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New Hopes vs Current Realities





# Contents

<b>01</b>	<b>The World Is Threatened by Shrinkflation</b> Ding Yifan	01
<b>02</b>	<b>Inventing a New World Order: Toward Bretton Woods II</b> Shlomo Maital	09
<b>03</b>	<b>Into 2023 We Go</b> Enrique E. Figueroa	15
<b>Youth Voices</b>	• <b>From Globalized Balkanization to Decentralized Globalization</b> Brian Wong Yueshun	19
	• <b>From Uncertainty to Hope: A Look Back to 2022 in Sino- Western Relations</b> Christian John Hayward	27

# The World Is Threatened by Shrinkflation

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The *Financial Times* has invented a new term to describe the current global economic situation – “shrinkflation” – an amalgamation of the terms “shrinkage” and “inflation.” The new term aptly describes the situation of the US economy, which in the first and second quarters of 2022 experienced negative growth for two consecutive quarters – a technical recession. In the 1970s, Western economic growth stagnated and inflation remained high, giving rise to the term “stagflation.” Today, inflation has returned while economic growth is simultaneously shrinking. Shrinkflation is a more dangerous state than stagflation due to the confluence of macroeconomic policies gradually failing and the economy entering a state of free fall.

## The global inflation headache

In 2021, inflation rates in the United States and Europe started to rise. In 2022, the inflation rate showed signs of escaping fiscal and monetary controls. In the middle of 2022, the monthly inflation rate in the United States passed 8%, and in Europe, exceeded 9%. In the midst of public protests, central banks around the world responded with rapid interest rates rise. The US Federal Reserve successively raised interest rates by 0.75% three times, signaling that other markets should also raise interest rates aggressively.

However, the “Volcker moment”<sup>1</sup> did not occur in the United States, and the Federal Reserve began to release “dovish” information on the issue of continuous interest rate hikes. Thus, it seemed that the Federal Reserve would not continue

<sup>1</sup> The US Federal Reserve board led by Volcker raised the federal funds rate, which had averaged 11.2% in 1979, to a peak of 20% in June 1981. The prime rate rose to 21.5% in 1981 as well, which helped lead to the 1980–1982 recession, in which the national unemployment rate rose to over 10%.

to raise interest rates aggressively in the future. However, the economic growth rates of the U.S. and Europe have stagnated. According to the forecasts of international institutions, over the next two years, the average growth rate in developed countries such as the United States and Europe will be under 1%, inspiring the *Financial Times* to coin the term “shrinkflation.”

Milton Friedman, an American economist and originator of “monetarism,”<sup>2</sup> said long ago that inflation is ultimately a monetary phenomenon. Behind all the hyperinflation in history, there has been a phenomenon of serious oversupply of money. Since the outbreak of the Global Financial Crisis (GFC) in 2008, the central banks of developed economies such as the United States, Europe, and Japan have used unprecedented monetary easing policies to inject a large amount of liquidity into the market. Central banks first slashed interest rates, bringing nominal interest rates down to zero. However, when the market failed to respond, the Federal Reserve embarked on a policy of massive “quantitative easing” (QE) or the direct purchase of bonds in the financial market. The issuance of additional currency is commonly termed “printing money.” Each round of QE, as the Federal Reserve enters the market to buy bonds, first makes a high-profile statement of the purchase quantity. From 2008 to 2014, the Federal Reserve carried out three successive rounds of QE, buying a total of 3.9 trillion US dollars of bonds, which is equivalent to “printing” US dollar cash of the same amount.

The European Central Bank (ECB), the Bank of England (BoE), and the Bank of Japan (BoJ) were competing with the Federal Reserve to see which institution was more inventive. Central Banks continued to implement QE policies, buying bonds to release new liquidity, and more boldly implementing negative nominal interest rates. The British economist John Maynard Keynes had previously diagnosed the contemporary Central Bank policies:

“[M]onetary policy has limits. When the central bank’s interest rate drops to zero, it will fall into a ‘liquidity trap,’ because monetary policy will lose its effectiveness. People would rather put cash under their bed than put it in the bank and wait to be ripped off by the bank.”

Today, the central bankers in many developed countries have ignored Keynes’ diagnosis; thus, they enforced negative nominal interest rates – “whoever puts money in the central bank’s account, the central bank will ask him to pay a tax over this deposit.” In fact, negative nominal interest rates cannot be applied to individuals or enterprises. Commercial banks, however, were unable to resist. All countries have a system of bank statutory deposit reserve, whereby commercial

<sup>2</sup> Monetarism is a school of thought in monetary economics that emphasizes the role of governments in controlling the amount of money in circulation. Monetarist theory asserts that variations in the money supply have major influences on national output in the short run and on price levels over longer periods.

banks must put a certain percentage of their deposits in the central bank's account to ensure that commercial banks will not lend excessively and prevent depositors from making a "run on the bank" – simultaneous withdrawals that exceed the banks' cash deposits.

Central banks also raise or lower this statutory reserve ratio as an instrument of monetary policy by adjusting the liquidity in the market. As the central bank implements negative nominal interest rates, and the reserves placed in the central bank accounts by commercial banks become "hostage," whereby interest must be paid to the central bank, which is equivalent to an additional tax. Theoretically, the negative nominal interest rate is imposed to force commercial banks to release more loans to stimulate investment and consumption. However, during an economic recession, market demand is sluggish, and it is difficult for commercial banks to find borrowers, no matter how willing banks are to lend. As a result, after a sustained period of negative interest rates in the economies of Europe and Japan, those economies have not been able to significantly rebound.

The actual role of negative nominal interest rates is to curb the yields of national debts issued by a particular country. Since the last round of financial crises in the developed economies, debts have risen, and debt interest has become an onerous financial burden. The negative nominal interest rate of the BoJ makes the annual yields rate of Japanese debts less than 1%, which is significantly lower than the inflation rate, which greatly increases the sustainability of Japan's national debts.

While the central banks of the United States, Europe and Japan have released a large amount of extra-liquidity, inflation had remained relatively low. The main reason resides in the development of the international financial market and the power of globalization. Currencies such as the US dollar are hard currencies. When the interest rates of these currencies are cut sharply, bonds priced in these currencies are relatively inexpensive, and currency price differentials allow international investors to engage in arbitrage. As such, a large quantity of available liquidity went to emerging economies, thereby reducing inflationary pressure on their currencies. Moreover, in the past few years, globalization had allowed many emerging economies to produce a large number of lower-cost manufactured goods for the developed economies, keeping consumer prices and inflation low.

## The straw that breaks the camel's back

When new liquidity is released, it can flow to new international investment markets or to new investment darlings in the financial market and inflation may not immediately rise. However, changes in the geopolitical landscape during 2022 were unexpected and due to the interaction of negative factors, inflation has both risen and remained high.

First, the COVID-19 pandemic has persisted and mutated into more contagious variants, infecting millions more people globally. As such, labor forces in many emerging economies have been seriously impacted and manufacturing production has been disrupted. The epidemic's rebound also severely interrupted commercial activities in the United States, especially commodity logistics; thus, goods could not reach enterprises or consumers. Ports in the United States, such as Long Beach, were overflowing with containers, but there were no trucks to transport them. The resultant commodity shortages led to higher prices and created significant new inflationary pressures.

