

China and Globalization

Henry Huiyao Wang  
Mabel Lu Miao *Editors*

# Enhancing Global Governance in a Fragmented World

Prospects, Issues, and the Role of China

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CENTER FOR CHINA & GLOBALIZATION

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# **China and Globalization**

## **Series Editors**

Henry Huiyao Wang, Founder and President of Center for China and Globalization (CCG), Beijing, China

Mabel Lu Miao, Secretary-General of Center for China and Globalization (CCG), Beijing, China

This series is designed to have a wide range of global views on issues related to China and Globalization, opportunities and challenges on China's rise to the world and China's roles in global governance, global economy, global development and global security. It outlines China's international relations with major global powers and the rest of the world and it contains recommendations and proposals for the future of sustainable development, prospects of China's further capital and market liberalization, and China's globalizing trajectories as experienced by the world.

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Henry Huiyao Wang · Mabel Lu Miao  
Editors

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Center for China and Globalization  
Beijing, China

Mabel Lu Miao  
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# Preface

In a world of momentous change, we still have a long way to go to achieve mutually beneficial and long-term development. The internal and external factors influencing China's development have seen profound and complex changes that present both challenges and opportunities, which has made decision-making more difficult than ever before. In such a complicated international environment, the question of how to take advantage of these opportunities, cope with new challenges, improve global communication and cultivate real soft power require logical, professional, and systematic research to support decision-makers. This is true for countless countries around the world, but in particular for China as it enters a new stage of development, and one of the key players in answering these questions is think tanks.

Dr. James G. McGann, the late global leader in the analysis of think tanks at the Lauder Institute, and director and founder of the Think Tanks and Civil Societies Program (TTCSP), defines think tanks as public policy research analysis and engagement organizations that generate policy-oriented research, analysis, and advice on domestic and international issues, thereby enabling policy-makers and the public to make informed decisions about public policy.

The function and importance of think tanks have increased markedly since the end of World War II and become even more valuable today as the pace of change accelerates, geopolitical complexity increases and the world has to deal with international crises that no country can address on its own.

In the United States, many think tanks, such as the Brookings Institution and the RAND Corporation, have been called a “shadow government” or the “second brain of government,” playing an important role in providing new ideas, guiding public opinion, educating the public, influencing major policymaking processes, and preparing people for work in government. As early as 1971, the American scholar Paul Dickson said in his book *Think Tanks* that think tanks are the fourth branch of the government, in addition to legislation, administration, and judiciary.

In more recent times, think tanks have become key resources for government and other decision-makers on a variety of issues, forming an integral part of an increasingly multilateral world where not only state actors, but business and academia can influence development on a global level.

Multipolarity, multispeed globalization, and yawning gaps in global governance—our current world is characterized with these three features that exert countervailing pressures on the international order. Today, countries not only compete for economic, scientific, and technological advantages, but also advantages on soft power centered of ideas, institutions, and culture. Think tanks, as the source of innovative ideas, are becoming the new focus of soft power competition.

It is in this context that I and Mabel Lu Miao founded the Center for China and Globalization (CCG) in 2008. Over the years, CCG has grown into one of China's leading non-governmental think tanks and a firm believer in the power of think tanks to influence decision-making processes and find balanced solutions to global issues.

CCG maintains regular contact with think tanks and research institutions around the world including the Aspen Institute, Brookings Institution, Carnegie Endowment for International Peace (CEIP), Center for Strategic International Studies (CSIS), RAND Corporation, Cato Institute, The Heritage Foundation, the Center for American Progress (CAP), Council on Foreign Relations, Bruegel, French Institute of International Relations (IFRI), European Policy Centre (EPC), The Körber Foundation, Global Solutions Initiative (GSI), Institute for International Political Studies (ISPI), Barcelona Institute for International Studies (IBEI), Polish Institute of International Affairs (PISM), The S. Rajaratnam School of International Studies (RSIS), Asian Research Institute (ARI) at the National University of Singapore, Sejong Institute, Institute of Strategic and International Studies (ISIS) Malaysia, Asian Development Bank Institute (ADBI), Observer Research Foundation (ORF) in India, Research Institute of Economy, Trade and Industry (RIETI) in Japan, The Global Foundation in Australia; Center for International Policy-Africa (CIP), the Brazilian Center for International Relations (CEBRI), and many others, regularly inviting researchers to share their views via both online and offline forums, to search for various solutions to the ills that currently plague the world and a way to create a future in which everyone benefits. CCG also hosts annual events including China Global Think Tank Innovation Forum and China and Globalization Forum, gathering experts from government, industry, universities, and research institutions to discuss and share insights on the compelling common challenges we face and far-reaching trends shaping the future of our world. Such open and face-to-face exchanges give us a deeper understanding of the long-term trends shaping the future of our world, and an opportunity to build consensus addressing the common challenges.

In recognition of its contribution and influence, CCG was granted official special consultative status by the Economic and Social Council of the United Nations (ECOSOC) in 2018. In the 2020 Global Go To Think Tanks Index by the University of Pennsylvania Think Tanks and Civil Societies Program (TTCSP), CCG ranked 64th among top think tanks worldwide and was listed as one of the top 50 “best independent think tanks.”

CCG continues to play this role by driving interactions that leverage Track II Diplomacy. Aware of the importance of in-person exchanges, especially in the context of COVID-19 when these basically came to a halt, CCG was the first Chinese non-governmental think tank to travel to other countries even before China had lifted restrictions in order to rekindle relationships and discussions on key issues. Beginning

in late-2022, CCG began a series of Track II Diplomacy activities that took a team of experts throughout Europe, Asia, and North America, reaching out to individuals and organizations that were key in restarting global discourse on important issues related to China, not least of which was the role of global think tanks. We found that despite the obstacles caused by the pandemic, our counterparts and people in other countries are still eager to get to know more about China.

Our experience engaging with the international community over the years has given us a deeper understanding of how think tanks can be an important force in promoting global economic, political, diplomatic, and cultural exchanges and cooperation. The Track II Diplomacy activities carried out by think tanks can complement official diplomacy, effectively improving a country's international narrative, upholding national interests, and promoting people-to-people exchanges.

To share our understanding, we have published several research reports on think tanks, including *The Fourth Branch of Government of Great Powers*, *Global Think Tanks*, and *Global Think Tanks 2.0*, providing a systematic and comprehensive introduction and analysis of think tanks in countries around the world, summarizing the development experience of world-renowned think tanks, and analyzing the new context and challenges Chinese think tanks face and presenting advice for promoting the development of Chinese think tanks. We hope our interactions with our overseas counterparts will be helpful to other Chinese think tanks.

*Enhancing Global Governance in a Fragmented World: Prospects, Issues, and the Role of China* is our latest effort to welcome leading figures from the global think tank community to share their views on a range of issues from multiple angles that can then be turned into policies to tackle common challenges. In the course of compiling this latest volume in the China and Globalization series, two main themes emerged that were both telling and timely—multilateralism and global governance. Global governance, while not a new concept, has been revisited many times as the world continues to recover from the ravages of the COVID-19 pandemic. Doubts on globalization had been building even before the pandemic and COVID-19 simply accelerated key trends that were already shaping future geopolitics and the world economy. Many countries responded to perceived and real security threats by focusing on regional supply chains and adopting policies of reshoring or friend-shoring. Meanwhile, for many in the developing world, which have benefited from a globalized world, there has been a call for a new type of globalization that is flatter, more multilateral, and more egalitarian, which will also impact the future of global governance. China has been a major advocate for this new phase of globalization, calling on both developing and developed countries to explore new avenues for trade and development that are both inclusive and mutually beneficial and will in turn shape the future of global governance.

In this book, we will explore key themes such as multilateralism and globalization from the perspective of think tanks from nearly every continent, searching for various solutions to the ills that currently plague the world, and exploring how to best create a future in which everyone benefits. We will also be looking at these issues specifically from the perspective of China and its role in global development.



The book is divided into four distinct parts that transition through different layers of multilateralism and global governance, providing a contextual analysis of the major themes within multilateralism and global governance both from theoretical and practical perspectives that focus on China in detail, but also examine the world as a whole.<sup>1</sup> It is our hope that this will provide the reader with a logical, organic overview of current discussions on key topics and provide insightful perspective on important issues.

The first part, titled “The Argument for Multilateralism,” examines various views on multilateralism and its importance in today’s changing world, from a rising Global South and shifts of power toward Asia, to the importance of supporting and nurturing existing multilateral mechanisms. This part begins with a plea for multilateralism from Arancha González Laya at the Paris School of International Affairs at Sciences Po, which addresses global threats currently facing the world and how a reformed version of multilateralism could be the answer. Next, Markus Engles of the Global Solution Initiative proposes the idea that multilateralism is a prerequisite for sovereignty in a world where many global issues go beyond national borders, behooving us to consider national sovereignty in the context of an increasing multilateral world.

Piet Steel, Chairman of the Europe-Asia Center, re-examines the challenges and potential catastrophes the world faces, while also exploring the various ways in which we can work together to reach a necessary consensus. Next, Grzegorz Kołodko of TIGER, a research institute at Kozminski University in Poland, provides a detailed economic analysis of similar pitfalls in the current global context by asking the question of whether we are entering an era of peaceful development or war economies. To close out this part, Paolo Magri of the Italian Institute for Political Studies proposes that interdependence could be the key to a new interpretation of multilateralism, essentially a “glue” that could continue to bind the world together.

The second part of this book, “China’s Role in a Multilateral World,” takes a closer look at China by examining how its relations and interactions with the world, past and present, have resulted in its unique role and potentially decisive contribution to the future of multilateralism. The first contribution of this part comes from Daniel Ikenson of Ikenomics Consulting, who examines how great power rivalry will impact the multilateral trading system by comparing the preeminence of the United States and the rising influence of China. Next, Michael Yeoh of the KSI Strategic Institute for Asia Pacific looks more closely at themes of interconnectedness and interdependence in the context of the China-ASEAN partnership, including the challenges and opportunities that it presents. The next contribution comes from Michael Schumann and Urs Unkauf of Germany’s Federal Association for Economic Development and Foreign Trade and examines “change through trade” in the context of a multipolar world and how economic diplomacy can bring about more understanding at the international level.

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<sup>1</sup> The essays in this book have been arranged thematically, and each piece has been reviewed and approved by the author.

Continuing the theme of trade and finance from a more global level, Bert Hofman and P. S. Srinivas of the National University of Singapore's East Asian Institute look at China's complex relationship with multinational development banks and how, as a driver of behind the New Development Bank and Asian Infrastructure Investment Bank, China has the potential to make a significant impact on the future of the international financial system. As part of China's continued integration into global financial systems, the internationalization of the RMB, or Chinese Yuan, is the focus of the next contribution by Dubravko Radošević of the University of Zagreb, who provides a detailed analysis of China's unique approach to making the RMB one of the world's major currencies.

In a broader context, Henry Huiyao Wang and Mabel Lu Miao of the Center for China and Globalization examine how a new paradigm of economic globalization can reshape the world order in the context of a multipolar world as we transition out of a period of "hyper-globalization" and what this means for the future of global governance.

Delving more deeply into the topic of global governance, Toby Simon of the Synergia Foundation takes a closer look at China's inroads into global governance, analyzing the current world order and its vision of a more decentralized and hybrid form of global governance that incorporates both state actors and private entities. Next, Kent Calder of the SAIS Reischauer Center for East Asian Studies at Johns Hopkins University looks at the rise of the "global political city" in the context of Beijing and how its interpretation of global trends will be crucial in determining China's global role and its contributions to global governance. Building on this further, Zamir Awan of the Global Silk Route Research Alliance specifically focuses on China's governance system from its ancient foundations to modern cases of good governance and the various elements that have led to China's successful development.

In another aspect of China's role in global governance, Jasna Plevnik of the Geoeconomic Forum Croatia looks at China's role in the post-Cold War order in terms of modernization and stabilization, specifically how the country has and continues to contribute to stability despite attempts by the USA to maintain economic and geopolitical dominance. Next, Stephen Roach of the Paul Tsai China Center at Yale Law School explores how to put an end to the dueling false narratives that have become the norm in the US-China rivalry and to find away to avoid escalation and achieve resolution. Taking a more regional focus, Keng Yong Ong and Tiang Boon Hoo of the S. Rajaratnam School of International Studies at Nanyang Technological University focus on the US-China strategic competition in the context of Southeast Asia and the potential for regional countries to play a more active role in managing related negative externalities.

As we wrap up this part, Omar Mjenga of the Centre for International Policy-Africa provides a uniquely African perspective on how partnership with China can influence a new world order, emphasizing the power of South-South cooperation and the unique role of FOCAC. Next, this part includes a comprehensive analysis of China's role in enhancing global governance in a fragmented world from Steve Howard of The Global Foundation, emphasizing common goals and path ways for the world using the United Nations Sustainable Development Goals as a springboard.

Finally, this part concludes with an analysis of Faiz Abdullah from the Institute of Strategic and International Studies Malaysia, looking at how China has been working to sustain cooperation in a fragmented world from a Malaysian perspective through initiatives like the BRI and GSI, among others, as well as the concept of “Malaysia Madani” as a philosophy to bridge East and West.

In the final part of this book, titled “A New Vision for the Global Governance,” we examine the possible ways out of the current fragmented state of the world and explore a future of mutually beneficial goals to which all nations can ascribe. It begins with a unique perspective on Europe’s future in a contested global environment from Fabian Zuleeg of the European Policy Centre, who looks at current issues and challenges in terms of the Russia-Ukraine conflict as a watershed moment not only for Europe, but also for the world in terms of policy response and how nations may act together to preserve the global order. This is followed by observations on the role of large corporations in global governance from Timo Gerrit Blenk and Lena Schorlemer of Agora Strategy, focusing on five key pressure points and how corporations can serve as “executers” and “facilitators” of policies in global governance.

Stepping back for a broader view, Emanuel Pastreich of The Asia Institute takes a global perspective on the future of cyberspace as a part of global governance in an increasingly digital world, proposing an international “Constitution of Information” to set standards on which all nations can agree to manage cyberspace. Mehri Madarshahi of the Institute for Public Policy at the South China University for Technology, continues this conversation by emphasizing that any new form of global governance must serve all, highlighting the increasingly important role of China in the process of moving toward a less unipolar world in which multiple competitive ideologies coexist. Finally, to round out this part and the entire book, Pascal Lamy, Vice President of the Paris Peace Forum, shares his views and recommendations on how to reshape the global order, calling for a new approach to the fundamental institutions and values on which they are based, emphasizing a more universal and inclusive approach to setting these standards. Mr. Lamy also goes into detail as to how this may be implemented by providing several scenarios with specific steps to be taken.

Clearly, a common, central theme through all of the contributions outlined above is the need for a more universal, inclusive, and multilateral approach to reforming global governance and the world order that includes all nations. It is in this spirit that the world can walk out of the shadow of what Pascal Lamy terms a “polycrisis” that affects nearly all nations—this includes climate change, geopolitical instability, or the protection of sovereignty and national security in a radically changing world.

Think tanks are essential in analyzing current trends and providing potential solutions that aid governments, international organizations as well as businesses in finding solutions that are beneficial to all. The inclusion of as many stakeholders in this process will ultimately ensure that the future of global governance is multilateral in nature and more representative of a world that is increasingly balanced, whether it be in terms of East-West or North-South relations. COVID-19, like many previous pandemics, has claimed countless lives, so will climate change and other crises if

we keep arguing and seeing others as rivals. In the end, there is little difference between West and East, or North and South, when we are facing existential threats as a common community of all mankind.

Beijing, China  
May 2024

Henry Huiyao Wang, Ph.D.  
Founder and President of Center for  
China and Globalization (CCG)

Mabel Lu Miao, Ph.D.  
Co-founder and Secretary-General  
of CCG

# Acknowledgements

Think tanks are where ideas meet and are transformed into action. The opportunity to bring together people with like minds and common convictions is something that must be cherished and taken advantage of. As one of China's leading think tanks, CCG is in a unique position to bridge the gap in knowledge between China and the West, while also fostering dialogue and exchanges that could lead to solutions for a better world. We would sincerely like to thank all of our fellow researchers and think tank experts for your invaluable contributions to this book.

We would also like to recognize the immense contribution from our commissioning editors at Springer Nature Group and their team, particularly Yingying Zhang and Leana Li. We thank them once again for their continued support and partnership in creating books that provide the world with alternate perspectives and workable solutions. It is our combined effort and dedication that makes this possible.

Having started Track II Diplomacy outreach even before China fully lifted its COVID restrictions, CCG saw the need to restart dialogue as early as possible and it was the global think tank community that we reached out to first. This book is undoubtedly a result of that initial spark and we are grateful to the researchers and other professionals who worked closely with our team at the CCG Publishing Centre, which worked with each author to ensure their contributions were treated respectfully and incorporated in a way that was both relevant and in keeping with their wishes. We are proud of our team and would like to express our warmest thanks and appreciation to Yueyuan Ren, Joshua Dominick, Yan Li, Hong Liu, Beijie Tang, and Xiaohan Liu.

The breadth and depth of the views expressed by our contributors mean that there is something for everyone, which is why our final message of appreciation goes to our readers. Regardless of your background, if you have an interest in or a relationship with China, we encourage you to explore the topics in this book. We thank you for

your support and welcome your feedback. You are why we continue to strive to produce timely, insightful, and engaging analysis of global trends. Thank you!

Henry Huiyao Wang, Ph.D.  
Mabel Lu Miao, Ph.D.  
Center for China and Globalization  
(CCG)

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# Editors and Contributors

## About the Editors



**Henry Huiyao Wang, Ph.D.** is the Founder and President of the Center for China and Globalization (CCG), a think tank ranked among top 100 think tanks in the world. He is also Dean of the Institute of Development Studies of Southwestern University of Finance and Economics of China, Vice Chairman of China Association for International Economic Cooperation, and a Director of Chinese People’s Institute of Foreign Affairs. He is currently a steering committee member of the Paris Peace Forum and a member of the advisory boards of both Duke Kunshan University and Richard Ivey Business School. He has served as an expert advisor for the World Bank, IOM, and ILO. He pursued his Ph.D. studies at the University of Western Ontario and the University of Manchester. He is the Chief Editor of the Springer Nature book series *China and Globalization Series*, *Chinese Enterprise Globalization Series* and the *International Talent Development in China Series*. He was Senior Fellow at Harvard Kennedy School and Visiting Fellow at Brookings Institute. His books in English include *Globalizing China* (2012); *China Goes Global* (2016); *Handbook on China and Globalization* (2019); *Globalization of Chinese Enterprises* (2020); *Consensus or Conflict?: China and Globalization in the 21st Century* (2021); *The Ebb and Flow of Globalization: Chinese Perspectives on China’s Development and Role in the World* (2022); *Understanding Globalization, Global Gaps, Power Shifts in the 21st Century: CCG Global Dialogues* (2022); and *Escaping Thucydides’s Trap: Dialogue with Graham Allison on China-US Relations* (2023).



**Mabel Lu Miao, Ph.D.** is the Secretary-General of CCG, a Munich Security Conference (MSC) Young Leader, and the Deputy Director General of the International Writing Center at Beijing Normal University. She is also an Adjunct Professor at Huaqiao University and an Adjunct Researcher at Beijing Foreign Studies University. She received her Ph.D. in Contemporary Chinese Studies from Beijing Normal University and has been a visiting scholar at New York University's China House and the Fairbank Center at Harvard University. Dr. Miao is a co-author of many Chinese Social Science Academy blue books and Chinese Social Science Foundation's research project reports. Dr. Miao has published a number of books in Chinese, which detail developments in China's outbound business and global talent. Her latest publications in English include *Blue Book of Global Talent: Annual Report on the Development of Chinese Students Studying Abroad*; *International Migration of China: Status, Policy and Social Responses to the Globalization of Migration* (2017); *China's Domestic and International Migration Development* (2019); *Transition and Opportunity: Strategies from Business Leaders on Making the Most of China's Future* (2022); *China and the World in a Changing Context: Perspectives from Ambassadors to China* (2022); *Strategies for Chinese Enterprises Going Global* (2023); and *The Challenge of "Going Out": Chinese Experiences in Outbound Investment* (2023).

## Contributors

**Faiz Abdullah** Chairman, Institute of Strategic and International Studies (ISIS) Malaysia, Kuala Lumpur, Malaysia

**Zamir Ahmed Awan** Founding Chair, Global Silk Route Research Alliance (GSRRA), Islamabad, Pakistan

**Timo Gerrit Blenk** Partner and CEO, Agora Strategy, Munich, Germany

**Kent E. Calder** Director, Reischauer Center for East Asian Studies, Johns Hopkins University SAIS, Washington, DC, USA

**Markus Engels** Secretary General, Global Solution Initiative (GSI), Berlin, Germany

**Bert Hofman** Director, East Asian Institute, National University of Singapore, Singapore, Singapore

**Tiang Boon Hoo** Associate Professor, S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore, Singapore

**Steve Howard** Secretary General, The Global Foundation, Melbourne, Australia

**Daniel J. Ikenson** Research Contributor, Hinrich Foundation, Singapore, Singapore

**Grzegorz Kołodko** Director of TIGER—Transformation, Integration and Globalization Economic Research, Kozminski University, Warsaw, Poland

**Pascal Lamy** Vice President, Paris Peace Forum, Paris, France; Coordinator, Jacques Delors Think Tanks (Paris, Berlin, Brussels), Paris, France

**Arancha González Laya** Dean, Paris School of International Affairs (PSIA), Sciences Po, Paris, France

**Mehri Madarshahi** Honorary Professor, Institute for Public Policy (IPP), South China University for Technology, Guangzhou, China

**Paolo Magri** Executive Vice-President, Italian Institute for International Political Studies (ISPI), Milan, Italy

**Mabel Lu Miao** Secretary-General, Center for China and Globalization (CCG), Beijing, China

**Omar Mjenga** President and Chief Executive Officer, Center for International Policy-Africa (CIP), Dar Es Salaam, Tanzania

**Keng Yong Ong** Executive Deputy Chairman, S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University (NTU), Singapore, Singapore

**Emanuel Pastreich** President, The Asia Institute, Seoul, Korea

- Jasna Plevnik** President, Geoeconomic Forum Croatia, Zagreb, Croatia
- Dubravko Radošević** Professor, University of Zagreb, Zagreb, Republic of Croatia
- Stephen Roach** Senior Research Scholar, Paul Tsai China Center, New Haven, US
- Lena Schorlemer** Project Manager, Yale Law School, Agora Strategy, Munich, Germany
- Michael Schumann** Chairman of the Board, Federal Association for Economic Development and Foreign Trade (BWA), Berlin, Germany
- Tobby Simon** Founder and President, Synergia Foundation, Bengaluru, India
- P. S. Srinivas** Visiting Research Professor, East Asian Institute, National University of Singapore, Singapore, Singapore
- Piet Steel** Chairman of the Board, Europe Asia Center, Brussels, Belgium
- Urs Unkauf** Federal Managing Director, Federal Association for Economic Development and Foreign Trade (BWA), Berlin, Germany
- Henry Huiyao Wang** Founder and President, Center for China and Globalization (CCG), Beijing, China
- Michael Yeoh** President, KSI Strategic Institute for Asia Pacific, Kuala Lumpur, Malaysia
- Fabian Zuleeg** Chief Executive and Chief Economist, European Policy Centre, Brussels, Belgium

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# **The Argument for Multilateralism**



# Reclaiming Multilateralism



Aranca González Laya

**Abstract** The world is facing numerous crises that demand a renewed commitment to multilateral cooperation. The Covid-19 pandemic highlighted the unequal distribution of vaccines and the need for global solidarity. Economic disruptions and rising debt distress followed, compounded by Russia's invasion of Ukraine, affecting food, fertilisers, and fuel markets worldwide. Efforts to combat climate change have been insufficient, and geopolitical tensions, particularly between China and the USA, threaten global regulatory frameworks. Within this challenging panorama, this article emphasises the indispensability of multilateralism in effectively addressing these pressing challenges head-on.

**Keywords** Multilateralism · Sustainability · Risk management · Interdependence · Economic fragmentation · Artificial intelligence · Nuclear risks

## 2022—A Difficult Year for International Cooperation

In 2022, the world was still recovering from the Covid-19 pandemic which had impacted every country on earth, but with limited solidarity on display. At the onset of the crisis, the scientific community immediately set out to develop a vaccine against the virus and in record time managed to produce remedies to protect citizens. But the distribution of the vaccine was very unequal around the world. On average, around 70% of the world's population has received at least one dose of a Covid-19 vaccine, but this number is only around 27% in low-income countries. While 90% of Chinese people, 70% of US citizens and 75% of EU citizens have completed a full set, only 30% of Africans have. This is all despite the efforts by the United Nations and the G20 to develop public private schemes to produce and distribute therapeutics and vaccines against Covid.

Covid-19 also had a dramatic impact on economies across the world. The lockdowns adopted to prevent the spread of the pandemic disrupted global value chains,

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A. G. Laya (✉)

Paris School of International Affairs (PSIA), Sciences Po, Paris, France

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brought entire sectors like tourism to a standstill and required governments to provide public support to businesses and citizens alike. As a result, public debt skyrocketed and the list of developing countries experiencing debt distress has greatly expanded. Default rates have risen as has the need for debt restructuring.

As the world was recovering from the pandemic, Russia invaded Ukraine in breach of international law. The invasion has caused enormous human suffering, but it has also impacted food, fuel, and fertiliser markets worldwide. Higher prices for commodities are fuelling inflation. Neighbouring regions are facing the impact of disrupted trade, tourism as well as an unprecedented flow of migrants. More broadly, the war is denting business confidence and bringing additional investor uncertainty. For many countries this means additional pressures to an existing tight situation, in particular on the debt side. Thanks to the efforts led by the United Nation with Türkiye, an agreement was reached between Ukraine and Russia to resume exports of grains and fertiliser from certain Ukrainian ports, thus reducing price pressures. However, as the war continues and its impact on food markets remains, the risks will continue to be too high as will the threat to poorer countries.

In 2022, we also saw efforts by the international community to step up the fight against climate change. The COP in Sharm el Sheik produced some results, notably in the form of the contours of a loss and damage fund for climate vulnerable countries. And although countries reaffirmed their commitment to limit global temperature rise to 1.5 °C above pre-industrial levels, the fact is that no major new steps were announced by governments towards this goal. It is fair to say that at current trajectory this objective will be missed.

In July 2022, members of the World Trade Organisation reached a landmark agreement to curb subsidies that contribute to overfishing. This was the first time that a trade agreement was out at the service of achieving a sustainability goal. And at the Montreal Conference on the Convention on Biodiversity in December members of United Nations agreed on concrete measures to halt and reverse nature loss, including putting 30% of the planet and 30% of degraded ecosystems under protection by 2030. These two examples offer hope for multilateral cooperation to protect global public goods.

Finally, 2022 also saw the China–USA rivalry heating up. A visit by Nancy Pelosi to Taipei was followed by an announcement by China of its intention to end cooperation with the USA on climate change. Later in the year, the USA announced a set of measures severely restricting Chinese access to American technology and knowledge. After decades of working to see the economies of both countries' convergence under one set of international rules under the World Trade Organisation, there is now a clear risk of fragmentation of the global regulatory framework. The risks of a misstep in the relationship with dire consequences for the rest of the world cannot be excluded.

Against this background, the world needs to see greater multilateral cooperation. The multiple crises that the world is facing require renewed engagement from the international community to devise effective responses. Multilateralism must be about preventing and protecting common interests and the values represented by the United Nations Charter that every member of the organisation has agreed to uphold.

The world has fundamentally changed since the end of the Second World War when the United Nations and the Bretton Woods Institutions were created. A more multipolar world, technological progress, the emergence of new actors in business and civil society, climate change as one of the greatest threats to humanity, a growing interdependence and much more point to the need to reform international governance to respond to today's challenges.

## **A World Facing Threats to the Global Order**

We are at a crossroads in terms of threats to the global order. When we look closely at the complex and interconnected challenges that we currently face, the call for multilateralism is a pragmatic choice that will ensure the most effective response. A number of today's defining global issues require our utmost attention: the energy transition to combat climate change, preparing the world for the next pandemic, managing the risk of economic fragmentation, designing an international governance for artificial intelligence or managing nuclear risks. While debates about multilateralism often appear very theoretical, these examples with its practical implications for citizens around the world urge us to act. Above all is the need to invest in a rules-based order, one that protects countries sovereignty and territorial integrity, one that offers victims the right to justice and redress.

### ***Ensuring a Faster and Fairer Energy Transition to Combat Climate Change***

This year continues to be one of the world's hottest years with a temperature forecast of about 1.1 °C above the average during the pre-industrial period. If we do not change this trajectory, we are on a path that will lead to large-scale and irreversible changes in climate systems. We must act collectively to avoid crossing this threshold and do as much as possible to preserve the ecosystems of our planet, including the West Antarctic and Greenland ice sheets, the Amazon rainforest, the warm-water coral reefs, and permafrost. We are currently walking on thin ice, crossing the tipping points in one of these systems could lead to the collapse of the other systems and have severe impacts. Weather events such as heat waves, storms, and droughts are likely to become more frequent, more intense, and widespread. The key to tackling the climate crisis is to end our reliance on energy generated from fossil fuels and to seek carbon-neutral development. The energy transition must be faster and fairer. Managing climate change is also a way to prevent the next pandemic. Limiting deforestation is key, as animals migrate to populated places due to their loss of habitat, they increase the risk of spreading infectious diseases. Big emitters must accelerate emissions reductions and for that fast-tracking the energy transition would

be essential. In addition, the COP 28 in the UAE should focus attention to mitigation measures in particular those related to the agricultural sector which impact lives of millions around the world.

### ***Pandemics: Recovering from Covid and Preventing the Next Pandemic***

Since 2019, Covid has magnified the tensions and flaws of the multilateral health system. The pandemic highlighted the difficulties to cooperate on medical research, access to vaccines, medical supplies, and curbs the spread of the virus. The fight against pandemics requires close coordination at a global level. We failed to prioritise and provide fair and equitable access to vaccination and implement testing and treatment strategies globally. It is time to learn from these mistakes and adjust our systems, by strengthening proactive strategies, we need to prevent global health threats from emerging and spreading and to develop an efficient cooperation-based health system. In 2023, we must work to strengthen global pandemic governance. A new international legal instrument is needed to govern pandemic prevention, preparedness and response. Important steps in this direction were taken last year with the establishment of an intergovernmental negotiating body within the World Health Organisation that is mandated to produce a final draft agreement by May 2024. The principle of “one health” would ensure coherence between policy at the national and supranational levels and provide an integrated response to animal, human, and environmental health issues.

### ***Limiting the Risk of Economic Fragmentation to Ensure Shared Prosperity***

The rise in geopolitical tension is driving strategic competition between countries and regions. As a result, despite decades of openness that have fostered economic interdependence, the risk of economic fragmentation is also intensifying. We need to find the right balance between economic openness and greater security, in particular in military technology. Since the end of the Second World War, increasing global integration has been a major force for progress in the global economy. Looking at the economic front, we risk a slow-walking geo-economic fragmentation under the guise of friend-shoring, USA–China technological decoupling, or the disconnection between payment systems. This will lead to growing inflation, fewer economic opportunities—in particular for developing countries—a stifling of innovation, and decreased productivity. The risk is not so much one of de-globalisation but rather a fragmentation of the level playing field as we have started to witness in the technology

and services sectors. Fragmentation will lead to higher costs. The World Trade Organisation estimates that dividing the world into two economic and trade zones would reduce global GDP by 5%. The IMF has also warned that a severe fragmentation with the addition of technological decoupling could result in a loss in output of 8–12% in some countries. To avert this damaging fragmentation, the rules-based multilateral trading system must adapt to this changing world with resilience building rather than decoupling, active risk management and clear guardrails to protect national security, in particular regarding technology.

