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Abstract

Following the fundamental transformation of U.S. policy toward China, China's policy toward the United States has also undergone a fundamental transformation. It has abandoned the prospect of a turnaround and recovery in Sino-American relations and is ready to launch a protracted and enduring struggle with its formidable rival, the United States.

Behind this is the fact that China is performing best among the world’s major countries to conquer the COVID-19 pandemic and recover the economy. At the same time, Western countries are unable to escape from the quagmire of dichotomy between infection prevention and economic recovery. Moreover, the government of the U.S., which has long advocated Western democracy, is obstructed by a widening political division between citizens.

Xi Jinping’s administration has confidence that ‘the correctness and superiority of the Chinese system have been proven’ and optimism that ‘time will be on China's side’ if it fights an enduring war.

However, substantial government interference has reduced the efficiency of the Chinese economy, and the imposition of ‘implicit government guarantees’ has seriously distorted the distribution of wealth. Even if China's economy can sustain growth in the short term, it will face stagnation in the long run. China's belief that the stalemate of the Western democracies proves China's righteousness overlooks this fate.

If worldwide globalisation recedes in the future, inflation might return sometime in the 21st century, and the financial security of governments in U.S., China, and all the world's major countries with excessive debt problems could collapse. If this happens, governments will no longer be able to centrally control and exercise power as they have in the past, and there will be a decentralisation of power. The future of the 21st century may see cataclysmic changes beyond our imagination, and the U.S.-China confrontation may be no more than an interlude in the eternal flow of such history.

Keywords

COVID-19, the U.S.-China confrontation, implicit government guarantees, reverse financial repression.

The past five years have seen a fundamental shift in U.S. policy toward China. The change began at the end of the Obama administration and was greatly accelerated during the Trump administration. A series of events took place in 2020, notably the global pandemic of COVID-19 which originated in China's city of Wuhan. China's aggressive 'Wolf Warrior diplomacy' to counter world criticism, the further escalation of the US-China high-tech Cold War, and the destruction of Hong Kong's 'one country, two systems' regime have turned the US-China conflict into an ideological struggle that is more difficult to repair than ever before.

Many experts in U.S. politics predict that the new Biden administration will not significantly change the current tone of the U.S.-China conflict. While there may be minor changes in the U.S. policy toward China, such as emphasising coordination within ally countries and aiming for cooperation with China on global issues such as the global environment, the confrontational tone of the U.S.-China relationship will be likely to remain unaffected.

1. China's policy toward the U.S. has also undergone fundamental changes

China, too, has recently made a significant shift in its U.S. policy, based on the understanding that no matter who becomes next president, there is no longer any prospect for improvement in US-China relations in the foreseeable future.

The text[1] of the 'Proposal for China's Fourteenth Five-Year Plan (2021-2026)' published at the Chinese Communist Party's Fifth Plenum, October 2020 (Fifth Plenum proposal), implies that China's policy toward the United States has fundamentally changed. Some of the critical points are discussed below.

1.1 'The world is in a period of great transformation,' and 'power relations between countries are in serious adjustment'

The Fifth Plenum proposal is based on a grave understanding: 'The world is now experiencing a great transformation that has not been seen in a century.' It represents a severe challenge to China but also, an opportunity.

This perception is supported with the following sentences: 'A serious adjustment is taking place in the power relations between countries,' suggests that China recognises that U.S. hegemony is coming to an end. A future role for China is anticipated here: 'The superiority of the Party leadership and our socialist system have become even more apparent.' (This will be further discussed later).

1.2 If 'globalisation is reversed,' China will respond with a 'domestic grand circulation' – emphasising the expansion of domestic demand

The Fifth Plenum proposal also recognises that 'the world has entered a period of turmoil, and that unilateralism, protectionism and hegemony have become threats to world peace and development'. 'Globalisation is experiencing a reverse trend'; until last year the Communist Party of China (CPC) viewed the great tide of globalisation as unstoppable, but this optimism is now receding.

1.3 Making the promotion of science and technology a driving force for expanding domestic demand

The Fifth Plenum proposal identifies the two pillars of (1) science and technology and (2) supply-side structural reform as the driving forces for further economic growth.

[1] http://www.gov.cn/zhengce/2020-11/03/content_5556991.htm

Regarding science and technology, the proposal uses expressions reminiscent of a quasi-war-time system, such as ‘strengthening the nation's strategic science and technology capabilities,’ ‘becoming a science and technology powerhouse nation,’ pursuing an ‘all-government system,’ and seeking ‘independence and self-reliance in science and technology.’

