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Big Y-Intersections

2022 Global Economic Order Report

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SIIS REPORT

Shanghai Institutes for International Studies
Oct. 2022

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Acknowledgement

This research project on the 2022 global economic order is hosted by Shanghai Institutes for International Studies (SIIS), released in form of SIIS Report by the Center for International Communications, with task force comprised of senior scholars from the SIIS Institute for World Economy Studies.

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Editor's Message

Since 2020, one of the most intuitive and profound manifestations of the accelerated global transformation has been the great change and dislocation of the world economy and global economic governance, which witnesses the end of "hyper globalization", continued incapacitation of the global economic coordination mechanism, significant rise of "national security concerns" in the economic development agenda of countries, reversal of the global sustainable development, as well as intertwined explicit or implicit challenges and crises, among others. How to analyze the driving force and root causes behind those changes and chaos? How to identify the turbulent evolution of international currency, finance, trade, investment, industrial chain, supply chain and other systems in the short, medium, or even long term? What new challenges and difficulties will global development and its governance system face? What is the way out? The answers to these questions have a bearing on the long-term stability and predictability of the entire international system. This latest report by the SIIS World Economic Order Research Group has offered analyses and answers to the questions above.

Being a Chinese think tank, we have made China's role and the impact of China's interaction with the world an important or even key variable in our analytical framework when we observe the current world economic situation and governance system, as well as the opportunities and challenges it faces. An integral part of the world economic system, China's economy had accounted for more than 18 percent of the global GDP by 2021. The country has had an increasingly important position in the global industry, trade, investment, finance, science and technology, and commodity market. What role is China playing in the current turbulent and transforming international economic order? What new changes will there be in China's interaction with the world economic system? What role will China play in the future? My colleagues have also offered their insights on those issues.

"The world has once again stood at a crossroads in history," that is the important judgment the Communist Party of China made about the severity of international landscape at its 20th National Congress. As Chinese think tank scholars of international studies, we see it as our responsibility to find more pathways to peaceful development and international cooperation on the basis of a professional and rational analysis of the situation.

陳東曉

Summary

Hit by the pandemic in 2020, the global economy showed clear signs of recovery in 2021 and ushered in a booming market at the beginning of 2022. However, due to a number of negative factors such as a prolonged pandemic, the outbreak of the Russia-Ukraine conflict, high inflation, and worsening climate change, global and regional growth expectations have continued to fall. If globalization has been unstoppable in the past few decades with its stability, it has entered a new stage in the recent three years, where it has been seriously questioned in theory and resisted or reversed in practice.

The generally protective financial, trade, investment, and other policies adopted by countries are a departure from the liberalized governance mechanisms on such fields as monetary, finance, trade, and investment that have been in operation after the Second World War, and have also shaken and divided the global economic order. Although some phased results were finally achieved in 2022 under the WTO framework, multilateralism is still on a weakening track. At the same time, intra- and cross-regional alliances, which have a complex relationship with globalization, are accelerating. While liberalization inside the alliances remains the trend, their discrimination against outside is increasing. Despite their different forms, those alliances all show a return to "great-power centrism" and serve as subordinates to great powers. Substantial differences between the interests of great powers will also direct the future of the global economy towards different paths.

Phenomena such as "decoupling", "strategic competition", and "polarization", which have been widely discussed in the fields of politics, economy, science and technology in the past few years, are evolving in more complex forms. Since the 1990s, the global economic order that used to support production prosperity and economic growth has come to a Y-intersection: the international monetary system, trade and investment system, and development process all show a tendency to abandon the existing global economic governance mechanism. What is worth exploring is that sectional coordination may be possible with these overlapping and intersected roads.

First, the global governance system will accelerate its divergence. The policy tools manipulated by the United States, including those on finance, trade and investment, are not only aimed at hostile countries, enterprises and individuals, but also involve third countries. The willfulness and substantive power of the US hegemony can but arouse warnings from other countries, who have become more aware of how unreliable and insecure the existing global governance platforms and tools are, and worked to generate more alternatives, such as financial messaging systems as a replacement for the SWIFT, and platforms outside the WTO where sensitive issues such as environmental protection standards, labor protection rules, digital rules, and tax competition are handled in various forms and at different paces.

Second, the combination of multiple shocks has triggered concerns about "de-globalization", and important changes are expected to take place in the international monetary system. In the longer term, the crisis in Ukraine may lead to a shift in energy trade, reconfiguration in supply chains, and fragmentation of payment networks, and prompt countries to reconsider their holdings of foreign exchange reserves, IMF officials said. That would fundamentally change the global economic and geopolitical order, and increase the risk of global economic fragmentation, particularly in trade and technology. A changing global payment system and a possible boost to digital currencies in central banks will significantly affect countries' decisions on what foreign exchange reserves to hold.

Third, in terms of supply chains, the United States is still widely considered as a core country with strong control and influence, while Europe is stuck in the crisis and risk of recession; and developed countries like Canada, Australia, Japan, and South Korea will get more subordinate to the US economy. The three major supply chain networks previously formed in North America, Europe, and East Asia may come to exist in North America and Asia only, with a shift from Europe to Asia in future decades. While intra-regional liberalization keeps going, discrimination outside the region will intensify. Choosing the right allies and shaping safer critical supply chains will be the main purposes of countries participating in regional governance in the future. It should be noted that regions are no longer fragmented, but overlapping and intersected, i.e., regional members may overlap and the same subregion may fall under different strategic layouts.

Finally, the logic behind the new strategic competition is increasingly dominating the international development policies of donor countries, exposing the international development system to new risks of divergence, and deviating from the real needs of developing countries and the requirements of the SDGs, which may eventually exacerbate international divergence and turmoil and harm the interests of donors themselves. Mounting pressure to address the crises and global inflation will not only challenge international development, but also escalate geopolitical conflicts and instability. Major economies should abandon the "zero-sum game" thinking and cooperate to cope with the common challenges facing global development.

Chapter I

Global Economic Order at a Big Y-Intersection

Compared with the turbulent 2020 and 2021, 2022 sees a continuous fall in expectations. The global economic recovery rose in 2021 and then fell again in 2022. In addition to the superimposed impact of factors such as the pandemic, the Russia-Ukraine conflict, and climate change, the generally protective financial, trade, investment, and other policies adopted by various countries have hindered the world economic recovery which is already beset with difficulties. Despite some phased outcomes reached under the WTO framework in 2022, multilateralism remains in the track of weakening. At the same time, intra-regional and cross-regional alliances, which have a complex relationship with globalization, are accelerating. Liberalization within those alliances is still the trend and their discrimination against outside is intensifying. The alliances, though in various forms, are characterized by a return to "great-power centrism". The fundamental conflicts of interests among the great powers will also direct the future global economy to embark on different paths. Here is the gist of this report: since the 1990s, the global economic order that has steadily supported production and economic growth is now at a new big Y-intersection. The international monetary system, the trade and investment system and the development process have shown a tendency to abandon the existing global economic governance mechanism. The upside is that the paths may be overlapping and intersected, hence increasing the possibility of sectional coordination.

I. Major Shocks Confronting the Global Economic Recovery

(I) A global rate hike could lead to a global recession

Since 2021, the inflation rate in developed countries has increased significantly, far exceeding the price stability level set by central banks such as the Federal Reserve (the Fed), so monetary policy makers in developed countries such as the United States believe that consistent and timely monetary policies must be adopted to curb inflation. Given the experience and lessons learned from the policy response to high inflation in developed countries in the 1970s and 1980s, maintaining price stability has been the primary policy objective of central banks. However, these policy measures will also have a superimposed effect at the global level, resulting in a tightening of the monetary base and an economic downturn, which will hit the vulnerable emerging economies and developing countries even harder. Therefore, a World Bank study pointed out that more consultation and coordination is needed on the current tight monetary policies adopted by central banks in developed countries such as the United States; while reducing inflation rates and inflation expectations, it is necessary to use a variety of policy tools to mitigate its impact on global economic growth; and countries should also strengthen cooperation in ensuring supply chain stability and adequate labor supply.[1]

On August 26, 2022, while attending the Fed's annual economic symposium, Fed Chair Jerome H. Powell delivered a speech, in which he mentioned the Fed's monetary policy goals for the second half of the year and for 2023. Mr. Powell stressed that the Fed would take it as its core task to stem the high inflation and take all necessary measures to reduce inflation and ultimately ensure that inflation returns to a level which the Fed sees as reasonable. "Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation," said Mr. Powell in his speech.[2]

The speech of Mr. Powell has been interpreted by the US business circles and economists as an abandonment of the Fed's former pursuit of "soft landing", which aims to reduce inflation without causing an economic recession. Mr. Powell has envisioned something similar to the policy advocated by Fed Chair Paul Volcker in the early 1980s, that is, a firm and tight monetary policy, such as rate hike, was implemented until inflation returned to a stable level, at the cost of two recessions in the country. In fact, the economic data published in July showed a slight decline in inflation and stability in the number of new jobs, unemployment, and consumer spending, which made Wall Street institutions and investors believe in strong resilience of the US economy; and as inflation peaked, the Fed might slow down the rate hike in 2023, or even switch to a rate cut. After Mr. Powell's speech, however, such optimistic predictions disappeared. The US investors had to face a bleaker reality.

Following the Fed's policy, the central banks of developed countries have also decided to increase interest rates. Preliminary statistics show that the recent interest rate hike adopted by the Fed and other central banks has exceeded 500 basis points. Stephen S. Roach, former chairman of Morgan Stanley Asia, pointed out that the Fed's policy measures may lead to a sharp rise in unemployment, and only in that way can inflation return to low levels as soon as possible. This year, the US inflation has been staying at historically low levels and now is around 3.5 percent, and Mr. Roach thought that the unemployment rate needed to lower inflation should be 5 percent or even 6 percent. In 2022, the Fed has raised interest rates four times in a row, and there may be three more rate hikes. Considering the lag of the effect of monetary policies on the real economy, the inhibitory effect of those rate hikes

1. Justin Damien Guénette, M. Ayhan Kose, and Naotaka Sugawara, "Is a Global Recession Imminent?", September 2022, World Bank Group.

2. Jerome H. Powell, "Monetary Policy and Price Stability", August 26, 2022, https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm.

on economic activities will show itself bit by bit, and the rise in the cost of funds and the reduction of liquidity in the capital market will have a significant negative impact on business activities.

Fears of a US recession have been permeating the markets as investors doubt the Fed's aggressive tightening policies can dampen the US inflation without causing a hard landing of the world's largest economy. Overwhelmed by crises such as inflation, COVID-19, the Russia-Ukraine conflict, and climate change, many institutions have kept lowering their global economic growth expectations this year. According to the *World Economic Outlook* published by the IMF in July 2022, the world economic growth is expected to slow from 6.1 percent last year to 3.2 percent this year, 0.4 percentage points lower than the April forecast; and the world economic growth for 2023 is expected to be 2.9 percent, 0.7 percentage points lower than the April forecast. The *World Economic Situation and Prospects as of mid-2022*, released by the United Nations in May, predicts that the global economic growth for 2022 will be 3.1 percent, down from the 4.0 percent forecast at the beginning of the year. The mid-term economic outlook published by the Organization for Economic Co-operation and Development (OECD) in September says that the slowdown in global economic growth has gone beyond expectations, with an expected growth of only 3 percent for 2022 and 2.2 percent for 2023, down from the 2.8 percent forecast in this June.

Despite a consensus on the slowdown, it is a controversial topic as to whether a global recession has occurred, especially as to whether the US will fall into a recession or has already been there, and that will depending on the use of specific indicators. From the perspective of global regional economic development, it is an established fact that the European economy has fallen into recession, while in the US, although it has experienced a decline in the month-on-month growth, it is early to predict a recession with a 3.2 percent year-on-year growth for the first half of the year. Yet the likelihood for a recession is getting bigger. What should be worried about is the plight of the developing countries and the least developed ones. When developed countries put supply chain security, industrial competitiveness, labor standards, climate responsibility, etc. at the core of their foreign policies, globalization may continue to develop in a distorted way. As developed countries try to increase their control, developing countries may be thrown off the track of common development by such a centralized whirlpool.

(II) Global development has encountered a counter-current

Developing countries have been suffering economically since the outbreak of COVID-19 in 2020. Constrained by their own fiscal capacity, emerging economies and developing countries did not adopt policies of the US and some European countries, such as large-scale economic stimulus and unemployment relief, causing a gap between developing countries and developed ones in terms of the effectiveness of crisis mitigation. Under the current circumstances, developing countries are facing an overlap of crises on development, debt, balance of payments, food, and energy, among others, as they struggle for recovery. The combination of COVID-19 and numerous economic and social crises has also had a significant negative impact on the economic and social development of developing countries, causing a reversal of the global development process.