### ***International Governance for Artificial Intelligence***

Artificial intelligence is now part of everyday life. Whether in terms of communications, learning, work, the fight against climate change, or health care, technology is transforming our economies and societies and challenging what it means to be human. But these technologies are also generating risks and challenges. Disinformation, fake news, inequalities, market concentration, malicious use, repression, and much more are the hidden dangers of artificial intelligence. Take the last iteration of ChatGPT's language-prediction model, which raised a big question in the education community: learning and creating versus plagiarism. Social networks and the risk of disinformation can also exacerbate political tension and polarisation and weaken legitimacy in democracies. Meanwhile, AI also poses difficult questions in the security and defence sector with autonomous weapons, massive surveillance, cyberattacks, and digital manipulation. We must urgently work to regulate the use of these technologies both at the national as well as at the international level. We need to collectively find a balance between regulation and freedom seeking to foster the common good and human rights. A new mechanism of data governance cooperation is urgently needed building on accountability, ethics, and transparency. A new multilateral framework transcends competition in favour of cooperation. The adoption by members of UNESCO of a set of voluntary recommendations on the ethics of AI is a good first step. Much more is needed.

### ***Managing Nuclear Risks***

Since the first use of nuclear weapons in 1945, nuclear risk has haunted humanity. However, the creation of the United Nations in the same year allowed for the collective management of nuclear risks. By 1958, a proposal signed by around 10,000 individuals was presented to United Nations Secretary-General Dag Hammarskjöld, calling for an international agreement to ban testing of nuclear weapons. Since then, the prospect of mutually assured destruction has provided a compelling deterrent to the use of nuclear weapons. Nonetheless, the possibility of an unintended nuclear attack

due to misperception and/or misinterpretation of signals remains despite the catastrophic consequences that this would have. Existing and growing tensions between countries such as Pakistan, India, Iran, North Korea, and others remind us of the need to advance nuclear non-proliferation. Recent developments in the Ukraine–Russia war make this an absolute necessity.

## **Managing Risks Effectively Requires a Reformed Multilateralism**

We need to remember what we owe to the multilateral system. It is of course imperfect, but it has provided one of the longest periods of collective prosperity in human history. Since the 1990s, a rules-based open economy has lifted more than 1 billion people out of abject poverty. In addition, there has been tremendous progress in decolonization that brought many new countries to the United Nations, and recognition of minorities and women’s rights. However, it is also clear that the multilateral system requires a serious revamp in several of its dimensions.

### ***Multilateral Actors***

The current multilateral system is centred around nations-states: they are the main actors in a system that remains international. However, today nation-states, while being central to governance efforts, are no longer sufficient to ensure effectiveness. Businesses today are essential to global governance. Take the example of climate change. We have seen how even in cases where governments have been unwilling to adopt measures to reduce emissions, businesses have taken upon themselves to build coalitions to contribute to the objectives of the Paris Climate Accord. We have also seen businesses take the lead on adopting sustainability standards. The same can be said about civil society or philanthropists who are also contributing to better governance. Some international organisations and cooperation frameworks have included these actors into their structures or working methods. Take the International Labour Organisation with its tri-partite structure that brings together governments, trade unions, and business organisations. Or the International Standardisation Organisation, an independent non-governmental organisation producing market relevant standards in areas as important as artificial intelligence, food safety or energy. Today the integration of these new actors is essential in other areas such as trade, agriculture, or security. The same can be said of sovereigns like cities and regions who today have a role to play too. Let’s think of the coalition of mayors of large cities under the C40.

### ***A More Horizontal Management of Interdependence***

The second issue that must be rethought is how to best manage global interdependence. The current international system is built around vertical silos, for agriculture, for intellectual property, for finance, for trade, or for health, to give just a few examples. However, interdependence requires a more horizontal weaving of all those issues which are more and more inter-related. It was interesting to see this happen at the time of discussion of the Sustainable Development Goals. This method should be generalised. Putting more effort into forecasting can help in this respects which is why the United Nations should devote greater attention and resources at future scanning. At the end of the day anticipating the future can help in getting prepared to better shape it.

### ***A Global Order that Gives Room to Small and Middle Powers***

The current state of the world is defined by the confrontation between the USA and China and is straining the multilateral system. Both believe today that the interdependence built over the last few decades needs to be pared back to avoid overdependence. This impacts on the multilateral system as a whole, but especially on other players. At the same time, progress achieved over this period has also empowered middle powers who have “agency” and need to play a more assertive role not only in protecting the system but also in adapting it to the new circumstances.

Twenty years ago, Canada and Norway established the Human Security Network which campaigned to ban anti-personnel mines and push forward the idea of the “responsibility to protect”. Today we are also seeing Chili, Singapore, and New Zealand take the lead to incorporate digital trade in the WTO.

The same can be said of smaller powers who, despite their small size, represent a large number of players and therefore also have the possibility to support the multilateral system to ensure that it also reflects their interests. This is what we have seen in the area of climate negotiations where their insistence on loss and damage has resulted in an agreement to address this issue multilaterally.

Multipolarity today requires middle powers and smaller actors to step up their game to reform the multilateral system.

### ***From Global Deals to Dealing with Global Issues***

The idea of grand design and big multilateralism seems difficult in the current circumstances, but greater consensus may be achieved by focusing on specific issues.

For instance, the deal reached at the World Trade Organisation last July took one issue, namely “reducing subsidies to overfishing” and managed to have all their

members agree on it. Russia, China, Ukraine, the USA, and the EU all supported a final deal. The international community did the same at the OECD, agreeing on a common deal to tax multinationals.

In recent decades, states have demonstrated successful issue-based cooperation, to cope with the proliferation of nuclear weapons and the risk that it involves. Latin America, the South Pacific, Southeast Asia, Africa, and Central Asia ratified nuclear-weapon-free zone (NWFZ) treaties through which they commit not to manufacture, acquire, test, or possess nuclear weapons.

Multilateralism allows to have everyone around the table and agreements foster common respect, and empathy necessary for a functional international community and effective crisis resolution. If we are to take the example of climate change, it is necessary to move faster in implementing emissions-reduction measures, but the need for consensus in the global climate process makes this difficult. Yet only multilateral climate negotiations can lead to successful actions. Seeking consensus on specific areas such as methane reduction can contribute to the overall objective. An issue-based approach may be perceived as too modest, but at the same time it offers an avenue to provide concrete results and demonstrate the value of international cooperation.

### ***Multilateralism Built from Plurilateral Deals***

Global issues can best be addressed with rules that are applicable to all countries, especially those that are systemic to the issue in question. However, it is also true that many multilateral deals have been built on the basis of a plurilateral effort. Even if it isn't the best option, multilateral institutions should not reject the possibility of continuing to build governance responses by engaging in plurilateral deals. They may be second best, but they also have the benefit of becoming real.

### ***A Results-Based Multilateralism***

Reforming multilateralism also requires paying more attention to measuring results and impact. Whether in the case of normative organisations or those that are more of a deliberative nature, or those that have a development mandate, multilateralism should focus more of tracking the results of its work and not only measuring input. Better measurement would help in demonstrating efficiency and effectiveness which in turn is the essential bedrock of legitimacy.



## Conclusion

We are at a turning point in history. Faced with numerous and complex global risks, it is our duty to choose multilateralism, the collective, solidarity, and trust over unilateralism, discord, antagonism, and fear. The UN Secretary-General’s Summit of the Future to be held in 2024 offers a unique opportunity to build an international consensus to better manage our common future. A future based on the rule of law as opposed to the rule of the strongest. A future based on human dignity shared progress and respect for human rights. We should use 2023 to build a common agenda with for a reformed multilateral architecture. This is our best bet for a new global order to manage a more multipolar world.



**Arancha González** is the third Dean of PSIA at Sciences Po and the first woman to lead the world’s third school for Politics and International Studies. Prior to joining PSIA, she served as Spain’s Minister of Foreign Affairs, European Union and Cooperation (2020–2021). She was previously Assistant-Secretary-General of the United Nations and Executive Director of the International Trade Centre (2013–2020). Between 2005 and 2013, she served as Chief of Staff to the Director-General of the World Trade Organisation, Pascal Lamy. Before that, she held senior positions at the European Commission in the areas of international trade and development. She started her career as lawyer in the private sector. A Spanish national, she holds a degree in law from the University of Navarra and a Master’s in European Law from the University Carlos III of Madrid.

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# Multilateralism as a Prerequisite for Sovereignty



Markus Engels

**Abstract** National sovereignty is often described as the ability to govern on one's own territory, but complete sovereignty has never existed in practice and there has always been cross-border trade and exchanges between local populations independent of state regulation. Climate change and global pandemics cross borders and challenge the ability of national governments to ensure security and that basic needs are met for their own populations. Joint action leads to better results and only multilateralism can foster effective sovereignty.

**Keywords** National sovereignty · Multilateralism · World order · Climate change · Sustainable development goals

In recent years, there have been major shifts in the global distribution of political and economic power that will have significant implications for a functional the global order. A new order for the twenty-first century is only just beginning to emerge. Though new world orders have regularly come into being throughout history, this process is challenging in the current environment because of the urgent issues currently affecting the entire planet. These global threats could have irreversible consequences and require swift action by the global community. While we urgently need bold international action, there are obstacles—not least because of the upheaval in the global order—that hinder this much-needed, collective response.

One of the most significant developments of recent decades in terms of the global reordering has been China's rapid economic rise, which has lifted millions of people out of hunger and poverty. China's ascent—and those of other former emerging economies—rightly calls into question the architecture of the international order, the essential design of which was shaped in the aftermath of World War II and the balance of power at that time. Although there have been partial adjustments since then, the current order has been in place for over seventy years.

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M. Engels (✉)  
Global Solution Initiative (GSI), Berlin, Germany

Even while many bodies within the UN system make existentially important decisions on a daily basis, and thus ensure the functioning of global public goods, the emerging international reorganization is already plagued by conflicts. Predictably, a realignment means that the roles of both industrialized and emerging and developing countries will change. Moreover, what makes this recalibration so difficult is that it entails concrete responsibilities: While the West, which has been internationally dominant for decades, will lose influence, former emerging countries must assume greater responsibility, which will also involve significant expenditures by developing countries. Both represent an enormous challenge not only for the existing international system, but also for the governments concerned with their domestic political discourse. On the one hand, it should be self-evident that the West must recognize these new realities and support a fairer and more appropriate architecture, both in international organizations and the multilateral system as a whole. At the same time, however, former emerging and developing countries can no longer insist on maintaining their previous status when it is clear that their basic economic situation has changed.

Notwithstanding recognition of past colonial crimes, which continue to cause massive injustice and misery today, and despite the fact that Western states have historically emitted the lion's share of CO<sub>2</sub>, a state's sovereignty should be dependent on its government taking responsibility for the consequences of its own actions. This means, in concrete terms, that today's emitters must take responsibility, even if they have contributed little to the enormous CO<sub>2</sub> emissions of the past. The principle of "common but differentiated responsibilities,"<sup>1</sup> written into the UNFCCC climate framework agreement, leads us in the right direction. However, just as the international order needs readjustment, this agreement also needs to be adjusted to account for new distributions of power and to incorporate the "polluter-pays" principle.

It will likely take a few years for the contours of a new international order to emerge and gradually take shape on analytic and conceptual levels. This article attempts to present some preliminary considerations for discussion in this process.

In most textbooks, national sovereignty is described as the ability to govern on one's own territory. This refers to the exercise of legitimate state power, which is associated, among other things, with the obligation to provide for the population within one's own territory and to ensure its security.

It should be borne in mind here that complete sovereignty has never existed in practice: there has always been cross-border trade, including informal cooperation across borders, as well as exchanges between local populations that function independently of state regulation.

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<sup>1</sup> <https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance/introduction-to-climate-finance>.

The fact that the concept of sovereignty is, in places, arbitrary, can also be seen in regard to some national borders: here we recall the borders of African states drawn with a ruler, as well as European borders that have shifted again and again over time. In addition to these examples of the arbitrariness of national borders and the associated limitations of the concept of sovereignty, today's world poses another example. In times of weapons of mass destruction and environmental damage whose effects do not end at national borders; in times of increasingly visible climate change, loss of biodiversity and global pandemics; it is obvious that it is beyond the ability of national governments to ensure security and that basic needs are met for their own populations.

In this context, the processes commonly described as "globalization" also play a significant role. Worldwide trade and the international division of labor, global exchange of resources, international tourism, city partnerships, and the exchange of knowledge across borders have led to growing prosperity and progress, to increased knowledge of distant countries and cultures, and thus to greater interdependence on our planet. These processes have, at the same time, limited national capacity for governance. Most recently, the pandemic has shown just how closely interconnected humanity is, to the extent that the idea of trying to protect one nation from Covid-19 by means of isolation is doomed to failure.

In order for the international division of labor to function, multilateral structures have emerged in recent decades; specifically, a rule-based international order, codified in international law and embodied by permanent international organizations that promote and monitor compliance with this order.

This development has been accompanied by regional multilateralization, that is, the emergence of regional alliances, and has been supplemented by an ever-increasing specialization and density of regulations. For example, the number of specialized UN agencies and international legal agreements has increased exponentially in the post-World War II period.

Within such a system, it is obvious that multilateralism is not a contradiction of sovereignty, but rather a fundamental condition and prerequisite of it. Governments enter into international trade agreements to ensure the supply of goods to their populations, they join forces in security alliances, and they jointly fight pandemics or climate-related issues. Only by acting multilaterally in this way can a government fulfill its inherent obligations to society. And vice versa: with less international cooperation comes more limited provision of the global public goods that are of existential importance to nation states in the twenty-first century. North Korea may serve as a case study in this context: here, the most basic goods and services for individuals and society are not available, in part because the government in Pyongyang practices extensive international isolation.

If sovereignty and multilateralism are so closely interrelated, it is clear that a return to nationalism does not strengthen national sovereignty, as was proclaimed in the British Brexit campaign. The UK has not gained more independence after Brexit, as the slogan “Take back control” suggested, and the Government has not invested more money in the British health system, the NHS, as promised. Instead, London is sinking ever further into economic and political chaos, which has a negative impact on jobs, purchasing power, culture and, ultimately, on the national mood. The healthcare system is also suffering as a result of British re-nationalization.

If you consider that a car consists of more than 10,000 individual components, and a modern cell phone is made up of more than 60 parts that are produced in many different countries, the negative result of Brexit is not surprising. Multilateralism leads to a positive sum game in which everyone wins, while a return to nationalism leads to a zero-sum game in terms of power politics or even to a regression in the development of society as a whole. As in the second half of the twentieth century, a global interdependence came to be part of the core of sovereignty. I would therefore call this “reciprocal sovereignty.”

In my view, this conclusion has enormous implications for national governments. All those who want to visibly bring their national weight to bear in a future order would do well to strengthen multilateral structures! After all, combating climate change, sharing knowledge to contain pandemics, gaining insights into sustainable agriculture, refining transport or urban planning policies, and fighting poverty all serve to nurture not only the planet’s ability to survive, but also the resilience of nations.

In addition, technological revolutions such as digitization, the rapid advance of artificial intelligence, and genetics urgently require global regulation. This is necessary to realize the positive opportunities of these innovations, rather than engender an environmental, social, cultural, and freedom-restricting step backward.

It is therefore urgent that emerging powers such as China, India, South Africa, and others present their blueprint for a global order. These and other countries, for understandable reasons, want a new order in which the Global South takes on a more important role.

Epochal groundwork has already been done that can serve as a substantive guide for such an order. Not only the universal UN human rights documents, but also the Sustainable Development Goals of 2015 and the Paris Climate Agreement of the same year have all formulated goals that are relevant for the survival of humanity in the twenty-first century.

How these goals are translated into a sustainable, cooperative, and resilient order is the task of our time. Indeed, the perspectives of particularly affected groups and of future generations, who are often not the originators of global problems but are the main victims, must be taken into account in this process. The agreement with the V20 (Vulnerable 20), which was reached at COP 27, shows how these ideas can be put into practice. A system that exclusively takes into account the interests of the large and central powers will not be resilient in the long run.

As much as universal institutions and global agreements are important to achieve equitable and sustainable regulations, the limits of such mammoth projects have also become clear. The 27th Climate Change Conference recently held in Egypt was largely a disappointment for all involved—even if the global umbrella against climate risks and the establishment of a fund to compensate for climate-related loss and damage was a bright spot in the negotiations. And despite the unexpected success of the Indonesian G20 Presidency in producing a joint final communiqué at the G20 Heads of Government Meeting in Bali, this was ultimately achieved by explicitly including geopolitical points of dissent in the statement. So, the question remains: how can we deal with the tensions that inhibit global institutions, as we have seen for decades in the UN Security Council, when vetoes by permanent members prevent binding resolutions?

- Is the solution a form of plurilateralism, in which the most powerful states are now called upon to quickly establish a new order to accelerate, and perhaps force, the urgently needed solutions to global problems? According to this logic, would the G20 then perhaps have to be replaced by a G3 or G4 format? But how would such a system take into account the interests of the vast majority of states, regions, and peoples who are not part of a superpower?
- Or would it be more beneficial to reform the existing UN systems in which largely all states and civil society sit at the table in negotiations, so that they can meet the challenges of the twenty-first century? For such an attempt, however, it is certainly not encouraging that for years not even the states so closely allied in the EU have managed to agree on a joint seat on the UN Security Council. The reform discussions in the United Nations to date have fallen far short of the standards they have set for themselves.
- Perhaps thematic ad hoc initiatives, such as the climate club recently proposed at the G7 summit in Elmau, can point to how, for example, the inertia of the Paris Climate Agreement can be made more dynamic? What is certain is that such “clubs” would have to be inclusive and, above all, must not amount to a backward step or greenwashing for already existing agreements. In concrete terms, this means that reporting obligations, effective monitoring, continuity in the meeting of signatories and, in the best case, a permanent secretariat would have to be built in to such alliances!
- Or are observers correct who say that the time for multilateral alliances in the twenty-first century is over, and that we are now facing a phase of re-nationalization? This would not only be an admission of international failure in the face of lethal threats to humanity as a whole, but it would also lead to a cynical system in which only the wealthy and strong survive in an increasingly hostile world.

It is certain that a world order is only stable in the long term if it manages to avert imminent danger and prevent war. It is equally obvious that with great power comes great responsibility. This must be taken into account by those who want to assume more international responsibility and claim a greater say. But it is also clear that some who use the words “multilateralism” and “human rights” in an inflationary

manner are often themselves primarily pursuing their national self-interest and are looking out for their own advantage. One thing is certain: We live in an interconnected, interdependent world in which re-nationalization leads to enormous damage, at regional, national and international levels. That is why the “One Common World” project must now be implemented swiftly, not only with regard to various specific issues, but also institutionally. Time is running out!

At least there is broad agreement on the substantive challenges that affect humanity as a whole, and that can only be sustainably resolved internationally. For it is all too obvious that climate change and other environmental threats, obscenely unequal wealth distribution, weapons of mass destruction, and geopolitical conflicts, as well as many a disruptive innovation, are planetary threats that require coordinated, global collective action. A new international order will have to demonstrate that it can seriously address these challenges.

In Europe, after the catastrophe of World War II, we learned that only joint action leads to better results and that, as the title of this essay posits, only multilateralism can foster effective sovereignty. A similar lesson has been learned internationally, with the deepening of international law as mandatory law and with the creation of permanent international institutions. We should not forget this.

It is after all in the interest of all governments and supranational actors—and ultimately of everyone interested in globally sustainable development—to put forward proposals for an equitable international design.



**Dr. Markus Engels** is a social scientist with a background in politics and international affairs. Markus has previously acted as a senior scientific advisor to the German Federal Parliament, the European Parliament, and the Executive Board of the Social Democratic Party of Germany (SPD). He led the office of Deputy Party Chairman Frank-Walter Steinmeier and served as spokesman and campaign manager for Martin Schulz during his tenure as the president of the European Parliament and as the SPD chairman. He participated in the drafting of the European Charter of Fundamental Rights and the Charter of Fundamental Rights for the Digital Age. He studied in Duisburg, Portsmouth, and Berlin and obtained his doctorate from the Faculty of Law at the University of Munich (LMU).

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# Fostering Consensus to Prevent Future Catastrophes



Piet Steel

**Abstract** The challenges we face as a global community are diverse, multifaceted, and interrelated. These include political polarization, economic challenges, ecological challenges as well as challenges resulting from demographic shifts and migration. There is a growing awareness that major disasters or “catastrophes” related to these challenges are all a function of how humans interact with their environment, but these are now increasingly predictable and controllable thanks to cutting-edge technologies such as big data and AI that are used in disaster preparedness, response, recovery, and mitigation. Moreover, consensus on addressing these challenges should be a priority, not by abandoning our unique beliefs and values, but fostering mutual respect, which can ultimately prevent division and reduce the likelihood of unforeseen catastrophes.

**Keywords** Global challenges · Catastrophe · Technology · Ecology · Economics · Consensus building

The world we live in today is plagued with a multitude of challenges that have the capacity to endanger the survival of humanity on a global scale. These challenges can be broadly classified into different categories, including political, economic, ecological, cultural, technological, and social. This article endeavors to undertake an in-depth analysis of these challenges and the potential disasters that they could trigger. It underscores the severity of the current situation and aims to identify the underlying causes of these challenges, with the ultimate goal of formulating workable solutions that can prevent a catastrophe of an unparalleled scale.

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P. Steel (✉)  
Europe-Asia Center, Brussels, Belgium

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## The Challenges Today's World is Facing

Upon reflection, it is evident that while our society has made strides toward progress, we are still confronted with a variety of challenges. The Ipsos Global Trends Report recognizes that we are entering a “new world disorder.” “We can no longer afford to focus on the big issue at hand, because there are many interrelated issues at play” (Ipsos, 2023).

The challenges we face as a global community are diverse, multifaceted, and inter-related. One such challenge is political polarization, which refers to the increasing division and disagreement between different political factions within society and politics. This can be caused by a variety of factors, including economic inequality, ecological challenges such as climate change, and the agency of political parties and media outlets promoting their own narrow interests. Polarization can lead to social unrest, political instability, and a breakdown of trust in democratic institutions. It is a multifaceted issue that affects not only political spheres but also social and economic aspects of society.

Economic challenges include income inequality, concentration of wealth, reduced economic opportunities, and rising food/water/energy prices. These challenges are so serious and highly focused that the visibility of other emerging challenges is impeded, such as supply chain disruptions, inflation, debt, labor market gaps, protectionism, and educational disparities, which are not receiving the attention and resources they require and moving the world economy into choppy waters.

Ecological challenges, such as climate change and ecosystem destruction, have placed our food security, ecosystems, and human health in peril. These challenges could lead to catastrophic consequences such as mass migrations and social instability. Cultural challenges, including discrimination and identity politics, have contributed to social fragmentation and threaten global inclusion, diversity, and unity. Such challenges perpetuate stereotypes and social hierarchies. Furthermore, technological challenges like cyberthreats and artificial intelligence are rapidly developing, and their implications led to an increased risk of cyber-attacks, data breaches and cyberespionage, posing severe threats for individuals, businesses, and governments.

Finally, demographic shifts and migration have resulted in social and economic disparities. The aging population, longer life expectancies, and lower birth rates have created strains on social services, such as health care and pensions, as well as on the economy as a whole. Demographic shifts can also bring about changes in cultural and social norms, leading to challenges in adapting to new ways of life. Migration can create cultural clashes, social tensions, and economic disparities.

## The Types of Catastrophes

The United Nations Office for Disaster Risk Reduction (UNDRR) defines a disaster as a “serious disruption of the functioning of a community or a society at any scale due to hazardous events interacting with conditions of exposure, vulnerability and capacity, leading to one or more of the following: human, material, economic and environmental losses and impacts” (UNDRR, n.d.). “Catastrophe” is often seen as a synonym for “disaster.” However, there is a difference between disaster and catastrophe, both in scale and level of sustained support required to get to recovery (Rotton, 2019). A disaster is a severe event such as a massive flood, destructive tornado or hurricane, or human-caused or terrorist attack, while a catastrophe is an unusually extreme, rare event that affects an entire nation or part of the world. From the events of September 11, 2001, in the United States to COVID-19, these are typical examples of catastrophes. “These events require extensive resource assistance from outside the region and a global response. The damage to the social order, psyche, and security of the country or countries affected may be profound and prolonged” (ACHE, n.d.). To summarize, “Catastrophe” is a more disruptive disaster with a larger scale and scope of impact, and more difficult to recover from.

Catastrophes are traditionally and generally categorized as human-made or natural. The human-made catastrophes include climate change, ecosystem destruction, oil spills, chemical leaks, industrial disasters, and wars, while the natural catastrophes include earthquakes, hurricanes, floods, tsunamis, volcanic eruptions, and pandemics. These events can cause widespread damage to infrastructure, homes, and property, as well as loss of life and displacement of communities.

And as the technological revolution evolves, a subdivision of the catastrophes that occur in or closely related to cyberspace emerges, whose impact on sustainability is unknown. In cybersecurity, as more devices and systems become connected to the Internet, the risk of cyber-attacks and data breaches increases. A major cyber-attack on a critical infrastructure system (such as a power grid) could have serious environmental and social consequences. Moreover, the rise of digital technology has led to an increase in electronic waste, which can be difficult to dispose of sustainably.

However, there is now a growing awareness that catastrophes cannot be simply divided into “natural” or “human-made” ones. Instead, all of them can be seen as a function of how humans interact with their environment. The Center for Disaster Philanthropy (CDP) adopts a more comprehensive, objective and holistic definition, since they recognize that “disasters are a combination of natural hazards and/or severe weather in an interaction with people” (CDP, 2022). The root causes of disaster risk and disasters stem from structural conditions of a particular mode of development and growth. They are also shaped through social, economic, cultural and political processes, and conditions, practices, priorities, choices, and values that unfold over time (Oliver-Smith et al., 2017).

Determining whether there are more catastrophes happening now than in the past is a challenging task that requires defining what qualifies as a catastrophe and analyzing

historical events. Nevertheless, it is apparent that modern technology and globalization have increased the capacity for catastrophic incidents to happen at a greater magnitude. Compared to historic catastrophes like the plague and leprosy, contemporary catastrophes such as nuclear disasters have the potential to cause long-lasting environmental damage and pose a threat to human health and safety for extended periods after the occurrence. Global systems are becoming more connected and therefore more vulnerable in an uncertain risk landscape. For instance, the COVID-19 pandemic spread rapidly around the world due to modern transportation networks and the interconnectedness of global economies. Other examples include the rise of climate-change-induced wildfires, weather-related disasters, and disease outbreaks, with significant increases in both the total number of outbreaks and the diversity of diseases over the last few decades.

Additionally, in order to adapt to today's unprecedentedly complex regional, national, and international situation, a special kind of definition of catastrophe exists, which is called the complex humanitarian emergency (CHE). It is a type of disaster event (or sequence of events) that is caused by and results in a complicated set of social, health, economic and often political circumstances, usually leading to great human suffering and death, and requiring external assistance and aid (CDP, 2022).

To reduce the impact catastrophes on humanity and our planet, it is crucial to understand the reasons why catastrophes occur more than before. It is the interplay of three factors—human error, technological failures, and complex systems—that makes contemporary catastrophes even more complex and serious. Human error, as a common cause of catastrophes, is defined as any mistake or action that unintentionally causes harm or damage to an individual, organization, or society. Simple mistakes can lead to major accidents, especially in high-risk industries such as aviation or nuclear power. Often, human error occurs as the result of the interplay of psychological, social, and environmental factors. For instance, in aviation accidents, pilots have been found to commit errors due to fatigue, distraction, lack of experience, or failing to follow procedures. In health care, errors can arise from miscommunication or mistranslation of medical instructions, leading to adverse drug events or wrong patient procedures.

Technological failures are another cause of catastrophes. Systems such as nuclear power plants or aircraft require intricate engineering, and even a small failure within these systems can lead to disastrous consequences. The Fukushima Daiichi nuclear disaster in 2011 was caused by several technological failures. After a magnitude 9.0 earthquake and subsequent tsunami damaged the plant, cooling systems failed, leading to three meltdowns and the release of radioactive material. The failures were due to underestimating the risks posed by natural disasters and design shortcomings in the cooling systems.

Complex systems can contribute to the occurrence of catastrophic events, defined as those that contain a large number of interacting components. In the article "How Complex Systems Fail" by Richard I. Cook, the nature of failure in complex systems, including healthcare, transportation, and power generation, is discussed (Cook, 2023). Despite being heavily defended against failure, catastrophes can still occur

due to the combination of small failures. Indirect, cascading impacts can be significant. In the current era, modern technology and global interconnectedness result in a web of interdependent factors that make it much more difficult to predict potential consequences. For instance, the global financial crisis of 2008 is a good example of the complex interactions between financial institutions, government regulators, and a range of economic factors leading to a recession and years of economic uncertainty, despite the crisis being triggered by defaults on subprime mortgages in the US.

## The Catastrophes and Modern Technology

“Humanity, the built environment, and ubiquitous computing are becoming a continuum of consciousness and technology reflecting the full range of human behavior, from individual philanthropy to organized crime. New forms of civilization will emerge from this convergence of minds, information, and technology worldwide” (Glenn, 2023). The disasters that have occurred under this new civilization are inextricably linked to modern technology, in terms of their causes, dynamic processes, as well as their consequences and effects. Correspondingly, we humans are using technology to cope with catastrophes.

Are catastrophes predictable or controllable? To a certain extent, the answer is yes. And this predictability or controllability seems to become more within reach as we apply more cutting-edge technologies such as big data and AI for disaster preparedness, response, recovery, and mitigation.

The first way that modern technology can assist is by improving our ability to be prepared for catastrophes. For natural catastrophes, this can be achieved through the use of advanced technologies such as weather radar, satellites, and sensors that provide accurate meteorological and geological data. With efficient geo-location and scanning technologies, it is beneficial for the government to predict the area of impact before a disaster. Artificial intelligence and machine learning can also be utilized to analyze the collected information, allowing for a better understanding of patterns and trends in natural hazards. In the face of changes in planetary systems due to climate change and overexploitation of ecosystems, communities around the world are seeking new ways to understand and manage ecological–social risk. Creating “hybrid knowledge” on risk by using traditional methods and triangulating with data gained through science and technology become a necessity for more and more communities (Trogrlic et al., 2022).

Secondly, technologies can aid in the development of better coping mechanisms for the effects of catastrophes. For example, construction and engineering technologies can be used to construct more robust infrastructure and buildings that can withstand natural disasters. Technology can be used to coordinate and manage the response effort. Advanced communication technologies and logistics systems can also assist in faster response times, enabling the provision of essential rescue and assistance. For instance, big data generated from geo-informatics and remote sensing platforms helps identify the gaps and make recommendations on where to allocate

resources to mitigate the risk. This includes helping to see recovery, focusing on early warning dissemination systems and assessing resilience. In terms of self-help for survivors, social media also collects data and allows survivors to mark themselves safely in times of crisis, which is helpful for both emergency response teams and distressed friends and family.

Last but not least, technology can be used to support the reconstruction phase after a catastrophe. Take the JRC's (European Commission's Joint Research Center) applications in space technology as a case in point. In 2008, the European Commission, UN Development Group, and World Bank established a platform for partnership and action to strengthen coordination for early response capacities and recovery planning. The JRC contributed to this with the development of a guide for a multi-stakeholder needs assessment recovery framework (PDNA) that includes sector-specific tools for damage assessment from remotely sensed and other data sources. The PDNA framework was notably used during the Haiti earthquake disaster in 2010, where the JRC worked with the World Bank's GFDRR and the United Nations UNOSAT to produce detailed damage assessments and statistics for the most affected locations, supporting the Haitian government-led PDNA, which fed into the Action Plan for National Recovery and Development of Haiti (EU Science Hub, n.d.).

However, it is important to recognize that catastrophes such as earthquakes, tsunamis, typhoons, and rainstorms are often difficult to predict and fully control. Technology can therefore help us to better cope with the effects of catastrophes, but it cannot completely prevent them from occurring. Overall, the use of technology to support the scientific prediction, planning, preparation, management, and rehabilitation of catastrophes remains necessary and effective to minimize the impact of catastrophes on people.

## **Consensus in a Divided World**

In addition to the relationship between disaster and technology, there is a key dilemma, which is the difficulty of responding to catastrophes at a time when divisions and barriers are deepening on a global scale.