China has always placed great importance on science and technology. It now has four times as many STEM university graduates as the U.S.(see Chart 1), and the government is pouring RMB 133.6 billion (≈USD 20.6 billion) into basic research in 2019[2]. Digital technology is passing the stage of imitating and stealing from Western technology and has begun to develop independently.

Chart 1 The number of STEM students in the U.S. and China (per academic year)

	bachelor	master	doctor
China	1,505,576	218,981	32,700
The U.S.	354,806	129,095	28,101
of which foreign students	23,461	66,278	12,253
	6.6%	51.3%	43.6%

for **the U.S.**; aggregation of STEM (Science, Technology, Engineering, Mathematics) students
for **China**, aggregation of Science and Engineering students
【source】
the U.S.: The National Center for Education Statistics (NCES) Number and percentage distribution of science, technology, engineering, and mathematics (STEM) degrees (2015-16)
China: China Education Statistical Yearbook 2017

With the intensification of the US-China high-tech cold war, China has become increasingly crisis sensitive and is trying to put more effort into promoting science and technology than ever before. The critical areas of focus include ‘development of online economy and digitalisation’ and ‘strengthening frontier basic research in A.I., quantum computing, semiconductors, life and health, brain science, biological seedlings, aerospace and the deep sea.’

1.4 Overcoming weaknesses in the supply chain and focusing on ensuring supply safety

The U.S. policy of banning semiconductor sales to Chinese I.T. companies, including Huawei, has hit China's supply chain hard. As a lesson learned from this, the Fifth Plenum proposal has called for ‘making up for the industry's shortcomings and supply chain and promoting its diversification. We will strengthen international cooperation in industrial safety to form a more innovative, high value-added, safer, and more secure industrial and supply chain.

In five to ten years, the Western semiconductor industry will be severely affected by the cheap exports of the Chinese semiconductors spawned by this policy move. The export offensive will start from the low-end market and gradually drive Western competitors into the limited, high-end market. They may say in the future that the Trump administration's high-tech cold war policy created counterproductive consequences.

2. Overtaking the U.S. through Endurance struggle - China Gains Confidence from COVID-19 Pandemic

As mentioned above, the further intensification of the US-China confrontation in 2020 had a significant impact on Xi Jinping’s administration and on the CCP's philosophy. In short, the country abandoned the hope for improving the US-China relationship and engaged in a long-lasting struggle with the U.S.

From the Chinese perspective, the decline of U.S. hegemony and the rise of China affords confidence that ‘time is on China's side,’ i.e., ‘China can overtake the U.S. if it continues to fight a protracted war without giving in.’

The Central Economic Work Conference, held in December 2020 summed up China’s fight against COVID-19 in 2020 by saying that ‘the people were satisfied, the world was dazzled, and we left an

[2] “133.56 billion yuan! 5 years of China's basic research funding nearly doubled” (Xinhua News)

achievement that will go down in the history books', noting that 'the Party Central's judgment, decisiveness, and ability to act had a decisive effect.' There is no hiding the sense of accomplishment and self-confidence that China has overcome a difficult situation. And concurrently, there is implicit reference and contrast here to the disastrous situation of major Western countries, stuck in the quagmire of dichotomy between infection control and economic recovery.

It is not just a matter of infection prevention that public events have revealed. Though the U.S. presidential election was finally settled with Biden's victory, the world once again witnessed the serious the divisions in U.S. society. Many Chinese, not only Xi Jinping, believe that the American democratic system is no longer able to unify national opinion and has become dysfunctional.

The 19th National Congress of CPC, which reappointed President Xi Jinping in 2017, declared that it would spread the 'Chinese model' to the rest of the world, though it might be scoffed at at home and abroad as a show of megalomania. However, the stark contrast between the way in which politics are conducted in China and in Western countries creates clear perception of the 'Chinese institutional superiority' spreading in that country. Unlike 2017 perspectives, this perception is extending to the Chinese public.

The death toll from COVID-19 in the U.S. will surpass the death toll from World War II (400,000) soon, and President Trump must be mostly responsible for this; it would be unacceptable if this were result in a condemnation of Western democracies in general. However, when an unprecedented emergency such as the COVID-19 Pandemic strikes, it is undeniable that a power-concentrated, tyrannical political system such as China's will have the upper hand.

Will the future of the world concur with this confident prediction of China's future and reshape their systems of government accordingly?

The author believes this will not happen. The Chinese system, especially the State-Capitalism's merits and demerits, is examined below.