Second, the COVID-19 pandemic made many developed countries realize that their national security was vulnerable to long supply chains. Most notable was that the production of basic medical protection products could not be guaranteed. Therefore, governments in the United States, Europe, and other countries were determined to initiate re-industrialization programs. They have adopted legislation that requires their enterprises to on-shore, and have stipulated minimum proportions for domestic components in critical manufacturing industries. These "anti-globalization" activities not only restrict international trade, but also greatly increase the cost of production, further increasing price pressure and inflation.

Finally, the war in Ukraine has triggered comprehensive economic sanctions against Russia by the United States and Europe, causing the interruption of commodity circulation channels between Russia and Europe. Both Russia and Ukraine are important suppliers in the world's grain and energy markets. The war has hindered Ukraine's grain and oil exports, Russia's exports have been banned, and the prices of grain and energy in the international market have skyrocketed. Food and energy prices are the core inputs, and their price increases are reflected along all supply chains, exacerbating overall prices and core inflation rates globally.

## The central bank policy dilemma

In 2020, the US stock market plummeted due to the economic downturn caused by the COVID-19 pandemic. The stock market used the circuit breaker mechanism three times in a row to prevent market panic. However, the stock market continued to decline. Thus, the Federal Reserve responded by adopting a brutal policy of “limitless easing,” making massive purchases of bonds in the market and releasing massive liquidity into the market. Immediately following the Federal Reserve’s decision, the market cooled. Traders dared not second-guess the Fed and the stock market returned to normal. However, the Federal Reserve paid a high cost due to the total issuance of liquidity far exceeding the three previous rounds of QE and vast sums changing direction under the dual pressure of the pandemic and geopolitical maneuvering.

The United States also relied on the Federal Reserve’s excessive currency issuance to maintain financial market stability, but the Fed was constantly overdrawing its credit, which placed it in a very precarious situation. Before the 2008 GFC, the Federal Reserve had 800 billion US dollars in bonds on its balance sheet; after several rounds of bonds purchases, the balance sheet of the Federal Reserve had accumulated 7 trillion dollars of bonds, which reached 8 trillion dollars by 2021. Compared with that in 2008, the Fed’s balance sheet had increased by a factor of 10, and was twice as large as before the pandemic. The Fed faced the threat of bankruptcy if the US bond market were to collapse. The Fed was facing a perilous dilemma: if it sold bonds, prices would fall and the Fed’s losses would increase; if it increased its holdings, the risk also increased, because the risk of a market crash similarly increased.

Before the 2008 GFC, the Dow Jones index on the New York stock market was more than 14,000 points, and economic commentators warned of a gigantic bubble. As the GFC unfolded, the Dow Jones index plummeted below 5,000 points. However, after several rounds of monetary policy operations by the Federal Reserve, the stock market soared. At the beginning of 2022, the Dow Jones index had risen to more than 36,000 points and many investors began to realize they faced an abyss.

Both “shrinkflation” and “stagflation” create a dilemma for governments’ macroeconomic policies. To curb inflation, economic contraction ensues; to stimulate economic growth, control of inflation is lost. In the 1970s, after many years of stagflation, the United States and Europe finally began to focus on controlling inflation, ruthlessly tightening monetary policies and vigorously raising

interest rates; inflation was suppressed, but at the cost of economic recession. To deal with the new onslaught of “shrinkflation,” the developed countries have begun to adopt extreme monetary tightening policies to quash inflation and cause another round of economic recession.

## **A shadow over global recovery**

The decision by the central banks of major advanced economies to raise interest rates in response to resurgent inflation has placed many developing countries in perilous financial straits. As the Federal Reserve raised interest rates, the appreciation of the dollar attracted a large amount of capital back to the United States. The capital flight from many emerging economies caused their currencies to depreciate sharply. The Turkish lira depreciated by nearly 30%, the Brazilian real by 6.2%; the Indian rupee by 7%, the South African rand by more than 4.5%, the Vietnamese dong by more than 6.4%, the Indonesian rupiah by more than 10%, and so on. This caused financial market indexes in many emerging economies to also decline sharply and corporate financing tightened, adversely affecting economic growth. The depreciation of local currencies causes the cost of imported raw materials and energy to rise, creating imported inflationary pressures. To alleviate the pressure of depreciation, central banks in some emerging economies began intervening in the market, selling dollars and buying local currency. However, the intensification of capital flight also depletes foreign exchange reserves, further weakening the economy, and financial crises may ensue. This phenomenon caused the Latin American debt crisis in the 1980s and the Asian Financial Crisis (AFC) in the 1990s.

The large amount of external funds that flowed to the United States, in the wake of its rate hikes, was not good news for the U.S. either. For example, when the Federal Reserve raises interest rates, US treasury bond interest rates rise accordingly, and US government interest payments on treasury bonds also rise sharply. When US government debt is low, rises in interest payments pose no threat to government finances. However, since the 2008 GFC, the fiscal and financial situation in the United States has continued to deteriorate. In 2000, the US federal debt level accounted for just over 50% of GDP; by early 2022, US government’s debt of over 30 trillion US dollars had reached more than 120% of GDP. As the interest rate on the US national debt rises, the fiscal expenditure of the US government also increases significantly. The US Congressional Budget Office has predicted that debt interest payments will soon become the largest



expenditure item of the US government, surpassing military spending. If so, the United States and the world are on the precipice of another debt crisis.

In this context, the Fed is caught in yet another dilemma. By not raising interest rates, negative public expectations of long-term inflation rates increase, causing the US economy to fall into long-term stagflation and rendering macroeconomic policies ineffective. However, raising interest rates sharply may cause the underlying financial bubble in the market to burst, resulting in a financial crisis more serious than the 2008 GFC, and plunging the economy into a long deep recession. Moreover, if the Federal Reserve hesitates and US dollar hegemony over the international monetary system remains unchanged, the global economy will be severely restrained by the US economy and may fall into disorder. Of course, some international capitals view financial market chaos as an opportunity to fish in troubled waters.

### **Can the threat of global shrinkflation be eliminated?**

Despite the efforts of the Fed, ECB, BoE, and BoJ to seek urgent alternatives to curb inflation and achieve a “soft landing” for their economies, shrinkflation has demonstrated no signs of improvement. In fact, central banks globally need to change their mindset to exit the increasingly dark shadow of global shrinkflation.

Not long ago, some economists explained that robust global economic growth and low global inflation were due to the rapid development of globalization. However, the developed economies are now pinning their hopes on monetary policy adjustment as a panacea and disregarding the growing risks of global financial instability. The persistence of the Cold War mentality restrains the G7 from re-embracing free trade and strengthening international cooperation to regain the full efficiencies of global supply chains and their significant cost advantages. Easing geopolitical pressures would also stabilize and reduce the cost of key raw materials such as energy and food, and global inflationary pressures would substantially decrease.

To change the mindset of the developed countries, led by the United States, they must be reminded that only by rebuilding mutual trust and international cooperation can the world find a path to curb global inflation and promote growth. At the G20 summit held in Indonesia, President Xi Jinping once again emphasized that the members of the G20 are major economies in the world, and

should embody the responsibility of big powers, play an exemplary role, and seek development for all countries, for the well-being of mankind, and for the progress of the world.

“With human civilization already in the 21<sup>st</sup> century, the Cold-War mentality has long been outdated. What we need to do is to join hands together and elevate our win-win cooperation to a new height. Countries should respect each other, seek common grounds while reserving differences, live together in peace, and promote an open world economy.”