We are in a world of polycrisis where “the whole (situation) is even more dangerous than the sum of the parts (of crisis)” (Ipsos, 2023), and catastrophes are almost uncontrollably happening. At the same time, our world is becoming even more divided, which make the situation worse, or it could be said that a divided world becomes the major crisis in itself, even as it becomes a motive and trigger on the eve of disaster. The results of the survey on attitudes toward globalization show that there is a tendency toward increased division worldwide. The benefits of globalization are still debated, with some seeing advantages such as increased travel, cultural exchange, and cheap products, while others see negative impacts such as diluted local cultures, lifestyle homogenization, and rising emissions (Ipsos, 2023).

From disparities in economic development and living standards, to cultural conflicts and social injustice, these are various reasons why the divide is exacerbated.

Economic, geopolitical, public health, and societal fractures worsen after pandemics, which increases the likelihood of different and postponed responses to the important challenges confronting humanity and the environment. Political polarization is also a major trend, with the rise of far-right and far-left movements and increasing conflict in regions such as Europe, Asia, and Latin America. There is also a generation gap, with older generations more conservative and younger generations more concerned with issues such as climate change and social justice. Finally, there is a divide between developed and developing countries, with many developing nations struggling to keep up with advancements. These divides are likely to continue and even deepen in the future.

To avoid or decrease the irreversible hazards caused by catastrophes, it is necessary to build consensus, to find a way to combine universal values with regional cultures to promote dialogue, exchange, and cooperation among civilizations. But before that, what do we mean by consensus? The Cambridge Dictionary explains “consensus” in a concise manner: a generally accepted opinion or decision among a group of people. There is a human consensus, which includes universal values such as freedom, human rights, security, and happiness, which transcend political, economic, and cultural differences and become the common value orientation pursued by human beings. However, human consensus should also take into account historical origins and cultural tradition. A typical example is that there are major differences between the collectivism emphasized by East Asian societies and the individualism shared by Western societies.

Has consensus become impossible in a divided world? Fundamentally, we share so many values. We get caught up in the expression and implementation of those values, but that leaves room for hope that the forces dividing our world could also help to bring it together. From a practical point of view, we need to reach consensus because of the fact that the challenges we face today are transnational and transinstitutional, and they all require collaborative efforts on a global scale to produce viable solutions. Such collaborative action can be achieved through the involvement of governments, international organizations, universities, NGOs, and creative individuals, crossing diverse cultural contexts and facilitating exchanges between them, thus increasing mutual understanding and trust.

Consensus can be possible in a divided world, but it requires several considerations. Foremost, a concerted effort must be made to identify and define problems with precision, and to investigate them in a timely and cost-effective manner. Additionally, it is crucial to select effective leaders, convene expert panels, and ensure that data is accessible, supported, and disseminated. Moreover, it is essential to recognize that those who resist consensus may do so out of deeply held convictions, and to engage in intentional and sustained efforts to build trust in digital spaces to avoid further fragmentation. Finally, promoting dialogue, exchange, and cooperation among civilizations, while respecting diverse cultures, ethnicities, religions, and values, is crucial to achieving harmony and consensus.

The pursuit of consensus should remain a priority for humanity as it promotes harmony and cooperation in a diverse society. Seeking consensus does not require individuals to abandon their unique beliefs and values, but rather involves respecting

the distinctiveness of each individual. Through this approach, we can achieve harmony, prevent further division in the world, and reduce the likelihood of unforeseen catastrophes. Addressing the world's challenges requires collaboration, communication, and mutual respect. Pursuing consensus can serve as a means to achieve these goals.

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**Piet Steel** has noted as Belgian (Ret.) Ambassador, serving in leading diplomatic assignments in Geneva, Hanoi and Hong Kong from 1975 to 1997. He retired from the foreign service in 1997 and became Director of Public Affairs for the Solvay Group (Belgium), overseeing global government affairs activities.

In 2005, he joined Toyota Motor Europe as Vice-President of External Affairs, responsible for government relations in Europe and the EU. The Government of Japan appointed him in 2010 Honorary Consul General for the Flanders region. With his extensive international experience and networks in Europe and Asia, he remains to be a trusted advisor of Belgian and international companies. He is furthermore also Member of the Board of a Belgian real estate company.

He is Honorary Chairman of the Belgium Hong Kong Society, President of the Board Special Olympics Belgium, President of the Europe Asia Center, and is also Honorary Professor of Xi'an University for International Studies (China).

He holds a Law Degree from the University of Ghent (Belgium).

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# Peaceful Development or War Economies?



Grzegorz Kołodko

**Abstract** Each of the major dramas in the twenty-first century was foreseeable and has left a significant mark on the reality around us and strongly affected the future. What is happening now is a resetting of the world (dis)order that emerged after the end of the Cold War, which has also seen the rise of China, which is weakening the large and wealthy countries of the West, including the USA, which does not want to accept it. Instead of confrontation Euro-Atlantic and Euro-Asian mega-systems should compete peacefully and cooperate without reaching for “military levers,” but by strengthening of transnational economic, cultural, and diplomatic levers. The EU, as part of both blocs, does not have to take sides and should also play a key role.

**Keywords** Global order · Second cold war · Russia-Ukraine conflict · Chinism · Euro-Atlantic/Euro-Asian mega-systems

For the fourth time in the twenty-first century, we are being told that the world as we know it has come to an end that nothing will be as it was before anymore. Such opinions prevailed not only in the media and political circles but also in numerous social scientific studies. This was the case after the terrorist attack by Islamic fundamentalists on the World Trade Center in New York on September 11, 2001. After the global financial and economic crisis of 2008–2010, the world was supposed to be very different from before. The same was said in the context of the devastating COVID-19 pandemic. This is also the case, even more pronounced, now in the face of Russia’s aggression against Ukraine. Undoubtedly, each of these dramas—which despite all the differences between them, were foreseeable, especially the crises at the turn of the first and second decades of the century—have left a significant mark on the reality around us and strongly affected the future. Therefore, let me reiterate from the start, that this world of ours has fallen into a trap, but it can make its way out.

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G. Kołodko (✉)

TIGER—Transformation, Integration and Globalization Economic Research, Kozminski University, Warsaw, Poland

Belt and Road School, Beijing Normal University, Beijing, China

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## The Second Cold War is a World War

So, what is this all about? What is happening in our world and how have we fallen into this trap? There is a saying that if we do not know what the reason is, then the reason is money. To some, this seems obvious, but it is more complicated and games are played at different levels. At the lowest level, they are often about individual safety, survival, and having a roof over one's head. At the highest level, they are about prestige, power, and domination. While some are struggling to make ends meet, others struggle for multi-billion dollar profits. Some people just want to live with dignity, while others just want to rule. This is certainly not about official proclamations by politicians and media in the countries involved in the Ukrainian crisis. In fact, only what Ukrainians say when they claim to be fighting for sovereignty and defending the territorial integrity of their homeland, which has been unexpectedly and brutally attacked by a larger and stronger neighbor, can be unequivocally accepted as truth. It would be naive to give credence to others who constantly preach the beauties of democracy and human rights, of freedom and justice.

Essentially, it is about resetting the world (dis)order that emerged after the end of the Cold War, which lasted from 1947 to 1991. Its culmination was facilitated by the collapse of the Soviet Union, but—as it turns out—it was also a seed of later conflict, of which, so far, the drama unfolding around Ukraine is by far the most serious. This is only so far—and let us hope it stays like that, although it very well may not. The great achievement of the dismantling of the USSR was that it was carried out essentially peacefully, owing to the fact that it was principally accepted at the time that all fifteen new post-Soviet republics were enclosed within the borders of the former socialist Soviet republics. And these borders were drawn in a different reality, in the times of the tsarist empire and the Soviet Union, which, after all, was to last forever...

In the Soviet era, it was rather unimportant to whom Crimea or Karakalpakstan, currently an autonomous republic in Uzbekistan, which theoretically has the right to self-determination, was assigned. Part of the road from Tashkent to Samarkand goes through Kazakhstan, because that was the way it was laid out within the integrated state of the USSR, but now it may cause problems. There are many examples of this, as Georgia experienced with regard to Abkhazia and South Ossetia, and even earlier about another territory, Transnistria, recently recalled more often due to its location at the interface between Moldova and Ukraine.

The same three decades have seen the rise of the power of China, which is reshaping the world order, while relatively weakening the large and wealthy countries of the West, including the USA, which does not want to accept it. Although it has been more than three decades, China rise is still a shock from which Americans find difficult to accept. Along the way, several former Third World countries have emancipated themselves. Many of them do not want to forget the humiliation of the colonial era and now refuse to be subjugated by other countries, especially by former imperial metropolises. In this context, the world was in a far-reaching state of

geopolitical imbalance and now the great upheaval caused by the Kremlin's regrettable behavior, has provoked various demons to leap out from nooks and crannies. Just as opportunity attracts thieves, a major geopolitical crisis can create the chance to pull ahead. Therefore, some are pulling ahead, saying they are all about peace and tranquility.

There are also controversial views suggesting that the West not only wants to slow down the rise of China as a superpower, which seems impossible to stop now, and to marginalize Russia on the global stage, it is also playing a game in which Western powers strengthen the influence of some at the expense of others. This is particularly true of the USA and the UK, especially after Brexit when they turned their backs on the European Union. Under the slogans of confronting Russia and countering China's alleged threats to the stability of international relations, they are seeking to reduce the relative economic weight of the European Union, especially its regional powers—Germany and France. Anti-Russian sanctions—especially cutting off imports of oil and gas from Russia to the West—are very easy for the Americans and the British, as they import very minor amounts of energy resources from Russia<sup>1</sup>; meanwhile this is also used by the USA to increase Europe's economic dependence on them by selling raw materials at exorbitant prices from US suppliers. Such views are hardly convincing, but it would be naive to assume that the US energy lobby and politicians are not exploiting the situation for their own vested interests at the expense of their European allies and partners.

This has resulted in a Second Cold War gaining momentum with only a few instances of hot wars. I have been describing the state of tension in international relations as a Second Cold War for some time. By 2014, international relations, especially between the West and the East, had deteriorated enough to have people recall a war that started 100 years ago. It lasted almost four and a half years and millions of people were killed. In the beginning, no one knew it would be a world war, but it quickly took such a character. In the 1920s and 1930s, it was called the Great War. It was only 25 years later when a second war had broken out that the Great War became the First World War. Shortly after the end of the Second World War, which lasted between 1939 and 45, the Cold War started. It was unleashed by the West against the East, which was then defeated after a couple of decades. After this, it even happened that “the end of history” was announced after 1989. How fast things go...only two generations of peace and we were in a Second Cold War. In the future, the confrontation of the years 1946–89 will be called the First Cold War by historians, and this time it will not be won by the party that has started it (the West) and it won't be won by the East; the winner will be China, which is taking care of its business and consistently reforming and developing the economy, which strengthens China's global position every year. After a dozen more years—when foolish Second Cold War hawks become tired, both in the USA and its allies, as well as in Russia,

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<sup>1</sup> Natural gas imported from Russia in 2021 was less than 5% of the British imports of this fuel, and crude oil and its products imported from Russia accounted for less than 8% of American imports. In the case of Germany, gas imports from Russia amounted to as much as 55 and from France to 17%.

China will be even a greater power. The position of other countries, including the emancipating economies, which are smart enough not to get involved in the winds of next cold war, will also be much better.<sup>2</sup> These are phrases were written nine years ago, but I am convinced that they retain their validity. However, I now believe that it may well be that China will not so much “win” this Cold War as emerge from it less battered, i.e., in a relatively more favorable shape relative to other “frontline” countries.

2014 was an important year, perhaps even a watershed year due to Ukraine’s anti-Russian turn following the Maidan protests, which were described by some as a revolution, and Russia’s annexation of Crimea. However, the reasons not so much for the outbreak as for the gradual spawning of the new Cold War have their origins a full decade earlier. The American invasion of Iraq—albeit with US allies involved—marked the beginning of a breakdown in Russia’s relations with the West, especially Russia–USA relations, as Russia remained friendly with Germany because they did not join the UN unsanctioned invasion of Iraq. This was when the process of reviewing Russia’s position began, leading to a shift away from cooperation with the West to “getting up from its knees,” to which Russia was supposedly thrown after the liquidation of the USSR during the years of Boris Yeltsin’s presidency. This was fostered by the *de facto* failure of US policy in the Middle East. From the Kremlin’s perspective, the importance of the White House had diminished, so why not take advantage of such a situation? The reasoning was that the weaker the partner or adversary, the stronger I am, which influenced many aspects of Russian policy. This is similar to the current anti-Russian and even more so anti-China policy in the USA.

In the rich West, especially on both sides of the North Atlantic and on the western shore of the North Pacific, an increasingly powerful China, due to its economic development, is seen as a threat to their interests and therefore a threat to a stable world order. If the solution to such a threat, whether real or imagined, is not wasting resources on increased military spending, but on economic programs that compete with Chinese initiatives, then fine. According to rough calculations, during the ten years (2013–2022) of the Belt and Road Initiative, China committed more than USD 900 billion to the project. And it was only after these ten years that wealthy, large countries agreed to mobilize USD 600 billion (USD 200 billion by the US) over the next five years at the G7 summit at the end of June 2022, from private and public sources for investment in underdeveloped countries. Called the Partnership for Global Infrastructure and Investment, PGII, according to statements by G7 officials, is not meant to be a rival to the BRI, but in a way complement it by directing money both to hard infrastructure such as roads and bridges, ports, and airports, as in the Chinese initiative, and to climate projects as well as energy security, digital connectivity, health, and women’s equality. In some of these domains, the Chinese have already been active in many countries for several years, so it remains to be seen how competitive the PGII will be in relation to the BRI, and how much both initiatives will unanimously support the economic development of the lagging countries.

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<sup>2</sup> Grzegorz W. Kołodko, “Blog. Truth, Errors, and Lies: Politics and Economics in a Volatile World, post 2506, November 10, 2014 (<https://www.wedrujacyswiat.pl/blog/kolodko/>; access 2.04.2023).”

In poor countries, China is looked upon with the hope of helping them develop, but there is also plenty of concern that cooperation with such a large and powerful partner will be unbalanced and not based on partnership. While some put high hopes on China—with its hybrid political-economic system, which I call Chinism<sup>3</sup> that skillfully combines the power of the invisible hand of the market with the visible hand of the state and the rule of meritocracy—others fear and warn against it. Such Sino-skepticism, or even Sino-phobia, is bad for globalization because it depresses an already immature political globalization. While the West's more than restrained attitude toward China during Maoism could be understood, it is difficult to applaud it in the times of Chinism, which is not the same as the past export of the revolution. Unless one considers as a symptom of such a similarity the possibility of spreading of Chinism in certain regions of the world due to its economic attractiveness and in view of the disillusionment experienced by the people of many poor countries in the face of the economic flaws of democracy, as recently felt in countries as diverse as Bangladesh and Chile, Sri Lanka and Tunisia, South Africa and Haiti.

Maoism had practically nothing of creative value to offer,<sup>4</sup> whereas Chinism can be associated with capital accumulation, technology transfer or human capital training.<sup>5</sup> If a trend toward anarchy continues in the wake of various economic and political crises, if neo-nationalism grows, and if resentment for a strong-arm rule grows, could there be a spillover of Chinism? This is something that some in the West may fear and are therefore inclined to confront China about in advance. This dissonance is yet another factor contributing to the current move toward a Cold War.

## Opposite Ideas and Conflicting Interests

The Second Cold War is also a world war because, although only a few dozen countries are actively involved, it passively affects everyone, not only due to the rising prices of food and raw materials, especially energy, but also because, in the existing global (dis)order, everyone has to take a position regarding the war in Ukraine. It is impossible not to have an opinion on this matter. It is significant that the issue of Ukraine being militarily attacked by Russia—a permanent member of the Security Council—quickly got into the forum of the UN General Assembly. What also matters is the outcome of the vote on the resolution condemning Russia's regrettable act. In the West, it was rightly exposed that as many as 141 countries have condemned Russia. The fact that as many as 52 countries did not support the resolution was

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<sup>3</sup> Grzegorz W. Kolodko, "Socialism, Capitalism, or Chinism?," "Communist and Post-Communist Studies," 2018, Vol. 51, No. 4, pp. 285–298 and Grzegorz W. Kolodko, "China and the Future of Globalization: The Political Economy of China's Rise," I. B. Tauris Bloomsbury, London–New York, 2020.

<sup>4</sup> Julia Lovell, "Maoism: A Global History," Vintage Books, New York, 2020, p. 16.

<sup>5</sup> More in these subjects see: Grzegorz W. Kolodko, "Chinism and New Pragmatism: How China's Development Success and Innovative Economic Thinking Contribute to the Global Development," Prunes Press, USA, 2020.

highlighted by Russia itself—and in a few other specific places around the world.<sup>6</sup> Only five opposed it, the others abstained from taking a position—notably China, which remained neutral while showing slight pro-Russian inclinations, and India, also taking a basically neutral position, but with slight Russo-skeptic inclinations. Israel, Saudi Arabia, and Turkey voted in favor of the resolution but did not join the sanctions. Iran abstained, but still supplied Russia with *EagleEye* drones, which can be tested in confrontation with the drones sent to Ukraine by Turkey. Yemen’s Houthi rebels attacking targets in Saudi Arabia were already using Iranian ones.

We should have no illusions that while taking official positions both at the UN and other platforms, in addition to important ideas that receive a great deal of attention, there are even more important interests that don’t receive as much attention. In seeking an answer to the big question “What is it all about?” one must not lose sight of the two “I’s”—Ideas and Interests—for the contradictions between one and the other are at stake here.

If politics is a game—or, as others want to call it, the art of seizing opportunities—then surely developing countries will want to use the occasion of the current major conflict—the Second Cold War—to their advantage. They did not cause it, but since it is there, it is important to adapt to it in the best possible way. By developing countries, I mean countries that are not considered the rich West, including Japan, South Korea, and Singapore, as well as the antipodes, Australia and New Zealand. They are home to a total of seven of the globe’s eight billion people. Leaving aside China and India, which play their own global game, and Russia, they make about 30% of global production. The World Bank ranks economies into four income groups based on the yearly value of per capita gross national income (GNI) calculated in current dollars. These groups are low-income, medium-low, medium-high, and high-income economies. The criteria are updated annually on 1 July. Thus, as of the summer of 2022, low-income countries cover countries with extreme poverty with no more than USD 1085 *per capita*, the range for medium-low is USD 1086–4255, medium-high USD 4256–13,205, and high is over USD 13,205.<sup>7</sup>

For the rich West, not only all economies with incomes below “high” are thus defined, while some with “high” incomes are so-called emerging markets. According to the nomenclature used by the International Monetary Fund (IMF), Indonesia, Mexico, Brazil, and Pakistan are emerging countries, but so are Poland, Chile, Hungary, and Turkey. I find this term—emerging economies—to be instrumental, if not downright nonchalant, as such a view treats states and their societies and economies not as a subject of development, but as an object on which the mighty of this world can make money. This may be because opportunities to invest and profit—often from financial speculation in now accessible markets—are “emerging,” whereas previously such opportunities were either non-existent or severely limited

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<sup>6</sup> Twelve countries did not take part in the vote, five were against (apart from Russia, these were Belarus, Eritrea, North Korea, and Syria), and thirty-five abstained.

<sup>7</sup> Nada Hamadeh, Catherine Van Rompey, Eric Metreau, Shwetha Grace Eapen, “New World Bank country classifications by income level: 2022–2023,” The World Bank, Washington, DC, 2022 (<https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2022-2023>; access 2.04.2023).

for political and institutional reasons. This is why, for several years now, I have been talking about emancipating economies and societies.<sup>8</sup> For this is what it is all about—to emancipate ourselves culturally, politically, and especially economically, in the midst of imperfect but irreversible globalization. People in still developing countries not only want to be freed from poverty, sometimes absolute and sometimes only relative, but also to enjoy the benefits of socio-economic development, which narrows the gap between themselves and those living in wealthy countries.

The Second Cold War, escalating in the wake of the war in Ukraine, puts emancipating economies in different circumstances. Specifically, they are embroiled in a clash between the West (or the USA) and China, and now they want to lose as little as possible from this and, when possible, gain as much as possible. These economies that seek emancipation are by no means interested in increasing international tensions by threatening security, while for their political and business leaders, new challenges, and therefore both threats and opportunities, are emerging. By taking advantage of these disparate opportunities on their march forward, they are playing off the penetration into their affairs by world powers, especially the powers in conflict USA and China, as well as Russia, and courting them. Economies and societies that desire emancipation are therefore concerned with something quite different from Western powers and states that are unequivocally taking the anti-Russian side. The war in eastern Ukraine is very far away for them, while their own problems are very close. It is worth bearing this in mind and not being fooled by an exclusively Euro-American point of view.

President Putin's aim was to strengthen Russia's status in the world and, above all, his position in his own country. As for the former, he miscalculated at the very beginning, almost at hour zero. As for the latter, time will tell just how incredibly mistaken he was. Yet, much is lost—and even more will be lost—by the Russian people who are in most cases innocent of the whole row. They lose economically and politically, socially and morally. Today, they can no longer be proud of their country, and they will have to wait a long time—and the lives of many will not be long enough—to find a reason to be proud again. They owe this to their “sage man” from the Kremlin and it will remain a stigma for years to come, even after they forget there was a shortage of fries in the restaurants taken over from McDonald's.

President Putin has surprisingly done a great service to Moscow's enemies—both those with their motives and those tainted by Russophobia. Now both have hard anti-Russian arguments. Such opportunities are not wasted; they will be exploited mercilessly and for a long time. In particular, even better times will come for those for whom a limited armed conflict far from their borders is profitable, as it further fuels the already escalating arms spiral. The military-industrial complex and its supporters in politics and the media are having an exceptionally good time; it has not been this good for decades.

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<sup>8</sup> More on this issue see Grzegorz W. Kolodko, “Whither the World: The Political Economy of the Future,” Palgrave Macmillan, Houndmills, Basingstoke, Hampshire, 2014.



## Euro-Atlantic and Euro-Asian Mega-systems Can Peacefully Compete and Cooperate

While Russia's international role is by no means doomed to be marginalized, although it will certainly be severely diminished, following its historical mistake, China has even more serious assets than before to further consolidate its position. One of the key factors in the evolution of future global geopolitical and economic mega-systems are the interrelationships of large countries and their implications for global relations. There are many opinions on these issues, all the more reason to cite at least one coming this time from the East—from China.

According to an expert at the Beijing Center for International Security and Strategy based at renowned Tsinghua University, “In recent months speculation abounded that Beijing and Moscow’s ‘unlimited’ partnership—announced during Mr. Putin’s visit to China in February for the Winter Olympics—might usher in a military alliance. But the war in Ukraine has inadvertently proved that Beijing and Moscow’s rapprochement is not an alliance. China didn’t provide military assistance to Russia. Instead, it provided humanitarian aid and money to Ukraine (...) and has pledged to continue to ‘play a constructive role’. One reason behind the Sino-Russian non-alliance is that it allows a comfortable flexibility between two partners. And in spite of the fact that China and Russia both call for a multipolar world, a non-alliance suits them because they see such a world differently. (...) Russia sees itself as a victim of the existing international order. By contrast, China is the largest beneficiary of the rules and regulations of global commerce and finance made by the West after the Second World War. China has a huge stake in safeguarding the existing international order. This is why, despite ideological differences and even tensions sometimes, China has at least maintained robust economic ties with the West. Neither side wishes to sever them.”<sup>9</sup>

We have experience from the previous Cold War. It was absolutely too early to talk about peaceful coexistence and pragmatic cooperation during the Korean War in 1950–1953 or the Cuban Missile Crisis in 1962. It would also have been too early to talk about it (one can always think) when “fraternal socialist aid” was given to Czechoslovakia in 1968. Nevertheless, as early as in the summer of 1975, it was possible to conclude the Conference on Security and Cooperation in Europe, CSCE, with the “Final Act.”<sup>10</sup>

The conference, held between 1973 and 1975, was a series of meetings held at various levels, substantive discussions, diplomatic disagreements, tough negotiations

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<sup>9</sup> Zhou Bo, “The war in Ukraine will accelerate the geopolitical shift from West to East,” *The Economist*, May 14, 2022 (<https://www.economist.com/by-invitation/2022/05/14/senior-colonel-zhou-bo-says-the-war-in-ukraine-will-accelerate-the-geopolitical-shift-from-west-to-east>; access 2.04.2023).

<sup>10</sup> The “Final Act” covered four so-called baskets of cases. The first basket included European security issues, together with the principles of state-to-state relations and confidence-building measures. The second basket covered problems of economic, scientific and technical cooperation and environmental protection. The third basket referred to human rights and humanitarian cooperation in other areas. The fourth basket dealt with the mode of continuation of the work of the CSCE.

and, most importantly, compromise decisions resolving tensions between the East, led by the Soviet Union, and the West, led by the USA. During the CSCE, the Vietnam War also continued. The Americans fled Saigon only three months before the “Final Act” was agreed in Helsinki. It was signed by 35 signatories—all European countries except Maoist Albania, along with the USA and Canada.

The CSCE applied to the whole of the Euro-Atlantic bloc and only to the northern part of the Euro-Asian bloc, on the Asian continent covering only its Russian part and the current post-Soviet republics. In China, which at that time did not matter much on the economic map of the world, it was only then that the reformist Deng Xiaoping took over the reins of power after the death of the orthodox Mao Zedong, while the so-called Third World, not only in Asia, was still getting back on its feet after liberating itself from colonialism. By the way, the support provided back then, in the 1950s, 1960s and 1970s, by the socialist states, especially the Soviet Union, and by China on a smaller scale, to national liberation movements echoes still today since historical memory persists, both about the colonial oppressors and those who helped in the struggle to eradicate the colonialism of the time. This factor still explains a lot today when it comes to, for example, the attitude of South Africa or Ethiopia toward Russia or Burkina Faso (Upper Volta in the colonial era) or Pakistan toward China.

## **In Conclusion**

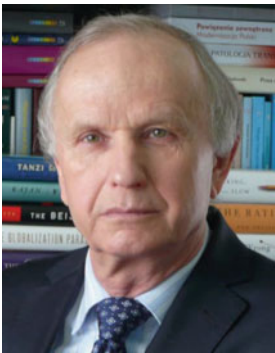
My peaceful plan to end the war in Ukraine seems simple, although it is highly complicated, given the diametrically opposed—and indeed stubborn and hostile—positions of the opposing sides. Firstly, a ceasefire on the Russian-Ukrainian front must be announced urgently so that people are not killed. Secondly, the ceasefire must be effectively monitored by a commission specially appointed for this purpose by the Conference on Security and Cooperation in Europe. Thirdly, Russia and Ukraine must accept the ceasefire without preconditions. Fourthly, third countries, through the United Nations system, are to ensure that they will honor the Ukrainian-Russian agreement. Fifthly, Ukraine must obtain security guarantees confirmed by a group of states appointed for this purpose by the UN Security Council. Sixthly, the international community supporting Ukraine in its fight against the aggressor must launch a multi-year economic aid program to co-finance the costs of post-war reconstruction of Ukraine.

Such a plan should be seen in the broader context of the 12-point peace plan proposed in February 2023 by Chinese President Xi Jinping. This bold plan should be a platform for a comprehensive international, if not global, dialogue on war avoidance and peaceful cooperation between countries with different ideological backgrounds and often-conflicting economic interests. The contrary nature of these interests by no means precludes the search for ways to make economic globalization more inclusive,

or—as the Chinese leader and social scholars prefer to put it—win-win globalization—and it certainly does not have to lead to a wartime catastrophe. Conflict is avoidable, and consensus is possible.<sup>11</sup>

The Economist Intelligence Unit, an influential British-American think tank, suggests that “In the long term, one Western-bashing bloc (led by China and Russia) and one Western-leaning bloc (led by the USA and the EU) will cement themselves into the geopolitical landscape and use economic and military levers to court countries that are not aligned with either side. We expect this competition for influence to expand rapidly beyond Asia and into Africa, the Middle East and Latin America.”<sup>12</sup> Unfortunately, things have been going this way for some time now, and the reactions to the shock of Russia’s invasion of Ukraine are catalyzing this further.<sup>13</sup> This does not bode well. Instead of a confrontation along such a line, the Euro-Atlantic and Euro-Asian mega-systems can compete peacefully and cooperate without reaching for “military levers.” Moreover, the strengthening of transnational economic, cultural, and diplomatic levers may render the military ones useless; everywhere, also in the Pacific-Indian Oceans region. In both blocs, a key role should be played by the European Union, which, given its location, belongs to each of them and which does not have to take sides in the USA–China rivalry and disputes.

Unfortunately, the anti-Chinese rhetoric of the West, especially the Cold War hawks of the USA and UK, has been increasing instead of diminishing. This must change, in which intellectuals and diplomacy, and especially sensible politicians on both sides of the conflicting parties, have a special role to play.



**Grzegorz Kołodko** is Professor of economics, public intellectual, and politician, Key Architect of Polish economic reforms, Deputy Prime Minister and Minister of Finance, 1994–97 and 2002–03, Member of the European Academy of Arts, Sciences, and Humanities, Honorary Doctor and Professor of dozen foreign universities, Founder and Director of Transformation, Integration, and Globalization Economic Research, TIGER at Kozminski University in Warsaw, Distinguished Professor at the Belt and Road School, Beijing Normal University, Author of research papers and books published in 28 languages, world’s most quoted Polish Economist, Marathon Runner, and Globe-trotter who has explored 171 countries and Antarctica.

<sup>11</sup> Huiyao Wang and Alistair Michie (eds.), “Consensus or Conflict: China and Globalization in the 1st Century,” Springer, Singapore, 2021.

<sup>12</sup> “What does the Ukraine crisis mean for the US?,” The Economist Intelligence Unit, April 12, 2022 (<https://www.eiu.com/n/what-does-the-ukraine-crisis-mean-for-the-us/>; access 2.04.2023).

<sup>13</sup> Grzegorz W. Kołodko, “Global Consequences of Russia’s Invasion of Ukraine: The Economics and Politics of the Second Cold War,” Springer, Cham, 2023.

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# Running to the Rescue of Multilateral Cooperation



Paolo Magri

**Abstract** The possibility of a ‘The West and the Rest’ scenario appears much closer to reality today with some announcing the end of globalization and the beginning of a new era of fragmentation, conflict, and lack of cooperation. But is this really the case? It is true that geopolitical tensions will not fade while the appetite for natural resources keeps growing, but if international behavior is rational, interdependence will continue to be the ‘glue’ that binds today’s complicated global jigsaw together. It is essential to run to the rescue of multilateralism as no interdependence is possible without it.

**Keywords** Multilateralism · Geopolitical tensions · Globalization · Interdependence

‘Back to the future’: this is what 2022 was supposed to be. After two years in a pandemic, global economy was on its way to a robust and lasting recovery, while the (partial) successes of the Italian G20 and COP26 in Glasgow seemed to suggest that a new season for effective multilateral cooperation could begin.

The war in Ukraine changed it all and was the detonator of a new international crisis that put to the test the limited progress achieved in 2021. Instead of going back to the future, apparently the future looks back. It looks back to a past of twentieth-century conflicts, with tanks and boots on the ground, to the inflation of 40 years ago, and to an energy crisis that seems to turn the clock back to the 1970s. Besides, all this is giving credit to the perception of a world divided into blocks, with some speculating Cold War-style scenarios that we thought we had definitively consigned to history. In fact, the intriguing academic hypothesis of ‘The West and the Rest’ model conceived by Niall Ferguson<sup>1</sup> a few years ago appears today much closer to reality, with many experts and policy makers ringing the alarm for the end of globalization and the beginning of a new era of fragmentation, conflict, and lack of

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<sup>1</sup> N. Ferguson (2011), *Civilization: The West and the Rest*, Penguin Press.

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P. Magri (✉)

Italian Institute for International Political Studies (ISPI), Milan, Italy

cooperation. But is this really the case? To answer this question, it is important to take a closer look at the current international tensions and their prospects without indulging in catastrophic scenarios.<sup>2</sup>

## A Divided World that Sticks Together

There are at least three continuing trends that signal a growing fragmentation and division of today's world into alternative blocks increasingly competing with each other.