3. Advantages and disadvantages of China's regime

3.1 The advantage: the government's ability to mobilise resources

China's current strength is that the government can swiftly and effectively mobilise vast amounts of wealth and economic resources. It demonstrated its powerfulness in the massive infusion of medical personnel and medical supplies to Wuhan City, which was shut down in January 2020 as an epicentre of the COVID-19 infection explosion. The CCP can mobilise large amounts of resources in a cross-organisational and extrajudicial manner, both at the central and regional levels.

In contrast, Western governments' ability to marshal resources in emergencies is much more limited, unless there are prearranged set procedures and allocated budgets.

Focus on science and technology is another example

As mentioned above, China is putting tremendous resources into technological innovation, science and technology and overcoming weaknesses in its existing supply chain (semiconductor warfare).

Not only success stories have come out of this process, however. It has been reported, for example, that local government policies to foster the semiconductor industry have already resulted in enormous waste. Despite this, the Chinese government's ability to assemble large amounts of resources is outstanding. It is tempting to describe its style as a 'quasi-war regime'.

3.2 The disadvantages also stem from the power of the government.

There are three significant concerns about the current Chinese economy and the Xi Jinping administration's policies.

3.2.1 Government waste is deteriorating public finances and finance.

It would be idealistic to expect that the vast wealth and economic resources controlled by the government is always used wisely; as is often the case, the more ample the budget, the more wasteful the spending.

Over the past decade, to achieve the central government's economic growth target, countless excessive and inappropriate public investments have been made throughout the country. As a result, local governments across China, especially in the economically sluggish northeastern provinces, are experiencing severe financial difficulties due to excessive debt. Today, small default accidents in which local government financial vehicle(LGFV)s fail to pay bond interests on schedule are quite common.

Despite the large number of bad debts that cannot be repaid by the debtors on their own, the 'bubble burst' has not occurred. An 'implicit government guarantee' practice operates, under which zombie companies can refinance their unaffordable debts. The stability of China's financial order is thus maintained.

Given the Chinese government's superabundant wealth and administrative power, it is unlikely that this mechanism will collapse in a handful of years, and yet, the country's future growth potential is continuously being eroded behind the scenes.

The adverse effects are becoming apparent in the form of fiscal and monetary accumulated fatigue.

In its 2019 central Government budget calculations, China announced that its deficit was RMB 2760 billion, equal to 2.8% of GDP. This is still under the traditional deficit ceiling of 3% (see Chart2).

However, the *primary deficit*, calculated by subtracting revenue from expenditure, was RMB 4849 billion, equal to 4.9% of GDP. Moreover, if special bonds issued for local governments are added, the figure increases to RMB 2150 billion, or a ratio of 7.0%. Moreover, a significant portion of the expenditure will be used to compensate for local governments' budget deficits, which have grown considerably every year, due to excessive investments over the past decade.

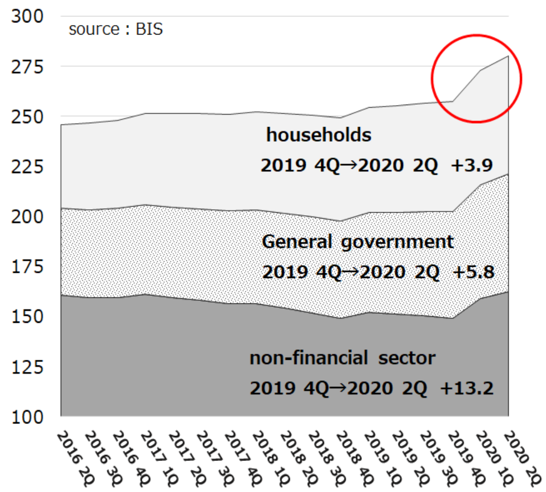
Chart 2 China's National Budget

	unit : billion Yuan	2020	2019 result
National General Public Budget	Revenue(A)	18,027	19,038
	Tax Revenue	-	15,799
	Non-tax revenue	2,998	3,239
	Revenue from State-Owned Capital Management	398	396
	Surplus from Previous Years	0	2,216
	Total Revenue(B)	21,025	21,254
	Expenditure(C)	24,785	23,887
	Other Expenditure	0	127
	Total Expenditure(D)	24,785	24,014
Governmental Fund	Revenue	12,913	8,452
	Revenue from the Fund	8,145	0
	Revenue from Land transfer	7,041	7,258
	Special Local Govt. Bond(E)	3,750	2,150
	Special treasury bond	1,000	0
	Expenditure	12,612	9,136
Fiscal Deficit	Official deficit (B-D)	▲ 3,760	▲ 2,760
	GDP ratio	3.9%	2.8%
	Primary Deficit (A-C)	▲ 6,758	▲ 4,849
	GDP ratio	7.0%	4.9%
	if include Special Local Govt. Bond(E)	▲ 10,508	▲ 6,999
	GDP ratio	10.8%	7.1%
note 1	source: Minisitry of Finance		
note 2	GDP in 2020 is calculated as 2.3% nominal growth.		