For the vast number of developing countries, the pandemic has brought multiple shocks - not only has it severely hindered their internal economic activities, but also hurt the external markets on which they depend. The shrinking market and the sharp reduction of employment opportunities may cause a serious backwardness of the poverty reduction cause that international organizations such as the United Nations have been promoting in the past few decades. According to the recent Human Development Report published by the United Nations Development Programme, the global human development index has continued to decline over the past two years, and its decline has fully offset the index increase in the previous five years.[3] It will also further exacerbate the serious imbalance in global income distribution that existed before the outbreak of the pandemic. According to the International Labour Organization, in 2017, the top 10 percent of global laborers earned nearly 50 percent of global labor income, and low-income laborers are abundant in developing countries. Under such circumstances, how to implement and complete the goals set by the United Nations 2030 Agenda for Sustainable Development has become a major policy and practical challenge facing all countries in the world.

From a global economic perspective, policy measures taken against inflation by developed countries such as the United States will also have significant spillover effects. Given the importance of the US dollar as an international currency, the Fed's tight monetary policy will inevitably lead to a global shortage of US dollar supply, which will lead to further tightening of capital market liquidity in emerging economies and developing countries, while the appreciation of the US dollar will further increase the dollar-denominated debt burden of developing countries. Developing countries with high debt burdens are likely to default and even trigger a full-blown economic crisis, as has recently occurred in Sri Lanka. The debt crisis in developing countries will affect both creditors and foreign investors, who may become less willing to invest in those countries.

Meanwhile, the continued strength of the US dollar has had a major impact on the stability of the global financial market, with major global currencies such as the euro, yen, pound sterling, and renminbi continuing to depreciate against the dollar. The same thing has also happened to the currencies of other emerging economies and developing countries. For large economies with large foreign exchange reserves, the depreciation of the local currency exchange rate is less likely to trigger a domestic financial crisis. However, for many small and medium-sized developing economies, a sharp exchange rate depreciation may lead to a serious deficit in the balance of payments account and may also attract international hot money to snipe their exchange rates, and then will trigger a domestic financial crisis.

According to the *World Economic Situation and Prospects as of mid-2022*, high inflation is reducing real household incomes, especially in developing countries, where poverty is more widespread, wage growth remains constrained, and financial support to mitigate the impact of rising oil and food prices remains limited. The report argues that monetary tightening in the United States will raise borrowing costs and exacerbate the financing gap for developing countries, including the least developed ones. Tighter external financial conditions will adversely affect growth prospects, especially for countries with high exposure to global capital markets facing debt distress or the risk of debt default.

3.UNDP, Human Development Report 2021/2022, September 2022.

II. Fundamental Divisions Facing the Global Economic Order

(I) The foundations of globalization have been shaken up

The globalization of production, which began in the 1990s, has exerted an influence in at least two aspects: one, global economic and trade exchanges have been expanded from the transaction of final goods to the cross-border supply of intermediate goods and services created by cross-border investment; two, after the financial crisis in Asia, many small or vulnerable economies found themselves unable to stand the shocks of globalization and they became more dependent on international organizations and regional alliances, while the theory of state sovereignty, which flourished in the 1960s and 1970s, began to wane. That phase is characterized by deeper globalization and competition for the development opportunities that globalization brought.

From the 1990s, a global economic governance system featuring liberalization, non-discrimination, and third-party dispute settlement mechanism was gradually formed to meet the needs of globalized production and development, which means fewer mobility barriers and more consistent management standards for the global transfer of capital and production. Therefore, the existing global economic order is primarily built on the neoliberal Washington Consensus[4], which emphasizes the pursuit of fully liberal governance in countries, including the removal of barriers on the border and the alignment of internal and external markets and rules, so as to create a lower-cost and more efficient global operating environment, which is the foundation of global supply chains so far.

From the US financial crisis in 2008, the liberal foundations of the global economic order began to waver[5]. This phase is a continuation of the previous one, but there is a clear rupture, and a signature driving force is the fragmentation of the neoliberal consensus and the gradual dismissal of multilateral mechanisms in practice. Theoretical research at this stage mainly focuses on "anti-globalization", "slow globalization"[6], and regionalism. But on the other hand, global production has not shrunk, and it has recovered very quickly even with the hit of the pandemic. Economic globalization remains remarkably resilient[7]. This has led globalization to develop in two adversarial directions: the further expansion and deepening driven by the market, and the shift, contraction, and conflict caused by unilateral intervention.

The fundamental reason may be an intensified imbalance in the world economy over the past two decades. In the nearly two decades from the end of the 20th century to the beginning of the 21st century, neoliberalism, which is the cornerstone of the existing global economic governance system, has aroused widespread suspicion and resistance in practice when it was promoted from the West to

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4.Tian Chunsheng, "The Washington Consensus and the Related Policies", *Review of Economic Research*, No. 78, 2004, pp. 9-10.

5.Andrew Walter, "Global economic governance after the crisis: The G2, the G20, and global imbalances", 2011, https://personal.lse.ac.uk/wyattwal/images/globaleconomicgovernanceafterthecrisis.pdf.

6.Since 2000, a number of books on the negative effects of globalization have been published, including *The Global Trap: Globalization and the Assault on Prosperity and Democracy by Hans-Peter Martin, Runaway World* by Anthony Giddens, *Globalization and Its Discontents* by Joseph Stiglitz, *Globalization: The Human Consequences* by Zygmunt Bauman, and *The Globalization Paradox* by Dani Rodrik.

7.See WTO, World Trade Report 2021: Economic Resilience and Trade, https://www.wto.org/english/res_e/booksp_e/wtr21_e/00_wtr21_e.pdf.

the emerging market countries[8]. The anti-globalization trend is largely based on dissatisfaction with the uneven benefits, including those between countries and those among the groups within a country. As the domestic political and economic pressure mounted, it began to affect foreign policy, which caused the overall rise of protectionism after 2016, as well as the rebellion against and liquidation of liberalism.

In theory, neoliberalism cannot provide complete or satisfactory policy guidance on at least five major issues: 1) What is the right growth strategy and industrial policy for any specific country? 2) How to eliminate the derivative inequalities? 3) How to deal with financial and monetary policies while opening up? 4) How to handle the environmental pollution caused by race to the bottom? and 5) How to eliminate the impact of power and politics?[9] If the Washington Consensus, which advocates "macro-stability, privatization, and liberalization" has lost its meaning today, what can be used as its replacement, if there is any? How should countries reassess the relative roles of the state and the market in achieving economic growth? Is there a new "model" that can be promoted and applied in different countries and environments? For now, in the absence of a new consensus to replace neoliberalism, a return to interventionism has become a common fix adopted by Western countries.

(II) Unilateralism and interventionism have been on the rise

The nearly two decades from the 1990s to the beginning of the 21st century is considered a golden age for the existing global economic governance system based on neoliberalism. It is also a time when multilateralism thrived and was widely recognized. The current interventionism began after the US financial crisis in 2008, climaxed after the Sino-US trade war in 2016, and became a global issue after the outbreak of COVID-19 in 2020. National interest and protectionism remain the heart of the current interventionism, which is essentially a reaction against the existing liberalism-based global economic governance system. Yet the real impact of the current interventionism is more complicated than the conclusion of theoretical deduction.

The old interventionism was mainly about policies to simulate the internal economy and industries, such as fiscal subsidy, increase in infrastructure investment, and purchase of domestic goods. The new interventionist approaches are broadened to include a series of foreign policies aimed at reshaping global supply chains. That is closely related to today's global production networking features. The current interventionism aims not only to cultivate supply chains under its own control, but also to deter and exclude its competitors from participating in critical supply chains. Guaranteeing "security" is the primary goal of the current interventionism. "Security" is one of the most frequent words in the strategies, bills, and policies issued by countries in the past two years. In addition to traditional areas like military and finance, the scope of security has been extended to areas like supply chain,

8.See Geoffrey Gertz & Homi Kharas eds, "Beyond the Neoliberalism"Brookings Report, April. 2019, https://www.brookings.edu/wp-content/uploads/2019/05/beyond-neoliberalism-final-05.01.pdf.

9.*Ibid.*

technology, cyberspace, data, and even society and culture[10].

On the one hand, major developed countries, including the United States, the European Union, Japan, and the United Kingdom, have introduced a number of protectionist policies and industrial policies to fight the pandemic and promote recovery, which have exacerbated conflicts of interest. Such conflicts are mainly resolved by bilateral measures such as sanction, retaliation, and negotiation. For instance, with the suspension of the WTO's appellate dispute settlement mechanism, the binding nature of multilateral governance mechanisms has been challenged; none of the key issues under the WTO framework have been addressed[11], and no progress has been made in the reform of the IMF and the World Bank; and the inter-state investment dispute arbitration mechanisms in the newly concluded regional agreements (such as the USMCA and the CPTPP) have also been limited to application and included more exceptions. Those are the negative forces in global economic governance. The direct consequence of great power competition is to confront and settle problems through strength[12].

On the other hand, breakthroughs have been made on global issues such as supply chain security, vaccines, climate change, and tax; stagnant multilateral, regional, and bilateral governance platforms have come to life, with a series of trade agreements being signed. In contrast to the weakening of the multilateral system, regional governance, which aims to strengthen critical near-shore supply chains, has developed rapidly. With the layout of China and the United States in the Asia-Pacific region and the Indo-Pacific region respectively, a separating and confronting situation may be created. Efforts have been made to enhance coordination and expand the scope of governance, so as to shape safer supply chains through alliances[13]. Those are the positive forces in global governance. It is worth noting that the relationship between the positive forces and the negative forces in global governance is not a trade-off, and the interplay between them is very complex.

III. Possible Changes in the Global Economic Order

(I) Global economic order has become unstable

The main challenges facing global governance today stem from two aspects: the great complexity and breadth of global issues; and the lack of mechanisms, willingness, and capacity to address those issues. Global issues involve areas such as politics, security, economy, society, and environment, and

10.Cultural security is about ensuring that all individuals and groups are treated according to their unique cultural needs and differences. It assumes the right to difference and calls for interaction that does not weaken, devalue, or deprive individual rights based on any perceived or actual differences. See Erik Nemeth, "What is Cultural Security? Different perspectives on the role of culture in international affairs", presentation at April 2016, available at https://www.researchgate.net/publication/333433707_What_is_Cultural_Security_Different_perspectives_on_the_role_of_culture_in_international_affairs.

11.Although a range of agreements on IP exemptions for COVID-19 vaccines, food security, and fisheries subsidies, among others, were reached at the 12th WTO Ministerial Conference in June 2022, many others remain to be further negotiated. No substantive progress was made in key issues on the appellate body for the dispute settlement mechanism, agricultural subsidies, liberalization of the service sector, and cross-border data flows.

12.See Robert Keohane & Joseph Nye, "Realism and Complex Interdependence", 2000, available at https://www.pearsonhighered.com/assets/samplechapter/0/2/0/5/0205082912.pdf.

13.G. Grossman, E. Helpman and H. Lhuillier, "Supply Chain Resilience: Should Policy Promote Diversification or Reshoring?", Webinar Presentation, 2021, Princeton (NJ): Princeton University.

their impacts are intertwined, which increases the complexity and duration of the issues. The current global governance, however, is suffering from an under-supply of institutions and resources, which reflects how the traditional mechanism is declining and the new one struggling. The most important reason is the huge differences between the maintaining powers and the emerging powers in terms of their willingness to coordinate and cooperate, especially between China and the United States, the two key variables.

Western countries commonly believe that the dominance of the United States and the West over the international system will continue, because the globalization after the Cold War was achieved in the context of the international system created by the West, and it is through this institutional and organizational environment that the rise of emerging powers can be achieved. As a result, the United States will continue to be the "first among equals" in the new order, and emerging powers are bound to head towards further integration into the international system led by the United States.[14] However, against the convergent view of the West, the international balance of power has been tilting toward the non-Western world. In this "post-Western world", there is room for the previously marginalized developing countries to promote their ideas and values. Therefore, the planning of the future world system is not a one-way swinging process, but a process of mutual adaptation and adjustment.

