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RAIGIRDAS BORUTA

Raigirdas Boruta is an associate expert in the EESC China Research Program, a doctoral student at the VU Institute of International Relations and Political Science. He holds a Bachelor's degree in Asia-Pacific Studies (Chinese study branch) from the University of Central Lancashire (UK). In 2020 he completed a Master's degree in International Relations at Sichuan University (China).

Key highlights:

- In Q2 2022, Beijing's main focus was on addressing domestic challenges and trying to stabilise the country's economic situation, which is already showing some signs of recovery despite continuous implementation of its zero COVID policy.
- While the COVID outbreak in Shanghai and Beijing is considered contained, considerable tensions and uncertainty remain in society due to the fact that severe restrictions can be reapplied at any time.
- China's increased focus on the Pacific and the signing of a security treaty with the Solomon Islands are indicative of its growing ambitions in the region, which will inevitably lead to a fierce rivalry and confrontation with the US.
- Countries in the South-East Asia region are not very optimistic about their economic situation, but there are some positive signs of recovery from the pandemic. However, this year, the region's economic outlook is rather cautious, not only because of the impact of the war in Ukraine, but also because of China's unstable economic situation and disruption to supply chains.

Domestic Policy

Containment of the COVID-19 outbreak in China and ongoing tensions

In the second quarter of this year, the government's main focus remained on the COVID-19 situation in China and the alleviation of consequences originating from China's strict coronavirus management policies. In April, as the situation worsened not only in Shanghai but also in other cities, Beijing took even tougher measures to restrict movement, announcing on 11 May that the issuance of documents for unnecessary visits abroad would be severely restricted.[1]. However, two months after the start of the strict isolation in Shanghai, the situation has changed significantly: on 1 June, most of the strictest restrictions were lifted and the population began to gradually return to normal life. On that day, only 13 new cases were reported in Shanghai[2], and the increase in cases so far remains minimal (for example, on 26 June, only 11 new cases were reported in the city[3]). However, this fundamental change in the situation does not mean that Beijing's zero tolerance policy will be relaxed, therefore atmosphere within the society remains tense. The current situation shows that fears of a new outbreak and a return of restrictions are well founded. On 11 June, for example, life in Shanghai came to a temporary standstill again when the city's government initiated another mass testing after finding new cases in areas previously deemed as low-risk.

The situation in Beijing is stabilising, but tensions remain over the threat of outbreaks (although 74 new cases were reported in Beijing on 13 June[5], the situation is improving, with only 4 new cases reported on 26 June[6]). There is a strong and early response to any increase in cases: In June, an outbreak occurred in a Beijing bar, with 257 infections reported between 9 and 13 June, and the spread of the virus associated with the bar was reported in 15 districts of the city[7]. The city authorities have already set up a special commission to investigate the situation, and the bar is facing a serious consequence because of the failure to contain the virus spread[8].

Outbreaks, even small ones, are dealt with very strictly, and this strategy is likely to remain unchanged throughout the year. Temporary restrictions are not only imposed in Shanghai and Beijing: on 18 June, in Shenzhen, China's tech industry centre, one confirmed local case of COVID has led to the isolation of parts of neighbourhoods and mass testing of residents.

Fig. 1: Change in new cases in Shanghai.

Source: Bloomberg, Shanghai Municipal Health Commission[4]