The pursuit of anti-globalization policies by the developed countries has only resulted in the dilemma of high inflation and weak economic growth for the global economy. The era of Planetization and the “global village” has arrived. Whether it is climate change, the spread of the pandemic, or even a global economic recession, people everywhere face similar challenges and difficulties. Only by uniting, showing solidarity and assisting one another can global inflation be curbed, systemic economic and financial risks be avoided, and a new impetus for global economic growth be discovered to build a shared future for mankind.

# Inventing a New World Order: Toward Bretton Woods II

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*“The majestic beauty of the surroundings was in striking contrast to the temporary bedlam which broke out on this plateau in the shadow of Mount Washington.”*

*- New York Times, July 1944*

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On July 1, 1944, delegates from the Allied nations gathered at Mount Washington Hotel in Bretton Woods, New Hampshire. World War II raged on. Much of Europe and Asia was destroyed. Fierce fighting continued in the Pacific and in Europe.

The purpose of the meeting – the “bedlam” described by *the Times* – was to rethink, reinvent and rebuild the entire global economic and financial system, at the war’s end. Delegates had only 21 days. They had to vacate their rooms by July 22, to make room for the wealthy moguls of Boston.



What emerged from the 21-day gathering was a powerful ecosystem that led to the unprecedented generation of wealth and income. Beauty and beneficence emerged from bedlam. The Allied nations invented the IMF, the World Bank, and crucially, the GATT – General Agreement on Tariffs and Trade.

As a direct result, world GDP grew from \$9.25 trillion in 1950 (measured in inflation-adjusted 2011 dollars) to \$47 trillion in 1990, and, after the Berlin Wall fell on November 9, 1989, accelerating European unity, to \$188 trillion in 2015. Such 20-fold global growth was unprecedented in world history.

What generated this boom in large part was the GATT, which opened markets to booming world trade.

But there was a crucial flaw. J.M. Keynes, representing the UK, wanted to create a World Central Bank to manage a world currency. America's delegate Harry Dexter White refused. There already is a world currency – the dollar, he said.

And at the time, because the US GDP was fully 75% of a ruined world GDP, America's money spoke loudest. The dollar would be the world currency henceforth. To this day, over 85% of world foreign exchange transactions are done in dollars.

Herein lies the rub. The legal mandate of the US Federal Reserve system is to manage inflation and employment for the US economy. At present, the US Fed is hiking interest rates drastically to battle US inflation. This pulls money in from the rest of the world like a magnet, forcing other central banks to boost their interest rates, like it or not, or see their currencies collapse. Basically, at present, the US Fed is exporting an economic recession. There is growing and justified unhappiness in the world over this policy.

So, clearly, this is the time to re-imagine a new Bretton Woods agreement – Bretton Woods II. The world faces new challenges. It will take a high-level gathering of world leaders to resolve them.

What changes must be made in the global economic and financial system? Is it even reasonable to imagine a renewed global system, given the current Cold War-like fractures among China, Russia, and the U.S.?

What follows is an imaginary account of what a new Bretton Woods might accomplish. It may be science fiction – but SF has anticipated many futuristic developments that came about in reality.

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It is July 1, 2024. Mt. Washington, the highest mountain in New England, is surprisingly still snow-topped, after a snowy winter, despite global warming. At its foot lies the historic Mt. Washington Hotel, lately refurbished, built of New England wood, its walls decorated with photographs of the historic 1944 gathering.

Delegates from the G20 nations are gathering. Russia is absent. Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union are present. A special guest is Mia Mottley, Prime Minister of Barbados, a tiny nation of 300,000 – for reasons that will be explained later. Also present is Henry Kissinger, 101 years old, still vigorous and full of wisdom.

Bretton Woods II culminates an intensive process, in which creative thinkers from all disciplines and walks of life thought deeply about how to redesign society – the way we live, love, and work. To provide structure for this initiative, the principles of design were employed – the way beautiful products, services, buildings, etc., are designed. It served as a paradigm for redesigning society, to create one that is just, fair, efficient, stable, productive, creative, lively and charitable.

Thinkers worldwide were asked to apply the principles of design to create a society that “fulfills the adjective.” If the adjective chosen by the thinker is “just” – the just society, then his or her mission was to use the design principles to redesign a more just society. If “fair” – the fair society, then, use design principles to redesign a fairer society. And so on.

The resulting briefing book is placed before the Bretton Woods II delegates, jampacked with effective, creative ideas for reinventing the world order.

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US Treasury Secretary Janet Yellen opens the gathering on July 1. She offers the world a gift.

“Often,” she remarks, “it takes 78 years for nations to recognize and admit their mistakes. America erred at Bretton Woods I, in 1944. The dollar cannot be the US currency and the world currency at the same time. True, the dollar is stable, trustworthy, well-managed. As Fed Chair, I oversaw this, from 2014 to 2018. But the dollar is specifically, overtly managed for the benefit and well-being of Americans. What if the world wants and needs low interest rates, while the U.S. wants and needs high rates (as occurred in 2022)? The answer is clear. High trumps low.

“We are proposing today to create a World Central Bank. Keynes wanted to call the resulting global currency ‘bancor.’ It will serve not as daily currency but solely to finance trade and investment by governments. The global currency will be backed by tranches of leading world currencies: dollars, euros, renminbi, yen, and some gold. The World Central Bank will be led by a professional, with a global directorate. Its mandate will be: To manage the world supply of currency for the well-being of the nations of the world, specifically trading nations. The world money supply will be managed in a way that stabilizes the world economy, just as a domestic Central Bank manages its money for its own economy.

“We Americans admit – we should have done this, as Keynes advised, in 1944. Better late than never. And by the way – *de facto*, we already do *have* a world currency. It has a rather boring name: Standard Drawing Rights, SDRs. Let’s give it a proper name, an institution, a legal document, and bring it out into world financial markets!”

“I now yield the podium to my friend Mia Mottley,” Yellen says, waving to the next speaker, “Prime Minister of Barbados. Mia will explain how we can deal with the fallout from global warming that is impacting us all.”

Stalin’s scornful remark about the Pope (“how many divisions does he have?” said the French Foreign Minister in 1935), may apply to Mia Mottley. She has zero divisions. But as the leader of her tiny Caribbean island nation of 300,000, she brings a powerful intellect and a London School of Economics education.

She outlines what is later known as the Bridgetown Initiative, to be implemented as part of Bretton Woods II. And it is brilliant. SDRs give holders the right to borrow from other IMF members at 2.7%. Bridgetown proposes a Global Climate Mitigation Trust that holds \$500 billion of *unused* SDRs. These become collateral; the Trust borrows currencies in the SDR basket and lends them to low- and middle-income countries, in return for shares in the projects. In this manner, the borrowing does not appear in the already-stretched debt structures of these countries. The Trust has the potential of drawing \$3-\$4 trillion in new savings into the fund. According to the IMF, the “energy transition” enabled will generate enormous net gains in global GDP.



All this, from the leader of a nation smaller than the rounding error of the smallest Chinese city.

Yellen, Mottley, and others fired volleys of new, practical and creative ideas. A clear workable blueprint for a new world order emerges.

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Henry Kissinger ends the Bretton Woods II gathering with a short, amusing talk. It is Saturday, July 22, 2024, and the delegates have to vacate their rooms – because, as in 1944, the wealthy scions of Boston had reserved rooms for their summer vacations. Over breakfast of waffles and scrambled eggs, Kissinger outlines his theory of leadership.

