Xinjiang’s 14 prefectures and cities.” Huge financial commitments were made. For example since 2016, Jiangsu and Jiangxi Provinces have launched 221 projects and allocated 3.86 billion yuan (545 million U.S. dollars) in this endeavour. Kizilsu Kyrgyz Autonomous Prefecture in the west of Xinjiang had a registered impoverished population of 250,962 at the end of 2019. It got 110 projects and 802 million yuan (113 million U.S. dollars). Hangzhou, the city that is the home of Alibaba and many leading high tech firms, began offering pairing assistance in April 2021 and worked with 12 counties in the Tibetan Autonomous Prefecture of Garzê and six counties in the city of Guangyuan in western China’s Sichuan Province. This drive happened after China declared success in eradicating extreme poverty early 2021, suggesting that poverty eradication will continue to be an ongoing effort.¹⁷

To observers, China’s economic growth in recent years has noticeably slowed down. Average growth in each of the decades, the 1980s, 1990s, and the 2000s have all been close to and in the 2000s even exceeded 10% per year. The arithmetic average of GDP growth rates from 2010 to 2019 fell to 7.7 percent. This is like losing a third of the growth which China had been used to. However, this decline is not because China could not grow as fast as before. China opted for quality growth: more balanced growth, more equality, cleaner water bodies, better air quality, more conservation and protection of endangered species, more reforestation, converting desert into arable land, less crimes, better healthcare, more infrastructure development to improve people’s livelihood. Unsustainable development ultimately costs lives, health, extinction of species, and wellbeing. Sustainable development, however, requires sacrifice. This sacrifice includes direct spending to improve the environment and to protect biodiversity, to improve water management, to build infrastructure that connect people and expand markets, to improve work safety and healthcare, to improve community amenities, etc. All this require labor, capital, and land resources. There need not be, however, commensurate increase in GDP. This leads to a

¹⁷ “How Pairing Assistance Is Helping a Remote Part of China Shake off Poverty.” CGTN. Accessed October 21, 2022. <https://news.cgtn.com/news/2020-04-28/How-pairing-assistance-helps-a-remote-part-of-China-shake-off-poverty-Q1Pc1zjeo0/index.html>.

fundamental flaw in methodology when researchers work out Total Factor Productivity growth based on aggregate data. Because the inputs such as labor input and capital input are measured, but the results in output may not show through a higher GDP figure, such TFP measures are extremely misleading.

A recent paper from the World Bank Group referred to TFP slowdown in China, from 2.8% in the decade before the global financial crisis to 0.7% in 2009-2018.¹⁸ But the TFP figures reported are based on aggregate data using the formula:

$$\frac{\Delta Y}{Y} = \frac{\Delta A}{A} + \varepsilon_1 \frac{\Delta K}{K} + \varepsilon_2 \frac{\Delta L}{L}$$

where $\frac{\Delta A}{A}$ is growth of total factor productivity

$\frac{\Delta K}{K}$ is growth of capital

$\frac{\Delta L}{L}$ is growth of labour

while ε_1 and ε_2 are the elasticities of output growth with respect to capital growth and that with respect to labor growth respectively.

Given that GDP is such a flawed indicator that includes only what market values but excludes things that are valuable to society but carry no market value, and estimate of total factor productivity based on aggregate data will grossly understate true productivity. In the decade from 2009 much factor input were ploughed into improving the environment and the livelihoods of people. Although this effort has proved to bear fruit, as is witnessed in the improved air quality and water quality, these positive results are neglected in TFP estimates that rely on the GDP as an indicator of output. Since GDP does not include outputs not transacted through the market no matter how valuable they are, it is not surprising China's economic growth fell below 7 percent for the first time since 1991. This is merely a natural result of the reorientation from rapid growth to quality growth. The

¹⁸ Brandt, Loren, John Litwack, Elitza Mileva, Luhang Wang, Yifan Zhang, and Luan Zhao. "China's Productivity Slowdown and Future Growth Potential." Handle Proxy. World Bank, Washington, DC, June 1, 2020. <http://hdl.handle.net/10986/33993>.