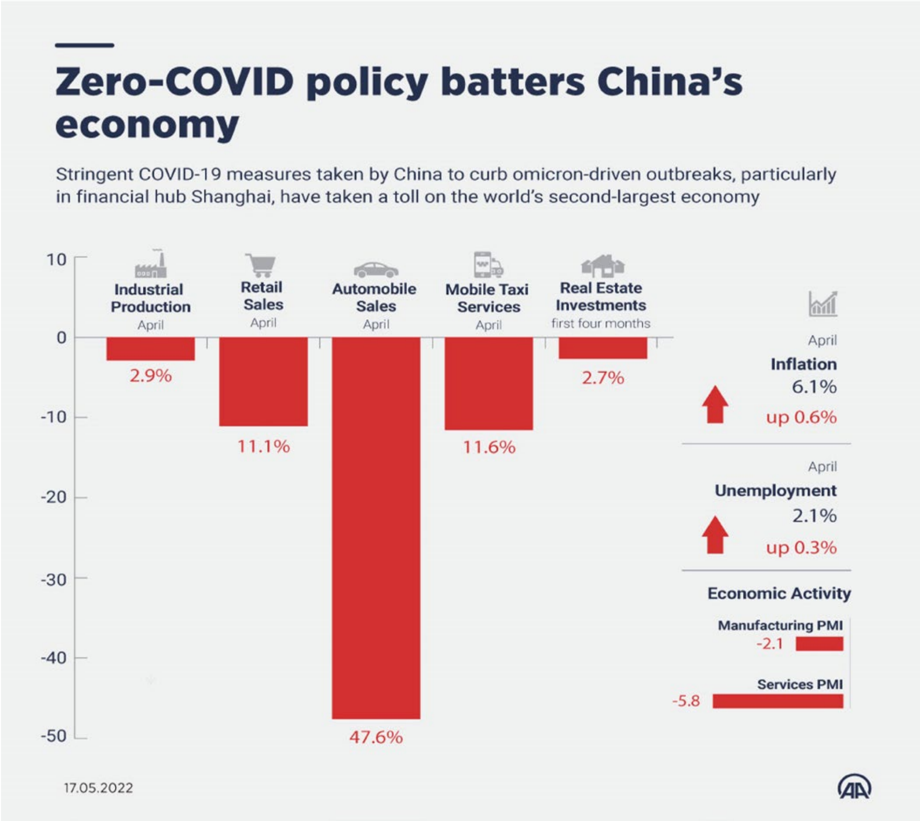

Fig. 2: The impact of a zero COVID policy on the national economy.

Source: Anadolu Agency[9]

Although the epidemiological situation is under control, some of the preventive measures in Shanghai and Beijing are still not being reversed, and teaching in primary schools is still being done virtually.

Economic situation and implications of a zero COVID policy

China's difficult economic recovery is receiving a lot of attention: disrupted supply chains, the war in Ukraine and COVID's tough governance policies have led economists to forecast a more cautious assessment of the Chinese central government's objectives of achieving its 5.5% GDP growth target.

China's economic challenges and relatively poor performance have been influenced by Beijing's COVID governance policies and, to a lesser extent, the war in Ukraine. According to the Chinese National Bureau of Statistics, consumer prices grew by 2.1% in April and producer prices by 8%.[10] The unemployment rate rose slightly by 0.3% to 6.1%. Compared to the previous year, retail sales volumes fell significantly by 11.1%. The automotive sector was the most affected by the pandemic management policy, with a 47.6% drop in trade. However, while the impact of the COVID policy remains the main obstacle to a faster economic recovery, economic indicators are starting to recover and, according to the National Bureau of Statistics, the Chinese economy is starting to show "signs of recovery".

According to the OECD (Organisation for Economic Co-operation and Development) updated economic forecast for China, economic growth is forecast to be lower at 4.4% this year, mainly due to the outbreak of COVID in Beijing and Shanghai, which are China's main economic engines[11]. The June update in the World Bank's China Economic Survey[12] notes that despite a promising start of the year, the outbreak of

COVID and the imposition of severe restrictions are forecast to slow the Chinese economy to 4.3% (down by -0.8%). The review states that the main drivers of China's economic growth are unstable, the likelihood of a new outbreak remains quite high and there are no clear signs of easing tensions in the property sector. However, it is also noted that if the pandemic is fully contained and all constraints are lifted, annual growth could exceed forecasts, thanks to the recently adopted stimulus measures. On the other hand, there is a risk that China will continue to rely on a growth model based on the expansion of the credit-financed real estate and infrastructure sectors.

As China's economic situation remains challenging, the central government has taken a more proactive role with a significant economic stimulus package to reassure both the public and investors about the country's economic viability and the significant efforts being made to ensure stability. To dispel the gloomy forecasts, the Chinese Premier has quite unexpectedly become the "spearhead" of the economic recovery. 25 May Li Keqiang chaired a high-level videoconference on the economic situation[13]. The meeting followed the publication by the Council of State of a 33-point programme to stabilise the economy[14]. During the conference, Li acknowledged that China's economy is facing major challenges. In his speech, Li tried to present a realistic picture, stating that in some respects the current situation is even worse than in 2020. The central government has already taken concrete steps: for example, at the end of May, it announced[15] that it was cutting the borrowing rate to 4.45% (0.15% point reduction) in the hope that this would help the property sector recovery (it is the biggest rate cut since 2019).

The changing central government's attitude toward technology sector

In 2021, China's technology sector faced significant challenges due to Beijing's tough measures to "prevent monopolistic behaviour". With the new directives, Beijing has sent a clear warning to the high-tech sector. Alibaba was fined a record $2.8 billion and Meituan was fined $530 million.