Firstly, when looking at the distribution of world GDP (in terms of Purchasing Power Parity), China accounts for 18.8% (East Asia for 26.5%), the US for 16%, the EU for 18%.<sup>3</sup> In real terms, therefore, it seems that China has already overtaken its main competitors. The global economy now appears to be organized around three main blocks: the US, the EU and Asia. As the US and the EU seem to share similar values and objectives, one could (over)simplify and look at them as a single block (the 'West').

Secondly, geopolitical tensions in recent years are leading to a growing redefinition of global value chains through the practices of reshoring, friend-shoring, and near-shoring.<sup>4</sup> Preliminary data seem to confirm this trend. In the US, repatriation of foreign investments (50% from Asia) involved more than 9000 companies in the 2010–21 period. In the EU, according to (unfortunately not very up-to-date) data from the European Commission's European Reshoring Monitor, 253 reshoring projects were recorded between 2015 and 2018, with Italy and France topping the list of 'repatriations' (mostly from China and the Far East and mainly in manufacturing industries).

Last (but definitely not least), the global race for technology leadership has taken off. As chips get smaller, their power multiplies. They are the objects of desire of major economic powers because they are now ubiquitous and crucial in manufacturing industries (from cars to computers, from defense and security equipment to 'green' technologies). Today they represent the real source of contention in the race for tomorrow's economic leadership. So much so that all the main players are pursuing ambitious industrial policies aimed at strengthening their semiconductor supply chains. If Taiwan (despite its small geographical size) is now by far the leading producer of latest-generation microchips (with a global share of 90%), China has long been working to catch up: its 'Made in China 2025' plan—launched in 2015—aims to reduce its technological dependence on foreign countries by 30% in ten years. And the West is trying to follow suit: the USA launched the 'CHIPS and Science Act' in July 2022, putting 53 billion dollars on the table, as did the European Union,

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<sup>2</sup> N. Roubini (2022), *Megathreats—Ten Dangerous Trends that Imperil our Future, and How to Survive Them*, Little, Brown and Company.

<sup>3</sup> UNCTAD (2021), *Handbook of Statistics*.

<sup>4</sup> F. Marazzi, A. Noris (2022), 'Friendshoring: obiettivo filiere amiche,' ISPI Commentary.

which last January launched the ‘European Chips Act’, planning to invest 15 billion euros in an attempt to double its global market share from 10 to 20% by 2030. On strategic assets such as chips, everyone is trying to go it alone and decrease their dependence on others, to the extent that a new economic war could be around the corner. Export restrictions of technologies to China, introduced by the US in last October, were a bold move that could trigger harsh countermeasures from Beijing.<sup>5</sup> However, economic tensions are rising not only between the US and China, but also between the US and the EU: the firing power deployed by Washington through the 369 billion dollars included in the Inflation Reduction Act, aimed at subsidizing domestic ‘green’ industries, has made Europe upset. Washington was accused of unfair competition through discrimination of EU companies willing to enter the US market, and the European Commission is now considering to respond by setting up its own subsidy program. Clearly, this protectionist revival might create a new rift between the two sides of the Atlantic—which appear less united than one might think—triggering consequences that could be potentially detrimental to the whole international trade system.

However, are these trends a clear-cut evidence that globalization is coming to an end? Before rushing to conclusions, it is worth recalling the high degree of interdependence among the major economic blocks. World trade reached a record 28.5 trillion dollars in 2021, making up much of the ground lost during the pandemic. Trade is set to grow further in 2022 (not by 4.7% as it had been predicted at the beginning of the year, but still by 3.5%), despite war, inflation, rising interest rates and a pandemic that is not entirely over. In short, it seems that international trade is still holding up well.<sup>6</sup> After all, there are several elements that bind the West and the so-called rest of the world together. The West still controls the monetary system through the US dollar, which dominates as the most-used currency in global transactions (80% of international trade) and as a foreign reserve currency (60% of global monetary reserves, followed by the euro at 21%). In addition, the ‘West’ (or more precisely Europe) is home to the SWIFT payment system (based in Belgium), which remains by far the most widely used system in the world despite China’s and Russia’s efforts to put in place ‘home-made’ alternatives that currently operate predominantly at domestic or regional level.<sup>7</sup> And the ‘West’ also controls the market for transport and insurance services—absolutely crucial in a time of supply chain bottlenecks. This market is almost completely run by London’s financial hub, which covers about 95% of the world’s fleet of tanker ships.

By the same token, the ‘Rest’ owns many assets which are essential to the West. This holds true particularly when looking at the share of energy and raw materials in the hands of non-Western countries. Russia is still the world’s second largest producer of oil and gas despite Europe’s attempts to make itself independent from imports from Moscow. Together with Russia, OPEC is able to influence the price of hydrocarbons

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<sup>5</sup> C. Bown (2022), ‘National security, semiconductors, and the US move to cut off China,’ Peterson Institute for International Economics.

<sup>6</sup> WTO (2022), ‘Trade growth to slow sharply in 2023 as global economy faces strong headwinds.’

<sup>7</sup> L. Fantacci (2022), ‘La guerra dei sistemi di pagamento,’ ISPI Commentary.

by controlling the supply lever. When it comes to renewables, China is a major shareholder and occupies a leading position in photovoltaic capacity installed on its territory (one third of the world total). Beijing is also the leading producer of solar panels (over 80% of the world total production) and lithium batteries (with a 76% share), which are essential for the manufacturing of electric cars around the world. Not to mention other raw materials and, above all, critical minerals and rare earths that are increasingly decisive as the ‘fuel’ for the digital and the green transitions. According to the International Energy Agency, global demand for these commodities is set to grow by more than 500% between now and 2050. Currently, China holds 35% of global nickel refining capacity, between 50 and 70% of lithium and cobalt and over 90% of rare earths.<sup>8</sup> In a nutshell, Beijing owns most of the world’s most precious resources. It has also been smart and forward-looking in making an early move through strategic investments in Africa and Latin America that strengthen its position.

Thus, in a world where all actors behave rationally, globalization should not be doomed to fade. In light of such a tight interdependence, it should simply be in everyone’s interest to make it work. However, the war in Ukraine rings a bell when it comes to the emergence of possible irrational behavior. Until last February, we thought that Vladimir Putin’s threats against Ukraine were just *boutades*, despite the presence of 190,000 Russian soldiers amassing on Ukraine’s borders. Today, on the contrary, the world is confronted with the potential threat of a nuclear escalation, despite the irrationality and immorality of such option.

While hoping that rationality holds, it is worth analyzing the wider implications of the above context for global governance.

## The Enduring Crisis of Multilateral Global Governance

The last three years have been extremely difficult for the global community and have put the resilience of multilateralism—which already looked weaker than ever—to the test. However, despite this difficult context, in 2021 international cooperation gave the impression that it was still up to the task. Thanks to a renewed feeling of unity which was urged by the imperative to restart global economy after a catastrophic 2020, it was possible to find common ground and make progress on some important initiatives: the extraordinary allocation of \$650 billion in Special Drawing Rights by the IMF; the commitment to boost global vaccination rates against COVID-19; the agreement to introduce a global minimum tax to establish a level playing field aimed at reducing unfair competition; and the commitment made at COP26 in Glasgow to contain global warming within 1.5 degree Celsius to avoid a climate ‘Armageddon.’

Is this enough to relaunch multilateralism? Unfortunately, the answer is probably no. This was made clear by the outbreak of the war in Ukraine, which brought multilateral cooperation at a new standstill. To begin with, the United Nations were

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<sup>8</sup> International Energy Agency (2021), ‘[The Role of Critical Minerals in Clean Energy Transitions](#).’.



not able to achieve unanimity in condemning Russia's illegal invasion of Ukraine. This situation highlighted the risk of a widening fracture between Western countries, that imposed several rounds of sanctions against Russia, and the 'Rest,' with many countries including China not following the G7 along this route. Spillovers on other multilateral fora were inevitable and contributed to a lower level of ambition at key gatherings such as the G20 Summit in Bali and COP27 in Sharm el-Sheikh, Egypt. Amid such a tense international environment, achieving any substantial result would have been extremely hard. However, at least in Bali a common ground among G20 members was found, thanks to a widespread condemnation of Russia's invasion of Ukraine, the acknowledgement of the negative economic implications triggered by the war and, significantly, the unanimous refusal of any threat to use nuclear weapons. Issuing a final communiqué went beyond initial expectations, and Indonesia's G20 Presidency deserves to be praised for its firm commitment in exploring room for multilateral dialogue until the very last moment. And some sort of minimal result was achieved also at COP27, with the promise to adopt a Loss-and-Damage Fund for developing and vulnerable states. But all the details related to its functioning (how many resources it will consist of, who will pay for it, and who will eventually get the money) still remain up in the air and their definition has been postponed until 2023: once again because of the impossibility to find a compromise between Western countries and China. In fact, European States and the US would like Beijing—as the world's biggest polluter in terms of CO<sub>2</sub> emissions—to join them and contribute to this brand-new fund. Unfortunately, no new commitments to cut emissions were made, making the risk of derailing from the 1.5° target more and more real by the day. At current emission rates, the global temperature could reach a 1.5° increase much sooner than at the end of this century, in less than ten years. The current trajectory suggests that a 2.8° increase by the end of century is increasingly likely and may turn into a catastrophe for our planet.<sup>9</sup> There is no doubt that this year governments' priorities have been redirected toward short-term emergencies in the rush to avoid another recession and to curb skyrocketing prices of fossil fuels; but losing focus on long-term challenges would be a terrible mistake.

## Multilateralism Keeps Weathering the Storm

Challenging times lie ahead for international relations. Areas of geopolitical tensions will not fade away as well as pressures on energy prices, while the appetite for natural resources (from food to critical minerals and raw materials) will keep growing. This means that risks of further fragmentation are set to remain high, nurturing temptations of economic decoupling and going solo. 2023 will represent another litmus test for multilateralism, which needs to prove that is still able to support and enhance the interdependence that binds countries together. In fact, the rational acknowledgement

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<sup>9</sup> United Nations Environment Project (2022), '[Emissions Gap Report 2022](#)'.

that national economies still need each other to prosper represents the best ‘insurance’ for further multilateral efforts. National economic interests can be legitimately pursued (for instance through the diversification of supply and economic partnerships or the establishment of careful screening mechanisms of foreign investment), but it should be clear to everyone that self-sufficiency and lack of international cooperation are not only a lose-lose game but probably also a chimera.

Against this background, the dialogue between China and the West should be preserved and possibly improved, even if it takes place in a context of economic competition which—in the interests of all—cannot be detrimental to free trade and investment flows. The race for technology leadership will be the landmark of main trends in global economy for at least the next decade; and this might eventually generate some benefits, fostering innovation and urging all actors to improve their productivity and competitiveness. But the West still needs China and vice versa. Hence, the risk of new ‘trade wars’ could be defused through coordinated efforts aimed at establishing a wider and better level playing field. The WTO is still a key platform to make it possible and it could build upon the last Ministerial Conference in Geneva which showed some positive results.

The G20 could also play an important role in rekindling multilateralism. Despite its flaws and internal rivalries, the G20 could at least aim to the effective implementation of key decisions taken over the last years. In addition, the recognition of the global negative effects of potential financial defaults (especially in many developing countries) should lead to a much more effective Common Framework for Debt Treatment beyond the DSSI (approved in 2020). More broadly, the very fact that for the next three years the G20 Presidency will be chaired by key countries from the Global South (India, Brazil, and South Africa) should be seen as an opportunity to reduce geopolitical fragmentation and the distance between the ‘West’ and the ‘Rest.’

In the end, it will be mostly a matter of rationality. If international behaviors are rational, interdependence will keep working as the ‘glue’ that binds together the pieces of today’s complicated global jigsaw. At least a limited multilateralism will survive as no interdependence is possible without it. The storms of the last years are not over yet, but there is still widespread international recognition that navigating toward calmer waters is the best direction for everybody.



**Paolo Magri** is executive vice-president of the Italian Institute for International Political Studies (ISPI) and Professor of International Relations at Bocconi University. He is a member of the Strategic Committee of the Italian Ministry of Foreign Affairs and International Cooperation, a member of the Europe Policy Group of the World Economic Forum (Davos), and a member of the Board of Directors of the Italy-China Foundation. Previously, he served as a program director to the UN Secretariat in New York and, up to 2005, as a director of International Affairs at Bocconi University in Milan. He is a regular speaker, writer, and commentator among a diverse range of media outlets. His publications include *Post-vote Iran: Giving Engagement a Chance* (with Annalisa Perteghella, 2017); *Four Years of Trump: The US and the World* (with Mario Del Pero, 2020); *ISPI Report 2022: The Great Transition* (with Alessandro Colombo) and *ISPI Report 2023: Back to the Future* (with Alessandro Colombo).

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# **China's Role in a Multilateral World**

# Strategic Reglobalization: How Great Power Rivalry is Impacting the Multilateral Trading System



Daniel J. Ikenson

**Abstract** Among economists and historians, there is virtual consensus that the General Agreement on Tariffs and Trade and the World Trade Organization contributed significantly to the superlative global economic growth experienced over the past 75 years. What is less frequently considered is that the inception and evolution of the multilateral trading system were made possible because those developments were widely perceived among the US political establishment as serving the foreign policy and national security interests of the United States. In challenging us preeminence, the rise of China—which was vastly accelerated by the WTO benefits afforded its economy—has significantly eroded that once bedrock belief in Washington that the rules-based trading system enhances us security and is worth preserving. Indeed, national security and other strategic considerations are causing both Washington and Beijing to deprioritize commitments to non-discriminatory trade policy, which threatens the very foundations of the trading system.

**Keywords** United States · China · Trade · World Trade Organization · WTO · GATT · Security · America first · State capitalism · Technology · Strategic rivalry · Export controls · Globalization · Reglobalization

## Introduction

There are two kinds of observers of the international trade policy landscape: those who see the multilateral trading system in existential peril and those who need new glasses. Over the past few years, the ranks of the former have grown, but there is little consensus regarding the nature of that peril or what, if anything, to do about it.

Many see the problem as institutional sclerosis, evidenced in part by the paucity of agreements negotiated at the World Trade Organization (WTO) during its nearly

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D. J. Ikenson (✉)  
Hinrich Foundation, Singapore, Singapore

28-year history. Some point to an untenable imbalance of obligations among WTO members or endemic overreaching by its now dysfunctional Dispute Settlement Body (DSB). Others consider US subversion of the WTO's Appellate Body (AB), its unwillingness to engage meaningfully in discussion about potential WTO reforms, and its recurring preference for unilateralist protectionism the greatest threats to the system.

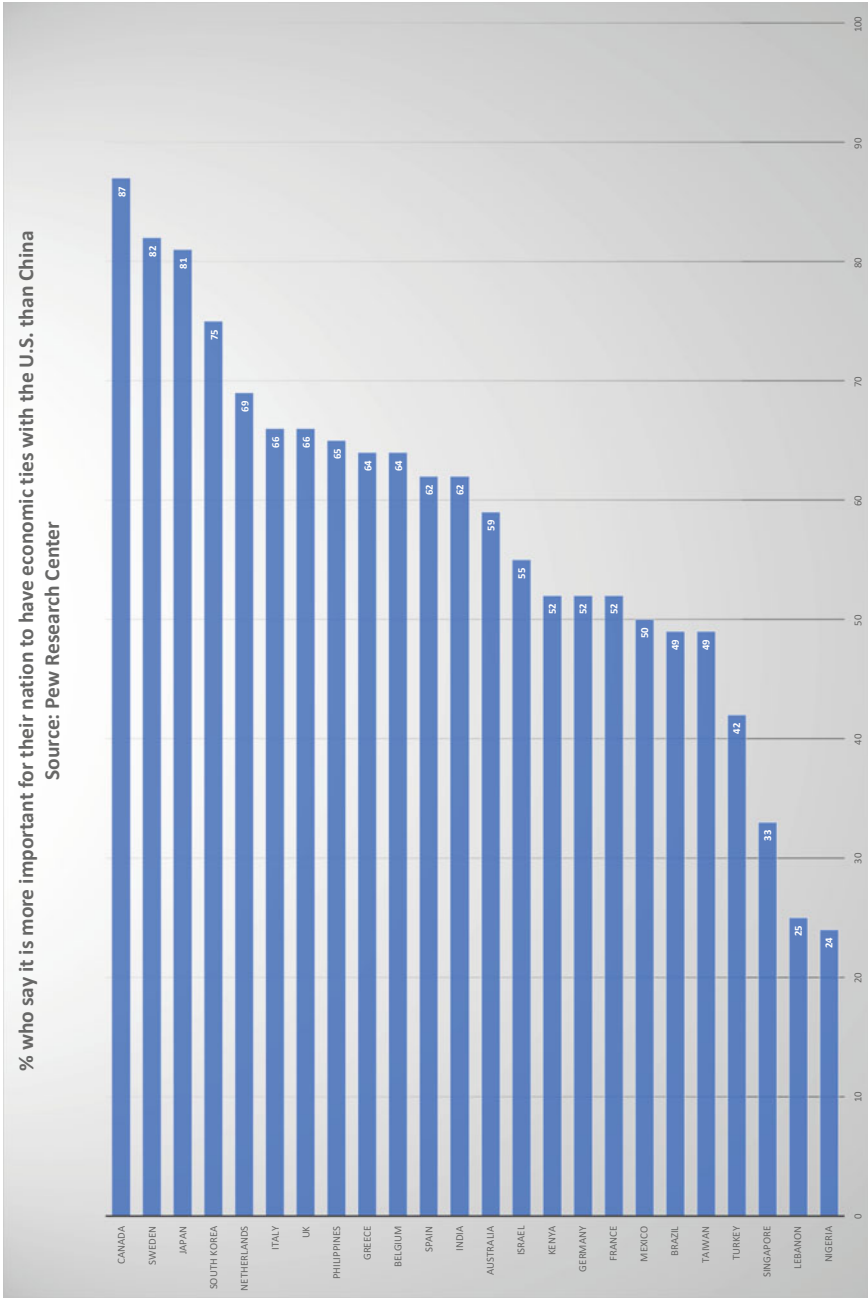
Those are all legitimate concerns, but they are only symptomatic of a larger problem. The problem is that the broader conditions necessary to sustain a rules-based multilateral trading system predicated on the principles of "most-favored nation" and "national treatment" no longer exist. The two largest economies in the WTO have committed to courses of action that blatantly disregard these principles and systemically subordinate the trade rules to their hegemonic priorities.

China's change of course from a path of market liberalization to a retrogressive embrace of state capitalism and associated policy tools has generated cascading economic, political, and social externalities around the world, including the ringing of alarm bells in the United States. The economic and strategic competition that has emerged between the United States and China has produced an atmosphere of intense rivalry and growing distrust, elevating national security concerns and the objective of technological primacy above the economic benefits and greater certainty of rules-based trade (Fig. 1).

For a half century, the General Agreement on Tariffs and Trade (GATT), an accord reached by 23 governments in 1947 to reduce barriers to international commerce, was aligned with foreign policy goals and perceived at the highest levels of the US government to be in the security interests of the United States. That is no longer the case. A strong bipartisan consensus that the WTO rules undermine national security because they are too permissive of China's policies and too restraining of US responses has ossified in the executive and legislative branches of the US government. In the name of attaining technological preeminence and protecting expansive definitions of national security, Washington and Beijing have concluded that the trade rules impede execution of what each believes to be its optimal policy choices. Each has taken unilateral policy actions that violate the letter and spirit of the WTO agreements because the perceived costs of adhering to the rules exceed the perceived benefits.

To complicate matters further, the United States, the European Union, and others have chosen to supplement their complaints about Chinese state capitalism with their own versions of industrial policy, which include domestic production subsidies and other incentives, as well as protectionist tariffs. That WTO officials and member governments continue to convene in Geneva to try to advance prospects for reforms and new agreements despite this full-fledged mockery of the trade rules is at once depressing and inspiring, evoking Tennyson's "The Charge of the Light Brigade," in their pursuit of a noble but lost cause.

A central premise upon which the rules-based trading system was founded is that voluntary trade is not a zero-sum game, but a positive-sum game—a win-win exchange that mutually benefits the parties involved. This, of course, is still true, as is the fact that reducing barriers to trade enlarges markets and increases the scope



**Fig. 1** Percentage of people who say it is more important for their nation to have economic ties with the US than China

for specialization and economies of scale, which are keys to raising global living standards. Successive US administrations and a wide swath of trading nations further argued that trade, and specifically the induction of China into the global trading order, extends beyond efficiencies, and is a conduit to globally shared values and stability.

That has changed. We no longer have the luxury of considering only the economic benefits and costs. Analysis must consider the strategic benefits and costs, as well. The case for freer trade, despite the insistence of many fellow free traders, cannot be made in a vacuum that seals off the geopolitical impact. Rules derived from that bifurcation of commercial and strategic objectives are not sustainable in a world where hegemonic competition can incentivize the pursuit of negative-sum economic outcomes.

Sustainable trade rules require and reinforce a balance of economic, social, and national security outcomes. The current system is in disequilibrium because it is premised on outdated conditions. Interdependence is less likely to be regarded as a buffer against conflagration and more likely to be a source of anxiety about over-reliance on unfriendly or undependable nations. Accounting for all these variables may render “less efficient but more secure” trading relationships or supply chains the optimal choice.

A simple “win-win” gains-from-trade analysis outcome is no longer sufficient support for trade liberalization and economic integration. The externalities and the strategic benefits and costs must be taken into account. What if what really matters to policymakers is which party benefits more? What if the guiding principles were to engage in trade when it is estimated to benefit the domestic party *more* than the foreign party or, going one step further, to counsel self-destructive protectionist measures so long as they hurt the foreign party more?

This is not a merely philosophical exercise. US tariffs on imports from China originally imposed in 2018 remain in place today despite the economic costs to US businesses and consumers. Why? The Biden administration must believe China will suffer more, over the medium-to-long term, through loss of export market share, disinvestment, supply chain relocation, and other adjustments that carry economic, social, and strategic costs. This is distinctly a lose-lose proposition in absolute terms, but a US wins-China loses proposition in relative terms, if the judgment of the administration is accurate.

The multilateral trading system is in danger because the world’s largest economies are in a strategic competition where the winning tactics are perceived to require measures that violate the trade rules in both letter and spirit and reduce absolute trade levels. Under geopolitical conditions heavily influenced by climate change, public health crises, large-scale war, threats of new wars, food shortages, debt crises, inflation, economic recession, capital flight, balance of payments crises, technological rivalry, and cyberespionage, we should expect from the US, China, and the EU industrial policies that raise tariffs on certain imports, bestow subsidies on local firms, grant preferences to trade partners they favor, and penalize those they don’t.

Neither the conditions nor the perceptions that have brought us to this point are likely to change anytime soon. The multilateral trading system is under duress, the



US–China battle for technological and hegemonic preeminence will continue, and national security will remain a higher priority than trade.

## Sowing the Seeds of Strategic Reglobalization

After decades of trade liberalization, globalization, and prioritization of the commercial benefits of China’s reawakening, questions about the economic and national security implications of trade began to trickle then flood back into the US policy discourse in 2008.

The US economy had been waylaid by an epic financial crisis and a deep recession, which shook Americans’ confidence and exposed weaknesses in the US economic model. The Chinese economy, meanwhile, remained on its near-double-digit annual growth rate trajectory and, in the process, had surpassed the United States as the world’s largest manufacturer and exporter and was edging closer to becoming the world’s largest economy. Beijing had officially become the largest foreign holder of US public debt, giving it special leverage over US policymakers in the minds of many commentators.

Perceptions that the United States and China were trading places emboldened Chinese leaders to speak out publicly where they had been silent before, admonishing US policymakers for fiscal imprudence and digging in their heels over issues where they might have relented in the past. Triggered over a boat collision in 2010 in the South China Sea near a range of territorially disputed islets, Beijing turned its heft in the global commodity trade into a weapon of political leverage.<sup>1</sup> The tenor of the public rhetoric on both sides became more strident. Historically minor tiffs became flashpoints, and Americans’ angst became more palpable.

The situation prompted some deep soul searching in the United States. Many questioned whether America’s best days were behind her. Many wondered where the United States had gone wrong and what China had done right. Others concluded that US policy had been too permissive of China’s rise, prompting calls for greater enforcement of the trade rules and even emulation of China’s industrial policies.

Meanwhile, the US business community in China, which has long counseled against precipitous actions that could frustrate its plans in the Chinese market, began to register concerns and air grievances about proliferating Chinese protectionism. US companies issued warnings that China’s market liberalization—evident through the early part of the decade—had stopped and was beginning to reverse. An annual white paper published by the American Chamber of Commerce in China identified

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<sup>1</sup> In 2010, a Chinese fishing trawler collided with two Japanese coast guard vessels in disputed waters, leading to the detention by Japan of the Chinese captain, which escalated into a halting of shipments of rare earth minerals from China to Japan. This ultimately raised broader awareness of the potential to weaponize economic dependence and, specifically, the strategic vulnerabilities inherent in transnational technology supply chains. See Keith Bradsher, “Amid Tension, China Blocks Vital Exports to Japan,” *New York Times*, September 22, 2010, <https://www.nytimes.com/2010/09/23/business/global/23rare.html>.

rising protectionism, lack of regulatory transparency, inconsistent enforcement, and favoritism toward local firms as big and growing problems in 2009.<sup>2</sup>

A document published by China's State Council titled "The National Medium- and Long-Term Program for Science and Technology Development" (MLT Program) presented a road map for transforming the Chinese economy into a major innovation center by 2020 and an innovation leader by 2050.<sup>3</sup> The blueprint included the goal of dramatically reducing China's use of foreign technology by promoting "indigenous innovation," which would be achieved through implementation of policies that gave preference to companies with products containing intellectual property registered in China, and by developing new technology standards.<sup>4</sup>

Publication of those reports and reactions to them inspired a change in sentiment within the US multinational community. Perceptions of threats to US business interests increased, as perceptions of opportunities diminished. Pessimism rose, optimism sunk, and enthusiasm waned among US multinationals for making the case for an accommodating, tolerant US policy. This produced a shift in the weighting of interests influencing US policy toward China in favor of those seeking a more strident approach, including more rigorous enforcement and more trade restrictions. It also meant that bilateral trade concerns no longer would be considered separate and apart from the broader geopolitical picture. Instead, trade disputes would be magnified by our geopolitical differences.

For many years, conventional wisdom in foreign capitals was that if Beijing wanted to support certain industries and subsidize global consumption in the process, the world should be sure to thank the Chinese for their beneficence. After all, the costs of top-down interventions would be borne in China in the form of malinvestment and slower economic growth, while the benefits of access to cheaper goods would accrue to the rest of the world.

As it turns out, such thinking was short-sighted. Beijing's "direction" of the economy could be tolerated when the economy was smaller, and its leaders were committed to moving away from state control toward greater market orientation. But, today, China's state-owned enterprises (SOEs) account for 4.5% of global GDP, making China's SOEs equivalent to the fourth largest national economy in the world behind only the United States, Japan, and Germany.<sup>5</sup>

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<sup>2</sup> American Chamber of Commerce in China, "2009 American Business in China White Paper," <https://www.amchamchina.org>.

<sup>3</sup> The State Council, The People's Republic of China, "The National Medium- and Long-Term Program for Science and Technology Development (2006–2020): An Outline," [https://www.itu.int/en/ITU-D/Cybersecurity/Documents/National\\_Strategies\\_Repository/China\\_2006.pdf](https://www.itu.int/en/ITU-D/Cybersecurity/Documents/National_Strategies_Repository/China_2006.pdf).

<sup>4</sup> Wayne M. Morrison, "China-U.S. Trade Issues," Congressional Research Service Report, April 24, 2017, <https://fas.org/sgp/crs/row/RL33536.pdf>.

<sup>5</sup> Andrew Batson, "China's State Capitalism: Getting The Facts Right," New Approach to Chinese State Capitalism: An Assessment and Guide to Responding to Its Distortions, CSIS Workshop, March 1–2, 2021.

## Down the National Security Rabbit Hole

Protecting national security is a legitimate responsibility of government and arguably its most important obligation. That may not have appeared to be the case during the halcyon days of globalization, when concerns about post-Cold War security threats seem to have been eclipsed by the promise of large commercial, financial, and developmental dividends.

The primacy of national security is enshrined within the modern, international trading system. Despite the imperative of rebuilding the global economy in the wake of World War II, and the centrality of free trade to that goal, the original 23 GATT signatories agreed that governments should be permitted to suspend their obligations (i.e., to reimpose tariffs) when deemed necessary to mitigate or neutralize threats to national security.

Accordingly, the agreement included Article XXI—the “National Security Exception”—which stipulates that any party to the agreement is permitted to undertake “any action which it considers necessary for the protection of its essential security interests,” including the imposition of trade restrictions.<sup>6</sup> That article permits WTO members to raise trade barriers for purposes of protecting national security without obligating them to demonstrate that their rationale conforms to some agreed definition of what constitutes a national security threat.<sup>7</sup> Implicit in the Article XXI exception is the presumption that only individual governments are in the position to judge what is vital to their countries’ security, and whether and how to safeguard it.<sup>8</sup>

By the same token, the parties to the agreement had committed to the principle of economic openness with the understanding that none would invoke the national security exception frivolously. In other words, unless governments are sufficiently certain that national security is at risk, they should refrain from imposing restrictions. Then, in 2017, along came President Donald Trump, who imposed tariffs, most of which are still in place, on imported steel and aluminum under the guise of protecting national security.

During the past five years, US policymakers have been sharpening other protectionist national security tools. Trump’s Commerce Department “blacklisted” certain Chinese technology companies and broadened the scope of technology exports to be restricted. The Biden administration added to both lists. During the Trump administration, Congress expanded and tightened the US export control regime and the inward investment review mechanism. Biden tightened both even further and is also

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<sup>6</sup> The General Agreement on Tariffs and Trade, 1947, Article XXI, [https://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_02\\_e.htm#articleXXI](https://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm#articleXXI).

<sup>7</sup> Many of the GATT’s rules were adopted by the World Trade Organization when it was established in 1995.

<sup>8</sup> For a deeper dive on this issue, see Daniel J. Ikenson, “The Danger of Invoking National Security to Rationalize Protectionism.” Cato-at-Liberty Blog Post, May 15, 2017, <https://www.cato.org/commentary/danger-invoking-national-security-rationalize-protectionism>.

seriously considering an outward investment review regime.<sup>9</sup> In fits of extraterritorial posturing, Trump and Biden both promulgated rules forbidding certain foreign companies from selling semiconductors and other components to Chinese technology companies. Both administrations also pressed other governments to rid their telecommunications networks of Chinese made information and communications technology gear.

While protecting national security is of paramount importance, doing so comes at a cost. Beyond the financial costs of the resources consumed in the administration of any program intended to protect national security are the opportunity costs of impeded or foregone commerce, as well as the reputational costs of being seen by other countries as abandoning principles or shirking on global trade leadership responsibilities.

Policy choices are about trade-offs that require properly weighing the costs and benefits of the alternatives. Among the commonly discussed costs of restricting Chinese access to US technology are lower revenues and smaller market shares for US firms, a hastening of the pace of China's pursuit of self-sufficiency, and a splintering of the global technology ecosystem. But that must be weighed against the security and economic benefits obtained by restricting China's access to US technology. Moreover, we should ask ourselves whether Beijing's enshrining of the goal of self-sufficiency in semiconductors and other technologies and its sanctifying of all the measures deployed in service to that goal didn't commit China to the "decoupling" outcome long ago. In other words, we were already heading in this direction, so perhaps those outcomes should not be considered costs of the US policy response.

