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Behind Xi Jinping's Declaration of Victory Over Poverty

By Elizabeth Chen

Introduction

The Chinese state news organization Xinhua announced on November 23 that nine provinces in Guizhou had been lifted out of absolute poverty, marking the removal of all counties from China's national list of most impoverished counties (Xinhua, November 24). About a week later, Chinese Communist Party (CCP) General Secretary Xi Jinping announced that China had achieved the goal of eradicating absolute poverty and becoming a "moderately prosperous society" (小康社会, *xiaokang shehui*) before the end of 2020 (China Daily, December 2; Xinhua, December 4).**[1]**

Image: Xi Jinping met with villagers in Shibadong Village, Hunan Province, on November 3, 2013 as part of a series of trips taken to "investigate" poverty alleviation efforts throughout China (Image Source: Xinhua).

This heralded a wave of triumphal propaganda. Xi stressed the "critical importance of continuously advancing global poverty reduction" during his remarks at the G20 Riyadh Leader's Summit on November 22, and held up China's imminent achievement of eliminating absolute poverty ten years ahead of the deadline set by the United Nations 2030 Agenda for Sustainable Development as a model for global emulation (Xinhua, November 23). Chinese official media frequently cited the praise of foreign experts, who were quoted as saying that China's achievement "gave a hope to the developing countries" and represented a "great historic accomplishment" amid the COVID-19 pandemic (Xinhua, November 25, Xinhua, December 8) On December 14, Xi sent a letter of congratulations to the International Forum on Sharing Poverty Reduction Experience that said, "China stands ready to work with all countries in promoting the process of international poverty reduction and building a community with a shared future for mankind" (China Daily, December 14).

The Strategic Importance of "Poverty Alleviation"

China's highly publicized victory over absolute poverty serves an important propaganda role that aligns smoothly with efforts to present itself as a responsible, stable and powerful member of the international order. Amid the global chaos of the Covid-19 pandemic, China has sought (not always successfully) to argue that its domestic successes in controlling the pandemic and maintaining economic growth amid a global recession have vindicated its political system as an alternative to Western models for development and governance

(Asia Foundation, April 29; China Brief, December 6). More importantly, the project of poverty alleviation is closely tied to the CCP's legitimacy to rule, and particularly Xi Jinping's leadership.

The CCP's revolutionary founding and subsequent leadership of China were predicated on a commitment to social justice (State Council, October 17, 2016). In the 1980s, Deng Xiaoping justified reform and opening up by claiming that "a rising tide lifts all boats"; since 1981, the World Bank estimated that the share of China's population living under an international poverty line defined as $1.90 (2011 PPP) fell from 88 percent in 1981 to 1.9 percent in 2013, accounting for nearly 70 percent of global extreme poverty reduction in the same timeframe.**[2]** The greatest reduction in poverty took place in the early 1980s, due in large part to productivity gains from opening up the economy. In the 2000s, poverty reduction continued at a slower pace, but was helped along by the establishment of a variety of poverty alleviation programs, including labor mobility programs for the poor, agricultural production subsidies, investments in rural healthcare and education, rural pension funds, and the national income assistance *dibao* program that was rolled out in 2007.**[3]**

In 2012, Xi Jinping set poverty alleviation as one of his key policy focuses after coming to power. While the concept of a "moderately prosperous society" was first proposed by Deng Xiaoping in 1979, the goal of achieving it was set at the November 2012 18th CCP Congress, and subsequently closely connected with Xi Jinping Thought. A binding target to eliminate absolute poverty by the end of 2020 was incorporated into China's 13th Five Year Plan (FYP)(2016-2020) (State Council, November 23, 2016). The push to eliminate extreme poverty—consisting of the most geographically isolated and difficult to remediate cases left behind by previous poverty alleviation policies—would be accomplished via a new strategy of "targeted poverty alleviation" (also referred to as precision poverty alleviation, 精准扶贫, *jingzun fupin*), first proposed by Xi in 2013 (China Daily, October 20, 2017). The Chinese economy researcher Terry Sicular explains the uniqueness of the targeted poverty alleviation strategy: whereas previous poverty reduction strategies targeted counties and villages, the new data-driven "targeted/precision" strategy focused on households and individuals. It was also implemented in a "campaign" style that harkened back to the Mao era, involving "a systemwide mobilization of personnel at all levels of government working outside of standard governmental structures" (China Leadership Monitor, December 1).

Poverty alleviation had uneven successes. According to a 2016 "Rural Poverty Monitoring Report" produced by the National Bureau of Statistics (NBS), in 2015 the poverty rate was 1.8 percent in China's highly developed and largely urbanized eastern provinces; 6.2 percent in central China, and 10 percent in Western China (NBS, 2016). According to official numbers, China's total urbanization ratio hit 60 percent this past January. But remaining rural residents face poorer healthcare and education systems, as well as more limited public services and social security programs (Xinhua, January 19). Consequently, a "rural revitalization strategy" (乡村振兴战略, *xiangcun zhengxin zhanlve*), introduced in Xi's speech to the 19th CCP National Congress and further fleshed out by the promulgation of the "Strategic Plan for Rural Revitalization" (2018-2022), demonstrates the central government's continued efforts to push for rural urbanization and industrialization as a way of combating poverty (Xinhua, October 18, 2017; Xinhua, September 26, 2018).

It is worth noting that poverty alleviation has been the motivating factor behind state programs to develop China’s interior, resulting in large-scale programs to train and transfer largely ethnic “rural surplus laborer” populations in Tibet and Xinjiang which contribute to the forced Sinicization of oppressed minorities (Journal of Political Risk, December 10, 2019; China Brief, September 22). Rural revitalization has also served as the impetus for controversial village demolition and re-homing programs across China, which have occasionally been a cause for rare discontent (NPR, August 10; Taipei Times, September 8).

Quantifiable Targets And Practical Achievements

The 13th FYP set hard targets for poverty alleviation, marking a historic shift in the Chinese leadership’s approach but also laying the groundwork for carefully defined success. Absolute poverty was defined as living on an annual net income of less than 2,300RMB based on 2010 prices (roughly $340 at current exchange rates) (CGTN, October 17, 2019). This was later updated to an annual income of 4,000RMB (approximately $607) to account for inflation and growing costs of living (Caixin, November 24). Following the implementation of Xi’s “targeted poverty alleviation” strategy, the government identified 832 “poverty-stricken” counties (State Council, December 23, 2014). A national poverty registry (建档立卡) established in 2014 broke poverty in these counties down to the granular level of households and individuals for targeted focus by cadres working on poverty alleviation. In the first year of its implementation, the poverty registry covered 89.6 million individuals nationwide (China Daily, October 20, 2017). Victory was declared after all 832 counties were lifted out of absolute poverty according to official surveys on November 23 (Xinhua, November 24).

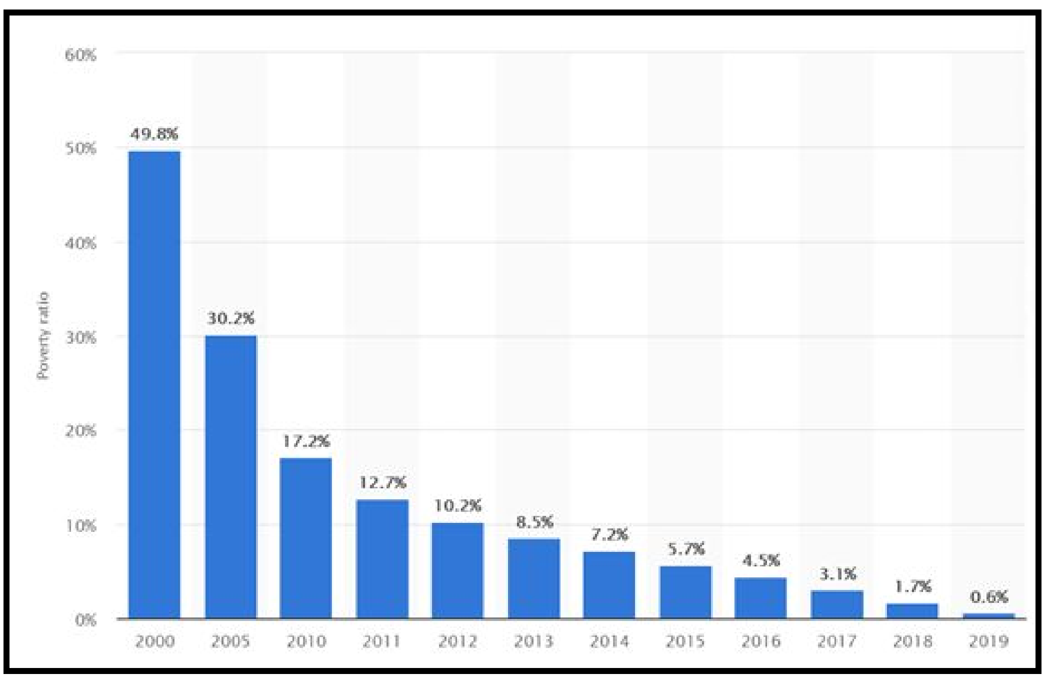

Image: Ratio of residents living below the extreme poverty line 2000-2019, defined by an annual income of less than 2,300 RMB per year in 2010 prices, or approximately $350. (Image Source: Statista).