The struggle between the United States and China in international organizations and institutions is a major factor that may affect the future process of global governance change. A senior US government official said that in order to curb China's influence, the United States must continue to exert leadership and influence in international organizations. The national security strategy published by the White House also points out the great significance of the United Nations and other international organizations in advancing the US interests, so the country will resume full participation in international organizations and pay its membership fees in full and on time. The United States should play a leadership role in international organizations to coordinate responses to global issues, while ensuring that those international organizations keep up with the universal values, ideals, and norms established when the United Nations system was founded, instead of the agendas dominated by authoritarian thinking.[15]

Overall, as the United States has become increasingly "geopoliticall-" and "ideological-oriented" in the global governance mechanism, the global economic governance mechanism, which has been characterized by pluralism and inclusiveness over the past two decades, will face constant challenges from the Western countries. Vertically, the global economic governance mechanism has shown a spiral rise from the decision-making mechanism dominated by developed countries after World War II, to multilateralism, and then to the latest return to great-power centrism. It should be noted that the category of "great powers" has become broader than the time after World War II, with emerging powers like China and India becoming the key variables. Geographically, North America, Europe, and Asia, the top three regions for trade and investment activities, are also moving in two directions: one is the accelerating integration within the regions; the other is the accelerating transfer and intersection of supply-chains between the regions, especially after the United States' attempt to get

14.John Ikenberry, "A Crisis of Global Governance", *Current History*, November 2010.

15.The White House, *Renewing America's Advantages: Interim National Security Strategic Guidance*, March 2021.

deeply involved in the Asia and Indo-Pacific regions, the economic boundaries between the several regions may be blurred, and the competition between the central countries in each region will be getting fierce. The strategic competition among the great powers will cause a highly unstable and frequently conflicting global economic order, hence an urgent need of repairing the coordination mechanism between the central powers.

(II) Global governance system has diverged after a return to the strength-orientation

(1) The global governance system will accelerate its divergence. The sanction tools applied by the US, including finance, trade, and investment, target not only the state, enterprises, and individuals of Russia, but also third countries, and other countries will be alarmed by the willfulness and threat of its hegemony. Those countries begin to realize how unreliable and insecure the existing global governance platforms and tools are, and to accelerate the divergence of more alternative systems, such as the financial message systems that can serve as SWIFT alternatives.

(2) The combination of multiple crises has raised concerns about "de-globalization", and important changes are expected to occur in the international market system. In the long run, the Ukraine crisis could lead to a shift in energy trade, reconfiguration of supply-chains, and fragmentation of payment networks, and prompt countries to reconsider their foreign exchange reserves, which could fundamentally change the global economic and geopolitical order and increase the risk of global economic fragmentation. For instance, there are more calls for diverse supplies and energy transformation in the energy sector; the global payment system is also changing, with a possible boost for digital currencies in central banks, which may have a large effect on countries to decide which kind of foreign exchange reserves they should hold.

(3) From the perspective of geo-economic impact, the US is still widely considered a hard-core country with strong control and influence, while Europe is stuck in trouble, and developed countries like Canada, Australia, Japan, and South Korea are increasingly dependent on the US economy. The former three major supply-chain networks in North America, Europe, and East Asia may gradually evolve into two, one in North America and the other in Asia, with a shift from Europe to Asia.

(4) The coordination mechanism of major powers has been weakened. Take G20 as an example. Compared with G7, it has more large developing countries and its members are all the world's major economies, which reduces the cost and difficulty of policy coordination and lays a solid foundation for its performance of duties. After the Russia-Ukraine conflict in 2022, although it has managed to pay its role, G20 has been significantly weakened in facilitating economic coordination as its meetings have been disturbed by the conflicts between the Western countries and Russia.

(5) Cross-regional alliances will become increasingly complicated with the entanglement of political, economic, and military factors. While liberalization inside the region is still a trend, discrimination outside it will intensify; and choosing the right allies and reconstructing safer key supply chains will be the main purpose for countries to participate in regional governance in the future. It should be noted that regions are no longer separated, but overlapping and intersected, that is, regional members may overlap in some parts and one region may be part of different strategic layouts.

(6) The role of intermediate governance should never be ignored. The global economic order is in turmoil, and a return to the great-power centrism, though, is a general trend that can be observed, close attention should also be paid to some of the small-scale governance rules and platforms (such as the DEPA) that are initiated and spearheaded by small and medium-sized countries or emerging market economies. Those rules and platforms form another force outside the confronting and competing mechanism dominated by great powers. Compared with the US-promoted Indo-Pacific economic framework and China's Belt and Road Initiative, those intermediate governance models are more recognized for their definite rules. They are more advanced and inclusive for relying less on the interdependence of the economy, and that will be an important coordinating force in the future global economic order.

Chapter II

Deeply Volatile Global Financial System: De-dollarization

In the midst of COVID-19 crisis, the Fed's huge money issuance is damaging the stability of global finance. With the rise in energy prices and the prevalence of global inflation, the world economy is likely to experience a third "oil crisis" since the 1970s. The Russia-Ukraine conflict has intensified the East-West antagonism worldwide and highlighted the division of the world market and the signs of a new cold war. The United States and some European countries have increased financial sanctions against Russia, which has harmed the innocent developing countries and emerging economies. The "weaponization" of the US dollar is accelerating the transformation of the international monetary system, and major countries and regions are working on "de-dollarization" and choosing "Plan B" in international payments and reserve currencies to avoid the risk of US sanctions. As the world's largest commodity producer and importer, China is of systemic importance in the division of labor in global industrial chains. As the RMB internationalization mechanism is getting better, it is possible that, within a period of time, the foundation for the conversion of China's productive power into monetary power in the international economic system will get solider. At the same time, the Fed's new round of rate hike cycle has hurt the euro and yen, and the financial competition pattern of great powers has been fully created, which will further shake up the US dollar hegemony and accelerate the formation of a new international monetary system.

I. The Roots of the Reform of the Global Financial System in the Post-Bretton Woods Era

(I) The US dollar hegemony has hurt the interests of nation-states

International currencies should transcend the interests of nation- or sovereign states, otherwise it will inevitably lead to the scramble for interests between countries. According to Marx's theory of money as the universal equivalent, money, as a medium of exchange, should be equivalent to the goods being traded. Under the gold and silver standard, gold and silver are the reserve support for currency issuance. After paper money was issued, national credit replaced specific physical collateral and became the reserve for monetary issuance. However, given the stability of the currency, the central bank, which is responsible for issuing it, should play a special independent role. Since the Bank of England introduced the modern central banking system, central banks of major countries have taken independent issuance as the goal of their institutional reforms.

After the collapse of the Bretton Woods system, to make the US dollar an international currency, the United States internationalized the credit of a nation-state through means like the "petrodollar". The "petrodollar" embodies the process of how the United States internationalized its power to issue the domestic currency. Since the 1970s, driven by the needs of international transactions and reserves, transnational corporations have increased their foreign investment, and the world economy has entered the era of large-scale industrialization. As the demand for oil grew in the international market, the United States and Saudi Arabia, the world's largest oil producer, reached an agreement, under which oil would be settled in the US dollar. That agreement was gradually recognized by other members of the Organization of the Petroleum Exporting Countries (OPEC), and the world has since entered the era of "petrodollar". After the two oil crises, international oil prices remained high, and the growing demand for oil imports failed to change the parity between the dollar and oil. On the contrary it caused a greater demand for the dollar in the international market. Countries must have more US dollars first in order to import more oil, which further strengthened the status of the US dollar as an international currency reserve. At the same time, to get invoived in the world market system and the international trade, developing countries often obtained foreign exchange funds by increasing their debts in the US dollar. After the collapse of the Soviet Union, the status of the US dollar as an international currency was further strengthened as the transition economies joined the world market.

(II) The internal and external imbalances in the US has hurt the foundation of US dollar credit

The mismatch between the supply of US dollars and the demand for commodity transactions ultimately affected the formation and trend of prices in the international market. According to the theroy of monetary school which could be defined as the equation P=MV/T, with a given V (=Velocity of Circulation) and a given T (=Transactions), the growth of M (=Money Supply) will inevitably lead to an increase in P (=Price Level).[16] The current chaos in the international capital market is essentially the result of excessive issuance of US dollars. Although in the short term, the United States is mainly accused by developing countries of hurting their national interests, the US dollar hegemony is posing a severe challenge during the pandemic to the interests of other developed economies, which are affected by the Fed's massive currency release and the financial sanctions caused by the Russia-Ukraine conflict. After the global financial crisis in 2008, the Fed's monetary policy had the greatest impact on emerging economies and developing countries. After withdrawing from quantitative easing, in particular, the US dollar experienced a long-term appreciation, resulting in the continued risk of currency devaluation of developing countries. How to prevent the spillover of the Fed's monetary policy even became a major issue of global governance. Since 2022, the Fed's

16.Irving Fisher, *The Purchasing Power of Money*, The Commercial Press, 1931.

new rate hike has had a huge and extensive impact on the currencies of other countries. Affected by the spillovers of the Fed's monetary policy, the exchange rate of developed economies such as the euro and the yen has fallen to record lows. As of mid-September 2022, the euro had fallen to 1:0.99852 against the dollar, and the yen to 143.35:1 against the dollar. Due to the sharp depreciation of the yen and the increase in energy prices, Japan has even begun to run a trade deficit.[17]

During the dollar internationalization, the United States profited from seigniorage by issuing a considerable amount of money. That is essentially an absorption of the citizens' welfare of other countries. The Fed's massive issuance did not directly lead to inflation in the domestic market, but made it possible for the US dollar to be issued and circulated overseas through trade deficits, foreign investment, or foreign aid. Although capital will flow reversely from developing countries to the US, this inflow has clearly separated from the country's real economy. On the one hand, capital inflows from developing countries and the resulting growth in asset prices in developed markets ultimately formed into an increase in global shareholder wealth; on the other hand, the massive issuance of US dollars eventually led to excess capital in the international market and continued to spread to the international consumer market, with sustained price growth first shown in commodities. After the outbreak of the global financial crisis in 2008, international oil prices once skyrocketed to a record high of $146.08/barrel. The pandemic, plus the Russia-Ukraine conflict, has seriously hurt developed economies like the European countries and Japan. As the Fed re-launched quantitative easing mode, there was once again a mismatch between the dollar over-issuance and the commodity underproduction. On March 11, 2022, oil prices hit $139.13/barrel, one the record highs.[18]

II. The "Weaponization" of US dollar Is Triggering "De-dollarization" Worldwide

The international discussion on "de-dollarization" has been around for quite a while, and the core problem is that after US dollar became an international currency, the US government has begun to abuse its power in currency issuance and make the dollar a political tool or even a "weapon" in the international market. The spillover of the Fed's monetary policy affects not only developing countries and emerging economies, but also other developed countries. Since the global financial crisis in 2008, the crisis of confidence in the dollar caused by its cyclical risk has been intensifying. In the context of the Russia-Ukraine conflict, the "weaponization" of US dollar is triggering a new round of large-scale "de-dollarization" in the international financial system.

(I) The "weaponization" of US dollar continues to cause a credibility crisis

After the US dollar becomes a common international currency, as it is difficult to find its alternatives in the field of international trade and investment in the short term, once the US government imposes sanctions against "hostile" countries, prohibits transactions in the dollar, and even traces the source and accountability of the banks that operate incompliantly, the financial institutions involved will have to suspend. Many financial institutions have to abandon their business in relevant countries or regions to circumvent sanctions. Since the outbreak of the Russia-Ukraine conflict, the dollar has become increasingly "weaponized". The "weaponization" of US dollar is manifested through

17.https://tradingeconomis.com/euro-area/currency.

18.*Financial Times*, "Where international oil prices are heading", August 19, 2022.

the introduction of regulations such as the *Foreign Account Tax Compliance Act, the Countering America's Adversaries Through Sanctions Act*, and the *Foreign Corrupt Practices Act*, which are used by the US government to attack its competitors or impose political pressure on sovereign states.[19] The United States has fully launched financial sanction procedures based on trading and circulation in US dollar,even to the level of a full-scale "financial war". Because of that, many Russian financial institutions have suspended their business involving settlement in dollar, and foreign economic interatcion of the country have even been completely interrupted.

As the "weaponization" of the dollar continues to escalate, there have been concerns questioned about the fairness and legitimacy of US dollar as an international currency. The "weaponized" dollar goes against the value-neutral nature of a world currency, exposing how political, unstable, and insecure it is. Since the outbreak of the Russia-Ukraine conflict, the United States has caused continuous turmoil in the international financial market by freezing foreign exchange reserves of other countries, banning SWIFT trading, releasing massive liquidity, and continuously raising interest rates.[20] In particular, as the US government has been indebted for a long time, the dollar earned by developing countries through exporting has eventually reversed to support the US Treasury bond market. Such a vicious circle is becoming a major functional defect in the international financial system, where developed countries would "suck up" the development dividends of developing countries. Continued investment in the wealth and welfare of developing countries will trigger a great dollar credibility crisis.

