



In an uncertain era with many disruptive forces, it is more instructive to consider what medium-term developments are likely to define China in the coming decade rather than speculating on 2020 as a single year.

Of the many game-changing developments I am expecting, the first would be the tectonic collision with the US with serious implications for the rest of the world

On Capitol Hill, there is a rare bipartisan consensus that China is becoming an existential threat to the interests of the US. Decades of benign engagement including support of China's entry into the World Trade Organization has yielded disillusionment. Not only has China become more like the West, it is perceived to have gamed the system to advance in China's interests at America's expense. Accusations include lack of reciprocity in trade and investment, infringement of intellectual property rights, currency manipulation, and other "predatory trade practices".

Following China's technological and military advances in recent years, the "China Scare" is reaching a crescendo. With sandbanks becoming fortified islands, the South China Sea is believed to have turned into a Chinese lake. China's advances in new and powerful technologies like 5G and Artificial Intelligence (AI) are thought to threaten the security of the US and allies through state-backed global tech giants like Huawei.

With increasing paranoia of a clear and present danger, the United States is driving a head-on collision with China across a broad front, including trade, technology, geopolitics, the military, space, advanced research, and ideology involving Taiwan, Hong Kong, Xinjiang and Tibet.

The "China Threat" has been magnified by such influential works as Peter Navarro's *Death by China* (2011), Michael Pillsbury's *The Hundred-year Marathon: China's Secret Strategy to Replace America As the Global Superpower* (2015), Elizabeth Economy's *The Third Revolution: Xi Jinping and the New Chinese*



State (2018) and Robert Spalding's *Stealth War: How China Took Over while America's Elite Slept* (2019). In fact, the threat is morphing into a fear that a powerful yet authoritarian China, if left unchecked, would compromise, if not usurp, American leadership of the liberal world order.

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In a clash between the world's two largest economies and leading global powers, few countries have the luxury of splendid isolation. US allies are cajoled into adopting a united front against China. Others are hedging, unprepared or unwilling to take sides as most are facing increasingly disruptive headwinds in trade, investment and supply chain flows in a world which has become inextricably inter-connected and inter-dependent.

In a *crie de coeur* of December 6, 2019 in *Foreign Policy*—"The New China Scare-Why America Shouldn't Panic About Its Latest Challenger", Fareed Zakaria explains why the China Scare is over-hyped. Much of China's perceived assertiveness stems from safeguards against sovereignty and national security rather than a plot for world domination. In recent years, China has been playing an important role in international peacekeeping. Despite an increasingly authoritarian tilt, aspirations for greater freedom and democracy of the Chinese people are real, as in the case of Hong Kong and Taiwan. According to Zakaria, attempt at thwarting China's ascent doesn't square with the flow of history.

Be that as it may, whosoever is in the White House, a robust across-the-board pushback against China is likely to continue, if not intensify, while a resurgent China redoubles its efforts to defend its national interests and ambition to realize its "Two Centenary Goals"—to become a moderately well-off nation by 2021, the centenary of the founding of the Communist Party of China; and to become a "strong, democratic, civilized, harmonious, and modern socialist country" by 2049, the centenary of the founding of the People's Republic of China.



Rather than speculating what would happen to China in 2020, it would be pertinent to rather look at the medium-term developments which are likely to define China in the coming decade.



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Meanwhile, China is set to continue its economic restructuring towards balanced and higher quality, if slower growth, a greater degree of technology independence, and military modernization, while upholding globalization and a multilateral world order, forming closer partnerships with Russia and a raft of developing countries in Africa, Latin America and the Middle East.

In the context of tectonic collision between the two great powers, the US-China trade war is unlikely to be totally resolved while China would not give up its state-led development model anytime soon. What is more, in the coming decade, there is no lack of flashpoints

between the two rivals that may spin out of control. These include the South China Sea, Taiwan, Hong Kong, Xinjiang, Tibet, the military, and cybersecurity.

Second, China's slower economic growth is to stabilize within a range of 5-6% in the coming decade

According to an address by a think-tank of China's National Development and Reform Commission in Beijing on December 7, 2019, the world's second largest economy's growth in 2018 was the world's largest. The single year increase equaled to Australia's entire economy, contributing 30% to global growth. However, growth driven by infrastructure, housing, and exports is reaching a plateau. Pressures to sustain economic stability are expected to be greater than before. This is not surprising in light of worsening demographics, struggle with debt deleveraging, lack of capital productivity of state-owned enterprises, continuing conflicts with the US, and other disruptions around the globe.

On balance, it must be said that with a larger base, a more moderate growth rate is bound to ensue. Put it another way, it is easy to make 10% out of ten dollars, but almost impossible to achieve similar feat with a \$14 tn economy.