Significant effort in terms of personnel and money was invested at the central and local levels to reach this goal. Earmarked fiscal funds for poverty alleviation doubled from 2010-2015 and then nearly tripled over the next three years, reaching 126 billion RMB ($18 billion) in 2019 (People's Daily, June 3, 2019). In 2016 alone, a reported 775,000 officials were dispatched by the central government to far-flung provinces for poverty alleviation purposes. Many of these cadres were drawn from the CCP Central Committee's Organization Department, indicating the political importance of their work ((ISDP, March 2019).

At the same time, Sicular observes that the goal of "eliminating absolute poverty" was pragmatically defined to allow its achievement. It targeted only rural poverty and defined absolute poverty by a relatively low standard; for comparison, China's 2,300RMB per year benchmark is slightly higher than the World Bank's definition of $1.90 a day, which is generally used in reference to the world's poorest countries (China Leadership Monitor, December 1; PovcalNet, undated). Poverty in lower-middle and upper-income countries is usually tracked using benchmarks of $3.20 and $5.50 a day, respectively. If the $5.50 per day benchmark is applied to China, technically an upper-middle income country, its poverty rate in 2018 rises from 1.7 percent to 17 percent of the country's total population (CSIS, December 8).

China's rapid growth since the 1980s lifted national living standards, but also coincided with an unprecedented widening of the wealth gap between rich and poor. By framing the poverty eradication goal in terms of absolute rather than relative poverty, the Chinese government's messaging on poverty alleviation sidestepped thorny problems related to inequality. Many of these issues have been exacerbated by the COVID-19 pandemic. China's richest billionaires gained extraordinary wealth this year, and the annual Hurun List reported in October that an additional 257 Chinese billionaires were created during the course of the pandemic (China Daily, May 28; Quartz, October 20). At the other end of the spectrum, rural migrant workers, who are estimated to comprise more than a third of China's entire working population, were systematically undercounted in official unemployment numbers but likely suffered especial hardships amid widespread lockdowns and labor shocks during the first half of the year (China Labor Bulletin, May 11; SCMP, November 17).

Premier Li Keqiang raised this problem succinctly during a work conference focusing on China's economic recovery from COVID-19 in May when he noted that 600 million of China's 1.4 billion population earned an average monthly income of 1,000 RMB (about $140) or less and were at severe risk for sinking further into poverty following the pandemic (China News Network, May 29). Unlike other countries, China's economic response to the pandemic did not include direct fiscal stimulus, but instead focused on monetary easing policies meant to drive supply. In November, China's consumption lagged behind recovery in other sectors such as investment, industrial production and exports, sparking worries that individual households were recovering slower than the overall economy (Caixin, December 15).

Conclusion

How then to read the December declaration of victory over poverty alleviation amid China's ongoing economic recovery? Foreign observers have noted that it's important not to discount the real impact of China's poverty alleviation efforts: Matthew Chitwood, a writer and poverty researcher, says, "We should not forget the big picture that this represents improved livelihoods for almost 100 million people over the last eight years" (SupChina, November 24). Terry Sicular notes that while the state's achievement of its goal to "eradicate absolute poverty" marks the achievement of a plan that was simultaneously ambitious and limited in scope, the state's subsequent efforts to combat poverty will have to address ongoing systemic issues such as wealth inequality and the rural-urban divide that may ultimately prove harder to resolve (China Leadership Monitor, December 1). Li Xiaoyun, a poverty relief expert at the China Agricultural University in Beijing, has warned that China's fight against poverty must now shift to waging a "protracted war" against relative poverty (Caixin, November 24). In other words, after Xi's December victory announcement, the toughest battles of China's campaign against poverty still remain.

Notes

[1] Achieving a "moderately prosperous society" by the centenary of the founding of the CCP is one of the Two Centenaries (两个一百年, liangge yibainian), first set forth at the 18th National Congress of the CCP held in 2012. The other "centenary" refers to the achievement of becoming a "a prosperous, strong, democratic, culturally advanced, harmonious modern socialist country" (富强民主文明和谐的社会主义现代化国家, fu qiang minzu wenhua hexie de shehui zhuyi xiandaihua guojia)by the centenary of the founding of the PRC in 2049 (People's Daily, January 18, 2016).

[2] See: "China Systematic Country Diagnostic: Towards a More Inclusive and Sustainable Development," World Bank, 2017, http://documents1.worldbank.org/curated/en/147231519162198351/pdf/China-SCD-publishing-version-final-for-submission-02142018.pdf.

[3] Ibid. See also: Katherine Musgrave, "Updates on SDG [Sustainable Development Goals] 10 in China," The Borgen Project, September 24, 2020, https://borgenproject.org/sdg-10-in-china/.

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Beijing's Blunt Message to President-elect Joe Biden

By Willy Wo-Lap Lam

Introduction

The People's Republic of China (PRC) has sent a polite but blunt message to the incoming administration of U.S. President-elect Joseph R. Biden, urging the resumption of high-level ties while at the same time showing off China's military and economic might. In his belated congratulatory message to President-elect Biden, PRC President Xi Jinping, who is also General Secretary of the Chinese Communist Party (CCP) and Chairman of the Central Military Commission (CMC), said that it was in the common interest to "promote [the] healthy and stable development" of bilateral relations. "We hope both countries [will] uphold the spirit of non-conflict, non-confrontation, mutual respect and win-win cooperation," Xi added (Xinhua, November 25). The nationalistic party tabloid *Global Times* said with cautious optimism that a Biden presidency might "bring changes to deteriorating bilateral relations that have been trapped in a vicious circle under the Trump administration" (Global Times, November 8).

Image: A photo of a livestream in Arlington, VA, showing President-elect Biden's victory speech on November 7. (Image source: Xinhua).

Chinese Foreign Policy Experts Weigh In

Jin Canrong, associate dean of the Renmin University School of International Studies in Beijing, predicted that Biden would usher in a "buffer period" for China-U.S. relations," adding that, "relations may still worsen, but not as quickly." Professor Jin said that "Biden will be more moderate and mature in handling foreign affairs" (Business Standard, November 9). However, most Chinese experts do not expect the Biden team to relax on the issue of tariffs (which now affect some $370 billion worth of Chinese imports), or lift sanctions on dozens of PRC corporations. "It's too early to make a call [over Biden's trade policies on China] and we should keep watching," said Xu Hongcai, a senior scholar at the Beijing-based think tank, the China Association of Policy Science (SCMP, December 4).

"The United States does need to get tough with China," Biden wrote in the preeminent foreign policy magazine Foreign Affairs earlier this year. (Foreign Affairs, March/April 2020). Specifically, Biden told the New York Times in early December that he would not "make any immediate moves [on China policy]" and also indicated that he would not immediately lift the tariffs that the Trump administration had imposed on China (New York Times, December 2). In line with these statements, Beijing's U.S. experts expect that Biden will in the foreseeable future maintain the multiple sanctions imposed by the Trump administration on Chinese companies, particularly those in high-tech areas that are associated with the People's Liberation Army (PLA).