“I have personally known six leaders who changed the world,” Kissinger says. “Here they are, in order: Konrad Adenauer, who brought Germany back into the community of nations through ‘the strategy of humility’ (admit transgressions, work to try to make amends), Charles de Gaulle (‘the strategy of will’), Richard Nixon (‘the strategy of equilibrium’), Egypt’s Anwar Sadat (‘the strategy of transcendence’), Singapore’s founding father Lee Kuan Yew (‘the strategy of excellence’), and Margaret Thatcher (‘the strategy of conviction’).”

“Those six key qualities capture all that we seek in a leader,” Kissinger says. “Humility, equilibrium, will, excellence, conviction, transcendence. I hope and trust the leaders gathered here will embrace those qualities and implement them in the decisions taken here the past 10 days.”

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Bretton Woods II stood the test of time. It brought new stability to the world financial

system, by regulating money and credit in a manner that regulated the well-being of all nations, not just the U.S. It brought crucial resources to the Global South, suffering from the climate crisis, from the Global North whose wealth was built on the carbon emissions that wrapped the Earth in a warm blanket of CO<sub>2</sub>. Destabilizing flows of desperate migrants vanished, as opportunities flourished at home.

BWII fostered new trade among Pacific nations and generated renewed export-driven growth after the pandemic recession. And as with Bretton Woods I, it renewed the time-proven adage: Nations that grow wealthy together are far less likely to fight one another; people who find opportunities remain at home rather than flee abroad; the nations that created global warming at last paid reasonable damages to the poorer nations that suffered from it; the enormous destabilizing force of wealth inequality diminished...

...And then, I woke up.

# Into 2023 We Go

## Enrique E. Figueroa



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The 22<sup>nd</sup> year of the 21<sup>st</sup> century will come to an end amid a worldwide sentiment that unity will continue to evade us, particularly in the U.S. We have the threats of inflation and recession, a war in Europe, strident political divisions in the U.S., expanding illegal migration from Central and South America to the U.S., tribulations in the Middle East, the effects of climate change continue to cause natural disasters, and viruses are still not under control, particularly in Africa. Are there signs that we can begin to mediate any of the above conditions? Allow me to put forth some possible scenarios.

The latest US Federal Reserve data show that inflation has slowed – only a 0.5 rate increase as compared to the previous rate hike of 0.75. Unemployment remains low, jobs continue to be added to the US economy, and there is a plentitude of available jobs. I see a continuing reduction of inflation throughout 2023 and do not anticipate a recession. Instead, I see a growing economy.

Such a growing economy requires a labor supply to sustain it, but the immigration situation in the United States – both legal and illegal – needs policy prescriptions to address the situation. The Democrats will no longer control both houses of Congress, but contrary to popular belief, I believe a divided Congress will develop policy prescription, particularly in the legal immigration arena. The reader may remember that the last major illegal immigration reform took place during the Reagan administration, when no party controlled both houses and the Presidency. Comprehensive immigration reform does not have a high probability of occurring, but “Dreamers” and farm labor legislation have the highest probability.

Perhaps the best news regarding combating climate change is the recent



announcement of achieving a breakthrough in nuclear fusion. Scientists have successfully sparked a fusion reaction that released more energy than the energy that went into it, though its practical and commercial use is many years away. Additionally, the production and acceptability of electric vehicles continues to increase, and alternative sources of energy, particularly solar, are contributing larger and larger shares of our energy consumption. The seemingly intractable divide between developing countries and developed countries (historically major contributors to our current worldwide greenhouse gas load) regarding who should “pay” for implementing gas mitigating measures isn’t imminent. Can there be an alternative and/or an amended COP27 in 2023? It remains an open question.

The latest US poll shows that a relatively small percentage of the Republican electorate supports the 2024 candidacy of former President Trump, though majorities support Trumpism. Florida Governor DeSantis appears to be the strongest challenger to Mr. Trump’s 2024 presidential candidacy, though depending on Mr. Trump’s legal situation, a rather large number of Republican candidates may emerge in the coming year. Conversely, President Biden is showing all indications that he will seek his second term, though Democratic support for his candidacy is only slightly higher than Republican support for Mr. Trump. The midterm elections in the U.S. were very much a surprise to most political pundits. Surprises ranged from Republicans losing a seat in the Senate to Democrats losing three seats in the House from blue state New York. Can the political partisanship dissipate in 2023? The answer may lie at the local and state level, where political dynamics point to problem resolution, rather than party affiliation entrenchment. Many in the electorate are tired of the political infighting and one indicator is the switching to an independent party status – e.g., leaving both major parties. Key to the political climate in the U.S. will be how the very narrow Republican controlled House will function. Will the moderate wing of the Republican party exercise more power and if so, what will be their agenda? Compromise? Areas such as the regulation of social media and crypto-currency, minor immigration reform, crime (including domestic terrorism), and support for Ukraine are possible compromise issues next year.

The power and influence of media, be it establishment or otherwise, continue to affect our social structure and well-being. Disinformation or out-right untruths by a milieu of social media creates divisiveness, anger, fear, and a sense that the country is not moving in the right direction. How one untethers from the “harmful” media is one of our challenges in 2023. Journalism is under severe pressure: local media has for the most part disappeared from local communities,

the atomistic nature of outlets pushes people to cease reading, hearing or seeing the news, thereby creating different realities, and the economy returns to the situation that following a particular agenda by a particular media outlet outweigh maintaining the integrity of the media outlet. Additionally, 65-year-olds and the older view the world in a quite different way compared to the view of 30-year-olds and the younger. These views are established and sustained by their choices of media consumption. Next year will continue to elevate these divergent views, but perhaps lead to an accommodation. Or will media adapt to this dynamic by recognizing their responsibility to the “greater good”? I am hopeful of the latter. I am familiar with a number of municipalities in the U.S. that are supporting and organizing grassroots “newspapers” and/or podcasts to reflect the sentiments of those local communities and what affects their livelihoods and well-being.

The US public education system is fraught with passionate discourse about the future of public education. Way too many children are not receiving an adequate education, particularly from inner-city school districts. Additionally, politicians are using public education as a “punching bag” for political gain. No doubt, US public education requires significant reform, as demonstrated by the large number of parents that are choosing alternatives such as private schools, choice schools, charter schools, and home schooling. Next year will see further migration away from public schools and I believe it is a good outcome, though the short-term reform process will be painful. Are teachers’ unions part of the problem or part of the solution? Most of the American electorate believe these unions are part of the problem. I believe that in 2023, other unions who represent different industry workers, and parents also, will and should play a role in our public school reform. Perhaps refraining from referring to teachers as “teachers,” but as “learning facilitators” will emerge. Learning and its measurement should drive reform, and accountability should be supreme. It is a difficult and long-term process, but 2023 may begin this much needed reform.

The U.S., and to a growing extent, the world, are multicultural societies. In many places and situations, race and ethnicity will continue to define one’s standing in society. The notions of “Identity,” “Belonging,” “Purpose,” and “Meaning” manifest themselves differently in different cultures and at times, one culture’s gain is viewed as a loss by another culture. How we achieve respect and admiration to other cultures is highly a function of how major media renders respect and admiration to the various cultures. Yes, the U.S. has been a “melting pot” for/ to prior generations, but the baby boom generation was likely the last one to truly believe in its prevalence in our society. Subsequent generations have progressively lent less credence to the theory and the “salad bowl” theory has

emerged – it is still emerging and evolving. Next year’s presidential campaigns will indirectly, or perhaps directly by some campaigns, refer to the salad bowl theory as fittingly adequate and outline its implications for how we interact across cultures and hopefully, from campaigners’ perspective, garner more votes for the candidate. The implications of adopting the salad bowl theory are yet to be fully understood and appreciated, particularly in rural America. Yet, 2023 will see a greater progression towards wanting to understand the implications to our society – e.g., seeing the long-term benefits, including mitigating divisiveness.

