

DRIVERS OF GLOBAL CHANGE

**RESPONDING TO EAST ASIAN
ECONOMIC
AND INSTITUTIONAL
INNOVATION**

edited by Giuseppe Gabusi



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**Drivers of Global Change:
Responding to East Asian Economic and Institutional Innovation**

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Foreword

Asia has become a source of tremendous change in today's world. Over the last twenty years, China's economic rise and increasingly assertive foreign policy have introduced numerous elements of innovation into markets, institutions and governance, and the implications of these innovations for the region and beyond have yet to be fully appreciated. China's heightening competition with the United States is now attracting wider and closer attention, especially to repercussions impacting critical issues. How should the different players – Europe in particular – respond to dynamics that are reshaping the way the world works?

The **Asia Prospects Program of the Torino World Affairs Institute** asked eleven prominent scholars from East Asia, the United Kingdom, Canada, the United States, Brazil and Australia to single out the most relevant **East Asian drivers of global change**. By looking at various areas, from state–market relations to global value chains, they have shown why the workings of the global political economy can no longer be taken for granted. Despite the success of the New Cold War narrative, China is no Soviet Union: Beijing is set to become the largest economy in the world and, in reaching this point, it has triggered rapidly unfolding changes in an array of crucial spheres.

Responding to such transformational challenges originating in East Asia is the task of our time. Because of the dense and complicated interactions between politics, economics and security, as well as international and domestic domains, this task requires remarkable competence and resourcefulness.

With the ambition of enabling key players in the economic and political realms to successfully seize the many opportunities stemming from a system in flux, while minimizing the risk of entering a dysfunctional or even conflictual mode of global relations, the **Asia Prospects network** has identified **seven East Asian drivers of global change: state–market relations, digital money, development finance, global value chains, regional institutions, climate change impact and non-traditional security**. Our contributors highlight the disruptive potential and expected impacts of each driver, as well as identifying the essential elements that may contribute to an effective response; the founding assumption of the analysis is that a functional global economy, supported by sound institutions, is in the interest of all parties.

East Asia is the region to watch, not only because it contains the world's most dynamic economies, but also because its combined rise and systemic innovation necessitate new reflections on governance at all levels, from local to global. Well aware as I am that ideas shape the world, I wish to express my gratitude to the distinguished scholars who have enthusiastically participated in this project and all those who have, since its inception, supported an exercise in foresight that may well prove decisive in the coming years.

Giuseppe Gabusi

Head of Asia Prospects Program at T.wai, June 2021

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Chinese economic statecraft. An illiberal actor in a (more) liberal global economy: who is changing who?

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The concept of economic statecraft is usually deployed to explain the ways in which states use economic means to attain foreign policy goals. In studies of China, while it is indeed used in this way, economic statecraft has been expanded to cover other forms of international economic interactions, including at times the investment activities of non-state actors designed to attain commercial objectives. This extended usage of the concept can in part be explained by assumptions and/or misunderstandings of the nature of Chinese international actors, and their relationship with the state. It also raises questions about whether economic statecraft entails something more than the normal day-to-day business of macroeconomic policy-making. But more than anything, it reveals a deep-seated distrust of Chinese ambitions, with interim commercial objectives – even when pursued by non-state actors – perceived as being part of a broader strategy of making China ever richer and stronger, and thus better able to pursue other goals intended to alter the nature of the global order. As one response to these perceived challenges is to offer national companies various forms of support and protection to fend off unwanted Chinese attention, it could be that one of the consequences of China's integration into the liberal global economy is to make parts of that economy less (neo)liberal than before.

On the face of it, the argument that China is using economic statecraft to further its national strategic goals is one that is hard to refute. China quite simply does indeed seem to be using economic means to gain political and strategic goals. But once you go beyond this headline “common sense” assumption – and actually not very far beyond it in some cases – then the extent to which the concept of economic statecraft is really helpful in understanding Chinese actions and intentions becomes more questionable. Despite attempts to establish a clear definition of what Chinese economic statecraft entails,¹ and to distinguish it from other forms of international economic activity,² there is still a tendency to assume that all that is done by Chinese economic actors overseas is being directly driven by the state to attain state objectives, and thus forms part of this statecraft. While this is understandable, it is also not always particularly helpful.

Perhaps, understandings of the nature of Chinese Outward Foreign Direct Investment (COFDI) have been overly influenced by the first wave of significant outward flows in the early years of the millennium.³ This established a vision of large state-owned enterprises (SOEs) investing in energy and other resource projects in developing economies, and often in places where other investors either would not or could not go. Even then, not all of what was subsequently controlled by Chinese companies was sent back to China for strategic reasons. And projects were often actually initiated by companies for commercial reasons rather than by the state for strategic ones.⁴ But state objectives clearly played a part, and large SOEs and state banks were the dominant actors. These actors and objectives are important today, too. And the idea of a concerted state effort to attain national goals has if anything been

¹ See for example Norris, W. (2016) *Chinese Economic Statecraft: Commercial Actors, Grand Strategy and State Control*, Ithaca, Cornell University Press.

² Macikenaite, V. (2020) “China’s economic statecraft: the use of economic power in an interdependent world”, *Journal of Contemporary East Asia Studies*, online first, 1-19.

³ There was of course investment prior to this. But it is instructive that full national statistics were only collated and published from 2003 (for the previous year’s activity).

⁴ Downs, E. (2007) “The Fact and Fiction of Sino-African Energy Relations”, *China Security*, 3(3): 42-68.

further enhanced by the way in which the Chinese leadership has promoted its ambitions and grand projects. But now large SOEs have been replaced by locally owned and private enterprises as the majority overseas actors,⁵ and overseas tertiary sectors in Asia, North America and Europe have become the main targets of Chinese investment activities by companies that are largely driven by commercial objectives. Sometimes these enterprises are acting on behalf of the state, undertaking projects that would not be pursued by private economic actors just seeking market access and profits. But often they are not. There is also plenty of evidence to suggest that these companies are not just doing things from their own narrow parochial interest, but that they are also doing things that the Chinese state does not always want them to do. This is exactly why new regulatory changes and guidance were introduced in 2016 and 2017 to prevent some forms of COFDI that were deemed to be harming Chinese national interests and objectives.⁶

The idea of a concerted state effort to attain national goals has been enhanced by the way in which the Chinese leadership has promoted its ambitions.

Indeed, much of what has concerned those who are concerned about COFDI results from the fact that Chinese companies are now free to do what companies from other parts of the world have been doing for many years. We have been able to watch in real time the granting of the sort of freedoms for economic actors to act - and not just overseas - that their counterparts

in other countries have long taken for granted. So somewhat ironically, when the Chinese state implements the very liberalising reforms that so many external actors have long hoped for and promoted, this then is considered as an exercise in economic statecraft in itself.

It might seem odd to refer to not doing something as an exercise in statecraft; particularly when it was the actual prior prevention of outward flows that was comparatively abnormal, rather than the subsequent allowance of them. At first sight at least, this looks like the abandonment of some of the tools of statecraft rather than the deployment of them. However, the state's action in deciding not to do all the things it did had real global significance, resulting in significant impacts on financial flows. And it is not a case of the state completely abandoning its control once and for all. Liberalising reforms are typically partial, and as the example of the 2016-17 clampdown clearly shows, they are reversible; the parameters of the permissible not only can be but actually *have been* restricted again after an initial widening. As such, while thinking of the strategic partial removal of state controls as economic statecraft might indeed be a bit odd, it is also probably correct too.

The key here is that while individual investors have considerable freedom to pursue their own commercial objectives, this freedom is not absolute. It remains dependent on these quasi-independent economic actors doing what the state wants them to do; perhaps not on an individual micro level, but certainly collectively. The Chinese money that has been invested overseas could not have been invested without the deliberate liberalization of China's outward investment regime by the state. It first facilitated and then encouraged companies to "go global" (through a range of measures) because going global was seen as being beneficial to these economic actors themselves. More important, though,

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⁵ In 2019, they accounted for a mere 11 percent of COFDI into Europe. See Kratz, A., Huotari, M., Hanemann, T., and Arcesati, R. (2020) "Chinese FDI in Europe: 2019 Update", *Merics*, 8 April, [available online](#)

⁶ For an overview of the evolution of COFDI policy and its consequences, see Breslin, S. (2021) *China Risen*, Bristol, Bristol University Press (Chapter Four).

the commercial gains that these companies would make at the enterprise level cumulatively benefit to the Chinese economy as a whole and increase its relative comprehensive national power. It did not happen by accident, but because the state wanted it to happen.

Was the consequent boom in investment a direct result of state policy? Yes. We can even say that it was a consequence of a new strategic approach to foster COFDI. Was it designed to attain a state goal? Yes. Increasing the competitiveness, technological base and profitability of Chinese companies was seen as being not just beneficial to them but to the Chinese economy as a whole (just as it is for many, if not all, states). Was it all directly controlled by the state to attain strategic goals? Clearly not. Some of it at least was seen by the

This suggests the need for a differentiation in terms of thinking about who is considered an agent of different types of economic statecraft, and which goals they are prioritising.

very same state that facilitated it as not just unhelpful, but actually downright detrimental. This is why there has been a rethink of the type of investment projects that should be encouraged along parts of the Belt and Road, with an increased emphasis on the “high-quality” of projects rather than the number and overall value of them.⁷ It is also why investment in overseas real estate,

sports, and entertainment areas were blocked with the introduction of the new investment guidance regulations in 2017.⁸

So, if a quasi-independent actor does things in the pursuit of narrow or parochial commercial objectives, but at the same time this contributes to the attainment of state goals, should this be considered as the manifestation of statecraft? If the answer is yes, then it is an affirmative answer that needs to be qualified in four ways. The first is the importance of thinking about how different types of international actors utilize the policy framework that is provided by the state to pursue their own interests and goals. In particular – but not only – the way in which liberalization of the COFDI regime has been utilized by different local governments and by enterprises connected to local governments points to the significance of disaggregating the state itself (and state intent and objectives). Surely there is some sort of difference between this kind of international action and things that are done more clearly in response to state direction in the search of strategic goals. This suggests the need for a differentiation in terms of thinking about who is considered an agent of different types of economic statecraft, and which goals they are prioritising.

Second, as the example of the re-introduction of restrictions shows, you only know that something is deemed to be harming national interests or not after the event. The parameters are changed retrospectively, so what at the time was assumed to be evidence of state intent only becomes evidence of something else later on.

The third takes us back to the question of state action and inaction. In short, in creating the overarching policy framework within which these international economic actors operate, do we have to be able to identify something more than just “normal” macroeconomic policy (whatever that might mean) for it to be considered as statecraft? A proactive attempt to *shape* the nature and direction of COFDI rather than just *allowing* it to happen?

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⁷ This was the key message of “The Second Belt and Road Forum for International Cooperation” in 2019. Details [available online](#)

⁸ The State Council of the People’s Republic of China (2017) “Guanyu jinyibu yindao he guifan jingwai touzi fangxiang de zhidao yijian” [Guiding opinions on further guiding and regulating the orientation of overseas investment], 4 August, [available online](#). Although formally restricted rather than banned outright, “no new projects” were recorded in these areas in 2018. See Ministry of Commerce, PRC (2018) “MOFCOM Department of Outward Investment and Economic Cooperation comments on China’s outward investment cooperation in 2017”, 18 January, [available online](#)

Fourth, and perhaps most important, is whether this is economic statecraft at all or just economic policy. Economic statecraft is usually thought of as something that is deployed to attain political and foreign policy goals. The economic is an immediate means of generating the desired political/foreign policy outcomes. What we often seem to see in the Chinese case – particularly but not only when it comes to interactions with the West – is something different. It is more often a case of economic tools being used as a means of attaining *economic goals*. This would not normally be considered to constitute economic statecraft at all. Neither would it typically result in concern in the country being invested in. To be sure there might be questions about job losses and hollowed out economies. But this is very different from the fundamental concern about the future nature of the world order that a number of Chinese investment projects seem to generate.

This is because these economic goals and commercial objectives of individual investors are often parsed as being interim objectives. They are seen as becoming a means in themselves of building a more powerful China. Moreover, it is not just the idea that China is trying to gain some sort of economic advantage and leadership, but that this economic advantage will be used to pursue other ends as well; that it might be used to disadvantage others or even bring about more fundamental global change. This means that the conception of what constitutes economic statecraft in the Chinese case becomes somewhat different from the concept as understood when it comes to the study of other countries. Immediate commercial goals and objectives are perceived as having a broader longer term political utility in the attainment of other goals in the future. And, typically, these are thought of as being if not benign, then not beneficial goals for other (particularly Western) states. The commercial is deemed to be inherently political, and what would be left for students of management and business strategy to study when it comes to investment from other countries

In the process, the conception of what constitutes economic statecraft and what it is meant to achieve becomes somewhat stretched.

is deemed a core international relations issue when it comes to financial flows from China. Chinese companies and individuals involved in investing overseas might think that they are just trying to gain commercial goals, but their actions are parsed as ultimately contributing to something else

as well.⁹ In the process, the conception of what constitutes economic statecraft and what it is meant to achieve becomes somewhat stretched to accommodate these conceptions of the more general consequences of an ever more wealthy and advanced Chinese economy.

If this sounds like just an academic question and an issue of semantics, it is not. If you are a commercial actor that is subject to an approach from a Chinese counterpart, does the potential strategic advantage that China as a country and the Chinese state might gain come into the decision-making process at all? If the assumption of political disinterest is correct – even just some of the time – then the task of thinking about the wider strategic consequences of overtly commercial actions does not fall on the corporate actors involved in the actual transactions. Instead, it falls on policy-makers in recipient states. In addition to thinking of the strategic consequences of any individual transaction, they are also better placed to consider the aggregate consequences of the totality of transactions and interactions within their

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⁹ Which, if true, means that it does not really matter who is doing the investment and for what reason. So, the first of these four conclusions may become less important in the process.

jurisdiction; both for the home economy (e.g.: hollowing out certain sectors, creating dependencies and technological and/or supply chain vulnerabilities in key sectors) and for China.

If governments try to prevent Chinese takeovers that make financial sense for the companies involved, then (for some of the more neoliberal minded ones at least) they do things that run against their supposed guiding philosophies and theories. This is exactly the situation that European Union Commissioner for Competition, Margrethe Vestager, found herself in during the Spring of 2020, in proposing ways that EU member states could protect key national actors from being purchased by overseas state-related companies. A person whose job is in part to prevent state aid propping up uncompetitive economic entities ended up promoting various forms of such aid, including potentially partially nationalising companies to keep them out of foreign hands.¹⁰

There has been a lot of discussion about whether China is exporting its model of political economy. The focus has typically been on the extension of the model – whatever that might actually be – to other developing economies. But it might be the case that a more direct challenge to the dominance of neoliberal capitalism (if not to capitalism *per se*) comes from the way in which more liberal actors respond to the challenges of a less liberal – or should we just say illiberal – actor operating within their liberal economies. They are being forced to act less liberally than they might otherwise want to act to meet the challenge of a perceived illiberal actor operating within their midst.

It would be entirely wrong to say that an inward turn towards economic nationalism is just a result of China's international economic presence. However, it seems to have played at least some role in thinking about how to protect “national assets” given uneven playing fields. For some in the liberal tradition (and some constructivist thinkers too), the whole point of engaging China and drawing it in to the existing international system was that this would make “them” more like “us”.¹¹ Ironically (again) one of the consequences of this engagement might be that more liberally inclined policy-makers decide to become less liberal themselves.

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¹⁰ See Espinoza, J. (2020) “Vestager Urges Stakebuilding to Block Chinese Takeovers”, *Financial Times*, 12 April, [available online](#)

¹¹ For a good overview of the “socialization” debates, see Feng, H. and He, K. (2017) “China’s Institutional Challenges to the International Order”, *Strategic Studies Quarterly*, 11(4): 23-49.

US financial statecraft on China and Hong Kong: unintended consequences across the Asia-Pacific

Gregory T. Chin York University, Toronto

This essay details how the United States has applied coercive financial statecraft tools on China and Hong Kong in 2020-21 and assesses the impact of these punitive measures. The tools include financial sanctions on Hong Kong and Mainland Chinese officials, investment bans on Chinese companies with purported links to China's military and pushing for Chinese corporate stock delisting from the New York Stock Exchange (NYSE). The analysis shows, however, that large inflows of money from China, Asia and Europe into Hong Kong and Mainland financial markets have acted as offsetting portfolio investment, which have buoyed Hong Kong's capital markets, and allow the targeted Chinese companies more capital and clout. Even though US divestment in the targeted Chinese assets has occurred, the net effect is that the US coercive statecraft measures are not working, and they are not having the disciplining effect on Hong Kong and Chinese officials, or on the Chinese companies, as intended. The policy recommendation is these coercive financial statecraft measures are actually damaging the relative global position of the United States and undermining the international economic order that has provided peace, growth, and stability across the Asia-Pacific region for the last five decades. The current US presidential administration and US legislators should rethink their policies and adjust.

2020 marked a sharp escalation in tensions between the United States and China, across the Asia-Pacific. It was a “banner year” for the United States’ targeting of China and Hong Kong with coercive tools of financial statecraft and foreign policy. As part of its growing confrontation with China, before leaving office, the President Donald J. Trump administration removed the US “special status” treatment of trade with Hong Kong, applied financial sanctions on Hong Kong and People’s Republic of China (PRC) officials in response to the “National Security Law” on Hong Kong,¹ put an investment ban on Chinese firms purportedly linked to China’s military, and pushed for China corporate stock delisting on the New York Stock Exchange. These moves aim to punish China and Hong Kong for what US officials saw as violations of freedoms in Hong Kong; mitigate the assumed national security threat from US investment in Chinese companies with purported ties to the country’s military; and promote US-China decoupling in the financial sector. As scholars have long highlighted, financial (and monetary) statecraft, or international financial relationships and arrangements can be used by states as instruments of coercive power for advancing national security interests and to affect the behaviour of other states.² While the US was already moving in the direction of ever greater reliance on coercive financial statecraft, the members of the Trump administration were particularly avid practitioners of “weaponizing interdependence”, and keen to use economic leverage to extract concessions across a wide array of economic and security issues.³

But what has been the actual impact or consequence of these coercive statecraft moves by the United States on China and Hong Kong? Have the outcomes been

I thank Mark Blyth, Benjamin J. Cohen, Giuseppe Gabusi, and Christopher McNally for their comments.

¹ Under the “special status” category of the United States, Hong Kong was treated separately from Mainland China’s more managed economy, and Hong Kong exports to the United States were treated differently. Hong Kong had a zero tariff on the import of US goods. US businesses in Hong Kong opposed changes in Washington’s recognition of Hong Kong’s “special status” as a sufficiently autonomous city, where US companies enjoy access to China and Southeast Asia, and where bilateral trade flourished across the range of economic sectors from financial services to wine.

² Baldwin, D. (1985) *Economic Statecraft*, Princeton, New Jersey, Princeton University Press; Kirshner, J. (1997) *Currency and Coercion: The Political Economy of International Monetary Power*, Princeton, New Jersey, Princeton University Press.

³ Farrell, H. and Newman, A. (2019) “Weaponized Interdependence: How Global Economic Networks Shape State Coercion”, *International Security*, 44(1): 42-79; Drezner, D. (2019) “Economic Statecraft in the Age of Trump”, *Washington Quarterly*, 42(3): 7-24.

as intended, or has the balance tilted more toward unintended consequences? This essay suggests that the net effect is more on the side of unintended consequences. As we will see below, in the issue-area of capital markets, while there have been US selloffs of sanctioned Chinese firms, there have also been massive inflows of money from the Chinese Mainland, Asia, and Europe into these same stocks. Rather than punishing Hong Kong and China's firms, the net effect has been increased inflows into the city and China's stock markets, and a surge in demand for, and the value of, the shares of the sanctioned-Chinese firms in Hong Kong and in Mainland markets after the Trump administration enacted the sanctions and investment bans. These net effects from early to mid-2021 give reason to the United States to reconsider the wisdom of its punitive moves, from the standpoint of the relative global position of the US, and the balance of power in the Asia-Pacific, as well as the functioning of the open and integrated international economic order that the US helped to create. Posing the need for reconsideration also raises the question of whether, or what alternative measures would be possible to send a signal to China, a point we will return to, in the conclusion.

US financial coercion

The inherent economic nationalism, economic protectionism, and decoupling motivations behind the Trump administration's removal of the "special status" for Hong Kong, and its sanctions become evident when one considers that the United States has enjoyed sustained trade surpluses with Hong Kong, whereas it has run recurrent trade deficits with Mainland China for decades. In 2019, US goods and services trade with Hong Kong totalled about US\$ 61.3 billion, with exports of US\$ 45 billion and imports of US\$ 16.3 billion, for a US trade surplus of US\$ 28.7 billion.⁴ According to US Census Bureau data, Hong Kong was the source of the largest US bilateral goods trade surplus in 2019, at US\$26.1 billion.⁵ According to Hong Kong's Trade and Industry Office, the city was the third largest export market for US wine, the fourth largest for US beef, and the seventh largest for all US agricultural products.

According to the US Commerce Department, US exports to Hong Kong supported an estimated 188,000 jobs in 2015 (latest data), with 125,000 jobs related to goods exports and 63,000 jobs related to services exports. US foreign direct investment in Hong Kong was US\$ 18.9 billion in 2019, an increase of 2.6% on the previous year, and was led by non-bank holding companies, manufacturing, and information services: the current core and future of the US economy.

US companies make up more than 1,300 of the approximately 9000 foreign firms that are operating in the city as of 2019, including overseas and Mainland Chinese companies. According to the US State Department (2018), about 85,000 US citizens live in Hong Kong. US companies are a leading segment of the many Western companies and more than 1,500 companies that have picked Hong Kong as the hub for their Asian regional headquarters, encompassing China as well as Japan, Southeast Asia, Australia, and India.⁶

However, on 14 July 2020, just weeks after China passed the "Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region" (or the NSL in short), and Hong Kong

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⁴ United States Trade Representative (2019) "U.S. – Hong Kong Trade Facts", [available online](#)

⁵ Reuters (2020) "How ending Hong Kong's 'special status' could affect U.S. companies", 22 May, [available online](#)

⁶ This data is based on the Hong Kong Census and Statistics Department (2019) "Annual Survey of Companies in Hong Kong with Parent Companies Located Outside Hong Kong", [available online](#)

⁷ E.O.13936 builds on the "Hong Kong Human Rights and Democracy Act" of 2019.

⁸ U.S. Congress (2020) "Hong Kong Autonomy Act", 14 July, [available online](#); U.S. Department of the Treasury (2020) "Treasury

authorities started to implement the law, the United States moved to impose sanctions on Hong Kong and Mainland officials. Donald Trump signed “The President’s Executive Order on Hong Kong Normalization” (E.O. 13936⁷) which ended the territory’s privileged economic status under US law, and the US Congress passed the “Hong Kong Autonomy Act” which paved the way for US authorities to unilaterally impose sanctions on banks and other financial institutions who engage in “significant” transactions with individuals deemed by the US to have contributed to the erosion of Hong Kong’s autonomy, and to seize their property and assets, “in the United States or in the possession or control of US persons”.⁸ On 7 August, the US Treasury Department sanctioned the Hong Kong and Mainland officials for the “National Security Law”, which US officials claim undermines the city’s “autonomy and democratic processes” and the “rights and freedoms of people in Hong Kong”.⁹ The sanctions were imposed on chief executive Carrie Lam and ten senior Hong Kong and Mainland officials, including the current and former police commissioners and the head of China’s Hong Kong Liaison Office. These officials and their immediate family members are also barred from travelling to the United States. The sanctions aim to *directly* punish the officials for the so-called “malign activities”, and *indirectly* to punish China, as well as to weaken Hong Kong’s

The sanctions aim to directly punish the officials for the so-called “malign activities”, and indirectly to punish China.

attractiveness as an international financial centre and encourage decoupling of US/China global supply and financial networks, by sending a chill through Hong Kong’s financial industry, and to US companies and especially America’s financial institutions in Hong Kong.¹⁰

When announcing the sanctions, US Treasury Secretary Steven Mnuchin gave the following line: “The United States stands with the people of Hong Kong”, and “we will use our tools and authorities to target those undermining their autonomy”.¹¹ US Secretary of State Mike Pompeo called the NSL an “Orwellian move” and an assault “on the rights and freedoms of the people of Hong Kong.” Pompeo added, “President Trump has made clear that the United States will therefore treat Hong Kong as “one country, one system” and take action against individuals who have crushed the Hong Kong people’s freedoms”.¹²

On November 12, 2020, after losing the US presidential election, Trump issued Executive Order 13959, “Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies”,¹³ to make effective on 11 January 2021, that US persons are prohibited from purchasing any publicly traded securities or derivatives of “Communist Chinese military companies” identified by the US government. A wide swath of Chinese corporate entities and industries were to be subjected, including Huawei, China Spacesat, China Mobile Communications Group, among others.¹⁴ These measures were purportedly in response to national security concerns posed by the PRC. EO 13959 cites the PRC’s use of publicly traded securities to finance activities of its military, intelligence, and security apparatuses, and restricts US persons from investing in US or foreign securities, including funds, such as Exchange Traded Funds (ETFs), index funds, and mutual funds that hold any publicly traded securities of a “Communist Chinese military company” listed by the Office of Foreign Assets Control (OFAC).

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Sanctions Individuals for Undermining Hong Kong’s Autonomy”, 7 August, [available online](#)

⁹ *Ibid.*

¹⁰ BBC Business News (2020) “Should US firms be worried about Hong Kong sanctions?”, 15 July, [available online](#); Gunia, A. (2020) “How U.S. Sanctions on Hong Kong Could Leave Banks Caught in the Middle”, *Time*, 13 August, [available online](#)

¹¹ U.S. Department of the Treasury (2020) “Treasury Sanctions Individuals for Undermining Hong Kong’s Autonomy”

¹² BBC Business News (2020) “Should US firms be worried about Hong Kong sanctions?”