(II) "De-dollarization" is accelerating globally

"De-dollarization" was discussed at the level of international financial governance before the pandemic. In the context of the Russia-Ukraine conflict, the "weaponization" of US dollar has triggered the security crisis of many sovereign countries, and the US dollar hegemony has once again become the target of all, prompting more and more countries and regions to start their own "de-dollarization". Aside from oil exporters like Iran and Venezuela, emerging economies like Türkiye, Russia, and India, and even European countries are also exploring other trading paths to circumvent the impact of US financial sanctions.

(1) "De-dollarization" is accelerating globally. Major countries trading internationally have been committed to promoting "de-dollarization". According to BWCHINESE, up to now, about 39 countries have started "de-dollarization" (see Table 2-1), and the case of Türkiye, which has long suffered from the impact of the US monetary policy, stands out. In the past five years, the lira has fallen by more than 75 percent against the dollar, and the regular depreciation of the lira has overwhelmed the country's economy. The Russia-Ukraine conflict has alarmed Türkiye, and its government has introduced a series of policy measures to encourage trade settlement in lira and currencies other than US dollar. It encourages, for example, domestic exporters to convert 40 percent of foreign trade income into lira to stabilize the lira exchange rate. On November 19, 2020, the Central Bank of Türkiye required domestic importers importing goods from China to settle in RMB. Before that, the Central Bank of Türkiye and the People's Bank of China had signed a bilateral local

19.Wang Yuzhu, "The US is undermining the dollar hegemony itself", *Global Times*, December 13, 2019.

20.Liu Dian, "The 'weaponization' of US dollar: Too clever by half", *Beijing Daily*, September 16, 2022.

currency swap agreement.

Other commodity exporters, especially the oil exporters, have also tried on a series of policies in "de-dollarization". For instance, Saudi Arabia has considered trading oil in the euro and RMB,[21] and if that works, it will further impact the international status of US dollar. Other oil producers, including Iran, Venezuela, and Russia, have also tried to trade oil in RMB on a large scale. Developed economies such as European countries and Japan have also started the process of diversified trade currency settlement.

Table 2-1: "De-dollarized" Countries

Asia	China, India, Kazakhstan, Türkiye, Qatar, UAE, Iraq, Malaysia, Thailand, Indonesia, Pakistan, Kyrgyzstan, Iran, Brunei, Myanmar, Cambodia, Kuwait, Israel
Africa	Nigeria, South Africa, Angola
Latin America	Cuba, Brazil, Paraguay, Ecuador, Venezuela, El Salvador
Europe	Russia, Germany, Italy, Spain, Ireland, Netherlands, Armenia, Portugal, Switzerland, Sweden, Hungary, Belarus, Romania, Lithuania

Source: BWCHINESE

(2) European countries have also begun to promote "de-dollarization". As the United States increases sanctions against major oil exporters like Iran, the pressure from US dollar hegemony is widely felt on all sides in Europe. Against the background of strategic autonomy within the EU, Europe has been increasingly aware of its sovereignty, with a stronger call for using the euro as a currency for oil and other commodities. Europe, with its strong industrial and economic base, is increasingly at odds with the United States over issues such as trade and Iran's nuclear program. To circumvent the SWIFT system, Europe launched the INSTEX, Instrument in Support of Trade Exchanges, in early 2019. In March 2020, Europe struck its first barter trade with Iran under the INSTEX, where it provided medicines to Iran in exchange for oil and gas resources, which effectively circumvented sanctions from the US financial system.[22] Before that, Russia had also traded goods with Iran under the INSTEX.[23] While the INSTEX has not yet been able to function effectively as a barter system, it may have the chance to expand its trading capabilities as TARGET II is being bettered.

(3) The Russia-Ukraine crisis has forced Russia to implement "de-dollarization" across the board. Russia has begun "de-dollarization" as early as after the Crimean War. From 2013 to 2020, the share of US dollar experienced a 50 percent decline in the foreign exchange reserves of the Central Bank of Russia, compared with a sharp rise in the share of gold reserves. By July 2021, Russia announced that it had completed "de-dollarization" of $186 billion of sovereign wealth funds, of which US dollar funds accounted for about one-third.[24] Since the Russia-Ukraine conflict, Russia

21.WSJ. "Saudi Arabia Considers Accepting Yuan Instead of Dollars for Chinese Oil Sales",
https://www.wsj.com/articles/saudi-arabia-considers-accepting-yuan-instead-of-dollars-for-chinese-oil-sales-11647351541

22.Deutsch Wele, "Europe and Iran complete first INSTEX deal dodging US sanctions",
https://www.dw.com/en/europe-and-iran-complete-first-instex-deal-dodging-us-sanctions/a-52966842

23.Tehrantimes, "Russia welcomes INSTEX progress",2020.03.
https://www.tehrantimes.com/news/446430/Russia-welcomes-INSTEX-progress

24.CRS Reports, "De-Dollarization Efforts in China and Russia",Jul 23, 2021.
https://crsreports.congress.gov/product/pdf/IF/IF11885

further launches its own version of the System for Transfer of Financial Messages (SPFS); and by the end of June 2022, nearly 70 institutions from 12 countries had accessed the SPFS.[25]Russia is also trying to work with the central banks of other countries to use digital currencies based on blockchain technology for settlement, such as promoting the settlement and circulation of digital ruble.

(4) Emerging economies like India have taken a unique path towards de-dollarization. India has long seen its attempt to establish an independent trading system in its own currency as a key national development strategy. It has this tradition of trading with the rest of the world without settling in US dollar: it had traded in rupee and ruble with the Soviet Union before the latter's collapse. The Russia-Ukraine conflict has accelerated India's strategic process of "de-dollarization". On July 1, 2022, the country established the International Trade Settlement in Indian Rupees, INR, which aims to promote India's foreign trade growth, make Indian rupee an international currency, and avoid the economic risks of the US and European sanctions against Russia. In March 2022, India and Russia reached an agreement on trade settlement in local currency, and the State Bank of India is about to open a rupee account to trade with Russia. India's exports to Russia in rupee are expected to rise to $5 billion this fiscal year, up from $3.3 billion last year.[26]

(5) The status of RMB as an international trade settlement and reserve currency has become more prominent. As the world's largest commodity importer and manufacturing exporter, China has sufficient production capacity and national reserves to support its RMB internationalization. The trading and settlement system in RMB is improving, and it is more feasible than the INSTEX adopted in Europe. Since its launch in 2015, the RMB Cross-border Interbank Payment System (CIPS) has significantly expanded its market coverage and business scale. By the end of 2021, the CIPS had covered 1,280 financial institutions (75 direct participants and 1,205 indirect ones) in 103 countries and regions around the world, with a cumulative transaction volume of more than 800 trillion yuan.[27] In terms of financial system connectivity, China has carried out trade settlement in RMB with Australia, Brazil, Japan, Russia, and Southeast Asian countries as early as 2011, and concluded currency swap agreements with relevant countries to address the risk of exchange rate fluctuations in local currency-denominated trade. As of December 2021, the share of RMB in global payments rose to 3.2 percent, the highest since 2015 and ranking fourth in the world.[28]

(III) De-dollarization is accelerating in the international reserve currencies

In terms of international reserve currencies, major countries around the world have never stopped their efforts to diversify the settlement and reserve currencies. The International Monetary Fund (IMF), under the pressure of developing countries, has been adjusting and optimizing for years the share of Special Drawing Rights (SDRs) to mitigate the impact of the current international reserve currency system on the fairness of the international financial system; meanwhile, major oil exporters have been working on policy attempts to replace the "oil dollar" with other international currencies

25.Reuters, "Russian c.bank: 70 organisations from 12 countries have joined our SWIFT alternative". Reuters. 2022-06-29.

26.Lu Yifei, "India to trade with Russia in rupees: How long can Modi's art of balance last?", Shanghai Observer, 2022-09-16. https://www.jfdaily.com/news/detail?id=528788

27.Wang Hongru, "Is it possible to break the international hegemony of US dollar if oil is settled in RMB in Saudi Arabia?", *China Economic Weekly*, April 15, 2022.

28.*Economic Daily*, "How RMB internalization has supported the real economy", September 25, 2022.

such as the euro. After the Crimean War, Russia's policy of "de-dollarization" in its reserve currency worked quite well. Russia's policy measures set a good example for many other countries, which have begun to change the composition of their reserve assets. As the conflict between Russia and Ukraine continues to intensify, the "weaponization" of US dollar is forcing more transactions to be settled in other currencies, hence a sharp reduction of US dollar in the composition of international currency reserves. In early July 2022, the Currency Composition of Foreign Exchange Reserves (COFER) released by the IMF showed that the proportion of US dollar had dropped from 65.46 percent in the first quarter of 2016 to 58.88 percent in the first quarter of 2022.[29] Even at the end of the last century, that figure remained above 70 percent.[30] As the Russia-Ukraine conflict accelerates the process of "de-dollarization" in the world, the proportion of US dollar in reserve currencies is expected to soon fall below 50 percent.

III. The International Game of US Dollar Hegemony and the Construction of a New International Monetary System

Historical experience in development shows that all international currencies circulate globally in compliance with a certain law of development. The superstructure of the international monetary system rests on the national credit of corresponding great powers, which normally performs the function of international currency issuance for a specific period. Since the Age of Exploration, international currencies have been the currencies of the sovereign countries which rose to become great powers. Examples include the Portuguese escudo (1450 - 1530), the Spanish peso (1530 - 1640), the Dutch guilder (1640 - 1720), the French franc (1720 - 1815), the pound sterling (1815–1920), and the US dollar (1921 - present). Each of those currencies played a leading role for 80-100 years (94 years on average) alongside the rise and fall of its country. The US dollar has been the international currency for over a century since 1921.[31]That is to say, "de-dollarization" of the international monetary system complies with the historical law of development, and geopolitics and political games of great powers are accelerating that process.

(I) The United States is promoting the dollarization of other systemically important commodities to continue the US dollar hegemony

The current reform of the international monetary system focuses on addressing the mismatch between the purchasing power and the means of payment. Among the countries that implement "de-dollarization", many pay attention to the reserve of their own currency to be issued while promoting an international currency of their own. In Russia, for example, the new linkage mechanism of "oil-Ruble-gold" introduces the compulsory settlement in the local currency for commodity transactions, which allows the ruble to possess a significant character of commodity collateralized standard and has effectively solved the problem of international credit limitations for a national state to issue its local currency internationally. In China, the linkage between gold and RMB also shows how much reserve is made for the international issuance of RMB. For example, the Shanghai Gold Exchange has been exploring the "RMB-Gold" model (the "Shanghai Gold" model) for many years, creating a

29.Source: Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS), https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4.

30.See IMF official website for details: https://blogs.imf.org/2021/05/05/us-dollar-share-of-global-foreign-exchange-reserves-drops-to-25-year-low/

31.Midasgoldgroup, "World Reserve Currencies Since 1450",
https://www.midasgoldgroup.com/news/world-reserve-currencies-since-1450/

double linkage mechanism between the international issuance of RMB and China's national credit and the gold standard. With the growth of transaction scale and the number of participants, the currencies of great powers, which rely on the commodity production capacity and the industrial chain power for issuance, will enjoy a greater international credibility and perform better as international currencies.

The weakening of the US dollar and the substitution of new international currencies reflect the objective laws of development such as the transition of great powers and the justice of international development. In the future, what determines the use of a currency remains to be the final traded commodity, just as how the "oil dollar" shows the hegemony of the US in oil and other commodities: American multinational enterprises intervene in the Middle East, control the supply of crude oil, and promote settlement in dollar, thereby establishing the oil reserve for the issuance of US dollar as the international currency. Against the background of carbon peaking and carbon neutrality, the world is beginning to remove fossil fuels on a large scale, which leaves less room for the "oil dollar". At the same time, as the hegemony of the US dollar continues to wear off its national credit, the reserve for the internationalization of the currency of a sovereign country will remain a problem in the future. The United States is re-seeking other systemically important trading commodities and trying to continue and maintain its dollar hegemony through monopoly and forced pricing and settlement in dollar. Scholars have begun to look into the possibility of the United States trying to maintain its dollar hegemony with "chip dollar".[32] In addition to chips, the US monopoly and forced settlement in dollar in other high-tech products are also possible mechanisms to maintain and continue its dollar hegemony.