There are expectations in China that both countries have room for a minimum of cooperation in global affairs such as climate change; nuclear non-proliferation (including the issue of Iran); and global health—particularly the fight against the coronavirus pandemic. Shi Yinhong, one of Beijing's top experts on the U.S., has maintained that Biden will be willing to expand bilateral ties to avoid a hot war with China. "Under Biden, there will likely be selective high-level communication and agreement," Professor Shi said. "The possibility of military conflicts has greatly lessened [since Biden's election], which is beneficial to relaxing China-U.S. relations" (Hong Kong Economic Times, November 9; Apple Daily, November 9.)

The party mouthpiece *Southern Daily* summarized many Chinese foreign policy experts' beliefs in a Weibo post that said, "we should not have any illusions" about a Biden presidency. "One thing is for sure, things will never return to the way they were before" (Southern Daily (Weibo), November 7). It is for this reason that Xi, who is China's highest decision-maker on national security issues, has stressed the country's leaps-and-bounds growth in military technology. At a recent meeting of the CMC, China's highest decision-making body on defense issues, Xi indicated that the PLA must "comprehensively strengthen training in real warfare." Xi said, "We must raise the level of our training in an all-rounded manner and [increase] our ability to win wars." Without explicitly mentioning the potential threats coming from the U.S., the supreme leader noted obliquely that "new changes have taken place in national defense and the goals of military modernization." "We must take a firm grip on new tasks [and] new demands in new situations in the new era," Xi said (CCTV.com, November 26).

Image: Xi delivers a speech at the Military Training Conference of the Central Military Commission on November 25 in Beijing. (Image Source: CCTV).

Chinese Foreign Ministry spokesman Ren Guoqiang gave a scathing response to the recent suggestion of U.S. Navy Secretary Kenneth Braithwaite that an additional fleet be created to police the Indo-Pacific and to counter China's rise in the region. Ren characterized Braithwaite's comments as an "old trick" to "create enemies and hype up 'threats'" as a justification for seeking hegemony abroad (China Military Online, November 26). Ren also denigrated the Commander of the U.S. Pacific Air Forces Kenneth Wilsbach's claim that the Chinese Air Force was America's "primary adversary" in the Pacific, and said that these perceptions smacked of "a typical manifestation of the Cold War mentality and the zero-sum game" (State Council Information Office, November 27).

China Prepares for an "Encirclement Strategy"

President-elect Biden has reiterated that a major difference between his and Trump's China policy will be that under his leadership, Washington would work closely with American allies and friends to form a kind of encirclement strategy aimed at countering China. "We need to be aligned with the other democracies... so that we can set the rules of the road instead of having China and others dictate outcomes because they are the only game in town," Biden said following the projected announcement of his electoral victory (Nikkei Asia, November 17; Channel News Asia, November 17). For example, in addition to formulating a common China policy with the EU and NATO, there are expectations that Washington might beef up the Quad, a quasi-alliance between the U.S., India, Japan and Australia (see China Brief, October 30). But Beijing is also putting together a "counter-containment" policy. China under Xi's leadership has scored some recent successes in ensuring that Beijing will be able to rally a certain degree of support on economic issues within the Asia-Pacific region. In November, China signed the historic Regional Cooperation Economic Partnership (RCEP) free trade agreement with the ten ASEAN member states as well as Japan, South Korea, Australia and New Zealand.

Xi also indicated a recent willingness to join the Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP) during his televised address to the Asia-Pacific Economic Cooperation (APEC) conference on November 20. "We must continue to promote regional economic integration and strive to establish an Asia-Pacific free-trade zone at an early date," he said, adding that unilateralism exacerbated risks for the global economy (PRC Foreign Ministry, November 21). Formerly known as the Transpacific Partnership (TPP), the CPTPP's current signatories include Canada, Brunei, Chile, Japan, Malaysia, Mexico, Australia, New Zealand, Peru, Singapore and Vietnam.

The TPP, which enjoyed the support of U.S. allies Canada and Japan, was commonly seen as a trading scheme designed to exclude China. Under the Trump administration, the U.S. dropped out of TPP negotiations in 2017. Xi's APEC remarks could be interpreted as a challenge to President-elect Biden. If China succeeds in joining the CPTPP, it would underscore the U.S.'s exclusion from yet another international trading agreement as well as the ongoing decline of its regional presence. But despite Xi's offer to join the CPTPP, the reality remains that key requirements for CPTPP membership include a higher degree of marketization and protection of intellectual property rights than current standards in the Chinese economy (Caixin, November 21; Global Times, November 21).

Decoupling, Taiwan and Hong Kong

At the domestic level, the CCP leadership is also preparing for some degree of decoupling of the world's two largest economies. But while Trump seemed to be aiming for a comprehensive parting of the ways, Biden might confine his vision of the so-called "decoupling" to selective economic sectors such as high technology. Beijing's determination not to rely on imports of key technological components from foreign countries has been influenced by the Trump administration's blacklisting of Chinese tech giants as ZTE and Huawei, as well as the more recent inclusion of Chinese firms with ties to the PLA on the U.S. Department of Defense's Entities List (Caixin, December 3; SCMP, December 4). Xi's answer to these provocations has been to underscore the imperative of "dual circulation." This means that while China continues to trade with the outside world (the international circulation), the focus of economic policy will be to rely on the consumption and innovation capacity of its 1.4 billion people (the domestic circulation) (Japan Times, November 3; Xinhua, September 5). At the recently concluded Fifth Plenum of the CCP Central Committee, Xi revived the Maoist concept of self-reliance specifically in regards to innovation. "We must insist on innovation as the core of our country's modernization," a government communique summarizing the Fifth Plenum said. "Technological self-sustainability is the strategic pillar of national development." In particular, high-end areas such as AI, computer chips, robotics, genomics, green technology and space-related know-how are expected to be allocated state funds for development (China Brief, November 3).

Chinese analysts are pessimistic about the incoming Biden administration's stance on the issue of Taiwan. Beijing has dramatically increased its military maneuvers off the Taiwan coast over the past year, including the frequent deployment of war planes past the "middle line" over the Taiwan Strait. While Biden has in the past publicly subscribed to the theory of "strategic ambiguity" over Taiwan, analysts in both Beijing and Washington expect him to continue the Trump administration's increased provision of military and other forms of support to the self-ruled island. Beijing is keen to prevent the incoming president from emulating Trump's intimate ties with Taiwan, which included selling F-16 jetfighters and sending high-level officials to visit what Beijing considers a "breakaway" province under Chinese sovereignty (Radio Taiwan International, November 8; VOA, November 11).

Beijing is also worried about both President-elect Biden and Vice President-elect Kamala Harris's concern with human rights in China. Biden has called out China for its suppression of Uighurs – which he describes as an attempted "genocide" – as well as other ethnic minorities. During her time as a senator, Harris was a co-sponsor of the Hong Kong Human Rights and Democracy Act that authorized the U.S. government to sanction Chinese and Hong Kong officials responsible for cracking down on Hong Kongers' freedom of expression and pro-democracy protests (Congress.gov, November 2019). In response to the Chinese leadership's systematic dismantling of the "One Country, Two Systems" framework underlying political autonomy in the Hong Kong Special Administrative Region, Biden has promised to be "clear, strong, and consistent on values when it comes to China" (Medium, May 22; HKFP, November 10).

Conclusion

According to Fudan University international affairs expert Wu Xinbo, the ascendency of Biden implies to some extent "the U.S. returning to the establishment line [of thinking]." "Yet due to the domestic situation, the U.S will henceforward become more conservative. There is no way that the country will return to the era of liberalism under [former presidents] Clinton and Obama," Wu said (Sina Finance, November 11). Indeed, four years of Trump's confrontational stance toward the CCP have brought about a bipartisan consensus about the need to contain China; a view that is also widely shared by politicians, academics, journalists and opinion leaders. Trump's policies about halting the technological, military and geopolitical advance of China – as well as his related domestic drives to stop Chinese influence from further infiltrating the U.S. – are supported by the majority of members of Congress. And according to the Pew Research Institute, 73 percent of Americans harbor negative feelings about the PRC (Pew Research Center, October 6). Under these conditions, Chinese cadres and observers seem correct in their thinking that even if he were interested in mending fences with China, Biden's presidency is bound to follow the path of containment, albeit with tactics different from those of the Trump administration.