conclusion that “domestic factors and policy choices have contributed to the slowdown” is however correct.¹⁹

This interpretation of the apparent productivity growth slowdown is supported by a recent study using sectoral data. Li and Lv estimated TFP growth of Chinese industrial enterprises from 2007 to 2017 using the National Taxation Survey Database. Under this approach with firm level data, all inputs are inputs for the production of market goods.²⁰ Thus TFP using such data should allow the researchers to better estimate total factor productivity. They found that “the weighted TFP rose from 3.65 in 2007 to 4.69 in 2017, with an average growth rate of 2.58%.” Moreover, they found that while there are differences in industrial TFP among different enterprise sizes, industries, ownership types, export types, and regions, there is an apparent trend for TFP growth to converge. Interestingly, this converging trend corroborates with the result obtained by Brandt which observed that there was a process of SOE catching up to private sector efficiency.²¹ Interestingly, the authors found this process has recently stalled. The timing of this stalling is consistent with the need for SOEs to help in their “political mission” (*zhengzhi renwu*) to help with the new policy priorities identified by the party. Given the reorientation of development path, this “stalling” of catching up to private sector efficiency confirms that this is likely due to a deliberate switch to trade market-valued output for non-market valued policy goals.

3. The Headwinds Facing China Today

China in 2022 is facing challenges not seen in many years. Today China appears to be well positioned as it has modern infrastructure that is the envy of the world. It boasts the world’s largest speed rail network, excellent road network with remarkable bridges and tunnels across the country through intimidating terrains, the world’s best 5G coverage and internet

¹⁹ Brandt, Loren, John Litwack, Elitza Mileva, Luhang Wang, Yifan Zhang, and Luan Zhao. “China's Productivity Slowdown and Future Growth Potential.” Handle Proxy. World Bank, Washington, DC, June 1, 2020. <http://hdl.handle.net/10986/33993>.

²⁰ Li, Zhao, and Bingyang Lv. “Total Factor Productivity of Chinese Industrial Firms: Evidence from 2007 to 2017.” *Applied Economics* 53, no. 60 (2021): 6910–26. <https://doi.org/10.1080/00036846.2021.1954592>.

²¹ Brandt, Loren, John Litwack, Elitza Mileva, Luhang Wang, Yifan Zhang, and Luan Zhao. “China's Productivity Slowdown and Future Growth Potential.” Handle Proxy. World Bank, Washington, DC, June 1, 2020. <http://hdl.handle.net/10986/33993>.

access that extends to remote areas of the country. Life expectancy in China has exceeded that of the United States this year. China's literacy rate, infant mortality, home ownership rate, low crime rate, public hygiene, are all remarkable, and not only beat most if not all other developing countries but also many advanced nations. Yet it is in serious trouble.

Externally, China is facing America's all-out strategy to contain the country's further advance. The United States is not only continuing the trade war that was started by President Trump, but it is doubling down with sanctions and a long "entity list" of companies that are denied "access to American technology." The denials are applicable to suppliers all over the world, including ASML, the Dutch company that has a global monopoly in the supply of EUV lithography systems, cannot sell its machines to China. New US restrictions are preventing US employees of chip-related businesses in China to serve their Chinese clients. As a result of such restrictions, the stock prices of many chipmakers and that of ASML have plummeted. Even TSMC, which is the semiconductor foundry with the largest market share, has seen its stock price lose more than a third of its value this year. Huawei, the top company that the US wants to hit, is now in "survival mode", as its founder forecasts a grim outlook for the world economy over the next decade.

America has been instrumental in igniting the Ukraine-Russia war that started early in 2022. It is inciting China to start a civil war to force Taiwan to reunite with the motherland. It has ganged up with a number of countries in the western world and with Japan to contain China's rise, inventing pretexts like genocide and forced labor in Xinjiang.