The rapid public and private debt increase caused by over-investment has also been a serious problem for the Chinese economy. Therefore, the Chinese government has been making effort to prevent further expansion of debt level ('de-leveraging' policies). As a result, the debt/GDP ratio has recently stabilised or slightly decreased at around 250%

In the last year, COVID-19 Pandemic has put the country's economy back to square one. The debt/GDP ratio jumped by 23% in the first half of 2020 from the previous year and will come close to 300% by the end of 2020 (see Chart 3).

Chart 3 China's leverage ratio (debt/GDP %)



3.2.2 'Implicit government guarantees' distort the distribution of wealth

The second concern is that China has continuously postponed the disposal of zombie companies and bad loans. This has dramatically distorted the Chinese economy's distribution of wealth.

Thanks to the 'implicit government guarantee,' zombie companies can refinance the debts, (bad or non-performing debts), which they cannot repay on their own. As a result, interest continues to be paid to creditors who should face losses on their bad loans, in other words, creditors who are not entitled to receive interest. The scale of these payments is now swelling to a scale that cannot be overlooked.

China's outstanding financial assets are roughly RMB300 trillion, but if we use the 'interest expense > EBITDA' rule of thumb, 15-20% of them are latent, non-performing assets that should be written off as losses because the debtor companies cannot repay them alone（see Column I）.

Assuming that financial assets worth RMB 45 to 60 trillion (15-20% of 300 trillion RMB) receive an average annual return of 5% (the yield on long-term government bonds is just over 3%), that would mean that RMB 2.25 to 3 trillion per year is paid to creditors or shareholders who are not entitled to receive this money.

In a normal country, the scale of this unjustifiable wealth transfer would be limited because interest rates would fall sharply after the peak of the investment bubble. Conversely in China, where government bond yields are over 3%, this distortion of wealth distribution is seriously undermining the health of the economy. (See Column II)

Since China's GDP is now around RMB 100 trillion, the scale of wealth transfer is equivalent to 2-3% of GDP every year. It is a wealth transfer to the state-owned economy, which controls the financial sector, and to the wealthy people, who deposit their money there.

The bloating of the state-owned economy and the widening gap between the rich and the poor are, along with excessive debt, serious problems facing the Chinese economy. These three problems are exacerbated by a common cause: the implicit guarantees provided by a powerful government.

Private enterprises are entrusted with the future growth of the Chinese economy. However, if the wealth equivalent to 2-3% of GDP is siphoned off year after year, how much room for growth will be left for them?

[Column I: the size of China's bad loan]

The latest bank Non Performing Loan (NPL) ratio published by the CBIRC (China Banking and Insurance Regulatory Commission) is 2.0% (Sept. 2020), but the actual ratio is said to be much higher.

The most detailed analysis of this point in the published literature is the IMF's Global Financial Stability Report (Apr. 2016)[3]. This survey is based on the definition of 'A company is defined as "at-risk" if it generates insufficient earnings before interest, taxes, depreciation, and amortisation to cover its reported interest expense' (i.e., interest coverage ratio (ICR) < 1). As a result, 15.1% of Chinese corporate loans made by commercial banks were judged to be 'at risk.'

The survey further noted:

> (1) there is another view that the 'loan at risk' threshold of 'ICR<1' is too low and should be ICR<2 or at least ICR<1.5. In this case, the ratio of corporate loans classified as 'at-risk' (≈NPL ratio) rises to 27% and 22%, respectively, and more importantly,
>
> (2) state-owned policy bank loans (such as the National Development Bank) and commercial bank loans for local government financial vehicles (LGFV) guaranteed by the local government are excluded from the survey.

While the author agrees that there is virtually no need to worry about severe defaults on loans to LGFV, it is still problematic that continuing interest payments on non-performing loans causes unjustifiable wealth transfer.

According to the most recently available data, as of the end of 2018, the outstanding debts of LGFV have surpassed RMB 30 trillion (roughly 33% of GDP), while their ICR is only 0.4 on average[4]. When this is considered together with the non-performing loan ratio surveyed by the IMF, the ratio of bad loans that cause unjustifiable wealth transfers may be much higher than 20%.