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Can the Shanghai Cooperation Organization Ease Tensions Between China and India?

By James MacHaffie

Introduction

Recent clashes between India and China over the Line of Actual Control (LAC) have created a potential existential crisis for the Shanghai Cooperation Organization (SCO). The dispute flared up in May of this year, escalating in June and resulting in the first deaths of Indian soldiers at the hands of Peoples' Liberation Army (PLA) soldiers since 1967. Both China and India are members of the SCO cooperative security framework, which faces pressure to resolve the stand-off. Such pressure is increased by the potential for the border dispute to expand into a greater conflict between the two nuclear-armed powers.

Image: A map of the disputed Kashmir region showing the Chinese-claimed territory of Aksai Chin. (Image Source: [Wikimedia Commons]).

The crisis erupted when China pushed back against Indian road construction, with Chinese troops repeatedly intruding across the LAC and into *de facto* Indian territory at various points along the Galwan valley, Pangong Tso, Hot Springs, and Depsang in the eastern Ladakh region (Global Times, June 16; China Brief, July 15). On June 15, PLA troops clashed with Indian Army soldiers. No firearms were used, as they had been banned by previous agreements, but casualties occurred on both sides.**[1]** India and China traded blame for the outbreak of violence, and at the time of writing the specific origins of the incident remain uncertain (SCMP, July 2). Notably, the Galwan valley is an extension of the disputed Aksai Chin region, which China claims in its entirety (see image below). The Aksai Chin serves as a strategic corridor between China's provincial-level

Tibet Autonomous Region (TAR) and Xinjiang Uighur Autonomous Region (XUAR), and is seen by China's leadership as being strategically vital to domestic security.

The Shanghai Cooperation Organization's Role in Deescalating Tensions

Multiple rounds of diplomatic and military talks on the border conflict between India and China have taken place since June, including proposals for mutual troop withdrawals and "restoring [the] status quo ante" on the LAC (Bharat Shakti, November 11; Aljazeera, November 13). So far, the two sides have failed to reach an agreement (Daily Pioneer, November 24).

The Shanghai Cooperation Organization is one of the few regional security organizations in which both India and China are members, and thus has taken on significance as a potential mechanism for resolving the border dispute, at least in the short-term. Chinese Defense Minister Wei Fenghe (魏凤和) met face-to-face with his Indian counterpart Rajnath Singh for the first time following the June hostilities on the sidelines of a SCO defense chiefs meeting on September 5 (SCMP, September 5; Press TV, September 6), where the two traded covert barbs but ultimately agreed to work towards easing tensions.

Image: Chinese Defense Minister Wei Fenghe (middle left) held talks with Indian Defense Minister Rajnath Singh (middle right) on the sidelines of SCO meetings in Moscow on September 5 (Image Source: SCMP).

This was followed by a meeting between Indian Foreign Minister Subrahmanyam Jaishankar and Chinese Foreign Minister Wang Yi (王毅) on the sidelines of the SCO foreign ministers' conference on September 10. The two issued a joint statement after their meeting promising that "both sides shall abide by the existing agreements and protocol on bilateral boundary affairs, maintain peace and tranquility in the border areas and avoid any action that could escalate matters" (PRC Foreign Ministry, September 11). They also agreed to a five-point plan laying out guidelines for resolving the issue (India Today, September 11). Since the September meetings, both sides have further signaled their intentions to de-escalate the dispute (South China Morning Post, October 1; The Diplomat, November 12).

On November 10, the annual SCO Heads of State meeting was held via videoconference and hosted by Russian President Vladimir Putin. The leaders of the SCO member states subsequently issued a statement that confirmed that the SCO remained unified despite the border tension between India and China (Global Times, November 11). During the meeting, Indian Prime Minister Narendra Modi told participants that India was ready to move forward on the border issue, as long as there was respect for "…each other's sovereignty and territorial integrity" (Global Times, November 10). . Modi's speech, while conciliatory, also included firm language directed at both China and Pakistan (India Blooms, November 10).

Despite the conciliatory rhetoric at the November 10 summit, the border situation between China and India remains tense. Indian news media recently reported an increase in Chinese military activity along the LAC, while media reports and satellite imagery show that both sides have increased their construction activities along the border ahead of winter (Hindustan Times: October 13, November 19). Any increase in troop deployments at the LAC by Beijing will likely be met in kind by New Delhi, and the situation could easily escalate dangerously out of control.

The Shanghai Cooperation Organization has always stressed the so-called "Shanghai Spirit" of cooperation and multilateralism (Xinhua, November 5). These concepts are ingrained in the organization's founding charter.**[2]** China has been the driving force behind the SCO since its inception, seeing it as a vehicle for regional stability. As a means of protecting the Shanghai Spirit, many of the SCO's member states have been reluctant to involve it in bilateral disputes. While the SCO was born out of the 1990s Shanghai Process, which focused on resolving outstanding disputed borders between China and former members of the Soviet Union, it has not had any direct involvement in dispute resolutions of this magnitude since.

Limitations of the SCO Framework in Resolving Bilateral Disputes

In fact, bilateral hostility in the form of, for example, territorial disputes was expressly discouraged from the SCO agenda following India and Pakistan's ascensions to the organization (Times of India, June 15, 2017). Even still, the inclusion of India and Pakistan as full members was bound to create tensions within the SCO. Surprisingly, there has been less overt tension between India and Pakistan than between India and China. Less than a week after India joined the SCO in 2017, a dispute over a Chinese-built road in the Doklam region broke out, causing both sides to increase their troop presence along the border (Xinhua, July 6, 2017). This served as a harbinger for the 2020 conflict. The dispute was resolved a few months later, with both sides removing troops. The SCO did not play any role in the de-escalation of this crisis.

Most recently, Russia backed India in response to Pakistan's repeated efforts to raise India-Pakistan measures at the most recent SCO meeting, with the Russian Deputy Envoy to New Delhi saying, "This is a part of SCO charter and SCO basic documents not to bring the bilateral issue into the agenda [sic]. It has been made clear to all member states that [this] should be avoided…for the sake of the progress of multilateral cooperation" (Zee News, November 12). Critics might argue that this sets a poor precedent for the SCO's utility as a mechanism to resolve the Sino-Indian border dispute, but if both sides were willing to engage on the issue via the SCO, it could still prove useful.

For Beijing, compromise on the border disputes with New Delhi is a non-starter. China's strategic vision—as shaped by President Xi Jinping—has placed an emphasis on the "overbearing" (霸道, badao) nature of China's strategic rivals who contest its so-called "peaceful rise" (中国和平崛起, zhongguo heping jueqi). In contrast, China's own position is portrayed as rightful and "kingly" (王道, wangdao) (Xinhua, May 1, 2014). In other words, when faced with direct confrontation or even perceived hostile behavior, China will utilize its state resources to counter any aggression instead of seeking to conciliate and reassure, which was the preferred diplomatic approach prior to Xi's leadership. With its newly assertive posture, China has limited its options for de-escalating disputes with other countries. In the best case scenario, the SCO could provide a framework for Xi and Modi to de-escalate tensions. It is worth noting that while China under Xi has been more than willing to express its new assertiveness on issues ranging from Taiwan and Hong Kong to its bilateral border dispute with India, that assertiveness has not made a significant appearance in Beijing's dealings with the SCO. Here, at least, China still consistently stresses cooperation and reassurance (Xinhua, June 14, 2019).

In a multilateral setting, particularly with Russia in the role as a potential mediator, greater trust could be established in the Sino-Indian relationship.**[3]** There are mechanisms within the SCO to facilitate that trust (e.g., joint military exercises, working groups, and sideline meetings) (Xinhua, November 9). Progress would occur only if the participants were willing to use the organization's platforms for this purpose. So far, incremental steps have been taken in this direction, as seen by the Defense Ministers and Foreign Ministers meetings in September and Modi's public airing of grievances at the Heads of State meeting in November.