I close with a sense of hope. No doubt, many challenges face us as countries and the world as a whole. I am encouraged by my reading of history, which reveals that we have experienced more troubling and divisive times – our Civil War, two World Wars, the Civil Rights Movement in the U.S., the Vietnam War, and the Cold War. We have emerged from these challenges in many, though not all, ways stronger and more united. Yes, it will take local, state, national, and world leadership to define our unifying mission and develop the multi-faceted and multicultural messaging to achieve the mission.

**Youth**

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# From Globalized Balkanization to Decentralized Globalization

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When the term “Balkanization” was first coined, it was deployed to describe the disintegration of territories formerly held by the Ottoman Empire into a number of smaller nations and states throughout the course of the 19<sup>th</sup> century.<sup>1</sup> It has since morphed into a term that categorically describes the breakdown of large, multi-ethnonational states, into smaller nation-states or territories governed respectively by ethnically homogenous populations.<sup>2</sup> A product of balkanization is increased entropy and fragmentation in the regional political order, paving the way for further destabilization and contestation between competing factions – jostling for not necessarily the right to lay claim to the throne of dominance, but the right to defend themselves against external interference.

## Globalized balkanization is the new norm.

We live in an era where international relations are – in my view – best described with the phrase *globalized balkanization*. There are two terms to unpack here – the metaphor of balkanization, and the caveat and addendum of it being a global phenomenon.

On the balkanization front, if we substitute the loosely defined “global order” for the large state, and the various “spheres of interaction” of like-minded countries, grouped in broad coalitions or loose pacts, as

- 1 Pringle Robert, “Balkanization|Britannica,” in *Encyclopædia Britannica*, 2019, <https://www.britannica.com/topic/Balkanization>.
- 2 [www.worldcat.org](http://www.worldcat.org), accessed December 26, 2022, <https://www.worldcat.org/zh-cn/search?q=n2:1300-8641>. (this citation is not clear)



the smaller states, the parallels would become strikingly clear: the post-Cold War, neoliberal consensus is gradually giving way to regional blocs – blocs that converge partially with one another in some respects, diverge in others, and even clash over some.

Consider, for instance, an EU that is increasingly seeking to maintain internal unity by preserving some degree of strategic autonomy with regards to the United States – and with tactical engagement with China on issues of common interest. Recent visits by German Chancellor Olaf Scholz and President of the European Council Charles Michel to China have spoken to the importance of chartering a European future that can work constructively with China, set aside ideological divergences, and collaboratively engage one another in brokering and maintaining regional peace. This reflects a subtle yet significant departure from the trenchant, critical rhetoric adopted by perhaps the more transatlantic aligned members of the European community.

As for “globalized” – and a crucial distinction that must be established between the here-and-now and the world 40 years ago, is that there exists a substantially greater proliferation of regional blocs that possess sufficiently robust gravitas to carve out spheres of operational and decisional autonomy for themselves. The EU and the U.S. are by no means wholly aligned actors – as evidenced by recent tensions over the latter’s handling of the war in Ukraine, whilst it would be imprudent to assume that Russia and China hold a non-existent “alliance” – the two possess a relationship of proximity, yet such proximity does not suffice in rendering them formal allies.<sup>3</sup> Throw into the mix ASEAN, the Gulf states, the MERCOSUR, and the Indian Subcontinent, and it’s clear that we’ve ended up with a relatively multipolar order.

Obviously, certain poles – especially America – remain dominant above others. Yet that misses the wider point – that balkanized factions and super-coalitions of states are increasingly ubiquitous, and unlike forty years ago, non-alignment between “blocs” is not an option. Indeed, even in their renewed pitches for non-alignment, Indonesia and India have found themselves serving increasingly as poles in their own right towards which nearby powers have gravitated, especially in the wake of the ongoing war in Ukraine. The Gulf states, with their distinctive edge in energy production and green transition, have emerged as increasingly important players not just in the Middle East and North

<sup>3</sup> Brian Wong, “Xi’s Views on Russia Have Not Soured,” IAI TV - Changing how the world thinks, September 21, 2022, <https://iai.tv/articles/xis-views-on-russia-putin-have-not-soured-auid-2244>.

Africa, but on the global stage. This is in part demonstrated by the rapidly warming ties between China and Saudi Arabia, as the two countries seek to establish genuine energy multipolarity.

The lines demarcating the borders between blocs are increasingly clear – whilst in the post-Cold War “Belle Époque version 2,” it was the Ricardian logic of comparative advantage and specialization that came to structure the alignment and dealignment of countries qua economies; such laws no longer bind as vigorously as we enter the third decade of the 21<sup>st</sup> century. Battle lines are precipitously drawn along politico-ideological lines – chiefly, lines of ostensible divergences over values, beliefs, and commitments, which reflect undergirding geopolitical considerations. Realism has won again, but has learned to masquerade itself using the constructivist form – through rhetorical gadgets such as “common principles of democracy and freedom,” “shared fate,” “universal values” or “national sovereignty.” The political machinations of the selected few wielding disproportionate power over the masses through media and governmental controls, have yet again prevailed.

The manifested outcomes are clear. I have written elsewhere that financial balkanization is threatening to cause the splintering of the world into disparate tectonics and circulations of capital, debt and loans, investment, and even – eventually – trade of core goods and services.<sup>4</sup> Cultural and people-to-people exchanges have been vastly dented by allegations of ostensible espionage and infiltration.<sup>5</sup> Supply chains are being rewired in the name of “national security” and legitimized through daintily titled processes of “friend-shoring”<sup>6</sup> and “near-shoring” (hint: distance does not equate costliness, but how could economists protest in the face of political pressures?).<sup>7</sup> The pandemic is thus both an epitome and culmination of the partially latent, partially manifest forces pressing for selective decoupling and recoupling by political leaders – driven in turn by a mixture of domestic populism and ideological fixations.

This is not to say that globalization is dead. Globalization remains alive – though perhaps not kicking and not particularly well; those championing it must nevertheless reckon with the fact that considerations pertaining to national security, geopolitical interests, and identity politics have come to increasingly dominate discussions

- 4 Brian Wong, “The Era of Financial Balkanization,” *Yale Journal of International Affairs*, December 5, 2022, <https://www.yalejournal.org/publications/the-era-of-financial-balkanization>.
- 5 Brian Wong, “Trying Times for Track II Diplomacy,” *U.S.-China Perception Monitor*, October 4, 2022, ./
- 6 Julia Kollwe, “Friendshoring: What Is It and Can It Solve Our Supply Problems?,” *The Guardian*, August 6, 2022, <https://www.theguardian.com/business/2022/aug/06/friendshoring-what-is-it-and-can-it-solve-our-supply-problems>.
- 7 Roslyn Layton, “The Security, Privacy and Supply Chain Problems of the Chinese Military in Your iPhone,” *Forbes*, April 15, 2022, <https://www.forbes.com/sites/roslynlayton/2022/04/15/the-security-privacy-and-supply-chain-problems-of-the-chinese-military-in-your-iphone/?sh=46e4a5ef5fad>.

pertaining to supply chains and macroeconomics. Yet we must not be bushy-eyed about the many predicaments that balkanization presents – to be explored shortly.