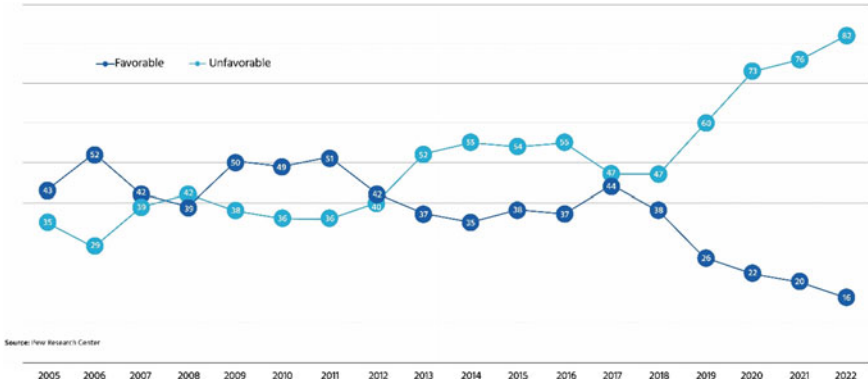
It's hard to fault Beijing for its efforts. Being king of the technological hill confers all sorts of strategic advantages—commercial, cybersecurity, intelligence, and military—including, perhaps most importantly, a head start in the race to develop the next generation of technology including artificial intelligence, robotics, and quantum computing. For the same reasons, Washington shouldn't be faulted for trying to thwart Beijing's progress. Overtaking and staying ahead of China in the technology race has become a US national security imperative.

## Trade Through the Lens of Geopolitics

In choosing to go rogue in recent years, the United States has suffered some reputational loss with the global community, which may impede US efforts to lead going forward. Who will be America's allies in an emerging cold war that will impact many countries who believe this could have been avoided had the United States acted within the trade rules? Several governments accepted US trade leadership and expected the

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<sup>9</sup> See Charles Hutzler, "Biden Orders Deeper Scrutiny of Foreign Investment in Tech and Supply Chains," *Wall Street Journal*, September 15, 2022, <https://www.wsj.com/articles/biden-orders-deeper-scrutiny-of-foreign-investment-in-tech-and-supply-chains-11663246802>.



**Fig. 2** Percentage of people in the US who have an unfavorable view of China (2005–2022)

United States to reassert its commitment to the multilateral trading system before it was beyond saving. None wanted to make choices that upset Washington or Beijing.

The Trump administration committed its share of errors in the conduct of international economic policy, maybe none more significant than its disregard for the utility of soft power in advancing US interests. By pulling out of the Trans-Pacific Partnership, hitting most of the world with tariffs on steel and aluminum, proclaiming and tightly embracing the “America First” mantra and then starting a trade war with China, Trump’s blindness to the necessity of alliances and the utility of offering carrots rather than wielding sticks could not have been any more evident. The notion that cooperation from allies might be useful in compelling China to behave differently and that treating these allies as threats to national security might undermine that approach somehow eluded the Trump administration (Fig. 2).

Some have suggested a better way to prevent the US–China relationship from descending into a full-fledged cold war is to sequester the technology battle from the rest of the relationship—cordon it off to prevent it from further infecting broader commercial ties. But it’s not clear how such an arrangement could be expected to work. If Beijing and Washington prioritize their technology competition and engage in measures to subvert each other’s progress, there will be diminishing scope for commercial relations in the rapidly evolving technology industries. That will hasten an already accelerating process of bifurcation—and splintering—of the technology ecosystem.

Then what’s the logic in stopping at technology? To the extent Beijing sees US sales of non-technology goods and services in China as benefiting the United States more than China, it will be inclined to prohibit those transactions. And it will work the same way in the other direction. It will no longer be about the fact that trade is mutually beneficial in absolute terms, but about the question of who is made relatively better off on a transactional or contractual basis. The uncertainty created by the constant threat of new restrictions in a climate of malice and distrust will raise

the costs of transactions, deter ongoing collaboration and, ultimately, close each market to the other's goods and services.

This loss of market access will hasten the quest for new suppliers and new customers—a competition to forge new partnerships and allegiances, which will color the landscape of the new cold war. This isn't a pretty picture of strategic reglobalization, but an outcome for which policymakers and businesses around the world are preparing. In response to the rising costs and growing uncertainty over deteriorating US–China trade relations and Beijing's rigid Covid-19 policies, some foreign companies have already started to divest and move out of China.<sup>10</sup>

Pledging to repair sullied relations with allies, the Biden administration thus far has engaged mostly in rhetorical change. Tariffs on China remain in place, as do tariffs on steel and aluminum from most countries, but this protectionism and broader aversion to trade agreements and disinterest in restoring the integrity of the WTO are now justified as “Worker Centric” policies, as opposed to “America First.” Meanwhile, the WTO-affronting “US–China Phase 1” deal, which gives US businesses preferences over other countries' businesses in China and serves to drive wedges between the United States and its current and prospective allies, remains in place.<sup>11</sup>

The Biden administration has shunned traditional trade agreements, shown a studied indifference to the fate of the WTO as a venue for trade liberalization or dispute adjudication, and has made clear its preference for forging alliances with “coalitions of the willing” on issues, such as digital trade, supply chain resilience, technology policy, climate, and labor standards. The US-led Indo-Pacific Economic Framework (IPEF) covers labor, environmental, and digital standards, as well as commitments to supply chain resilience, tax, and anti-corruption provisions. Critics cite the IPEF's absence of US market access commitments, especially in light of its requirements that partners adhere to US standards, as a deal breaker. But trade economist Petros Mavroidis sees the requirement of adherence to US standards as the cost of maintaining existing access to the US market—an “insurance policy against market exclusion.”<sup>12</sup> In other words, the United States intends to use its market as both a dangling carrot and a heavy stick.

Whether or not that is true remains to be seen, but the approach would seem consistent with strategic reglobalization driven by hegemonic competition. Tools such as Beijing's Belt and Road Initiative, its more recent Global Development Initiative, and Washington's nascent “Build Back Better World” initiative are other examples of conduits for channeling benefits to compliant economies, or inflicting costs on noncompliant ones. Swaying Pacific Island governments into the US ambit

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<sup>10</sup> Chris Miller, “The US-China chip war is reshaping tech supply chains,” *Financial Times*, October 7, 2022, <https://www.ft.com/content/3bab2b03-0cd9-4e91-86ab-dcda499fb231>.

<sup>11</sup> For more detail on this argument, see Daniel J. Ikenson, “Why Bother Assessing the U.S.-China Phase One Trade Deal, Anyway?” *Cato-at-Liberty Blog Post*, October 30, 2020, <https://www.cato.org/blog/why-bother-assessing-us-china-phase-one-trade-deal-anyway>.

<sup>12</sup> Petros C. Mavroidis, “Is IPEF an Avatar of Things to Come (Or Just a Digression)?” *International Economic Law and Policy Blog*, May 5, 2022, <https://ielp.worldtradelaw.net/2022/05/petros-mavroidis-on-the-indo-pacific-economic-framework.html>.

with financial incentives is among the latest Biden administration policy that evokes Cold War tactics.

## **What Will Become of the WTO**

Depending on whom you ask, the outcome from the 12th Ministerial Meeting of the World Trade Organization demonstrates either that the WTO remains a legitimate venue for negotiating trade deals or reinforces concerns that it is unfit for that purpose. The hopeful crowd points to the importance of the agreements reached in Geneva last June and the willingness of ministers, WTO officials, and their staffs to work hard and remain dedicated to the mission. The skeptics point to how little was actually agreed to, despite all the time and resources committed to the effort.

The better question is: Does it even matter? What is the point, really, of shoring up an institution whose rules its two largest members will violate whenever it serves their interests? What is the point of crafting new rules when enforcement of existing rules, which are broken with increasing frequency, is impossible because the Appellate Body has been rendered impotent? The whole effort seems little more than rearranging the Titanic's deck furniture.

For an institution to endure, it must remain relevant. Can the WTO be relevant in a world where adherence to its principles and rules is no longer seen to be in the interests of its largest members? At a minimum, restoring respect for the WTO and its rules would require convincing China to rein in its distortionary model of state capitalism, which it routinely (and rightly) characterizes as consistent with its rights as a sovereign nation and claims to be evidence of America's interest in containing China and suppressing her rise. Of course, China can choose its own domestic policies, but the externalities imposed on other countries by its choices make it a global matter. The most significant externality has been an erosion of faith in the rules-based trading system, especially and most importantly among US policymakers, as an institution that serves US strategic interests.

The "process" of the United States turning its back on the WTO began during the Obama administration with its identification of the Trans-Pacific Partnership as the economic linchpin of its foreign policy "Pivot to Asia." Many thought the TPP was going to be the strategic response to China's techno-mercantilism and general diversion from the path on which Beijing's WTO commitments put China. According to President Obama, it was imperative that the United States beat China to writing the rules of twenty-first century trade. With new and more rigorous trade rules than the Regional Comprehensive Economic Partnership (RCEP) or the WTO, the TPP would tie many of China's most important trade partners together in a modern, ambitious agreement. As a live agreement, the TPP would attract more partners, incentivizing an increasingly isolated China to consider undertaking the necessary reforms to join. Had it played out like this, the TPP could have been expanded to include other big countries, such as the EU and UK and Turkey, and eventually make the case for being folded into the WTO or replacing the WTO altogether.

It didn't turn out that way. Instead, the Trump administration withdrew the United States from TPP, opted to impose unilateral tariffs and other sanctions on China, and tightened the US chokehold on the WTO Appellate Body, refusing to endorse any new jurists for the AB, thereby depriving it of a quorum to function.

Although the proximate cause of the United States' disabling of the AB appears to have been perceptions of AB overreach in cases involving the EU, Canada, Japan, and other allies, the main reason is that the United States no longer sees it as in its interest to abide by the trade rules and subject itself to binding dispute resolution when doing so restricts its capacity to do whatever it deems necessary to counter the consequences of China's state capitalism. Arguments highlighting the economic costs of shunning the WTO and engaging in unilateral protectionism have proven unpersuasive in Washington, where policymakers are more concerned about the strategic benefits that course is presumed to purchase. Many US policymakers from both major political parties no longer consider adherence to the rules-based system to be in the national security interest of the United States.

Perhaps the best we can do—in a world without a single hegemon is to have trade “guidelines” instead of enforceable rules that restrain the capacity of members to take actions they consider in their best interests. In some respects, this is similar to the GATT system, where there was much less pressure on members to come into compliance when their actions were deemed to be in violation of the agreements. Guidelines provide less certainty than rules and, thus, increase the overall costs of trade. But most governments know that protectionism punishes their own economies and that openness to trade is essential to their economic prospects and growth. Most WTO members maintain tariffs that are considerably lower than the rates they are bound to under the WTO agreements, knowing that access to lower priced inputs and goods reduces production costs and living expenses, helps attract foreign direct investment, and frees up resources to devote to other value-added endeavors. Most WTO members are aware of the importance of trade facilitation measures, such as expedited customs procedures and logistics infrastructure, and many have invested in improving these systems.

In other words, trade will continue to be an important driver of economic growth regardless of whether the WTO reaches new agreements, implements new reforms, or restores its adjudicative capacity. How important trade is as a catalyst for growth and peaceful relations will depend on the nature of the emerging reglobalization and whether it is motivated more by carrots or sticks.

## **Conclusion**

The relevant conditions that enabled the birth and growth of the rules-based multilateral trading system no longer exist. Contrary to the America First presumption that the world owes the United States a debt of gratitude for its generous funding under the Marshall Plan, protection under America's nuclear umbrella, and sponsorship of the multilateral institutions that helped provide post-war stability, these actions were



not favors. It was distinctively in America's interest to act as it did. The imperative of rebuilding a war-torn world, tapping into extraordinary demand for US goods and services, tamping down nationalism, and confronting the specter of communism and the menace of Soviet expansionism made it clear that a traditionally isolationist United States must embrace an internationalist agenda to serve its foreign policy and national security objectives.

What the America Firsters got right, if by accident, is the growing doubt that US national security objectives are still best served by adherence to the rules-based system, which has fostered the rise of illiberal rivals and restrains the United States from taking measures that may be more likely to preserve America's station at the top of the heap.

Today, the world's two largest economies have committed to courses of action that blatantly disregard the WTO's bedrock principles of "most-favored nation" and "national treatment" and systemically subordinate the trade rules to their hegemonic priorities. Going forward, geopolitical and national security considerations will define what is possible—and permissible—in the realm of international trade and investment, and the determinants of those considerations will be fluid. Washington and Beijing will compete for the hearts and minds of third countries using policy carrots and sticks. Optimal trade choices will no longer be those which are most efficient, but those which incorporate considerations of security. That implies a smaller pool of prospective trading partners and higher costs of trade.

What can be done to mitigate these costs? Of course, the "solution" would be for Beijing to admit to the external problems caused by its state capitalist policies, agree to loosen its grip on the economy's steering wheel, and return China to the reformist, market-liberal path it seemed to be pursuing when it joined the WTO in 2001. But, for now, that option is a non-starter given that the United States is committed to its own unilateralist policies and given how deep into the abyss bilateral relations have fallen over the past few years over non-trade issues, such as Hong Kong, human rights in Xinjiang, Covid-19, Taiwan, and the Russian war on Ukraine.



**Daniel J. Ikenson** is an economist and renowned international trade expert with over 30 years of experience researching, analyzing, communicating, and influencing the formulation of US and global trade policy. After 20 years with the Cato Institute, he joined NDP Analytics as director of policy research in March 2021. Prior to joining the Cato Institute in 2000, he was the director of international trade planning for an international accounting and business advisory firm. He has written dozens of policy papers, given congressional testimony, submitted statements and comments on proposed regulations to federal and state agencies, appeared on national news programs, and published scores of op-eds and articles in prominent media outlets on subjects spanning from free trade agreements to international investment treaties, trade laws to customs procedures, digital trade to the manufacturing economy. In addition to his many studies and articles, he is the coauthor of the book

*Antidumping Exposed: The Devilish Details of Unfair Trade Law.* He earned an MA in economics from George Washington University.

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# The Role of China in Globalization and the China-ASEAN Partnership



Michael Yeoh

**Abstract** Themes of interconnectedness and interdependence highlight China's contribution to globalization, which has been enormous, especially in economy, trade, and investment where it is reshaping the global economy. In addition to economic cooperation, the China-ASEAN partnership has also strengthened political and security dialogue and even extended into cultural areas. This partnership has become a mature and multifaceted relationship that spans economics, politics, and security, impacting both regional and global trends.

**Keywords** ASEAN · “CIA” · CAFTA · Economic cooperation · Geopolitical dynamics

## Introduction

The rise of China as a global superpower has been one of the most significant events of the twenty-first century. China has been an active participant in globalization, which is the process of increasing interconnectedness and interdependence among countries, people, and economies worldwide. China's contribution to globalization has been enormous, with its economy, trade, and investment activities playing a critical role in shaping the world economy. In recent years, China has also forged closer ties with its neighboring countries in Southeast Asia through the China-ASEAN partnership, which has significant implications for regional and global affairs.

This article will examine the role of China in globalization and the China-ASEAN partnership. It will explore the reasons behind China's rise as a global power, the challenges it faces, and the opportunities it presents. The article will also examine the China-ASEAN partnership, its goals, achievements, and challenges.

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This article is wrote in February 2023.

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M. Yeoh (✉)

KSI Strategic Institute for Asia Pacific, Kuala Lumpur, Malaysia

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## **Strengthening Economic Partnership and Global Governance in a New Global Order**

The world has been upended with the global COVID pandemic and the lingering war in Ukraine. We have been subjected to lockdowns in the global supply chain, an initial shortage, and high prices of vaccines. The Ukraine conflict has increased energy prices and caused disruptions to energy supplies. Over the past three years the global media narrative has been largely one-sided and dominated by the Western media. The voice of the “global south” has hardly been heard.

China has played a major part in providing vaccines and medical equipment to countries in Southeast Asia and Africa, acting as a friend and partner of the developing world. China will also play a significant role in shaping the global economic recovery as China has emerged to be the leading trade partner of many nations, including all the 10 countries of Southeast Asia (ASEAN). China also contributes to regional economic development through the Belt and Road Initiative (BRI) helping to develop infrastructure in the region in particular building of ports, railways and highways. These transport infrastructure partnerships will stimulate economic growth and create business and employment opportunities.

It is clear that the world will see a shift in global economic power from the Western world to what I would categorize as the CIA—China, India and ASEAN.

The emergence of “CIA” (China, India and ASEAN) will drive future economic growth not just for the region but globally as well. China will overtake the USA as the world’s largest economy, while India will become the second largest and ASEAN the world’s fifth largest. Hence, the epicenter of future growth will be in this region, driven by China, India, and the ten member states of ASEAN.

With the rise of CIA economies, new opportunities will be created. Increasingly, digitalization, technology and innovation will drive and accelerate growth and economic development in CIA. This will increase the demand for education, knowledge, talent, and skills to enable the youth of this region to be future-ready and to be future-proof. There is a need for enhanced cooperation among universities and institutions of higher learning in the region to collaborate on joint research and knowledge sharing. Many students from China are today studying in universities in Malaysia and Singapore and students from the ASEAN countries also pursue higher education opportunities in China. This augurs well for the future of China and ASEAN cooperation as education and knowledge exchanges develop better understanding and foster lifelong friendships. Going forward, more must be done to develop education exchanges. A leading Chinese university—Xiamen University—has set up a branch campus in Malaysia. More Chinese universities should also explore setting such branch campuses in other ASEAN countries. Likewise, ASEAN universities should also explore setting up such campuses in China or to enhance partnership with universities in China.

With the rise of CIA economies, China, India, and ASEAN should also be given a bigger voice in global governance, especially in international and multi-lateral governance. China can play a big role in giving smaller nations a larger voice in the international community. Global governance also requires reforms to global economic governance in such institutions as the World Bank and the International Monetary Fund (IMF).

## **China's Rise as a Global Power**

China's rise as a global power has been one of the most significant developments of the twenty-first century. The country's economic transformation, which began in the late 1970s, has been nothing short of remarkable. China's economy has grown at an average annual rate of 9.5% over the past 40 years, making it the world's second-largest economy after the United States. China is now the world's largest trading nation, accounting for 13% of global trade in 2019. It is also the world's largest holder of foreign exchange reserves, with over \$3 trillion in reserves.

China's economic transformation has been driven by several factors, namely economic liberalization, technological innovation, and globalization. Economic liberalization, which began under the leadership of Deng Xiaoping in the late 1970s, opened up the Chinese economy to foreign investment and trade. This led to the emergence of export-oriented industries, which helped fuel China's economic growth. Technological innovation has also been a key driver of China's economic growth. The country has made significant investments in research and development, particularly in the areas of artificial intelligence, biotechnology, and renewable energy.

Globalization has also played a critical role in China's rise as a global power. China has been a major beneficiary of globalization, with its economy heavily reliant on exports. The country's participation in the global economy has also been facilitated by its membership in international organizations such as the World Trade Organization (WTO) and the International Monetary Fund (IMF). At the same time, China's economic growth has created significant opportunities for other countries, particularly those in Southeast Asia.

## **Challenges Facing China**

While China's rise as a global power has been impressive, the country also faces significant challenges. One of the most significant challenges is the country's aging population. China's one-child policy, which was in place for over three decades, has resulted in a rapidly aging population. By 2030, it is estimated that 25% of China's population will be over the age of 65. This will put a strain on the country's social security system and have significant implications for economic growth.

Another challenge facing China is environmental degradation. China's rapid economic growth has come at a significant cost to the environment. The country is the world's largest emitter of greenhouse gases and is also home to some of the world's most polluted cities. However, the Chinese government has recognized the severity of the problem and has taken steps to address it, including investing in renewable energy and implementing stricter environmental regulations.

Finally, China also faces geopolitical challenges. The country's growing economic and military power has raised concerns among some of its neighbors. The United States, which has long been the dominant power in the region, has also expressed concerns about China's growing influence and has sought to counter it through various measures. However, China is an important partner for Southeast Asia and both China and ASEAN should engage further to conclude the Code of Conduct on the South China Sea.

## **China-ASEAN Partnership**

Against this backdrop, China has sought to strengthen its relations with its neighbors in Southeast Asia through the China-ASEAN partnership. The partnership was established in 1991 and has since grown in scope and importance. The partnership aims to promote economic cooperation, political and security dialogue, and cultural exchange between China and the ten ASEAN member countries.

The China-ASEAN Free Trade Area (CAFTA), which was established in 2010, is one of the most significant achievements of the partnership. CAFTA is the world's largest free trade area in terms of population and covers a market of over 1.8 billion people. It has helped boost trade and investment between China and ASEAN and has contributed to the economic development of the region.

In addition to economic cooperation, the China-ASEAN partnership has also strengthened political and security dialogue between the two sides. China and ASEAN have held regular high-level meetings to discuss regional security issues, including the South China Sea dispute. While the issue remains a source of tension between China and some ASEAN member states, both sides have sought to manage the dispute through dialogue and negotiation.

The partnership has also fostered cultural exchange between China and ASEAN member states. China has provided scholarships to students from ASEAN member states to study in China and has supported cultural events and exchanges. These efforts have helped promote greater understanding and people-to-people ties between the two sides.

## Challenges Facing the China-ASEAN Partnership

While the China-ASEAN partnership has made significant progress over the past few decades, it also faces several challenges. One of the most significant challenges is the South China Sea dispute, which remains a source of tension between China and some ASEAN member states. China claims most of the South China Sea, which is also claimed by several ASEAN member states, including Vietnam, the Philippines, and Malaysia. The dispute has led to several incidents of maritime clashes and has strained relations between China and some ASEAN member states.

Another challenge facing the partnership is the development gap between China and ASEAN. While China is a major economic power, many ASEAN member states are still developing countries. This development gap has led to concerns about unequal economic relations and has raised questions about the sustainability of the partnership.

## Conclusion

China's role in globalization and the China-ASEAN partnership has significant implications for regional and global affairs. China's rise as a global power has been driven by economic liberalization, technological innovation, and globalization. While China's economic transformation has been impressive, the country also faces significant challenges, including an aging population, environmental degradation, and geopolitical tensions.

The China-ASEAN partnership has been a significant achievement in regional cooperation. The partnership has helped promote economic cooperation, political and security dialogue, and cultural exchange between China and the ten ASEAN member countries. While the partnership has faced several challenges, including the South China Sea dispute, development gaps, and geopolitical tensions, both sides have sought to manage these challenges through dialogue and negotiation.

The future of the China-ASEAN partnership will depend on the ability of both sides to address these challenges and build a sustainable partnership that benefits both China and ASEAN. As China continues to play a significant role in globalization, its relations with its neighbors in Southeast Asia will continue to be a critical factor in shaping the future of regional and global affairs.

Another key challenge will be the need to address environmental and sustainability issues. China and ASEAN are both facing significant environmental challenges, including air and water pollution, deforestation, and climate change. Addressing these challenges will require sustained cooperation and collaboration, as well as significant investments in green technology and infrastructure.

In addition to these challenges, the China-ASEAN partnership will also face new opportunities. One of the most significant of these is the rapid growth of digital technology and e-commerce. Both China and ASEAN have large and growing populations of internet users, and the digital economy is becoming an increasingly important driver of economic growth and development. As such, there is significant potential for cooperation and collaboration in areas such as digital infrastructure, e-commerce, and Fintech.

Finally, the China-ASEAN partnership will continue to be shaped by broader geopolitical trends and shifts in the global balance of power. As China's economic and military power continue to grow, the country will face increasing scrutiny and pressure from the United States and other major powers. This may create new challenges and opportunities for the China-ASEAN partnership and may require both sides to navigate complex geopolitical dynamics and strategic competition.

Overall, the future of the China-ASEAN partnership will depend on the ability of both sides to navigate these challenges and opportunities, and to build a sustainable partnership that benefits both China and ASEAN. As China continues to play a significant role in globalization and regional affairs, its relations with its neighbors in Southeast Asia will continue to be a critical factor in shaping the future of regional and global politics, economics, and society.

The China-ASEAN Partnership has come a long way since its inception in 1991. Over the past three decades, it has grown into a mature and multifaceted relationship that spans economics, politics, and security. As China continues to play a central role in globalization and regional affairs, its relations with ASEAN will continue to be an important factor in shaping the future of the region and the world.

To ensure a sustainable and beneficial partnership, both sides will need to work together to address the challenges and opportunities that lie ahead. This will require a commitment to open and constructive dialogue, as well as a willingness to compromise and collaborate. By building on their shared history and cultural ties, and leveraging their complementary strengths and resources, China and ASEAN can continue to deepen their partnership and contribute to the stability and prosperity of the region.

There are several areas where China and ASEAN can deepen their cooperation and collaboration in the years ahead. These include:

- a. **Strengthening Economic Ties:** As the world's second-largest economy, China is a key trading partner for ASEAN. In 2020, China was ASEAN's largest trading partner, accounting for 14.2% of its total trade. Both sides can work to expand and deepen their economic ties, by enhancing trade and investment flows, promoting greater connectivity, and pursuing a more sustainable and inclusive economic agenda.
- b. **Deepening Political and Strategic Cooperation:** China and ASEAN have made significant strides in building trust and confidence in the political and strategic realms. Both sides can build on this momentum by deepening their engagement on regional security issues, such as terrorism, maritime security, and non-proliferation, and by working to promote greater regional stability and cooperation.



- c. **Enhancing People-to-People Ties:** People-to-people ties are a critical component of the China-ASEAN partnership. Both sides can enhance their engagement in areas such as education, culture, tourism, and youth exchange, to foster greater mutual understanding and trust between their peoples.
- d. **Addressing Environmental and Sustainability Issues:** As noted earlier, environmental and sustainability issues are a significant challenge for both China and ASEAN. Both sides can work together to promote green growth and sustainable development, by sharing best practices and technologies, investing in green infrastructure, and pursuing a more sustainable and low-carbon economic agenda.
- e. **Leveraging Digital Technology and Innovation:** The rapid growth of digital technology and innovation presents significant opportunities for both China and ASEAN. Both sides can deepen their cooperation in areas such as e-commerce, Fintech, and digital infrastructure, to promote greater connectivity and economic growth.

By working together to address these challenges and opportunities, China and ASEAN can build a sustainable partnership that benefits both sides and contributes to the stability and prosperity of the region. As globalization continues to reshape the world, the China-ASEAN partnership will remain a critical factor in shaping the future of regional and global affairs.

The China-ASEAN partnership can be mutually beneficial for both sides but there must be a deepening of mutual trust and respect, effective bilateral cooperation, conflict resolution measures and increase focus on people-to-people ties and business and commercial cooperation to deepen this bilateral partnership.



**Tan Sri Michael Yeoh** is Founder and President of the KSI Strategic Institute for Asia Pacific, a leading Think Tank in Malaysia and ASEAN. He is also Chairman of the ASEAN Leadership Forum, Co-Chair of the ASEAN Economic Club, Secretary General of the Malaysia Japan Economic Association and Exco Member of the UN ESCAP Sustainable Business Network. He was Malaysia's representative (with the rank of ambassador) to the ASEAN High Level Task Force on Connectivity. He also sits on the boards of several publicly listed companies in financial services, property development, manufacturing and hotels. He is also a patron of the YMCA Kuala Lumpur. He is an economics graduate of Monash University and was conferred an Honorary Doctor of Laws by the University of Nottingham. He is also a Fellow of the Institute of Directors (UK) and the Malaysian Institute of Management. He has authored five books.

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# Economic Diplomacy as an Answer Towards Global Challenges: The Experiences of Sino-German Economic Cooperation



Michael Schumann and Urs Unkauf

**Abstract** How can economic diplomacy can bring about more understanding at the international level and what benefit does it provides in the current constellation of international relations? Economic diplomacy can be understood as the ability of entrepreneurial actors to build new bridges complementary to state foreign policy and the example of Sino-German economic relations shows that business provides real insight into China's competence, exemplifying how mechanisms of cooperation can function effectively despite political divergences.

**Keywords** Economic diplomacy · Sino-German economic cooperation · Multipolar world · “Change through trade”

Current debates on international relations are marked by increasing tensions. In this sense, the discourse is comparable to the developments of the 1950s, although the conditions today are completely different and we no longer live in a dualistic system characterized by two power blocs, but in a de facto multipolar world. Business expertise is contrasted with political values, rather than the latter taking advantage of the former. The result is a new difference between the political ambitions of the so-called Western world and the objective interests of access to markets, sources of raw materials, supply chains and trading partners. At the same time, we are also experiencing a speechlessness in foreign policy in certain areas, which in turn can be bridged through economic cooperation. Where political dialogue is silent or exhausted by abstract objectives such as securing the natural foundations of human life, the economy builds new bridges of mutual understanding.

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The BWA is a globally active association of German foreign trade and industry based in Berlin. It unites leaders from business, science, politics, and diplomacy within its Global Economic Network who advocate an eco-social market economy.

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M. Schumann (✉) · U. Unkauf  
Federal Association for Economic Development and Foreign Trade (BWA), Berlin, Germany

This contribution aims to show the importance of economic diplomacy using the example of Sino-German business and trade cooperation. The guiding question here is how economic diplomacy can bring about more understanding at the international level and what benefit it provides in the current constellation of international relations. First of all, this term will be defined and narrowed down with regard to the research interest. The article then focuses on the lessons to be learned from bilateral economic cooperation between China and Germany, which also takes place in a European context. Finally, the authors argue for an expansion of economic diplomacy as a way to overcome conflict constellations in foreign policy.

Economic diplomacy is understood as the contribution of corporate stakeholders or national economies as a whole towards a solution for political and diplomatic challenges, which cannot be resolved at the political level only. In this sense, it constitutes a second and third tier approach that complements, not substitutes, traditional diplomacy. Other terms such as business diplomacy, commercial diplomacy, or trade diplomacy focus on certain aspects, but are all covered by the general term of economic diplomacy which is further used here. Arnaldo Abruzzini, the former CEO of the Confederation of European Chambers of Commerce and Industry (Eurochambres), defined economic diplomacy as “how much business can contribute to the settlement of political and diplomatic situations that the only political level cannot necessarily efficiently solve.”<sup>1</sup> This pragmatic understanding is of course not the only one, there are also more institutionalized approaches such as the description from the German Federal Foreign Office that states, “Germany’s system of economic diplomacy is supported jointly by the state and business and is institutionally bundled into three pillars abroad [...] The missions abroad are available to companies worldwide as partners and helpers. All three institutions [German missions abroad, chambers of commerce and the national marketing agency GTAI] are present in the world’s most important markets for Germany.”<sup>2</sup>

Economic diplomacy in the sense understood here refers to the abilities of entrepreneurial actors to build new bridges complementary to state foreign policy, which ultimately not only serve economic objectives, but can also open up new channels of dialogue.

The geopolitical changes of 2022 are often interpreted as meaning that the concept of “change through trade” has failed and that the tasks of the economy must be reoriented on the international stage. However, this debate addresses the wrong issues within the overall problem, as it ignores the existing realities. Europe and Germany in particular, are highly dependent on exports; the level of prosperity and standard of living achieved to date, not least a driver of the international reputation of this part of the world, is substantially dependent on functioning and resilient foreign economic relations. The task of business is increasingly seen as universalizing particular (Western) values under the guise of humanitarian responsibility. This approach not only follows colonial patterns of thought, it also ignores the real diversity of

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<sup>1</sup> Cf. European Investment Bank (2016).

<sup>2</sup> Federal Foreign Office (2021). Translation by the authors.

cultures, civilisations and traditions of thought and action in the world. The multipolar reality in the third decade of the twenty-first century is often subject to attempts to describe it in debates characterized by an inadequate understanding of multilateralism. However, this approach, combined with the role of the economy as a driver of transfer of one's own values, ignores the existing realities. Therefore, the current debate on this is far too short-sighted and needs to be put on a new geostrategic and temporal footing.

First of all, the discourse on China's image in Germany—as well as that of the image of Germany in China—must be understood in order to be able to locate the effects of bilateral economic relations more precisely. In this context, it is important to refrain from a black-and-white viewpoint in order to adequately grasp the complex dynamics and multi-layered nature of these relations. The concept of “change through trade” is necessary to complement the idea of a “dialogue of civilisations”<sup>3</sup>—as a counternarrative to Huntington's *Clash of Cultures*—which follows the maxim of learning from and benefiting each other, ultimately transforming both sides. At the same time, this presupposes that a suitable concept of change is used as a basis; one that can do without missionary pretensions and recognizes the multipolar reality. Entrepreneurs do not have a missionary mandate and are much better able to transfer “values” into practice through their own examples of success. These values change in the international context through local experiences and lead to feedback, which in turn gives impetus and also triggers changes at their country of origin.