Conclusion

No quick fix exists for the border dispute between the two nuclear powers. Although China has demonstrated its willingness in the past to make concessions on other disputed borders, the Aksai Chin region is a strategically vital corridor that Beijing refuses to compromise on. Furthermore, Xi has made assertiveness a focal point of China's foreign policy, which has the potential to more easily escalate tensions with strategic rivals and near peer competitors. India also sees the Aksai Chin and Ladakh region as strategically vital grounds that are relevant to its long-standing dispute with Pakistan over Kashmir, historical claims notwithstanding.

The SCO recently provided opportunities for China and India to de-escalate tensions in September and November. Beyond this, however, it may ultimately be limited in what it can do. India has its own designs for great power status that may involve clashes with China on issues not limited to the border dispute. With time, it is likely that the most recent conflict over the Galwan valley will eventually de-escalate, but that still leaves the larger border conflict—as well as other growing tensions over nationalism, trade and technology in the bilateral relationship—unresolved.

The Shanghai Cooperation Organization is a unique organization that maintains a strong security portfolio despite being rife with interstate rivalries. It excludes all Western states and does not promote democratic norms, but still emphasizes mutual cooperation and trust among members. So far, it has weathered multiple internal and external challenges to its durability (a partial list of such challenges would include: U.S. troops stationed in Central Asia; multiple conflict points between Central Asian members; India and Pakistan's ongoing disputes), with no member state having ever left the organization. The continuing challenges of Indian membership to the SCO, may prove too much stress for it to bear, leading to the distant possibility of India's withdrawal.**[4]** The organization could become increasingly symbolic—and thus irrelevant—if it fails to curb further bilateral disputes, including future Sino-Indian clashes. In the most optimistic scenario, the SCO may prove to be resilient, and a restraining force on China overall. It could still provide China and India with a rare mutual platform for potential accommodation and compromise under the auspices of the "Shanghai Spirit."

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Notes

[1] The Indian government confirmed 20 casualties on their side following the conflict, while Indian media reported that Chinese troops suffered 43 casualties (Nikkei Asia, June 17; India Today, June 16). Official Chinese government sources have not confirmed the specific number of Chinese casualties in Galwan, but in September Hu Xijin, the provocative Editor-in-Chief of state tabloid Global Times, cited "information from people familiar with the situation from the Chinese side" and argued that the number of Chinese deaths was "far less [sic]" than the number of Indian deaths (Global Times, September 17; Eurasian Times, September 18).

[2] See: "Charter of the Shanghai Cooperation Organization", June 7, 2002, https://cis-legislation.com/document.fwx?rgn=3851.

[3] Russia recently played a pivotal role in negotiating the end of the Karabakh War between Azerbaijan and Armenia, representing a major geopolitical victory (see: Eurasia Daily Monitor, November 13, November 17). And as Russia flexes its power and influence in the Caucasus and Middle East, some have suggested that it is also looking to regain influence in South Asia, and has quietly offered its services as a mediator to China and India to this end (SCMP, September 19; East Asia Forum, October 23).

[4] To give one example of India's declining interest in the SCO, this past summer it declined to send representatives to Kavkaz 2020 military exercises alongside Chinese and Pakistani troops, calling its participation "not appropriate" amid ongoing border tensions with the two other countries (The Week (In)., August 29). See also: MK Bhadrakumar, "India's odd-man-out membership of the SCO club," Asia Times, November 14, 2020, https://asiatimes.com/2020/11/indias-odd-man-out-membership-of-the-sco-club/.

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Understanding the Financial Picture Behind Ant's IPO Suspension

By Jon (Yuan) Jiang

Introduction

Jack Ma's good days have gone, at least for now. The IPO suspension of Chinese tech giant Alibaba's Ant Group, merely two days before its scheduled dual listing on the Hong Kong and Shanghai stock exchanges drew global attention. Some argued that the IPO suspension represents Beijing's humbling of a powerful company and its outspoken leader, asserting the authority of the state above all (Jing Daily, November 3; Nikkei Asia, November 18). Others viewed the suspension as a long-awaited regulatory crackdown, arguing that Ant functioned for too long as a quasi-bank under the guise of a technology company to dodge the scrutiny of financial regulations (Caixin, November 9; see also China Brief, December 8). The era of regulatory arbitrage appears to have ended, with China's economic leadership beginning to respond to the reality that financial technology (fintech) corporations will shape the future of financial services. Yet much of the coverage surrounding the Ant IPO downfall overlooks the bigger picture of the Chinese financial system within which Ant was built. Accordingly, this article seeks to give some context to Ant's rise and fall.

Image: A ticker in Hong Kong shows a significant drop in Alibaba's stock on November 4, the day after Ant Group's IPO was suspended (Image Source: AFP/Anthony Wallace).

Banks' Unique Position in the Chinese Financial System

Banks have long enjoyed a peculiar and significant position within the Chinese financial system. This is apparent in the case of the five largest banks, which include the Industrial & Commercial Bank of China

(ICBC), the China Construction Bank, the Agricultural Bank of China, the People's Bank of China, and the Bank of Communications. According to the economists Carl Walter and Fraser Howie, "these five banks hold 59 percent of all government bonds, 85 percent of all bills of People's Bank of China, and 44 percent of all corporate obligations. They provide 32 percent of interbank and fixed-income funding for other banks and 76 percent for non-banks such as insurance and trust companies".**[1]**

China's other financial institutions (e.g. stock markets) have historically functioned as more of an afterthought, especially for the purposes of capital raising. Yang Kaisheng, member of the International Advisory Committee of the China Banking and Insurance Regulatory Commission (CBIRC) and former President of the ICBC, has said for almost a decade that corporate financing in China is predominantly focused on debt-based indirect financing—referring mainly to bank loans (Economic Daily, November 4; Tencent Finance (Weibo), November 12). In comparison, the proportion of direct equity financing—particularly from stock markets—is relatively low.

Historic and recent reforms show the outsize role that Chinese banks have played in the state financial system. In 1998, Premier Zhu Rongji's government passed reforms to streamline central government departments, transforming the old industrial ministries into Western style corporations with Chinese characteristics —now known as state owned enterprises (SOEs). As Walter and Howie have observed, although all SOEs are "owned" and managed by the State-owned Assets Supervision and Administration Commission (SASAC), China's banks have been the historic exception to this reality, and in practice sit within the state's organizational hierarchy as vice-ministerial entities.**[2]**

More than four decades after China's opening-up and almost 20 years since its admission into the World Trade Organization (WTO), it is still frequently acknowledged that banking is one of China's least accessible sectors and remains highly restricted to foreign capital. According to a report by the Chinese financial research firm EO Intelligence, as of the end of October 2019, foreign banks accounted for only 1.22 percent of the total assets of the Chinese banking industry, marking a decrease from a decade high of 1.90 percent. This number is remarkably low. For comparison purposes, foreign banks owed 19.20 percent of total banking assets in the U.S., 51.77 percent in the EU, 12.41 percent in Russia and 6.37 percent in India (EO Intelligence, May 2020).

Beijing's limiting of foreign assets in the banking sector demonstrates its comparatively tighter rein on Chinese banks and its financial structure overall. For many years, China's state-owned banking industry has remained relatively closed and secluded from the outside world. This began to change in 2020, when China began allowing full foreign ownership of more financial services companies (Asia Nikkei, July 23). New Stock Connect and Bond Connect programs also allowed foreign investors access to China's domestic securities via Hong Kong (SCMP, September 6). These moves were partially made in response to China's Phase One trade deal promises with the U.S. to open up its financial markets to foreign actors. But skeptics have warned that even with these reforms, steep barriers to entry remain for foreign firms hoping to gain access to China.