[Column II 'reverse financial repression']

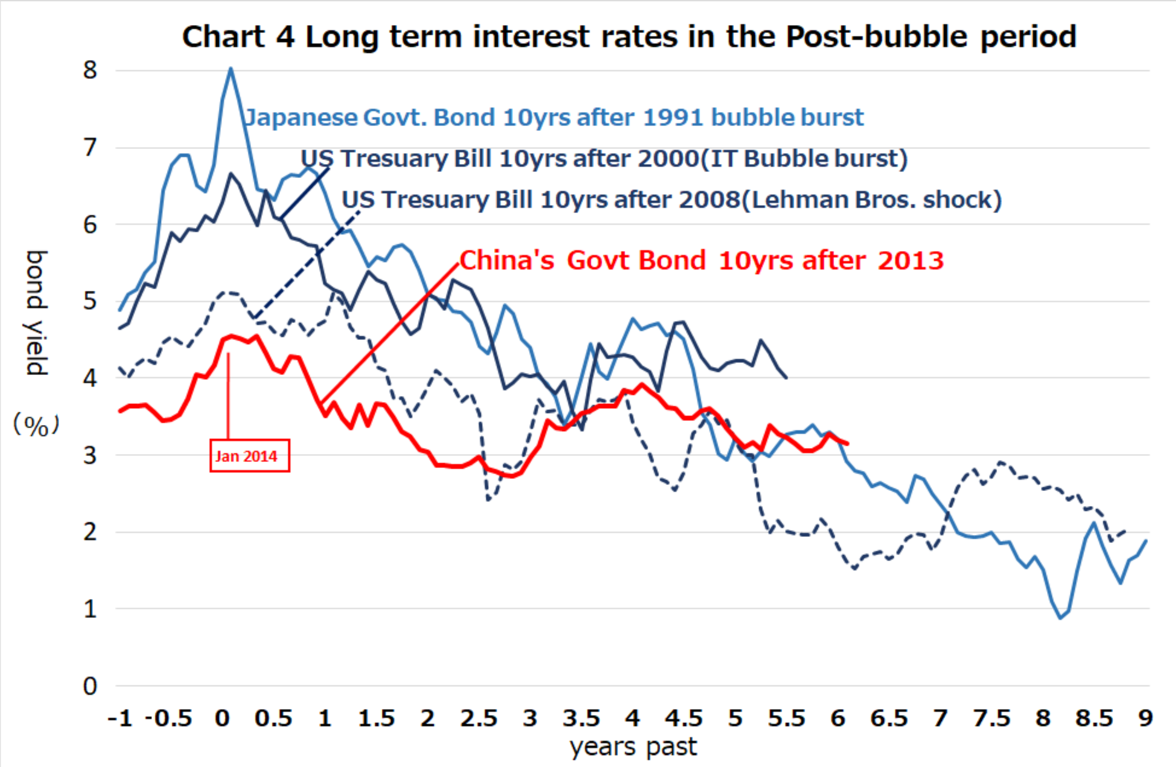
In a normal country, when an investment bubble peaks out, a balance sheet recession occurs. Companies, having realised that they have borrowed and invested wrongly, try to reduce their investments, and use as much cash flow to redeem their loans to avoid bankruptcy.

Since so many companies are taking this action simultaneously, investment plummets, and the economy deteriorates further. No customers come to the bank to borrow money, only to pay back their debts. As a result, interest rates follow a long-term downward trajectory.

[3] https://www.imf.org/-/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/gfsr/2016/01/pdf/_text.ashx

[4] https://www.yicai.com/news/100149865.html

Chart 4 tells us that the Chinese investment bubble peaked at around 2014, and the similar downward trend in interest rates is observed, but these rates have not fallen as sufficiently as in other countries. This is because the implicit government guarantees enabled zombie companies to refinance their bad debt. Due to refinancing need, the demand for loans was (and is) still strong, preventing interest rates from falling.



Over the past two years, there has been a growing inflow of funds from foreign investors into China's domestic financial markets[5]. One reason is that the Chinese government has taken a series of measures to open up its financial markets to win over the U.S. financial industry's support as the confrontation between the United States and China worsens. China's high-interest rates, however, provide a more important reason. Due to this, foreign investors, deterred by the zero-interest-rates at home view China's financial market as an attractive destination to invest their funds. However, when one considers the reasons for China's high-interest rates, this is not a phenomenon to be celebrated.