However, there were more positive signs in the second quarter of a possible end to Beijing's crackdown on Chinese technology sector. On 18 May the Chinese People's Political Consultative Conference held a special symposium on the sustainable and healthy development of the digital economy. Chinese Vice Premier Liu He assured that the government will support the healthy development of the platform economy and the private sector, and urged companies to play a constructive role in scientific and technological innovation projects[16]. This is a much softer tone compared to Beijing's open confrontation with the technology sector a few years ago[17]. The activities of China's tech giants and their relationship with the central government are closely watched by foreign investors, and the recent positive tone of the Chinese Communist Party has not gone unnoticed: JP Morgan has upgraded the stock ratings of seven Chinese internet firms, with a positive outlook for the sector and potential financial benefits in the long term[18]. This is a significant departure from the March report, which stated that China's technology sector is "completely uninvestable" for the next 6-12 months.[19]

On 8 June, China's National Administration of Press and Publication's approval of an unusually large number of licences for new video games can also be seen as a softening of the CCP's rhetoric towards technology companies. The news was followed by a significant rise in the value of Chinese companies' shares (for example, Alibaba shares rose 12% on the US stock exchange). Shares in ride-hailing company Didi were up 68% following news that state regulators will complete a cybersecurity investigation and allow the company to accept new user registrations[20].

However, uncertainty and instability in the sector persists and it is still too early to say that the authorities are fundamentally changing their harsh rhetoric towards the sector. Following rumours that Ant Group, a subsidiary of Alibaba, may return to its plans to launch an initial public offering (IPO) after a sudden break of almost 2 years, the stock market reacted very positively, seeing it as a signal that the authorities are easing the pressure on the tech sector. However, on

9 June, the state supervisory authority and Ant Group denied the rumours, which was followed by a lightning reaction on the stock markets: The NASDAQ Golden Dragon China Index went down by 6.8%. Shares in e-commerce platforms also took a hit: Alibaba Group Holding lost 8% of its value, while JD.com shares dropped 7.6%, and Pinduoduo lost 9.6%[21].

M. Bachelet's visit to China and leaked Xinjiang Police Files

On 20 May, the Office of the UN High Commissioner for Human Rights (OHCHR) announced that the UN Commissioner for Human Rights, Michelle Bachelet, would be visiting China from 23-28 May "at the invitation of Beijing"[22]. This is a significant visit: years of efforts to organise a visit to China have been challenging, not only due to the COVID pandemic, but also due to the very tightly restricted agenda of the visit, particularly in the Xinjiang region. This was the first visit to China by a UN Human Rights Commissioner after a 17-year absence. The visit itinerary included visits to the cities of Guangzhou, Kashgar and Urumqi.

On 24 May, just one day after the start of Bachelet's visit to China, an unprecedented collection of leaked photographs and documents known as the Xinjiang Police Files became public. The data for the period 2017-2018 was leaked from the computers of two Xinjiang county public security bureaus. Photographs of 2,800 local residents, confidential local government documents, statements, and training guidelines for local police forces have been made public[23]. According to the experts, there is no reason to doubt the authenticity of these data[24]. The last significant leak of sensitive documents and other data related to Xinjiang took place in 2019 (known as "China Cables"). The latest leak will only serve to reinforce the Western world's criticism of China, and the documents will provide a legitimate rebuttal to Beijing's narrative that the Uighurs "voluntarily choose to attend the education centres". This leak gives a clearer picture of the actual implementation process of the Beijing re-education centres[25].

China's initial official reaction to the leaks was brief: Foreign Ministry spokesman Wang Wenbin called it "the latest example of how China and its Xinjiang are being vilified by anti-Chinese forces"[26]. Meanwhile, Ms Bachelet's visit was met with criticisms. Bachelet's speech at the press conference at the end of the visit was criticised due to several instances of using Chinese official narrative (e.g. "anti-terrorist operation" and "deradicalisation in Xinjiang"). Later, the Commissioner revealed more details of her visit and acknowledged that her visit had certain limitations. Ms Bachelet also mentioned that during her visit to Xinjiang she had not had the opportunity to meet with the detained Uighurs and was constantly accompanied by representatives of the Chinese authorities, but as before, Ms Bachelet stressed that her visit to China was not an "investigation", but an opportunity to talk to representatives of various institutions and other groups.[27].

Foreign Policy

Boao Forum and Global Security Initiative

The Boao Asia Forum is an annual high-level conference initiated in 2001 by 25 Asian countries and held in Boao, China. It's main aim - to provide the world with an "Asian perspective" on global issues and challenges. This year's forum was held on 20-22 April in hybrid format, more than 30 smaller formats to discuss different areas were organised. Among the various politicians, businessmen and academics, leaders from Israel, Mongolia, Nepal, the Philippines, Kazakhstan and Laos attended, as well as IMF Managing Director Kristalina Georgieva, who joined the event remotely. Although it is considered a prestigious forum, it has received less global media attention in recent years. But this year, perhaps the most attention-grabbing speech was Xi Jinping's speech introducing China's new idea - the Global Security Initiative.[28] It is likely that this language will be cited in the future as the basis for China's official foreign policy doctrine.