Beijing's Control Over the Banking Industry: A Strength and a Weakness for the Chinese Economy

It is well known that one of the main causes for China's decades-long economic miracle is high domestic investment. Beijing's investment-stimulated economic growth model is dependent on its tight rein over the banking sector. Another factor for China's growth is one of the highest national saving rates in the world, which means that, apart from government funding, Beijing has a surplus of public capital available for use. Zhou Xiaochuan, Vice Chairman of the Bo'ao Forum for Asia and Former President of the People's Bank of China, recently commented that China's GDP savings rate has been consistently higher than the global average rate of 26.5 percent over the past two decades (Economic Daily News, October 24). At the end of 2019, China's savings rate was 44.6 percent. Before the Asian Financial Crisis (AFC) of 1997-1998, China's savings rate was around 35 percent. After the AFC, it increased rapidly to 51.8 percent during the GFC (CEIC, undated). China's high national savings rate also explains how it has been able to pledge more than $1 trillion in investments along the core diplomatic and economic policy Belt and Road Initiative (BRI), even though its per capita GDP is not high.**[3]** Put simply, Beijing has the money, and the drive to use it.

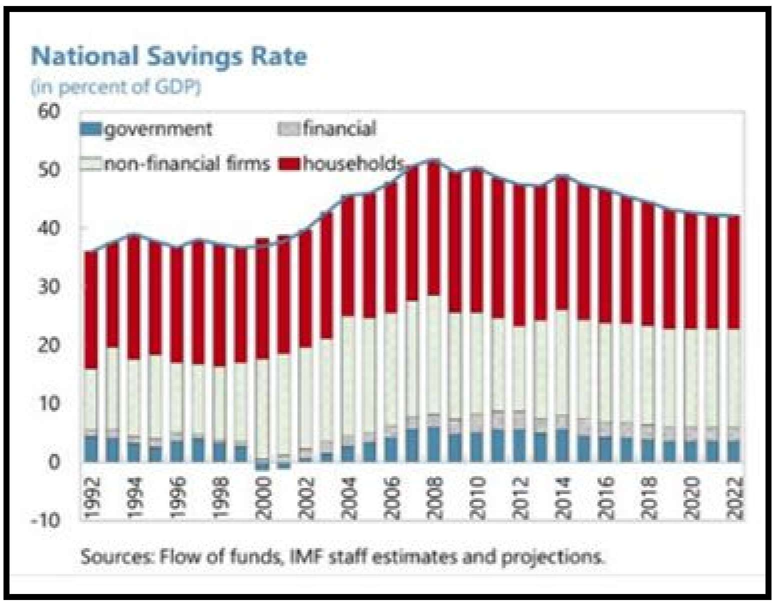

Image: This graph (compiled with 2019 data) shows that while Chinese household savings experienced decline, the national savings rate was boosted throughout the first two decades of the 21st century by an increase in government and financial savings (Image source: IMF).

The downside of Beijing's power over banks is that the central and local governments tell banks to loan to state-driven projects or SOEs by administrative fiat, without considering their future profits or repayment capabilities. This has caused a great many issues for the Chinese economy, which are acknowledged internally. For example, Premier Li Keqiang has said that banks should not favor SOEs and should treat all types of ownership enterprises equally (Gov.cn, September 29, 2018). Excessive government interventions repeatedly resulted in low investment returns, aggravating the distortion of the economic structure and exacerbating the systemic problems of overcapacity (China Brief: May 29, September 28).

More detrimentally, the lack of profits led to increased levels of domestic debt. In fact, China's total debt reached 335 percent of GDP in the third quarter 2020, one of the highest among Asian emerging economies, according to the Institute of International Finance (SCMP, May 19). This is a strong indicator of the poor quality of its previous investments. Ma Guonan, a fellow at the Mercator Institute for China Studies, found that China had the fastest growing ratio of corporate debt to GDP in the world, and that its corporate debt rose by 65 percent following the 2008 global financial crisis.**[4]** A 2019 OECD working paper found that China's SOEs account for over three quarters of its debt in 2017.**[5]** Chinese SOEs dependent on government subsidies or bank loans to stay alive are popularly called "zombie enterprises" even in official Chinese media (People's Daily, January 4, 2016). Understandably, in 2019 the powerful National Development and Reform Commission (NDRC) issued a reform plan to speed up the improvement of the SOE exit system, promoting bankruptcy and the restructuring of state-owned zombies as part of a greater drive to decrease debt (NDRC, July 16, 2019).

To Beijing, the failure of political reform in the Soviet Union and its subsequent collapse remains an evergreen lesson. Maintaining political stability and keeping the party in power is unquestionably the most crucial aim of the Chinese government. The greatest lesson that China's economic planners have learned might arguably be the potential for catastrophic consequences of highly leveraged economies, demonstrated by the experiences of other countries: the bursting of Japan's equity and real estate bubble in 1989; the previously mentioned 1997 AFC caused by high foreign borrowing and "crony– capitalist relations between banks and business;" and the 2008 subprime mortgage crisis in the U.S. triggered by out of control lending and insufficient regulation, leading to the GFC. **[6]**

At the 2017 National Financial Work Conference, President Xi Jinping made his point clear that "financial stability is the basis of national stability, and deleveraging SOEs is the top of the top priorities." Xi even went so far as to warn officials that they would be fired if they could not control debt while maintaining social stability, indicating the unparalleled significance of leverage issues (Xinhua, July 16, 2017). Current vice-premier Liu He, generally thought to be the man in charge of China's economy, is thought to have commented more boldly (albeit cloaked under a veil of anonymity) that economic downturns or social unemployment were less risky for China's overall economy than the state's poor control over its highly leveraged assets (People's Daily, May 9). China has continued its efforts to de-risk the financial industry even amid the COVID-19 pandemic this year. State media has announced that the number of peer-to-peer online lending institutions had been eradicated as of November, dropping from a high of 5,000 in mid-2017 following a two-year campaign to curb the unregulated industry (Xinhua, November 28). Recently, the Ministry of Finance also rejected the usage of special bonds as capital for public-private partnership projects, demonstrating its clear prioritization of de-leveraging financial risks over the pursuit of large-scale investment (PRC Ministry of Finance, October 28).

Ant's Destiny

Ant Group, which operates the massive online payments platform Alipay, created a massive financial ecosystem that spans lending, investment, and insurance products and provides services to approximately 1.3 billion active annual users, the majority of whom come from China (TechCrunch, July 14). The majority of its loans are underwritten by other financial institutions, and as of June 30 this year it had partnerships with about 100 banks, including policy banks, state-owned banks, joint-stock banks, leading urban and rural commercial banks, and international banks operating in China (SCMP, October 27). Any observer would assume that it could only have flourished within such a tightly controlled and sensitive industry with direct backing from the top; indeed, Ant's shareholders include top SOEs such as China's national pension fund, China Development Bank and China International Capital Corporation (SSE, August 30).

These high-level ties could explain why Ant was able to perform as a bank but not be regulated like one. For several years, its most important source of income came from its microloan platform, which lent to consumers and small businesses. Ant's leadership often described its role in the Chinese economy as being the capillaries that transferred funding to the extremities of the economy: small businesses and individuals. By contrast, state banks were the arteries of the economy that financed growth (SCMP, October 27). This metaphor shows why Beijing allowed the development of Ant, because it helped to solve at least three endemic problems within the Chinese economy.

Image: This 2016 chart breaks down the variety of products within the financial ecosystem operated by Ant Group, itself a subsidiary of Jack Ma's Alibaba internet company. Image Source: Peter C. Evans via Twitter).

The first solution that Ant provided was to promote the development of small and medium-sized enterprises (SMEs) and individuals, historically underserved by China's traditional banks in favor of much larger SOEs.

The second solution was to improve repayment efficiency of borrowers by employing big data and cutting-edge software to provide risk control technology, a crucial point driver for why Chinese banks chose to cooperate with Ant. Finally, Ant's disruptive business pushed Chinese banks to overcome their institutional inertia and take steps towards self-reform. After having long monopolized the financial system, traditional banks have felt increased pressure to innovate and compete over the past few years, to the overall benefit of China's financial system.

This should have been a win-win game for Ant, Beijing, SMEs, the banking industry, the Chinese people and the economy, but the bargain was predicated on one fact that Jack Ma overlooked in his speech at the Second Bund Finance Summit on October 24: Ant's empire has only thrived at the political will of Beijing. At the summit, Ma openly criticized the risk-averse nature of China's financial regulators and the global financial system overall as a "disease of the elderly." He argued that traditional financial wisdom strangled innovation and that China's relatively undeveloped financial system should be better described as "no system at all" (Singularity Financial (HK), October 26). Ma's criticisms of China's economic leadership overlooked how Ant had been explicitly permitted to develop within China's tightly controlled financial system. Just over a week later, stock exchange regulators suspended the Ant Group IPO.