With the consecutive federal funds rate raises in recent months to fight inflation, the US dollar had surged to new highs against practically all currencies, the RMB included. The RMB, however, has remained steady against a basket of currencies. As of Feb 14, 2023 the RMB has fallen only 3.3% since 2015 against the "benchmark basket" that includes the USD, the Euro, the RMB, the British Pound, the Japanese Yen, the Canadian dollar, and the Australian dollar.²²

²² Based on the quotations from the World Currency Unit website at Lingnan University <http://wcu.ln.edu.hk/en/quotation.php>

While China continues to attract an inflow of foreign direct investment, which has risen about 20% in USD terms year on year for the first 8 months of 2022 to US\$138.4 billion.²³ At the same time, however, overseas demand for China's good is weakening, given increasing pessimism for the global economic outlook.

Apart from FDI which is a bright spot, government spending on infrastructure remains strong, lending some support to economic growth this year. But domestic private demand is weak. Business investment as well as household consumption are both weak. This is in part a result of the major correction in China's residential development sector. While the government has launched a number of policies to stabilize the market, the number of defaults on debt has grown significantly. In Henan, it was reported that protesters had gathered in front of the Zhengzhou sub-branch of the People's Bank of China asking for help to recover frozen savings held in rural banks.²⁴

The crisis with the real estate sector and banking sector can be traced to the "three red lines policy" that was announced in 2020 and that took effect early 2021. The policy was intended to contain leverage in the sector, which had been thriving for years with debt accumulating at a pace that caused regulators to worry about excessive leverage. The three red lines require that a) developers' debt to asset ratio after deducting advance receipts should be no more than 70%, b) that net debt ratio should be no more than 100%, and c) that the cash to short term debt ratio should be no more than 1.

The imposition of these three rules is a sudden change in the rules of the game that is entirely unanticipated, and hit the cash flows of major developers hard. Without the necessary cash flow, projects cannot be completed, and buyers without the promise of getting the flats that they had bought, refuse to continue with mortgage payments. This would cause serious problems with big lenders to homebuyers. The Central Government tried very hard to contain the spread of the crisis with injection of funds to the banking

²³ Arendse, Huld. "Foreign Investment in China - August 2022 Roundup and Policy Trajectory." *China Briefing News*, October 9, 2022. <https://www.china-briefing.com/news/foreign-investment-in-china-august-2022-round-up/#:~:text=China%20FDI%20up%2020.2%20percent,the%20same%20period%20in%202021.>

²⁴ Li, Vincent. "Protest in China over Frozen Bank Accounts Ends in Violence." *The Guardian*, July 12, 2022. <https://www.theguardian.com/world/2022/jul/11/china-violent-clashes-at-protest-over-frozen-rural-bank-accounts>.

system to revive stalling development projects. Even Evergrande had tried very hard to have its projects completed. But given the magnitude of the problem, and with continuing defaults, it is still not clear that the crisis can be dissipated successfully.

A change in regulations from time to time is not uncommon and is not a problem. But a change in regulations that go against long-held expectations about policy continuity is a problem. In general, regulators should inform market players about the basic principles in the rules of the game. Changes in regulations should not deviate from these basic principles. This is basic to investor confidence. If businesses are left with having to face new regulations from time to time that are not based on long-held principles, they would hesitate to invest over the longer term. Research and development, especially primary research that matter in the long term to “sea change” kind of innovations, have typically long payoff periods.

The recent policy changes since early 2021, with all their good intentions, had rocked business confidence hard. Apart from diffusing the crisis and hoping for a recovery before too long, the government will have to make transparent to all market players about regulatory principles that will not change over the medium to long term. This way business confidence can be restored.

4. The Belt and Road Initiative and China’s Role in Better Growth in the World

China in 2022 managed to grow at 3%. This is of course not an intended trade off of quantity for quality. The hostilities of the West toward China, weak demand from the rest of the world, along with problems at home such as a collapse in confidence and a besieged housing market and strict zero-Covid measures forced China’s actual growth to fall short of target significantly.