Third, the world will depend more on China than, otherwise

A McKinsey Global Institute report "China and the world: Inside the dynamics of a changing relationship" dated June, 2019 contains the following insights:

- China's exposure to the world in trade, technology, and capital has fallen. Conversely, the world's expo-





sure to China has increased. This reflects the rebalancing of the Chinese economy towards domestic consumption, which contributed 76% of China's GDP growth in 2017-18 while net trade registered a negative contribution.

- China's consumer markets are heavily integrated with the world. Penetration by multinational corporations is considerable. Across 10 large consumer categories, average penetration was 40% in 2017, compared with 26% in the US.
- China's technology value chains are highly integrated globally. Chinese players have grown rapidly, but struggle with cutting-edge core technologies dominated by advanced countries especially the US. Examples include high-end semiconductor chips, reduction gears (robotics), and power electronics (electric vehicles).

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On the other hand, China is doubling down on technological self-reliance, accelerating its own vertical integration.

A report dated October 21, 2019 by Nataxis, a Spanish bank, shows that China's vertical integration leads to less dependence on Asia's regional value chains. A Nataxis podcast of 31 October reiterates the same trend as regards the European Union (EU):

"EU member states are generally becoming more integrated with China's value chain. The problem with this development, though, is that such integration with China is increasingly asym-

metric. Meaning, China imports increasingly fewer intermediate goods from the EU, but it exports increasingly more intermediates to EU member states for their re-export. The EU depends more on Chinese inputs for exports while China relies less on EU goods for its exports."

A further Nataxis Report dated November 4 confirms the same situation with the US:

"Our analysis shows that the US declining participation in the global value



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chain is driven by both its reduction in exporting of intermediates used for inputs in others' exports, an area where it generally excels, and its reliance on foreign inputs for its production. At the same time, the US is increasingly dependent on Chinese intermediates for exports while China is reducing its vulnerability to US imports of inputs for exports."

"Like Europe, the US is not only losing grounds to China in terms of its integration with China's value chain but also reducing its participation with other regions in the world, such as Latin America, Europe and the rest of Asia. To this increasingly difficult situation in terms of the external competitive-

ness of the US, we need to add China's efforts to move up the ladder as made clear in its landmark plan for industrial policy, namely Made in China 2025....."

Meanwhile, China's Belt and Road Initiative meets a global thirst for infrastructural links with the world's dynamic markets and economies. As it manages to overcome international headwinds about debt and ecological sustainability, its re-gathered momentum is likely to entrench dependence on China's economy. This begs the question how successful decoupling China from the global supply and value chain is likely to be.

Fourth, thanks to growing US denial of access to key high-technologies

China is likely to accelerate headway in aspirational technologies listed in "Made in China 2025", without making direct reference to the latter. Milestones to watch include 5G, AI, advanced robotics, next-generation information technology, and new energy vehicles. These are critical for China to leapfrog the "middle income trap" and to attain its Two Centenary Goals, not to mention national security needs.

Fifth, a "China consumer decade" is expected to unfold, driven by burgeoning consumption in inner provinces and the "silver economy" of relatively well-off retirees

According to research report dated December 5, 2019 by *konzept*, a Deutsche Bank AG affiliate, consumption in China has been surprisingly stable, averaging 8% annual growth during the four decades despite economic vicissitudes. As China still saves more than a third of household income, compared with 4% average in advanced countries, the scope for further growth is phenomenal. This is likely to be unleashed by burgeoning consumers in second, third,





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or even fourth-tier cities and prefectures as inner provinces attain higher disposable income thresholds. A further driver is China's hardworking, relatively well-off baby-boomers as they retire.

A powerful multiplier is e-commerce and e-payment system, the largest and most dynamic in the world, which permeate nooks and corners across the country. Additionally, to achieve a more balanced economy, domestic consumption remains on top of China's policy agenda. Thanks to its sheer size, China's share of global consumption has jumped to 12% in 2018, or 14% adjusted for purchasing power parity. This puts China on track to become one of the world's largest consumer markets, possibly even surpassing the US or the EU.

Sixth, China is becoming a green superpower

Still the world's worst polluter, China has been relentless in its going green.

According to a paper on Environmental Development published in November 2016 by *Elsevier*, a Dutch scien-

tific publisher, China should be able to reach 26% renewable energy by 2030, and 60% renewable energy with 86% renewable electricity by 2050.

A report "China 2050: A Fully Developed Rich Zero-Carbon Economy", was released on November 29, 2019 by the Energy Transition Commission, a global green energy coalition, in collaboration with the Rocky Mountain Institute. It finds that with strong policy support, accelerated innovation and expanded investment, China can attain carbon neutrality while trebling its GDP per capita by 2050.

In an Op-ed "Don't let China win the Green Race" of 9 December 2019 in the *New York Times*, John Kerry and Ro Khanna posit that China is becoming a green energy superpower, surpassing the US in many ways.