Conclusion

Speaking at the same summit where Jack Ma arguably set in motion Ant's downfall, Chinese Vice President Wang Qishan stressed that of the three principles of security, liquidity, and efficiency which underpin the financial industry, security must be prioritized in order to avoid systemic financial risks, particularly during the Covid-19 period (Economic News Daily, October 24). Ma's comments publicly contradicted the line from Beijing. No wonder that Ant was subsequently humbled by Beijing. Almost a week later after Ma's speech, Vice Minister Liu He declared that Chinese regulators must treat fintech providers the same as banks at a meeting of the Financial Stability and Development Committee (Gov.cn, October 31). Ultimately, Beijing has decided that what it wants is a regulated Ant that fits in with the rest of its economic agenda, rather than a wildcard that runs roughshod over its careful planning. This allows Chinese banks to retain their 'unique' position within the financial system and Beijing to keep its tight control over the economy.

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Notes

[1] See: Carl Walter and Fraser Howie, *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise*, Wiley, February 10, 2012.

[2] Ibid. Note that even though other large SOEs do not sit within the state's organizational hierarchy as vice-ministerial entities like China's state-owned banks do, their CEOs traditionally carry administrative ranks that put them within the state's bureaucratic apparatus.

[3] Chinese investments along the BRI are often opaque and vaguely defined. Nevertheless, several western think tanks have established ongoing projects tracking the BRI. See: CSIS, "How Will the Belt and Road Initiative Advance China's Interests," undated, https://chinapower.csis.org/china-belt-and-road-initiative/; AEI, China Global Investment Tracker, undated, https://www.aei.org/china-global-investment-tracker/; MERICS Belt and Road Tracker, undated, https://merics.org/en/bri-tracker.

[4] See: Ma Guonan, "China's high and rising corporate debt: examining drivers and risks," MERICS, August 22, 2019, https://merics.org/en/report/chinas-high-and-rising-corporate-debt.

[5] Margit Molnar and Jiangyuan Lu, "State-Owned Firms Behind China's Corporate Debt," OECD, February 7, 2019, https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2019)5&docLanguage=En.

[6] See: Thomas M. Orlik, *China: The Bubble that Never Pops*, Oxford University Press, June 22, 2020.

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Is the RCEP China's Gain and India's Loss?

By Rajaram Panda

Introduction

On November 15, fifteen nations in the Indo-Pacific region — including China, Japan, South Korea, Australia, New Zealand, and the ten ASEAN members Brunei, Vietnam, Laos, Cambodia, Thailand, Myanmar, Malaysia, Singapore, Indonesia and the Philippines — signed the world's largest trade agreement. Known as the Regional Comprehensive Economic Partnership (RCEP), the new trading bloc will cover 2.2 billion people and its member states' combined GDP of $26.2 trillion accounts for around 30 percent of total global GDP. The deal's finalization comes about a year after India announced its decision to not join the grouping, based on its perception that the terms of the agreement were skewed in China's favor. India also feared that the deal would allow Chinese goods to flood Indian markets, threatening domestic industries. Regardless of India's withdrawal, the pact represents a milestone in China's ambition to become a regional trade lynch-pin.

Image: Leaders from fifteen countries signed the RCEP on November 15, creating the world's largest free trade bloc. (Image Source: CNN).

The RCEP, first proposed in 2012, was negotiated over the course of 46 trade representative meetings and 19 ministerial meetings. As the world continues to grapple with the economic impact of Covid-19, the RCEP has the potential to reshape the geostrategic landscape in the Indo-Pacific with dramatic consequences. The RCEP could come into effect as early as mid-2021, but resistance to the deal within the national parliaments of states that have yet to ratify would likely drive its date of implementation back to January 1, 2022. Australia (currently undergoing a tumultuous diplomatic and trade war with China), Malaysia, and Thailand are among the most likely to delay ratification (China Briefing, November 17; SCMP, November 16).

The mega-pact's signing comes after months of increasing geostrategic military maneuvers undertaken by Beijing in connection with various territorial disputes, from repeated coast guard patrols aimed at asserting its *de facto* control over the Senkaku islands in the East China Sea; to resource control disputes with Vietnam and Malaysia in the South China Sea and the border conflict with India in the Himalayas. China's flexing of its economic and military weight has grown rapidly over the past year, demonstrating that its leadership feels confident to override countervailing opinions and ignore criticisms (Eurasia Review, November 18). These developments put the theory of China's "peaceful rise" (中国和平崛起, *zhongguo heping jueqi*)—a concept first introduced by Zheng Bijian in November 2003—under question.**[1]** Discussions of the RCEP's utility in promoting regional multilateralism need to be balanced against the realities of China's recent actions against its neighbors.

RCEP: Pros and Cons

Defenders of the RCEP say that the pact will lower tariffs between member countries, open up regional trade opportunities and promote investment to benefit emerging economies. While it includes some provisions on standardizing intellectual property regimes, the agreement does not cover environmental protections or labor rights (Channel News Asia, November 15). The RCEP's provisions on e-commerce and digital trade are also weak, which proved an indelible sticking point for India (The Hindu, October 11). One analyst concluded that the RCEP's language on digital trade is vague "to the point of rendering the provisions meaningless" for the liberalization of cross-border digital transfers and data flow (CIGI, November 23).

With India and the United States notably excluded from the deal, China could leverage its position as the largest economy within the RCEP to further exert its influence in the region. Critics of the RCEP see it as a China-driven coup enabling Beijing to extend its influence across the Indo-Pacific (Quartz, November 16; Economic Times, November 17). China has faced little regional competition from the United States since the Donald Trump administration pulled out of the Trans-Pacific Partnership (TPP) in 2017, arguing then that the world's then-largest trade pact would take away U.S. jobs. The Shinzo Abe government of Japan resurrected the TPP in a new form as the Comprehensive Progressive Agreement for Trans-Pacific Partnership (CPTPP); critics have noted that the RCEP is not extensive as the TPP or its successor CPTPP.

India's Withdrawal from the RCEP

India pulled out of RCEP talks in November 2019, claiming that the negotiations did not sufficiently address its "significant outstanding issues" (LiveMint, November 4, 2019). As the regional balance of power shifted in the eight years since talks began, Prime Minister Narendra Modi faced mounting pressures at home to take a tougher stance on the terms of the free trade agreement (FTA). India's decision to stay out of the RCEP was hardened by fears that its domestic producers would be hard hit if the country was flooded with cheap Chinese goods under the umbrella of free trade. Textiles, dairy, and agriculture were flagged as three particularly vulnerable industries (Asia Times, November 15).

In the wake of the renewed border tensions, anti-China sentiment (most visibly expressed by the "Boycott China" movement) has been on the rise. India's government moved to restrict Chinese foreign investment and banned over 200 Chinese apps from its domestic internet, which the Indian government asserted was crucial for its "national security" but Chinese officials criticized as violating WTO rules (TechCrunch, November 24; Hindustan Times, November 25). Such actions have proven wildly popular back home but would likely not be permitted under the RCEP.

Back in 2019, India's sticking point proved to be the absence of mechanisms to check trade imbalances. India felt that there were "inadequate" protections against a possible surge in imports with the possible circumvention of rules of origins – the criteria used to determine the national source of a product – and the absence of which could allow some members to dump products by routing them through other countries (The Telegraph (In.), April 11, 2019). It was unsuccessful in including countermeasures such as an auto-trigger mechanism that would raise tariffs on specific products once imports crossed a certain threshold (Indian Express, November 17). An internal assessment carried out by the Indian government this year showed only a "moderate utilization rate" of free trade agreements with neighboring economies over a five-year period and confirmed that although India's deficits with RCEP were marginally reduced in most cases, its total deficit with ASEAN countries as a whole had increased over the past two years (Indian Express, November 17). Ultimately, India's leadership concluded that not signing an agreement was better than signing a bad agreement, fearing that its pre-existing trade imbalance (*see figure below*) with RCEP nations would considerably widen under the agreement without appropriate safeguards (India Today, November 15; Indian Express, November 17).