In his speech, Xi Jinping outlined the main ideas of this vision:

- commit to shared, comprehensive, cooperative and sustainable security and work together to maintain world peace and security;
- commit to respect the territorial integrity and sovereignty of all countries;
- respect the principle of non-interference in the internal affairs of other countries;
- respecting the independent choices of other countries in terms of development patterns and social systems;
- adhere to the principles of the UN Charter;
- let go of the Cold War mentality;
- oppose unilateralism, group politics and bloc confrontation;
- commit to taking seriously the legitimate security interests of all parties.

On 21 April, at a press conference held by the Chinese Ministry of Foreign Affairs, Wang Wenbin sought to provide further clarification on the Global Security Initiative[29]:

- this proposed initiative is a response to the growing security challenges in the world;
- this is yet another global initiative by China and a clear vision for a Shared Future for Humanity in the field of security;
- the GSI provides the basic concept, the basic guidelines, the key principles, and the long-term goals for maintaining global security;
- the GSI is based on multilateralism, so it is open to the world and to countries that want to join;
- China, as the initiator of the initiative, will take the first steps in the implementation process and will work with the UN and other countries to share ideas on the initiative.

The Global Security Initiative, together with the Global Development Initiative (an initiative launched during Xi Jinping's address to the UNGA in 2021), remain so far rather vague proposals, dominated by the usual narrative and rhetoric so often found in official statements.

China – Solomon Islands Security Treaty

Recently, the growing Sino-Solomon Islands ties have received increasing attention, and rumours of a potential take-off of bilateral relations to a new level have largely been confirmed. On 24 March, a draft of the security treaty between the PRC and Solomon Islands was leaked on social media, triggering mixed reactions not only in the region but also in the international community. This information was confirmed on 19 April by Chinese Foreign Ministry spokesman Wang Wenbin who confirmed that the agreement had indeed been signed, but reassured that it was "not directed against third countries"[30].

US President Dwight Eisenhower's description of the Pacific as an "American lake" perfectly reflects US interests and increased focus on the Pacific region. Immediately after the news of the security agreement, on 22 April, the US sent a high-level delegation, led by US National Security Council Coordinator Kurt Campbell and Assistant Secretary of State Dan Kritenbrick, to visit Honiara, the capital of the Solomon Islands. During the visit, the two sides confirmed their commitment to strengthening bilateral relations[31]. Recently, the US has significantly increased its attention to the country and the region: as recently as February the US announced plans to open a US embassy in Honiara. Furthermore, US President Biden became the first US President to participate in the Pacific Islands Forum last August.

Although the Solomon Islands authorities have given assurances that China will not be allowed to set up a military base, this bilateral decision remains highly open to interpretations because the security agreement is confidential.[32] China's ambitions in the region are growing: Beijing already has military cooperation agreements with Fiji, Papua New Guinea and Tonga. However, the agreement with Solomon Islands is unique in that it potentially allows Chinese police forces or troops to deploy in the country upon request by Honiara.

Fig. 3: China's Wang Yi visits the South Pacific.

Source: Nikkei[33]

Chinese Foreign Minister visits the South Pacific

The official visit of a Chinese delegation led by Foreign Minister Wang Yi to 7 Pacific countries (Solomon Islands, Kiribati, Samoa, Fiji, Tonga, Vanuatu, Papua New Guinea) was significant and attracted a great deal of attention from the world media. The highly followed visit also included virtual meetings with the Cook Islands, the Federated States of Niue and Micronesia, and the second China-Pacific Foreign Ministers' Meeting in Fiji.

Wang's visit culminated in a joint meeting with the countries' foreign ministers in Fiji, during which China expected to sign an important cooperation document with the region. A leaked draft document of an agreement between China and the countries of the region shows[34] that the agreement may have included cooperation in security, data communication and other areas. The agreement also proposes the creation of a free trade area and support for action on climate change and health.

China's attempt to sign an economic and security cooperation treaty with the countries of the region has been met with a negative reaction from different parts of the region. However, although this agreement could not be reached, during Wang's visit a number of bilateral agreements were signed to strengthen cooperation in areas ranging from economic diplomatic cooperation to concrete projects such as the establishment of fingerprint laboratory.

Although plans to sign an agreement with the region fell through this time, China's ambitions in the region will certainly not diminish, and the focus will be more on strengthening bilateral relations. Following the diplomatic setback, the Chinese Foreign Ministry issued a 24-point statement indicatin that China is committed to develop its relations with the Pacific.[35]

China's growing military power and ambitions

Tensions in the South and East China Seas remain high. Apart from the recent increase in the number of Chinese air force sorties in the Taiwan Strait, on 24 May, China and Russia carried out a joint 13-hour air patrol in the Sea of Japan and the East China Sea on 24 May[36], which raised concerns for Japan and other countries in the region. Perhaps the most important development this quarter in terms of China's military build-up, is the announcement of China's third ever and first indigenously-built aircraft carrier, the Fujian (named after the province opposite to Taiwan), which demonstrates the significant progress made by China's military industry. While older Chinese aircraft carriers were based on Soviet technology[37], the new aircraft carrier is comparable to the US Nimitz and Ford class aircraft carriers.