At the European level, the spheres of the economic and the political have largely moved away from each other. This decoupling process has led to political decision-makers losing practical and constructive access to experiences from other cultural areas in many cases. Morality and the simplistic categorisation into “good” and “evil” remain as an escape from a complex and multi-layered reality.<sup>4</sup> Meanwhile, the image of one's own experiences with other cultures is substantially hampered by this artificial dichotomy.

The example of Sino-German economic relations shows that business provides real insight into China's competence, while politics has lost access to many real-world experiences. However, this problem is increasingly working in both directions. Economic relations, understood through continued and long-term interactions, can make a substantial contribution to filling this void. Overcoming speechlessness requires dialogue with a willingness to engage with the other person's perspective, to see the world through their eyes and to understand this perspective inter-subjectively. Understanding does not at all mean having a normative or emotional understanding of something. This principle, which forms one of the basic ideas of the European Enlightenment, is the basis for the analysis and classification undertaken here. Since there are always personalities standing behind economic actors, the following by three portraits of selected business leaders serve to elucidate the impact of Sino-German economic relations.

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<sup>3</sup> Cf. Khatami (2012).

<sup>4</sup> Cf. Wang (2023).

## Karl-Heinz Gass

The life of the German entrepreneur Karl-Heinz Gass is an impressive example of the concrete effects and impact mechanisms of economic diplomacy in Sino-German relations. Famous in China, but rather unknown in his own country of origin, Karl-Heinz Gass, born in 1940, a trained master butcher from the south-western German Federal State of Rhineland-Palatinate. The son of a railwayman, Gass was not a trained business or policy advisor, but a master butcher by profession with no previous diplomatic experience. Working as a networker between Germany and China for years—an early pioneer for German companies in China as well as for the activities of Chinese companies overseas. It all began in the 1980s with an individual friendship. Gass met the Chief of General Staff of the Chinese People’s Liberation Army by chance and since then visited China many times. Gass introduced numerous companies and politicians from Germany and China to each other, arranged various company contracts and even trained Chinese workers in his own company, some of whom later took up high-level administrative posts. He was also one of the few foreigners to make it into the Chinese Military Museum. The initial meeting by chance with the Chinese Chief of General Staff in 1981 during a holiday in Switzerland developed into a basis for intensive exchange. As he was at first unable to travel directly to Beijing because of his commitments, he wrote to the Chinese Embassy. Here he made suggestions on how to better process products in China and at the same time contacted companies in Germany. Afterwards, a China working group was founded in Heidelberg, and in 1985 he went to various trade fairs in China with German companies for the first time and also met the Chief of Staff again. Gass spoke about this in an interview, saying “*For our politicians this was of course incomprehensible. I wasn’t a member of any party, I was free and could speak my mind. I think I surprised the Chinese with my openness and my lack of understanding of diplomacy.*”<sup>5</sup> His background beyond politics and diplomacy hence enabled him to act unfettered by official instructions and with entrepreneurial efficiency.

As a result of these relationships, which grew on the basis of mutual trust, Gass attended two to three trade fairs with German business delegations in various Chinese cities every year. From 1986 onwards, he worked as a consultant for the steel group Friedrich Krupp AG. In 1988 he founded a German-Chinese friendship society, and in 1994 he became self-employed as a consultant for German companies on their China businesses. Gass met with Chancellor Helmut Kohl in Beijing several times, but was never part of the German Chancellor’s official delegation. In 1986, he presented a ten-point programme to the Chief of General Staff, and in 1988 he was awarded the Chinese army’s highest honour—the Red Star. The programme was pushed through various ministries and with it Gass had successfully made his way into the highest government circles. By his own account, as mentioned in the 2019 interview quoted above, Gass visited the People’s Republic 291 times and the 30-year continuity of these trips was only broken by the global Covid-19 pandemic.<sup>6</sup>

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<sup>5</sup> Capital. Translation by the authors. [Vom Metzgermeister zum China-Türöffner - Capital.de](#).

<sup>6</sup> L. Schlick (2019).

## Hans-Jochem Steim

Another example is the life and business activities of the Swabian entrepreneur Hans-Jochem Steim. Steim, who later also went into politics and was a member of the State Parliament of Baden-Württemberg for the Christian Democratic Union (CDU) from 1996 to 2006, laid the foundation for the boom in German companies settling in Taicang through his entrepreneurial activities. A shareholder in the Kern-Liebers Group of Companies, a family-owned business in the area of metal processing, Steim was born in 1942 in the town of Schramberg, located in the German Federal State of Baden-Württemberg. After obtaining a PhD in engineering in 1970, he took an active part in the development of the family business. The company had been founded by his great-grandfather in 1888 as a production facility for tension springs for the clock industry in the Black Forest region and was further developed in the twentieth century by his father into a leading company with a diverse product range. He came into contact with China out of an entrepreneurial motivation to find a suitable site for a branch of his family business. Building on Kern-Liebers' development in the city of Taicang, Steim was able to motivate other entrepreneurs from his personal environment in southwest Germany to enter the Chinese market. These recommendations developed a momentum of their own, which created the conditions for over 450 German companies to be located in Taicang today, most of which are also medium-sized businesses,<sup>7</sup> which China, the company now generates more than 100 million euros in turnover—making the market one of the most important in the world for the company. The example of Kern-Liebers and the development of Taicang into a preferred location for German companies through the initial commitment of Hans-Jochem Steim also shows that the momentum of entrepreneurial action can lead to unintended effects that not only help a city or region to prosper, but also form an important building block in the framework of bilateral economic relations. In this case, the organic growth of relations between Chinese and German business people was the driving force for the emergence of a movement that did not need political steering.

## Jörg Wuttke

The third case briefly presented here is of a personality that exemplify how economic diplomacy can be extended to the present day and thus illustrates a continuity of economic bridge-building between China and Germany beyond the mainstream political climate. Jörg Wuttke, born in 1958, has been Managing Director and General Representative of BASF China since 1997. His first professional encounter with

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<sup>7</sup> Cf. Abele (2018).

China dates back to 1988, when he was a finance and administration manager at ABB Beijing. In 1993, he became the company's Chief Representative in China, and in 1994, he became ABB's President in Beijing. In 1997, he joined the leading German chemical corporation BASF as General Manager and Chief Representative in China. In 1999, he was a founding member of the German Chamber of Commerce in China and from 2001–2004 he served as its Chairman of the Board. Since April 2007, he has been President of the European Union's Chamber of Commerce in China, which represents more than 1,200 companies from the EU member countries in the People's Republic. In May 2019, Wuttke was re-elected as the Chamber's President for the third time. Since 2019, he has also been Vice-Chairman of the International Cooperation Committee, a group representing multinational companies in the China Chemical Industry Federation (CPCIF).

Wuttke has been serving the interests of German industry in China for more than 30 years since his first visit to China in 1982. He is valued as a mediator in politics and business by decision-makers from both sides in both countries. The development of business activities of European, and especially German companies, in China during the last few years have shown continuous growth. Jörg Wuttke has played a personal role in this development and it is often due to his commitment that the interests of German companies are heard by Chinese politicians.<sup>8</sup>

These three portraits are not exhaustive in any way, but rather fulfil three heuristic functions. Firstly, they can be used as examples to illustrate the continuity of German-Chinese economic relations in different historical phases of political relations and economic development. Secondly, it is clear that such different personalities as a master craftsman, a traditional medium-sized businessman and a corporate lobbyist, have all been able to have a successful and lasting effect in their respective environments as mediators for economic exchange in the Sino-German context. Finally, it should be noted that these three personalities have succeeded in achieving a broad impact beyond their immediate environment, which has been reflected in the development of economic relations. Whole libraries could be filled with the numerous other personalities who have made significant contributions to the development of Sino-German economic relations, but at this point we are concerned with the basic statement about the effectiveness of economic diplomacy in general and its effectiveness in Sino-German relations in particular.

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<sup>8</sup> Cf. *My thirty years in China. Compilation of true life stories describing the change of China*. ACA Publishing Limited (2008).



The decoupling of politics and the economy is a fundamental problem that not only affects European countries. It is important to take countermeasures and to jointly build and stabilize new bridges of understanding through economic diplomacy. To this end, the public image of entrepreneurship must again have positive connotations. A compulsion to “value-driven business” is not expedient, but prevents constructive impulses from entrepreneurship itself and thus real improvements in the concerned context. The paradigm of confrontation must be overcome on a global scale. Dichotomies and dualisms cannot provide adequate solutions because they do not sufficiently grasp the world in its complexity. More differentiation and knowledge through dialogue and one’s own view is urgently needed. Hence, economic diplomacy in the sense described here is crucial in fostering a future of international understanding in a globalized world, which must therefore be strengthened by all sides and at all levels. The example of Sino-German economic cooperation can provide valuable inspiration for such processes, which of course always take place under specific conditions. That is why there cannot be a general answer on how economic diplomacy in the future works, but the principle outlined here may provide a serious guideline for enhanced peaceful understanding through joint business activities.

China remains an indispensable partner in tackling the global challenges facing humanity in the twenty-first century—combating climate change, pandemics and wars, and not least hunger and poverty in the world. The experiences of German-Chinese economic relations exemplify how mechanisms of cooperation can function effectively despite political divergences. And they show that the concept of “change through trade” also has a future in this century.

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**Michael Schumann** is Chairman of the Board of the German Federal Association for Economic Development and Foreign Trade (BWA). After studying philosophy, German and American studies at the University of Bonn and the State University of New York, he worked for more than 15 years in the fields of political consulting, public affairs and public relations. He has been committed to German-Chinese friendship for many years and in autumn 2019 Schumann and the former German Minister of the Interior, Dr Hans-Peter Friedrich, founded the China Bridge in Berlin, a public diplomacy forum for German-Chinese relations that aims to strengthen Chinese competence in Germany.



**Urs Unkauf** is Federal Managing Director of the German Federal Association for Economic Development and Foreign Trade (BWA) since 2022. After studying history and sociology in Tübingen, Aix-en-Provence/Marseille and Berlin, he gained professional experience in the fields of human resource management, energy policy, government relations, and public affairs. He also worked as a policy adviser at the German Parliament and was a visiting research fellow at ADA University in Baku in 2021. His expertise is focussed on diplomacy, geopolitics and international affairs with a regional emphasis on Central and Eastern Europe and the Caspian as well as the Silk Road Region.

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# China's Changing Role in Multilateral Development Banks



Bert Hofman and P. S. Srinivas

**Abstract** China has a complex relationship with MDBs as it is simultaneously one of their largest shareholders, one of their largest donors, one of their largest borrowers, and one of their largest recipients of contracts. Through the Belt and Road Initiative (BRI) and other lending, China has also become the world's largest bilateral lender to developing countries. It is also a major driver behind the AIIB and NDB, both of which have the potential to make a significant impact on the international financial system and provide lessons for established MDBs in their own operations and governance.

**Keywords** Development finance · Multilateral Development Banks (MDBs) · Asian Infrastructure Development Bank (AIIB) · New Development Bank (NDB) · BRICS · Internationalization of the RMB

Since China joined the World Bank (WB) in 1980,<sup>1</sup> its role in multilateral development banks (MDBs) has changed considerably. China now has a complex and multifaceted relationship with such institutions. It is, at the same time, one of the largest shareholders, one of the largest donors, one of the largest borrowers, and one of the largest recipients of contracts in projects financed by several of these institutions.

In addition to its growing role in established MDBs, China has led the setting up of two new MDBs, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). One of the driving forces behind the creation of these institutions has been China's frustration with the slow pace of change in the existing MDBs, particularly as it relates to China's shareholding. In addition, these new MDBs can be viewed as experiments, where new approaches to global development finance

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<sup>1</sup> Technically, the People's Republic assumed the seat for China. The People's Republic of China had been one of the founding members of the World Bank in 1944.

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B. Hofman (✉) · P. S. Srinivas  
East Asian Institute, National University of Singapore, Singapore, Singapore

are being tried out and, depending on the results, could have implications for more established institutions.

MDBs are being increasingly called upon to scale up assistance to developing countries to help them address emerging challenges such as climate change, post-COVID-19 response, and food security in addition to long-standing demands of infrastructure and sustainable development. China's expanding role in these institutions puts it in a better position to influence their activities.

China's role in global development finance through its own bilateral creditor relationships with developing countries has been the focus of several studies.<sup>2</sup> Through the Belt and Road Initiative (BRI) and other lending, China has now become the world's largest bilateral lender to developing countries. China's role in MDBs, however, has only recently begun to attract attention.<sup>3</sup> This paper reviews existing work in this area and contributes to the literature by examining in greater detail China's role in one of the new institutions that it has had a major role in creating, the NDB.

## The Evolution of China's Multiple Roles in MDBs

China's role as a shareholder in MDBs has grown considerably since it joined the system in 1980 (Table 1). Morris et al. (2021)<sup>4</sup> map China's participation in multilateral financial institutions and find that China is a member of 17 global and regional multilateral financial institutions in addition to the International Monetary Fund (IMF). Across the MDB system, China now stands second in terms of voting power

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<sup>2</sup> Brautigam, Deborah (2009). *The dragon's gift: the real story of China in Africa*. Oxford University Press.

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<sup>3</sup> Gasemyr, Hans J. (2018). *China and Multilateral Development Banks: Positions, Motivations, Ambitions*. NUPI Report, The Norwegian Institute of International Affairs.

Morris, Scott, R. Rockafellow, and S. Rose (2021). Mapping China's Multilateralism: A Data Survey of China's Participation in Multilateral Development Institutions and Funds. CGD Policy Paper 241, November 2021. Center for Global Development.

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<sup>4</sup> Ibid.

(just below 8 percent), considerably behind the United States (US, about 14%), ahead of Japan (around 7%), and well ahead of other G-7 countries. China's role in the IMF has also grown substantially. In terms of the IMF's quota or share capital, in 2010 China had the sixth largest quota share. It now has the third largest share (\$43.4 billion in 2021) behind the US and Japan. However, comparing China's share in the capital of the MDBs to its share of global Gross Domestic Product (GDP), it is still considerably under-represented (Table 1).

China's role as a donor and financing partner to MDBs has also grown substantially.<sup>5</sup> China now acts as a major donor to MDB concessional funding windows managed by MDBs. It is the 5th largest donor to the Asian Development Fund (ADF) managed by the Asian Development Bank (ADB), the 6th largest in the International Development Association (IDA) managed by the WB, and the 12th largest donor of the African Development Fund (AfDF) managed by the African Development Bank (AfDB). It has also contributed to special-purpose funds or trust funds managed by several MDBs, including the \$2 billion Africa Growing Together Trust Fund managed by the AfDB. China has entered into Memoranda of Understanding (MoUs) and co-financing agreements with institutions such as the International Finance Corporation (IFC) and the AfDB, wherein Chinese institutions co-invest their own funds, alongside those of the MDBs, in projects identified by the MDBs.

China has also long been a major borrower from MDBs such as the WB and the ADB. For much of its time as a member, it was one of the top five borrowers from these institutions, although more recently its borrowings have declined. China also borrows from the NDB and AIIB. In recent years, pressures on China to borrow less and to prepare for "graduation" have been increasing. China's increasing per capita income has played an important role in the decisions by the WB and ADB to reduce the lending to China. As part of its 2018 capital increase, WB shareholders requested enforcement of a long-standing graduation policy for countries above the so-called graduation discussion threshold of income.<sup>6</sup> Graduation from the WB is not an automatic consequence of reaching a particular income level, but rather is supposed to be based on a determination of whether the country has reached a level of institutional development and capital-market access that enables it to sustain its own development process without recourse to WB funding. The ADB has similar criteria for graduation.<sup>7</sup> Also as part of the 2018 capital increase, WB management committed to focusing lending to China on global public goods and on aspects of socio-economic management in which China has demonstrated remaining weaknesses. Consequently, lending rapidly declined from a record \$2.5 billion in FY2017 to less than \$1 billion annually at present.

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<sup>5</sup> Ibid.

<sup>6</sup> OECD, Transition Finance Toolkit, <https://www.oecd.org/dac/transition-finance-toolkit/IBRD-graduation-2021.pdf>, accessed 13-4-2023.

<sup>7</sup> Asian Development Bank, Classification and Graduation of Developing Member Countries. <https://www.adb.org/sites/default/files/institutional-document/31483/om-a1.pdf>, accessed 13-4-2023.

**Table 1** Shares in the World Economy and in MDBs: developed and large developing countries and comparators

	Share in GDP (US\$)		Share in GDP (\$ PPP)		Shareholding in IBRD		Shareholding in IMF		Shareholding in ADB		Shareholding in AIIB		Shareholding in NDB	
	1990	2021	1990	2021	1990	2020 <sup>b</sup>	1990	2023	1990	2023	1990	2023	1990	2023
US	26.2	24.2	20.3	15.7	16.95	16.77	20.04	17.43	14.8	15.6	—	—	—	—
China	1.6	18.4	3.8	18.6	2.87	6.01	2.67	6.4	7.1	6.4	26.6	18.98	—	—
Japan	13.8	5.1	8.4	3.6	8.12	7.2	4.7	6.47	14.8	15.6	—	—	—	—
Germany	7.8	4.4	5.3	3.3	4.63	4.27	6.04	5.6	4.8	4.3	4.2	—	—	—
India	1.4	3.3	3.6	7	2.87	3.07	2.5	2.75	7	6.3	7.6	18.98	—	—
UK	4.8	3.2	3.3	2.3	4.44	3.78	6.93	4.23	2.2	2	2.9	—	—	—
France	5.6	3.1	3.5	2.4	4.44	3.91	5.01	4.23	2.6	2.3	3.2	—	—	—
Russia	2.3	1.8	4	3.3	2.87	2.85	.	2.71	—	—	6	18.98	—	—
Brazil	1.7	1.7	3.4	2.4	2.13	2.35	1.6	2.32	—	—	0.2	18.98	—	—
South Africa	0.5	0.4	0.9	0.6	0.86	0.75	1	0.64	—	—	— <sup>a</sup>	18.98	—	—
BRICS	7.5	25.6	15.7	31.9	11.6	15.03		14.82	—	—	—	94.9	—	—

Sources World Development Indicators; Various World Bank Annual Reports; IMF Various Documents on Quota Allocation and Reforms and financial database at: <https://www.imf.org/external/np/fin/tad/query.aspx>; ADB Annual Reports 2020 and 1990; AIIB, NDB Websites

Notes

<sup>a</sup> South Africa is a prospective (founding) member of the AIIB

<sup>b</sup> Post 2018 allocation

Chinese enterprises have been major players in procuring contracts for implementation of projects financed by MDBs—both within and outside China. During 2010–2020, firms from China won the most contracts by value of those awarded for projects financed by the World Bank in all years except one.<sup>8</sup> Around 20 percent by value of all contracts awarded by the World Bank were won by Chinese firms. Nearly half of all contracts awarded by the World Bank to Chinese firms were for work outside China. India and Brazil, whose firms also win large amounts of World Bank contracts by value, on the other hand, win most of their contracts for work done domestically. Italy and Spain round out the top five countries whose firms win large amounts of World Bank awarded contracts. Chinese firms are also at or near the top of the rankings in terms of contracts obtained from several other MDBs.

## The Drivers of China's Evolving Role in MDBs

In line with its rapidly growing economic clout, China has been seeking a greater voice in the international financial architecture. That architecture was largely formed after World War II and comprised of institutions such as the IMF and WB. Western developed countries control the majority of voting shares in global financial institutions and have a greater voice in terms of the way the institutions are run.

In the aftermath of the global financial crisis, which means that at the London G20 summit in 2009, member countries had agreed to reforms in governance of international financial institutions to provide greater voice to developing countries, in response to China's (and other large developing countries') calls for a more representative international financial architecture reflecting the significantly larger role of developing countries.<sup>9</sup> However, changes were slow to be implemented in practice. Shareholding being a zero-sum game, a greater role for China (and other large developing countries) meant a smaller role for existing large (and mostly developed country) shareholders. And these latter shareholders have been reluctant to significantly reduce their shareholding. Therefore, while China's share in these institutions has increased over time, it still does not reflect its overall weight in the global economy, where it is already the largest economy on a Purchasing Power Parity (PPP) basis and the second largest in nominal terms (Table 1).

China's share in the International Bank for Reconstruction and Development (IBRD, the WB's non-concessional lending arm) also falls well short of the "formula-based" notional allocation of 12%. At the Lima, Peru Annual Meetings in 2015, it was decided to base shareholdings on a formula that takes share in the world economy and past cumulative contributions to IDA as weights to determine what a country's

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<sup>8</sup> Ibid.

<sup>9</sup> [https://www.imf.org/external/np/sec/pr/2009/pdf/g20\\_040209.pdf](https://www.imf.org/external/np/sec/pr/2009/pdf/g20_040209.pdf), accessed 15 April 2023.



share should be. For China, this works out to 12% based on 2020 data, but its actual shareholding is 6%.<sup>10</sup>

China has responded to its limited success in gaining a greater shareholding in established MDBs in a variety of ways. One was by increasing its contributions to IDA, the WB's soft loan window, which is financed through a trust fund that requires regular replenishment. China's contribution went up from \$200 million in IDA 16 (2008) to \$1.3 billion in IDA 20 (2021), or 5.6% of total.<sup>11</sup> This contribution not only provides China with voting rights in IDA itself, but also contributes to future shareholding in the IBRD, which takes IDA contributions into account.

China also created a series of funds, managed by MDBs, through which it could finance projects in developing countries.<sup>12</sup> This approach lacked one of the main benefits of contributing to an MDB, which is that of leveraging China's resources through market borrowings using the high credit ratings of MDBs. It did, however, provide a way for China to gain some influence on the governance of existing MDBs.<sup>13</sup> China also became a member of or a financier to several smaller MDBs in Africa, Central Asia, and Latin America. Its financial commitments to these institutions are small, but they augment China's overall engagement in the development process of countries in these regions.<sup>14</sup>

China's other strategy has been to lead the establishment of two new MDBs: the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), where it has been able to help define institutional governance in a way that it feels is more reflective of its views of the needs of developing countries. The establishment of these two MDBs also demonstrates China's commitment to a multilateral approach to global development.

The formation of the AIIB was announced by President Xi Jinping in 2013. With 106 member countries as of April 2023, including five of seven G-7 member countries, the AIIB is now the second largest MDB in the world, after the World Bank Group, in terms of membership. China is the largest shareholder with 26.6% of the shareholding.<sup>15</sup> The AIIB exhibits several similarities to existing MDBs such as the WB, with a mix of developed and developing member countries, although with China in the lead instead of the US and Japan as in the case of the WB and the ADB, respectively. Like several established MDBs, it also has the highest AAA credit rating. Some of AIIB's policies, such as its environmental and social policies, are broadly similar to those of established MDBs. However, it also has differences such as a non-resident Board of Directors (BoD), substantially more project approval

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<sup>10</sup> See: World Bank, 2020, 2020 shareholdings review: report to governors at the annual meetings. <https://www.devcommittee.org/sites/dc/files/download/Documents/2020-09/Final%20DC2020-0009%20Shareholding.pdf>, accessed 20-4-2023.

<sup>11</sup> IDA, Contributor Countries, <https://ida.worldbank.org/en/about/contributor-countries>, accessed 13-4-2023.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> <http://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>, accessed on April 13, 2023.

authority delegated to the President as compared to established MDBs, and a greater share of private sector projects.<sup>16</sup>

## The New Development Bank

The establishment of the NDB was one of the outcomes of the political and economic dissatisfaction arising out of the growing disparity between the BRICS countries' (Brazil, Russia, India, China, and South Africa)<sup>17</sup> share of the world economy and their representation in the institutions underpinning the global financial architecture. The heads of state of Brazil, Russia, India and China had begun meeting annually in the aftermath of the global financial crisis, to discuss issues of common interest, with the first meeting in Ekaterinburg, Russia in 2009. From the very beginning, leaders of these countries expressed their dissatisfaction with the prevailing global financial architecture and called for reforms to institutions such as the IMF and the WB and called for a world economic order that better reflected the changed global economy.<sup>18</sup> They called for a greater voice, reflected in increased share of voting rights in existing institutions, more transparent processes for selection of the heads of these institutions and increased reflection of the development needs of these countries in the operations of existing institutions.

Despite the 2009 G20 agreement, adjustments in shareholding and governance reforms remained insufficient in the eyes of BRICS leaders. Calls for reform of the global financial architecture remained a consistent feature of several subsequent BRICS summits. At the fourth BRICS Summit in New Delhi in 2012, the idea of the New Development Bank (NDB) was first formally articulated.<sup>19</sup> On 7 July 2015, just

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<sup>16</sup> Mike Callaghan & P. Hubbard (2016) The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road, *China Economic Journal*, 9:2, 116–139, DOI: <https://doi.org/10.1080/17538963.2016.1162970>.

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<sup>17</sup> Goldman Sachs (2001) coined the term BRICs to refer Brazil, Russia, India and China. <https://www.goldmansachs.com/insights/archive/archive-pdfs/build-better-brics.pdf>, accessed 22 April 2022. South Africa joined the grouping in 2010 and the acronym changed to BRICS.

<sup>18</sup> Joint Statement of the BRIC Countries' Leaders. <http://www.kremlin.ru/eng/text/docs/2009/06/217963.shtml>, accessed April 15, 2023.

<sup>19</sup> <https://mea.gov.in/bilateral-documents.htm?dtl%2F19158%2FFourth+BRICS+Summit++Delhi+Declaration>, accessed April 15, 2023.

prior to the seventh BRICS Summit, the NDB was established with Brazil, Russia, China and South Africa as Founding Members.<sup>20</sup>

BRICS comprise 42% of the global population and have, as a block, been among the fastest growing developing countries in recent decades. The BRICS' share of world Gross Domestic Product (GDP) measured in Purchasing Power Parity (PPP) terms rose from about 18% in 2000 to about 32% by 2021, a share more than double that of countries of the European Union (EU, 15%). However, the combined voting share of these countries in the WB, for example, stood at just 15% in 2020.

In addition to the issue of representation, the urgent economic development needs of BRICS countries played a major role in the drive to establish the NDB. Existing MDBs, especially the WB, had considerably reduced the share of their lending to infrastructure development in favor of social sector development and budget support, despite continuing high demand for infrastructure finance from BRICS and other developing countries.

At the time of NDB's establishment, China was simultaneously in the process of establishing the AIIB. The models of AIIB and the NDB are, however, fundamentally different. The AIIB's governance structure is broadly similar to the prevailing Western institutions, with China being the largest shareholder. In the NDB, China is an equal partner with the other BRICS countries, with each having equal voting shares in the institution. At its founding, each member had a 20% share of the NDB's capital and even with new members joining, the five founders will always hold no less than 55% of the institution's voting rights.<sup>21</sup> The NDB structure of shareholding gives an equal voice to all five founders in the institution, despite substantial differences in their economic size.<sup>22</sup> The structure also limits the total shareholding of non-borrowing members to a maximum of 20 percent of total capital and that of any single non-founding member to a maximum of 7 percent. The NDB has an authorized capital of \$100 billion and a subscribed capital of \$50 billion, of which \$10 billion is paid-in and \$40 billion is callable.

In the NDB, China is part of an experiment of a new model of governance of global financial institutions. The NDB's Articles of Agreement ensure that no single founding member has veto rights as they require most decisions to be made by simple majority of the founding members. Another important difference is that the Presidency of the NDB is rotated among the five founding members in the BRICS order.<sup>23</sup> This model is in response to the dissatisfaction of BRICS (and other developing) countries with the appointment process of the chief executives of existing global financial institutions. These roles are by tradition reserved for a US citizen (the WB), a European citizen (the IMF), and a Japanese citizen (the ADB).

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<sup>20</sup> [http://www.brics.utoronto.ca/docs/150709-ufa-declaration\\_en.html](http://www.brics.utoronto.ca/docs/150709-ufa-declaration_en.html), accessed April 15, 2023.

<sup>21</sup> <http://www.ndb.int/wp-content/uploads/2022/11/Agreement-on-the-New-Development-Bank.pdf>, accessed on April 14, 2023, Article 6 (b).

<sup>22</sup> For e.g.: In current US dollars in 2020, China's GDP was US\$14.7 trillion while that of South Africa was US\$330 billion, although both have the same share in the NDB.

<sup>23</sup> The founding President was an Indian national. Brazil nominated the second President. Russia, China, and South Africa will follow, after which the President will rotate in the BRICS order. Each country's Presidency is for a five-year term.

China has supported a totally different approach to membership expansion in the NDB as compared to the approach taken by AIIB.<sup>24</sup> While the latter emphasized new membership at speed and already has 106 members, the former has taken a much slower approach. While the NDB's membership is open to all members of the United Nations, it was only in 2021 that it welcomed its first non-founding members. As of April 2023, three new members (Bangladesh, the United Arab Emirates, and Egypt) had joined the NDB and Uruguay has been identified as a "prospective" member.<sup>25</sup> The NDB expects its membership to grow consistently and in a gradual way in the future and that "...its approach to membership expansion will strive for greater diversity of member countries—both in terms of geography and stage of development. Continued membership expansion will enable the NDB to promote infrastructure and sustainable development in a larger number of countries, creating an impact beyond its existing members. New members will also strengthen the [NDB's] capital base, support portfolio diversification, enhance its capacity to mobilise resources, enrich its development experience and bolster the NDB's role as a platform for wider collaboration among [emerging markets and developing countries]."<sup>26</sup>

China and the other BRICS countries have supported this process stating that they "...look forward to further membership expansion in a gradual and balanced manner in terms of geographic representation and comprising of both developed and developing countries, to enhance the NDB's international influence as well as the representation and voice of EMDCs in global governance."<sup>27</sup> The addition of the three new members has reduced the shareholding of the five founding members to 18.98% each.

China has also supported several innovations in the operational model of the NDB, which are different from those of established MDBs. These changes are targeted at addressing some of the criticisms of existing institutions, such as the WB, particularly their bureaucratic and slow operational approaches in which project approvals can sometimes take years. The NDB claims that speed of approval is a key element of its operational model with its stated target of approving loans within six months, while not compromising on quality.<sup>28</sup> The NDB also uses country systems to manage the environmental and social aspects of, as well as procurement procedures related to, the projects it finances, thereby removing the need for its borrowers to deal with an external institution's systems. Arguably, because the NDB has, thus far, dealt mostly with a limited clientele of just five middle-income country borrowers, this is more achievable for the NDB than for global institutions such as the WB that deal with many more countries at widely different stages of development. It remains to be seen

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<sup>24</sup> <http://www.ndb.int/wp-content/uploads/2022/11/Terms-Condition-and-Procedures1.pdf>, accessed on April 18, 2023.

<sup>25</sup> [https://www.ndb.int/wp-content/uploads/2023/04/Investor-Presentation-April\\_20230406.pdf](https://www.ndb.int/wp-content/uploads/2023/04/Investor-Presentation-April_20230406.pdf), accessed on April 18, 2023.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> [https://www.ndb.int/wp-content/uploads/2023/04/Investor-Presentation-April\\_20230406.pdf](https://www.ndb.int/wp-content/uploads/2023/04/Investor-Presentation-April_20230406.pdf), accessed on April 18, 2023.

how the NDB's approach evolves as its membership expands to include countries less developed than the BRICS.

The NDB also contributes to China's ambitions to internationalize its currency, the Renminbi (RMB). Since the early 2000s, China has had ambitions to internationalize the RMB and has gradually made a series of policy efforts to achieve this goal.<sup>29</sup> The NDB had raised RMB 28 billion (about \$4 billion) from Chinese capital markets as of December 31, 2022, in addition to \$7.8 billion from global capital markets.

The NDB has also provided local currency loans to its borrowers and made provision of such loans an important element of its operational strategy.<sup>30</sup> This has been a long-standing demand of many borrowers from MDBs, and one that MDBs such as the WB are technically able to do, but also one that has made little progress. Local currency loans reduce the foreign exchange risk that borrowers face if their currencies decline in value relative to that of currencies such as the US Dollar or Euro, which are typically the currencies that most other MDBs provide their loans in. As of December 31, 2021, the latest published figures, 23% of NDB's total lending portfolio of \$30 billion was in local currencies.<sup>31</sup> The NDB has thus far provided local currency financing to China, India, and South Africa at competitive interest rates, though, like other MDBs, offering rates better than the sovereign in local currency is also a challenge for the NDB.