There is a term in economics called 'financial repression.' It is a policy of deliberately keeping interest rates low, thus transferring the wealth of depositors to governments burdened with massive debts or to financial institutions seeking to dispose of bad loans.

We may call China's current financial state 'reverse financial repression,' under which zombie companies can refinance their non-performing-debt and interest, due to the 'implicit government guarantees' practice (or other forms of financial returns). Creditors (or shareholders) receive payments, though they are not entitled to receive them. Through this mechanism, a vast amount of wealth is continuously transferred to the state-owned financial institutions and to wealthy people from the rest of the economy.

In sum, the bloating of the state-owned sector and the widening gap between the rich and the poor are serious problems facing the Chinese economy; the primary cause of this is, in fact, the 'reverse financial repression.'

5 China Opens Its Bond Market—With Unknown Consequences for World (Bloomberg)

The central question surrounding the Chinese bubble is not when it will burst, but to what extent the Chinese economy will deteriorate due to these mechanisms.

[Column III: China's real estate bubble]

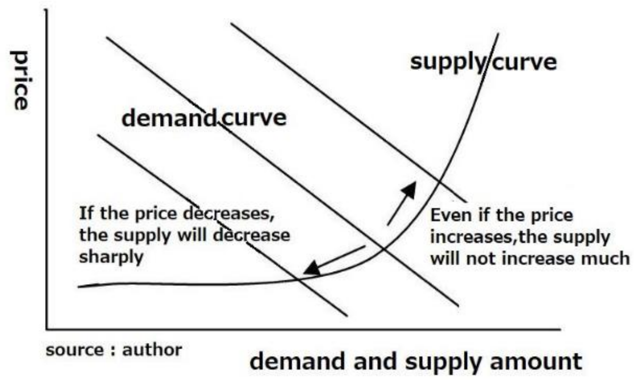
Along with the 'implicit government guarantee,' there is another distortion of wealth distribution: the real estate bubble. A famous Chinese real estate executive claimed in 2018 that the total market capitalisation of Chinese real estate had exceeded that of Japan, the United States and Europe combined and had reached USD 65trillion[6].

We can prove that current Chinese real estate prices are unreasonably high from both demand and supply aspects.

On the demand side, the abnormally high ratio between real estate prices and the average annual income of workers commands attention: in 2019, 39 of China's 50 major cities had a ratio of over ten times the price of real estate to the average annual worker's salary. Ratios in the cities of Shenzhen, Shanghai, and Beijing are absurdly high at 35.2, 25.1, and 23.9%, respectively.

On the supply side, the ratio of rent/property price (investment yield) attracts attention: in 2020, this ratio in major Chinese cities was 2.1% in Shanghai, 1.7% in Beijing, 1.5% in Guangzhou, 1.3% in Shenzhen, and 1.7% on average in the ten largest cities[7]. Considering that the bank loan's interest rate is more than 4%, the property prices are unrealistically high.

Chart 5 Demand and Supply of China's land market



China's urban land market is a supply monopoly market where the only sellers are the local governments that auction off the land, making it difficult for a rush to sell to occur and for a real estate bubble to burst. Even if the market were to call for an adjustment of excessively high prices, a decrease in transactions would result, rather than a fall in prices (see chart 5).

Because of this market structure, it is unlikely that China's real estate bubble will burst shortly, but it is precisely for this reason that wealth is concentrated in real estate owned only by a few (the local government and the wealthy). A structure is fixed in place in which those who own real estate collect wealth in the form of rents from those who do not.

For the Chinese government, which has total control and no regime change mechanism, it is difficult to admit and correct policy mistakes. Although the Chinese real estate bubble is unlikely to burst, the wealth distribution is being distorted cumulatively.

6 Chairman of SOHO China Shiyi Pan's remark at 9th Caixin Summit 2018 (held on 17th Nov. 2018 at Beijing)

7 Global 80 Cities Rental Yield Study (E Home China R&D Institute)

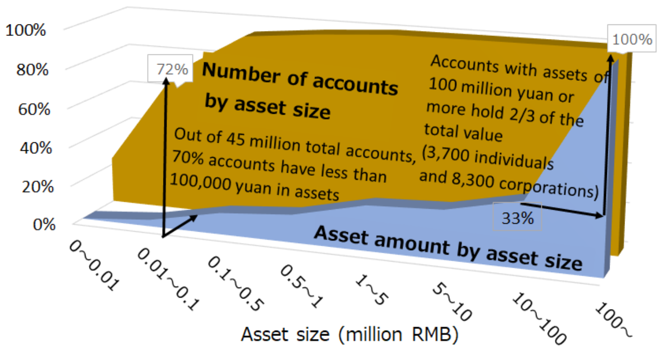
3.2.3 The Conservatism of the Xi Jinping Administration

The third concern for China's economy is Xi Jinping administration's conservative approach, which places 'CPC Party supervision' above the market function[8]. Furthermore, Xi Jinping administration does not attempt to hide their preference for state-owned enterprises over privately-owned ones.