¹³ Trump, D.J. (2020) “Executive Order on Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies”, 12 November, *Trump White House Archives*, [available online](#)

¹⁴ Bombach, K.M., Rossell M.M., Dohale, S. (2021) “U.S. Prohibits Trading in Securities of Communist Chinese Military Companies, but NYSE Reverses Plan to Delist”, *GTGreenbergTraurig*, 4 January, [available online](#)

¹⁵ U.S. Department of State (2021) “Update to Report on Identification of Foreign Persons Involved in the Erosion of the Obligations of China Under the Joint Declaration or the Basic Law”, *Bureau of East Asian and Pacific Affairs Report*, 16 March, [available online](#)

The deeper geopolitical reality is that these measures were aimed at promoting financial decoupling between the US and China, as part of the growing range of measures of the Trump administration's attempt not only to contain but to "roll-back" China, the most aggressive strategy of the pre-1991 Cold War period. However, after taking over the US presidency, the Biden administration has decided not only to maintain the Hong Kong-related sanctions but to actually expand them. On 17 March 2021, just a few days before meeting Chinese counterparts for the first major bilateral dialogue between the new Biden administration and China, Secretary of State Anthony Blinken announced that the US had expanded its financial sanctions to another 24 PRC and Hong Kong officials¹⁵ and he stated, "yesterday in Tokyo, Japan, I spoke of the need to stand up for our shared democratic values and to work together to hold to account those who would threaten them. Today, we are again doing that. The release of today's update to the Hong Kong Autonomy Act report underscores our deep concern with the National People's Congress March 11 decision to unilaterally undermine Hong Kong's electoral system... Foreign financial institutions that knowingly conduct significant transactions with the individuals listed in today's report are now subject to sanctions".¹⁶ The expansion of the list of the sanctioned persons was done in consultation with the US Department of Treasury, and Secretary of the Treasury Janet Yellen.¹⁷

The process of expanding the list was actually started by previous Secretary of State Pompeo in the waning days of the Trump administration, but the decision to stay the course and then to expand the sanctions, and to seek or support other countries to join in sanctioning China is now owned by the current Biden administration. The decision to expand the list in March 2021 immediately prior to the first bilateral meeting with the Chinese counterparts in Anchorage, Alaska set the tone of continued confrontation before the meeting started. The tempestuous exchange in Alaska appears to have further upped the ante for both sides to "look tough", which may not bode well for a US walk-back on the investment bans and the financial sanctions. But where is the financial statecraft, the confrontation, getting the United States?

Are they working?

Are the sanctions and punishments working? One test would be the effect of the sanctions and investment ban on the stocks of the sanctioned Chinese firms and stock markets in Hong Kong and Mainland China.

We do see some US divestment and sell-offs of Chinese companies in Hong Kong, Mainland markets, and the NYSE as the Trump administration intended. After the order from President Trump in November 2020 banning buying companies deemed to have links with China's military, US fund managers such as BlackRock, the world's largest asset manager, Vanguard, and Nuveen started to scramble to sell, though they have given few details on their divestments, and they have not detailed exactly which stocks they have sold.¹⁸ Nuveen, the US\$ 1.1 trillion asset manager of the New York-based Teachers Insurance and Annuity Association (TIAA¹⁹), has sold its holdings in the Chinese companies barred by the Trump sanctions. Stock market filings showed that BlackRock had sold almost all its stake in China Telecom in mid-January 2021. Moreover, passive investors are also reacting to the removal of more than a dozen companies from the benchmarks of MSCI, FTSE Russell, S&P, and Dow Jones Indices.

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¹⁶ Blinken, A. Secretary of State (2021) "Hong Kong Autonomy Act Update", *United States Department of State Press Release*, 17 March, [available online](#)

¹⁷ U.S. Department of the Treasury (2021) "Hong Kong-related Designations Updates", 17 March, [available online](#)

¹⁸ Shen, S. and Westbrook, T. (2021) "Analysis: Sanctions-Hit Chinese Firms Surge as Global Buyers Swoop In", *Reuters*, 14 January, [available online](#); Arnold, T. (2021) "Asset Manager Nuveen Exits Sanctions-Hit Chinese Companies", *Zawya (Reuters)*, 21 January, [available online](#)

¹⁹ TIAA is one of the leading retirement pension providers in the US for people in the education, not-for-profit, healthcare and government fields.

²⁰ Shen and Westbrook (2021) "Analysis: Sanctions-Hit Chinese Firms Surge as Global Buyers Swoop In"

But even as US asset managers started to divest, other global investors have surged into the sanctioned Chinese firms. *Reuters* reported that Asian and European investors were swooping in and snatching up discounted stocks of the China-based companies in Hong Kong, the targets of the US investment ban.²⁰ These global investors were finding bargains as giant US funds were divesting, and they shrugged off concerns that the sanctions could hurt the prospects of the PRC-based companies. The same week that Vanguard and BlackRock announced divestments, cash poured in to lift the Hong Kong-listed shares of Chinese telecoms by more than 15%. Swiss investment bank UBS remarked that clients were interested in taking advantage of the US sell-down. As a result, China Mobile had its best week in 12 years; Chinese state energy company CNOOC was up 16%, and chipmaker SMIC up 10%. All three are targets of the US sanctions and facing the risk of being removed from the NYSE and from the US-anchored global indexes.

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The price moves and the surge in flows appear to indicate, at least for the initial period, a deeper faith abroad, including among European investors and asset managers, and especially in China and Asia, about the net worth of the 35

But the trends also put in question whether, or how much pain the sanctions will cause for the intended targets.

China-based companies, and their subsidiaries, which the US government barred from holding after November 2021. But the trends also put in question whether, or how much pain the sanctions will cause for the intended targets. UBS head of China strategy, Wendy Liu, suggested that it is “worth monitoring the market closely... because there will be

forced liquidations”, but she also noted that, “We do have European investors interested in stocks blacklisted by the US”.²¹ A portfolio manager at Singapore’s Nuvest Capital says that “opportunity exists now”, and Nuvest has increased exposure to China’s state firms in the construction and energy sectors, after the US sanctions were announced.²² The head of Asia multi-asset quant solutions at France’s BNP Paribas Asset Management Paul Sandhu says, “I think the fundamentals don’t change. They’re still sound. The burden of these sanctions has really fallen on US investors”.²³

Hong Kong’s financial markets have made back the losses from the 12 months under Covid-19, plus more, despite the sanctions as Mainland investors have poured into Hong Kong looking to side-step the US sanctions. Global funds have flowed into China in search of yield, including via Hong Kong’s cross-border investment channels, the Hong Kong-Shanghai Stock Connect, and Bond Connect, while Mainland capital has poured into Hong Kong in search for value, where Mainland enterprises are priced lower than on Mainland exchanges. In some cases, the Mainland enterprises are only listed in Hong Kong. *The South China Morning Post* reported that money gushed into the city’s stock market during the first month of the year.²⁴ According to a chief investment officer at Invesco (with US\$ 1.35 trillion of assets under management), “more Chinese companies are seeking IPOs and secondary listings in Hong Kong, given tightened regulations in the US. They are leaders in industries such as e-commerce, social media and live streaming. They represent great investment opportunities”.²⁵ These companies reflect the internet boom in China, spurred by Covid, and their listings were in New York or Hong Kong. But given the US investment restrictions on the NYSE, the Mainland’s pensions, asset managers,

²¹ *Ibid.*

²² *Ibid.*

²³ *Ibid.*

²⁴ Zhang, S. (2021) “China’s Investors Are Flooding Hong Kong’s Capital Market in Search of Value as They Dodge US Sanctions”, *South China Morning Post*, 7 February, [available online](#)

²⁵ *Ibid.*

investment funds and wealth advisors are coveting Hong Kong trade stocks, from WeChat's owner Tencent Holdings to new listings such as Kuaishou Technology. They have made HK\$ 369 billion (US\$ 47.6 billion) in net purchases in January 2021 alone, which had suddenly made them the biggest driver of stock prices in Asia's second-biggest capital market. According to Bloomberg data, Hong Kong's market capitalization of US\$ 7.25 trillion puts it ahead of Japan.

Hong Kong's role as the key gateway for Mainland and offshore funds seeking a springboard to Mainland Chinese stocks, and for offshore money looking to invest in some of the world's most profitable companies and based in China, has been reinforced. One of the latest additions to HKEX makes the point. US-based investors were the second largest group of shareholders in Kuaishou Technology, the "hottest ever" IPO in Hong Kong, whose shares then tripled when they were traded for the first time on 5 February 2021. Mainland funds have been buying Hong Kong stocks at an unprecedented rate, with inflows in January from the Mainland equivalent to 55 percent of the total trading volume on HKEX for 2020. According to market analysts, there is much more demand for more fundraising in Hong Kong from onshore sources in 2021 compared to the previous year. As of the end of January 2021, Mainland enterprises accounted for 52 percent of the 2,545 listed companies in Hong Kong, and 81 percent of the market capitalization and 90 percent of the trading volume on HKEX.

At the same time, it is fair to note that it is not clear how much of the record Mainland cash inflows are fuelled by politics (i.e., patriotism) relative to market fundamentals. In China, support for the sanctioned companies runs strong, where brokers have issued buy recommendations and some retail investors mentioned "patriotism" along with profit as their motives for buying.²⁶ The holdings by Mainland Chinese investors in China Mobile, China Unicom, China Railway Construction Corporation, and CNOOC, have more than tripled after these companies were targeted under the investment ban. Ding Ning, a retail investor on investment website Xueqiu.com noted that these Chinese corporates already offered a good dividend, but "if you [also] take into account the political value repair [READ: patriotic investment], then supporting the share prices for the country will generate [even more] handsome returns".²⁷

Looking ahead

What are the implications and potential consequences of the US actions? On balance, instead of punishing China and Hong Kong, the net effect of the US sanctions may be opposite to what was intended. While the US financial sanctions have caused some selloffs of Chinese firms by US fund managers, these sales have also opened the door for other investors to flow in, and they have surged in, and they have induced dramatic increases in the value of the

The net effect of the US sanctions may be opposite to what was intended.

shares of the sanctioned Chinese firms. There is now talk that the 44 Chinese companies are looking to do more listings in Hong Kong. In effect, the NYSE's loss would turn out to be HKEX's gain.

The warning here is that the unintended consequences are outweighing the intended, and that the US is potentially undermining its own relative position

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²⁶ Shen and Westbrook (2021)
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²⁷ *Ibid.*

in the world, and the global economic order that it has created and led, over the medium-term.²⁸ But if the assumption is that the United States feels obligated to do *something* to send a signal to China that changes are needed, is there any other action that might be more successful? After all, a sophisticated defence of the coercive financial statecraft measures would be that maybe the sanctions and bans are bad, but they may be *less* bad than anything else that might be done.²⁹ So what could be that something else?

In suggesting that the current path is self-defeating, one needs to consider the comparative question of whether there are other possible actions whereby messages can be successfully sent to China; successful in the sense that desired change is achieved, but where less damage is done to the international system that has provided for peace and prosperity across the Asia Pacific for the last five decades. Such alternative diplomatic measures, and modified messaging, national and collective, is where the attention of the United States (and its Western allies) should be directed. It is worth noting that Japan decided not to follow other members of the G7 in imposing sanctions on China, with Japanese foreign minister Motegi Toshimitsu saying, “we’ll consider more deeply how Japan should respond... There are a variety of ways to send a warning to China”.³⁰ For example, in late March 2021, Tokyo and Jakarta signed a pact to allow the transfer of Japanese defense equipment and technology to Indonesia, and to strengthen military ties between the two countries, largely in response to their growing concerns about China’s activity in the region. At the news conference, Japanese defense minister Kishi Nobuo said, “Together we will

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maintain and strengthen a free and open maritime order”.³¹ Then, at his face-to-face meeting with President Biden in April 2021, Japanese Prime Minister Suga Yoshihide discussed options for cooling tensions in the Asian region, shared measures to promote a more “free and open” region, a rules-based order, and he projected unity with the US on responding to China. However, Japan was hesitant and very careful about joint statements calling out Beijing on human rights, and any wording on Taiwan, and at a speech later at a Washington think tank, Suga said that Japan would say what needs to be said to China, but also stressed the need to establish a stable and constructive relationship with Beijing.³² Similarly, the balance sheet from the May 2021 Biden-Moon Jae-in summit also warrants careful assessment: at first glance, the Moon government appears to have gotten closer to the US (compared to its stance during the Trump administration³³), and yet, as one expert of Republic of Korea-China-US relations points out, not a word of “China” appears in the joint statement, and there are many traces of moderation, ambiguity, and subtlety. From Washington’s viewpoint, the optics and rhetoric are good, but Seoul gained room to maneuver on how it will follow-through on its commitments in the joint statement. For Seoul, the key strategic outcome was that it seemed to achieve a compromise on Moon’s Pyongyang focus and Biden’s China focus.

Considering the lack of effectiveness of the punitive US financial statecraft on China, heretofore, and the complex positioning which America’s closest allies in the region are taking toward China and the United States, it is time to ask whether it makes sense for the US to continue further with its financial warfare

²⁸ See also Christopher McNally’s contribution to this collection about China’s digital currency and alternative electronic payments system efforts as another response to US financial sanctions.

²⁹ I thank Benjamin J. Cohen for highlighting this policy logic.

³⁰ Kato, M. (2021) “Japan Shies Away from Sanctions on China Over Xinjiang”, *Nikkei Asia*, 24 March, [available online](#)

³¹ Yamaguchi, M. (2021) “Japan, Indonesia Sign Arms Transfer Pact Amid China Concerns”, *Defense News*, 30 March, [available online](#)

³² Bruunstrom, D., Hunnicut, T., Nomiya, C., Spetalnick, M. (2021) “Biden and Japan’s Suga Project Unity Against China’s Assertiveness”, *Reuters*, 17 April, [available online](#)

³³ Yonhap (2021) “Moon-Biden Summit Agreement Broadens Alliance Amid Sino-US Rivalry”, *The Korea Herald*, 22 May, [available online](#)

on China and Hong Kong, or whether it is time to try another tact, and aim for a different strategic goal. A related opening thought is whether it still makes sense for the United States to keep “maintaining overwhelming superiority” vis-à-vis its closest rival(s) as its main national security objective, as it has been since 1991, or whether it is time to reset geostrategic and geo-economic goals for the US (and the Western alliance) considering the changed global reality from thirty years ago.

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A brave new world of money: the nature and logic of China's digital yuan

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As the People's Bank of China (PBoC) rolls out a digital yuan, officially designated as the Digital Currency Electronic Payment (DCEP), monetary relations in China could be revolutionized. Digital currencies differ from both physical cash and traditional electronic payments in that they are digital tokens that use distributed ledger technology (DLT), commonly known as "blockchain". However, unlike private cryptocurrencies, these tokens are official state-backed tender, issued in a centralized and regulated manner by central banks. The PBoC's objectives for the launch of the DCEP are manifold, ranging from a substantial improvement of financial efficiency to the enhancement of state authority and supervision of monetary operations. This article explores the implications of the DCEP for the creation of new monetary relations in China and yuan internationalization.

Since at least the 2008 Global Financial Crisis, the Chinese government has undertaken concerted efforts to internationalize its currency, the yuan or renminbi. These efforts have scored successes, such as in 2016 when the International Monetary Fund included the yuan within the basket of currencies that constitute Special Drawing Rights. Overall, though, the yuan's international use punches far below the weight of China's economy. In January 2021, it was the fifth most active currency for global payments by value, with a share of 2.42 percent globally.¹

The reasons for the yuan's relative underperformance compared to the weight of the Chinese economy are often explained by benchmarking the yuan against a set of preconditions necessary for internationalizing a currency.² Accordingly, the yuan is not widely traded since China has not yet developed open, deep and liquid domestic capital markets. In particular, China has not followed neo-liberal economic guidance dominant after 1980 to establish a freely floating fully convertible currency with open cross-border flows of capital, as most advanced industrialized economies have.

Quite to the contrary, Chinese authorities have chosen a particular way of managing the "monetary trilemma" or "impossible trinity". This trilemma specifies that any territorial economy can only obtain two of three desirables: exchange rate stability, free cross-border capital flows and domestic monetary autonomy. Chinese authorities have not been willing to sacrifice exchange rate stability. Rather, they have employed active policy intervention to stabilize foreign exchange markets. This has been combined with targeted and selective capital account opening while retaining monetary independence. Beijing has thus attempted to juggle the constraints of the monetary trilemma in novel ways.³

Nonetheless, limits on convertibility have hampered yuan internationalization. Cross-border capital flows have been channeled in "pipelines" that are subject to specific conditions. This means that Chinese authorities can throttle large

¹ SWIFT (2021) "RMB Tracker: Monthly reporting and statistics on renminbi (RMB) progress towards becoming an international currency" February 17, [available online](#)

² For overviews of the basic preconditions needed to foster an internationally accepted reserve currency, please see Kenen, P. (1983) "The Role of the Dollar as an International Reserve Currency", *Group of Thirty: Occasional Papers no. 13*; as well as Chinn, M. and Frankel, J. (2005) "Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency?", *NBER Working Papers no. 11510*, Cambridge, MA, National Bureau for Economic Research.

³ McNally, C.A. and Gruin, J. (2017) "A Novel Pathway to Power? Contestation and Adaptation in China's Internationalization of the RMB", *Review of International Political Economy*, 24(4):599-628

cross-border capital movements at will, as occurred after China's botched exchange rate liberalization in 2015.⁴

It is for this reason that most analysts do not see the yuan rivalling the US dollar any time soon. Even the launch of China's new digital currency, officially designated as the Digital Currency Electronic Payment (DCEP), will, according to these analyses, change little. Eswar Prasad, for example, argues that the yuan will only become prominent as an international currency after the Chinese government removes major restrictions on capital flows: "the DCEP on its own will not be a game changer that elevates the renminbi's role in international finance".⁵

These analyses are not incorrect. The lack of a fully liberalized capital account and, more generally, the lack of full trust and faith of international creditors in the politico-economic stability of China make the yuan as a safe-haven currency a tricky proposition. Yet, legal and institutional certainty in international finance is relative. Already the yuan has played somewhat of a safe-haven role, though still minor, during the Covid-19 pandemic of 2020.

DCEP is not only set to revolutionize China's domestic monetary relations, but also could enable new avenues and tools to push yuan internationalization forward.

Doubts about the DCEP's role in furthering yuan internationalization continue to focus on the stark trade-offs laid out by the monetary trilemma. Yet, DCEP is not only set to revolutionize China's domestic monetary relations, but also could enable new avenues and tools to push yuan internationalization forward. I will in the following briefly

lay out the DCEP's basic characteristics and the opportunities it creates in remaking monetary relations in China. I will end with an analysis of its possible influence on the trajectory of yuan internationalization.

Revolutionizing monetary relations

Over the past decade, the digital payments market in China has developed rapidly to become a world leader. Now the People's Bank of China (PBoC) hopes that this advanced infrastructure can be used to launch the first major state-backed digital currency, or Central Bank Digital Currency (CBDC).⁶ Such currencies differ from both physical cash and traditional electronic payments in that they are digital tokens that use distributed ledger technology (DLT), commonly known as "blockchain".

The PBoC has been conducting research on a digital yuan since 2014, illustrating the priority Chinese policy-makers attach to this effort. Several key characteristics of the DCEP are important for understanding its implications. DLT promises to provide a programmable digital currency that boasts much greater security, practically removing the possibility of counterfeiting.⁷ All this implies much lower costs to run financial infrastructure and much greater transparency and traceability regarding financial transactions.

Decentralization and anonymity are often held to be essential attributes of DLT, underlying Bitcoin and other cryptocurrencies. However, DCEP introduces measures of centralized control in a "permissioned" system, restricting who has access to it. This is a major distinction. All DLT-based digital currencies

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⁴ An attempt to liberalize the yuan exchange rate by allowing three consecutive daily devaluations during mid-August 2015 sent the signal that China was willing to let the yuan depreciate – what followed were large-scale capital movements out of China which forced authorities to reimpose strict capital controls. See Investopedia (2020) "The Impact of China Devaluing the Yuan in 2015", 20 December, [available online](#)

⁵ Prasad, E. (2020) "China's Digital Currency Will Rise but Not Rule", *Project Syndicate*, 25 August, [available online](#)

⁶ For an analysis of CBDCs, please see Deutsche Bank (2020) "Central bank digital currencies – Money reinvented", *CIO Special Report*, [available online](#)

⁷ For a short informative video by the BBC that effectively introduces DLT or "blockchain" technology see [online](#)

are inherently decentralized, since their tamper-proof characteristics rely on a multitude of nodes “validating” all information on the blockchain. However, a degree of centralized control and management is necessary to function as legal tender.

The DCEP will thus give the PBoC the ability to trace and track economic activity in real time, preparing Chinese monetary management for what is likely to be the future of money.

The DCEP is thus a hybrid digital currency, combining the decentralized aspects of DLT with centralized management under the PBoC. Full anonymity is not assured. Even if banks and individuals cannot trace all transactions on the blockchain, the PBoC will have complete oversight.

The DCEP will thus give the PBoC

the ability to trace and track economic activity in real time, preparing Chinese monetary management for what is likely to be the future of money.

The use of DLT technology combined with Artificial Intelligence (AI) to analyze the mountains of data generated could substantially boost the supervision of monetary operations. As with so much else in the 21st Century, data is king. For example, in an economic recession, monetary authorities can easily pinpoint areas of the economy in most dire need of support. DCEP transactions can evidence exactly where revenue shortfalls are occurring, hence enabling highly targeted interventions. In contrast, monetary operations undertaken in the West at present, such as Quantitative Easing (QE), are crude tools that push money out into the economy regardless of need. Such a sledgehammer approach carries grave risks since currency over-issuance can create rapid asset inflation and financial bubbles.

Unheard-of levels of financial transparency can transform monetary management and radically lower financial risks, since banks can better track and analyze the businesses of their borrowers and, with this, non-performing assets. In this manner, the PBoC might be able to solve many chronic problems in the Chinese financial system, especially an overreliance on debt, shadow banking and illicit uses of borrowed funds.

Finally, the DCEP will make it easier to fight crimes including corruption, money laundering, the financing of terrorism and, perhaps most significantly, tax evasion. In one specific application, DCEP could help Chinese authorities curb the one trillion yuan (US\$153 billion) in gambling money that flows out of the country each year *via* private cryptocurrencies.⁸

There are drawbacks to this brave new world of money. Some commentators in the West see the digital yuan as another effort by the Chinese Communist Party to exert greater control over Chinese citizens.⁹ Based on information released so far, anonymity will be only assured in smaller transactions between users, while the PBoC will be able to trace every movement of the DCEP given its electronic footprints. No wonder that the introduction of digital money raises distinct privacy concerns. Even in China, these are likely to create some societal pushback to total surveillance.

In the final analysis, the jury on who wins the competition for furnishing new forms of money – mass public adoption – is still out. There remain a host of uncertainties, technical hurdles, as well as regulatory and legal challenges. Nonetheless,

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⁸ Carter, J. (2021) “China’s digital currency: the beginning of the end of paper money?”, *South China Morning Post*, 2 January, [available online](#)

⁹ Keram, A. (2021) “China wants to take the entire country cashless — and surveil its citizens even more closely”, *The Washington Post*, 2 March, [available online](#)

The DCEP represents a fundamental and deliberate initiative by Chinese authorities to revolutionize money itself.

the DCEP represents a fundamental and deliberate initiative by Chinese authorities to revolutionize money itself. Quite ironically, a technology that was invented to circumvent centralized coordination and power is now likely

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to trigger a substantial enhancement of monetary control and, hence, state authority.

At this point, the PBoC is proceeding very cautiously. Like many other significant policy initiatives, the Chinese government is using a trial-and-error approach, first testing the DCEP in various localized trials throughout China, including Shenzhen, Suzhou and Chengdu. One major test is slated for the 2022 Beijing Winter Olympics, including limited international utilization. So far, it is not yet clear when the DCEP will be officially launched for widespread use.

The DCEP and yuan internationalization

One of the most important dynamics to watch is how the competition to furnish a widely used CBDC will play out internationally. The PBoC has assured other countries that the DCEP is not a threat to existing national currencies. Nonetheless, the race is clearly on to be a first mover in this crucial new space of financial innovation.

Given this backdrop, can the DCEP enable China to push yuan internationalization forward? As mentioned, the DCEP will enable new levels of control over currency flows. This could enable more effective, yet more subtle and less intrusive ways of managing China's capital account opening.

The "pipelines" in use now (e.g., the stock and bond connects between Hong Kong and the mainland) could be radically opened and altered with the use of DCEP. In fact, much enhanced control would lie with the PBoC, since all capital movements *via* DCEP would be visible in real time. Combined with AI tools to flag suspicious behavior and large capital movements, the PBoC could target certain flows in times of crisis, creating more targeted and pinpointed means for managing China's capital account and exchange rate.

The DCEP thus fits China's strategy for capital account opening: to broaden channels for capital flows while keeping overall control. In this context, a DCEP-based international payments system could help the Cross-Border Interbank Payment System (CIPS) that China has established gain wider acceptance. CIPS reported processing 135.7 billion yuan (\$19.4 billion) a day in 2019, with participation from 96 countries and regions.¹⁰ Nonetheless, this is a drop in the bucket in international payments compared to Belgium-based SWIFT's \$5 trillion per day.

