VINCENT KOEN

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I want to end up with going to Vincent. China has been the big driver of global growth. It has become the largest lender to developing countries. It is a big market for them. It has invested through the Belt and Road Initiative. However, now, as Jeff pointed out, Chinese economic growth is slowing down dramatically. Maybe for the next few years we are going to actually have to get used to a China that is not growing at 8% or 10% a year on average, but about half that. There are a lot of internal imbalances. The housing market and the financial sector need to be sorted out. There is some pulling back on the Belt and Road. From your perspective – I know that you have been doing OECD country studies and you have looked at China – what is your take on what that means for the relationship with the developing countries and the engagement of China in global processes, including on climate change?

Vincent Koen

My last trip to China, just before covid raised its ugly head in Wuhan, was to Shanghai, where they celebrated four decades of rapid economic catch-up, rising living standards and sharp reduction in poverty. In a nutshell, GDP per capita, at PPP, had soared, from 3% of the G7 average in the late 1970s to 36% in the late 2010s. And around 2014, China had taken over the US as the world's largest economy measured in PPP terms. At the time, the talk was all about China's Dream of becoming a moderately prosperous society and projecting its reach South-South but also globally via the Belt and Road initiative.

The pandemic has stress-tested the Dream to the utmost, with protesters in the streets of Shanghai and Beijing in late November, following the incidents at Foxconn in Zhengzhou. The refusal to use Western vaccines combined with traditional hesitancy vis-à-vis vaccines led to a sanitary impasse, with huge economic costs, as lockdowns affected a sizeable share of cities and activity. Over the past few days, however, we have witnessed an unexpectedly abrupt change in tack, with a major relaxation of controls in the largest cities. We will now have to see how this unfolds, as casualties rise and the health care system is put to the test – with shortages of treatment doses already widely reported in Beijing yesterday. The good news, in the recently announced 10 new measures to relax zero covid discipline (following the 20 more timid guidelines announced last month), is the authorities' emphasis on vaccination of the elderly, and the willingness to shift some of the massive resources put into testing and containment to vaccination and support for those in isolation at home – rather than in ghastly quarantine facilities.

Stepping back from the disruptions caused by the pandemic, China's economic convergence process, which as I mentioned was so remarkably fast during the four previous decades has stalled over the past two years. At the same time, we see a shift towards a more inward-looking development model. Indeed, China's near closure during the three years of the pandemic has come on top of other factors working in the direction of deglobalization, or fragmentation. Let me mention four: The Made in China 2025 strategy, which goes back to 2015, seeks to reduce China's dependence on foreign technology. Trump's trade war, with tit-for-tat tariff hikes starting in 2018. Ironically, the winners were arguably countries like Viet Nam that benefited from the diversion of trade flows. The US Chips and Science Act and the EU Chips Act with respect to semiconductors, reflecting the growing importance for economic policymakers of concerns about security. And then the oddly labelled US Inflation Reduction Act. This is a major piece of climate legislation but also, through its "Made in America" emphasis, it seeks to address energy and national security risks stemming from China's dominance of supply chains, for almost everything from solar panels to electric car batteries.

All of these factors, against the backdrop of geopolitical tensions, translate into less FDI and knowledge exchange, with multinationals active in China reconsidering their engagement – exiting for some, or otherwise decoupling their activities in China from those elsewhere. In the meantime, the roll-out of the "new silk roads" has illustrated China's clout but also the limits of such cooperation, with disillusionment on the part of a number of recipient countries stuck with infrastructure projects that may not serve their national objectives but leave them with large – and opaque - liabilities vis-à-vis Chinese lenders.

Last but not least, there is climate change. China is by far the world's largest emitter in absolute terms, accounting for around one quarter of global GHG emissions, twice as much as the US – though in per capita terms this means China is at half the US level.

China has long recognized the problem in its successive five-year plans and has set out ambitions to cut emissions, promising a CO2 emissions peak by 2030, and carbon neutrality by 2060. On the one hand, China has been playing a major global role in bringing down the cost of renewables such as solar panels. On the other hand, China continues to rely massively on coal.

Our 2022 OECD Economic Survey of China therefore recommends a major reduction in the construction of coal-fired power plants, which is needed for China to meet its climate commitments. China committed at the UN in September 2021 to stop building coal-fired power plants abroad but since that pledge 14 have come online and domestically China continues to build them at a rapid pace (half of the world total). The ongoing coal binge jeopardizes both China's decarbonization plans and global efforts to tackle climate change.

China's economy needs to move on from its reliance on real estate, which supports high-emitting sectors like cement and steel, to a low-carbon model. Rebalancing towards consumption-led growth – a longstanding but elusive goal - would shift economic activity to services and reduce the energy intensity of growth.