The NDB has ensured that the pricing of its loans remains competitive with that of more established MDBs. Given that the NDB is currently rated AA+ while most other established MDBs are rated AAA, the cost at which the NDB raises funds in the markets is higher. Essentially, this implies that the NDB needs to manage itself more efficiently to keep its operating costs low to make up for the cost differential.<sup>32</sup> A lean management and staff structure is, therefore, also a key feature of the NDB's operational model. Such a setup also implies that the NDB is less ambitious than some other MDBs in terms of economic analysis and provision of global public goods, which other MDBs often support. Unlike other MDBs, the NDB has also chosen to avoid pushing for and supporting structural reform in its member countries, and thereby focuses less on analytical work supporting such reforms. Even for some BRICS countries, one of the motivations for borrowing from other MDBs is their support for structural reforms.

With its location in Shanghai and having been established nearly at the same time as the China-led AIIB, the NDB could have become yet another China-led institution.

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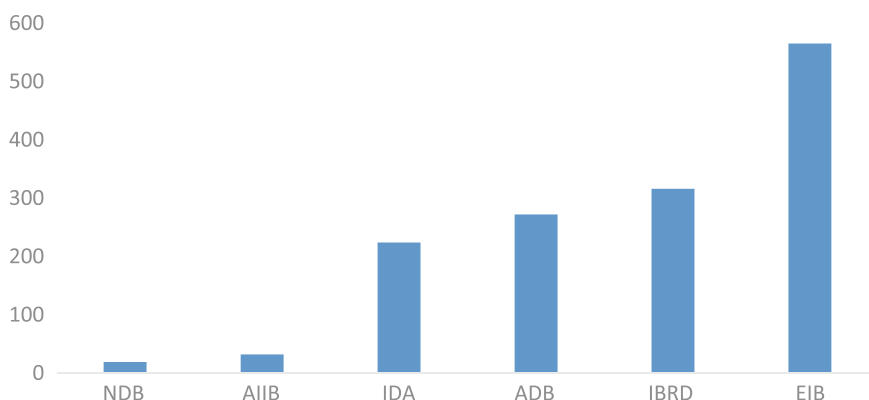
<sup>29</sup> Among others, see P. S. Srinivas and R. Cheng (2021). "*Renminbi Internationalisation (I): A Historical Review and China's Policy Measures*," EAI Background Brief No. 1597, July 2021.

P. S. Srinivas and R. Cheng (2021). "*Renminbi Internationalisation (II): Progress and Prospects*," EAI Background Brief No. 1598, July 2021.

<sup>30</sup> [https://www.ndb.int/wp-content/uploads/2022/07/NDB\\_StrategyDocument\\_Eversion-1.pdf](https://www.ndb.int/wp-content/uploads/2022/07/NDB_StrategyDocument_Eversion-1.pdf).

<sup>31</sup> [https://www.ndb.int/wp-content/uploads/2022/10/NDB\\_AR\\_2021\\_complete.pdf](https://www.ndb.int/wp-content/uploads/2022/10/NDB_AR_2021_complete.pdf), accessed on April 12, 2023.

<sup>32</sup> There are relatively fewer degrees of freedom available to the NDB on other aspects that could potentially be used to manage this issue such as duration of lending, reserve policies, and liquidity buffers. These are largely the same for the NDB as those of established AAA rated MDBs, given client demands, and rating methodologies.



**Fig. 1** Assets of Multilateral Development Banks 2020/2021, USD bn. *Source* Annual reports of each institution

Despite orders of magnitude of differences in economic size among the five founders, with China dominating by a large margin, the lack of veto authority for any country has not yet proved to be a significant hurdle.<sup>33</sup> China has calibrated its role to ensure that, at least thus far, all founding shareholders have an equal voice in the institution. The founders have worked together to enable the NDB to test out new approaches and new ways of doing business that could be useful for other, more established, MDBs to consider.

China will also have a large role play in helping the NDB address its most critical challenge of scaling up. Scale will have to be achieved rapidly, even as the institution continues to build upon the foundation that has been laid, ramps up its human resources, and further strengthens its internal systems. It needs to become a large enough player among the community of MDBs (Fig. 1) to make a material difference to the global financial architecture. There have been significant changes in the political and economic situations in BRICS countries and in the global economy since the establishment of the NDB. The continuing political and economic tensions between the US and China, the Russian invasion of Ukraine, political tensions between China and India due to border conflicts, the continuing weak economic performance of Brazil and South Africa are all likely to impact the NDB's ability to scale up, directly or indirectly. Being based in Shanghai, China's ability to help the NDB navigate these issues will be critical to its future evolution.

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<sup>33</sup> For example: In current US dollars in 2020, China's GDP was US\$14.7 trillion while that of South Africa was US\$330 billion, though both have the same share in the NDB.

## Conclusions

China's evolving role in established MDBs demonstrates its belief in the importance of these institutions in global development. Even as it expresses frustration at the slow progress of changes in governance and operational models at these institutions, it continues constructive engagements within them. It continues to attach importance to its borrowing and, equally importantly, learning from these institutions, particularly the WB, both for its own economic development and for its broader engagements with other developing countries. China has also shown that it is willing to make long-term investments in established MDBs through its more recent roles as a major financier, partner, and donor. It would be reasonable to expect that China's voice and role in the governance of these institutions, and through them in the global financial architecture, will continue to grow in line with its continued economic growth.

China has also shown that it is willing to experiment with new models of MDB governance and operations through its roles in the AIIB and NDB. These two institutions, established almost simultaneously in China with a major Chinese presence, have very different models of governance and operations. In the AIIB, an institution that closely resembles established MDBs in several aspects including global membership, China is the dominant shareholder. In the NDB, China has taken a role on par with the other BRICS countries, even though its economy is five times larger than that of the next biggest member, India. It is borrowing from both institutions. It is also supporting new operational approaches in both institutions. The results of the working of these institutions could have lessons for established institutions.

The NDB is an innovative experiment in global financial governance. If the institution navigates well the current challenges it faces, scales up significantly, and can demonstrate that its projects have been successfully implemented and are achieving their intended objectives, it clearly has the potential to make a significant impact on the international financial system. China's gradually increasing voice in established MDBs could then help in pressuring these institutions to take lessons from NDB into account in their own operations and governance.



**Bert Hofman** is Director of the East Asian Institute and Professor in Practice at the Lee Kuan Yew School of the National University Singapore. He is also Senior Fellow at MERICS in Germany. Before joining NUS in 2019, he worked with the World Bank for 27 years, 22 of which were in Asia, and 12 of which were in China. He was World Bank Country Director for China 2014–2019, Country Economist 2004–2008, and Chief Economist for the World Bank in the East Asia and Pacific region 2011–2014. He also worked on Indonesia, the Philippines, Korea, Mongolia, South Africa, Namibia, Zambia, Brazil, Russia, and others. He has also worked at the Kiel Institute of World Economics, the OECD, and NMB Bank (Now ING). He studied economics in Rotterdam and Kiel.





**Dr. P. S. Srinivas** joined the East Asian Institute (EAI) at the National University of Singapore (NUS) in April 2021 and is currently Visiting Research Professor working on Chinese financial markets and China's evolving role in the global financial architecture. Prior to EAI, he worked with the New Development Bank in Shanghai (2016–2021) as Director General of the Front Office of the President. He has also worked at the World Bank in Washington DC (1996–2016); the Asian Development Bank in Manila, Philippines (1993–1996); and ICICI in Mumbai, India (1987–88). He has lived in China, India, Indonesia, the Philippines, Singapore, and the US and has worked in over thirty countries worldwide. He holds Ph.D. and M.A. degrees in Economics from Cornell University; an MBA from the Indian Institute of Management in Ahmedabad; and a B.Tech. in Chemical Engineering from the Indian Institute of Technology in Madras.

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# Geopolitical Risks and Unconventional RMB Internationalization: A Reappraisal



Dubravko Radošević

**Abstract** 2023 is a year of change and challenge for China. What is crucial here is a return of geopolitical and geoeconomic risks, which will be highly important for policy makers while also having significant academic implications in analyzing policy measures in volatile macroeconomic trends. As a result, RMB internationalization faces an important turning point in 2023. The report of the 20th National Congress of Chinese Communist Party (CPC) calls for “promot[ing] the RMB internationalization in an orderly manner.” As China enters a new stage of development, it faces a high level of uncertainty in the geopolitical environment and has to make strategic adjustments in a timely and prudent manner as it works to reach its goal of accelerating RMB internationalization to raise market attention. We present the arguments in favor of the view that an unconventional strategy for the internationalization of the RMB is the best policy option for China.

**Keywords** Geopolitical risks · RMB · Capital account liberalization · People’s Bank of China

## Geopolitical Risks, De-Dollarization, and RMB Internationalization

The global economy is currently on a path of de-globalization and geoeconomic fragmentation (GEF). Geopolitical risks are shaping global business environment and policy makers have to manage a diverse range of geopolitical risks. Some geopolitical analysts have termed this situation a new geopolitical risk “supercycle” (a term borrowed from astronomy). We are witnessing an emerging rebalancing of the international order, such as a new strategic balance in the triangle of US-China-Russia relations, NATO expansion, the Saudi-Iran diplomatic deal, escalation of the Ukraine-Russia war with an increased risk of nuclear accidents, US tech tariffs and industrial policies that adversely affect China and the EU, a wave of strikes and

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D. Radošević (✉)  
University of Zagreb, Zagreb, Republic of Croatia

mass protests, and mega-elections in 2024 in countries with significantly different systems, the sudden return of a banking crisis in the US, EU, and Switzerland, and the rising prospect of recession, secular stagnation or stagflation with the likelihood of continued interest rate hikes by major central banks, which could create in a tipping point in systemic risk in the short-term. There are also “hidden risks” that could suddenly come to the surface and create a set of several overlapping crises (a “polycrisis”) that could have higher level of synergy and a greater impact on global economic development.

According to the latest IMF projections, “the baseline forecast is for growth to fall from 3.4% in 2022 to 2.8% in 2023, before settling at 3.0% in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5% in 2023 with advanced economy growth falling below 1%. Global headline inflation in the baseline is set to fall from 8.7% in 2022 to 7.0% in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly. Inflation’s return to target is unlikely before 2025 in most cases. Tentative signs in early 2023 that the world economy could achieve a soft landing—with inflation coming down and growth steady—have receded amid stubbornly high inflation and recent financial sector turmoil. Although inflation has declined as central banks have raised interest rates and food and energy prices have come down, underlying price pressures are proving sticky, with labor markets tight in a number of economies. Side effects from the fast rise in policy rates are becoming apparent, as banking sector vulnerabilities have come into focus and fears of contagion have risen across the broader financial sector, including non-bank financial institutions. Risks to the outlook are heavily skewed to the downside, with the chances of a hard landing having risen sharply” (IMF, 2023a).

While China has good prospects for growth recovery, rising geopolitical tensions have intensified concerns about global economic and financial fragmentation (Aiyar and others, 2023). An increase in geopolitical tensions could have serious adverse effects on macro-financial stability (see more, in: IMF, 2023). Geopolitical tensions could also lead to financial instability through an adverse pattern of international capital flows (capital reversals), “sudden stops,” and financial market disruptions. These adverse shocks could lead to greater exposure of emerging and advanced economies to volatile cross-border flows and re-allocation of capital, portfolio rebalancing of cross-border banking groups with increased vulnerabilities of financial systems as a consequence.

Spillover effects are significant due to the globalized international financial system. Although it is fair to say that these adverse effects of geopolitical tensions on macro-financial stability could be “asymmetric,” depending on a country’s specific economic and governance structure, and regulatory environment, central banks could rebalance their portfolios or more specifically change the currency composition of their international reserves in an environment of rising geopolitical tension. Another issue related to rising geopolitical tension is the weaponization of financial instruments and currencies (imposition of economic and financial sanctions, unilateral seizure of international reserves holdings in foreign banks, etc.). The result of

this is that countries will start to trade with their geopolitical partners and allies, invoicing in national (local) currencies and shifting cross-border flows toward local currency settlements, mostly via bilateral agreements between respective central banks, thus reducing US dollar transactions (on de-dollarization, see more in: Tett, 2023; Earle, 2023) and global reserves (see Aiyar and others, 2023 on the implications of goeonomic fragmentation on currency composition of global reserves).

The process of de-dollarization has progressed with great stealth, but it is clear that there has been a decline in the dollar share of international reserves since the turn of the century (see more in, Arslanalp et al., 2022). According to the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) survey, the share of reserves held in US dollars by the central banks dropped by 12 percentage points since the turn of the century, from 71% in 1999 to 59% in 2021. This is the result of portfolio diversification strategies by central bank reserve managers. Of course, there is also the repositioning of the geopolitical balance of power. Due to the increased economic importance of China, geopolitical balance of power has shifted toward an inverted US-China-Russia triangle.

The shift from dollars has gone in two directions: a quarter into the Chinese RMB and three quarters into the currencies of smaller countries that have a limited role in global economy and international reserves (so called, "nontraditional reserve currencies," defined as currencies other than the US dollar, Japanese yen and British pound sterling). There are three determinants for such a portfolio rebalancing by central banks: growing liquidity of markets of those currencies; reserve managers seeking higher returns on their portfolios in low or negative interest rate environments as defined by the US Federal Reserve and ECB (zero or negative interest rates are the result of expansionary monetary policy, QE); and the fact that yields on bonds issued by governments of the "Big Four" (the US dollar, the euro, the British pound, and the Japanese yen) have fallen to zero, driving reserve managers to find alternative portfolios with higher yields. These developments have led to a more multipolar (multiple-currency) international monetary order and new international reserve system. Since its inception, the biggest potential rival of the US dollar has been the Euro, because it was accepted as a credible international reserve currency. All the while, the Euro's share of reserves has remained around 20%. But, as an alternative reserve currency, the Euro has its limits due to the inherent instability of the European Monetary Union (see more in Gros and Schout, 2023). This was clearly evident in 2012 when the ECB introduced a new emergency rescue instrument—Outright Monetary Transactions (OMT)—and in July 2022 again when the ECB was forced to introduce a quasi-fiscal instrument—Transmission Protection Instrument (TPI)—to prevent Eurozone (bond) market fragmentation. After the global financial crisis (GFC) of 2008, China pursued a policy of a cautious but steady decrease of dollar reserves, as part of an "implicit de-dollarization strategy," and a policy of rebalancing the portfolio of the PBOC (decreasing risk of its exposure to US treasury bonds).

Internationalization of the RMB includes increasing the role of the RMB as a reserve currency. This was the main reason why China called for the inclusion of its currency into the SDR basket of currencies of the IMF. The SDR basket is made up of the Big Four currencies plus the Chinese RMB. However, it was obvious that

making the RMB a reserve currency would be a long-term process, but that it could be the final phase in the gradual strategy of RMB internationalization, resulting in China declaring *de jure* capital account convertibility by formally accepting all legal conditions set by the IMF. In the meantime, the most important policy move has been to increase the role of the RMB as a trade settlement currency and increase the share of the RMB in the international reserves of central banks that are major trading partners of China. COFER data shows that Chinese RMB accounts for about one-quarter of this increase (as a share of non-traditional currencies in international reserves), while non-SDR currencies make up the remaining three quarters. The increase of non-traditional reserves has mainly been in the Australian Dollar, Canadian Dollar, Chinese RMB, and Swiss Franc which together constituted about 71% of the non-traditional reserves portfolio by the end of 2020. Other non-SDR reserve currencies are three European (Swedish Krona, Norwegian Krone, and Danish Krone) and four Asian currencies (Korean Won, Singapore Dollar, New Zealand Dollar, and Hong Kong Dollar). In summary, the decline of the US dollar share in international reserves could be attributed to the move by central banks to include more non-traditional currencies in their reserve portfolios, one quarter of which can be attributed to Chinese RMB.

But, what can be expected in 2023 and beyond? If the European Monetary Union remains a fragile and unstable monetary union due to increased geopolitical risk as a consequence of the Ukraine-Russia war, EU-Russia decoupling, and a potential US-EU “subsidy war” started by the US Inflation Reduction Act (see Vela and Moens, 2022), the Euro could possibly lose its attractiveness as an international reserve currency. The inherent instability of the European Monetary Union is under scrutiny by capital markets. There are three scenarios for the Eurozone that range from business-as-usual, to deeper monetary and fiscal integration, and break-up scenarios (see more in Gros and Schout, 2023). According to this analysis, business-as-usual is the most likely scenario in the near future. The same applies to the Swiss Franc as an international reserve currency. Even after the collapse of Credit Suisse (CS), the future of Switzerland as a safe haven and its currency as a credible international reserve currency may also eventually be reconsidered by central bank reserve managers. The collapse of CS was followed by the collapse of Deutsche Bank (DB) stocks on capital markets (see Foy and Oliver, 2023), which forced the ECB and the Eurogroup to reassure the markets that it will act as a lender-of-last-resort (LOLR) if and when needed and that the Euro is a credible currency.

These developments could be a “window of opportunity” for China to increase the leverage of the RMB as an international reserve currency. There is also a parallel process of Chinese central bank portfolio rebalancing, while the share of the dollar in Chinese reserves remains about 58%, not far below the global average recorded by the COFER survey (see Arslanalp et al., 2022). China’s portfolio rebalancing can be viewed in terms of its reduction of China’s US treasury bond holdings (UST). This could be attributed to two main factors: financial (low yield due to Federal Reserve monetary policy) and geopolitical (political tensions and trade restrictions between two countries) (see Leung and Tse, 2023). This reduction in US treasury bond holdings is a strategic option to reduce exposure to systemic financial risk by

holding US dollar bonds in its foreign reserves portfolio and as a measure to hedge against increased geopolitical/geoeconomic risks. According to US treasury data, China's holdings of UST fell to USD 895 billion in January 2023, a 34.7% fall from its peak. Partial proceeds were reinvested into gold reserves, which jumped from 33.9 million oz in 2013 to 65.9 million oz in February 2023. Hong Kong, as the gateway to China's capital market, also reduced its UST holdings from USD 262 billion in early 2020 to an 8-year low of USD 179 billion in September 2022. The reduction of UST holdings by China is systematically driven by geopolitical determinants. But it is fair to say that the negative impact of the Sino-US rivalry on China's trade and FDI has been minimal so far. There is a strong interdependence between China and US as their two economies were successfully integrated in the process of globalization. This is the geopolitical framework for RMB internationalization in 2023 and beyond, and the reasons why we support a gradual strategy for RMB internationalization in an orderly manner.

## **The Chinese Approach to Capital Account Liberalization**

The People's Republic of China (PRC) has been an active player in globalization. Comprehensive economic reforms entailed internal and external liberalization and the consistency between Reform and Opening Up enabled opening up to the outside to become a basic national economic strategy. Entry into the WTO was a landmark even in this process. The PRC liberalized its current account by accepting Article VIII of the IMF Articles of Agreement and set out a road map for capital account liberalization. However, the Asian Financial Crisis of 1997 stopped this process of capital account liberalization and the global financial crisis in 2007–2008 was a second episode in globalization that strongly influenced the speed and sequencing of China's capital account liberalization. Spillover effects from the US banking system brought China to the brink of massive capital losses in its foreign exchange reserves, especially in terms of its US government-sponsored enterprise (GSE) bonds. The fact that the PRC had fallen into the dollar trap meant that the PRC had to be satisfied with low returns on its foreign exchange reserves and shoulder large capital losses. This was the consequence of US-China economic interdependence and the export-led economic model of the PRC. Diversification was the exit strategy and China's leadership started to consider possible strategies for stabilizing its PBOC reserves and domestic financial system from external shocks.

Interest in RMB internationalization surged rather suddenly in 2009, marking the beginning of a long-term process of external readjustment with intensive discussions on the sequencing of external reforms in China. This issue was and still is crucial for the success of economic reforms. RMB internationalization was accepted as an external reform strategy that could benefit the country in reducing exchange risks, reducing the need for holding more foreign reserves, lowering transaction costs in foreign trade, and improving the competitiveness of currency issuance in the country's financial sector (according to Yu, 2014). The PBOC implemented a

so called “reversed coercive path” in RMB liberalization as a strategy for integrated gradual reforms of exchange rate regimes and capital account convertibility (He, 2015). For this to succeed, “recycle mechanisms” were highly important and the success of RMB as a currency widely accepted for trade settlement and establishing efficient offshore RMB markets was at the core of recycle mechanisms and this original innovative capital account liberalization strategy. There were different potential strategies for RMB internationalization and the PBOC adopted a “functional approach” (a term coined by Yu Yongding); that is, to promote the RMB as a settlement currency and investment currency (The Belt and Road Initiative was beneficial for this aspect of RMB internationalization), and finally, to make the RMB a viable foreign exchange reserve currency for central banks of other economies, in particular emerging market countries.

Capital account liberalization is at the core of the RMB internationalization strategy and remains the most important and most controversial policy of our day. There are different academic views, but also there are different implications for the desirability of liberalizing capital flows. Capital flows are drivers of cycles in market economies and it is fair to say that capital controls can help macroeconomic policies in open economies, because their systems are inherently unstable. Excessive capital inflows could lead to rapid rise of lending-led booms and asset price inflation, leaving open economies exposed to capital reversals and sudden stops. External imbalances could lead to balance-of-payments crises and cause asset bubbles to burst, as well as systemic instability and financial vulnerabilities. Cyclical dynamics are clearly related to the “financial cycles theory” or “inherent financial instability theory” (see more in Minsky, 2008). The main element in cyclical dynamics is the development of the boom phase, accompanied with an expansionary credit cycle and asset price inflation. These cyclical patterns are based on endogenous behavior of the agent’s risk perception and expectations. Asset price bubbles inflated in the process and balance sheets of the financial institutions becomes vulnerable to sudden changes in international flows of capital. When a downturn starts, the contraction process begins and the process of this bubble bursting leads to a credit crunch and deleveraging, with debt-deflation crises as an inevitable consequence of the preceding expansionary policies. The basic idea of capital controls is to smoothly manage capital flows in order to prevent Minskyan cycles and to secure financial stability and macroeconomic equilibrium of domestic economy. This is an important lesson for China.

The Chinese approach to capital flows was gradual, selective, and targeted (see more in MacKinnon, 1993; Prasad and Wei, 2007; Yu, 2008; International Monetary Institute, Renmin University, 2021; Eichengreen and others, 2022; People’s Bank of China, 2022), while capital controls have been implemented as a policy instrument against suboptimal structure of capital inflows and disruptive consequences of capital outflows by the residents and capital reversals by non-residents. This is a strategy of partial and controlled gradual liberalization of capital accounts, in accordance with the main principles of economic reforms to achieve sustainable growth and macroeconomic stability. It is a genuine economic strategy formulated by China’s economic decision-makers in government and the PBOC, based on incremental and gradual capital flows measures (CFM/MPMs), based on a policy of “trial and error.”

China's capital inflows have generally been dominated by FDI, which was a preferred form of inflow as they are stable and associated with other benefits, such as the transfer of technology and modern management practices. However, FDI has been targeted by market-type measures into manufacturing and less into real estate. Since 2001, there was an increase of FDI outflow as a part of partial capital account liberalization while debt-creating inflows were mainly restricted as a major element of capital account management and a balance-of-payments policy measure. International reserves substantially increased due to a mercantilist strategy and the trade surplus in China's current account of balance of payments. Reserve accumulation was a consequence of the Asian financial crisis, because it could support a fixed exchange rate regime and limited liberalization of capital account flows. We assume that the larger part of China's foreign exchange reserve holdings are in US dollar-denominated instruments, with the remainder in Euro-denominated instruments and monetary gold reserves. The high level of central bank reserves in treasury bonds from industrialized countries could expose PBOC to vulnerabilities should there be changes in the yield curve and an upward shift in the yield curve could significantly reduce mark-to-market values of PBOC holdings in treasury instruments of industrialized countries.

However, it is fair to say that these potential capital losses in mark-to-market terms should not be of concern for the central bank as long as it holds these instruments (bonds) to maturity. This argument is valid only if the central bank has no need to liquidate treasury bonds before maturity. In 2022–2023, central banks, in particular the US Federal Reserve, had to implement monetary tightening that will lead to an upward shift in the yield curve of treasury bonds. Consequently, the holders of the affected treasury instruments that are in need to overcome liquidity risk by selling such instruments will have to deal with mark-to-market losses. In fact, a similar situation triggered the banking crisis in the US in March 2023. Meanwhile, international markets are under stress from a new global financial crisis, with the potential to spill over from the US and the EU to other markets.

Our understanding is that the capital controls of the PBOC will successfully insulate China from negative spillover effects from international capital markets. However, certainly this will have negative effects as potential vulnerabilities of the domestic economy and financial system. The main benefit of capital account management is that China's monetary authorities are able to determine the composition of inflows and prevent the possibility of capital reversals, while preserving macroeconomic stability with limited capital account openness. China's approach to capital account liberalization has been an unconventional, or rather an unorthodox strategy of external liberalization, which is detrimental to the conventional strategy of removal of capital controls in order to achieve full capital account liberalization in accordance with IMF rules and policies. The truth is that this is a strategy of *de facto* capital account convertibility for RMB, with limited *de jure* capital account liberalization.

Capital account liberalization is closely linked to the exchange rate regime. In accordance with an IMF report on China (IMF, 2023), the *de facto* exchange rate regime has been classified as an "other managed" arrangement, effective March 3, 2022. The *de jure* exchange rate arrangement is "managed floating" with a view to



keeping the RMB exchange rate stable at an adaptive and equilibrium level based on market supply and demand with reference to a basket of currencies to preserve the stability of the Chinese economy and financial markets. On each business day, the trading band of the RMB against the US dollar in the interbank foreign exchange market allows the trading prices of the RMB against the US dollar in the market to fluctuate within a band of  $\pm 2\%$  around the midrate released that day by China's Foreign Exchange Trading System (CFETS). In 2015, PBOC increased flexibility of the RMB-to-USD exchange rate, enhancing the role of the FX market. Capital controls apply to most capital account transactions, but use of the RMB in international transactions has expanded over time. Effective October 1, 2016, the RMB was determined to be a "freely usable currency" and was included in the SDR basket.

In essence, exchange rate regime has been gradually changed from a fixed system (pegged to the US dollar) to more flexible arrangements (pegged to a basket of currencies), with the intention to enhance the flexibility of the exchange rate system, but in the same time to enable stability of the system (with narrow trading bands or "intervention points" in relation to the central parity of the RMB and FX interventions of the central bank). We could classify such a system as an "intermediate regime" or a floating exchange rate regime, supported with an inflation targeting monetary strategy and extensive use of capital controls (for more on intermediate exchange rate regimes, see: Williamson, 2000). The open economy trilemma was the most important constraint in China's policy options, but China was successful in determining its policy trilemma as a synchronized and complex strategy of limited capital account liberalization, enhanced flexibility in exchange rate regime and independent monetary policy of the PBOC. This was crucial for the success of the economic reforms in China.

### ***De Facto Convertibility of RMB***

The ultimate goal of RMB internationalization is to acquire de jure status as an international reserve currency. But, this is a long-term process that requires full capital account convertibility and removal of all capital controls in accordance with the IMF Articles of Agreement. RMB internationalization and full capital account convertibility should be preceded by deep structural reforms, especially in the banking industry. This would not lead to RMB dominance in the international financial markets, but it could create a multipolar world of key currencies, in which the dollar, the euro, the RMB, and other major currencies participate in international capital transactions. Such a multilateral process has been magnified in light of the geoeconomic fragmentation and huge geopolitical risks appearing in 2023. All these show that the process of de-dollarization is accelerating in both depth and breadth. A multipolar world of key currencies will have a certain hierarchy of reserve currencies and the RMB could play a greater role in international capital markets as an alternative to major reserve currencies. The main elements of full capital account



convertibility include the ability to make international transfers (payment infrastructure) and free conversion to other reserve currencies that have full capital account convertibility (external convertibility). Transferability and conversion are the most important elements of *de jure* and *de facto* capital account convertibility. China's central bank maintains extensive capital controls on capital account flows and their removal is not possible in the near future. In addition, due to the increased geopolitical risks and geoeconomic fragmentation, many countries with monetary independence could also opt for the introduction of new capital controls in the near future, aiming to prevent spillover from a new global financial crisis and China is not an exception. The PBOC has to balance between development and security, between post-Covid growth acceleration and macroeconomic/financial stability. But is this possible? A group of economists developed a set of new arguments that claim a different route is possible (Eichengreen and others, 2022). In a nutshell, they support the RMB internationalization strategy of the PBOC, which combines limited capital account liberalization with the development of financial payment infrastructure to make the RMB an international liquid currency, while maintaining managed access to the Chinese domestic market.

To secure liquidity of RMB holdings, the PBOC has several instruments in place including bilateral swap arrangements with other central banks as well as bilateral currency exchange arrangements with 39 central banks. However, these are not permanent and unlimited, like Federal Reserve swap lines. New evidence on the use of PBOC swap credit lines can be found in new research study by the Kiel Institute for World Economy (see more in Horn et al., 2023). Another channel for RMB liquidity is the Chiang Mai Initiative Multilateralization (CMIM), which is a regional currency swap arrangement between ASEAN countries plus China, Japan and Korea (ASEAN + 3). The third facility for RMB liquidity is the RMB liquidity pool at the Bank for International Settlements (BIS), which was established between the PBOC and five foreign central banks. Offshore clearing banks provide real-time settlement services for cross-border transactions, while onshore transactions are executed through the Cross-border Interbank Payments System (CIPS), which was established in 2015. China also uses the SWIFT interbank payment system. Central bank swap lines, CMIM, the liquidity pool at BIS and CIPS make up the basic infrastructure for increasing role of the RMB as reserve currency. The main focus is on transferability and liquidity within the framework of limited capital account convertibility of the RMB. Capital controls between offshore and onshore markets are highly important for the monetary and exchange rate policies of the central bank.

The majority of cross-border transactions with China continue to be denominated in dollars. Consequently, it was necessary to provide a financial infrastructure for the conversion of RMB holdings into dollars on demand at a market rate that is transparently determined by the FX market. One such mechanism is the offshore RMB market. The largest offshore RMB trading center is Hong Kong, although offshore markets have been set up in 24 other cities in China, while London and Frankfurt are also important offshore markets. Holders of RMB deposits are able to convert these holdings into dollar holdings on demand at FX market rates, but there is limited liquidity provided for offshore market transactions. There are capital controls

between offshore and onshore markets, but this is beyond the scope of our paper. It is important to say that limited liquidity of offshore markets enables the PBOC to control markets and the exchange rate of the RMB in onshore markets. The main issue is to what extent the PBOC should provide liquidity for offshore markets to ensure the smooth conversion of RMB holdings into convertible currencies when needed and under the precondition that volume of RMB transactions abroad will increase as the RMB becomes more and more accepted in international capital transactions as a *de facto* convertible currency.

In such a framework, the dollar backing the RMB is very important (see more in Eichengreen et al., 2022). China's trade patterns also reflect its composition of foreign exchange reserves. China's trade surplus with US has resulted in an accumulation of dollar reserves in the PBOC, which can be used in the onshore FX market to intervene and manage the volatility of the RMB exchange rate within narrow bands and thus preserve its relative stability. This is a *de facto*-managed floating FX regime with narrow bands for fluctuations to preserve the central parity of the RMB. A managed floating RMB exchange rate is fully consistent with capital account management or limited capital account convertibility of the RMB. Dollar reserves at the central bank (PBOC) are the most important collateral against limited convertibility of RMB, which gives credibility to RMB holders. In the same time, it is important to emphasize that the "Hong Kong offshore RMB market is a safety valve for RMB holders, it is a barometer of confidence in RMB" (Eichengreen et al., 2022). The PBOC should aim to preserve the stability of the RMB exchange rate against the dollar and enable the convertibility of RMB holdings into dollars when needed in offshore markets. It is crucial in the process of RMB internationalization to develop an efficient interaction mechanism between offshore and onshore markets to strengthen the RMB's financial transaction capabilities. This has been emphasized by a research team from the Renmin University of China, which issued an RMB internationalization report (see more in Renmin University of China, 2021).