The use of a DCEP-based international payments system would reduce dependence on the U.S. dollar, including American ability to view China's global payments data *via* SWIFT. The PBoC argues that launching the digital yuan is aimed at protecting China's foreign exchange sovereignty.¹¹ The DCEP's ease-of-use, especially if combined with a fully digital international payments infrastructure, could usher in increased global adoption of the yuan, allowing

¹⁰ Reuters (2020) "Chinese banks urged to switch away from SWIFT as U.S. sanctions loom", 28 July, [available online](#)

¹¹ Huang, E. (2019) "China's new digital currency could encourage worldwide use of the yuan, says CEO", *CNBC*, 12 September, [available online](#)

it to bypass the conservative nature of traditional banking institutions. DCEP could therefore become a mechanism to break the US dollar's global monetary dominance.

So, quite to the contrary of those casting doubt on the DCEP's significance for global monetary affairs, the characteristics of this digital currency could lay the foundation for effective yuan internationalization. The DCEP should be seen as a highly strategic move by the PBoC to enable the international distribution of the yuan with much more oversight and control than would be possible now.

Specifically, the considerable uncertainty and volatility that large cross-border capital flows introduce could be reduced, because authorities can easily track all flows. Indeed, the PBoC has undertaken promising simulations using AI to test policy-making scenarios for the management of money supply on foreign currency exchanges with DCEP. And the emergence of DCEP could fill the demand for currency diversification in the rest of the world. The wide use of financial sanctions by the United States based on the U.S. dollar's global supremacy¹² has generated a need for an alternative payments system.

Most prominently, the European Union (EU) fears being squeezed by financial sanctions between the United States and China, necessitating greater "strategic autonomy" for Europe.¹³ Although the EU is focusing on the global role of the euro, the DCEP could trigger an evolution to a more distributed version of monetary power than the one now centered on the United States. In contrast to the U.S. Federal Reserve, which has been lukewarm on the concept of a digital dollar¹⁴, the European Central Bank is actively pursuing a digital euro project. Christine Lagarde, the President of the Bank, announced recently that a digital version of the euro could be launched in the middle of the 2020s: "We need to make sure that we do it right. We owe it to the Europeans. The whole process, let's be realistic about it, will in my view take another four years, maybe a little more".¹⁵

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The DCEP's historical significance, both as a first mover and as the currency of the second largest economy globally, is substantial and mostly overlooked.

substantial and mostly overlooked. Chinese President Xi Jinping himself has underscored the vital role of DLT in the next round of technological innovation and industrial transformation, urging more efforts to develop this crucial field. The DCEP stands at the forefront of these efforts. Its characteristics promise to usher in a brave new world of money across the globe.

Much still remains uncertain, including various technical, legal and regulatory aspects of new digital sovereign currencies. However, the DCEP's historical significance, both as a first mover and as the currency of the second largest economy globally, is

¹² As noted in Gregory Chin's contribution to this collection.

¹³ See European Parliament (2021) "The EU Strategic Autonomy Debate - What Think Tanks are Thinking", *EU Briefing*, 30 March, [available online](#)

¹⁴ Nonetheless, the Federal Reserve Bank of Boston and the Massachusetts Institute of Technology (MIT) are examining the feasibility and various technical options for a digital dollar.

¹⁵ Akhtar, T. (2021) "ECB's Christine Lagarde Says Digital Euro Should Launch Within Four Years: Report", 31 March, [available online](#)

Tying hands for what? Standard setting and China's new White Paper on international development financing

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Recently, the Chinese government released the White Paper on China's International Development Cooperation, considered as a response to the international pushbacks resulting from the Chinese aggressive Belt and Road Initiative (BRI). The White Paper clearly aims to address international concerns such as transparency, project ownership, and financing efficiency. Based on the above, this paper aims to address the question: why did China modify its international development cooperation, and to what extent will this modification make a difference? The paper argues that, by reshaping the narratives of the BRI as a public good for development, China aspires to achieve two major goals: continuing international integration to serve both domestic and international markets and setting international standards. It further argues that China's modifications in improving transparency, returning project ownership to local governments, and financing efficiency of its overseas financing show that the international pressure works. Nonetheless, this is not to suggest that extreme pressure would fundamentally change China's behaviour. Modifications of China's international development cooperation show China's gradual recognition of international norms and standards, especially through the engagement with multilateral mechanisms. In a context where geopolitical rivalry prevails on state-to-state relations, perhaps, development cooperation and engagement through multilateral mechanisms is a good start to depoliticize the tension.

Introduction

On 10 January 2021, the Chinese government released the White Paper on China's International Development Cooperation.¹ In general, the 2021 White Paper is a response to increasing international criticisms, doubts, and pushbacks resulting from the aggressive economic diplomacy pursued by China through the Belt and Road Initiative (BRI). In the past decade, the expansion of Beijing's economic influence has generated tremendous geopolitical repercussions in Asia and beyond. Narratives of China's "predatory economics", "corrupt project" and "debt trap"² led a few countries who participate in the BRI, such as Malaysia and Myanmar, to modify their infrastructure cooperation with China.³ Perhaps the most significant geopolitical response has been the formation of the Free and Open Indo-Pacific (FOIP) strategy, actively promoted by the United States with the support of its allies and partners, in the hope of shaping Chinese behaviours and constraining China's expanding ambitions.⁴

**To what extent can
China's international
development cooperation
make a difference?**

Because of these pushbacks, Chinese President Xi's "key judgment" (referring to "Our world is experiencing profound changes unseen in a century"⁵), coupled with his assessment of China's position (i.e.,

"still in the significant strategic opportunity"⁶), implies that China is rising while the United States is declining, making economic statecraft even more

¹ The State Council Information Office of the People's Republic of China (2021) *China's international development cooperation in the new era*, 10 January, [available online](#)

² Panda, A. (2018) "Tillerson slams Chinese financial practices in Africa", *The Diplomat*, 8 March, [available online](#)

³ The Straits Times (2018a) "Chinese port project could land Myanmar in debt trap", 13 May, [available online](#); The Straits Times (2018b) "Malaysia suspends construction of East Coast Railway Link", 4 July, [available online](#)

⁴ Department of State, United States of America (2019) *A Free and Open Indo-Pacific: Advancing a shared vision*, 4 November, [available online](#)

⁵ Ministry of Foreign Affairs, PRC (2018) "Speech by H.E. Wang Yi at the opening of symposium on the International Situation and China's Foreign Relations in 2018", 11 December, [available online](#)

⁶ Qin, X. (2021) "Shenke lijie woguo fazhan reng chuyu zhongyao zhanlve jiyuqi" [Deeply understand that our country's development is still in a period of important strategic opportunities], *QSTheory.cn.*, 8 February, [available online](#)

attractive in the competition for power. As China perceives itself as “a defender of globalization and multilateralism”,⁷ to what extent can China’s international development cooperation make a difference?

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What is different now?

The White Paper demonstrates how China’s thinking on foreign aid and development assistance has undergone significant evolution. First, China changed the terminology from “foreign aid” to “International Development Cooperation”. The use of internationally familiar wordings helps to shape international narratives about China’s overseas development cooperation practices. This change also shows that more importance will be given to two-way cooperation between the host country and China rather than unidirectional funds from China. The change in terminology also reflects the wide range of thematic issues for cooperation. Examples of such issues include poverty reduction, environmental protection, and the global health crisis due to Covid-19.

Second, the White Paper highlights upholding justice and pursuing shared interests, something unprecedented in previous papers. The White Paper adopts a moral concept to underpin the gist of China’s international development cooperation: the correct perceptions on justice (义) and interests (利) to downplay China’s previous mercenary image. While calling for shared interests is not uncommon in China’s diplomacy, upholding justice implies that China, as a developing country, has a strong sense of obligation to reform the global governance architecture. With non-interference, mutual respect, and equal treatment, China seeks to be a responsible player that pursues justice. Therefore,

By emphasizing the morality of its development cooperation, China seeks to prove that it can promote a “moral high ground”.

China considers development cooperation as its duty as a responsible member of the global community. By emphasizing the morality of its development cooperation, China seeks to prove that it can promote a “moral high ground”.

Third, China reaffirms its commitment to transparency and accountability measures, including feasibility studies, tendering rules, performance appraisals, and statistical indices to ensure the quality, reputation, and credibility of China-funded projects. In response to criticisms of opaque processes and ad hoc aid management, China has also committed to more clearly defined rules and regulations for project management. To guard against corruption, China has committed to strengthening the mechanism to evaluate performances. However, the information disclosure is made on the premise that deems it “suitable to China’s national conditions”, implying that China will not apply OECD’s practices even though transparency is expected to improve.

Fourth, China reframed its international development cooperation within the South-South cooperation (SSC) narrative. With this positioning, Beijing hopes that the global community can see China as operating under a different rule from North-South cooperation (NSC). The White Paper stresses that China will not “do things beyond its stage of development” and will only “meet international obligations in line with national capacity”.⁸ This signals that China will not accept standards set by traditional donors such as the OECD. Within

⁷ Yang, J. (2021) “Jianding weihe he jianxing duobianzhuyi jianchi tuidong goujian renlei mingyun gongtongti” [Firmly uphold and practice multilateralism and persist in promoting the building of a community with a shared future for mankind], *Ministry of Foreign Affairs, PRC*, 21 February, [available online](#)

⁸ The State Council Information Office of the People’s Republic of China (2021) *China’s international development cooperation in the new era*

such a framework, China can apply its standard to provide aid, assistance, or financing. The White Paper also makes it clear that the SSC should be always complementary to, and second to the NSC, which shifts the duties and obligations to developed countries.

Fifth, to tackle the narratives that China dominates the cooperation projects, the White Paper highlights the principle of ownership of development priorities by host/developing countries. In the past, the Chinese government dominated the projects, leaving recipient governments with little say. Now, China allows recipient governments to retain a bigger role in the development of the projects, such as tendering. China's role is to share development experiences and industrial technology and, if necessary, to work with a third party to facilitate the adoption of Chinese policy and management experiences. The purpose of the role shift is to ensure that local economies become self-sustaining.

Sixth, the concept of third-party/tripartite cooperation appears in the White Paper more frequently. Third-party cooperation is generally considered as a benign foreign economic policy, even though powers can still exert influence through agenda-setting projects. The third-party cooperation concept is not new. For instance, China increased its earmarked aids to international organizations such as South-South Cooperation Assistance Fund (SSCAF) to United Nations Development Programme (UNDP) or donations to World Bank International Development Association (IDA). China also commenced third-party cooperation discussions with countries such as Japan and the European Union (EU). The EU for example has blended initiatives with loans from international financial institutions in China or collaborated with China on green financing to mitigate climate change. The EU is also engaged with China via thematic and regional programmes focused on areas of sustainable and inclusive development in the broader Asian region.

The Chinese government reframes the BRI discourse as a development public good. The BRI is clearly defined as a “major platform” for China’s international development cooperation.

Lastly, the Chinese government reframes the BRI discourse as a development public good. For the first time, the BRI is clearly defined as a “major platform” for China’s international development cooperation. This marks a change from the past: the Chinese government claimed that the BRI is not about foreign aids; but rather a win-win commerce-based vision of economic cooperation. This distinction was made in case the countries participating in the BRI were perceived to become financially reliant on China, and now the modification explicitly shows that China hopes to counter the prevailing narrative according to which the BRI is an instrument of China’s geostrategic ambitions.

The White Paper in the regional-global link

In the past few years, the Trump’s administration increased the efforts to promote narratives about the need to securitize China’s infrastructure financing. From the trade war to the “China virus” narrative of the Covid-19 pandemic, Sino-American relations witnessed a large-scale downturn. The hostility between China and the United States is an unintended consequence of China’s economic strategy. However, the tensions have put pressure on the Chinese

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government to modify its foreign policy, including its overseas development financing practices. This change originated from the idea that China has entered a new paradigm, one that combines rising global uncertainty and an increasingly hostile international environment with new opportunities afforded by a declining United States.

The outbreak of Covid-19 and ensuing disruptions of the global supply chain seem to suggest that the decoupling of global supply chains could be an enduring trend. In response, President Xi declared in April 2020 that China must “take the initiative to seek change, and successfully capture and create opportunities during crises and difficulties”.⁹ Later on, he announced the “dual circulation” strategy of internationalization and self-sufficiency at the Politburo meeting in May 2020.¹⁰ The aim of this strategy is to access capital and technology in international markets, while simultaneously augmenting self-capabilities in critical technology to address national security concerns.¹¹ As pointed out by President Xi, China needs “independent, controllable, safe, and reliable” supply chains, with “at least one alternative source for key products and supply channels, to create a necessary industrial backup system”.¹²

China’s international development cooperation plays a role in the dual circulation as Beijing envisages it as “the mutual promotion” of dual circulation itself. The White Paper expresses China’s intent to continue to focus on overseas engagement through the BRI. This essentially means that China’s great ambition in pushing for the BRI will not be dampened, particularly when a post-pandemic world may need more infrastructure financing to promote economic growth. Such efforts include a wide range of activities concerning the commercial utility of the BRI, such as physical connectivity, foreign direct investment, financial investment, technology transfer, special economic zones, and aid. All these pillars of the BRI are seen as contributing to China’s domestic and international development objectives.

The Chinese government declared its intent to use “the whole-of-nation” system (举国体制) to promote Chinese standards.

Although the White Paper does not highlight standard-setting, the sections on technology, cooperation and assistance, as well as that on the BRI, can be treated as part of the standard-setting of Chinese products and technology. As the Chinese government declared its intent to use “the whole-of-nation” system (举国体制¹³) to promote Chinese standards, its involvement in

development cooperation is expected to influence the standard-setting of the recipient countries. For instance, China has been considerably successful in assisting Cambodia with national road grid planning and modern agricultural development planning through governance capacity building and regulation. China has also promoted its technology in many Southeast Asian countries through bilateral and multilateral development cooperation programmes. For instance, China has been promoting its Beidou satellite system in various programmes associated with infrastructure, agriculture, logistics, tourism, and poverty reduction in a few Mekong countries within the framework of the Lancang Mekong Cooperation (LMC).¹⁴ As Asia’s economic development and poverty reduction rely heavily on the introduction of new infrastructures in power grid, submarine cables, digitalization, and the Internet of Things (IoT), Chinese standard-setting is expected to be promoted concomitantly through these areas of international development cooperation, bilaterally or multilaterally.

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⁹ Yan, S. (2020) “Zai huawei ji zhong ying de fazhan zhudongquan” [Win the initiative in development: Turn crises into opportunities], *People’s Daily*, 16 April, [available online](#)

¹⁰ People’s Daily (2020) “Zhonggong Zhongyang Zhengzhiju Changwu Weiyuanhui Zhaokai Huiyi” [The Standing Committee of the Political Bureau of the CPC Central Committee held a meeting, Xi Jinping, General Secretary of the CPC Central Committee, presided over the meeting], 15 May, [available online](#)

¹¹ Xinhua Net (2020) “Qishi Zazhi Fabiao Xi Jinping Zongshuji Zhongyao Wenzhang” [“Qishi” published an article by General Secretary Xi “major issues in the national medium and long-term economic and social development strategy”], 31 October, [available online](#)

¹² Xue’ershixi (2020) “General Xi Jinping Zongshuji: Chanyelian, gongyinglian zai guanjian shike buneng diao lianzi” [Secretary Xi Jinping: The industrial chain and supply chain cannot be dropped at critical moments], *QSTheory.cn*, 3 November, [available online](#)

¹³ “The whole-of-nation” system emphasizes a much stronger state role in the technological development through mobilizing various forces and intervening in the economy to reach efficiency optimization. See for instance, CPCNews.com (2020) “Wanshan Guanjian Hexin Jishu Gongguan De Xinxing Juguo Tizhi” [Improve the new whole-of-nation system for key core technology research], 20 March, [available online](#)

¹⁴ Xinhua Agency (2018) “Lancangjiang-Meigonghe Hezuo Wunian Xingdong Jihua (2018-2022)” [Lancang-Mekong cooperation Five-Year Action Plan (2018-2022)], 11 January, [available online](#)

China's capacity to adapt to changing circumstances has been proven in the Covid-19 pandemic. The issuance of the White Paper is one of the adaptation approaches in response to doubts and criticisms. In fact, the success of controlling the domestic pandemic outbreak through technology (such as facial recognition and QR code) has provided an opportunity for Beijing to subtly shape a new rhetoric surrounding its role in international development as illustrated by the White Paper. Feeling the pressure from China's increasing economic and technological influence, other major actors also factor China's activism into their own plans. For instance, the new American President Biden pledged to establish a working group to focus on standard-setting for emerging technologies, including 5G and artificial intelligence in the Quad summit on 12 March 2021.¹⁵

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Implications for global governance

What is promising in the White Paper is the expected improvement on the governance of China's money flows, ownership of the development projects, and third-party cooperation. First, the institutional reforms can lead to a gradual improvement in Chinese overseas sustainability performance, among others in clean energy, biodiversity protection, and climate change mitigation.

If uncontrolled, Sino-American tensions could change all international development cooperation, including the plans of the BRI.

Second, the return of project ownership to host countries will promote fairer competition for local procurement and supplies. For instance, China provides special funds to support local small and medium-sized projects of Mekong countries to support local procurement. Third, third-

party cooperation can depoliticize development issues, allowing the EU and other OECD countries to "socialize" China into rules and norms by influencing Chinese international development cooperation practices. It is also an ideal tool for China to solve the dilemma of balancing between control over the use of the fund and the liability of undesired outcomes.

Despite the progresses outlined above, a fundamental change in Chinese international development cooperation reform is not likely to take place. First, the inclusion of a multi-dimensional BRI (from agriculture to digital economy, and from infrastructure to culture) will intensify the confusion over the blurry boundary between development/commercial financing, foreign aids, and assistance. Eventually, it will be left to the implementers on the ground to interpret how to balance justice (义) and interest (利).

Second, China struggles to accept some international standards, for instance, those set by the International Finance Cooperation on the "free, prior, informed, consent" principle of infrastructure financing¹⁶ or the Equator Principles (EPs) that require public engagement and consultation with the community. In fact, the White Paper does not give much attention to cooperation with non-state actors. Partially influenced by China's foreign policy principle of non-interference in other countries' domestic affairs, Chinese policy banks and state-owned enterprises (SOEs) in charge of the major cooperation projects rarely take the initiative to engage with the civil society in host countries or the international non-profit organizations. In fact, Chinese banks and companies are aware of the repercussions of being too active in interacting with local civil society groups or with NGOs.

¹⁵ Delaney, R. and Fromer, J. (2021) "'Quad' Summit backs 'Democratic' Indo-Pacific Region cites Chinese 'aggression'", *South Morning China Post*, 13 March, [available online](#)

¹⁶ Feng, H. (2017) "Interview: EU & China to raise global climate ambitions", *China Dialogue*, 7 November, [available online](#)

Third, the White Paper indicates that China's international development cooperation serves the country's domestic economy and its foreign policy equally. In particular, the White Paper indicates that China, as a developing country, will not overstretch its capacity. In this context, the emphasis on self-reliance is expected to increase policies to support SOEs' strategies to promote the Made in China 2025 and China Standards 2035. These strategies are said to be supported by a "new national system" to ensure technology development¹⁷ amid the potential decoupling from the West. It also implies that, in the short term, China will have to choose between public spending on domestic economic recovery and on financial subsidies to the BRI and other international development cooperation projects.

Conclusion

The emphasis on improving transparency, returning project ownership to the recipient government, and financing efficiency of China's overseas financing clearly shows that the international pressure on China's past few years' controversial economic activities works. Nonetheless, this is not to suggest that pressure without engagement would change China's behaviour fundamentally. On the contrary, extreme pressure on China may only push Beijing to overthrow the existing standards and norms while restating its own. With the rising rivalry and tensions between China and the United States, it is expected that international development cooperation will witness more ideational, material, and narrative competitions. If uncontrolled, Sino-American tensions could change all international development cooperation, including the plans of the BRI in facilitating development and forcing developing countries into taking sides.

Although we cannot expect China to adopt standards like OECD's, modifications of China's international development cooperation show China's gradual recognition of international norms and standards, especially through multilateral mechanisms. Perhaps, multilateral development cooperation as advocated by China can be a good start to depoliticize geopolitical tensions while restarting engagement through multilateral mechanisms.

Indeed, there are some good lessons we can draw from China. Beijing is not only extending its development practice onto others but also working through local actors and institutions by adapting and sometimes assimilating local norms and practices, something that developed countries may have overlooked. This is why Chinese overseas financing has been getting popular among developing countries in the past decade. But for China, claiming to be a supporter of multilateralism should also translate into the adaptation of the BRI practices to a more multilateral-based setting to uphold its responsibility to the world – a tendency already signalled by the establishment of the China-led Asian Infrastructure Investment Bank.

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¹⁷ CPCNews.com (2020) "Wanshan guanjian hexin jishu gongguande xinxing juguo tizhi" [Improve the new national system for core technology research] (2020), 20 March, [available online](#)

Market access, socio-environmental pressures, and the complex terrain of economic security in Southeast Asia

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Access to global markets is increasingly conditional on meeting social and environmental standards in a number of strategic economic sectors relevant to Southeast Asia. Although linking trade to environmental and labour standards is not new, what has changed is the extent to which diverse, often competing public and private socio-environmental standards are reshaping, albeit unevenly, global supply chains in key commodities produced in these countries while cross-cutting demands to improve socio-environmental practices in these sectors enter supply chains from many sources and levels, often taking by surprise targeted economic actors and their governments. Such pressures have been in the making for over two decades but were uneven, diffuse, and mostly emanated from non-profit actors, and so governments missed, misinterpreted or dismissed these until about some years ago when their combined, interactive effects became visible and significant. In such complex situations, economic security requires industry resilience, which at the least, requires fundamental recognition that socio-environmental standards are here to stay, will likely escalate and will, therefore, require changes to local production processes even as states use various diplomatic tools to address more immediate barriers to market access.

In July 2020, in the midst of the Covid-19 pandemic when disposable surgical gloves were a vital commodity worldwide, the United States Customs and Border Protection (CBP) withheld a shipment of gloves produced by Malaysian company Top Glove, one of the world's largest manufacturers of rubber gloves, on the grounds that their production involved forced labour.¹ A second case in 2020 involved palm oil shipments to the United States. Similar 'withhold release orders' (WROs) were placed on palm oil produced by Malaysia's largest multinational plantation corporations, Felda Global Ventures and Sime Darby, respectively in September and December 2020, on grounds that their production operations involved forced labour.² Downstream manufacturers then reportedly blocked palm oil from both corporations from entering their production operations in the US and elsewhere in Europe, Australia and Japan on concerns that their own products would be shunned if they incorporated such tainted palm oil.³

Social and environmental standards have the potential to reorder global supply chains that extend into consumer markets in the developed world.

If economic security is "aimed at ensuring minimal damage to a set of economic values",⁴ then economic security for most Southeast Asian states will encompass reliability of access to global markets for key exports produced from economic sectors whose continued functioning is

deemed to be of strategic importance for economic growth and development. Despite markets remaining broadly open, the past few years have shown that access to global markets is becoming increasingly conditional on meeting

¹ Free Malaysia Today (2020) "US adds Malaysian rubber gloves onto list of goods produced with forced labour", 14 October, [available online](#).

² US Customs and Border Protection "Withhold Release Orders and Findings", [available online](#).

³ Chu, M.M. (2021) "Buyers shun major Malaysian palm oil producers after forced labour allegations", *Reuters*, 8 February, [available online](#). See also, The Malaysian Reserve (2021) "WROs on Malaysian palm oil have ripple effect, says expert", 15 February, [available online](#).

⁴ Nesadurai, H.E.S. (2006) "Conceptualising Economic Security in an Era of Globalisation: What does the East Asian Experience Reveal?", in Nesadurai, H.E.S., (ed.), *Globalisation and Economic Security in East Asia: Governance and Institutions*, London and New York, Routledge, 3-22.

ethical standards of production. Social and environmental standards have the potential to reorder global supply chains that extend into consumer markets in the developed world. Such trends will be of special concern in Southeast Asia. Although China is now the second largest market for the Association of Southeast Asian Nations (ASEAN) absorbing 14.2% of its exports in 2019, the US and the European Union (EU) remain the next two important markets absorbing respectively 12.9% and 10.8% of ASEAN exports in 2019. More than market share, however, are their status as global norm setters. Minor disruptions to market access may not matter in terms of material earnings but could well have a disproportionate impact on the evolving normative structures of the global economy within which state and economic actors must operate. If global market access remains a key economic security goal for Southeast Asian states reliant as they are on exports from sustained production in strategic economic sectors, then serious attention must be paid to enhancing environmental and social standards, both for their intrinsic worth and because not doing so will pose market and reputational risks to precisely these sectors.

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What is new about these ethical standards?

To be sure, linking trade to environmental and labour standards is not new. What has changed as we move into the third decade of the twenty-first century

Global supply chains are becoming more complex as a result of ethical standards of production.

is the extent to which global supply chains are becoming more complex as a result of ethical standards of production. A diverse, often competing, array of public and private socio-environmental norms, rules and standards are reshaping, albeit unevenly, global supply

chains in key commodities produced in the developing world. This phenomenon is intertwined with the multi-layered, cross-cutting demands to improve socio-environmental practices in production and consumption that come from many sources and levels such as state authorities, supply chain actors, transnational non-profit and civic organizations, consumer sentiment and lately financial market processes. The multi-way interaction of these different demands and pressures can leave targeted economic actors and their governments caught off-guard. Such pressures are not a recent development but have been in the making for over two decades but were uneven, diffuse and mostly emanated from non-profit actors. As such, they were easier to miss, misinterpret or dismiss until about some years ago when their combined, interactive effects became visible and significant.

Such emergent dynamics suggest that traditional ideas of discrete states interacting linearly with other states over market access need correction to incorporate the notion of states as one among many actors interacting within social spaces such as supply chains that transcend state boundaries. In such spaces, varying permutations of authority may be exercised in several inter-linked ways: hierarchically through state diplomatic, legislative or regulatory actions; through the market power of economic actors operating in and through global production networks, supply chains and latterly financial markets; and especially through the information, knowledge and discursive capabilities that empower transnational actors in their advocacy, surveillance and soft law activities. These trends create a complex, often unfamiliar terrain for states and

producers operating in a region like Southeast Asia where economic growth remains rooted in the exploitation of labour, land and nature and where states had been able in the past to block or deflect external and domestic demands for change, particularly when they came from non-governmental organizations (NGOs).