(II) The national production capacity and industrial chain power as the reserve for RMB international issurance

During COVID-19, socio-economic problems caused by shortages of goods and materials have rekindled discussions about the core propositions of the purchasing power and the issuance basis of currencies. At present, it is necessary to re-examine, based on the theory of currency issuance reserve, the basis of national production capacity and the issuance reserve and value neutrality of currency internationalization in sovereign countries. Although there is no theoretical system linking production capacity with national credit, national credit is increasingly regarded in practice as the perfection of the national production system and the sustainability of the production capacity and the economic system. International rating agencies, which usually consider factors such as GDP growth, inflation rate, and legal environment to rate a country's credit,[33] essentially consider economic productivity and economic growth sustainability as the core elements of national credit. Therefore, national credit in the modern financial system can be understood as the degree of sophistication of the national production capacity system and the country's ability to maintain the sustainability of the production system.

As an industrial country with the soundest production system in the world, China has been

32.Wang Jinbin, "'Chip dollar' may be the new tool for US hegemony", www.hexun.com, August 22, 2022.

33.Shi Xiaojun and Zheng Haitao, "Multidimensional Index Method and Empirical Study of National Credit System", Journal of Finance and Economics, January 2007.

improving its domestic monetary policy. As the demand for international trade settlement grows, the value of RMB becomes stable, along with a strong issuance reserve. The issuance and circulation of RMB corresponds to China's strong domestic production capacity, and the purchasing power of domestically produced goods can be transformed through international trade. As the "value chain" theory is increasingly applied to the industrial division of labor between enterprises and even countries, the division of labor in global value chains has become the main manifestation of the international division of labor, and the pattern of the division of labor has gradually transitioned from the traditional division between industries to that between different products in the industry and between different processes of the same product. China's indispensability in the division of labor in global value chains determines the stability of the RMB issuance foundation and the stronger solidity of the international foundation for RMB internationalization. If a compulsory settlement in RMB is adopted in the manufacturing of some high-end or irreplaceable commodities, RMB internationalization will be faster, which will help stabilize the international financial system and avoid the risk of "dollar weaponization" in the medium and long term.

(III) A new international monetary system that reflects the needs of developing countries is taking shape at an accelerated pace

To establish a new international monetary system, it is essential to address the erosion of development interests caused by the credit internationalization of nation-states, and the institutional shortcomings of "dollar center" in the Jamaica System and the Bretton Woods system. Although the new system is taking shape conceptually, many ideas are getting clearer for an emerging cooperation framework.

New international currencies will have more physical reserves, which are value-neutral. Using specific physical support, instead of nation-state credit, as the reserve for international currency issuance is more value-neutral. Currency issuance reserve usually refers to the reserve for the issuance of paper money. Under the gold standard, issuance reserves are usually precious metals such as gold. Other issuance reserve systems include the silver standard and the gold-silver standard. Issuance reserves can also take the form of standard money, foreign exchange, marketable securities, commercial paper or others.[34] Historically, many countries used gold and silver as their issuance reserve. The new international monetary system should be more value-neutral and enrich the support for issuance reserves. For example, in Germany during the Weimar period, as the Reichsmark completely lost its trading credit due to the "hyperinflation", the Weimar government once had to use the state land as a reserve to issue the "land rent Reichsmark", which effectively curbed the inflation in the short term.[35] In the new international monetary system, issuance reserves can rely on the resource reserves and production capacity of energy and commodity producers, the manufacturing capacity of industrialized countries, the intellectual property of countries driven by scientific and technological innovation, and even the factor endowments in the new international trade theory.

34.Zhang Xiuli, "The Study of Nanjing National Government Issue Reserve Policies", *Doctoral Dissertations of Fudan University*, March 2009.

35.Wang Yuzhu, *Monetary Policies in the Eras of the Deutsch Mark and the Euro*, Wuhan University Press, 2016, pp. 21-23.

Third World countries will play a pioneering role in the formation of a new international monetary system. China and other emerging powers have become increasingly prominent in the new international monetary system, for which digital revolution has provided technical support. For a long time, Third World countries have been calling for and contributing most to promoting the reform of the international monetary system. The efforts to shape the concept and architecture in the formation of the new international monetary system show how Third World countries have been struggling for world fairness. The Eurasian Economic Union, for example, has been calling for a new international monetary system with China.[36] Research articles published by the International Monetary Fund (IMF) and other institutions also call for greater interests of developing countries in the future international monetary system and for monetary diversification instead of US dollar-domination in the reform of the international monetary system.[37]The latest report of the Bank for International Settlements (BIS) proposes that digital currencies with reserve support can be issued based on the central banks of sovereign countries to solve the problems with the existing virtual currencies.[38] Both the IMF and BIS have publicly expressed support for countries to accelerate the research and development of digital currencies in central banks, and the IMF has even proposed the idea of a public-private synthetic Central Bank Digital Currency (sCBDC).

The global economic power pattern rising in the east and falling in the west is the decisive factor driving the change of the international monetary system. The balance of power between great powers will change the national credit basis of international currency issuance reserves. More and more countries are constantly adjusting the composition of their reserve currencies for the purpose of economic security and economic and trade development. After a long-term growth with "bubbles", US dollar assets are experiencing a downturn, with risks looming. "De-dollarization" of the international capital will become a significant phenomenon in the next decade. With a relatively weak economic strength, the United States continues to expose the shortcomings of US dollar as an international reserve currency and trade payment currency. In particular, the current policy measures of the United States to promote the segmentation of the global market will affect the world trade pattern and the international financial market landscape in the medium and long term, and less dependence on the United States in terms of world production and trade will fundamentally change the demand side of US dollar. The next decade will usher in "great transformation" of trading currencies for commodities, precious metals, and ordinary goods globally. The new space for investment and trade promoted by China's Belt and Road Initiative will fundamentally change the basis of the existing hegemonic currency in the world market. Policy measures by new financial institutions, including the New Development Bank established by the BRICS countries, to accelerate local currency financing or regional financing will become more universal in the process of "de-dollarization".

36.http://www.eurasiancommission.org/en/nae/news/Pages/26-10-2020-1.aspx

37.Emmanuel Farhi, Toward a Multipolar System, June, 2019.
https://www.imf.org/en/Publications/fandd/issues/2019/06/new-monetary-system-farhi

38.BIS, Annual Economic Report 2022,Sunday 26 June 2022. https://www.bis.org/publ/arpdf/ar2022e3.pdf

Chapter III

Divergent Trajectories of Supply Chain Governance Systems

In recent years, global supply chains have suffered a lot of shocks. Trade frictions between China and the United States, the COVID-19 pandemic, the Suez Canal blockage, and the Russia-Ukraine conflict have caused major disruptions or interruptions to global supply chains. Thus, the US and some European countries have introduced some policies and measures in the name of strengthening supply resilience, giving rise to increased interventions in supply chains, directly being characterized by decoupling between and restructuring by major countries like the US and China in key products supply chains. Since the middle and late 1990s, the development of global supply chains has been based on the common pursuit of philosophy of freedom of trade, investment and innovation and scientific research. Unfortunately, this era has come to an end asthe US and some European countries started to have the global supply chains restructured by carrying out on-shoring, near-shoring or friend-shoring policies. Such discriminatory policies may not only severely distort trade and investment flows but also bring greater uncertainty to the post-pandemic world economic recovery.

I. General Trend of Intervention in Global Supply Chains by the US and Some European Countries

It is generally believed that global supply chains emerged and flourished in the 1990s as a spontaneous network formed by the deepening division of labour in global production and the gradual expansion of trade and investment. While the “laissez-faire” global supply chains have led to an increase in global material wealth, after decades of operation, however, they have also created a range of problems.. Social problems such as inequality, environmental concerns, labor rights and political corruption in global supply chains have become increasingly salient. In addition, feeling growingly uneasy about the changing balance of power between China and the West, the established powers have set "removing China from global supply chains" as one of their strategic goals. Against this backdrop, the US and some European countries have abandoned their previous laissez-faire attitude towards global supply chains and are trying to influence or even reshape them through governmental intervention.

(I)Influencing Global Supply Chains through Social Issues

In the view of American and European liberal economists, economic issues should be kept at a distance from social issues, and the only social responsibility of companies is to maximize shareholder profits.[39] However, the recent intervention by the US and some European countries in global supply chains is a departure from the liberalism they have upheld. Environmental, human rights and anti-corruption issues are mixed into the international economy issues, in an attempt to create "clean, just and incorruptible" global supply chains.

(1) Clean global supply chains

Climate governance and economic and trade issues are increasingly closely related, driven by the US, and European countries. Cleaning and decarbonization of supply chains has become a prevailing trend around the globe. First, the Carbon Border Adjustment Mechanism (CBAM) proposed by the EU is expected to become a legal document in 2022. Second, on October 31, 2021 the US and the EU announced that they will establish the Global Steel and Aluminum Arrangements in the coming future to address the so-called "global non-market excess capacity" and reduce the carbon intensity of the industry.[40] Third, on June 28, 2022, G7 announced that they will set up a Climate Club by the end of 2022, with particular emphasis on reducing emissions through explicit carbon pricing and transforming industries jointly to accelerate decarbonization.[41]

(2) Just global supply chains

In order to prevent the "race to the bottom" which involves the violation of human rights, the US and European countries have increasingly underlined that businesses should meet due-diligence requirements regarding human rights in their supply chains. And they have introduced relevant legislations, including the US Dodd-Frank Act and California Transparency in Supply Chains Act, the UK Modern Slavery Act, the Dutch Children Labour Due Diligence Act, the German Supply Chain Due Diligence Act, and the French Law on the Duty of Vigilance. It is noteworthy that in February 2022, the European Commission published its proposal on Corporate Sustainability and Due Diligence Directive, which requires corporates to expand their due diligence in supply chains. Those acts or legislations have placed new requirements for companies' labor and human rights due diligence obligations, marking a shift from voluntarism towards compulsion.

(3) Incorruptible global supply chains

In 1977 the US passed its Foreign Corrupt Practices Act (FCPA), the first law prohibiting transnational bribery in the world. The Act, subject to amendments three times, was given

39.Milton Friedman, *Capitalism and Freedom*, Chicago and London: The University of Chicago Press, 2002, p.133.

40.US Department of Commerce, "Steel and Aluminum US-EU Joint Statement," October 31, 2021, https://www.commerce.gov/sites/default/files/2021-10/US-EU-Joint-Deal-Statement.pdf.

41.G7, "G7 Statement on Climate Club," June 28, 2022, https://www.g7germany.de/resource/blob/974430/2057926/2a7cd9f10213a481924492942dd660a1/2022-06-28-g7-climate-club-data.pdf?download=1.

extraterritorial effect in 1988, allowing the US Department of Justice (DOJ) to apply the law on foreign companies that use US financial or Internet services. As a result, the US can "legitimately" intervene in supply chains in the name of anti-corruption. The FCPA has played an extraordinarily active role in recent years, under which 11 companies were fined more than $1.92 billion in 2017.[42]The FCPA Unit of the DOJ collected $7.84 billion fines in 2020, hitting a record high, despite the impact of the pandemic.[43] Since taking office, the Biden administration has further strengthened its efforts in the enforcement of FCPA, by appointing prosecutors and compliance experts for the FCPA Unit of the DOJ, reaching its largest agency size ever since its establishment. . Notably, in December 2021, at the so-called Summit for Democracy convened by the US, the US Secretary of State Antony J. Blinken announced the setup of the US State Department's Coordinator on Global Anti-Corruption, which will integrate and elevate the fight against corruption across all aspects of the US diplomacy and foreign assistance.

(II) Pursuing Absolutely Secured Global Supply Chains

Since Biden took office, the US has further highlighted supply chain security and placed it as a priority in internal and foreign affairs. The first thing the administration did was to create the concept of supply chain resilience. On February 24, 2021, Biden signed Executive Order No.14017, stating that "The United States needs resilient, diverse, and secure supply chains to ensure our economic prosperity and national security".[44] The second was to carry out key supply chain assessment. On February 24, 2022, at the first anniversary of the issuance of Executive Order 14017, seven departments issued an evaluation report separately, and formulated a multi-year strategic plan to address the vulnerabilities in supply chains. On the same day, the White House also released a report outlining the key actions the Biden administration took over the past year to reduce the vulnerability of US supply chains across a range of key sectors.[45]Third, with the support of the US Congress, Biden signed into two bills into law concerning the semiconductor industry, electronical vehicle industry, and many other industries, with an intention to making his strategy solidified and permanent.[46]

The on-shoring of supply chains is one of the goals the US has been committed to achieving since the Obama administration. In December 2009, the Obama administration issued the Framework for Revitalizing American Manufacturing, making a clarion call for the return of the American manufacturing. In 2018, the Trump administration released the Strategy for American Leadership in Advanced Manufacturing, which strongly advocated "Buy American and Hire American". The Biden administration has largely continued the economic and trade policies of its predecessor, proposing a "worker-centered trade policy" with an attempt to keep manufacturing in America.