## Deconstructing the causes of globalized balkanization

How did we get here?

A brief detour is needed. Trade, as a share of global GDP, peaked in 2008 at the beginning of the Global Financial Crisis.<sup>8</sup> Yet this oft-cited “proof” for de-globalization fails to take into consideration the fact that globalization could also play out via labor outflows and inflows, as well as investments and injections – via capital markets – into corporations, funds, and start-ups. So perhaps the answer should be rephrased: trade has become less global since 2008. After all, the trade openness index suggested that trade openness peaked in 2008, at 60.1, and has gradually slumped to a 57.2 since then.<sup>9</sup>

What this factual nugget indicates is a more fundamental truth – that the economic dividends of *unfettered* globalization, the kind of continuous, sustainable expansion in trade flows and circuits that had prevailed for two decades after the fall of the Berlin Wall, are now fluttering out. Global trade growth is losing its glow – as the marginal productivity and welfare improvements under its occurrence are gradually dissipating. Whispers that the Golden, Gilded Era of trade- and capital-induced economic growth shall come to an end have begun circulating amongst private investors and high net-worth individuals – there is thus *private disillusionment* towards globalization. More publicly and on a mass level, the amplification of preexisting inequalities, the reinforcement of oligopolies and monopolies, and the accruing of resources and wealth to the hands of the few, have in turn compounded the *public disillusionment* towards the same processes. Gone are the days when it would be a walk in the park to sell the faux equation, “globalization = prosperity for all.” Countries are turning inwards, or, indeed, towards like-minded and dependable complementary partners, to redress long-standing financial and economic deficits and imbalances within their economies.<sup>10</sup> Globalization remains instrumental in many regards – but is no longer viewed as the panacea to domestic problems:

8 Deutsche Welle, “Has Globalization Passed Its Peak?,” DW News, April 3, 2022, <https://www.dw.com/en/has-globalization-passed-its-peak/a-61325661>.

9 Douglas Irwin, “Globalization Is in Retreat for the First Time since the Second World War,” Peterson Institute for International Economics, October 28, 2022, <https://www.piie.com/research/piie-charts/globalization-retreat-first-time-second-world-war>.

10 James A Fok, *Financial Cold War* (John Wiley & Sons, 2021).

the can can't be ceaselessly kicked down the road, and one must face the music.

Yet this does not suffice in explaining the rollback of globalization – especially in instances where economic rationality would point to the need for more, not less, integration and collaboration with international partners. Even if we take the above point as a given, it should point to a world where globalization is halting – not one where barriers are being propped up, sometimes with vast monetary and current account detriments to those erecting such barriers. Tariffs and protectionism, surely, must have an economic rationale – or so one would think.

This is where the second reason for this increasing balkanization of the world order kicks in – the return of ideologically infused geopolitics and national security considerations, which have both shifted politicians' understanding of costs (e.g., interference by external actors via mechanisms such as financial decoupling and coercion, targeted sanctions, and resource blockades is now a cost that is to be pocketed into consideration), and benefits (e.g., the realization of some whimsical, rigidly stipulated state doctrine or ideological commitments). Considerations previously dubbed to be exogenous and peripheral to economic and trade calculations, have now taken central stage in this modus operandi that vacillates between face-saving escalation and risk-mitigating de-escalation. The lines between bluffing and signaling are increasingly blurred. Leaders of countries have once again opted to speak in riddles of “values” and “norms” – as if they had existed, as if they were real, even if many of such normative rhetoric was but a weapon of the clever yet cynical political elite.

Countries are now waking up to the possibility that trading with other countries may not be an effective means of converting them – plausibly against the will of their own people – into an alien and transplanted system of governance. Correspondingly, many more are learning to grapple with the fact that trading partners could – overnight – opt to cut off all contact and flagrantly defy preexisting arrangements and agreements, all in the name of “morals” and “ethics” – ubiquitous in citation yet scarce in real supply in global politics.<sup>11</sup>

11 Andrew Sheng, “As Major Powers Fight, the Rest of Us Must Learn to Help Ourselves,” *South China Morning Post*, June 4, 2022, <https://www.scmp.com/comment/opinion/article/3180279/major-powers-fight-rest-world-must-learn-help-themselves>.

## Towards a model of decentralized globalization

We have every reason to be concerned. A more balkanized world is one where escalation in military conflict, potentially involving nuclear weapons, becomes more likely. It is also one that is undergirded by cost-push inflationary pressures – rendering consumer goods far less affordable and the livelihoods of the poor far more precarious than before. Most fundamentally, the undoing of decades worth of globalization, would instigate further internal strife and tensions, perhaps even civil war, amongst regions with weak governments and that have depended upon peacekeeping and aid from responsible stakeholders within multilateral institutions. Above all, balkanization would severely impede international efforts in tackling shared challenges – whether it be climate change, the rise of artificial intelligence, or, indeed, biosecurity and public health crises. No one – save for those who perhaps profit off selling arms or conspiracy theories, or both – should celebrate these despair-inducing shifts.

There is no easy way out. I cannot proclaim to have the solution that can put a halt to this ongoing slide towards splintering, fragmentation, and innate geopolitical chaos. What I do strive to outline here, however, is effectively an outline for a new *modus vivendi* – one that takes the bulwark of globalized balkanization, and transforms it into a state of decentralized globalization.

My thesis is this: only by loosening the grip held by “poles” over their “peripheries” and associated states, can we stymie the increasingly thinkable unthinkable – a total, full-out war between major players in the world.

It is imperative that states at the periphery of regional blocs should be granted more agency and ability to “say No.” Whether it be through establishing zones where countries from different ideological blocs and groups can still engage in proactive consolidation of ties and collaboration across geopolitical cleavages, or in more evenly distributing power and resources across members of the same bloc and reducing the concentration of influence in the hands of the few, these are vital processes that could ensure that blocs do not react or respond to perceived provocation in the same way that the countries at the start of World War I did.<sup>12</sup> Malign balkanization can be converted into

12 Samuel Williamson, “The Origins of World War I,” *The Journal of Interdisciplinary History* 18, no. 4 (1988): 795–818, <https://doi.org/https://doi.org/10.2307/204825>.



benign decentralization, provided that countries from disparate blocs can come to cultivate common grounds and broker more enduring guardrails on areas where they diverge. Such logic does not just apply to China and the U.S., but also to countries and institutions such as India and Pakistan, the EU and Britain (war remains unlikely between these two factions, but economic tensions would only continually escalate in the years to come), and factions within the Levant. Most countries in the Global South do not want to take sides in conflicts in which they have minimal stake – especially those that are pursued on grounds that are, to put it bluntly, asymmetrically, and unevenly applied to select countries. We must work hand-in-hand to facilitate genuine South-South collaboration that liberates, as opposed to prescribes, the peoples who deserve better.

Cynics may accuse this proposal of being naïve and Pollyannaish. Indeed, these are labels that could easily be slapped onto any and all who refuse to subscribe to the kind of amoralistic realism espoused by certain experts in the field of international relations. Yet if we are to prevent balkanization from precipitating irrevocable damage to the world order, we must and should act. Indeed, statesmen at times of crises should have the courage to act, to lead, and to change – not just their people, but the world at large.