Today, we see at least three key sources of external demands and pressures to conform to ethical standards in economic production: (a) bilateral and plurilateral free trade and economic partnership agreements negotiated with developed countries that require conformity to mutually agreed environmental, labour and human rights standards; (b) socio-environmental policy or legislation enacted in developed states that restrict imported products not meeting these

Social and environmental standards have the potential to reorder global supply chains that extend into consumer markets in the developed world.

internally developed rules and laws; and (c) transnational governance challenges led by transnational, non-state actors whose advocacy, surveillance and soft law activities are helping to embed ethical standards as the wider rules of the game in and across various supply chains.

Both the US and EU have adopted what may be deemed WTO-plus or next generation comprehensive trade agreements that incorporate various mixes of social and environmental rules and standards. Although such agreements may be onerous, these commitments have at least been formally negotiated and adopted by both parties. It is when external demands and pressures emerge from outside such mutual agreements that affected corporations and governments of producer countries seem to be taken unawares. Consequently, it is the latter two sources identified above – national regulatory actions and transnational governance practices – that pose the more pressing challenge for states in this region. Governments have not been sufficiently attentive to both the socio-environmental damage caused by economic production in their countries and to the ways in which newly constituted “ethical markets” can shrink the kinds of production practices permissible as well as state policy spaces.

A complex terrain

The WROs issued by the US CBP reflect these complex dynamics. WROs are used by the CBP to enforce Section 307 of the US Tariff Act of 1930 that prohibits the import of goods mined, produced or manufactured using forced, including prison labour and child labour. However, only 31 WROs had been issued in the fifteen years from 1991 and 2016 due to an exemption clause in Section 307 that allowed imports of such goods to meet domestic demand. The repeal of the exemption clause in 2016 and the establishment of a permanent forced labour office within the CBP saw a sharp rise in CBP actions against forced labour.⁵ Between 2016 and 2020, 25 WROs were issued against products, corporations and sectors employing forced labour practices (see table below).

This trend is expected to grow with the US Congress increasingly intent on enforcing action against forced labour practices worldwide. Equally important, transnational human/labour rights activists and organizations, which had previously lobbied hard for the 2016 exemption repeal, are leveraging on the CBP’s enhanced role to identify and take action against forced labour situations

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⁵ Roggensack, M., Syam, A. (2020) *Withhold Release Orders, in Three Acts: Herald A New Enforcement Era*, [available online](#)

in various local sites in the developing world. The CBP often relies on and is allowed to use third-party investigations to inform its decisions to issue WROs. Moreover, it is allowed to accept *reasonable* rather than *conclusive* evidence of forced labour practices.⁶ The lower standard of evidence has aided exposés of forced labour for which conclusive evidence is often difficult and dangerous to obtain. More formal, internal investigations undertaken by governments of the affected industry or by the named company often corroborate the evidence used by the CBP and can lead to the necessary changes in labour practices. But there are also concerns about the reliability, accuracy and transparency of the evidence upon which WROs are issued. Industry observers have questioned the evidence used by the labour rights NGO that petitioned the CBP to issue the 2020 WRO on Sime Darby, the world's largest certified producer of sustainable palm oil with multiple international sustainability certifications.⁷

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Withhold Release Orders (WROs) issued by United States Customs and Border Protection, 1991-2020

Year	Merchandise	Country of Origin
1991	31 items	<ul style="list-style-type: none"> China (27 items between 1991-1995)
2015		<ul style="list-style-type: none"> India (1 item, 1999) Japan (1 item, 1994) Mongolia (1 item, 2000) Nepal (1 item, 1998)
2016	<ol style="list-style-type: none"> Potassium Soda Ash Stevia Garlic 	<ol style="list-style-type: none"> China China China China
2018	<ol style="list-style-type: none"> Toys Cotton 	<ol style="list-style-type: none"> China Turkmenistan
2019	<ol style="list-style-type: none"> Garments Gloves Gold Diamonds Bone Black Tobacco 	<ol style="list-style-type: none"> China Malaysia DR Congo Zimbabwe Brazil Malawi
2020	<ol style="list-style-type: none"> Gloves Palm Oil Palm Oil Hair Products Hair Products Hair Products Apparel Cotton Computer Parts Cotton, tomatoes and other items Seafood (issued against shipping vessel) Seafood (issued against shipping vessels) Seafood (issued against shipping vessel) 	<ol style="list-style-type: none"> Malaysia Malaysia Malaysia China China China China China China Xinjiang Uighur Autonomous Region, China Taiwan-registered fishing vessel Taiwan-registered fishing vessel Taiwan-registered fishing vessel

Note: some of these remain active while others have been revoked, usually following remedial action deemed satisfactory by CBP authorities. Source: Author's compilation from [CBP website](#).

The EU's commitment to strengthening its internal socio-environmental legislation and regulatory agenda and to extending these outside the EU, both closely informed by substantial input from transnational actors, offers salutary lessons for the region. Under the EU's revised Renewable Energy Directive (or RED II) that came into force in December 2018, palm oil would not be deemed a sustainable biofuel from 2030 that member states could count in their sustainable biofuel mix.⁸ The first RED adopted in 2009 had been roundly criticised by environmental NGOs for ironically sparking a massive expansion in palm oil production in tropical zones, and with it, deforestation. Palm oil's

⁶ U.S. Customs and Border Protection (2016) "Forced Labor Enforcement, Withhold Release Orders, Findings, and Detention Procedures", *Commercial Enforcement Division Forced Labor Enforcement Fact Sheet*, [available online](#)

⁷ Busfield, A. (2021) "US palm oil ban baffles industry watchdogs", *Asia Times*, 8 March, [available online](#)

substantial price and yield competitiveness had given it a significant edge as a biofuel feedstock over rival vegetable oils. The situation changed from 2018 when palm oil was the only vegetable oil frozen out of RED II because of its allegedly high carbon footprint. However, the model used to determine palm oil's greenhouse gas emission status incorporated a controversial measure on indirect land use change (ILUC), which includes estimates of how much more forests would be displaced by the planting of additional food crops if palm oil were diverted from food to biofuel use.⁹ That the ILUC is contested even within the NGO and scientific communities reveals the uncertainty and complexities in measuring and benchmarking unsustainable practices.

The Malaysian and Indonesian governments are deeply concerned over market access and the risk to the reputation of an industry regarded as a strategic sector for their economies that also provides livelihoods for the small farmers who produce about 40% of palm oil. Seeing the EU move as primarily aimed at protecting European producers of competing vegetable oils such as rapeseed and sunflower, these governments have filed a legal action at the World Trade Organization (WTO) claiming the singling out of palm oil constitutes a discriminatory trade practice. In addition to Indonesia, Colombia, the fourth largest producer of palm oil, has joined Malaysia in its formal consultancy meetings with the EU, part of the WTO's dispute settlement process, to clarify the EU position on palm oil.¹⁰ Indonesia and Malaysia also blocked the formation of a formal strategic partnership between ASEAN and the EU until late 2020, only removing their objections after the EU agreed to further examine the sustainability of all vegetable oils. These governments are also seeking alternative, less ethically demanding markets for palm oil in China, South Asia and the Middle East that will accept their respective national certification standards to ensure reliable market access going forward, especially in the light of further initiatives against imported deforestation into European and other developed country markets.

The EU's 2020 "Farm to Fork Strategy" (F2F) is especially concerning. The extension of ethical production standards to govern trade in food items will have serious repercussions for Southeast Asian producers and exporters of agri-food products.¹¹ The F2F strategy, which drew on NGO research and

The extension of ethical production standards to govern trade in food items will have serious repercussions for Southeast Asian producers and exporters of agri-food products.

advocacy, is based on the contention that agricultural expansion drives 80% of global deforestation, with palm oil, soy and beef being critical sources of such deforestation. EU actions on environmental and social standards are, therefore, expected to set global benchmarks for a range of food sectors and for consumption choices. Due diligence legislation, expected in other

parts of Western Europe and the UK to keep out imported deforestation, adds another layer of environmental, specifically deforestation standards, into regulatory and legislative agendas in the developed world with substantial implications for companies and countries producing and exporting agricultural commodities and manufactured items. At the same time, such actions contribute to ethical standards becoming embedded within various supply chains.

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⁸ EU Science Hub (2018) "Renewable Energy – Recast to 2030 (RED II)", [available online](#)

⁹ See Mayr, S., Hollaus, B. and Madner, V. (2020) "Palm oil, the RED II and WTO law: EU sustainable biofuel policy tangled up in green?", *Review of European, International and Comparative Environmental Law* 2020(00):1–16.

¹⁰ "Govt committed to legal action against EU over palm oil." (2021), *The Edge*, 19 March, [available online](#)

¹¹ European Commission (2020) *Farm to Fork Strategy: For a Fair, Healthy and Environmentally-Friendly Food System*, [available online](#)

Fisheries, an important economic sector in Southeast Asia, has also been singled out in the EU's F2F strategy in order to reduce illegal, unreported and unregulated fishing and enhancing the sustainable management of global fish and seafood resources. The experience of the Thai shrimp industry reveals the unanticipated impact such actions might generate. Thailand lost its competitive position as the world's second largest shrimp producer partly due to health/safety concerns and partly due to revelations of the adverse environmental and social consequences linked to the shrimp supply chain.¹² Exposure of human rights and labour abuses on the fishing boats that supply feed to the Thai shrimp industry in 2014, even if not directly a practice of shrimp cultivators, was sufficient to impact shrimp exports following a formal warning from the EU over these practices. Even without a formal ban, the extensive media coverage of this case coupled with the regulatory attention paid to the industry saw sharp declines in Thai shrimp exports to the EU. Even when the EU warning was removed, the industry never fully recovered and continues to face NGO criticisms over the extent of its socio-environmental harms.

These cases show how diffuse events can have disproportionate effects, especially with 24-hour global media and social media. This is not to dismiss the seriousness of the socio-environmental problems discussed here, but simply to point out how enhanced media, regulatory and even scientific attention can complicate the search for sustainable solutions to these problems. In the palm oil case, the intense scientific and regulatory scrutiny into palm oil may have inadvertently diverted attention away from other commodities such as soy and beef that are said to have as bad or worse carbon footprints.¹³ Despite boasting one of the more comprehensive voluntary sustainability standards (VSS) addressing deforestation, carbon emissions, and social issues such as land and labour rights, the palm oil VSS – the Roundtable on Sustainable Palm Oil (RSPO) – ironically ends up as a marker of corporate greenwashing as every act of corporate transgression is held up as evidence of a recalcitrant industry that can never be reformed.¹⁴ It does not help that such globally accepted standards have yet to extend beyond more than a quarter of the palm oil industry while Indonesia and Malaysia have been too quick to dismiss sustainability problems in their respective industries, further worsening producer credibility. Pronouncements by prominent retailers and global brands that they are “palm oil free” reinforce these sentiments as does the “palm oil free movement”. The Palm Oil Free Certification Trademark launched in 2017 now covers 1,450 products and is recognized in 20 countries.¹⁵

Implications for economic security

While there may be elements of convenient green protectionism behind some of these socio-environmental agendas and trade conflicts, it is unwise to simply dismiss these as protectionism buttressed by activist NGOs while ignoring the point that global supply chains of importance to the Southeast Asian political economy – agricultural commodities, food products, fisheries, manufacturing items such as gloves, garments and footwear, among others – are already facing demands and pressures to conform to ethical production standards. Supply chains themselves are, moreover, becoming highly interconnected, complex systems.

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¹² Boston Consulting Group (2019) *A Strategic Approach to Sustainable Shrimp Production in Thailand: The Case for Improved Economics and Sustainability*, [available online](#)

¹³ Meijaard, E. et al. (2020) “The Environmental Impacts of Palm Oil in Context”, *Nature Plants*, 6: 1418-1426.

¹⁴ Nesadurai, H.E.S. (2018) “New Constellations of Social Power: States and Transnational Private Governance of Palm Oil Sustainability in Southeast Asia.”, *Journal of Contemporary Asia*, 48(2): 204-229.

¹⁵ SIIA (2020), *ESG in Practice: A Closer Look at Sustainability in ASEAN's Palm Oil and Pulpwood Sectors*, Singapore: Singapore Institute of International Affairs.

Governments are not standing still. Their responses combine both tactical and strategic actions, working to reverse individual market access problems as they appear while addressing the wider social and environmental problems that undermine global market access for their key sectors. Tactical moves to redirect exports to less demanding final markets cannot be permanent solutions, moreover. Complex systems are, after all, noted for being hard to

Resilience requires fundamental recognition that socio-environmental standards are here to stay.

predict because of the multiple layers of interaction among their actors and component parts.¹⁶ They require more strategic action that recognizes that the Southeast Asian political economy is deeply connected to both more and less ethically demanding markets that are themselves dynamically interconnected. In a situation of such complexity, strategic action requires a focus on industry resilience. At the least, resilience requires fundamental recognition that socio-environmental standards are here to stay, will likely escalate and will, therefore, require changes to local production processes even as external diplomatic tools are tactically and strategically employed to buy time for fundamental domestic changes to take root.

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¹⁶ Goh, E. and Prantl, J. (2017) "Dealing with Complexity: Why Strategic Diplomacy Matters for Southeast Asia", *East Asia Forum*, 9(2): 36-39.

New East Asian institutions could challenge the global economic order

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Intra-regional economic interactions in East Asia were broadly compatible with the global liberal order from the late 1970s into the mid-2000s. Despite many national barriers to incoming trade and investment, more were coming down than going up. World Trade Organization (WTO) and International Monetary Fund (IMF) rules and norms generally prevailed. The World Bank and the Asian Development Bank (ADB) adhering to longstanding global standards were the key sources of infrastructure loans. An array of challenges to that congruence between global and regional trade and finance have arisen within East Asia, particularly since the global financial crisis (GFC) of 2008-09 and the current Covid-19 pandemic. New institutions of trade and investment threaten to compete with one another and with existing global institutions in ways that pose challenges to the existing global liberal order and threaten the competitive opportunities for non-Asian corporations from both Europe and the United States. Whether policy-makers there can respond effectively to offset these challenges is a central question for near-term action.

Intra-regional economic interactions in East Asia were broadly compatible with the global liberal order between the late 1970s and the mid-2000s. The main engines of trade and investment were corporations headquartered in the United States and the European Union as well as in Japan, Korea, Taiwan, Singapore and Hong Kong as they searched for cheaper land and labor along with proximity to final markets. China, together with less developed but labor and resource-rich countries of Southeast Asia, garnered the lion's share of these new investments. Governments that once limited their economic focus to domestic conditions began embracing regional economic interdependence while corporations took advantage of improved regional transportation and communication links to advance their own capacity to modularize corporate functions. They “moved the product, not the factory,” benefitting from the national economic asymmetries across the region.¹

The cumulative result was a nexus of ever more complex production networks, investment corridors, growth triangles, and export processing zones that blurred national borders, engendering ever more dense networks of economic interdependence and intraregional trade and investment that now rival those of the EU. The sprouting green shoots of economic development initially rooted in Northeast Asia quickly spread to include Singapore and Hong Kong, later engulfing China and a number of Southeast Asian countries in what is often popularly labelled “the East Asian economic miracle”. Important as links were within East Asia, those links were also open to the outside, particularly to US and European firms. Consequently, in broad-brush terms, such developments built on and fostered the longstanding global liberal order that had been operative since the early years following World War II.

As national economies became more intermeshed with one another, governments simultaneously engaged one another to forge a plethora of new regional institutions. The Association of Southeast Asian Nations (ASEAN)

¹ See, inter alia, John Ravenhill, “Production networks in Asia,” in Pekkanen, S., Ravenhill, J. and Foot, R. (2014) *The Oxford Handbook of the International Relations of Asia*, Oxford, Oxford University Press, 348-368; Stubbs, R. (2017) *Rethinking Asia's Economic Miracle: The Political Economy of War, Prosperity and Crisis*, Macmillan International Higher Education.

acting as a collective entity, along with middle powers such as Japan and Korea, led the way in fostering the Asian Development Bank (ADB), the Asia-Pacific Economic Cooperation (APEC) forum, the ASEAN Regional Forum (ARF), the ASEAN plus Three (APT), the Chiang Mai Initiative Multilateralization (CMIM), the East Asia Summit (EAS), and other building blocks of a more expansive regional institutional architecture. Equally, governments formed bodies less comprehensive in membership and more granularly targeted at specific cross-border problems such as immigration, environmental pollution, drug smuggling, piracy, and pandemics. A widening institutional matrix began to develop aimed at collective

As national economies became more intermeshed with one another, governments simultaneously engaged one another to forge a plethora of new regional institutions.

economic development and the resolution of cross-border challenges. Although many of the global production networks (GPNs) that developed in East Asia had few if any Western participants and several of the new institutions such as the APT and CMIM excluded non-Asian members, like the open nature of private corporate ties, a large number of institutions included numerous non-Asian members. Thus, the overall combination of rising economic interdependence and expanding institutional cooperation fostered East Asian financial and economic patterns that built on, and merged comfortably with, the broader global liberal order.²

Compatibility between developments in East Asia and the existing global order came under challenge, particularly following the Global Financial Crisis (GFC). These accelerated with the disparate Asian and Western responses to Covid-19. Across much of East Asia, and certainly within China, the narrative flipped from one that stressed the easy fusion of East Asia with globalization to one that argued for their incompatibility. Chinese leaders, in particular, became vigorous in promoting the claim that East Asia is rising, and the West is declining.³ More explicitly, they have contended that China is leading East Asia's collective march forward while the US is the biggest anchor around the neck of the sinking West. In that context, they challenge what the West has called "the rules-based order," claiming that the notion is far from globally acceptable and that China will lead in forging an alternative order.

In this regard, the Chinese regime became more conspicuous in its refusal to adhere to promises made upon accession to the World Trade Organization in 2001, distortions which the WTO was particularly ineffective in disciplining. Policy-makers reversed moves toward market-led reforms and privatization within their borders, instead boosting official investments in the largest state-owned enterprises (SOEs), systematically erecting barricades against penetration of critical sectors by foreign firms,⁴ and pursuing industrial policies aimed at ensuring domestic dominance over the technology and manufacture of a multitude of high-tech products from electric cars to spacecraft.⁵

Decades of accumulated economic strength also allowed China to expand its regional financial reach through combinations of foreign aid and infrastructure development projects through its new Belt and Road Initiative (BRI) and its fledgling Asian Infrastructure Investment Bank (AIIB). Economic prowess also allowed China to take advantage of its outsized weight in bilateral trade relations with partners such as South Korea and Taiwan, to weaponize trade

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² My extended views on this engagement are developed in Pempel, T.J. (2005) *Remapping East Asia*, Ithaca, Cornell University Press; Pempel, T.J. (2006) "The Race to Connect East Asia: An Unending Steeplechase", *Asian Economic Policy Review*, 1(2): 239-254; Pempel, T.J. (2010) "Soft balancing, Hedging, and Institutional Darwinism: The Economic-Security Nexus and East Asian Regionalism", *Journal of East Asian Studies*, 10(2): 209-238, inter alia. See also, Calder, K. and Ye, M. (2010) *The Making of Northeast Asia*, Stanford, Stanford University Press, inter alia.

³ E.g., Chen, D. and Wang, J. (2011) "Lying Low no More? China's New Thinking on the Tao Guang Yang Hui Strategy", *China: An International Journal*, 9(2): 195-216; Schweller, R. and Pu, X. (2011) "After Unipolarity: China's Visions of International Order in an Era of US Decline", *International Security*, 36(1): 41-72.

⁴ In the absence of a level-playing field for European companies, in 2020 the EU enforced a foreign investment screening mechanism to preserve Europe's strategic interests. The recent agreement on principles of a Comprehensive Agreement on Investments – whose final ratification is far from certain, considering the opposition in the European Parliament – has apparently addressed the issue: European Commission (2020) "EU and China reach agreement in principle on investment", 30 December, [available online](#)

⁵ Two 2015 national programs are indicative of that thrust: "Made in China, 2025" and "Internet Plus." For details see, inter alia, Wübbcke, J., Meissner, M., Zenglein, M.J., Ives, J., and Conrad, B. (2016) "Made in China 2025" *Mercator Institute for China Studies Papers on China* (2): 74; Wang Z., Chen, C., Guo, B., Yu, Z. and Zhou, X. (2016) "Internet plus in China", *It Professional*, 18(3): 5-8; Johnston, A.I. (2019) "China in a World of Orders: Rethinking Compliance and Challenge in Beijing's International Relations", *International Security*, 44(2): 9-60.

in the service of its geopolitical goals. In combination, such actions reflected a heftier China no longer content to contest the rules of the existing order at the margins, but one that was mounting a challenge to its core principles.⁶

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China's BRI and its AIIB were created to advantageously recycle the country's burgeoning foreign reserves by serving those regional institutional needs.

The Chinese shift has come at a time when numerous countries in East Asia, and particularly in Southeast and Central Asia, are clamoring for capital investments to expand and modernize their infrastructures. A 2017 study by the ADB, for example, estimated such needs at an astounding \$22.5 trillion by 2030.⁷ China's BRI and its AIIB were created to advantageously recycle the country's burgeoning foreign reserves by serving those regional institutional needs. Not at all tangentially, however, the two institutions also demonstrated a flexing of China's regional economic muscles in ways that the PRC anticipated would win broader diplomatic and foreign policy accommodation from grateful recipients of China's investment largesse.

Yet, if China has sought to dominate the funding of infrastructural investments in the region, other countries have pushed back with their own efforts, typically more compatible with the existing global and regional order. Thus, two years after China announced the BRI, in 2015 Japan responded with its own "Partnership for Quality Infrastructure." Its original pillars were an expansion and speed-up of infrastructure-related assistance through the Japan International Cooperation Agency (JICA) in conjunction with the ADB. In 2016, the original target of \$110 billion was raised to \$200 billion. To offset the appeal of quick but low quality China-led projects, Japan stressed the principles of quality infrastructure investment, and advanced those principles through a number of fora like G7 and G20.⁸ Thus, in September 2019, Japan and the EU concluded a bilateral "Partnership on Sustainable Connectivity and Quality Infrastructure".⁹

In South Korea, the Moon administration announced a "New Southern Policy" for connecting North and Southeast Asia with physical and digital infrastructure as well as broader societal linkages. Both trade and people-to-people exchanges between South Korea and ASEAN subsequently skyrocketed to unprecedented levels. ASEAN has become South Korea's second largest trading partner and second largest overseas construction market after the Middle East.¹⁰

Puzzlingly ambiguous in the protection of the global liberal order has been the U.S. In the area of free trade, the Trump administration abandoned the twelve nation Trans-Pacific Partnership (TPP) and launched a multi-nation trade war that distanced the U.S. from East Asia's interlaced networks. Yet, as many worried that the Trump actions would mean the death of the TPP and a retreat to national trade blocs, the eleven remaining members demonstrated that they had significant powers of their own.¹¹ Japan, New Zealand, and Australia led negotiations for a second best countermeasure. A restructured Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), that constituted a high-level trade pact whose provisions went well beyond those of the WTO and expanded longstanding liberal trade principles among its signatories, went into effect on December 30, 2018. There were expectations

⁶ A well-cited and harsh argument on this point is Allison, G. (2015) "The Thucydides Trap: Are the US and China Headed for War?", *The Atlantic*, 24 September. On China's changes per se, see for example, Nathan, A.J. and Scobell, A. (2012) *China's Search for Security*, New York, Columbia University Press.

⁷ Asian Development Bank (2017) *Meeting Asia's Infrastructure Needs*, [available online](#)

⁸ Pascha, W. (2020) "The Quest for Infrastructure Development from a 'Market Creation' Perspective: China's 'Belt and Road', Japan's 'Quality Infrastructure' and the EU's 'Connecting Europe and Asia'", *International Economics and Economic Policy*, 2020 (17):696-700.

⁹ The full text is [available online](#)

¹⁰ Yeo, A. (2020) "South Korea's New Southern Policy and ASEAN-ROK Relations: What role does Southeast Asia play in Moon's foreign policy?" *The Diplomat*, 28 July, [available online](#)

¹¹ See for example, East Asia Forum (2017) "The next chapter for the Trans-Pacific Partnership", 26 June, [available online](#); Hawke, G. (2017) "Is the TPP a sleeping beauty or an organ donor?", *East Asia Forum*, 25 June, [available online](#)

that other non-negotiating countries might also welcome the opportunity to join. Indeed the UK has filed such an application.¹²

Likewise, ASEAN, with Indonesia in the lead, advanced the fifteen-country Regional Cooperation and Economic Partnership (RCEP), signed in November 2020. Again, the U.S. was absent. Though not as comprehensive as CPTPP, RCEP creates the largest free trade agreement in the world. It marks the first such FTA linking Japan, Korea, and China, and does so under terms more congruent with the liberal trading order than might have been preferred by its largest member, China.

Additionally, Japan, Korea, Singapore and Vietnam have all forged trade pacts with the EU and negotiations for an analogous EU-Indonesia agreement are ongoing. Furthermore, the Republic of Korea entered into a bilateral FTA with China in 2015 that counterbalanced its KORUS bilateral FTA with the US. All of these recent multilateral and bilateral trade pacts reduce regulatory barriers to trade and incentivize countries and companies to engage and/or integrate with a more rules-based and deeper set of regional trade arrangements, all congruent with the region's interdependent economic order and largely congruent with the longstanding global order. All are evidence of powerful pushbacks against threats to regional economic integration, multilateralism, and intra-state cooperation. All have advanced without significant US participation.