Beijing's ambitions and the strengthening of its capabilities and the extension of its operational reach are reflected in the expanding legislative framework. On 14 June, Xi Jinping, Chairman of the CCP's Central Military Commission, signed a directive to expand the country's military capabilities, empowering the armed forces to defend China's interests abroad. Although the six-chapter directive is not publicly available, according to the Chinese media it will provide the necessary legal framework for the wider use of troops abroad in peacetime, and will allow "to protect the country's assets and maintain national sovereignty, security, development interests and regional stability". This move should not come as a great surprise, especially given Beijing's recently growing ambitions in the Pacific and the South China Sea. The idea itself has been floating around among Chinese academics since Xi's ascension to power in 2013, but its realisation at this geopolitically tense time will undoubtedly lead to further friction between China and other regional powers.

Discussions on potential locations for new Chinese military bases continue. In recent years, Cambodia's Ream naval base began to be considered as a potential site for a new Chinese base. A ceremony on 8 June, attended by the Cambodian Minister of Defence and the Chinese Ambassador to Cambodia, marked the start of the renovation and modernisation of this naval base. This event has attracted foreign attention because the works will be carried out by China. Although both the Chinese and Cambodian sides strongly deny the rumours of the possibility of establishment of a military base[38], given the strategic location and the increased capacity to host naval forces following modernisation, it remains a viable possibility.

Sino-Russian relations and economic cooperation

Beijing's stance on the war in Ukraine has not changed significantly and several Chinese companies are still wary of operating in Russia for fear of Western sanctions, but bilateral trade between Russia and China is growing considerably.

Compared to 2021, Sino-Russian trade grew by 28.9% in the first five months of this year. During this period, China's imports from Russia increased by 46.5%, while exports to Russia grew by only 7.2%[39]. In this quarter, Russia also managed to overtake Saudi Arabia to become the largest oil supplier to China[40]. During the St. Petersburg International Economic Forum, new trade agreements between China and Russia were signed, covering the energy and food sectors.[41]

Bilateral economic potential also increases significantly when looking at joint infrastructure projects. On 10 June, the first car bridge linking the Russian city of Blagoveshchensk and the Chinese city of Heihe was opened, and the first railway bridge across the Amur River is due to open soon, which will significantly reduce the cost of transportation between Russia and China. This shows a significant intensification of Russia's "turn to the East" policy. Meanwhile, China's much more restrained export figures to Russia are potentially linked to the war in Ukraine and the much more cautious behaviour of the Chinese business sector, which is worried that a significant increase in exports could be perceived in the West as an aid to Russia.

The virtual meeting between Xi and Putin on 15 June has a great symbolic significance as it took place on Xi Jinping's birthday. Therefore it was also intended to highlight the personal relationship and friendship between the two leaders, who are currently both 69 years old. This is the second meeting between Chinese and Russian leaders since the start of the war in Ukraine. Although there has been rumours of intensive talks between the Chinese and Ukrainian authorities on the plans to hold Xi-Zelensky meeting, it has not yet taken place.

Interestingly, the official statements issued by Beijing and the Kremlin after the meeting between the Russian and Chinese leaders differed in content and emphasis. The Kremlin's statement[42] sought to underline the very close friendship between the leaders, and concluded by noting exclusively that "the talks took place in the traditional warm and friendly atmosphere". The Kremlin statement said that "further development of military and defence cooperation was discussed" and that "the Chinese President noted the legitimacy of Russia's actions to protect fundamental national interests".

On the other hand, the report published by the Chinese Ministry of Foreign Affairs was more restrained, especially on Ukraine. Xi assured that "China is ready to work with Russia to continue to support each other for their respective core interests of sovereignty and security"[43]. The "Ukraine problem" was mentioned, which was mentioned in a more cautious and vague way. Xi stated that "China has always taken an independent view of the situation, based on the historical context and the essence of the problem, and has actively promoted world peace and the stability of the global economic order".