China is a country with a 'socialist public ownership system,' but in reality, the overwhelming wealth is concentrated in the government, and the CPC that controls the government.

The wealth generated by urban land belongs to the government. Besides, Chart 6 shows how and by whom the shares of China's listed companies are held. Two-thirds of the total market capitalisation is held in the stock trading accounts of about 8,300 corporations and about 3,700 individuals, representing only 0.03% of the total accounts. Most of these shareholders are probably state-owned enterprises and privileged people (or their agents) under the CPC regime.

Chart 6 Stock Trading Accounts
Number of accounts and assets by asset size



source: China Securities Depository and Clearing Corporation Monthly Statistical Report for July 2015

For China to maintain its economic growth rate in the future, it is essential that the private sector, which is much more productive than the state-owned sector, grow to its fullest extent. But in reality, wealth has been overwhelmingly distributed to the government and to CPC stakeholders. This trend has been reinforced by the aforementioned 'implicit government guarantees' and through artificially maintained real estate bubbles. If the wealth distribution structure is not changed, China's economic growth will actually decline, and to decline.

Moreover, things seem getting worse further. Ongoing domination and annexation of private companies by the state-owned enterprises in the name of 'promoting a mixed-ownership system' is happening. Many state-owned investment funds have taken over the management of privately-owned companies that have fallen into financial difficulties.

An example of this is the Government's recent manipulation of Ant Group, a fintech company of the Alibaba Group, which was about to go public in November 2020. The company had to postpone its planned listing due to intense instruction from the financial authorities. The authorities demanded that Ant Group significantly strengthen its capital base to continue its micro-finance business, which represented its largest revenue source. Mainly state-owned financial institutions can meet the large capital increase; in other words, the Ant Group was virtually requested to welcome state-owned shareholders.

The government also launched an investigation in November 2020 on suspicion that Alibaba, the most prominent platform company in China, violated the Antimonopoly Act by eliminating competitors. Xi Jinping's administration also issued a strong warning. The Central Economic Work Conference declared in December 2020:[9] 'We will not tolerate monopolistic or unfair competitive behaviour, and unregulated expansion of capital must be prevented. We will improve the judgement of monopolistic behaviour by platform companies, improve the legal regulation of data collection and use management,

[8] The CPC Central Committee's Third Plenum reform plan, released in Oct. 2013, called for "let the market play a decisive role in resource allocation." Although the previous expression "primary role of the market" was thus revised over conservatives' objections, few believe that this policy has been correctly implemented in the seven years since then.

[9] http://www.xinhuanet.com/politics/leaders/2020-12/18/c_1126879325.htm

consumer rights protection and other aspects. Financial innovation must be conducted under careful financial supervision.'

While the Xi Jinping administration is concerned about the harmful effects of monopolies by private platform companies, it seems to ignore the potential harmful effects of monopolies by state-owned economies.

Overall, we can sense that behind the government's attack on Alibaba Group is the Xi Jinping administration's judgment that a platform company like Alibaba is dangerous unless put under the party and government's strict control. For Xi Jinping's administration, which believes that the CPC's leadership must be above the market mechanisms, this is probably the most comfortable approach.

In the long run this tactic will diminish the private sector's vitality and efficiency, which has been the driving force behind China's remarkable I.T. development. Besides, the platform industry is one of the most profitable industries in China. If it is put under state control, the concentration of wealth in the hands of the government and the CPC will further increase.

It is unlikely that the Chinese economy will collapse within a handful of years. However, all of the above problems will shake the long-term viability of development.

The Fifth Plenum proposal also discusses long-term goals for the period from next year to 2035, and Chinese analysts estimate that the average growth rate during this period will be around 4 to 5%. However, with a declining birthrate, an aging population, and the concerns mentioned above, China will not enjoy such a smooth developmental path.

4. The Future of the U.S.-China Conflict: A Conclusion

The year 2020, when the COVID-19 Pandemic struck the world, was a disheartening year for Western 'like-minded' people.