Ironically, such FTAs, while integrative for the participating members by pulling much of East Asia into a closer economic interdependence, in fact weaken the multilateral trade system rather than strengthening it. Large segments of the global economy remain outside these new arrangements because they do not include WTO's "most favored nation" (MFN) provisions. Therefore, these emerging arrangements present a huge challenge for US firms, in particular, since they now face much higher tariff and MFN barriers across East Asia than many of their rivals. The recent trade moves in East Asia consequently incentivize the US to reengage with a now more interconnected East Asia and to press for collective commitment to the principles of the global liberal order. Although the Biden administration has moved to shore up shattered alliances, they have been slower to reverse many of the Trump era tariffs, and domestic political divisions make it all but certain that the US will not soon join the CPTPP. In a striking irony, China has been quietly negotiating to join CPTPP which, if successful, could leave CPTPP with "China in and the US out," a direct contrast to the original plans for TPP.

There is concern that the US-led global order will be eroded due to a failure of the US to engage economically, financially and institutionally with East Asia.

Considerable attention is given by contemporary pundits and policy-makers to the emerging rivalry between Western and Chinese visions for the future. Most often, the emphasis is on the ominous potential for military conflict between the US and China over their competing goals surrounding that

future order.¹³ At a minimum, there is concern that the US-led global order will be eroded due to a failure of the US to engage economically, financially and institutionally with East Asia in ways that couple regional developments to the existing order. Such fears should not be dismissed out of hand. Indeed, they play out at a far more granular level that may well shape the region in the near

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¹² UK Government (2021) "UK applies to join huge Pacific Free Trade Area CPTPP", 30 January, [available online](#). For a critical view see Ravenhill, J. (2021) "Australia's Asia-Pacific strategy endangered by UK CPTPP accession", *East Asia Forum*, 2 March, [available online](#)

¹³ See, inter alia, Allison, G. (2017) *Destined for war*, cit.; Mearsheimer, J. (2010) "The Gathering Storm: China's Challenge to US power in Asia" *The Chinese Journal of International Politics*, 3(4): 381-396; Navarro, P. (2006) *The Coming China Wars: Where they will be Fought and How they will be Won*, Upper Saddle River, FT Press; Tellis, A.J. (2019) "Pursuing Global Reach: China's not so Long March toward Preeminence" in Tellis, A.J., Szalwinski, A. and Wills, M. (eds.), *Strategic Asia 2019: China's Expanding Strategic Ambitions*, Seattle, National Bureau of Asian Research, 3-46.

term. This competition is unfolding over the rules and norms of investment, trade, production networks, and long-term economic development, issues that play out concerning practical infrastructural pillars such as 5G networks, undersea cables, cyber, power grids, ports, railroads and the like. Which countries with which principles dominate such vital structures of the region's economy may well prove to be more influential for the future of East Asia than which countries have the largest navies or the longest reaching warheads. Many governments in East Asia have taken actions to shore up the region's fusion with the global order but their capacity as shapers is limited to the extent that China devotes resources to an alternative order. To this end, it remains to be seen whether the Biden administration can reverse the damage done to America's standing in East Asia, strengthen its domestic infrastructure, bolster its position in high tech, and reengage economically in the region's wide competition over the shape and norms of East Asian investment and trade. Doing so would go a long way toward resuscitating the creaking infrastructure on which the global liberal order now rests.

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America's tactical multilateralism for Asia and its consequences

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The Biden administration has made building back confidence in the United States as a source of global security and stability a central goal of its foreign policy. As this objective is pursued in the Asia Pacific within the framework of the administration's Indo-Pacific strategy, it is closely intertwined with competition with China in the region and beyond. Biden officials have promised to engage vigorously in regional diplomacy and deepen the US role in regional multilateralism. However, the competitive thrust of the administration's policies in the region make it prone to pursue coalitions of like-minded countries in activities that counter China's regional initiatives. The risk is that this weakens the hard-won regionalism that enables regional collective action, ultimately leaving the region more vulnerable to exploitation by a regional hegemon.

The Biden administration has made restoring confidence in the United States as a source of global security and stability a central goal of its foreign policy. As this objective is pursued in the Asia Pacific, it is closely intertwined with US strategic competition with China in the region and beyond. On the one hand, Biden administration officials have promised to engage vigorously in regional diplomacy and deepen the US role in regional multilateralism in order to support a stable international system.¹ On the other, the administration is committed to vigorous competition with China and has retained much of its predecessor's Indo-Pacific framework. To the Trump administration's "Free and Open Indo-Pacific (FOIP)" construct, aimed at creating a broad front of allies and strategic partners against Chinese assertiveness, the Biden administration has added commitments to promoting democracy and liberal values. Unlike the Trump administration, it has also articulated a willingness to work with China "where it is in American interests". However, its FOIP concept does not envision a grand regional bargain with China;² rather, administration officials have described the outcome of US policy toward China as reaching "favorable terms of existence".³

States in the region have begun to adapt to intensifying US-China antagonism and the more fluid regional environment to which this has given rise.

Despite some signs of a reversal in the faltering confidence across the region in American leadership that accelerated during the Trump administration, skepticism abounds about the capacity of the United States to play a durable and constructive role in regional security and economic integration.⁴ States in the

region have begun to adapt to intensifying US-China antagonism and the more fluid regional environment to which this has given rise.⁵ In this context, the Biden administration's emerging preference for competing with China through tactical multilateralism—its engagement with sets of partners to solve discrete problems alongside its commitment to regional initiatives that largely exclude China, like the Quad—carries risks. As actors in the Asia-Pacific seek to advance their interests within an uncertain and competitive milieu, proliferating US-led

¹ Biden, J.R., The White House (2021) *Interim National Security Guidance*, March, [available online](#)

² The Economist Intelligence Unit (2021) "Joe Biden's Asia policy Takes Shape", 24 February, [available online](#)

³ Campbell, K.M. and Sullivan, J. (2019) "Competition Without Catastrophe: How America Can Both Challenge and Coexist with China", *Foreign Affairs*, 98(5): 96-100.

⁴ Seah, S. et al. (2021) *The State of Southeast Asia: 2021 Survey Report*, Singapore: ISEAS-Yusof Ishak Institute, 10 February, [available online](#)

⁵ Kuik, C.C. (2021) "The Twin Chessboards of US-China Rivalry: Impact on the Geostrategic Supply and Demand in Post-Pandemic Asia", *Asian Perspective*, (2021):157-176.

or US-engaged initiatives reduce incentives across the region to invest in bedrock regional institutions. Thus, despite rhetorical support for multilateralism in the region, the Biden administration's tactical multilateralism risks weakening rather than strengthening the efficacy of existing regimes.

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America – Asia's Pivoting Power?

Cycles of American isolationism, the prioritization of Washington's interests in Europe and the Middle East over those in Asia, and tensions with China have long buffeted US commitments to the Asia-Pacific, sometimes with high costs to the United States. The Trump Administration's "America First" doctrine, with its confrontational rhetoric toward allies as well as adversaries,⁶ marked the most profound disruption to the US approach to Asia, begun after US-China rapprochement and the end of the Vietnam war, that had made Asia policy so vital to US interests along multiple dimensions. As an architecture of institutional arrangements to facilitate stability and promote economic integration emerged across East Asia, the United States joined many regional bodies as an observer and, in a number of cases, namely the Asia Pacific Economic Cooperation (APEC) and the ASEAN Regional Forum (ARF), as a full member.

At times Washington has used the weight of its regional influence to seek to constrain the development of new mechanisms and institutions that might challenge its capacity to exercise a preeminent impact on regional agenda-setting—the establishment of the Asian Infrastructure Investment Bank (AIIB) is a recent example. In other instances, it has sought to strengthen key regional institutions and support the emergence of new ones to promote regional cooperation. Examples include President Bill Clinton's initiative of the annual APEC Economic Leaders Meetings or support for a Trans-Pacific Partnership (TPP), first introduced by the George W. Bush administration and then made a key effort by President Barack Obama.

When the Obama administration assessed that the United States needed to pivot its policy focus to the Asia-Pacific as "a top priority", it did so in a number of ways.

When the Obama administration assessed that the United States needed to pivot its policy focus to the Asia-Pacific as "a top priority",⁷ it did so in a number of ways. It not only bolstered its regional military commitments and the hub and spokes alliances and connected web of strategic partnerships that the United States has

long seen as bedrocks of regional stability. It also chose to promote the TPP in an effort to weave the economies of the western hemisphere formally into East Asia and, for Washington, to serve as something of an antidote to the growing density of free trade agreements across the region that included China but to which the United States was not a party. In the context of rising tensions between Japan as well as many Southeast Asian states and China over territorial disputes and concerns about China's outsized economic power in the region, the TPP offered a way for the US to play a leading role in shaping a set of new forward-thinking rules for trade and intellectual property protection in the Asia Pacific between itself, East Asia and other Pacific economies. The Trump administration's decision to reject the agreement shattered confidence in Washington's commitments across the region. Political endorsement of the TPP had been hard won in many regional capitals and eleven of the original twelve signatories to the TPP concluded a

⁶ Ford, L. (2020) "The Trump Administration and the 'Free and Open Indo-Pacific'", *Brookings Institution Foreign Policy Papers*, May 2020, [available online](#)

⁷ BBC News (2011) "Barack Obama Says Asia-Pacific is 'Top US Priority'", 17 November, [available online](#)

version of the agreement without the United States, renamed Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).⁸

As the United States and China battled over trade and their pooled effort to address North Korea's nuclear proliferation disintegrated, the Trump administration's Asia policy became driven by the goal of challenging what it characterized as China's bid for regional hegemony. The Quadrilateral Security Dialogue Group or "the Quad," comprising Australia, India, Japan and the United States, became the centerpiece of the FOIP as a security mechanism to counter China's assertion of its widening interests in the region.

Recognizing that China's economic power and dynamism, bolstered by the Belt and Road Initiative (BRI), was quite literally cementing China as the region's economic hub, the Trump administration rolled out a number of initiatives aimed at giving the United States a targeted playbook for promoting transparency and combating corruption in the region.⁹ Measures such as the 2018 Asia Reassurance Initiative Act (ARIA) for a "comprehensive, multifaceted, and principled" American Indo-Pacific policy and the Better Utilization of Investments Leading to Development (BUILD) Act, which sought to leverage US development finance more efficiently and promote a private investment-based rather than state-driven investment model,¹⁰ were among Trump administration initiatives.

However, Trump's Asia policy was consistent with his declaration at the November 2017 APEC Summit in Vietnam that the United States would no longer take part in "large agreements that tie our hands, surrender our sovereignty, and make meaningful enforcement practically impossible".¹¹ Despite the broadened scope by the Trump administration of US strategy for the Asia Pacific strategy to an "Indo-Pacific" framework (formalized in the US Pacific Command's name change to the US Indo-Pacific Command), beyond the Quad and bolstering strategic partnerships with key Southeast Asian states,¹² its focus was primarily on bilateral or unilateral security-oriented agreements. The Trump administration gave little attention to such trends within the region as "democratic decline" in Southeast Asia, despite their implications for US influence.¹³

Building back better?

As two former ambassadors to the United States from Singapore commented soon after the Biden election, after the vicissitudes of Trump administration interactions, the predictability, stability and professionalism of the Biden administration have been welcomed across the region. Regional leaders have also responded positively to expressions of support from the administration for multilateralism. But, as they observed, Asia today is very different from the

Asian countries have "developed a greater sense of agency and belief they can shape their own future".

one Biden knew during his tenure as vice president. Asian countries have "developed a greater sense of agency and belief they can shape their own future".¹⁴

However, there is no assurance that this new agency will translate into more robust multilateral institutions in the region. Regional powers are proliferating their own regional initiatives to hedge against the decline of the liberal

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⁸ UNESCO Policy Monitoring Platform (2020) "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)", [available online](#)

⁹ Ford, L. (2020) "The Trump Administration and the 'Free and Open Indo-Pacific'"

¹⁰ Akhtar, S.I. and Lawson, M.L. (2019) "Build Act: Frequently Asked Questions about the New US International Development Finance Corporation", *Congressional Research Service Reports*, 15 January, [available online](#)

¹¹ U.S. Embassy & Consulate in Vietnam (2017) "Remarks by President Trump at APEC CEO Summit", *The White House Office of the Press*, 10 November, [available online](#)

¹² Saha, P. (2020) "From Pivot to Asia to Trump's ARIA: What Drives the US' Current Asia Policy", *Observer Research Foundation Occasional Paper no. 236*, February, [available online](#)

¹³ Kurlantzick, J. (2017) "Southeast Asia's Democratic Decline in the America First Era", *Council on Foreign Relations Expert Brief*, 27 October, [available online](#)

¹⁴ Fung, M. (2020) "Biden must listen to Asia, avoid dividing region: Singapore's former US ambassadors", *The Straits Times*, 26 November, [available online](#)

international order, sometimes competitively, in a process redolent of “contested multilateralism”.¹⁵ Within Northeast Asia, regional cooperation remains elusive. China, Japan and South Korea all joined the Regional Cooperation and Economic Partnership (RCEP), signed by fifteen countries in late 2020. Yet, 16 rounds of talks on a proposed trilateral Free Trade Agreement among these Northeast Asian economies have proved inconclusive. In addition, although the notion of reviving the Six Party Talks as a regular regional security dialogue persists in some circles, the intensifying tensions among powers in the region make this dream a distant one.¹⁶ Great power competition and attendant hedging behavior by individual states are making regional coordination in ASEAN all the more challenging. For example, some research suggests that external actors’ infrastructure schemes for the region are undermining ASEAN’s efforts to assert a coherent vision for regional connectivity.¹⁷

The goal is to restore confidence that the United States is the region’s most reliable and important provider of public goods, from stability to development.

The Biden administration is energetically pursuing new dialogues and multilateral diplomacy in an array of areas aimed at refurbishing the US image in the region. The goal is to restore confidence that the United States is the region’s most reliable and important provider of public goods, from stability to

development. The Biden administration’s refinements on its predecessor’s FOIP and Quad concepts include efforts to broaden Quad activities beyond a hard security focus. Among these efforts are working groups on climate change, technology standards, and joint development of emerging technologies, securing rare earths, as well as an expert group for regional vaccine distribution.¹⁸ In Northeast Asia, the administration seeks trilateral cooperation with Japan and South Korea on a range of security issues, with denuclearization of the Korean peninsula the most prominent. In Southeast Asia there are indications that the Biden administration will promote minilateral initiatives involving ASEAN partners along the lines of the Lower Mekong Initiative and preserve a version of its predecessor’s Mekong-US Partnership to strengthen engagement on challenges within the subregion, in part in response to China’s Lancang-Mekong Cooperation forum. Although deepening Quad-ASEAN cooperation has been included as a goal of the administration’s regional diplomacy, its achievement is complicated by the Quad’s emphasis on shared values and focus on those issues that present potential counters to China’s regional assertiveness. The Biden administration has also stepped-up engagement with Pacific Islands nations around the issue of climate change. The twelve Pacific Islands, which have acted as a bloc on the issue through the Pacific Island Forum (PIF), have become so divided over China’s growing influence that the PIF’s future is in question. Of the Pacific Islands, the Biden administration’s April 2021 climate summit notably included only the Marshall Islands – the only Pacific island nation that is not a PIF member.

The Biden administration has also begun to refine its approach to coordination with non-Asian security partners in its FOIP strategy, adding an additional dimension to its multilateral approach to the region. Discussions among members of the Quad yielded a statement of intent to deepen cooperation with Europe. In 2019 the European Union (EU) launched an action on security cooperation in and with Asia, focused on maritime security, counterterrorism,

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¹⁵ Morse, J.C. and Keohane, R.O. (2014) “Contested Multilateralism”, *The Review of International Organizations*, 9(4): 385-412.

¹⁶ Ahn, S. (2021) “Washington Could Revive Four-party, Six-Party Talked with NK under Blinken”, *The Korea Herald*, 27 January, [available online](#)

¹⁷ Mueller, L.M. (2020) “Challenges to ASEAN centrality and hedging in connectivity governance—regional and national pressure points”, *The Pacific Review*, online first, 18 May, 1-31.

¹⁸ Deccan Herald (2021) “US President Joe Biden says free, open Indo-Pacific essential as he meets with India, Japan and Australia”, 12 March, [available online](#)

crisis management and cybersecurity, involving cooperation with five pilot countries – two of these, India and Japan, are Quad members.¹⁹ North American Treaty Organization (NATO) allies France, Germany and the Netherlands have their own Indo-Pacific strategies, which have begun to bring them into new dialogues with regional players.²⁰ These dialogues may in turn engage the US in forging common approaches around shared interests in Asia. President Joseph Biden made clear at the Virtual Munich Security Conference in February 2021 that improving policy coordination with Europe and Asian partners in the Indo-Pacific is a goal of his administration.²¹

Concluding thoughts – tearing down while “building back”?

Biden administration officials have written that they seek to avoid a zero-sum contest between China and the United States in Asia. The administration has also underscored that, unlike its predecessor, it is committed to supporting

Biden administration officials have written that they seek to avoid a zero-sum contest between China and the United States in Asia.

existing regional multilateral institutions, including a central role for ASEAN.²² However, despite this stated aim and efforts to pivot away from the Trump administration’s open confrontation with China, the thrust of US policy toward China remains strategic competition. Indications are that the administration will pursue

coalitions of the like-minded in the region in activities that offer alternatives to those initiated by China. Doing so may provide unique and immediate benefits to US partners in the region. However, such coalitions create alternatives or off-ramps to the more cumbersome collective action of the larger and more diverse regional organizations whose path to promoting regionalism has been hard-won. Today’s US tactics thus carry risks for both the region and US strategy as less capable regional organizations reduce the region’s capacity for collective action, leaving it more vulnerable to exploitation by a regional hegemon.

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¹⁹ D’Ambrogio, E. (2021) “The Quad: An Emerging Multilateral Security Framework of Democracies in the Indo-Pacific Region”, *European Parliamentary Research Service Briefing*, PE 690.513, March 2021, [available online](#)

²⁰ See for example, Ministère de L’Europe et Des Affaires Étrangères (2021) “Indo-Pacific—Trilateral dialogue between France, India and Australia—First Focal Points Meeting”, 24 February, [available online](#)

²¹ The White House (2021) “Remarks by President Biden at the 2021 Virtual Munich Security Conference”, 19 February, [available online](#)

²² Kato, M. and Moriyasu, K. (2021) “Quad vows to Work with ASEAN and Europe in first Biden-era Meeting”, *NikkeiAsia*, 21 February, [available online](#)

China's ambition on climate change in a post-pandemic world

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In the 21st century avoiding catastrophic climate change demands a more ambitious climate action agenda. Xi Jinping's recent pledge to strive to reach carbon neutrality by 2060 signals a stronger commitment towards de-carbonising the Chinese economy while meeting enhanced obligations under the Paris Agreement. Whether China can increase the pace of its domestic energy transition while de-carbonising investments abroad remains a critical concern for its global climate leadership. Of equal importance, yet often overlooked, is the question of how China is responding to the climate emergency from a security perspective. The official line, repeatedly endorsed at the United Nations Security Council, is that climate change is essentially a development issue. In a post-pandemic world, this paper argues that China's ambition on climate change can no longer be assessed simply on the basis of its national contribution alone. Instead, China's climate actions need to be understood in a global context, taking into account the high stakes involved in managing the shift towards a green recovery while simultaneously preparing for a less stable strategic environment.

Introduction

The last decade was the warmest on record.¹ Planetary warming is leading to the intensification of extreme events such as typhoons and heatwaves while accelerating slow-onset risks to water and food security caused by sea-level rise and the melting of the glaciers and icecaps. Avoiding the catastrophic effects of climate change will require limiting global warming to 1.5 °C above pre-industrial levels, requiring a 45% reduction in global emissions by 2030 from a 2010 baseline. Emission reduction commitments under the Paris Agreement still fall far short of meeting this target. Even after locking down most of the global economy at the height of the Covid-19 pandemic, the world is still on track for a 3.2 °C temperature rise by the end of this century. Estimates from the Global Carbon Project show a 7% decline in global CO₂ emissions in 2020 with the highest reductions in the United States (12%) and the European Union (9%).² According to the International Energy Agency, China was the only country to experience a slight growth in carbon emissions of around 0.8%.³ Yet, the trajectory of atmospheric CO₂ concentrations has continued unabated, reaching around 412 parts per million (ppm) at the end of 2020 due to the cumulative effect of rising emissions over time. Latest reports by the Intergovernmental Panel on Climate Change estimate a limit of 430 ppm for a 1.5 °C pathway.

Clearly, climate action over the coming decade will be critical in limiting global warming. To this end, the global pandemic has acted as a catalyst for positive change – in the lead up to COP 26 to be hosted by the UK and Italy in November 2021, many countries have committed to a post-pandemic green recovery aimed at decarbonising energy, industrial, and transportation systems, creating greener jobs, and protecting biodiversity. To date, major emitters including the United States, European Union, and China have signed up to net-zero emissions, otherwise known as carbon neutrality, by mid-century.

¹ World Meteorological Organization (2020) "2020 on track to be one of the three warmest years on record", 2 December, [available online](#)

² Carbon Brief (2020) "Global Carbon Project: Coronavirus causes 'record fall' in fossil-fuel emissions in 2020", 11 December, [available online](#)

³ International Energy Agency (2021) *Global Energy Review: CO₂ Emissions in 2020*, 2 March, [available online](#)

Momentum is also building to tip the political balance of interests more in favour of supporting climate adaptation and resilience, protecting those states and communities that have contributed the least to the crisis, yet are likely to experience the worst impacts.

Greater recognition of the potential for climate disruption to act as a force multiplier on global instability has further reinforced the urgency of responding to climate change on the global security agenda. Extreme weather events, sea-level rise, mass loss of glaciers and sea ice, and other climate-related impacts pose severe risks to the resilience of ecosystems as well as food and water security with associated effects on political stability, conflicts, and the mass displacement of peoples. Over the past year, the United Nations Security Council (UNSC) has held two high level meetings on climate security. At the most recent debate on 23 February 2021 Secretary General António Guterres put forward the case for recognising climate change as a global threat and a “crisis amplifier and multiplier”.⁴

China has consistently maintained that a direct linkage between climate change and conflict does not exist.

A number of UNSC resolutions now include references to the impact of climate change on national and regional instability. But divisions remain over the question of whether climate change constitutes a security threat under the

United Nations Charter. The Chinese official line, recently endorsed at the UNSC, is that climate change does pose a systemic threat to humanity. In the words of Climate Envoy, Xie Zhenhua “Climate change has become a pressing and serious threat to the survival, development and security of humankind”.⁵ But China has consistently maintained that a direct linkage between climate change and conflict does not exist and that climate change is “in essence a development issue” that is more effectively addressed under the auspices of the Economic and Social Council.

The sheer magnitude of the climate change agenda means that it cannot be easily compartmentalised into development, environmental, or security realms of global governance. Hence any notion that the climate crisis can be defined strictly on the basis of a development versus security dichotomy is outdated. Nor is it possible to achieve the common purpose of safeguarding planetary survival via the coordination of national climate contributions alone. With sovereignty comes stewardship. Greater commitment will be required from major emitters in particular to ensure a climate-resilient future. Seen from this vantage point, this paper argues that China’s ambition on climate change needs to be understood both in relation to its national development trajectory and its rising status within global governance, taking into account the high stakes involved in managing the shift towards a green recovery while simultaneously preparing for a less stable strategic environment.

China’s climate ambition

China is the world’s leading emitter of CO₂ emissions accounting for around 28% of global emissions in 2019 (11.71 GT). It is also the world’s leading consumer of coal, comprising over 50% of the global share. While CO₂ emissions per capita are still far lower than the United States, aggregate emissions have continued to

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⁴ United Nations (2021) “Secretary-General’s remarks to the Security Council - on addressing climate-related security risks to international peace and security through mitigation and resilience building”, 23 February, [available online](#)

⁵ United Nations (2021) “Climate Change ‘Biggest Threat Modern Humans Have Ever Faced’, World-Renowned Naturalist Tells Security Council, Calls for Greater Global Cooperation”, *United Nations Security Council Press Release*, 23 February, [available online](#)

rise aligned with economic growth. More worrying is the recent trend towards increasing coal consumption. In 2019, coal fired generating capacity grew by 40 GW (total 1050 GW), making up 58% of China's total energy consumption. Post-pandemic stimulus spending (estimated US\$970 billion) has not focused significantly on low-carbon development but, instead, more on traditional infrastructure, innovation, and the digital economy. Government bonds for infrastructure have been used to fund coal-fired plants at the local level.⁶

On the opposite side of the ledger, China is a global leader in the production and consumption of renewable energy. The installed capacity of wind, solar, and hydro power is the largest in the world. In 2019 around 25% of electricity in China came from renewables; and electric vehicle ownership reached 50% of the world's total. Considerable improvements are also evident in relation to energy efficiency. And China now has the world's second largest green bond market, worth almost US\$120 billion, although it is still lagging behind international standards.⁷

China's contribution towards tackling climate change is aligned with its national development goals and self-declared status as a responsible major developing country. Under the rubric of building an ecological civilization, central planning objectives seek to integrate climate change into national socio-economic planning, balance mitigation and adaptation, and control emissions. It is fair to say that national climate policies are relatively advanced, but current climate targets are set below ambition for the purpose of achieving compatibility with a 1.5 °C or even 2 °C pathway.