The Economic Situation in South-East Asia and China's Influence in the Region

The South-East Asia region is facing growing challenges, largely stemming from the intensifying strategic and economic power competition between China and the US. The growing confrontation between the superpowers is forcing Southeast Asian countries to be more cautious between the two sides, while the often divergent interests of ASEAN countries and the difficulty of reaching a consensus have led to cautious and ambiguous positions on a number of issues (e.g. the response to the war in Ukraine has been uneven, not only because of the closer relationship of some of the countries to Russia, but also the willingness of some of the countries to take into account the Chinese position). The growing US-China focus on the region is manifested in a multitude of formats: the recently launched Indo-Pacific Economic Framework (IPEF), the Regional Comprehensive Economic Partnership (RCEP), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the ASEAN-China Free Trade Area (ACFTA).

Southeast Asian countries have particularly close economic ties with China. While the situation in the region varies, the overall dynamics and trajectory of cooperation show that some countries are becoming increasingly dependent on China, especially for imports. In 2020, China was the main import partner for 8 out of 10 ASEAN countries and the main export market for 5 out of 10 countries.

Country	Import value (US $)	China's position, % share	US position, % share
Vietnam	270 billion	**1**, 38.4%	6, 3.77%
Laos	5.89 billion	2, 24.1%	10, 0.33%
Myanmar	26.1 billion	**1**, 43.8%	10, 1.46%
Brunei	4.95 billion	3, 10.9%	7, 4.11%
Philippines	108 billion	**1**, 31.9%	4, 6.31%
Cambodia	26 billion	**1**, 31%	12, 1.52%
Malaysia	196 billion	**1**, 26.2%	3, 6.33%
Indonesia	140 billion	**1**, 29%	5, 5.41%
Thailand	193 billion	**1**, 26.4%	3, 5.86%
Singapore	301 billion	**1**, 18%	3, 8.61%

ASEAN import statistics for the pandemic year (2020).

Source: OEC data[44]

Country	Export value (US $)	China's position, % share	US position, % share
Vietnam	300 billion	2; 16,5 %	**1**; 25,6 %
Laos	6.25 billion	2; 26,9 %	5; 1,67 %
Myanmar	19.4 billion	**1**; 27,7 %	5; 5,9 %
Brunei	7.13 billion	2; 17,3 %	13; 1,02 %
Philippines	79.5 billion	**1**; 16,2 %	2; 13,5 %
Cambodia	28.7 billion	5; 5,08 %	1; 25,2 %
Malaysia	266 billion	**1**; 14,5 %	3; 12,7 %
Indonesia	178 billion	**1**; 18,3 %	2; 11 %
Thailand	243 billion	2; 12,4 %	**1**; 14,5 %
Singapore	281 billion	**1**; 15,2 %	3; 9,81 %

ASEAN export statistics for the pandemic year (2020).

Source: OEC data

Given the region's significant trade volumes with China, Southeast Asian countries are more sensitive to China's economic and other domestic problems. China's economic problems this year, particularly in the real estate sector, and its tough COVID governance policies are dealing negative impact on the region as a whole, according to a World Bank analysis[45]. China's real estate sector problems, according to the study's simulation of potential regional impacts, could have a negative impact on the region's economies, which, as a result, are forecast to shrink by around 0.3%.

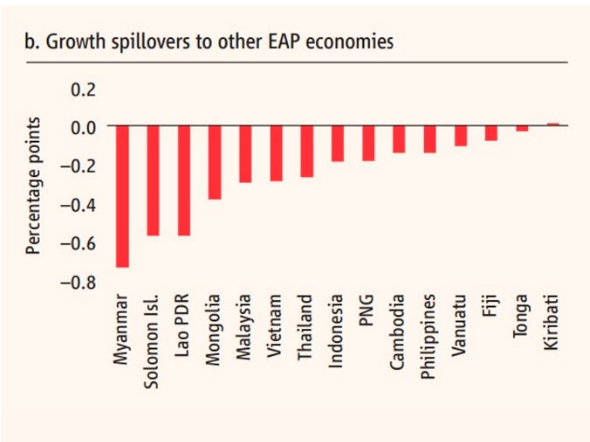

Fig. 4: Potential impact on economic growth in East Asia and the Pacific due to China's domestic economic problems.

Source: Oxford Economics, World Bank[46]

The South-East Asian region is also experiencing the negative consequences of Beijing's zero COVID policy in terms of instability in supply chains and trade restrictions. The continuation of this policy and the economic problems it causes (reduced demand, investment and output) will have a negative impact on the economies of the region. Small economies focused on commodity exports and tourism (e.g. Laos, Myanmar) will be the most negatively affected.