# From Uncertainty to Hope: A Look Back to 2022 in Sino-Western Relations

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## The turbulent 20s continued:

2022 has been another difficult year for global geopolitics and has perhaps been another signal of the increasingly difficult times we have been facing since the global outbreak of COVID-19 and its lasting impact upon foreign policies across the world. Wars, military exercises, relaxing of pandemic restrictions and deaths of an older generation of heads of state have taken their toll on the major powers of the world. The U.S., the UK, China, and Russia have all suffered their share of hardships this year in both foreign and domestic policy, while the ripple effects of the tragic war in Ukraine are still reverberating globally.

This doesn't mean that 2022 was as catastrophic as the last two years. Almost all nations have now fully relaxed their COVID-19 measures (including China being in the process currently), but now have to deal with the new outbreak of monkeypox and new COVID aftershocks. There has been a slight overall thawing of international relations and international sports events such as the Beijing 2022 Olympic and Paralympic Winter Games, along with the FIFA World Cup Qatar 2022, which have contributed to an injection of much-needed harmony. This has been set alongside the resumption of large-scale summits including COP27, the G20 Bali Summit, and the 20<sup>th</sup> National Congress of the Communist Party of China (CPC).

Although naturally it would be impossible to cover every major event, here are some highlights of the year, taking into account the troubles and the positives while giving particular attention to the state of Sino-British relations, which have been on somewhat of a rollercoaster with three different prime ministers all taking very different approaches to their “China Strategy.”

## The Russian invasion

Currently, the dominant issue on the world stage is the Russian “Special Military Operation” in Ukraine. Naturally, it has had a major impact on not just general international relations but also the prices of fuel and food due to Russia being a major gas supplier to Western Europe and beyond.

China’s role in the conflict has been discussed at length in the debate over the current direction of the war. Although China has been seen as obtuse towards the war, the China-Russia relationship has been under increasing scrutiny.<sup>1</sup> It is clear that China still has a vital role to play in negotiations that must eventually come to wind down the war. Charles Michel, President of the European Council and former Prime Minister of Belgium, has recently conducted meetings with President Xi Jinping to discuss mediation of the on-going war.<sup>2</sup> Although many think China is more openly pro-Russia, the reality is far more complicated. For example, when it came to Russia being sanctioned even more heavily by the West, Russia may have thought that the Chinese economy could protect it. However, while UnionPay did at first assist the Russian “Mir” payment system, it eventually did stop supporting Russia due to the risk of sanctions from the United States,<sup>3</sup> demonstrating a far less black-and-white situation than assumed by many when assessing China’s support for Russia.

It is in the world’s interests for the war to come to an end, yet some Western analysts falsely see China as using the war to eye up what could happen if cross-Strait relations with Taiwan deteriorate, leading to one of the biggest geopolitical stories this year.

1 U.S.- China Economic and Security Review Commission, “China’s Position on Russia’s Invasion of Ukraine,” [www.uscc.gov](http://www.uscc.gov), October 27, 2022, <https://www.uscc.gov/research/chinas-position-russias-invasion-ukraine>.

2 Charles Michel, “Remarks by President Charles Michel Following the Meeting with Chinese President Xi Jinping - Consilium,” [webcache.googleusercontent.com](https://www.consilium.europa.eu/en/press/press-releases/2022/12/01/remarks-by-president-charles-michel-following-his-visit-to-china/), December 1, 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/12/01/remarks-by-president-charles-michel-following-his-visit-to-china/>

3 Alessandro Arduino, “What Have We Learned about How China Deals with Partnerships during the Ukraine Crisis?”, *UK National Committee on China*, no. 11 (May 2022): 1–4, <https://img1.wsimg.com/blobby/go/de00d42f-877f-4d04-bf3a-320ffbed369c/UKNCC%20GCP%20May%202022%20Combined-compressed.pdf>.

## Nancy Pelosi's visit to Taiwan, was this a trap?

It is no secret that Nancy Pelosi has been a long-standing ally to the breakaway province of Taiwan, with the mainland in a somewhat delicate position following the COVID-19 outbreak and international pressure on her internal affairs. When Speaker of the House Pelosi went to visit Taiwan, she was the highest-ranking member of the US government to travel there in decades. Pelosi has been a long-time critic of the mainland for over 40 years,<sup>4</sup> which obviously soured the ever-so-slight thaw in U.S.-China relations and led to a huge hit in Taiwan-mainland relations. So much so that before her visit, President Biden discouraged the stop-over on her already problematic East-Asian tour<sup>5</sup> and triggered a temporary escalation in saber rattling and hostile rhetoric between Eastern and Western superpowers.<sup>6</sup>

The United States, which has repeatedly sailed vessels through the Taiwan Strait,<sup>7</sup> sat back to see how the People's Republic of China would react. The PRC did so with publicized military exercises around the island between the 4<sup>th</sup> and 15<sup>th</sup> of August to demonstrate the Chinese Army's capabilities. One could argue that all this may have been in the interest of the U.S., opening a window on how the PRC would hypothetically take back the island. China did indeed respond angrily with its modern blue-water fleet, giving the Americans a clear view of how strong the modern PLAN (People's Liberation Army Navy) now is.

Of course, the whole situation did nothing to calm international tensions. If Pelosi had been professional enough, she would have known her visit would spark an international incident at best and at worst, a war. Although the mainland may talk about reunification in vague terms, Pelosi's reckless visit only showed that the United States is prepared to be complicit in the destabilization of East Asian and Chinese internal affairs. However, we also witnessed the Western media arguing that the mainland's drills did nothing to calm the situation afterwards, not helping China's already unpopular image.

## Boris Johnson's downfall, U-turns and flight of the hawks

Boris Johnson's rise and fall, quickly followed by the United Kingdom's

4 Yu Jie, "Nancy Pelosi in Taiwan: What Lies Ahead for China and the US?," Chatham House-International Affairs Think Tank, August 3, 2022, <https://www.chathamhouse.org/2022/08/nancy-pelosi-taiwan-what-lies-ahead-china-and-us>.

5 Ibid.

6 The Associated Press, "House Speaker Nancy Pelosi Says the U.S. Will Not Abandon Taiwan as China Protests," *NPR*, August 3, 2022, sec. Asia, <https://www.npr.org/2022/08/03/1115338230/house-speaker-nancy-pelosi-says-the-u-s-will-not-abandon-taiwan-as-china-protest?t=1659505755048.8>

7 Johanna Treeck, "US Warships Sail through Taiwan Strait, China Tracks Them," *POLITICO*, August 28, 2022, <https://www.politico.eu/article/us-warships-sail-through-taiwan-strait-china-tracks-them/>.

shortest tenure of any prime minister in the shape of Liz Truss, followed by successor Rishi Sunak's reversal of (or tweak) to Sino-British relations, have made waters very choppy between the UK and China. These are two countries that need to work with each other but have a very complicated past that requires a careful diplomatic hand. Johnson was primarily a Brexit candidate, so naturally, he surrounded himself with the right wing of the Conservative party in order to appease the 2016 referendum vote.