Indeed, China has now become the world's largest producer, exporter, and installer of solar panels, wind turbines, and electric vehicles, followed by Japan and Germany with the US ranking fourth. The country accounts for 150,000 renewable energy patents 30%

of the world's total, compared with America's 100,000 followed by Japan and the EU at 75,000 each.

Further, since 2015, China has surpassed the US to become the world's largest electric vehicle market and is set to dominate production for the next 20 years. In 2018, it produced 876,000 electric vehicles (60% of world total), compared with 361,000 in the US.

Asia's largest economy also has the largest high-speed railway network in the world, with 19,000 miles of track connecting most major cities, compared with less than 500 miles in the US.

Many cities in China vie with one other in becoming green. Shenzhen, with a population of 12.5 million people, has a 100% electric bus fleet and is converting 22,000 taxis to electric vehicles.

While air, soil and water pollution remain serious problems in China, it is evident that the country and its people are embracing green and quality growth with vengeance. Great strides are expected to unfold in the coming decade.



The 'Bullet' King China Is Working on Building A New Bullet Train That Can Hit the Top Speed of 600 km/h, A First in the World



Image: Xinhua

Seventh, China will push ahead with regional and transnational economic integration

In the face of rising protectionism, China is supporting multilateralism and greater regional and global integration. In the coming decade, three initiatives are expected to stand out: Greater Bay Area, Regional Comprehensive Economic Partnership, and the Belt and Road Initiative. With extensive transport network of high-speed rail and expressways, the Greater Bay Area links Hong Kong, Macao with nine dynamic cities in the Pearl River Delta with a combined area of 55,000 sq. km and combined population of about 70 million. This compares well with New York City Metropolitan Area of 21,000 sq. km with population of 20 million, San Francisco Bay Area of 18,000 sq. km with population of 7.8 million, and Tokyo Bay Area of 13.6 sq. km with population of 44 million.

With Hong Kong's world-class financial services, Shenzhen's international hub for innovative start-ups, Guangzhou, Foshan and Zhuhai's extensive auto and appliance industries, and Macao's casino and entertainment industries par excellence, the Greater Bay Area is likely to grow in gravitas in the coming decade, teething and deep-seated integration challenges notwithstanding. The 16-country Regional Comprehensive Economic Partnership (RCEP) would be the world's largest

free trade area when operational. This comprises all ASEAN countries and their trading partners spanning China, India to New Zealand, representing 30% of global GDP and half of the world's people. Although India unexpectedly withdrew at the eleventh hour, the pact has been widely supported by all other members. It is likely to become a regional growth dynamo in the coming decade, thanks to entrenched inter-connected and inter-dependent regional supply and value chains.

Eighth, and last but not least, the 'Belt and Road' initiative

Despite popular accusations of a "debt trap", adverse ecological impact, lack of transparency, and a "China one-way Road", the initiative meets a global thirst for infrastructural connectivity to facilitate trade, investment, cultural and people-to-people flows. According to a stock-taking report dated March 19, 2019 by China's National Development and Reform Commission:

- China's accumulative trade volume with Belt and Road countries surpassed \$7 tn.
- 82 overseas economic cooperation zones have been built with investment exceeding \$30 bn and non-financial investment of \$15.64 bn, up 8.9%.
- 171 cooperation documents have been signed with 150 countries and international organizations.

- Agreements have been reached with 10 countries including France, Japan and Singapore on cooperation in third-party markets.
- Solid progress has been made on China-Laos and China-Thailand railways, a high-speed railway from Jakarta to Bandung, and Pakistan's Gwadar port project.
- China-Europe freight trains connect Chinese cities with 49 cities in 15 European countries. They have made more than 13,000 trips, with the proportion of China-bound trips up by nearly 20% in 2018.
- Currently 387 air routes connect 33 countries participating in the Belt and Road Initiative, an increase of 106 in 2018.
- A Belt and Road international science organizations alliance was established in 2018, building technology transfer platforms and joint science parks in ASEAN, South Asia, Arabia, Central Asia, central and eastern Europe.
- Memoranda of understanding on cooperation between China and 16 countries have been signed on building a "Digital Silk Road".
- 11 Chinese banks have set up 71 branches in 27 Belt and Road countries. The renminbi cross-border clearing system now covers 41 countries and regions.
- Cultural cooperation agreements have been signed with more than 60 Belt and Road countries, including the establishment of 17 overseas cultural centers.

Clearly, the Belt and Road Initiative brings many advantages for both China and host countries. The involvement of the World Bank and the Asian Infrastructure Investment Bank (AIIB) in some of these projects helps to increase transparency and accountability. Belt and Road is a long-term initiative set to run into decades. Though many challenges remain. Over the next 10 years, new projects will come to fruition while China and host countries will continue to learn the art of joint consultation, joint undertaking and joint benefit with better transparency, accountability, and corporate governance.

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