42.Ding Ding and others, "Why is the US Serving as a Malicious "Judge" in the Foreign Anti-corruption", Huanqiu.com, January 31, 2019, https://world.huanqiu.com/article/9CaKrnKhBd9.

43.United States Department of Justice, "Fraud Section: Year in Review 2020," February 2021, p.6, https://www.justice.gov/criminal-fraud/file/1370171/download.

44.The White House, "Executive Order on America's Supply Chains", February, 24, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/.

45.The White House, "The Biden- Harris Plan to Revitalize American Manufacturing and Secure Critical Supply Chains in 2022," February, 24, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/24/the-biden-harris-plan-to-revitalize-american-manufacturing-and-secure-critical-supply-chains-in-2022/.

46. See Section II for more information

The second is to pursue the near-shoring of supply chains. The Trump administration successfully replaced the North American Free Trade Agreement (NAFTA) with US-Mexico-Canada Agreement (USMCA), which provides an institutional impetus for the partial return of US manufacturing to North America. As a result, Canada and Mexico overtook China as the United States' largest and second-largest trading partners. Under the Biden administration, the USMCA continued to play a role, providing a platform for the layouts of production and supply chains in some fields such as electric vehicles.

The third is to pursue the friend-shoring. Under the guidance of the Biden administration's "value-based diplomacy", the United States strengthened economic exchanges and trade with the "democratic countries" and promote "friend-shoring" on Transatlantic and Indo-Pacific regions by launching the US-EU Trade and Technology Council (TTC) in 2021 and the Indo-Pacific Economic Framework (IPEF)in 2022.

In addition to cooperating with the US "friend-shoring" strategy, the EU also stresses supply chain security. The European Commission updated the EU Industrial Strategy in May 2021with an assessment of the EU's external dependency and identified that 137 critical products out of 5,200 products imported in the EU were over-reliant on external suppliers – mainly in energy-intensive industries (such as raw materials) and health ecosystems (such as pharmaceutical ingredients) and other products related to green and digital transformation. Meanwhile, the EU issued six in-depth supply chain reviews on raw materials, batteries, active pharmaceutical ingredients, hydrogen, semiconductors, and cloud and edge technologies.[47]

(III) Political Interference on Social Issues

Although it is reasonable for the US and Europe to address social issues caused in global supply chains, many social issues are alienated into political security issues while pursuing supply chain security. For example, in the process of promoting clean supply chains, the schemes proposed by the US and some European countries are highly exclusive and have strong green protectionist connotations. Another example is that when addressing labor issues in supply chains, the US pushed forward the Uyghur Forced Labor Prevention Act (UFLPA) in the name of groundless "forced labor in Xinjiang", which has interfered with the China-US supply chain in an extremely unreasonable and illegal way. In addition, when responding to corruptions in supply chains, FCPA's long-arm jurisdiction not only burdens businesses with huge compliance costs, but also becomes a tool for the US to suppress other countries' industries. In particular, due to political factors, the European Parliament suspended the execution of the EU-China Comprehensive Agreement on Investment (CAI), which has greatly affected the cooperation between China and the Europe on environmental issues and labor affairs.

II. Impact of Russia-Ukraine Conflict on Commodity Supply Chains

The combined effects of the Russia-Ukraine conflict and the COVID-19 pandemic have not only

47.European Commission, "Updating the 2020 Industrial Strategy: towards a stronger Single Market for Europe's recovery," May 5, 2021, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_1884.

disturbed the stability of global supply chains, but also impacted national perceptions of security. Driven by the sense of "insecurity", the US and some European countries have further strengthened supply chain interventions in several critical areas, even at the cost of violating international trade rules and sacrificing economic efficiency. This vicious cycle between perceptions and malicious actions lead to new trends in the global supply chains relating to food, energy, semiconductors and electric vehicles.

(I) The Least Developed Countries Suffering from Food Crisis

Since Russia and Ukraine are important exporters of agricultural commodities such as wheat and corn, the outbreak of the Russian-Ukrainian conflict has had a major impact on the global food supply chain. First, the cost of international transport skyrocketed. International shipping prices have remained high due to the conflict and the COVID-19 pandemic. Shipping prices have been rising and staying high since the outbreak of the Russia-Ukraine conflict in February, according to the Clarkson Shipping Index. [48]Although the Black Sea Grain Initiative agreed between Russia and Ukraine in July has partially eased the pressure on shipments, the risk of disruption to food supply chains is far from being eliminated, given that there is no end in sight to the conflict. Second, the volatility of global food prices has increased. The UN FAO Food Price Index shows that international food prices have soared following the outbreak of the conflict. Since then, with the sharp drop of vegetable oil and grain indexes, the international food prices have gradually declined, but still remain at a high level in comparison to 2019 and 2020.[49] Third, food supply has been impacted and the food crisis in some countries has intensified. Despite the gradual recovery of Ukraine's grain exports since July 2022, as of August 10, Ukraine's grain exports in 2022/23 were only 2.2 million tons, down nearly 52 percent year-on-year.[50] According to the OECD forecasts, the output and export of wheat, maize and barley in Ukraine for the year 2022-2023 will drop sharply compared with previous years.[51]As the Middle East, Africa and least developed economies are heavily dependent on Russia and Ukraine for grain and fertilizer imports, they are more vulnerable to the risk of supply shortages and price increases.[52]

(II) Energy Supply Chain Disruptions Directly Hitting EU

Russia is an important supplier of fossil fuels. In 2021, Russia's natural gas exports ranked first in the world, accounting for 23.6 percent of global exports, crude oil exports came second, accounting for 12.3 percent, and third-placed coal exports accounted for 17.9 percent.[53]After the outbreak of the conflict between Russia and Ukraine, the international energy supply chain suffered a severe impact under the combined effect of Western sanctions and Russian counter-sanctions. First, energy prices

48.See related information on the official website of UNCTAD, https://unctad.org/ukraine-in-focus.

49.See related information on the official website of FAO, https://www.fao.org/worldfoodsituation/foodpricesindex/zh/.

50.Sina Finance, "Ukraine's Grain Exports Surged Nearly 23 percent Month-on-Month in July, But Still Well Below the Level Before THE Conflict", August 10, 2022, https://finance.sina.com.cn/roll/2022-08-10/doc-imizirav7608458.shtml.

51.OECD, "The impacts and policy implications of Russia's aggression against Ukraine on agricultural markets," Updated on 5 August 2022, p.4, https://www.oecd.org/ukraine-hub/policy-responses/the-impacts-and-policy-implications-of-russia-s-aggression-against-ukraine-on-agricultural-markets-0030a4cd/.

52.Sheng Bin, "Impact of Russia-Ukraine Conflict on International Economic and Trade Landscape", *International Economic Review,* No.3, 2022, p.18.

53.BP, "Statistical Review of World Energy 2022," https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2022-full-report.pdf.

fluctuated violently. According to the UNCTAD Energy Price Index, the Brent Crude Oil Price once rose to 162.04 (on March 8), and it still remained at a high level although it has fallen back slightly since then.[54]Natural gas prices have been more volatile. Gas prices have risen in a new round since mid-June due to the difficulty of transporting and exporting gas through pipelines and massive cutting of gas supplies via the Nord Stream 1 pipeline. Second, the pace of the EU's energy transition has been disrupted and global energy trade and investment have been impacted. In 2021, European imports of natural gas (including piped gas and liquefied natural gas), crude oil and coal from Russia accounted for 37 percent, 25 percent and 20 percent of the total imports, respectively.[55]Although the EU's commitment to clean energy remains resolute in the long run, some European countries have had to temporarily increase the use of fossil fuels under the huge energy supply pressure. Currently, Greece has explicitly pushed coal phaseout deadline to 2028 from 2025. Big coal consumers such as the UK, Italy, Germany and Poland have taken such measures to ensure coal supply as extending the service life of coal-fired units, bringing into use strategic coal reserves and increasing coal mine output.[56]Third, the EU is impelled to discover diversified supply channels. To wean Europe off its dependence on Russian gas, it has struck an LNG supply deal with the US, who will supply an extra 15 billion cubic metres (bcm) of LNG in 2022 to Europe, while the European Commission has pledged to buy an additional 50 bcm of the US LNG until 2030 per annum. Besides strengthening cooperation with the US, the EU also plans to increase natural gas imports from Qatar, Egypt, West Africa and other countries and regions.

(III) Ripple Effect in Semiconductor and Electric Vehicles Industries

As for the industrial field, the supply chains of semiconductors and electric vehicles have been of particular interest in recent years. Although Russia and Ukraine do not have industrial advantages in these two fields, the conflict between Russia and Ukraine still has an impact on related supply chains in both material and psychological aspects.

In terms of raw material supply, Russia is an important supplier of palladium and rhodium, the key minerals needed for the production of new energy vehicles. In 2019, Russia provided 26 percent of palladium, 20 percent of Class I battery grade nickel and 7 percent of rhodium in the world while Ukraine supplied for the globe more than 90 percent of neon that semiconductor production depends on.[57] After the Russia-Ukraine conflict, the supply of the aforementioned raw materials has been shocked to some extent, leading to a certain impact on the supply chains of chips and electric vehicles.

However, the implications of the Russia-Ukraine conflict on the supply chains of semiconductors and electric vehicles are even greater at the psychological level. In this regard, the US and Europe have been prompted to accelerate the adoption of legislative and administrative measures to strengthen supply chain security. In the field of chips, on August 9 the United States passed the CHIPS and

54.See related information on the official website of UNCTAD, https://unctad.org/ukraine-in-focus.

55.See related information on the official website of UNCTAD, https://unctad.org/ukraine-in-focus.

56.Peng Wensheng, "Global Green Transformation amid Energy Supply Shock", Yicai, https://www.yicai.com/news/101494971.html, August 4.

57.WTO, "The Crisis in Ukraine: Implications of the war for global trade and development," April, 2022, p.8, https://www.wto.org/english/res_e/booksp_e/imparctukraine422_e.pdf.

Science Act, along with $52.7 billion subsidies for chip R&D and manufacturing, which also imposes "poison pill clauses" on so-called "foreign entities of concern".[58] The European Union is working on an EU Chips Act amid growing concern over its chip supply chain following a hit to the supply of gases crucial to making chips.[59]

The US and Europe have also introduced a number of interventional measures in the field of electric vehicles. On August 16, the US officially passed the Inflation Reduction Act of 2022, which provides massive subsidies for electric vehicles. Some provisions are clearly in contradiction with the WTO rules.[60] The EU has raised relevant trade and technical barriers for auto parts, power batteries and new energy vehicles. For example, the EU has actively promoted the legislation process of the Regulation concerning batteries and waste batteries to strengthen the requirements of carbon footprint management, raw material due diligence and recycling rate for circular economy.

III. Divergence of Global Supply Chain Governance: Patterns, Rules and Concepts

Since the beginning of this century, global supply chains have suffered a lot of shocks. The global financial crisis in 2008 marked the downfall of globalization at its peak the turning point in the development trend of global supply chains. After President Trump took office in 2016, a series of trade protectionist policies, driven by populism within the United States, were introduced, which further brought negative impact on global supply chains. As the coronavirus pandemic around the globe in 2020 lasted for a long time, spread widely and caused heavy casualties, the supply chain interruption, disruption and competition arising therefrom are more prominent than any other emergency.[61] In March 2022, a fierce military conflict broke out between Russia and Ukraine. This conflict may pull the plug of the super-globalization wave experienced by the world in the past three decades, forcing global supply chains to be further restructured towards short chains, regionalization and even national self-sufficiency.[62] Under this background, there may be some new changes in the patterns, rules and concepts of global supply chain governance in the future.

(I) Divergence of Supply Chain Governance Patterns: Three Major Centers vs. "Two Worlds"

As for global supply chains, three major regional networks have been gradually formed in recent years - North America, Western Europe and East Asia, with the United States, Germany, and China, Japan and South Korea as nodes respectively. This reflects the regional trend of international cooperation amid the deceleration in globalization, and also represents the trend of supply chains closer to the consumer markets.