This appeasement of such a hardline faction, which includes the China Research Group (CRG, a name that alludes to the European Research Group which spearheaded the ideology of Brexit), continued with the appointment of Liz Truss who took into her cabinet a number of China hawks<sup>8</sup> and during the dash for the Tory leadership position, both candidates used the "China threat" as a political football. Sunak, for example expressed interest in closing the UK's Confucius Institutes (which so far have not been closed) in a move that would be extremely detrimental to the UK's own soft power, where China could easily retaliate by closing the British Council's own schools, which generate a great deal of money and soft power for the United Kingdom.

After Liz Truss' departure, her foreign policy (unlike her disastrous mini-budget, which was completely scrapped) was tweaked. Sunak U-turned on Truss's policy of calling China an "official threat," instead using the phrase "*China* poses a 'systemic' challenge to UK values."<sup>9</sup> However, it's still too early to tell what this may amount to according to BBC analysts.<sup>10</sup> Although this may have been seen as a modest turn, he also officially ended the "Golden Era" between the United Kingdom and China, which has plainly been wavering for many years and has now been officially axed. For the ailing Conservative party, China will continue to be a scapegoat, but it now seems unlikely any drastic action will be taken. However, the UK's development of a new jet with Japan<sup>11</sup> and the continuation of the AUKUS project may lead to the further grinding of gears between the two nations in the future.

8 Eleni Courea and Stuart Lau, "In the Race to Succeed Boris Johnson, Only China Hawks Need Apply," *POLITICO*, July 27, 2022, <https://www.politico.eu/article/boris-johnson-china-liz-truss-rishi-sunak-tory-leadership/>.

9 Chris Mason, "Rishi Sunak: Golden Era of UK-China Relations Is Over," *BBC News*, November 28, 2022, sec. UK Politics, <https://www.bbc.co.uk/news/uk-politics-63787877>.

10 Ibid.

11 Jonathan Beale, "UK, Italy and Japan Team up for New Fighter Jet," *BBC News*, December 9, 2022, sec. UK, <https://www.bbc.co.uk/news/uk-63908284>.

## Resumption of international summits, G20 and COP27

Towards the end of the year, the G20 summit was held in Bali,



Indonesia. Although smaller summits had taken place, this was one of the most wide-ranging post-pandemic meetings that had been convened post-2020. The two main talking points of this year's G20 summit were obvious: the Russian invasion of Ukraine (Putin notably did not attend<sup>12</sup>) and the long-awaited Biden-Xi talks. There seems to have been a fundamental disagreement between the way the United States and President Biden see the Chinese economic model.<sup>13</sup> But the positive takeaway from the G20 summit was that both nations noted that they do need each other to solve many serious global issues.

Whether that be due to Zero-COVID measures or the freezing of relations, the superpowers both need to kickstart their "reform and opening up" for an economic recovery, as the current position of the countries at loggerheads is not improving the global situation. President Xi himself noted that globalization has been encountering headwinds too.<sup>14</sup> However, this is most likely a legacy of policies initiated by the Trump administration. And no matter how many characters such as Pelosi or US Treasury Secretary Janet Yellen criticize the PRC and their internal issues, the United States is well aware they can't cut China off for trade, no matter how much "decoupling" they may try. Regardless, US Secretary of State Antony Blinken will visit China next year<sup>15</sup> signaling more talks and dialogue ahead. It's unlikely that during the remainder of Biden's term, the U.S.-China relationship will dial back to the better days before the Trump tenure, but more options for collaboration may open up.

## Looking forward to 2023: more of the same, or a brighter future?

Like the tectonic plates of the continents, geopolitics is constantly shifting. Border disputes can flare up over small provocations or mistakes. As of mid-December, for example, a small border dispute that has been rumbling on for 60 years in the remote Ladakh region between India and China flared up into more skirmishes.<sup>16</sup> When it comes to Chinese foreign relations and the relations between the Chinese mainland and Taiwan, tensions seem to be brewing from four cardinal directions: Trouble from Russia and playing a delicate balance in any possible Ukrainian peace talks, the Taiwan question in the East,

12 CSIS, "Assessing the 2022 G20 Summit: The Sherpa Perspective on Bali Outcomes," [www.csis.org](https://www.csis.org), November 29, 2022, <https://www.csis.org/analysis/assessing-2022-g20-summit-sherpa-perspective-bali-outcomes>.

13 Ibid.

14 Ministry of Foreign Affairs of People's Republic of China, "President Xi Jinping Attends the 17th G20 Summit and Delivers Important Remarks," [www.fmprc.gov.cn](https://www.fmprc.gov.cn), November 15, 2022, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/202211/t20221115\\_10975446.html](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202211/t20221115_10975446.html).

15 Michael Martina and David Brunnstrom, "Big-Power Rivalry Overshadows Biden-Xi Cooperation Pledge," *Reuters*, November 15, 2022, sec. Asia Pacific, <https://www.reuters.com/world/asia-pacific/big-power-rivalry-overshadows-biden-xi-cooperation-pledge-2022-11-15/>.

16 Soutik Biswas, "India-China Dispute: Shadow of 60-Year-Old War at Border Flashpoint," *BBC News*, December 14, 2022, sec. India, <https://www.bbc.co.uk/news/world-asia-india-63969040>.

AUKUS from the South, with souring relations which seemed impossible to predict only five years ago, and India from the West, with Prime Minister Narendra Modi seeming to forget the project that Jawaharlal Nehru and Zhou Enlai worked so hard on to avoid conflict in the 1960s.

2022 also marked the departure of two giant heads of state – the United Kingdom’s Queen Elizabeth II and former President of China Jiang Zemin. One could argue these deaths signal a changing of the guard and a passing of the torch from the Cold War era of relations. However, without the accrued wisdom of these former giants, we may see a different approach to relations between Britain and China. For example, it is well known that the new King Charles III favors a more pragmatic approach to diplomacy and cares very much about the environment.<sup>17</sup> This may leave room for common ground for China and Britain to collaborate if the hawks don’t get in their way.

The war in Ukraine has naturally made the positioning for forward analysis much harder. Experts say that Putin has not given up on his desire for war<sup>18</sup> in the region, not just for his own personal ambitions but due to knock-on effects of the cost of the energy crisis in Western Europe, helping send the cost of living skyrocketing, which could be revenge for the massive Western sanctions inflicted on the Russian economy. However, with Europe discussing ways to try and find alternative energy sources (mainly renewable) to wean themselves off Russian gas, Europeans may increase trade with China via hydrogen and other alternative power solutions which could contribute to a thaw if all goes according to plan. On the other hand, China is now seen extremely unfavorably in the West,<sup>19</sup> and the vested interests such as the CRG could try and torpedo any deal for somewhere like the UK. There’s still room for China-friendly entities to promote bilateral cooperation via trade, but they should still be careful. For them, the responsibility is to not only help with their own energy demands but to try and develop dialogue with the PRC in the future.

2022 witnessed a series of conflicts centered around geopolitical fractions, economic burdens and ideological differences. But a true thawing could see China, as well as all the major powers, truly at the negotiation table for deescalating the conflict and facilitating global cooperations.

17 Jonathan Manning, “Prince Charles Was an Environment Radical. What Happens Now He’s King?,” National Geographic, September 21, 2022, <https://www.nationalgeographic.co.uk/environment-and-conservation/2022/09/prince-charles-was-an-environment-radical-what-happens-now-hes-king>.

18 Alexander Baunov, “Why Is Putin Upping the Ante in Ukraine?,” Carnegie Endowment for International Peace, September 21, 2022, <https://carnegieendowment.org/politika/87974>.

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