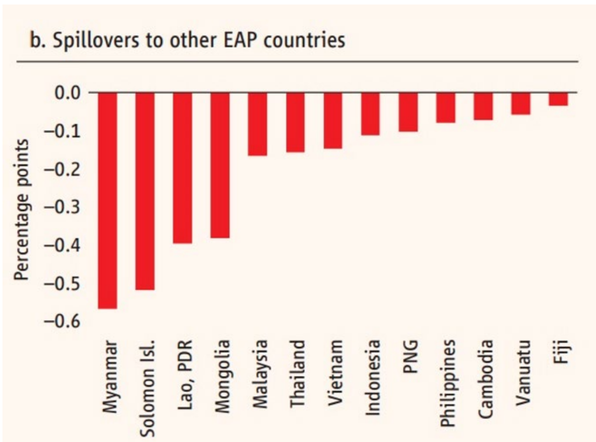

Fig. 5: Potential impact of Beijing's COVID policy on economic growth in East Asia and the Pacific.

Source: [47] Oxford Economics, World Bank

While China is undoubtedly a key economic partner for ASEAN, it is interesting that the political efforts to balance between US and China are also reflected in public polls. A study by the ISEAS-Yusof Ishak Institute[48] shows that ASEAN societies have a more favourable view of the US, but China is not far behind (57% for the US and 43% for China). On the other hand, the results of the individual countries are very different, which explains to a large extent the ASEAN bloc's own inefficiency and lack of a unified position (e.g. in Cambodia, China has a positive opinion of 81.5%, Laos – 81.8%, Brunei – 64.2%, while the USA has the highest support in Myanmar – 92%, the Philippines – 83.5% and Singapore – 77.9%).

Below is an overview of the economic situation of the five ASEAN countries (Thailand, Vietnam, Myanmar, Cambodia, Malaysia), their current challenges and the latest available trade statistics with China. The analyses of these case studies and the countries' official economic reports allow to assess the impact of China's COVID governance policies and the war in Ukraine. These specific countries have been chosen in view of their different dynamics of trade with China, political relations and different levels of market diversification.

Import Products	Rank 1
1. Crude oil	UAE (26.7)
2. Machinery & equipment	China (30.5)
3. Chemicals products	China (27.2)
4. Electrical appliances	China (42.8)
5. Metal & steel	Japan (36.3)
6. Integrated circuits & parts	Taiwan (30.5)
7. Others steel products	China (21.2)
8. Jewelry	Switzerland (32.7)
9. Vehicles parts	Japan (31.4)
10. Computer parts & accessories	China (48.9)
11. Plant and products	Brazil (32.2)
12. Household appliances	China (75.2)
13. Natural gas	Myanmar (29.2)
14. Petroleum products	UAE (34.3)
15. Plastic products	China (40.2)
Total Import	**China (24.9)**

Thailand's import statistics show that China is the main supplier for 7 out of 15 product groups.

Source: National Economic and Social Development Council

Thailand

Although the Thai economy grew by 2.2% in the first quarter of 2022 (compared to 1.8% growth in the previous quarter), the positive sentiment about the accelerating post-pandemic recovery was tempered by the Russian invasion of Ukraine, which led to a drop in the Consumer Confidence in the Economic Situation Index to 37.3%. Thailand, which is heavily dependent on oil imports, is heavily affected by rising prices for oil and its products. This is pushing up inflation: the updated analysis projects inflation to rise to 4.2-5.2% in 2022 (compared to 1.2% in 2021). However, according to the Bureau of Trade and Economic Indices[49], inflation has already reached 7.1% in May (the highest since 2008), while food prices rose by 8.18%. In view of the significant change in the economic situation, Thailand's National Economic and Social Development Council has lowered its economic growth forecast for 2022 to be in a range between 2.5% and 3.5%.

According to Thailand's National Economic and Social Development Council[50], exports to China grew by 4.2% in the first quarter (11.3% of the country's total exports were destined for China in 2020), while exports to Russia fell by 6.6%. The recovery of the tourism sector has been hampered by a sharp drop in the number of tourists from Russia, and by the still strict restrictions on tourist travel from China.

According to Thailand's official economic report, China's COVID governance policy constraints are one of the main reasons for the downgraded growth forecast. The report focuses on China's pandemic management strategy, which has significantly affected Thailand's manufacturing sector, which is dependent on imports of various components and raw materials from China. In addition, shortages of home appliances and electronics are forecast to start due to the dependence of their supply chains on China[51].

Vietnam

In the first quarter of 2022, Vietnam's economy grew by 5.03% (Q1 2021: 4.72%)52. The Q1 analysis by Statistics Department of Vietnam highlights the very negative impact of the war in Ukraine on the country's economy, as well as the rise in the prices of various commodities and raw materials on world markets, which is pushing up production costs. As Vietnam's economy shows signs of recovery and demand for raw materials in the manufacturing sector is growing, rising energy prices are hampering the country from reaching its full economic potential.