The chaos surrounding the election of 46th president of the United States' and the subsequent change in government caused serious anxiety about the future of the Western democratic system. How can a democratic system be managed if the people's interests and ideas are seriously divided and if a national consensus cannot be reached on various issues?

In the fight against COVID-19, China quickly deployed a large amount of medical supply and human resources to subdue the pandemic at an early stage. At the same time, Western developed countries continued to struggle in the quagmire of dichotomy between infection prevention and economic recovery. It was not easy to know which was the developed country and which was the developing country.

We have yet to find a way to overcome the fundamental problems of fragmentation of people and lack of consensus-building in Western democracies, and this will take a long time.

It is no surprise that China, having looked at this stark contrast, was encouraged to think that 'the correctness and superiority of the Chinese system have been proven.' As was argued in this paper, however, the Chinese system also has serious problems. Thanks to the government's substantial interference, the economy will maintain stability for the time being, but that interference continues to degrade the Chinese economy by reducing economic efficiency and distorting the wealth distribution.

The CPC may envision maintaining economic growth at 4 to 5% per year until 2035, raising per capita income to the level of middle developed countries, and "basically realising socialist modernisation", but it will gradually realise that 'time is not necessarily on China's side.' Even if the country can maintain stability and achieve (ostensible) economic growth for the time being, the 'adjustment' that will come in the end may be violent because the government has long blocked the effect of the invisible hand of the market. The CPC view of 'the correctness and superiority of the

Chinese system' overlooks the possibility that *both* the CPC regime and the Western regime may reach an impasse.

What kind of future awaits the world then? The following is a dark fantasy, as envisioned by this author.

The 'G Zero' vision, proposed by Ian Bremmer of the Eurasia Group, suggests that the world may become a jungle of the weak and the strong as a result of the absence of a single hegemony that can provide international public goods and bring order and peace. Both the U.S. and China are portrayed as great powers that may only pursue their own interests.

This author goes one step further and imagines a 'G Zero' future in which both the U.S. and China are in economic decline. Indeed, not only the U.S. and China will decline, but all the major countries in the world with enormous national debt will also decline.

This future is plausible because the major Western countries, China, and every other major country in the world have reached a point of excessive debt that makes their long-term sustainability questionable. With no definite sign of inflation for the time being, countries' finances have finally lost their moderation, and the debt expansion has become unstoppable. If inflation returns to the world at some point in this century, these countries' government finances will collapse, across the board.

Therefore, the question is whether inflation comes back or not. In the past, many economists have feared that printing money would lead to inflation. However, this has not been the case so far. The necessary and sufficient conditions for inflation to occur may require additional factors other than monetary ones.

With respect to potential conditions for inflation, the future of 'globalisation' is a concern. Globalisation has contributed to the world price stability by the markets' single-minded pursuit of efficiency. However, a recent series of events suggests that globalisation has turned a corner and may begin to recede; opposition from the citizens of developed countries, the rise of a mindset that emphasises security over economic efficiency, and the review of supply chains in the wake of the COVID-19 Pandemic are examples. If globalisation reverses, the necessary and sufficient conditions for inflation are closer to hand.

If government finances collapse, current governing structure will no longer be able to centrally control and exercise power as it has in the past. After this we may see an era in which various actors share power, as in the Middle Ages, rather than a single governing body taking full control. Among others, those who manage and control 'data' are likely to hold great power, but they may not be the governments. In other words, 'the nation-state's era,' which has lasted for more than three centuries in the world, maybe coming to an end, within this century.

All in all, the 21st century has been marked by several 'over-shootings,' such as over-indebtedness or the extreme disparity in wealth. The emergence of the 'echo-chamber' phenomenon that radicalises existing group beliefs without making any effort to build consensus among different opinions is another example of 'over-shooting.'

Over-shootings, which can be rephrased as 'deviations from the mean,' will be corrected in the long run, as human history has shown. Lant Pritchett and Lawrence Summers, in their co-authored paper 'Asiaphoria Meets Regression to the Mean[10],' argue that abnormally rapid growth is rarely persistent and that 'regression to the mean' is empirically, the most salient feature of economic growth. The rule of thumb that deviations from the mean will eventually be corrected may apply not only to economic growth but also to a broader range of areas. It will be worrisome if such corrections of the above 'over-shootings' come together at once and plunge the world into chaos in this century.

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10 https://www.nber.org/papers/w20573

The current confrontation between the U.S. and China is a severe problem for today's world. However, from the perspective of deep-reaching changes in history, it might be only an interlude between acts.

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