President Xi was certainly aware of the rising hostilities of the USA toward China when he became President of China. Joseph Nye wrote in 2011 of China’s “misreading” of Obama’s pivot to Asia as a “supposed US effort to contain it strategically.”²⁵ Some people

²⁵ Nye, Joseph S., and Dan Hitt. “Obama’s Pacific Pivot: By Joseph S. Nye, Jr.” Project Syndicate, July 22, 2021. <https://www.project-syndicate.org/commentary/obama-s-pacific-pivot-2011-12>.

criticized President Xi from deviating from Deng Xiaoping's advice to "hide your strength and bide your time." But as the world transitions into 21st Century China's economic prowess is like an elephant in the room. There is no way to "hide your strength." "Death by China: Confronting the Dragon – A Global Call to Action" by Peter Navarro and Greg Autry was published in 2011 before Xi became president.

The Belt and Road Initiative can be seen to be Xi's signature initiative to help other developing countries to build infrastructure and to embark on stronger, higher quality growth, and at the same time to expand China's market and secure China's access to resources such as energy that China needs. But in retrospect, whether by design or not, the BRI turns out to be an important strategy to counter America's containment policy.

Since the BRI was proposed in 2013, China's trade with and investment in BRI countries have increased sharply. Even in 2022, a year when world trade was severely battered by the Covid pandemic, China's goods trade with countries along the Belt and Road hit another record, reaching 13.8 trillion yuan (US\$2.05 trillion), up 19.4% year on year, 11.7 percentage points higher than China's overall trade growth. China's non-financial direct investment in BRI countries hit 141.05 billion yuan, while direct investment from BRI countries in China rose to 89.15 billion yuan, up 7.7%.²⁶ 2022 also saw the Regional Comprehensive Economic Partnership going into effect in January. Data from the Ministry of Commerce (MOC) shows that China's trade with the other RCEP signatories expanded 7.9 percent year on year to 11.8 trillion yuan (about 1.69 trillion U.S. dollars) in the first 11 months of 2022, accounting for 30.7 percent of China's total foreign trade value.²⁷ Both the RCEP and the BRI certainly had helped China achieve better-than-expected growth of 3% in 2022.

The BRI also has played an important role in the recent rebalancing of growth between western and coastal regions. The western region in the past suffered from its long distance from any sea port. With the launch of the BRI and the construction of key railway links,

²⁶ "China's Trade with BRI Countries Hits Record High." The State Council Information Office of the People's Republic of China, February 3, 2023. http://english.scio.gov.cn/pressroom/2023-02/03/content_85087409.htm.

²⁷ "One Year on, RCEP Bears Fruit for Trade, Industrial Integration." *Xinhua*, January 1, 2023. <https://english.news.cn/20230101/64cd775cbc254080876a1e0a9bfab254/c.html#:~:text=Data%20from%20the%20Ministry%20of,China's%20total%20foreign%20trade%20value>.

the western region has the benefit of proximity and access to markets in Europe, in the Middle East, and even in Africa.

Prashant Yadav and Vinika D. Rao at INSEAD, the well-known Swiss business school, noted that “Not only is Africa the world’s fastest-growing continent, but it is also demographically the youngest. In addition, recent trends suggest its growth is becoming more sustainable and equitable. Starting in the mid-2000s, the extractive industries such as oil and gas began declining as a share of overall FDI for the continent. A new trend of growth led by the service sector and manufacturing has emerged.”²⁸ The BRI is undoubtedly behind this development. Wenjie Chen found that while China’s share of the stock of foreign investment is small, it has been investing aggressively in recent years. Unlike investors from the west who focus their investment in countries with better governance and on resource extraction, China’s investment appears uncorrelated with a measure of rule of law, and more oriented toward manufacturing and services.²⁹ With the establishment of the African Continental Free Trade Area (AfCFTA) in 2021 and the expected concomitant decline of tariffs between African nations and other trade-liberalisation measures, the GDP of most economies on the continent could rise by as much as three percent, according to the UN.³⁰ As of August 2022, China’s official Belt and Road website lists 52 African countries who have signed onto an agreement or understanding with the One Belt One Road initiative. A recent report from the China-Africa Business Council, titled “Chinese Investment in Africa (2022): China-Africa Cooperation from a Supply Chain Perspective,” found that deeper Belt and Road cooperation between China and African countries “will play an important role in building a more integrated African continent as well as connecting Africa to global supply chains.”³¹

The ASEAN has been China’s top trading partner for 13 years and 2023 will certainly be another and the 14th year that this is the case. Since China joined the World Trade

²⁸ Prashant Yadav, Vinika D. Rao. “How Africa Could Astonish the World.” INSEAD Knowledge, August 16, 2022. <https://knowledge.insead.edu/economics-finance/how-africa-could-astonish-world>.