58.The Act prohibits US government-subsidized chipmakers from conducting joint research or technology licensing with "foreign entities of concern," such as China, or expanding production of chips 28 nm or more advanced.

59.Guillaume Ragonnaud, "The EU Chips Act: Securing Europe's Supply of Semiconductors," EU Legislation in Progress Briefing, European Parliament, July 2022,IEA, "Global EV Outlook 2022," July 2022, p.145.

60.For example, the "Domestic Content Requirement" is set to require that batteries used in electric vehicles shall use critical minerals mined, treated or recycled in the US or in the countries with which the US has a free trade agreement.

61.Wang Zhongmei, "The Paradox of Resilient Supply Chain Strategy and China's Policy Responses", *Pacific Journal*, No. 1, 2022, p. 36.

62.Yi Xiaozhun, "The Impact of the Russia-Ukraine Conflict on Multilateral Trading System", *International Economic Review*, No.3, 2022, p.10.

But with the interventions by the US, Europe and others, a "two worlds" supply chain structure is also looming large. Under the guidance of the "friend-shoring" strategy, the US and Europe strengthened cooperation in critical supply chains and promoted a host of measures for "removing China from global supply chains" based on ideological demarcation. While completely "removing China" is not realistic given China's deep integration into the global economic and trade system, critical supply chains, especially for high-tech products, are likely to become increasingly concentrated within a small circle of "democratic countries" as export controls and investment screening by some Western countries continue to intensify.

(II) Divergence of Supply Chain Governance Rules: Efficiency-focused vs. Security-focused

In recent years, supply chain governance rules have made progress with regards to efficiency and security. On the one hand, liberalization of trade and investment for the purpose of supply chain efficiency continues to evolve. Although the WTO is struggling in promoting trade liberalization and the establishment of a global investment governance framework is even more elusive, the rules at the regional level is still in progress, especially the mega-regional trade agreements (mega-RTAs) such as CPTPP, CETA and RCEP, which have greatly promoted the trade and investment in the regions. But on the other hand, the extraterritorial effect of domestic legal rules within the United States, Europe and other countries has become increasingly prominent, with an attempt to pursue the absolute security in supply chains. US sanctions and secondary sanctions related to trade controls not only restrict normal trade transactions, but also saddle companies with heavy compliance costs.. As for investment screening, the US has not only strengthened inbound FDI screening, but is also preparing a new bill to screen the outbound investment of American corporations involving "national critical capabilities". Rhodium Group estimates that the screening mechanism, if implemented, will cover about 43 percent of US investments in China, forcing related companies to re-examine their investments.[63]The EU has also strengthened its investment screening mechanism at the union level. On October 11, 2020, the EU fully implemented the Framework for Screening of Foreign Direct Investments, which gives the European Commission the power to make guidance to member states.

However, changing and restructuring supply chains for security objectives is costly, and there may appear increasing tensions between efficiency and security. For businesses, the "just in time" strategy has always been regarded as an efficient production and inventory management model, but under the guidance of the new supply chain security rules, businesses have to sacrifice economic interests and adopt the "just in case" supply chain model to ensure safety stock of critical parts, materials and high-demand products. If 10-20 percent of overseas supply chains are reshored, global trade would shrink by 13-22 percent, according to ADB estimates.[64]

(III) Divergence of Supply Chain Governance Concepts: Win-win Cooperation vs. Mutual Confrontation

At a deeper level, supply chain governance is facing serious ideological differentiation. China and

63.Thilo Hanemann et al., "Two Way Street – An Outbound Investment Screening Regime for the United States?" Rhodium Group, January 26, 2022, https://rhg.com/research/tws-outbound/.

64.Asian Development Bank, "Asian Economic Integration Report 2021: Making Digital Platforms Work for Asia and the Pacific," February 2021, https://www.adb.org/sites/default/files/publication/674421/asian-economic-integration-report-2021.pdf.

some developing countries are striving for smooth and stable global supply chains in an uncertain world. On June 23 this year, the XIV BRICS Summit endorsed the BRICS Initiative on Enhancing Cooperation on Supply Chains, which proposes to support an inclusive and rules-based multilateral trading system and strengthen the openness, efficiency, stability, transparency, reliability and resilience of supply chains. On the contrary, some countries are increasingly attempting to politicize the economy, instrumentalize the trade and weaponize standards, which seriously undermines the stability of global industrial and supply chains.

As of the deadline for this article, global supply chains are facing a new crisis - it is being further tested by drought and other natural disasters caused by the sweltering heat across Eurasia this summer. Indeed, the increase in natural disasters such as extreme weather may have a more lasting and profound impact on global supply chains than the Russia-Ukraine conflict. Faced with crisis, the world needs to realize that only win-win cooperation can address supply chain issues, while mutual strife will only make things worse. Only when global supply chains are efficient, secure and stable can a country's supply chains be so.

Chapter IV

Prominent Development Challenges and Governance Plights

I. Exacerbation of Complex Crises and Global Development Challenges

On October 5, 2022, the World Bank released its biennial report Poverty and Shared Prosperity, estimating that the COVID-19 pandemic in 2020 drove about 70 million people worldwide into extreme poverty, which was the worst record since the monitoring of global poverty began in 1990.[65] Besides, the impacts of the pandemic have been asymmetric. The bottom 40 percent of the population have suffered an average income loss of 4 percent, twice that of the top 20 percent of the population, marking the end of the era of global income convergence.[66]Since 2022, the outbreak of the Russia-Ukraine military conflict, combined with the continued spread of the COVID-19 virus variants, geopolitical risks and other existing factors, has worsened the already stressed world economy and intensified the divergence in global development already caused by the pandemic.

(I) Food and the humanitarian crises

In 2022, global prices of commodities such as food and energy soared, worsening the food insecurity and humanitarian crises in developing countries that are heavily dependent on food imports. Affected by geopolitics and economic factors as well as extreme weather, in 2021 nearly 193 million people in 53 poor countries and regions throughout the world suffered from food crisis or even more abrupt food insecurity, with an increase of 40 million people compared to the record number in 2020.[67]The

65.World Bank, Poverty and Shared Prosperity 2022: Correcting Course, Washington, DC: World Bank 2022, https://www.worldbank.org/en/publication/poverty-and-shared-prosperity.

66.*See Ibid.*

67.The UN World Food Programme, 2022 Global Report on Food Crises, May 4, 2022, https://zh.wfp.org/publications/2022nianquanqiuliangshiweijibaogao.

outbreak of the Russia-Ukraine conflict is particulary devastating for the poorest countries' food security. For example, food and fuel account for more than one-third of the consumer price index (CPI) in most African countries, and the overall dependence on food imports is heavy. In 2020, African countries imported $4 billion of agricultural products, 90 percent of which were wheat. Considering 30 percent of the world's wheat is produced in Russia and Ukraine, the outbreak of the Russia-Ukraine conflict has exerted a particularly prominent attack on food security in Africa. Egypt is the world's largest wheat importer, with 86 percent of its imports from Russia and Ukraine. Benin, Congo, Cape Verde, Tanzania and many other African countries also import over 50 percent of wheat from Russia and Ukraine and suffer from severe imported inflation.[68] The current global food security crisis highlights the vulnerability of the global food supply chain, food trade and financial system, as well as the inequity and imbalance of global development, against the backdrop of huge agricultural subsidies of the United States and other developed economies and distortion of the global food trade system. The global food crisis, coupled with the pandemic and debt crisis, has brought about a serious reverse in the cause of global poverty reduction and development. The UN's 2030 Agenda for Sustainable Development has become even more difficult to achieve on schedule.

(II) Economic growth difficulties

The globalization process has been further obstructed in recent years, and the global economy faces the risk of falling into recession and stagflation, which constrain external demand and growth of developing countries. The outbreak of the Russia-Ukraine conflict aggravated the disruption of global trade caused by the pandemic, especially when the US and Europe have continued to step up military and economic assistance to Ukraine and economic sanctions against Russia, making the conflict between Russia and Ukraine complicated and long-lasting as well as heightening the risk of globalization fragmentation. It indicates that global commodities, financial markets and supply chains are difficult to normalize in the short term, which means that the root causes of global inflation are difficult to eliminate, and the risk of "stagflation", where economic growth is at a standstill, increases. According to the latest forecast of the US Federal Open Market Committee in September 2022, the personal consumption expenditures price index (PCE), the main reference indicator of US monetary policies, was still on the rise and estimated to be 5.4 percent in 2022, while the core PCE excluding seasonal factors such as energy and food stood at 4.5 percent and was only expected to reach its 2 percent target between 2024 and 2025.[69] The OECD estimated that due to the outbreak of the Russia-Ukraine conflict, global inflation could be raised by about 2.5 percentage points, and global GDP growth reduced by over 1 percentage point.[70] The world economy will enter a new era of high inflation, high interest rates, heavy debts and low growth.[71] A new report released by the World Bank in September 2022 estimated that the global core inflation rate will remain at 5 percent in 2023, nearly twice the figure before the pandemic. The simultaneous interest rate increases by global central banks

68.UNDP, The Impact of the War in Ukraine on Sustainable Development in Africa, May 24, 2022, https://www.undp.org/africa/publications/impact-war-ukraine-sustainable-development-africa.

69. Federal Open Market Committee, Summary of Economic Projections, September 21, 2022, https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20220921.htm.

70.OECD, OECD Economic Outlook, Interim Report March 2022: Economic and Social Impacts and Policy Implications of the War in Ukraine, OECD Publishing, Paris, https://doi.org/10.1787/4181d61b-en.

71.Zhu Min, "New Changes in World Economy and Finance after 2022", Caijing New Media, March 18, 2022, https://finance.sina.com.cn/hy/hyjz/2022-03-18/doc-imcwiwss6825305.shtml.

has been unprecedented in the past 50 years, leading to a global average interest rate of 4 percent in 2023, more than 2 percentage points over the 2021 average. As a result, the global economic growth rate will fall to 0.5 percent in 2023 and shrink by 0.4 percent on a per capita basis, meeting the criteria for a technical recession.[72] The growth of major economies such as the US, Europe, Japan and China all shows a downward trend, directly impacting the trade demands and economic growth of developing countries and leading to a drop in their incomes.

(III) Risk of systemic debt crisis

Occurring simultaneously, global economic recession and financial contraction have a greater impact on the financial systems of developing countries, exposing them to a new round of exchange rate depreciation and capital flight, and increasing the risk of a systemic debt crisis. In response to the pandemic, the developed economies led by the US have implemented unprecedented loose monetary policies and fiscal stimulus, which not only brought themselves rising government debt and inflationary pressures, but also resulted in the global easing of liquidity and debt expansion. Emerging economies, including China, have themselves increased debt issuance to cope with the larger demands for spending, thus raising the global total debt to $303 trillion.[73] There are variances in debt vulnerabilities between emerging and developing countries. Energy prices boom also brought more revenue to resource-exporting countries, which enabled them to better cope with international financial turmoil. Large emerging countries such as the BRICS are relatively more resilient in fighting against the capital flight and exchange rate depreciation thanks to their larger foreign exchange reserves. By contrast, some smaller countries with heavier reliance on food and energy imports and new entrants to debt markets are more vulnerable. A monitoring report released by Bloomberg in early July 2022 concluded that the government bond yields of 19 emerging countries were above 10 percent and default was a real possibility, involving $237 billion of sovereign bonds, or 17 percent of the total sovereign bonds of emerging countries. Sri Lanka and other countries already defaulted, while El Salvador, Ghana, Egypt, Tunisia and Pakistan were the most vulnerable in the future.[74]According to the IMF and the World Bank, 60 percent of the 73 poorest countries were already in debt distress or had a high risk of that by the end of 2021. The factors such as the slowdown in world economic growth and the rising costs of food and energy imports are difficult to alleviate in the short term, bringing about a continuous deterioration in the balance of international payments of developing countries, and possibly causing the developing countries' liquidity shortage evolving into a systemic debt crisis.

II. Risks of Further Divergence in International Development System Driven by Strategic Competition

Against the backdrop of global retrogression in poverty reduction and the increasing challenges of implementing the 2030 Agenda for Sustainable Development, major economies have further stepped

72.Justin Damien Guénette, M. Ayhan Kose, and Naotaka Sugawara, Is a Global Recession Imminent? EFI Policy Note, World Bank Group, September 2022, https://www.worldbank.org/en/research/brief/global-recession.