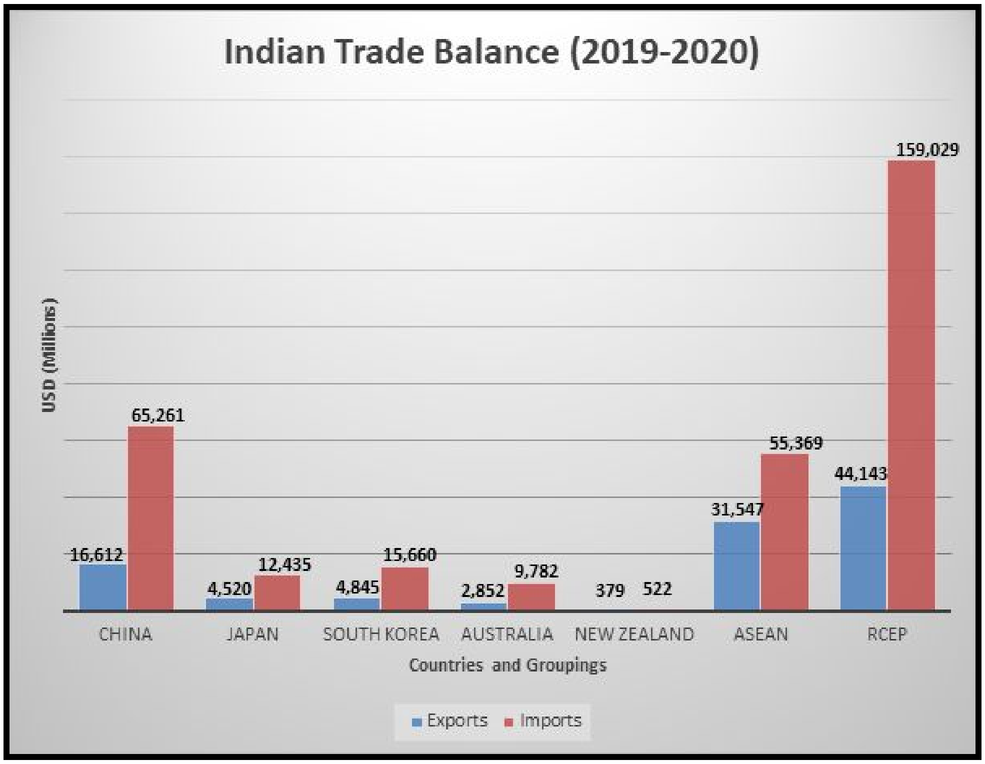

Image: The graph compares Indian exports and imports to RCEP members over the period 2019-2020, showing a significant imbalance with all non-ASEAN members and a slightly more even relationship with ASEAN members (although still weighted in favor of imports over exports). (Image Source: Compiled by CB with data from India Ministry of Commerce and Industry).

In addition to economic concerns, escalating bilateral tensions and the recent border stand-off with China likely cemented India's decision to shun the RCEP. Yet some domestic commentators have argued that the decision to abstain from the RCEP will cost India heavily (Economic Times, November 17). By staying out, India now has less scope to tap the large market that the RCEP represents. Based on this perspective, India's decision could be seen as turning its back on the multilateralism espoused by the RCEP.

Options to (Re)Join

Japan maintains good relations with India, and Japanese negotiators worked hard to include language in the final version of the RCEP which would allow India to join the agreement at any time, without having to wait the 18 months stipulated for new members (Indian Express, November 16; Economic Times, November 17). The conservative newspaper Sankei Shimbun published an editorial shortly after the deal was finalized that expressed caution about the deal's implications for Chinese influence but still suggested, "Japan should be persistent, and try its best to get India to join" (Sankei Shimbun, November 17).

India recently signed military cooperation agreements with both Japan and Australia, strengthening the "Quad" security framework and demonstrating a shoring up of relations between "like-minded" democratic nations in the Indo-Pacific (Rediff, September 12; China Brief, October 30). A nascent Resilient Supply Chain Initiative (RSCI) proposed by India, Japan and Australia in September could also serve as leverage against China's growing regional influence and might not be incompatible with the RCEP (Financial Express, September 11).

India's decision to stay out of the RCEP shall remain under scrutiny for quite some time. When India said no to China's Belt and Road Initiative (BRI) in 2017, it faced accusations of isolationism. Three years later, India's supporters have grown in number, with criticisms of the BRI by like-minded democracies increasing. If India chooses to "remain off the menu but on the table" by seeking observer status in the RCEP, that in itself would be a development worth watching (Indian Express, November 19).

China's Gains From the RCEP

The U.S. President-elect Joe Biden has expressed a desire to resurrect America's declining engagement in Asia through an "alliance of democracies" (China Brief, December 10). In light of the U.S.' projected return to the region, the RCEP will shore up China's position as a key economic partner with Southeast Asia, Japan and South Korea, enabling it to shape the region's trade. At the time of writing, there are no details on which products and countries would see the first reductions in tariffs. A clearer picture shall emerge after the participating countries ratify the agreement—but as already mentioned, this process poses further challenges. Even absent major economic gains, the RCEP represents a strategic windfall for China.

If the RCEP helps its member economies to bounce back from the pandemic, it could dramatically improve its public profile and help China to recover a reputation hard hit this past year. But such rosy predictions are at least two to three years away from reality. It's easy to imagine how the RCEP will lend heft to China's broader regional geopolitical ambitions and provide new opportunities for its BRI. The Chinese state tabloid Global Times has remarked that India committed a "strategic blunder" and "missed the bus" to long-term growth by staying out of the mega-pact (Global Times, November 13; Global Times, November 15). Specifically, one Chinese South Asian expert, Liu Zongyi, blamed "interest groups" within Modi's government for the decision. The official news agency Xinhua hailed the deal as "...not only a monumental achievement in East Asian regional cooperation, but more important, a victory of multilateralism and free trade" (Xinhua, November 15).

China succeeded in excluding Taiwan—which it regards as a breakaway province with no sovereign power—from the massive regional trade deal. This marks a major discursive triumph for the PRC, which has spent decades lobbying against Taiwan's inclusion in global multilateral organizations. Arguably one of the RCEP's greatest achievements is the creation of a FTA between Japan, South Korea, and China, which are all major trading partners for Taiwan. This could be potentially catastrophic for the island nation; Taiwan's Minister of Economic Affairs responded to the RCEP's finalization by calling for domestic industries, particularly the petrochemical, upstream textile, and machine tool industries, to "brace for a major blow" (Taiwan News, November 16). Taiwan's government has said that it will step up its efforts to join the Japan-led CPTPP to circumvent the RCEP's impact, although it may be stymied there by China as well (Focus Taiwan, November 15).

Conclusion

Although it has been widely argued that the RCEP is dominated by China, many of the deal's advocates have emphasized that its formulation and future operation were and shall be consensus-based. China's role in the deal should not be overhyped, such voices warn, arguing instead that the deal should be seen as a "triumph of ASEAN's middle-power diplomacy" (Brookings, November 16; Asia Nikkei, November 27). The RCEP creates momentum for free trade at a time of increased global trends towards protectionism and nationalism. It sends a message that the world is returning to globalization.

Notwithstanding the symbolic and strategic victory of the RCEP for China, analysts expect that China's gains from the RCEP deal would likely be marginal, and are not expected to offset the negative impact of its ongoing trade war with the U.S. (SCMP, November 16). At a minimum, the RCEP represents a mechanism for China to expand its sphere of influence in the Indo-Pacific in the face of broader U.S. economic pressure. The deal will likely help China to avoid losing relevance in international value chains shifting in the wake of the Covid-19 pandemic. Further predictions on the RCEP's regional importance and impact will have to await the deal's ratification by member nations.

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Notes

[1] See: Bijian, Z., "A New Path for China's Peaceful Rise and the Future of Asia: Bo'ao Forum for Asia," November 2003, in *China's Peaceful Rise: Speeches of Zheng Bijian 1997-2005* (pp. 14-19), Washington, D.C.: Brookings Institution Press, http://www.jstor.org/stable/10.7864/j.ctt127xn6.5.

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