Looking at the statistics for January-May 2022[53], the US remained Vietnam's largest export market (USD 35.7 billion), while China has traditionally remained as the main import partner (USD 37.1 billion). This year, increased demand and prices for raw materials have led to a 2% increase in the trade deficit with China (the trade deficit with China currently stands at $18 billion, with the annual trade deficit with China rising by as much as 53% to $54 billion in 2021[54]). However, inflation rose by only 1.47% compared to the same period last year, driven by increases in oil and fuel prices.

Vietnam's economic recovery and economic viability during the pandemic is one of the few success stories in the world. However, China's zero-COVID policy and trade instability could prevent Vietnam from growing faster. The high dependence on Chinese imports of raw materials will have a significant impact on the pace of the country's recovery. The limited handling capacity of Chinese seaports and significant delays are already affecting the manufacturing sector, the engine of the Vietnamese economy. Destabilised supply chains and rising commodity prices are forecast to be the main challenges for Vietnam this year.

Myanmar

Following a military coup in February 2021, Myanmar is still ruled by a military junta that is still unsuccessfully trying to pull the country out of its deepening economic crisis. Myanmar's international isolation has led to closer cooperation between the junta and China and Russia, which often support the regime in international institutions (e.g. on 27 May, at the UN Security Council, China and Russia vetoed a UK-drafted statement on the situation in Myanmar[55]).

With the military regime still in control of Myanmar, access to official information and statistics is very limited and some government portals are simply not updated. Due to the lack of official economic indicators, the World Bank (WB)[56] only releases rough economic forecasts (the 2022 forecast was not published until April). The economic crisis that has hit the country as a result of the coup and the COVID pandemic has led to Myanmar being considered as the country most affected by the COVID pandemic and the slowest to recover in the region. However, WB's forecast, released in April, predicts that Myanmar's GDP is going to grow by 1% this year. Although this is one of the lowest growth rates in the region, it is expected that the country's economy is stabilising (the economy contracted by 18% in 2021).

Myanmar's cooperation with China has increased significantly since the military coup. The further development of the China-Myanmar Economic Corridor and the launch of the new China-Myanmar freight train line on 23 May show China's significantly increased focus on this country[57]. With Myanmar's growing dependence on China (China is its main import and export partner), the West is becoming more concerned about China's interests in the country – particularly in potentially securing China's access to the Indian Ocean.

Cambodia

Despite economic problems, China's activeness and enthusiasm for cooperation with Cambodia has not changed. Even in 2021, when the pandemic paralysed the world, Chinese investment in Cambodia has grown significantly (67%), reaching USD 2.32 billion.

The bilateral China-Cambodia Free Trade Agreement (CCFTA) and the Regional Comprehensive Economic Partnership (RCEP) have been in force since early 2022. The first quarter statistics[58] show that the country is starting to recover from the pandemic, with Sino-Cambodian bilateral trade growing by 30.14% compared to Q1 2021. However, the dynamics of trade with China are in line with the overall dynamics in the region: the country is becoming more dependent on Chinese imports, while exports to China are significantly lower. Data for Q1 show that exports to China even contracted by 2.5% to just 333.5 million dollars, while imports grew by 36.1% to 2.55 billion dollars.

Concerns about the Sino-Cambodian trade deficit are also reflected in the Cambodian media[59]. Reacting to the bilateral trade deficit with China of USD 2.23 billion (44.72% growth), Mr Lim Heng, Vice President of the Cambodian Chamber of Commerce, assured that the fears were unfounded as the majority of China's imports were raw materials needed to produce products for international markets and assured that the country's exports to China were mainly agricultural products. According to Heng, the main obstacle to increased exports to China is insufficient production capacity and product quality that does not meet Chinese standards. However, the outlook for the Cambodian economy remains positive, with the Asian Development Bank[60] forecasting Cambodia's economy to grow by 5.3% in 2022.

Malaysia

The Malaysian economy is showing very strong economic performance in the first quarter of 2022 (growth of 5%), and does not pay much attention to the impact of China's slowing economy on its development. In the Q1 2022 outlook, China's slowing growth and the war in Ukraine are cited as factors that will have a negative impact on many areas of the economy, but these challenges are not exaggerated. Although the original annual forecasts have been revised, according to Bank Negara Malaysia (BNM), the current revised growth forecast of 5.3-6.3% is based on supply chain disruptions, the war in Ukraine and the strict COVID policy in China.[61].

Although Malaysia's central bank has raised its borrowing indices to fight inflation[62], the country's overall consumer price growth is the lowest in South-East Asia. China remains Malaysia's most important trading partner, a position that has remained unchanged for 13 consecutive years. According to data for January-April 2022, bilateral trade grew by 17.5% (exports grew by 17.4%, imports by 17.6%)[63]. With a small deficit and fairly effectively diversified markets, Malaysia is positive about its relationship with China and its potential negative impact on the country's economy in 2022.

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