73.Tommy Wilkes, Emerging markets drive global debt to record $303 trillion - IIF, Reuters, https://www.reuters.com/markets/europe/emerging-markets-drive-global-debt-record-303-trillion-iif-2022-02-23/.

74.Sydney Maki, Historic Cascade of Defaults Is Coming for Emerging Markets, Bloomberg, July 8, 2022, https://www.bloomberg.com/news/articles/2022-07-07/why-developing-countries-are-facing-a-debt-default-crisis.

up their foreign development assistance. But the rising geopolitical competition may cause further divergence of international development system.

(I)Limits of real aid increase

The total amount of Official Development Assistance (ODA) from Development Assistance Committee (DAC) member countries in 2021 was $178.9 billion, with an increase of 4.4 percent compared to 2020, hitting a record high. The ratio of DAC countries' ODA in terms of gross national income (GNI) also rose from 0.32 percent to 0.33 percent.[75] However, a detailed analysis of the composition and allocations of DAC aid statistics shows that the quality of the aid increase is questionable, not helping much in meeting the challenges of international development.

First, there is limited growth in real medium- and long-term aid. Aid for developing countries has grown mainly for crisis relief purposes, such as donations of COVID-19 vaccines, while the increase of aid for medium- and long-term development is very limited. Of DAC's total ODA in 2021, $18.7 billion was related to the COVID-19 relief and accounted for 10.5 percent of the total, including $6.3 billion for vaccine aid, or 3.5 percent of the total. If vaccine is excluded, the total DAC aid in 2021 increased by only 0.6 percent.[76]In addition, the vaccine aid provided by DAC was largely derived from its domestic oversupply of vaccines, totaling 857 million doses, and not purchased specifically to assist developing countries, so this calculation of ODA received strong criticism on moral grounds. Prior to the outbreak of COVID-19 pandemic, the increase in DAC aid was mainly due to refugee relief, which means the expenditures were primarily used for sheltering the refugees domestic in the donor countries instead of giving them to developing countries. The DAC's refugee-related expenditures peaked in 2016, amounting to $16 billion, accounting for 11 percent of the total ODA for that year.

Second, the ODA concessionality declined in real terms. In recent years, DAC members have increasingly used concessional loans rather than grants as aid, and the concessionality of ODA has been diminishing or even disappeared altogether. According to DAC statistics, Japan, the third largest donor country in 2021, provided $17.6 billion of ODA, 55 percent of which was nevertheless offered in the form of loans. Comparatively, South Korea and France provided 36 percent and 23 percent of their aid in loans.[77]According to the aid criteria established more than 40 years ago, DAC members can record their loans as aid even though they can profit from the loans due to the extremely low financing cost. Over the past decade, the DAC has carried out a reform on how to calculate aid as part of "aid modernization". Since 2019, DAC has stopped using the "net flows" to count ODA and adopted a simple "grant equivalent" criterion. This, however, still leaves a lot flexibility for DAC donors to artificially exaggerate their ODA concessionality, as the grant equivalent is still not truly measured by reference to market interest rates and many loans offered at market interest rates are still counted as ODA. In addition, the aid provided through development finance institutions (DFIs) is

75.ODA Levels in 2021-Preliminary Data, OECD, April 12, 2022, https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-2021-summary.pdf.

76.*See Ibid.*

77.*See Ibid.*

also exaggerated.[78] Eurodad estimated that DAC's ODA figures for 2021 could be overinflated by $16.2 billion, or up to 9 percent, including $2.3 billion for excess COVID-19 vaccine aid, $4.1 billion for aid through private sector instruments, $9.3 billion for refugee aid within the donor countries and $484 million for debt relief costs.[79] With the rise of inflation, major donor countries such as the US, Europe and Japan are facing increasingly high pressure to cut fiscal spending, the controversy over how ODA is counted will become more evident.

(II) More strategic use of aid

Since the second decade of the new century, the provision of ODA has been more and more driven by strategic considerations. Since the Trump administration came to power, the US has not only pushed hard China-US decoupling in technology, finance and trade at the bilateral level, but also taken combined actions at the global level by offering international development assistance as well as carrying out trade policies, including signing the "Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act)", founding the new United States International Development Finance Corporation (DFC) based on the Overseas Private Investment Corporation (OPIC), doubling the investment quota to $60 billion, providing new authority for the Export-Import Bank of the United States (EXIM), and achieving the largest adjustment in development policies since the establishment of the Millennium Challenge Corporation during the Bush Administration in 2004.

Since the Biden administration took office, the United States has been actively promoting fiscal stimulus programs internally, and also increasing the use of aid externally, to reshape its international image and win over developing countries, so as to promote the removal of China from global supply chains in key sectors, forcing recipient countries to take sides. The US has taken advantage of the Group of Seven (G7), the Quadrilateral Security Dialogue (QUAD), the Indo-Pacific Economic Framework (IPEF) and so on to strengthen coordination with its allies, intensify its strategic competition with China, and seek to "decouple" from China in key economic and technological fields. One of its primary means is to make use of official financing instruments to step up its support for critical infrastructure in developing countries. The "Build Back Better World (B3W)" initiative was put forward with much fanfare by the G7 in 2021, which was renamed as the "Partnership for Global Infrastructure and Investment (PGII)" in June 2022. The G7 countries promised to jointly raise $600 billion for infrastructure development in developing countries by 2027. Before that, the EU and the UK also respectively launched regional programs like the "Global Gateway" and the "Clean Green Initiative".

Accordingly, the Biden-Harris Administration initiated a domestic "whole-of-government" coordination network to ensure the implementation of PGII and appointed the "Special Presidential Coordinator" for PGII to be responsible for coordinating the US Department of State, the Department of the Treasury, the Department of Commerce, the US Agency for International Assistance, the Millennium Challenge Corporation, the International Development Finance Corporation, the Export-Import Bank and other government departments and institutions. The

78.Gerardo Bracho et. al. (ed.), Origins, Evolution and Future of Global Development Cooperation: The Role of the Development Assistance Committee (DAC), Bonn: German Development Institute 2021, pp. 263-267.

79.Julia Ravenscroft, Rise in Overseas Aid in 2021 Still Fails to Meet Needs of Global Crises, Eurodad, 12 April 2022, https://www.eurodad.org/oda_figures_2021.

Biden administration's "whole-of-government" approach is also designed to give better play to the role of its combination of aid and other official financing tools to maximize support from private sector. Furthermore, compared with the Trump administration, the Biden administration has specifically increased attention to multilateral development institutions such as the World Bank to shape infrastructure-related standards and recipient countries' policies. The $40.3 billion of ODA provided by the US in 2021 represents an actual increase of 14.4 percent compared with 2020, in large part due to the increased contributions to multilateral aid.[80]

These competitive initiatives are beneficial to increase resources for developing countries, but they aim to control key infrastructure sectors such as digital technology and new energy, and force the developing countries to choose between and the "Belt and Road Initiative". That is actually detrimental to the development of recipient countries. The Financial Times reported that the DFC signed an agreement with the Ecuador government in early 2021 to provide the latter with $3.5 billion to help it repay its debt to China, on the condition that the Ecuador government promised to exclude Chinese companies from the purchase list of its telecommunications network equipment.[81] The UN Third International Conference on Financing for Development in 2015 called for more use of official support to maximize the mobilization of private resources.[82] The US and its allies have used this new paradigm to further support their businesses.

III. Building Demand-Oriented Multilateral and Public-Private Development Partnerships

In the historical context, international development assistance has been driven chiefly by strategic purposes of donor countries in the Cold War era. After the 1990s, the OECD reflected on their aid failures, pushed for the adoption of the UN Millennium Development Goals (MDGs) on global poverty reduction, and put forward systematic principles for enhancing aid and development effectiveness through a series of high-level forums. The core is to emphasize the host countries' autonomy and demand orientation in international development cooperation. In 2015, the United Nations adopted the new 2030 Sustainable Development Goals (SDGs), which further underscored the need to go beyond aid, and maximize multiple sources of financing for international development, and build diversified development partnerships in which public and private sectors cooperate with each other.

However, as stated above, the geopolitical competition logic is regaining control of the mindset of major donor countries, exposing the international development system to new risks of fragmentation. As the geopolitical and economic crises we are experiencing revealed, the negligence of real demands of developing countries and SDG goals will eventually intensify international divisions and turmoil to the detriment of donor countries' own interests, requiring major economies to abandon the "zero-sum game" mentality and cooperate to address the common challenges facing global development.

80.ODA Levels in 2021-Preliminary data, OECD, April 12, 2022, https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-2021-summary.pdf.

81.US Development Bank Strikes Deal to Help Ecuador Pay China Loans, Financial Times, January 15, 2021.

82.Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda), Resolution adopted by the UN General Assembly on 27 July 2015, 17 August 2015, Doc. No. A/RES/69/313.

(I) Strengthening debt coordination under the G20 framework

In 2020, the G20 successively adopted the Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments beyond the DSSI for the poorest countries. China is the largest source of the DSSI countries' bilateral official debts, and has made the largest contribution for the implementation of the DSSI. China has also successfully concluded agreements with the Paris Club members and other G20 emerging economies on the debt treatments of Chad and Zambia under the G20 Common Framework, paving the way for them to access IMF resources and avoid further degrading of their sovereign rating.[83]China also actively supported the IMF in reaching agreement on new issuance of Special Drawing Rights (SDR) worth of USD 650 billions, and committed to re-allocate its share of USD 10 billions to African countries, 10 percent of the total commitment.

Generally, the G7 countries own a small part of the DSSI countries' bilateral debt except Japan; but they own 40 percent of non-official commercial debts of these countries, in which a quarter owned by the UK.[84] The G7 is also the major source of DSSI countries' sovereign bond investors. The US, as the issuer of major debt currency, has a key role to play in preventing the deterioration of international debt situation. This means both advanced and emerging economies should play their due roles and cooperate in leveraging other public and private actors for a fair burden-sharing of the debt treatments of DSSI countries and beyond.

(II) Maximizing the mobilization of international development resources

The governance of debt risks in developing countries demands a combination of stock treatment and provision of new liquidity. In times of crisis, governments need to play a greater role in mobilizing private resources. However, the current narrative of mobilizing private sector through government support is too much politicalized. It is used by the G7 countries to demonstrate their moral advantages that are distinct from the so-called "state-led development cooperation model" of emerging economies. In fact, the medium- and long-term direct loans provided by emerging countries to developing countries for their infrastructure construction far exceed the various innovative financing instruments claimed by the G7 countries in terms of scale. What's more, they have more visible impacts of helping developing countries upgrade their infrastructure and boost private trade and investment, and are also regarded as the most patient long-term capital in times of crisis.

Against the backdrop of multiple crises, both the G7 and emerging countries' policy-related financial institutions have become more cautious about external lending and financing. G7 countries' financial institutions and enterprises are re-evaluating the value of emerging economies' financing more objectively and rationally, and trying to make concerted efforts based on comparative advantages. Official export credit ageencies in the G7 countries, such as Euler Hermes from Germany, JBIC from Japan and SACE from Italy, have jointly supported a number of projects in developing countries together with Chinese policy banks, while UKEF from the UK has made structural arrangements in

83.Zambia's Creditor Committee Agreement Eases Path Out of Default,Wed 10 Aug, 2022 - 23:27 ET, https://www.fitchratings.com/research/sovereigns/zambias-creditor-committee-agreement-eases-path-out-of-default-10-08-2022.

84.The author's calculations are based on the source data from the World Bank.

order to leverage China's highly cost-effective engineering, procurement and construction companies (EPCs) in combination with its own high-quality management capabilities. It was also reported that, Chinese contractors have started to more actively seek support from European financial institutions.[85]

(III) Enhancing the constructive role of international financial institutions

In the context where international development system gets more politiclaized, it is more difficult for OECD to become a platform for emerging and traditional economies to have dialogues and conduct coordination about international development policies. It is clearer that the G20 is becoming the major platform for international development, governance and coordination. But as an informal institution, the G20 will rely heavily on formal international organizations, especially the International Monetary Fund and the World Bank, in providing technical support for its routine jobs. The OECD is still a very important actor in this broader architecture. As noted above, the US and o ther G7 countries are intensifying their assistance to multilateral institutions to shape the directions o f their policies. Relevant institutions should maintain their political neutrality more strategically, preserve the balance of all parties' interests on major policy issues such as the debt sustainability analysis, and the principles of high-quality infrastructure, and foster dialogues and coordination about international development based on SDGs.

85.Export-Import Bank of the United States, Report to the US Congress on Global Export Credit Competition, June 2022, pp. 39-40.

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