Xi Jinping's symbolic pledge made at the 75th United Nations General Assembly on 21 September 2020 to peak CO₂ emissions by 2030 and reach carbon neutrality by 2060 signals a clear commitment towards de-carbonising the Chinese economy, albeit on the basis of a conservative emissions trajectory. At the virtual Climate Summit hosted by President Biden in April 2021, Xi Jinping further made a commitment to peak coal consumption in China by 2025 and phase down the use of coal during the 15th Five Year Plan (2026-2030).⁸

China first announced the introduction of climate-related targets in the lead up to the Copenhagen Summit in 2009. Under the 13th Five Year Plan (FYP) (2016-2020), it reached all of these targets including lowering carbon intensity (CO₂ emissions per unit of GDP) by 45% from 2005 levels; increasing the share of non-fossil fuels in primary energy consumption by 15%; and increasing the forest stock volume by 1.3 billion m³ (2005 levels). In 2015 under the Paris Agreement, China further committed to slowly peaking CO₂ emissions *around* 2030, lowering carbon intensity by 60% to 65% (2005 levels) before 2030, and increasing forest stock volume by 4.5 billion m³ (2005 levels) over the same time period.

The recently launched 14th FYP (2021-2025) does not stipulate a cap on carbon emissions. Nor does it mention a binding cap on the percentage of coal consumption in the energy mix. The only small change is a non-binding target to increase the share of non-fossil fuel to 25% by 2030. While many commentators have noted the inverse relationship between the 14th FYP and more ambitious climate goals at the central level, less attention has been given to the notable shift towards target-setting at the sub-national level that may yield stronger results in terms of the actual implementation. In the absence of a formal GDP target, local government agencies now have a stronger incentive to

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⁶ Yi, S. (2020) "Is China post-pandemic recovery off the green track?", *China Dialogue*, 18 December, [available online](#)

⁷ Escalante, D., Choi, J., Chin, N., Cui, Y., Larsen, M.L. (2020) "The State and Effectiveness of the Green Bond Market in China", *Climate Policy Initiative*, [available online](#)

⁸ The White House (2021) "Leaders Summit on Climate Change Summary of Proceedings", 23 April, [available online](#)

implement decarbonization policies. Moreover, the recently launched national emissions trading system may help to further reduce carbon intensity levels, depending upon the price of carbon and the cap on the number of permits allowed.

Beyond target setting, China's climate ambition represents a balancing act between multiple national priorities: emissions reduction, pollution control, ecological conservation, and energy security. The latter has taken on additional paramountcy in recent years as a consequence of the changing geopolitical landscape, trade conflict with the United States, and disruption to supply chains brought about by the pandemic. To be energy secure, China will need to reduce its dependency upon fossil fuel imports. This may well lead to contradictory policies over the coming decade: reinforcing the trend towards increasing fossil fuels while also advancing investment in renewable energy. It remains to be seen how a stronger emphasis upon national self-reliance will affect China's national climate policy as well as its growing investments abroad.

Beyond the national contribution

From a global perspective, China's current ambition is lagging behind in two important respects. First, Chinese international investments and financing have not kept pace with the transition towards low-carbon development at the domestic level. China is the world's largest sponsor of coal-fired power stations.⁹ While overall lending in the energy sector has declined during the pandemic, it is still the case that Chinese-funded infrastructure projects under the Belt

Chinese international investments and financing have not kept pace with the transition towards low-carbon development at the domestic level.

and Road Initiative (BRI) risk locking in carbon for decades to come. A study by Tsinghua University estimated that the total carbon footprint of the BRI could account for up to two thirds of global emissions by 2050 on a business-as-usual basis.¹⁰

Shifting in the direction of sustainable investment will require far stronger regulatory controls as well as a broader commitment on the part of Chinese state-owned enterprises and financial institutions to incorporate climate risks into infrastructure planning. In the short term, disinvesting from building coal-fired power stations abroad may simply happen on the basis of declining global demand. Pakistan has announced it will stop building coal plants by 2030, and China has recently refused to fund coal mining and power plants in Bangladesh. According to Asian Development Bank estimates, climate-adjusted infrastructure demand in developing Asia is around US\$1.7 trillion per year.¹¹ A major dilemma facing the BRI is that it is not possible to address climate risks within the confines of national borders. Given the emphasis upon connectivity, much more needs to be done to support integrated water basin management, facilitate data sharing across borders, and encourage transboundary climate-related impact assessments.

The second lag factor relates to security. Often overlooked, is the question of how China is responding to the climate emergency from a security perspective, especially in its own neighbourhood. The Asia region, including East, South, and Southeast Asia, is particularly vulnerable to climate change. Recent studies

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⁹ Ma, X. (2020) "Fueling Up: Mapping China's Global Power", *Boston University Global Development Policy Centre*, 26 October, [available online](#)

¹⁰ Ma, J., Zadek, S. (2019) *Decarbonizing the Belt and Road: A Green Finance Roadmap*, [available online](#)

¹¹ Asian Development Bank (2017) "Asia Infrastructure Needs Exceed \$1.7 Trillion Per Year, Double Previous Estimates", 28 February, [available online](#)

show significant glacial melting across the Hindu Kush Himalaya region over the past four decades. Even on a 1.5 °C pathway, up to 40% of the glaciers that feed the major river systems of Asia could disappear by the end of this century with devastating consequences for the millions of people who rely upon the water supply for food, livelihoods, and energy security. Heavily populated low-lying coastal regions are also highly vulnerable to sea-level rise, storms, and typhoons. While flood risks are highest in India, China, and Bangladesh, water shortages across East Asia are acute due to over-exploitation and changing precipitation patterns. Almost half of the 281 natural disasters occurring in 2018 were located in the Asia Pacific with an upward trend in climate-related events and slow-onset hazards such as droughts.¹² Extreme rainfall in Western Japan in the summer led to devastating floods followed by heatwaves. In September when Typhoon Mangkhut hit the Philippines, affecting over 2 million people across the region, it reached a storm surge of 2.7 metres with increasing intensity due to higher sea temperatures.¹³

Climate change has the potential to exacerbate pre-existing territorial disputes whether on land or in the maritime arena, building infrastructure in climate-sensitive conflict zones risks the aggravation of forced displacement, and across the region the cumulative negative effects of climate change threaten to offset development gains, thus reaffirming the need to integrate climate change into regional peace and security. Existing regional architecture in Asia has yet to fully embrace the climate security agenda, despite being home to a large number of climate hot spots. Extending early warning systems and incorporating climate emergency planning into defence cooperation could help in initiating a regional response mechanism. Maritime security dialogues also need to consider the longer-term effects of rising sea levels on low-lying atolls.

The task ahead offers an opportunity to shift the calculus away from zero-sum struggles over territory and scarce resources.

In an era of accelerated global warming, China's ambition on climate change matters in multiple ways. It is essential for the purpose of supporting the goals of the Paris Agreement; symbolically it serves as a standard for developing

nations transitioning towards low-carbon development; and it represents the ultimate test of China's global leadership. Moving beyond a narrowly defined national contribution is crucial in order to promote a greater sense of stewardship at home and abroad. In Asia, and across the world, rising emissions, clean energy transition, and severe climatic impacts are all happening simultaneously. If China is intent on pursuing global leadership, it will need to confront the question of what it means to promote development, peace, and security under conditions of a warming planet. Strategically, the task ahead offers an opportunity to shift the calculus away from zero-sum struggles over territory and scarce resources and towards a positive-sum logic of safeguarding human and planetary survival. It is precisely this positive strategic logic that needs to drive joint climate action between China, the EU and the US in the lead up to COP 26 and beyond.

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¹² UN Economic and Social Commission for Asia and the Pacific (2019) "Summary of the Asia-Pacific Disaster Report 2019", *UN Economic and Social Council*, 2 July, [available online](#)

¹³ UN Economic and Social Commission for Asia and the Pacific (2019) *Asia Disaster Report 2019 – The Disaster Riskscape Across Asia-Pacific: Pathways for Resilience, Inclusion and Empowerment*, [available online](#)

Up or out: how China's decarbonization will redefine trade, investments, and external relations

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How are global trade and investments in energy likely to be impacted by China's pledge to reach carbon dioxide neutrality before 2060? How will countries need to respond to stay ahead of the game, or simply not to miss trade and investment opportunities with a net zero carbon China? This paper argues that the impacts of China's decarbonization in energy trade and investments will be felt differently across the globe depending on countries' environmental performance, the profile of their energy exports to China, and the availability of decarbonization plans domestically. Countries that have already started to roll out their decarbonization and are supplying non-fossil fuels to China are more likely to level up their bilateral engagement. Countries that have not yet started to roll out their decarbonization plans and are supplying fossil fuels to China are more likely to restrain, if not phase out, their economic relations with the Asian giant. This paper concludes that China's proposal to achieve net zero emissions by 2060 could be the turning point for fossil fuel markets and the global energy transition, creating a future of mutual adaptation for China and its sources of energy supply.

At the 75th United Nations General Assembly in September 2020, Xi Jinping pledged to further align China with the global target of limiting temperature rise to 1.5°C by reaching carbon dioxide (CO₂) neutrality before 2060. The commitment was a surprise to the international community considering China has long argued that, as a developing economy, it should not have to share the same burden of curbing emissions as developed nations, whose pollution went unchecked for decades.

For China, the pledge was a calculated move not only to project positive leadership abroad, but also to strengthen the economy, environmental protection, and governance at home. According to the Boston Consulting Group,¹ a plan to achieve the 1.5°C global target could create new jobs, ramp up investments in green technology, and contribute 2% to 3% to China's GDP between now and 2050. It could also help mitigate concerns over energy security and public health, increasingly perceived as threats to the Chinese Communist Party's standing.

Two months later, Xi announced upgraded climate targets for 2030, including to peak CO₂ emissions within the next decade, lower CO₂ emissions per unit of GDP by 60% to 65% from the 2005 level, and increase the share of non-fossil fuels in energy consumption to around 20%.² Yet, the country still lacks a roadmap to fully decarbonize its economy. The granting of permits for the construction of coal-fired power plants as part of a post-pandemic stimulus further adds skepticism on China's prospect of carbon neutrality.³

The recently approved 14th five-year plan (2021-2026) does not contain a road map toward China's decarbonization either, though this does not necessarily mean the country will refrain from developing one as the plan unfolds. In fact, The Fifth Plenary Session of the 19th Central Committee of the Communist

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¹ Chen, B., Fæste, L., Jacobsen, R., Teck Kong, M., Lu, D., and Palme, T. (2020) "How China Can Achieve Carbon Neutrality by 2060", *Boston Consulting Group*, 14 December, [available online](#)

² World Resources Institute (2020) "China Commits to Stronger Climate Targets at Climate Ambition Summit", 12 December, [available online](#)

³ Yi, S. (2020) "Is China's post-pandemic recovery off the green track?", *China Dialogue*, 18th December, [available online](#)

Party of China, the Central Economic Work Conference and the 2021 “Two Sessions” emphasized the need to “work diligently towards carbon peaking and carbon neutrality” and to continue balancing China’s carbon-related goals with the country’s vision for economic growth up to 2035.

Despite the uncertainty on whether and how China will meet this goal, what is clear is that the country will need to mount a concerted effort throughout its economy to immediately adopt a 1.5°C pathway to carbon reduction of 75% to 85% by 2050. This is because though China’s CO₂ emissions have been relatively stable since 2013 and are projected to plateau by 2025, under business-as-usual the country would only be able to reduce carbon emissions by a little more than 10% by 2050.⁴

Research by Tsinghua University and MIT indicates that in 2060 fossil fuels would account for 16% of the energy consumed in China down from approximately 78% in 2019.

Studies point that energy consumption, transition, and efficiency must be at the centre of China’s roadmap to decarbonization.⁵ With regard to consumption, research by Tsinghua University and the Massachusetts Institute of Technology indicates that in 2060 fossil fuels would account for 16% of the energy consumed in China

down from approximately 78% in 2019.⁶ Regarding transition, nuclear power would need to increase sixfold, and hydroelectricity would need to double to replace coal. Technologies that can capture CO₂ released from burning fossil fuels or biomass and store it underground would be needed to compensate not only fossil fuel residual consumption but also the CO₂ already in the atmosphere.

As a global manufacturing and innovation powerhouse, China’s decarbonization could enable other countries to realize their own plan to net zero CO₂ emissions and create new, dynamic possibilities for trade and investments. For example, since 2018 China has become a net importer of rare earth elements – a cluster of minerals used in green technologies such as wind turbines, rechargeable batteries, and electric vehicles. As other countries move up the ladder in preliminary processing of rare earth elements, China is likely to follow with increased investments in their processing industry in addition to imports, thus creating a positive spiral towards decarbonization.⁷ The lack of a robust roadmap by some of these countries to net zero CO₂ emissions, however, could restrain economic relations with China. How are global trade and investments in energy likely to be impacted by China’s decarbonization? How will countries need to respond to stay ahead of the game, or simply not to miss trade and investment opportunities with China?

First, a sharp contraction in China’s demand for coal within the next decade could severely impact coal markets worldwide. In 2019, 51.7% of the world’s coal consumption originated in China. Coal also accounted for 57.6% (81.67 exajoules) of China’s total primary energy consumption, from which 7.8% (6.4 exajoules) was imported.⁸ In the same year, China was among the world’s top importers of coal briquettes with 14.8%, only behind India (19.5%) and Japan (17.2%) according to data from the Observatory of Economic Complexity (OEC).⁹ China imported a total of USD19 billion from Australia (49.4%), Indonesia (16.3%), Mongolia (15.8%), Russia (12.4%), and Canada (3.42%).

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⁴ He, J. (2020) “Presentation at the Launch of the Outcome of the Research on China’s Long-Term Low-Carbon Development Strategy and Pathway”, Institute of Climate Change and Sustainable Development, Tsinghua University, 12 October, available online at: https://mp.weixin.qq.com/s/S_8aj-dq963YL7X3sRJSWGg

⁵ Mallapaty, S. (2020) “How China could be carbon neutral by mid-century”, *Nature*, 19 October, [available online](#)

⁶ British Petroleum (2020) *Statistical Review of World Energy, 69th Edition*, [available online](#)

⁷ Liu, H. (2017) “As China adjust for ‘true cost’ of rare earths, what does it mean for decarbonization?”, *Wilson Centre New Security Beat – the blog of the Environmental Change and Security Program*, 21 March, [available online](#)

⁸ British Petroleum (2020) *Statistical Review of World Energy*

⁹ The Observatory of Economic Complexity platform for international trade data, [available online](#)

Oil, gas, and other fossil-fuel markets could suffer a similar impact. In 2019, 14.5% of the world's oil consumption originated in China. Oil also accounted for 19.7% (27.91 exajoules) of China's total primary energy consumption, from which 66.2% was imported.¹⁰ In the same year, China was the world's top importer of crude and refined oil with a total of USD226 billion (13.5%) of the world's imports from countries like Russia (16.4%), Saudi Arabia (15.7%), Iraq (9.34%), Angola (8.82%), and Brazil (6.86%), according to OEC data. Yet, oil consumption in China is likely to plateau in the next decade before it begins to drop sharply.¹¹

Gas consumed in China, for its turn, accounted for 7.3% of the world's gas consumption and 7.8% of China's total primary energy consumption in 2019.¹² In the same year, China was the world's top importer of petroleum and non-petroleum gas with a total of USD47.8 billion (15.9%) of the world's imports from Australia (24.7%), Qatar (16.3%), Turkmenistan (15.9%), Malaysia (5.38%), and Indonesia (4.35%) according to OEC data. Unlike oil consumption, however, gas has yet to hit its peak by 2030 before it begins to decline. Nevertheless, projections indicate that gas will still have a greater role in China's energy mix than oil by 2050.¹³

Second, the acceleration of China's clean energy transition, in part to replace coal-fired and other fossil-fueled power generation, would have a positive impact on the global nuclear, hydroelectricity, and renewables markets. In 2019, non-fossil fuels consumed in China accounted for 23% of the world's non-fossil fuels consumption and 14.9% of China's total primary energy consumption. In the same year, 12.5% of the world's nuclear energy consumption originated in China. Nuclear energy accounted for 2.2% of China's energy mix and may increase sixfold by 2050.¹⁴ This will potentially lead China to realign its different sources of domestic energy supply. Also, in 2019, China was the world's third largest importer of non-irradiated fuel elements for nuclear reactors with 9.86% after Ukraine (14.9%) and France (13.9%). The country imported a total of USD266 million from Russia (56.7%), France (34.8%), and the United States (6.11%), according to OEC data.

In 2019, hydroelectricity consumed in China accounted for 30.1% of the world's hydroelectricity consumption and 8% of China's total energy mix, with the possibility to double by 2050.¹⁵ Hydroelectric energy plays a much less important role in mainland China's import mix, with only 0.52% of the total world's import compared to Hong Kong (2.36%) and Macau (1.28%). A total of USD184 million of China's mainland electrical energy was imported from Russia (73.7%), Burma (20.1%), and North Korea (6.2%) whereby 100% of Hong Kong and Macau's imports came from China mainland, according to OEC data. The patterns in China's energy demand are summarized in Figure 1.

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¹⁰ British Petroleum (2020) *Statistical Review of World Energy*

¹¹ He, J. (2020) "China's Long-Term Low-Carbon Development Strategy and Pathway"

¹² British Petroleum (2020) *Statistical Review of World Energy*

¹³ He, J. (2020) "China's Long-Term Low-Carbon Development Strategy and Pathway"

¹⁴ *Ibid.*, British Petroleum (2020) *Statistical Review of World Energy*

¹⁵ *Ibid.*

Figure 1: Patterns in China's energy demand

Type of energy source	China's domestic consumption and imports in 2019	Trend by 2030 and 2050	Main exporters to China
Risks for countries engaging with China			
Coal	51.7% of the world's coal consumption 57.6% of China's total primary energy consumption, 7.8% of which is imported 14.8% of world's coal briquettes imports	Sharp decline until 2050	Australia (49.4%), Indonesia (16.3%), Mongolia (15.8%), Russia (12.4%), and Canada (3.42%)
(*) Oil	14.5% of the world's oil consumption 19.7% of China's total primary energy consumption, 66.2% of which is imported. 13.5% of world's crude and refined oil imports	Plateau until 2030 then sharp decline until 2050	Russia (16.4%), Saudi Arabia (15.7%), Iraq (9.34%), Angola (8.82%), and Brazil (6.86%)
Gas	7.3% of the world's gas consumption 7.8% of China's total primary energy consumption 15.9% of world's petroleum and non-petroleum gas import	Slower decline by 2030 + bigger residual consumption by 2050 compared to oil	Australia (24.7%), Qatar (16.3%), Turkmenistan (15.9%) Malaysia (5.38%), and Indonesia (4.35%)
Opportunities for countries engaging with China			
Nuclear energy	12.5% of the world's nuclear energy consumption 2.2% of China's total primary energy consumption 9.86% of world's import of non-irradiated fuel elements for nuclear reactors	Increase at least sixfold by 2050	Russia (56.7%), France (34.8%), and US (6.11%).
Hydroelectricity	30.1% of the world's hydroelectricity consumption 8% of China's total primary energy consumption 0.52% of the world's hydroelectricity import	Double by 2050	Russia (73.7%), Burma (20.1%), and North Korea (6.2%)

Source: author's own elaboration based on He, 2020; BP, 2020; and <https://oec.world/en>

(*) Largest crude oil suppliers to China in 2019: Saudi Arabia (17.4%), Russia (16.5%), Iraq (10.3%), Angola (9.79%) and Brazil (7.6%). Largest refined oil suppliers to China in 2019: South Korea (29.1%), Russia (14.9%), Singapore (12.4%), and India (8.42%) (OEC, n.d.)

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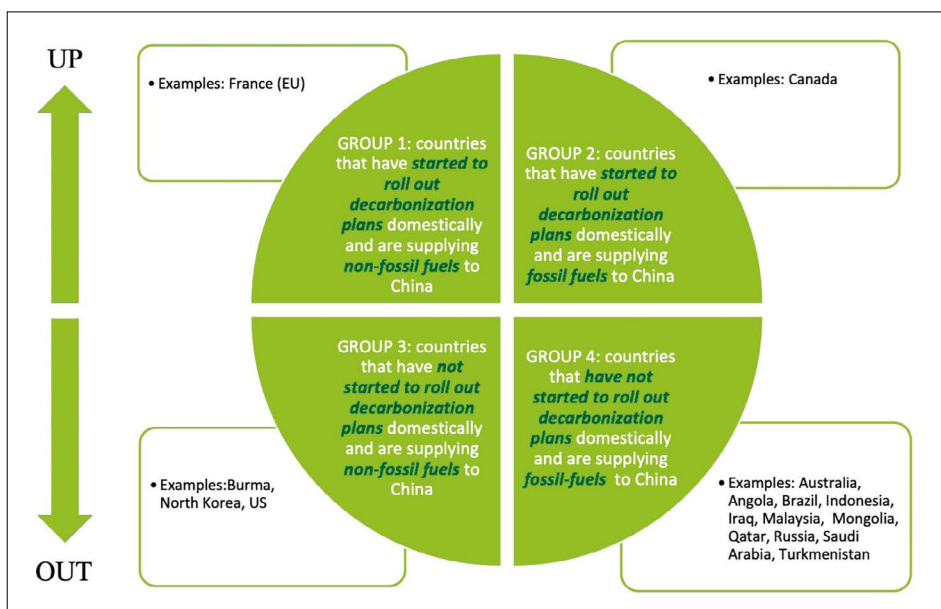
Third, in order to compensate for fossil fuel residual consumption and CO₂ already in the atmosphere, China is likely to pair the transition to a cleaner energy matrix with Carbon Capture and Storage (CCS) and new forest growth. This move should open opportunities for megadiverse countries like Brazil, Indonesia, and the Philippines in areas like the purchase of carbon credits and investments in reforestation.

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These impacts are likely to create four distinct patterns of interaction with China

These impacts are likely to create four distinct patterns of interaction with China based on the profile of exports to China and countries' readiness to roll out decarbonization plans domestically. The latter is measured by the existence of a decarbonization plan, supplemented by countries' environmental performance according to Yale University 2020 Environmental Performance Index (EPI) (Figure 2).

Figure 2: Four patterns of interaction with a carbon-neutral China



Source: author's own elaboration.

The first pattern of interaction with China comprises the countries that have started to roll out decarbonization plans domestically and are suppliers of raw materials needed for the transformation of China's energy matrix. These countries also tend to feature high in the EPI and are more likely to reap the benefits of a net zero carbon China and level up their engagement with the country. For example, China is already a leader in battery cells and has been cooperating with the European Union in climate-related areas like clean energy, decarbonization technology, and carbon trading.

The second pattern of interaction with China comprises the countries that have started to roll out decarbonization plans domestically and are supplying fossil fuels to China. China's energy transition will require new supply chains with producers of raw materials like copper, lithium, and cobalt which could help accelerate the transition to a new pattern of trade in these countries. In addition, the fact that these countries have already started the transition at home and feature high in the EPI suggests that a review of their export list could be a matter of time. Canada is an example of a country that features in this second group.

The third group of countries includes those that have not started to roll out decarbonization plans domestically and are supplying non-fossil fuels to China. The fact that these countries tend to have low environmental performance, however, suggests they may have their economic relations with China restricted in the long term. Examples include Burma, North Korea, and the US. Considering US relatively high performance in the EPI and Biden's commitment to fighting climate change, the US could potentially move up to the first group.

The fourth group of countries includes those that have not started to roll out decarbonization plans domestically and are suppliers of raw materials no longer needed (at least not in the same quantities) to China. The fact that these countries tend to have low environmental performance indicates that their exports to and investments from China are likely to decline or even phase out in the long term. Examples include Australia, Angola, Brazil, Indonesia, Iraq, Malaysia, Mongolia, Qatar, Russia, Saudi Arabia, and Turkmenistan.

Russia could possibly migrate to the third group given its potential to increase nuclear and hydroelectricity exports to China from now until 2050 and its relatively strong performance in the EPI. For megadiverse countries like Australia, Brazil, Indonesia, and Malaysia, weak institutional and regulatory frameworks for investments in reforestation and the purchase of carbon credits could prevent these countries from upgrading to group three. A possible solution would be to cooperate with China, the EU and other countries, international organizations, and multilateral development banks with expertise in these fields.

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China's proposal to achieve net zero emissions by 2060 could be the turning point for fossil fuel markets and the global energy transition.

China's proposal to achieve net zero emissions by 2060 could be the turning point for fossil fuel markets and the global energy transition. The impacts on global trade and investments in energy however will be felt differently depending on the profile of countries' exports to China and their readiness to roll out decarbonization plans domestically. These impacts could include the creation of new,

dynamic possibilities for trade and investments as well as the realignment of China's own different sources of domestic energy supply. Cooperation with China, governments, international organizations, and multilateral development banks could further help countries reap the benefits of a net zero carbon China and level up their engagement with the country, in addition to facilitating mutual adaptation for China and its sources of energy supply.

Emerging issues in international health governance: a Chinese view

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Covid-19 offers an opportunity for rethinking the topic of China and global health governance. This paper first draws attention to the notion of “global health” by offering a brief contour of China’s contributions to solve the world’s health burden throughout modern history. The author argues that it may be wise for both developed and developing countries to view global health less as an extension of development aid and more as a public good. Assurance of health as a public good necessitates equity-based contributions by all. The paper then touches upon the renewed interest in linking health provision and national security, which pitches China as a competitor against established health industry leaders like the United States. International harmonization of the rules of trade in health products for emergency responses and the negative spillover effects produced on health provision by economic sanctions deserve continuous research attention.

Without a doubt, Covid-19 qualifies as a harbinger of new approaches to global governance in search of enhanced health security for humans, animals, and the environment. The ongoing pandemic will eventually end, either by the expiration of the pathogen’s lethality or by effective intervention by governments and societies around the world, but issues about China and global health merit continuous research attention.

The term “global health” started to gain currency in the 1970s, as an extension of the concern about global population problems. For decades, “global health” was part of developed countries’ broader development aid strategy, to improve health conditions in countries needing economic development.