²⁹ Chen, Wenjie, David Dollar, and Heiwai Tang. “Why Is China Investing in Africa? Evidence from the Firm Level.” *The World Bank Economic Review*, 2016. <https://doi.org/10.1093/wber/lhw049>.

³⁰ Prashant Yadav, Vinika D. Rao. “How Africa Could Astonish the World.” INSEAD Knowledge, August 16, 2022. <https://knowledge.insead.edu/economics-finance/how-africa-could-astonish-world>.

³¹ “Closer China-Africa Cooperation Boosting Africa’s Supply Chain Development: Report.” Belt and Road Portal, August 25, 2022. <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/271001.htm>.

Organization (WTO) in 2001 it has expanded trade with Latin America which has been increasing at a striking 31% annual rate on average. As of December 2021, 20 out of 24 countries in the Latin America and the Caribbean region have signed up with the BRI.³² In December 2021 the China-CELAC Joint Action Plan for Cooperation in Key Areas (2022-2024) was signed covering collaboration in areas covering Political and Security Cooperation, pragmatic economic cooperation, High-Quality Infrastructure Cooperation, and Cooperation in Social, Cultural and People-to-People Matters, and sustainable development.³³ China is now South America's largest trading partner.

5. Conclusions

It must be recognized that sustainable development is not just about protecting the environment and the habitats of all the species that now inhabit the earth. Sustainable development also includes fiscal sustainability, secure supply chains, food security, and above all peace. The world cannot achieve peace without mutual respect and inclusive or common prosperity. All this cannot be possible if disinformation and imagined threats continue to thwart cooperation and communication. Scholars from Johns Hopkins University have demonstrated that the much hyped-up debt trap narrative about loans made by China to BRI countries is nothing but a myth.³⁴

The United States understands that China's role in combatting climate change is indispensable. Climate change is the true existential threat facing the United States and all of us. The Belt and Road Initiative is just China's strategy to leverage the "China advantage" of being the foremost infrastructure builder in the world today and the conveyer of peace to make life better at home and elsewhere.

³² "The Belt and Road Initiative in Latin America: How China Makes Friends and What This Means for the Region." Latin American Focus Group, March 21, 2022. <https://blogs.eui.eu/latin-american-working-group/the-belt-and-road-initiative-in-latin-america-how-china-makes-friends-and-what-this-means-for-the-region/>.

³³ China - CELAC Joint Action Plan for Cooperation in Key Areas (2022-2024), December 7, 2021. https://www.fmprc.gov.cn/mfa_eng/wjbxw/202112/t20211207_10463459.html.

³⁴ Brautigam, Deborah, and Meg Rithmire. "The Chinese 'Debt Trap' Is a Myth." *The Atlantic*, April 12, 2021. <https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/>.

To end this chapter, let us quote from the first author's recent China Daily article: "The US has tremendous sway on public opinion. If the US and China, the two leading countries in the world, are to work together to build a better world, fair play and mutual respect are paramount, and the US should help douse the toxic rhetoric. China has come a long way in the protection of intellectual property rights and private property rights. The West has never found any evidence of so-called "Huawei backdoors", "forced labor in Xinjiang", "genocide of Uyghurs", or "predatory lending" in the Belt and Road Initiative. So let us turn the tide, and let all take advantage of the "China advantage".³⁵

³⁵ Ho, Lok sang. "New Year's Wish: 'China Advantage' Is Meant to Benefit the Entire World." *China Daily Hong Kong*, January 31, 2023. <https://www.chinadailyhk.com/article/312502>.

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