China was among the states that founded the World Health Organization and restored its membership in 1972. Since the 1970s, China has been a beneficiary of international health and economic development agencies, as well as of government aids by developed economies. This, coupled with China’s drive for poverty elimination, helped to quickly improve the health of the population. Chinese life expectancy at birth increased from nearly 60 in 1970 to 77 in 2018, according to World Bank statistics.

Conventional reliance on and emphasis of the sovereign state as the primary actor to address global issues is no longer adequate.

The outbreak of the acute respiratory syndrome (SARS) in China in 2002-2003 caught many Western nations off guard as, until that moment, they had considered themselves immune to epidemics. This has led some scholars of international public health to label SARS a “post-Westphalian pathogen”, to highlight that conventional reliance on and emphasis of the sovereign state as the primary actor to address global issues is no longer adequate.¹

Such framing implies that China, in spite of the help received, failed to protect the West from the migration of deadly viruses. Similar sentiments populate the

¹ Fidler, D.P. (2003) “SARS: political pathology of the first post-Westphalian pathogen”, *The Journal of Law, Medicine & Ethics*, 31(4): 485-505.

commentaries about the Covid-19 pandemic, with China increasingly seen as a burden on global health.

Yet, throughout modern history, China has contributed to global health solutions. For instance, the identification of the *Yersinia Pestis* bacteria out of the treatment of the 1894 plague in Hong Kong was a major success in Western medical science. But China's organization of an international conference in 1911, in the wake of the northern Manchurian plague, helped to spread medical knowledge, including the utility of face masks.

Between 1850 and 1950, China played a role in the emerging global biomedicine industry, amid its incessant wars, revolutions and famine. The conventional question of whether medical ideas and institutions created in the West were successfully transferred to China is inadequate. International exchange and cooperation are crucial in achieving breakthroughs in epidemic control and the treatment of non-communicable diseases.²

Typically, Chinese studying medical sciences went to universities in the West. But also, Western physicians and medical researchers came to China in search of effective treatments. Even when China was under an economic blockade in the wake of the Korean war, doctors from abroad came to China in search of treatments for such diseases as schistosomiasis, which was described by Mao Zedong as "the God of plague".

A more contemporary example of China's contribution to global health is the internationalization of an inexpensive live attenuated vaccine against a strain of encephalitis common in Asian children. Developed and approved for use in China in the 1980s, it attracted interest from the US. After 15 years of collaboration between American and Chinese vaccine developers, the product passed World Health Organization's (WHO) prequalification in 2013 and became available for adoption outside China. Three more Chinese vaccines have acquired WHO's prequalification status, with more in the pipeline.³

The Nobel Prize in Physiology or Medicine in 2015 was shared by a team of Chinese scientists led by Tou Youyou, who found a way to extract artemisinin, used to treat malaria, from a plant (qinghaosu) used in traditional Chinese herb-based medicine. As a matter of fact, China is a major manufacturer of artemisinin and its derivatives, with an integrated industry encompassing the planting, exaction, research and development (R&D), drug production, and commercialization of *Artemisia annua*. In 2011, Guilin Pharmaceutical became the first WHO-prequalified pharmaceutical company worldwide to produce intravenous artesunate. This came after five years of training offered by an international malaria drug alliance.⁴

China's help, especially to the Global South, should be viewed as enlarging the pie of health provision.

In one sense, China's public health achievements affirm the value in seeing "global health" as part of Western development aid. In another sense, China's help, especially to the Global

South, should be viewed as enlarging the pie of health provision.

To promote further cooperation through agencies like the WHO, it would be useful to end their politicization. The organization, like many other specialized United Nations agencies, relies on funding from member states, with the

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² Luesink, D., et al. (2019) *China and the Globalization of Biomedicine*, University of Rochester Press.

³ Stevenson, M. (2018) "Geneva-Seattle collaboration in support of developing country vaccine manufacturing", *Global Public Health*, 13(4): 426-44.

⁴ Huang, Y., et al. (2016) "The production and exportation of artemisinin-derived drugs in China: current status and existing challenges", *Malaria Journal*, 15(1): 365-373.

United States being by far its largest contributor, given that fees are assessed on per capita income. Voluntary contributions from multinational pharmaceutical corporations enlarge the WHO's operating budget. The Chinese government and the country's health business corporations can and should make a larger monetary contribution to the WHO. Just as importantly, China should work with the WHO and help more countries reap the same public health benefits it has achieved.

It would be wise for developed and developing countries to view global health less as an extension of development aid, and more as a public good.

Likewise, the Chinese vision of a "Health Silk Road" should not be dismissed as a geopolitical ploy. As no one can predict from where the next deadly pathogen may emerge, disease prevention is as crucial as treatment. Indeed, it would be wise for developed and developing countries

to view global health less as an extension of development aid, and more as a public good. Assurance of health as a public good necessitates investment in improvement of public health on the domestic front and contributions to international collaboration on disease prevention and treatment. Such rethinking ought to lead to a renewed impetus for global health cooperation among countries rich and poor, particularly in times of a pandemic.

Over the years, China has emerged as a major healthcare market, considered the second largest after the United States in terms of market transactions. Since the 1980s, international pharmaceutical and medical device firms relocated production to China to take advantage of lower labor costs in production and to serve the needs of the local population more efficiently. One account reports China to have "provided 43 percent of world imports of face shields, protective garments, mouth-nose-protection equipment, gloves, and goggles in 2018", the year before the outbreak of Covid-19.⁵

In the early months of the Chinese response to the spread of Covid-19, some of the world's personal protective equipment (PPE) inventory was sold and donated to meet the sudden surge in Chinese demand. Disruptions to cargo transportation, resulting from government curtailment to interrupt the spread of the virus through human and cargo traffic, also complicated the functioning of supply chains. The Chinese government responded by investing in massive production of PPE. As the supply shortage of PPE within China became less acute, China began to export it.

The truly systematic challenge is for all major producing economies to harmonize the rules surrounding technical standards and the transfer of medicine and health-related products.

Meanwhile, the deployment of PPE products in other countries needed to be approved through emergency authorizations by regulatory agencies, which must deal with a complex web of international, regional, and country standards. China's role as a supplier became controversial. Criticism surrounding China's practice of "mask diplomacy" is partly attributable to

incompatibilities of technical standards. This criticism is also a reflection of the dividing lines between those who advocate for engagement with China and those calling for its containment. But the truly systematic challenge is for all major producing economies to harmonize the rules surrounding technical standards

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⁵ Bown, C. (2020) "Covid-19: China's exports of medical supplies provide a ray of hope", *Peterson Institute for International Economics*, 26 March, [available online](#)

and the transfer of medicine and health-related products, particularly during an international health crisis. Such harmonization, coupled with the stockpiling of essential supplies, would enhance countries' capacity of withstanding health supply shocks.

With the renewal of heightened geostrategic competition between China and the United States, the prospect of spillover effects on public health deserves discussion as well. Under the Trump administration, the dynamics

With the renewal of heightened geostrategic competition between China and the United States, the prospect of spillover effects on public health deserves discussion as well.

of cooperation between the centers of disease control and prevention of the two countries, which strengthened in the wake of the SARS epidemic in parts of China in 2002-2003, came to a halt. Health cooperation with China was viewed as a loss because it supposedly assisted China to become a more capable rival to American power, influence, and

status. This situation openly challenges the logic of international health as providing mutual protection and improving countries' national security.

Pharmaceutical products and medical equipment have thus far been spared from the United States' sanctions against China. Nor have Chinese corporations of medicine and health care equipment been put on American "entity lists" and, therefore, become subject to sanctions. But China has good reasons to be worried about the future prospect of adversarial economic sanctions by the United States, especially since the punitive regime can easily gain a life of its own once set in motion.⁶

Biotechnology is already a contentious area of competition between China and the United States and other industrialized economies. In "Made in China 2025," an initiative that already caused international protest and opposition, biomedicine and bio-based materials are specifically considered parts of advanced manufacturing. With the United States working to constrain Chinese access to advanced semiconductors, including through secondary sanctions on suppliers of non-U.S. origin, adverse impact on Chinese progress in biomedicine manufacturing is an almost certain side effect.

Studies of public health consequences from economic sanctions, including those designed with humanitarian exemptions (usually food, medicine, and medical supplies), show that economic coercion might still inadvertently harm the physical well-being of civilians.⁷ Whereas China is far more developed and resourceful in withstanding the effects of economic sanctions compared to countries like Cuba, Haiti, Iran, and Iraq — all traditional targets of economic sanctions by the United States — it cannot expect to escape international restrictions on the purchase of medical equipment and pharmaceutical products and their damage to its health infrastructure.

A causal link between a country's access to advanced technology abroad and change in its public health situation is difficult to establish short of medicine and/or medical equipment being specifically included in economic sanctions. However, a lesson that ought to be drawn from the global spread of Covid-19 is that health effects from economic sanctions should no longer be viewed as an unintended and unavoidable consequence. Scholars of international studies should draw insights from how Covid-19 generated emergencies over PPE to

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⁶ Zha, D. (2021) "Non-traditional security and China-US relations", *Asian Perspective*, 45(1): 75-81.

⁷ Peksen, D. (2011) "Economic sanctions and human security: the public health effect of economic sanctions", *Foreign Policy Analysis*, 7(3): 237-251.

assess international connectivity in standards and quality control and promote competition through innovation, regardless of the origin of an invention or a health product.

Avoidance of unintended negative consequences on public health will depend as much on input from China as from other countries.

Admittedly, this commentary is by and large China-centric. Indeed, avoidance of unintended negative consequences on public health will depend as much on input from China as from other countries. It is therefore essential to consider these and other issues at the operational level of global health security, rather than abstractly discussing competition over vaguely defined national interests. When it comes to public health, identification of a country's national interests must be based on the expert input from health professionals, instead of grand theorization about future events given the ongoing trends of geostrategic competition among major countries.

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ASEAN's next crisis response and the implications for global partners

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In 2020 the ten members of the Association of Southeast Asian Nations (ASEAN) moved quickly during a global pandemic to halt the spread of Covid-19, with impressive mobilization at local, national and regional levels. Across such an economically and politically diverse group of countries, some fared better than others. The response to this ongoing crisis highlighted several important institutional strengths across this region of 650 million people. It also emphasized the range of financial, cultural, strategic and administrative vulnerabilities within the ASEAN region. This paper explores the response to the pandemic as a framework for understanding how ASEAN may handle future crises. It presents a brief analysis of the potential for improved regional responses to damaging health, conflict and natural disaster scenarios. In this context, ASEAN's tentative answer to Myanmar's February 2021 coup is a critical example of the regional body's limited capacity for large-scale collective response. As potential partners for crisis response in Southeast Asia, the United States, China, Japan, the European Union, and Australia are all relevant to this discussion.

Introducing ASEAN crisis response

The Covid-19 pandemic highlighted the cooperative possibilities of local, national, regional and global responses as the world adjusted to a rolling health and economic crisis. Certain parts of the world have proved more effective in medical, logistical and financial terms, as they more quickly eliminated widespread community transmission and used other advantages, potentially including geography, culture and climate, to limit the spread of the dangerous virus. The variety of local and national consequences will provide a basis for analysis for many years to come as countries seek to appreciate the lessons from this crisis and prepare for future contingencies, including global pandemics. The shock and disruption caused by the pandemic have also generated consideration of the many different vulnerabilities present in 21st century societies. Supply chains, technology, commitment to shared goals and overall management of social cohesion were all extensively tested through 2020 and into 2021. The long-term social and financial consequences of the pandemic are also now subject to great speculation. It is appropriate that planning for different future scenarios is a major preoccupation for governments, businesses, and humanitarian organizations worldwide.

In 2020, the ten members of the Association of Southeast Asian Nations (ASEAN), a multilateral body bringing together around 650 million people, moved quickly to halt the spread of Covid-19, with impressive mobilization at local, national and regional levels.¹ Compared to many regions, Southeast Asia proved quite effective during the first year of the pandemic as it sought to manage local and national outbreaks. Some ASEAN countries, including Singapore, Vietnam and Thailand, were often held up as strong examples of robust and comprehensive national responses.² Their ability to limit the local spread of the virus through strict public health measures also allowed for some normalization

¹ For an early summary of the policy response see: Djalante, R., Nurhidayah, L., Van Minh, H., Nguyen T.N.P., Mahendradhata, Y., Trias, A., Lassa, J., Miller, M.A. (2021) "COVID-19 and ASEAN responses: Comparative policy analysis", *Progress in Disaster Science*, 8:1-12.

² The Lowy Institute in Sydney, Australia, prepared a data-driven global analysis of pandemic response to 13 March 2021, with Thailand ranked 4th, Singapore 14th, and Myanmar 24th (out of 102 countries worldwide). Other ASEAN countries are not ranked due to a lack of data, [available online](#).

Southeast Asia proved quite effective during the first year of the pandemic as it sought to manage local and national outbreaks.

of economic activity well before that was possible in North America or Europe. Nonetheless, the challenging roll-out of vaccines, a situation that has exacerbated ASEAN's pre-existing inequalities, is a profound challenge for the entire region. The vast differences in economic strength, health system capability and logistical sophistication will mean ASEAN's pandemic will, even in a scenario where vaccines prove highly effective, linger for years to come.³ While Singapore has already vaccinated much of its population, some other countries have barely begun.

Covid-19 is not the first health crisis to generate upheaval across Southeast Asia, with the HIV/AIDS pandemic causing widespread illness and death through the 1990s and well into the 21st century.⁴ In some countries, such as Thailand, significant public health responses eventually limited transmission rates. However, in some places, such as Myanmar, the treatment of HIV has continued to stretch public health systems. Covid-19 and HIV/AIDS, along with the SARS outbreak early in the 21st century, are important examples of the common challenges facing national health systems and the adjacent regional responses.⁵ In both cases, across such an economically and politically diverse group of countries, it was inevitable that some would fare better than others. Both examples have also highlighted some institutional strengths across Southeast Asia, such as the rapid introduction of widely accepted public health initiatives and interventions.

Other crisis scenarios for Southeast Asia require careful attention, especially those that can test the region's normative posture on "non-interference".

Nonetheless, other crisis scenarios for Southeast Asia require careful attention, especially those that can test the region's normative posture on "non-interference".⁶ The Covid-19 pandemic, by its nature, allowed governments to lock down and isolate, seeking to carve out zones of safety and order. Some countries, such as Australia, used pre-existing sub-national demarcations in dramatic, indeed unprecedented, fashion. Southeast Asia was divided by national borders, as usual, but also by geographical and logistical differences meaning that even normally well-connected nations, like Thailand and Indonesia, began to devolve into their local geographies. The fear of outsiders, a strong emotion during a health crisis, ensured that, within ASEAN, national priorities tended to trump an overall response. It is essential to recognize that the characteristics which have supported ASEAN's pandemic response are part of a broader set of vulnerabilities, especially when faced with politically charged threats to security and stability. While a pandemic may allow for the temporary cessation of ordinary politics, most other crises are, from the beginning, linked to powerful social and political forces.⁷

Myanmar's 2021 coup

When Myanmar's military leadership seized power on 1 February 2021, the country's flawed system of guided democracy came to a shuddering halt, a process that has been called "politicide".⁸ The detention of senior elected

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³ It is important to acknowledge the range of successes accumulated by ASEAN, particularly during recent decades as it expanded to accommodate all the regional countries, except Timor Leste. For an insiders' appraisal of how it has worked, see: Mahbubani, K. and Sng, J. (2017) *The ASEAN miracle: A catalyst for peace*, Singapore, NUS Press.

⁴ Collins, A. (2013) "Norm diffusion and ASEAN's adoption and adaption of global HIV/AIDS norms", *International Relations of the Asia-Pacific*, 13(3): 369-397.

⁵ George, A., Li, C., Lim, J.Z. and Xie, T. (2021) "From SARS to COVID-19: The Evolving Role of China-ASEAN Production Network", *Economic Modelling*, 105510; Kliem, F. (2021) "ASEAN and the EU amidst COVID-19: Overcoming the self-fulfilling prophecy of realism", *Asia Europe Journal*, 1-19.

⁶ Ramcharan, R. (2000) "ASEAN and non-interference: a principle maintained", *Contemporary Southeast Asia*, 22(1) 60-88; Jones, L. (2010) "ASEAN's unchanged melody? The theory and practice of 'non-interference' in Southeast Asia", *The Pacific Review*, 23(4): 479-502.

⁷ For an earlier discussion of some of those powerful historical forces in the Myanmar context, see Farrelly, N. (2013) "Discipline without democracy: military dominance in post-colonial Burma", *Australian Journal of International Affairs*, 67(3): 312-326.

⁸ Thein-Lemelson, S.M. (2021) "'Politicide' and the Myanmar coup", *Anthropology Today*, 37(2): 3-5.

figures, including Nobel Peace Laureate Aung San Suu Kyi, precipitated a new nationwide crisis, with protestors targeting the new dictatorship in all corners of the country. Many of Myanmar's ethnic armed organizations, such as the Kachin Independence Organization and the Karen National Liberation Army, escalated their attacks on government security personnel. At the same time, protests grew in size and sophistication in towns and cities around Myanmar, with millions of people marching in well-organized defiance of military rule. By the end of April, thousands of people were detained for anti-coup agitation, and many others were in hiding, fearful of arrest. Over 700 protestors were killed in the first three months of the crackdown by the military regime, which calls itself the State Administration Council.

Internationally, Myanmar's new military regime faced criticism for its disregard for the democratic system and its treatment of detainees and protestors.⁹ One-sided showdowns between anti-coup activists and military units garnered sympathy for those facing war weapons in residential neighbourhoods. ASEAN leaders called for restraint, while European and North American governments expressed more robust views on the dangerous re-militarization of politics.¹⁰ Countries like the United States and the United Kingdom imposed new sanctions and some others also offered strong statements of support for the democratic opposition.¹¹

The Myanmar coup presented a new challenge to ASEAN, which has long expressed public reluctance about any interventions into "internal affairs".

The coup presented a new challenge to ASEAN, which has long expressed public reluctance about any interventions into "internal affairs".¹² Where the pandemic allowed some regional governments, especially ASEAN's autocracies, to reinforce their strangleholds on power,

Myanmar's 2021 crisis raised troubling questions about the grouping's tolerance for violence against civilian populations. ASEAN's recent track record, as demonstrated in the lacklustre response to the anti-Rohingya pogrom in 2017, did not leave much room for optimism.¹³ An ASEAN leaders summit held in Jakarta in late April 2021 produced a short summary of expectations but without any binding commitments or mechanisms for accountability. In Myanmar and elsewhere, ASEAN's normalization of dictatorship allows it to bring everyone to the table, but without engaging the causes of political crisis or, most importantly, generating the broad-based dialogue, which would usually be a prerequisite for any potential resolution.

Future crises

How ASEAN responds to the Myanmar crisis and future crises will largely determine its credibility in Asia and further afield. While China endorses ASEAN's role and cherishes the relatively comfortable balance between bilateral and multilateral engagement, the region's dominant power also presents problems for Southeast Asia's long-term diplomatic engagement.¹⁴ Those risks are especially acute for Indonesia, which has invested heavily in the shibboleth of "ASEAN centrality". In this frame, "centrality" is the suggestion that ASEAN can help balance great powers, especially the United States and China. It is a crucial, but contested, part of the diplomatic

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⁹ Kipgen, N. (2021) "The 2020 Myanmar election and the 2021 coup: Deepening democracy or widening division?", *Asian Affairs*, 52(1): 1-17.

¹⁰ For a good summary of the divergent international approaches see: Pongsudhirak, T. (2021) "The global reverberations of Myanmar's coup", *The Strategist*, 9 April, [available online](#); also Lee, H.Y. (2021), "Myanmar coup: ASEAN's quiet diplomacy is more constructive", *The Interpreter*, 22 March, [available online](#)

¹¹ See Al Jazeera (2021), "US, Canada and UK impose new sanctions on Myanmar military", 17 May, [available online](#)

¹² Stubbs, R. (2019) "ASEAN sceptics versus ASEAN proponents: evaluating regional institutions", *The Pacific Review*, 32(6): 923-950.

¹³ Barber, R. and Teitt, S. (2020) "The Rohingya Crisis: Can ASEAN Salvage Its Credibility?", *Survival*, 62(5): 41-54; also, Trihartono, A. (2018) "Myanmar's worsening Rohingya crisis: a call for responsibility to protect and ASEAN's response", in McLellan, B. (ed) *Sustainable Future for Human Security*, Singapore, Springer, 3-16.

¹⁴ Mueller, L.M. (2019) "ASEAN centrality under threat—the cases of RCEP and connectivity", *Journal of Contemporary East Asia Studies*, 8(2): 177-198.

architecture drawing together an otherwise diffuse and disconnected set of Southeast Asian political systems.¹⁵

The subsequent invocation of an ASEAN “community”, formally announced in 2015, has not, however, diminished the strict observance of national boundaries and priorities.¹⁶ ASEAN struggles for any of the coherence apparent in the institutional structures of the post-Brexit European Union.¹⁷ Where ASEAN’s more consistently democratic societies, such as Indonesia and now Malaysia, may want to highlight the violent conduct of the Myanmar military, their contributions can be thwarted by, amongst others, Thailand, Cambodia, Laos and Vietnam. These mainland Southeast Asian countries all draw significant value from ASEAN’s prestige and common reluctance to probe human rights questions.¹⁸

By contrast, ASEAN historically tends to be more proactive under conditions where a crisis can be attributed to external factors, such as the Covid-19 pandemic, or a politically “neutral” natural disaster. The Indian Ocean tsunami in 2004 and Cyclone Nargis in 2008 are two 21st century examples where, in the crisis response phase, ASEAN proved a key broker of regional and global assistance. Obviously, these crisis responses included political and strategic elements. Yet, such matters were de-emphasized to ensure timely delivery of humanitarian aid and the incorporation of relief capabilities from well beyond the Southeast Asian region, including from the United States, Australia and Japan.

It is highly unlikely that ASEAN will develop a vigorous capability for joint responses to political and strategic upheavals.

In light of these experiences, it is highly unlikely that ASEAN will develop a vigorous capability for joint responses to political and strategic upheavals. However, there are good reasons to expect it will continue to fare better in scenarios where destructive natural forces are at play.

The disparate interests and wide range of national ideologies make effective action on sensitive political matters almost inconceivable. Security and stability are often judged on the narrow basis of the security of elite interests and the stability of well-entrenched, and often undemocratic, political systems. Does it matter that ASEAN’s appetite for crisis response is limited to such an extent? The answer relates to the range of plausible contingencies, including many that will involve strategic and political considerations. In these terms, ASEAN’s preferred modes of diplomacy will probably be tested at regular intervals. Only with changes to the domestic politics of crucial countries is there any prospect of significant shifts in the approach to crisis response.

Lessons for ASEAN’s global partners

Adapting to volatile and unpredictable conditions is a significant diplomatic challenge worldwide, and recent experience through the Covid-19 pandemic highlights the vulnerabilities of well-established governance structures. The pandemic has undermined confidence in three democratic bulwarks, the United States, the United Kingdom and the European Union. With their fragmented decision-making processes, which may have been perceived, historically, as an advantage in challenging and contested policy situations, all three struggled to adequately manage the first year of the Covid-19 pandemic, leading to some of the highest death tolls in 2020.

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¹⁵ Tan, S.S. (2017) “Rethinking ‘ASEAN Centrality’ in the regional governance of East Asia”, *The Singapore Economic Review*, 62(3): 721-740.

¹⁶ For a broader critique of these issues in the context of COVID-19, see: Rüländ, J. (2021) “Covid-19 and ASEAN: Strengthening State-centrism, Eroding Inclusiveness, Testing Cohesion”, *The International Spectator*, 1-21; Simm, G. (2018) “Disaster Response in Southeast Asia: The ASEAN Agreement on Disaster Response and Emergency Management”, *Asian Journal of International Law*, 8(1): 116-142.

¹⁷ To consider these issues in a useful set of conceptual frameworks, see: Davies, M. (2017) “Important but de-centred: ASEAN’s role in the Southeast Asian human rights space”, *TRaNS: Trans-Regional and National Studies of Southeast Asia*, 5(1): 99-119.

¹⁸ Duxbury, A. and Tan, H.L. (2019) *Can ASEAN Take Human Rights Seriously?*, Cambridge, Cambridge University Press.

Some authoritarian systems, especially in East and Southeast Asia, appeared to perform more effectively, as did some of the world's smaller democracies, such as Taiwan, New Zealand and Singapore. Island countries appear to have enjoyed advantages once their borders were closed, which makes sense given the great enmeshment, politically and logistically, across the vast continents of the northern hemisphere. The tragedy of the 2020-21 winter is a striking reminder that even the world's best prepared and most technologically advanced societies have vulnerabilities when confronted by new threats, like a new virus. Health crises in powerful countries like India and Brazil have also starkly illustrated the profound tragedies of the Covid-19 era.

It appears, however, that the United States, United Kingdom and the European Union have also led the most significant response to the pandemic, primarily through the development and then mass delivery of Covid-19 vaccines. Proactive investments in cutting-edge technology and medical innovations appear to have given them a considerable advantage as their economies re-open and people begin to feel more confident about the future. While there are no certainties, it seems likely that much of ASEAN, and perhaps Myanmar most worryingly of all, will take many years to catch up.

Adjusting to this mixed picture will be a big issue for ASEAN diplomacy beyond the current health crisis as some of its member countries look to reconnect more quickly across borders, and globally. While internal contradictions and deft cultural manoeuvring have sustained the regional body for over fifty years, it now confronts crises, especially in Myanmar, that are not amenable to a strict non-interference approach. Irrespective of its history and membership, ASEAN's credibility fades whenever it reinforces unpopular governments against the will of ordinary people. Discussions of Myanmar's recent violent crackdowns are a stark example of diplomatic stalemate and the constraints imposed by the grouping's "mutual survival pact".¹⁹ More pointedly, in a region where dictatorship is widely judged the standard form of government, ASEAN's membership is weighted towards strictly controlled political systems that tolerate, at best, moderate levels of dissent. Why would they intervene to support Myanmar's democratic opposition?

For ASEAN's global partners, recognising the boundaries of effective action is the best start when it comes to preparing for ASEAN's next crisis.

In practice, where crises are generated along political fault lines, such as in civil wars or popular uprisings, the ASEAN group can offer limited meaningful input. Its internal constraints, which are increasingly reinforced by the diplomatic priorities of the Chinese government,

will not shift while dictatorship remains a standard form of Southeast Asian government.²⁰ Crisis response under these circumstances requires careful attention to interventions that appear neutral, de-politicized and therefore palatable even to the region's dictators. But such an *appearance*, even, is often implausible. As such, for ASEAN's global partners, recognising the boundaries of effective action is the best start when it comes to preparing for ASEAN's next crisis. The recent track record of inaction on political and strategic matters is a carefully developed element of the region's diplomatic architecture. Even the extreme examples of Myanmar's 2021 coup and its 2017 pogrom against the Rohingya have not shifted ASEAN's entrenched instincts for mutual defence and diplomatic nicety.

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¹⁹ A related discussion is: Farrelly, N. (2021) "ASEAN's mutual survival pact", *Inside Story*, 4 May, [available online](#)

²⁰ For a clear assessment of those priorities and how Southeast Asia intersects with, for instance, the Belt and Road Initiative, see: Gabusi, G. (2017) "'Crossing the river by feeling the gold': The Asian Infrastructure Investment Bank and the financial support to the Belt and Road Initiative", *China & World Economy*, 25(5): 23-45.

Join the conversation: innovating to address the global political economy challenges of our time

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Change is a notable feature of our time. Indeed, we expect that the world we live in will soon be significantly different, as will our lives and the lives of the communities we belong to. Because of technology, because of environmental degradation and, last but not least, because of the influence of rising powers on the world economy and the rules-based international order, the adaptation required at all levels is of unprecedented magnitude. The vastness of the task can be translated into effective decision-making by organizations of various sorts, from states to companies, only if all of them engage change, make sense of phenomena that spawn innovation, and anticipate the often-multidimensional impact of those phenomena. In-depth understanding of relevant global issues and knowledge-based foresight are key to steering change according to one's worldview, mission and broader, long-term aims.

East Asia is an impressive source of change and one that offers many insights into the nature and potential reverberations of the innovation the present world harbours.

East Asia is an impressive source of change and one that offers many insights into the nature and potential reverberations of the innovation the present world harbours. Reckoning with the various drivers of change the region presents, for Europe and the US

especially, involves finally facing the all-round implications of the "power shift" from West to East that entered common parlance from the start of the Great Recession, in 2007-2008.¹

As the contributors to this study convey, the drivers they have singled out mostly originate from China's policies and in particular from its regional projection. Acknowledging this fact, however, should by no means lead us to draw a simplistic picture of the challenges they engender and possible responses. Various arguments, rather, suggest that it is sensible to do the opposite, appreciating the complications that lie ahead. The reasons to adopt a thoughtful posture are numerous. In terms of linearity, it is not safe to bet on steady change, especially since Beijing has shown considerable ability to adapt in order to seize new opportunities and downplay frictions caused by external constraints. Hence, we may expect fast-paced change that, at times, morphs into apparent continuity that also requires appropriate analysis. Secondly, each driver has both direct and indirect consequences, the latter being possibly the more interesting, albeit also more difficult to track down. The reason why it is indeed stimulating to focus on indirect consequences is that our attention is then concentrated on the ability of countries other than China, in Asia and beyond, to steer processes in which they turn out to be no lesser players. Finally, the domains and levels impacted by the different drivers are intertwined to such an extent that we may experience configurations of change so multifaceted that

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¹ Cf. Layne, C. (2012) "The global power shift from West to East", *The National Interest*, 119: 21-31. Layne's argument is summarized by the journal as follows: "Pax Americana and the age of Western dominance are fading. Washington can manage this decline, but first it must acknowledge its reality. History moves forward with a crushing force and does not wait for the unprepared."

they are difficult to grasp and, for this very reason, extremely difficult to respond to in an effective manner.

Shaun Breslin's opening reflections on Chinese Outward Foreign Direct Investments (COFDI), by singling out evolving state–market relations as a first key driver of global change, offer an interesting opportunity to get a sense of the scale and nature of the overall challenge that organizations of all sorts presently face. Beijing's liberalizing reforms, which allowed and thus prompted² Chinese firms to invest abroad, may well have the paradoxical effect of making Western economies less liberal – that is, less open and more subject to state policies devised to strengthen and protect national companies. This potential unintended development has sparked a heated debate in the West: some commentators hold that US–China competition has in fact already triggered “the retreat of market economics”,³ a development whose significance “goes well beyond economics. The international embrace of free markets and globalization in the 1990s went hand in hand with declining geopolitical tension. [...] Now – Gideon Rachman maintains – the resurgence of geopolitical rivalry is driving the new fashion for state intervention in the economy”.⁴

In order to respond in a structured fashion, decision-makers should recognize the all-round challenge that COFDI pose to countries or groupings and resort to improved, up-to-date knowledge on China.

wish to keep the world economic system open and interconnected enough to foster viable international relations will reach the same conclusion: in order to respond in a structured fashion, decision-makers should recognize the all-round challenge that COFDI pose to countries or groupings and resort to improved, up-to-date knowledge on China. The fundamental aim behind such a burdensome undertaking would be to preserve one's own right to live in the economic system deemed best suited to thrive.⁵

The security dilemma, which now extends to the economic domain, entails an inescapable precautionary logic that does not leave much room for manoeuvre: mutual ascription of hostile attitudes breeds rivalry and is an intrinsically escalating posture.

Chinese public and private players, in this case, is a redefinition of the world hierarchy of power that will favour Beijing. If “the logic of an arms race is setting in”⁷ in economic relations involving Chinese players and Western countries, it is essentially because this assumption is widespread. Such an attitude is not unexpected since the security dilemma, which now extends to the economic domain, entails an inescapable precautionary logic that does not leave much

The revival of “old ideas” such as economic self-reliance and “strategic” investments – the argument goes – may easily spur a vicious circle that threatens international stability, while restricting the autonomy of the state and breeding problems in economic relations among Western countries themselves. Given this expected outcome, those who

The trend, however, points in a different direction⁶ and Breslin elucidates why. Differentiating among COFDI is indeed meaningless if one assumes that, in the end, the rationale behind the decisions of any Chinese economic actor is the strengthening of China vis-à-vis the other members of the international community. The shared aim ascribed to the actions of

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² Whether liberalization allowed or prompted Chinese economic actors to engage in activity abroad depends on whether one subscribes to the Economic Statecraft understanding of the motives behind Beijing's decision to open up, Breslin argues.

³ Rachman, G. (2021) “US–China rivalry drives the retreat of market economics”, *Financial Times*, 10 May, [available online](#). The paradox is, of course, that the uneasy engagement with China, on the part of the West, was meant to socialize it into market economics and integrate it into the global economic system on Western terms. Today we are interrogating ourselves on who is changing who.

⁴ *Ibid.*

⁵ Rachman (2021) argues that the retreat of market economics reflects changing attitudes not only in the US and China but also in the EU, the UK and India, a country historically inclined towards self-reliance.

⁶ Sanger, C., Edmondson, C., McCabe, D., Kaplan, T. (2021) “Senate poised to pass huge industrial policy bill to counter China”, *The New York Times*, 8 June, [available online](#). The authors state that “faced with an urgent competitive threat from China, the Senate is poised to pass the most expansive industrial policy legislation in U.S. history, blowing past partisan divisions over government support for private industry. [...] Beijing has become one of the few issues that can unite both political parties”. Even though specific situations may lead countries to see the issue in different terms: Parker, G. and Morris, S. (2021) “Sunak insists UK must bolster China ties as access to EU market declines”, *Financial Times*, 1 July, [available online](#).

⁷ Rachman, G. (2021). The approach comes out neatly in an article authored by J. Harris and J. Sullivan (National Security Advisor to President Biden): power is “increasingly measured and exercised in economic terms” and “authoritarian capitalism is challenging market democracy”, hence economics is now a crucial instrument of foreign policy. For this reason, “America needs a new economic philosophy” that prioritizes geopolitics (Harris, J. and Sullivan, J. (2020) “America needs a new economic philosophy”, *Foreign Policy*, 7 February, [available online](#)). The trigger of this whole dynamic is often spotted in the strategic plan “Made in China 2025”.



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After all, it is strategic distrust that turns out to be a formidable driver of global change in the present international system.

room for manoeuvre: mutual ascription of hostile attitudes breeds rivalry and is an intrinsically escalating posture.⁸ After all, it is strategic distrust that turns out to be a formidable driver of global change in the present international system.⁹ This is

a very interesting point that, once more and from a different angle, sheds light on the breadth of present challenges and the latitude of the response they require. In terms of the response, both current and future, shedding light on the key role that distrust plays in these economic and political dynamics is crucial. Besides changing Western economies in unintended ways and making world politics more conflict-prone, distrust of Beijing's long-term aims may in fact explain the US's and EU's somewhat elusive China policies, which appear to be so frustrating for observers. A slower-than-advisable adjustment to the new reality of a "risen China"¹⁰ may, of course, be one reason behind the apparently uncertain stand, albeit not a reassuring one. The lack of consistency that many complain about, however, may be more convincingly explained by pointing to distrust.

Looking at Europe, in 2019 the EU defined China as "a systemic rival promoting alternative models of governance", as well as a partner with whom to cooperate or negotiate, and an economic competitor.¹¹ The Biden administration has suggested, in words and deeds, that it will pursue a similar articulated approach for the US. A China policy, whether European or American, would hence need to knit these three different postures together within a coherent discourse and set of policies, so that rivalry, competition and cooperation *merge and jointly contribute* to make respective relations with China viable and conducive to a working world order. The case of COFDI, however, shows that, because of mounting rivalry, the logic of the security dilemma currently influences, through securitization, the domains of competition and cooperation. Striking a sustainable balance between the three rationales is in fact impossible because, in a security-dilemma-like situation,

The case of COFDI shows that, because of mounting rivalry, the logic of the security dilemma currently influences, through securitization, the domains of competition and cooperation.

the obligation of the state to protect its citizens is an absolute priority, leading rivalry to win out over competition and cooperation. In other words, it leads to a situation in which competition and cooperation are built on distrust, just like rivalry. If this argument is sound, any China policy is doomed to remain elusive for structural reasons.¹²

Acknowledging the widespread uneasiness about such unresolved solutions to the "China policy issue", some commentators have pointed out that the only viable alternative is to draw a few red lines and let them guide the specific decisions to be made day by day.¹³ This may be a practical way to set the course, but given the latitude that decision-makers would enjoy, decisions would still need to be based on up-to-date, fact-driven knowledge of China in order to prevent distrust from impeding the articulation of appropriate policies. The alternative is to let distrust become the key driver of much of the change we experience in the near future. Given this conclusion, it is not surprising that one relevant Asian player, Japan, is now strongly committed to relaunching the reflection on trust and governance, moving from its Data Free Flow with Trust (DFFT) initiative proposed at the World Economic Forum in 2019.¹⁴

⁸ Thompson, W.R. (2001) "Identifying rivals and rivalries in world politics", *International Studies Quarterly*, 45(4): 557-586.

⁹ Strategic distrust is defined as the "mutual distrust of long-term intentions"; cf. Lieberthal, K. and Wang, J. (2012) "Addressing U.S.–China strategic distrust", *J.L. Thornton China Center Monograph Series no. 4*, Washington DC, Brookings Institution. Of course, the present lack of trust is not exclusive to US–China relations, cf. Stephens, B., Ashford, E., Sestanovich, S. (2021) "The Biden–Putin summit: 'This is not about trust'", *The New York Times*, 16 June, [available online](#).

¹⁰ Breslin, S. (2021) *China Risen?*, Bristol, Bristol University Press.

¹¹ European Commission and High Representative of the Union for Foreign Affairs and Security Policy (2019) "EU–China – A strategic outlook", *Joint Communication to the European Parliament, the European Council and the Council*, JOIN, 12 March, [available online](#).

¹² Structural only within a realist conception of world politics, it must be noted, but this issue cannot be addressed here.

¹³ Anonymous (2021) "The longer telegram. Toward a new American China strategy", *Atlantic Council Strategy Papers*, Washington DC, [available online](#).

¹⁴ World Economic Forum (2021) "Rebuilding trust and governance: towards Data Free Flow with Trust (DFFT)", *White Paper in cooperation with Hitachi and the Ministry of Economy, Trade and Industry of Japan*, [available online](#). In broader terms, see Chang, C. (2021) "Japan is the new leader of Asia's liberal order", *Foreign Affairs*, 24 February, [available online](#).

The case for an approach based on sound and timely knowledge in order to respond effectively to East Asian drivers of global change, reducing the impact of distrust, is strengthened by the insights shared by Gregory T. Chin. By showing how recent Western financial sanctions targeting China did not work, he highlights a very specific way in which China's integration into financial markets turned out to be a game changer. Such integration was, overall, certainly well recognized, but possibly it was not fully appreciated as a driver of such broad and impactful change. In fact, as Chin underscores, this is another situation in which indirect and unintended consequences may be more significant than direct ones, especially since the effectiveness record of sanctions is quite uneven. Besides the modest effect of sanctions, which may paradoxically end up emboldening their target, the inability to influence China's behaviour through the traditional tools – Chin maintains – may have a relevant political impact, undermining US's standing in the global economic order of its own creation. The issue to be addressed by Western countries is thus how to ensure China achieves the desired change, while preserving the financial order that serves their interests too. In Chin's account, East Asian countries, and Japan in particular, were more thoughtful in devising their responses to China's conduct, even though their concerns were growing. It is difficult to tell whether they will become more successful by signalling their unease through other means with respect to Western countries. However, their posture suggests that keeping a working relationship with regional key players requires, on the part of non-regional players, the kind of subtlety that is made possible only by deep knowledge of and steady participation in regional politics.

Asia is experiencing regional developments that could severely impact the global economic system making it more and more difficult for Western companies to be players in major emerging markets.

If Europe and the US do not engage appropriately, the driver of change highlighted by T.J. Pempel – that regionalization leads to a decoupling of Asia from the global economic and trade order – may turn out to be irresistible. This observation first of all underscores the relevance of the economic dimension in world politics today. Secondly, it attracts

attention to regional dynamics in Asia that the Western reader may overlook, due to the fact that public discourse and the media tend to concentrate on the complicated relationship between China and the US or Europe. In fact, Asia is experiencing regional developments that could severely impact the global economic system, in particular making it more and more difficult for Western companies to be players in major emerging markets. Some countries – Pempel stresses – are working towards keeping the region integrated with the global rules-based order, but to be successful their engagement must be supported by non-Asian partners who share the same outlook and interests. Unfortunately, as Carla Freeman points out, American tactical multilateralism and new Indo-Pacific discourses seem to be working in the opposite direction and may well erode the region's institutional architecture, on which stability has long depended. Again, the impact of this specific driver depends very much on the response it will elicit; this is a good reason to try to raise awareness of this very important development, in particular considering Asian countries' greater sense of agency and belief that they can shape their own future.

A clear example of the global impact of China's innovation can be found in the monetary order, which has been centred on the US dollar since the end

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of World War II. In his contribution, Christopher A. McNally shows how the People's Bank of China's embrace of digital money could well signal the dawn of a new push towards the internationalization of the renminbi. Due to the increasing "weaponization" of financial payment networks and systems by the US,¹⁵ Russia, China and – to some extent – the EU have in fact been looking at possible alternative configurations in monetary affairs, with the aim of "dethroning the dollar".¹⁶ However, many argue that a basic economic rule – the Mundell–Fleming trilemma – prevents the yuan from becoming an international currency because China is not willing to fully liberalize capital movements, since that would mean giving up either on the management of the exchange rate or on the autonomy of monetary policy. Instead, McNally shows how the technology behind China's new digital currency will give the People's Bank of China complete oversight of monetary transactions, allowing monetary authorities more flexibility to selectively relax – in case of need – capital controls. In turn, this would mean creating more room for the internationalization of the renminbi, reducing dependence on the US dollar and generating a more diffused monetary order. While the American monetary authorities have been

The European Central Bank has taken note of the advantage China has as a first mover in this realm and is actively working on the project of a digital euro.

sceptical of a technological evolution that will give governments enormous power to track and control transactions, the European Central Bank has taken note of the advantage China has as a first mover in this realm and is actively working on the project of a digital euro.¹⁷

China does not innovate only as a first mover, but also in reaction to Western reproval, as in the case of development finance. As China is now becoming a significant donor in the developing world, it is building a new paradigm in development finance, which nonetheless – as argued by Gong Xue – partially takes into account Western criticism. Beijing's increasing presence in development projects and infrastructures through the Belt and Road Initiative (BRI) – from a port in Sri Lanka to a motorway in Montenegro, to name just two of the most controversial Chinese ventures – has generated widespread criticism. Many have argued that these projects are unsustainable and cannot be paid back by recipient governments, raising suspicions that this could all be part of China's "debt-trap diplomacy". Gong outlines how the recent White Paper on China's international development cooperation seems to have responded to these negative feedbacks by stressing the need to improve transparency, ownership and efficiency. This does not mean that Beijing has completely integrated global

In the twenty-first century's global political economy, competition about setting standards will be a constant feature, as great powers are "steering the order" in different directions.

standards in its development policy, but shows how China seems able to adapt its policies to address justified international concerns while at the same time defending its capacity to generate rules more in tune with its national conditions and interests. In the twenty-first century's global political economy, competition about setting

standards will be a constant feature, as great powers are "steering the order" in different directions.¹⁸ And even when China – as in the case of the establishment of the Asian Infrastructure Investment Bank – has accepted global rules, Beijing could still implement and interpret them in a creative way.¹⁹

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¹⁵ Farrell, H. and Newman, A.L. (2019) "Weaponized interdependence: How global economic networks shape state coercion", *International Security*, 44(1): 42–79.

¹⁶ The Economist (2020) "Dethroning the dollar: America's aggressive use of sanctions endangers the dollar's reign", 18 January, [available online](#).

¹⁷ The Economist (2021) "What is the fuss over central-bank digital currencies?", 16 February, [available online](#).

¹⁸ Caffarena, A. and Gabusi, G. (2021) "Europe–China and the Third Way: Steering order in times of change. Evidence from the AIIB and WTO reform" in Li, X. *China–EU relations at a crossroads: 'Systemic rivalry' or 'strategic partnership'?*, London, Routledge.

¹⁹ Gabusi, G. (2019) "Global standards in the Asian Infrastructure Investment Bank: The contribution of the European members", *Global Policy*, 10(4): 631–638.

The implications of the US and the EU being norm-setters in global value chains are the focus of Helen E.S. Nesadurai's reflection. She looks at how socio-environmental standards adopted and promoted by the West are impacting economies in Southeast Asia (SEA). For all the mainstream hyperbole about China dominating trade in the region, SEA countries' trade with Europe and America is still significant, meaning that their access to global markets is essential for their economic security. In the beginning, governments overlooked socio-environmental standards, since critiques of unfair treatment of workers or the excessive exploitation of natural resources were mainly coming from non-profit organizations, leaving individual companies with the burden of responding and adjusting, in order to avoid boycotts by Western consumers.²⁰ Now, compliance with these standards is required by public authorities as well as by private industry associations and a myriad of other actors. Consequently, companies need to restructure their businesses on a more sustainable basis – a trend strengthened by the effects of the COVID-19 pandemic. This necessary exercise is not a simple one, as multiple “nodes” of production can be affected in various and often unexpected ways,²¹ necessitating a thorough assessment of the governance and location of a company's global value chains. A less-than-careful approach by governments and businesses would lead to economic insecurity in SEA, a region whose stability today is even more crucial for the rest of the world in the light of current Sino-American tension.

Economic security in the region is also being negatively impacted by climate change, an issue analysed in Katherine Morton's and Karin Costa Vazquez's respective papers. Both contributions in this section reveal another aspect of today's international system that often emerges in the essays of this collection, namely the blurring of the distinction between domestic and foreign policies. Indeed, in a globalized world they are strictly interrelated, thereby complicating governments' efforts to elaborate coherent and cohesive action plans. Morton starts from Xi Jinping's claim in 2020 that China will reach carbon neutrality by 2060, looking at the potential contradictions between Beijing's domestic energy transition and its support of fossil-fuel-related investments abroad, especially along the BRI. In fact, China is at the same time both the world's top consumer of coal and the world's largest sponsor of coal-fired power stations. While the internal energy transition has clearly started (China is also the largest producer of renewables), a structural change in overseas energy investments is not yet in full view. This contradictory behaviour raises doubts about China's global climate leadership, and for international cooperation to be strengthened – Morton argues – China must also address the security aspects of climate change,

Beijing's decarbonization plans compel countries to redefine not only their bilateral trade and investment relations with China, but also require them to adapt their domestic energy mix.

and not only regard the latter as a mere development issue. In relation to the energy sector, Vazquez underlines how Beijing's decarbonization plans compel countries to redefine not only their bilateral trade and investment relations with China, but also require them to adapt their domestic energy

mix. In particular, the consequences of Beijing's commitment will affect all energy-supplying economies, but in different ways, depending on the stage and pace of their own energy transition plans, as well as the composition and pattern of their energy exports to China. Once again, as in Nesadurai's analysis of global value chains, it is vital for governments to respond to economic and

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²⁰ The progenitor of critical voices in this regard is surely Naomi Klein (1999) *No logo: Taking aim at the brand bullies*, New York, Picador.

²¹ For a classification of different forms of governance in global value chains see Gereffi, G., Humphrey, J., Sturgeon, T. (2005) "The governance of global value chains", *Review of International Political Economy*, 12(1): 78–104.

institutional innovations, unless they are willing to put at risk companies' viability and – in the end – the economic security of their own countries.

However, a collective response in a multilateral context is best suited to addressing common challenges characterized by non-traditional security aspects. Many issues could be mentioned in this regard, but of course the COVID-19 pandemic is the first that comes to mind. Since it has prompted recognition that global health is a public good, it should be kept separate from great power rivalry, but to do so a great deal of strategic trust is needed, as argued by Zha Daojiong. Global health security should be decoupled from parochial national interest, in recognition that a common effort to make technical standards for medicines and health-related products more uniform would help resolve the security dilemma and improve the global response to the pandemic. Particularly relevant in addressing the critical issues of our time is Nicholas Farrelly's reflection on SEA's next crisis response, highlighting the challenge for Western partners in the region to offer alternative (to China's) but effective solutions without giving up on democratic values. In fact, ASEAN seems to be more effective in dealing with natural disasters and pandemics (COVID-19 being a case in point) than with humanitarian crises that result from political upheavals, such as the shattering ongoing situation in post-coup Myanmar. On the one hand, ASEAN member states defend the organization's centrality, with a balancing function between China and the US, but on the other hand its founding principle of non-interference in internal affairs could be a recipe for future irrelevance. In a sense, we could argue that the EU's recent announcement of its own soon-to-be-published Indo-Pacific strategy is indicative of a European response to ASEAN's perceived stalemate, which does not bode well for future regional crisis management.²²

This is what global politics is about: phenomena blurring most of the lines that, in the past, helped observers make sense of relevant developments.

As the contributions to this Asia Prospects network reflection show, Asia is indeed a source of substantial change in today's world. While most scholars concentrate on issues related to the workings of the global political

economy, it is by now clear that the impact of most economic dynamics goes well beyond the economic realm, with the political and security domains having in turn a significant influence on economic relations too. For many, this is what global politics is about: phenomena blurring most of the lines that, in the past, helped observers make sense of relevant developments, but which today appear insufficient to establish clarity in a much more complicated picture. New instruments of analysis are needed in order to devise effective responses.

Change is happening at a fast pace. It is also multifaceted and multilayered. It must be addressed by governments through appropriate public policies at national or regional level, but private organizations, such as companies, also need to develop tools to navigate these largely uncharted waters. A better general understanding of the innovations we are experiencing is in fact essential if we are to grasp the whole array of consequences, both direct and indirect, that they are generating. The drivers of change that have been brought to our attention by the contributors are characterized by considerable breadth: they include Chinese foreign direct investments and the response they have engendered, unveiling the role played by strategic distrust; China's integration into financial markets, with its impact on the effectiveness of traditional tools such as sanctions, requiring innovation on the part of those who wish to influence China's conduct; China's

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²² European Union External Action Service (2021) "EU Strategy for Cooperation in the Indo-Pacific", 19 April, [available online](#).

initiative to revolutionize money through digital currency electronic payments, eliciting great attention from monetary authorities in the EU and the US, and brought to public attention by the media; and the decoupling of Asian regional trade and the Asian financial order from the global order, the consequences of which may impact Western companies significantly if governments do not address this process constructively in a context characterized by Asian countries' greater sense of agency and their belief that they can shape their own future – a driver of change in itself. Another driver is China's standard-setting as "whole of nation" goal, but so is, symmetrically, the impact on global value chains and Asian producers of the EU's position as a standard-setter. China's ambition on climate change, seen in terms of global leadership, is another potential driver of change with implications that must be considered carefully. The COVID-19 pandemic has also prompted China and the West

Responding to this vast array of transformational challenges originating in East Asia is the task of our time.

regionalism peculiarity, made even more resilient by China's neighbourhood policies, should encourage a careful analysis of the reality of regional evolution and its consequences for global partners.

Responding to this vast array of transformational challenges originating in East Asia is the task of our time, and it requires a considerable level of skill and access to in-depth and up-to-date knowledge. The Asia Prospect network is opening the conversation.

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to view each other as less reliable hence the suggestion that conceiving of global health as a public good might offer a way out of the stalemate in bilateral relations.

Finally, resistance and resilience of Asian

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