China should continue with its own unconventional RMB internationalization strategy, promoting an increased role for the RMB as a *de facto* convertible currency. Further capital account liberalization is not an issue in China in 2023 and 2024, because of the existing uncertainty in global economy and de-globalization and geopolitical crises. Trade will continue to be the most important channel for accumulating RMB holdings in emerging economies (especially in the BRICs economies) and with major energy suppliers of China. The first China-Gulf Arab States Cooperation summit reached a strategic consensus to develop settlement in yuan for oil and gas trade (Petro-yuan), as with the first LNG trade in yuan. The Shanghai Petroleum and Natural Gas Exchange announced in March 2023 that it had completed its first yuan-settled trade for liquid natural gas between China's National Offshore Oil Corporation and France's Total Energies. This latest trade deal comes as China is trying to establish the RMB as an international currency. The Belt and Road Initiative (BRI) is also another channel for RMB holdings, which can be accumulated by invoicing Chinese exports and by granting loans denominated in RMB. BRI investments and other Chinese direct investments abroad are a third channel for accumulating RMB holdings.

For the growing role of the RMB as an international reserve currency, it is important to closely monitor and control the offshore RMB market in Hong Kong and achieve relative stability in the RMB exchange rate in offshore markets. The main policy instrument of the PBOC to make the RMB a credible *de facto* convertible reserve currency is to unconditionally support necessary liquidity in offshore markets by using its official dollar reserves in the Chinese central bank (USD 3277 billion as of 2022, according to IMF, 2023b). The PBOC could always create a new collateralized liquidity window for other central banks, if and when needed. For instance, in June 2022, the PBOC created a new RMB Liquidity Arrangement allowing other five central banks (Indonesia, Malaysia, Hong Kong, Singapore and Chile) to obtain pooled reserves at BIS should they require liquidity. Then, on July 4, 2022, the PBOC and the Hong Kong Monetary Authority (HKMA) signed a standing swap agreement, allowing the two sides to upgrade the currency swap arrangement established in 2009 to a standing one with no need for renewal while also expanding the swap scale from RMB 500 billion/HKD 590 billion to RMB 800 billion/HKD 940 billion.

The PBOC emphasizes that it will “promote the use of the RMB in foreign trade and investment, steadily promote the two-way opening-up of financial markets and improve the liquidity of RMB financial assets. It will continue to promote cooperation with other central banks on bilateral currency swap and local currency settlement, and support sound and orderly development of offshore RMB markets.” (PBOC, 2022). The most important policy measure of the PBOC is that “it will provide more stable and longer-term liquidity support for the Hong Kong market, better support for the development of the Hong Kong SAR as an international financial center and foster development of the offshore RMB market in Hong Kong” (see more on specific measures implemented by the central bank since 2009 in part six of the annual report on RMB internationalization—“Highlights of RMB Internationalization”: PBOC, 2022). In May 2017, the Chinese central bank announced a “countercyclical adjustment factor” (CCF) as a discretionary policy instrument to control the exchange rate, if necessary. This central bank instrument was abandoned in 2020, but reintroduced again in September 2022 and is actually very similar to the “Transmission Protection Instrument” (TPI) of the European Central Bank created in July 2022 and “The Bank Term Funding Program” (BTFR) introduced by the Federal Reserve in March 2023.

We can conclude that there is an interdependence between two currencies—the dollar and the RMB—within the framework of the *de facto* capital account convertibility of the RMB, with its limited capital account openness and managed exchange rate policy, which is backed by official central bank dollar reserves. The two currencies are complementary, and while there is a process of accelerated de-dollarization underway as new geopolitical conditions emerge and RMB internationalization is China’s long-term strategy, the dollar will still remain dominant in the near future.

## *Commodity-Based RMB and RMB Internationalization*

The Chinese approach to capital account liberalization is unorthodox, because it does not follow the classical strategy of de jure capital account liberalization based on IMF policy advice. Many argue that China has to retain capital controls and protect its domestic economy from external shocks and negative spillover effects from abroad, specifically the US “dollar trap” and, to lesser extent, from the EU. China’s plan is to build an alternative RMB-based system that will coexist with the present US dollar system. This alternate system should be based on China’s national interest, for her economic benefit and for the diversification of risk, particularly geopolitical risk. Of course, it seems that China also wants to participate in the existing international monetary system (IMS), which was created under the Bretton Woods system of “fixed but adjustable exchange rates” and based in the International Monetary Fund, which was established as an institution that promotes balanced development of international trade and stability of the international monetary system as a “lender-of-last-resort” (LOLR). But, there are arguments for change in the current IMS, and some experts see the creation of a multipolar currency world that anchors alternative currencies to commodities. This is important. It is about creating a foundation for RMB internationalization. As Zoltan Pozsar correctly said, “we are witnessing the birth of Bretton Woods III—a new world (monetary) order centred around commodity-based currencies in the East that will likely weaken the Eurodollar system and also contribute to inflationary forces in the West” (see more in Pozsar, 2022). In the presently unfolding crisis, especially the “crisis of commodities,” commodities are collateral for alternative currencies and they serve as basis for enhancing the credibility of alternative currencies that are not backed by the US dollar or gold reserves.

China understands well the benefit of anchoring the RMB to real commodities, because of the search for resources needed for accelerated development and persistent inflationary pressures due to the changes in various commodity markets, particularly oil and gas, lithium, and other natural resources. For instance, Leung (2022) believes that the RMB will eventually anchor to commodities/physical goods and for diversification purposes will focus on three areas: (1) the Petro-RMB system with Russia/Saudi Arabia and OPEC countries; (2) the Renewable energy-RMB system with Latin America; and (3) the RCEP-RMB system in Asia (RCEP, Regional Comprehensive Economic Partnership). All three schemes of the RMB anchoring strategy will create additional demand for RMB over time due to mutual investment projects that will inevitably facilitate RMB internationalization. However, this is a long-term process and it will take time as anchoring to real commodities is a complex strategy.

In the gradual implementation of such an RMB internationalization strategy, geo-economic considerations and geopolitical risks are of the utmost importance and 2023 is an important turning point for RMB internationalization. There are two main factors in accelerating the process of RMB internationalization: (1) Financial instruments being weaponized in the form of sanctions, forcing emerging markets to resort to local currency settlement (LCS) and (2) monetary policy tightening (QT) and interest rate hikes by the Federal Reserve that have forced countries to reduce

their dependence on the US dollar. This has driven greater acceptance of local currencies by trading partners in emerging markets, especially in BRICs economies, and will also have a positive effect on the further developments of offshore markets.

## Concluding Remarks

After decades of intense globalization, the world economy is facing risks of fragmentation. Policy-driven reversals of globalization are defined by IMF experts as “geoeconomic fragmentation” (GEF) and are multidimensional process of reversals in world economic integration. GEF could naturally be seen as an obstacle, but it is also an opportunity for RMB internationalization. To avert fragmentation, the rules-based multilateral system must adapt to changing circumstances. Some are talking about Bretton Woods 2.0, while others are suggesting even deeper changes in the multilateral rules-based international monetary system that is being called Bretton Woods 3.0 (Pozsar, 2022), mainly due to changes in US dollar-based international monetary system. The role of the US dollar as the main reserve currency has gradually weakened in recent decades, but it is still the world’s main reserve currency. It is followed by the Euro, but the structural crisis in European Monetary Union is challenging the stability of Euro as a reserve currency. This could also have an impact on the progress of RMB internationalization.

Prospects for China’s re-opening and economic development are good in 2023 (Yu, 2023; IMF, 2023a). However, China has to manage a “polycrisis” by implementing complex policy responses and the internationalization of the RMB will accelerate in 2023 in spite of geopolitical risks. The basic approach of economic reforms in China is gradual, based on incremental reforms and prudent progress in external/internal liberalization and preserving the stability of the domestic financial and economic system. Capital account management by the PBOC has been selective and targeted, while also being flexible and consistent with overall macroeconomic policy objectives. It seems plausible that its RMB internationalization strategy has been internally consistent, and that the sequencing and speed of external reforms were in line with the gradual strategy of the PBOC, which has been very successful in boom and bust cycles management. Re-regulation of the financial industry is needed within the context of new geopolitical/geoeconomic risks and the latest developments in international capital markets.

In this paper, we have tried to present additional arguments in favor of the view that an unconventional strategy for the internationalization of the RMB is the best policy option for China. China’s approach to capital account liberalization has been unconventional from the beginning, while its unorthodox strategy of external liberalization has been detrimental to the conventional strategy of the removal of capital controls in order to achieve full capital account liberalization in accordance with the IMF rules. However, our main conclusion is that this is actually a strategy of de facto capital account convertibility for the RMB, with controlled capital account liberalization. Our paper does not suggest significant changes in the strategy of the PBOC

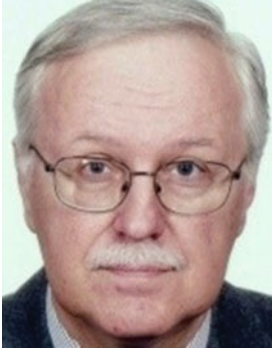
as the unconventional approach of the central bank is optimal from an academic perspective, while the results of the internationalization of the RMB are convincing from a policy maker's point of view. China should continue with its own RMB internationalization strategy, promoting an increased role of the RMB as a de facto convertible currency (especially as a trade settlement currency). Additionally, the PBOC could also further promote RMB internationalization in a few other areas, but crucial policy measures should focus on “fine-tuning” of “recycle mechanisms” and liquidity instruments in offshore markets.

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**Dubravko Radošević** Ph.D., is a Professor of Economics at the University of Zagreb and former Chief Economic Adviser to the President of the Republic of Croatia. In addition, he has been a Senior Fellow at the Institute of Economics Zagreb and Economic Adviser of the Deputy Prime Minister of Croatia. While at the central bank, he led the Monetary Policy Department and was Director of the International Financial Institutions Department. He is the author, co-author and/or editor of several books including: *Monetary Policy of the European Central Bank: Goals, Institutions, Strategies and Instruments* (Skolska knjiga, Zagreb, 2018), *Financialisation and Financial Crisis in South–Eastern European Countries* (Peter Lang Verlag, Frankfurt/Main, 2015), *Capital Flows, Exchange Rate Policy and the European Monetary Union* (Jesenski & Turk, Zagreb, 2012) and *Currency Convertibility* (Masmedia, Zagreb, 1997), among others.

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# China and Globalization in a Changing Context



Henry Huiyao Wang and Mabel Lu Miao

**Abstract** Voices that decry a downturn in or ultimate downfall of globalisation seem to be gaining the upper hand as the world changes. Given this epochal shift, we need to think where to go from here. We should also consider what principles and paths should be followed to ensure globalisation serves humanity, and as a major beneficiary of globalisation, what role China can play. We propose a number of conceptual pathways and detailed recommendations for the next step in the evolution of globalisation.

**Keywords** Globalisation · Global governance · Three-pillars and seven pathways · UN reform · Climate change · Cross-border taxation · Talent flows

## Introduction

One's perception of globalisation is much broader today than it was two decades ago. At the dawn of the twenty-first century, the global financial crisis, Brexit from the EU, Trump's election as the US president, the Covid-19 pandemic, the Russia–Ukraine conflict and other “black swan” or “grey rhino” events, all have relentlessly delivered heavy blows to globalisation.

Voices that were against globalisation and even proclaimed its end have prevailed and echoed in recent years. Indeed, the new round of hyper-globalisation that started in the early 1990s seems to have lost its former glory given the rise of many global challenges, which forces us to reflect on the difficulties facing globalisation. For all the unprecedented wealth it has brought to mankind, globalisation has also undeniably exacerbated the imbalances in global resource allocation and widened the gap between rich and poor, both between and within countries. At the same time, concern over climate change, geopolitical games and technological iteration have also intensified conflict. Given the accelerated evolution of the international power landscape, geopolitical competition among major powers has intensified. Meanwhile,

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H. H. Wang (✉) · M. L. Miao  
Center for China and Globalization (CCG), Beijing, China

the global flow of people, capital, goods and information has been hindered by the divide, confrontation and mistrust between countries.

At the same time, however, we believe that the growing power of China and other supporters of international multilateralism will lend new impetus to the advancement of globalisation. Biden's inauguration as the 46<sup>th</sup> President of the United States has led to a renewed embracing of multilateralism by the US, the signing of the Regional Comprehensive Economic Partnership (RCEP), China's application to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the end of the China–EU Comprehensive Agreement on Investment (CAI) negotiations in late 2020, as well as a consensus by over 130 countries around the world on a minimum income tax for multinational corporations—these positive signals of multilateralism have all shown the efforts and confidence of the countries involved.

During a globalisation downturn, policy initiatives that hinder globalisation and voices that question or even deny globalisation also spur more people to think about how to make globalisation more inclusive, fair and sustainable at all levels and in all sectors. Given this epochal shift, we need to think where globalisation will go from here. We should also consider what principles and paths should be followed to ensure globalisation serves human development better. Finally, as a beneficiary of globalisation, China needs to consider what role it can play in the next phase of globalisation's development.

## **Globalisation at a Crossroads**

### ***A Historical Context***

Since the start of globalisation, pioneers have gradually broken geographical barriers down and reshaped the global landscape. By opening up the global market, they linked production and trade systems of different countries and facilitated the flow of capital, technology, talent and information globally, thus dramatically increasing productivity and accumulating incredible amounts of wealth.

In the 1980s, faced with new rising forces such as the Federal Republic of Germany, Japan and the Four Asian Tigers, and the Third Industrial Revolution along with the growth of multinational corporations, the market-led economic system pursued by the West demonstrated its clear advantage over the planned economic system of the Soviet East. More countries began to recognise, learn from and even introduce market economy elements. The globalisation of goods was reborn under this consensus. This trend especially true in the 1990s, with the epochal shift in Eastern Europe, the collapse of the Soviet Union, and the broken “Two Parallel Markets” system; all of which created a political environment conducive to the formation of a unified global market.

Simultaneously, the standardisation of containers as well as advances in transportation and communication technology continued to deepen the international division of labour, providing effective support for the expanding scale of international trade. Globalisation sped up and created thriving prosperity.

### ***First Two Decades of the Twenty-First Century***

The period from 1990 to 2008 could be called the heyday of globalisation, but globalisation never recovered fully after the 2008 global financial crisis. Two “black swan” events—Donald Trump’s election as US president and Brexit—created uncertainty for the future of globalisation. In addition, the rise of the Islamic State of Iraq and Syria (ISIS), frequent terrorist attacks in Europe, the refugee crisis, the rise of right-wing parties in European elections, Trump’s withdrawal from multiple treaties, the yellow vest movement in France, as well as the trade war launched by the US, demonstrated a trend of deglobalisation.

The Covid-19 pandemic that erupted in the early spring of 2020 ravaged the world and triggered the most serious global public health crisis since the Second World War. The global economy seemed to press the pause button automatically. Industrial chains, value chains and supply chains were disrupted, and many industries suffered heavy blows. As a result, the global economy contracted by 4.3% in 2020—sparking the worst recession since the Great Depression of 1929 (UN, 2021).

Confronting this unprecedented global crisis, the international community, which should have been united, was overwhelmed and many countries closed their borders and even seized medical supplies passing through their countries. The pandemic opened a Pandora’s box, making an already volatile world even more uncertain. The Russia–Ukraine crisis in 2022 once again reinforced the idea that the end of globalisation and the transformation of the global landscape are nigh (CCG, 2022).

## **Issues Caused by Globalisation**

### ***Unequal Globalisation is Unsustainable***

In the 1980s, neoliberalism dominated the world as Reaganomics dominated. As the main driving force of economic globalisation, multinational corporations were able to use production factors around the world more easily and frequently. The global development of multinational corporations strongly promoted international economic and technical cooperation, which also laid the foundation for the formulation of global trade rules.

With the deepening of globalisation, however, the disadvantages of multinational corporations became clear. The free flow of capital and free flow of interests gave rise

to various problems. An International Monetary Fund (IMF) report in 2019 pointed out that non-OECD countries lose a total of some USD 200 billion in tax revenue each year as multinational corporations shift profits to low-tax areas (IMF, 2019).

Tax evasion by multinational corporations has widened the gap between the rich and poor in developing countries, increased poor populations and worsened living standards, thus blighting efforts to reach the UN 2030 Sustainable Development Goals. The failure of tax regulation also exacerbates deglobalisation, causing a contraction of global trade and a sluggish economy. Meanwhile, the interests of the middle class in some countries have been damaged, resulting in a collective backlash.

Given the global passion for profit, imbalances in development have become a visible symptom of the globalisation crisis. In the past, prosperity and inequality were two sides of the same globalisation coin, while free competition encouraged by market economies and globalisation were unable to solve the unequal distribution of national interests by itself, which resulted in the Matthew effect, an economic factor in internal social unrest and even world wars that have occurred since the birth of capitalism.

As economic globalisation expands, it inevitably requires national governments to adjust to a new *status quo*. The inequality of the dominant force inherent in globalisation makes it operate less equally than the rules would suggest, which means it is not always in the interest of all participants. However, many opponents of globalisation are not actually against globalisation per se and would rather simply challenge the rules.

### ***Global Governance Lags Behind Global Practice***

Sovereignty is defined by borders, but there are issues that also span borders. Global governance has become more pivotal in an era of globalisation where people increasingly interact with each other.

Current institutions of global governance, as the author of *The World is Flat: A Brief History of the Twenty-first Century* Thomas Friedman claims, are attempting to maintain a dynamic balance between nation-states and markets (Friedman, 2005). Such a balance played an important role in accelerating global economic and financial integration in the 1990s and the first decade of the twenty-first century. After the 2008 financial crisis, Professor Dani Rodrik from Harvard University noted in *The Globalization Paradox: Democracy and the Future of the World Economy* that the core contradiction of globalisation is the disconnect between government forces with national boundaries and market forces without national boundaries (Rodrik, 2011).

Globalisation is naturally contradictory to the idea of the nation-state. In the anarchy of the international community, to construct a global governance framework means that the nation-state needs to cede some of its sovereignty. Rodrik points out that there is a major trilemma in the world economy—“we cannot simultaneously pursue democracy, national determination and economic globalisation (Rodrik, 2011,

p. 19)”. This contradiction also applies to the larger context of globalisation. In recent years, a surge of counter-globalisation reflects a reassertion of sovereignty by nation-states and a rising populist and nationalist sentiment. The imbalance in global distribution has eroded social solidarity within nation-states, which create new political cleavages and scepticism among the masses about the elite democracy of the past. Counter-globalisation has become a movement leveraged by nation-states to reinvigorate national autonomy.

Globalisation has reached a tipping point. It has brought new changes in infrastructure, data security, and business models, while also placing new demands on global governance.

However, existing global governance mechanisms appear to be overwhelmed in responding to global issues. For example, technological changes create challenges in coordinating interests and social management risks. The rapid growth of multinational corporations has far exceeded the scope of the existing international tax system, and reform is urgently needed. The development of financial technology has increased the potential risk of financial crimes. Advances in network communication technology have also raised concerns about privacy breaches. The global public health crisis in 2020 proved that the current global governance system lacks adequate governance and sufficient capacity to address emergencies.

The global governance system created in the twentieth century is no longer able to tackle the conflicts of the twenty-first century effectively, and urgent reform and innovation are needed. Simultaneously, the rise of China and other emerging countries has reshaped the global landscape (Wang, 2021). Old rules of globalisation are increasingly unsuited to the current relations between nations. (Institut Montaigne, 2022).

## **A Chinese Solution to Globalisation**

### ***Three Pillars and Seven Pathways***

Policymakers worldwide need to rethink how to keep imbalances in the global landscape from triggering conflicts between countries or regions as the balance of world power changes. China is a critical player in globalisation and one of its most important beneficiaries. Since implementing its policy of reform and opening up, the Chinese economy has grown at an average annual rate of 9.5%, while its share of the world economy increased from 1.8% in 1978 to around 17% in 2020 (Xinhua, 2021). In the past few decades, China has become the world’s largest trader in goods, the largest industrial country and the second-largest economy. The country surpassed the US to become the world’s largest foreign capital inflow country in 2020. While achieving its own development, China has also been feeding back to the world, becoming an engine for world economic growth (Wang & Miao, 2022a).

As globalisation stands at a crossroads, China bears responsibility comparable to its economic weight. We have attempted to explore ways to promote inclusive and equitable globalisation and inject new impetus into globalisation by leveraging its advantages and characteristics (Wang & Miao, 2022b). Our vision is divided into three pillars—human-based globalisation, open regionalism, and global co-existence and co-governance, which are implemented through seven pathways.

### **Human-Based Globalisation**

Globalisation has been accompanied by the flow of people from its very beginning. From this perspective, immigrants are both a product and a driving force of globalisation. In the process of immigration, immigrants not only influence trade, investment and technology exchange, they also create new ideas and integrate the cultures of different countries. This enhances their identification with each other and creates a foundation for reaching a consensus on global cooperation.

#### **Path 1: Embracing global talent flows and overseas Chinese communities**

China has become a fertile ground for global talent innovation and entrepreneurship. According to the Global Innovation Index, China's ranking has risen rapidly, to 11 in 2022 from 29 in 2015 (WIPO, 2015; 2022). Given its ongoing integration into the global economy and growing role in global governance, China embraces more global talent for innovation and development. The launch of a green card programme for high-level talent has facilitated the introduction of high-level talent worldwide and the introduction of market-based recognition criteria for permanent residence applications has also proven successful.

We also welcome members of the 60 million strong overseas Chinese community to contribute to China's development. Overseas Chinese serve as a link in Sino-foreign economic and trade cooperation, cultural, scientific and technological exchanges, as well as a bridge between China and the world. Meanwhile, Chinese students studying abroad benefit from receiving an international, high-quality education, and developing a global perspective. The experience makes them more familiar with global rules and enhances global networks and cross-cultural adaptability, making them well suited to the needs of a globalised economy.

### **Open Regionalism**

Regional economic cooperation promotes diversity in globalisation, while regional integration is a mechanism for regulating the imbalance of gains from economic globalisation. Since interests in different regions vary, a certain region can develop its own regional interests, which buffers the negative effects of globalisation.

#### **Path 2: Regional integration through a “Common Asian Market”**

China embraces open regionalism, while promoting Asian regional integration is an important measure in supporting globalisation via multilateral principles. In the current complicated and volatile global climate, China has actively deepened its economic and trade ties with Asian countries. Apart from consolidating and developing bilateral economic and trade relations with Asian countries, it has also promoted major free trade areas in Asia (Mahbubani, 2022), including “ASEAN 10 + N”. Also, China is seeking to join the CPTPP, and advocates the integration of the CPTPP and RCEP towards a unified Free Trade Area of the Asia–Pacific (FTAAP) to give new impetus to economic globalisation.

### Path 3: Multilateralising the BRI

In the course of globalisation, instability in the international community impedes effective regulation of global markets. The scarcity of international public goods has to a certain extent led to a widening of the gap between developing and developed countries. The China-launched Belt and Road Initiative (BRI) endeavours to supply public goods to the world, which is pivotal for promoting global connectivity, especially in the Eurasian continent. Given its *status quo* of bilateral agreements, multilateralisation will be a prerequisite for BRI to offer global public goods and promote innovation in global governance (Wang, 2022). China remains open to further standardising the Belt and Road platform in terms of rulemaking, personnel composition, organisation and management, and project implementation. This move aims to attract more countries to participate in the initiative, enabling them to learn from others’ strengths to complement their own weaknesses, achieve mutual benefit and compete fairly, to create more opportunities for the recovery and growth of the world economy.

## Global Co-existence and Co-governance

After the Second World War, a UN-centred global governance system was created largely by the US (Wang & Michie, 2021). As the global landscape changes and rising developing and emerging economies drive an increasing trend towards multipolarity, the old system of global governance is increasingly unable to meet the needs of countries to solve present global issues. Global governance currently lags behind global practice. This contradiction is the fundamental reason why countries need to promote more innovative forms of global governance, which requires making global governance more representative and driving a more inclusive and equitable version of globalisation (Wang & Miao, 2022c).

### Path 4: Strengthening South–South Cooperation

As members of a transregional, global and truly international organisation, BRICS (Brazil, Russia, India, China and South Africa) countries have their own unique cultural history and economic development processes. The future of BRICS countries could potentially provide an example for the future of globalisation. The BRICS

cooperation mechanism is an emerging force in the global financial sector and political security. To a certain extent, this balances the discourse power of developing and developed countries in the context of global governance. Sub-Saharan African countries have long been economically low in the global industrial chain, supply chain and value chain, and have less of a voice in political matters. However, they also have great economic potential, rich natural and human resources and could benefit in the process of economic globalisation. After modernising, Latin American countries such as Brazil, Argentina and Chile have built solid economic foundations and achieved a high degree of integration with the world. Despite once being caught in the middle-income trap, Latin American countries are having a relatively positive impact on global affairs and have become another global force in addition to East Asia, Europe and the US.

#### Path 5: Enhancing cooperation with European countries

Europe, as the second-largest economic region only to the US, is moving towards closer economic integration. However, the continent is also facing geopolitical crises like Brexit and the Russia–Ukraine conflict. Europe and China currently have no geopolitical disputes, and bilateral economic and trade exchanges are close. They have been each other’s most important investors for a long time, and concluded CAI negotiations in 2020. China and the EU take similar stances on many global issues, and both advocate an international order based on multilateralism.

China–EU relations will determine the degree of internal economic integration in Eurasia in the future and will help to lay a new foundation for global governance. The completion of the CAI negotiations as scheduled has created a historic opportunity for China and the EU to enhance mutual trust and cooperation. China and the EU also have promising prospects for cooperation in fields such as climate change, the digital economy and clean energy. With these advantages, China should cooperate more with the EU in global affairs, especially within the framework of the UN, to ensure a stable and more multilateral world order.

#### Path 6: Creating a “new model of great power relations” with the US

Sino–US relations are a priority in China’s foreign affairs policy as they affect the development of the two countries as well as the future of globalisation. China has worked to seize all opportunities to avoid falling into the “Thucydides Trap” (Allison, 2017) and achieve a form of “cooperative rivalry” (Nye, 2023) as coined by Joseph Nye, former Dean of Harvard’s Kennedy School of Government. In the long run, the best outcome is for the two countries to maintain strategic mutual trust, economic and trade cooperation, and people-to-people and cultural exchanges. China and the US need to ensure cooperation between their business communities, carry out state-level diplomacy and foster people-to-people and cultural ties. Bilateral cooperation in areas such as climate change, infrastructure, digital economy and public health can help to quiet calls for decoupling. The two countries should also cooperate on reforms to global governance to avoid decoupling and any increased risk to the world order.



### Path 7: Advocating the concept of “co-governance”

As a representative of emerging and developing economies and given its rising global clout, China recognises its responsibilities and seeks to replace confrontation with cooperation, which has always been a fundamental part of its vision for global governance. As a keen driver of innovation in the global governance system and a reformer of existing global governance institutions, China also advocates for a multilateral cooperation mechanism based on the concept of “co-governance” that balances “East and West”.

## ***Policy Recommendations for Inclusive Globalisation***

China has clarified its thinking and developed a set of policy tools to upgrade global governance. China’s priority is to respect and maintain existing international multilateral mechanisms despite strong headwinds in changes to globalisation. China is not looking to build a new world order from scratch and emphasises reforms to dispute settlement mechanisms under existing rules, especially within the framework of the UN and the WTO.

### **Reforms to the UN and WTO**

With rising unilateralism and protectionism in addition to existing hegemony and intervention, the current system of global governance is often ineffective due to a lack of leadership. The Russia–Ukraine crisis has exacerbated global geopolitical issues and a series of new issues, such as a shifting global landscape, climate change, digital economy and the BRI, have created new challenges for the UN. Pragmatism, balance and regulation are at the core of the UN, but they are also the foundations for its reform. The UN should be able to coordinate, guide and regulate areas such as the digital economy, climate change, the management of polar zones, and safeguard peace and global security. It should also give full play to its advantages and participate in regional and global development projects such as the BRI.

The WTO, a permanent international organisation independent of the UN, plays a unique role in global economic governance. For years, it has played a leading role in balancing international trade relations and reducing trade frictions, despite endless doubts of a marginalised WTO. Moving from the global periphery to the centre, emerging countries have become an integral part of international trade and the world economy. However, the different demands of emerging economies and advanced economies have kept the WTO from functioning properly.

Reforms to the WTO could potentially begin with plurilateral agreements in place of multilateral agreements to improve efficiency and implementation. Second, a reformed WTO should fully consider the demands and capabilities of developing countries and endeavour to find common interests among parties in disagreement,

who must also exercise patience and maintain a win–win mindset to avoid a zero-sum outcome. Finally, as we enter an era of digital trade, the WTO should take advantage of the potential to promote e-commerce negotiations, enhance digital transitions in cross-border goods and service trade, narrow the digital gap, strengthen privacy protection, and ensure fair competition.

China can also contribute to innovation in upgrades to the global governance system based on the principles of shared responsibility for global governance and “co-governance” with other countries in the world by establishing global institutions that focus on the current obstacles and challenges globally such as infrastructure deficits, climate change, data security, economic inequality and global talent.

### **Creating a Global Infrastructure Investment Bank (GIIB)**

There is global demand for investment in infrastructure, but a lack of funding and structural issues like the failure to match supply and demand have existed for years in international development financing. Since its launch in 2015, the Asian Infrastructure Investment Bank (AIIB) has operated in accordance with the model and principles of multilateral development banks, adhering to high international normative standards, and it has been recognised by the UN and other multilateral organisations. Under the proper conditions, it is possible for the AIIB to be upgraded to a Global Infrastructure Investment Bank (GIIB) to focus more on expanding the scope and regional distribution of infrastructure investment, providing funding for eligible infrastructure investment projects around the world. However, this requires inviting new members to play a major role, specifically the US and Japan, and bringing in countries from Africa and Latin America. In future, the GIIB could play a greater role in building sustainable infrastructure, digital infrastructure financing and stimulating private financing.

### **Establishing a Global Organisation to Find a Solution to Climate Change**

The global climate crisis is one of the most serious challenges in the twenty-first century. Many countries have set detailed emission reduction targets and launched initiatives. To accelerate the pace of efforts to reduce global emissions and incorporate the needs of less developed countries, we suggest adding China, India and Russia to the G7, and discussing more effective multilateral climate cooperation mechanisms under a G10 framework. The integration of these three countries would increase the representation of the organisation from 10 to 47% of the world’s population. The G10 would also incorporate the world’s six largest carbon producers and bring together representatives from both developed and developing countries, which could serve to build bridges between countries with different levels of development and take various green development cooperation models into account.

### **Establishing a Global Taxation Organisation**

Global tax system reform is essential to address the core issue of uneven distribution in globalisation. In 2021, 132 countries reached a consensus to reform the “global minimum corporate tax” and agreed to fix the global minimum corporate tax rate at 15%. With a view to closing loopholes in the global tax system, the global minimum corporate tax rate will encourage multinational companies from developed countries to repatriate their income from tax havens to their home countries, which will also raise the income of their own people. However, the reform of the global tax system will not be achieved overnight, as it focuses on how to reasonably allocate the tax base on the basis of the lowest tax rate and effectively respond to tax challenges brought about by the global digital economy.

### **Establishing a Global Data Security Organisation**

Data flows epitomise globalisation in the twenty-first century, while the globalisation of data both drives the world economy and brings many challenges. In this process, cross-border data flows are critical, but complexities such as national security, geopolitics and privacy protection have kept countries from reaching a consensus in promoting free data flows and enhancing data localisation. Establishing a D20 (the Data of Twenty) would lead to a discussion about reaching a consensus on cross-border data flows in countries with relatively advanced digital economies. In addition to this, establishing a “global data organisation” would lead the way in creating standards for global data security and data use as the world has not yet reached a comprehensive multilateral solution to either of these issues.

### **Promoting the Alliance of Global Talent Organisations (AGTO)**

Global talent has become an important part of world population flows. However, differences in visa policies, talent policies and public benefits in different countries make it difficult for them to flow freely (Wang & Michie, 2021). The AGTO, established in 2020, aims to unite major immigration organisations and institutions worldwide and provide a platform for governments to coordinate talent flows. It creates a fair and competitive international platform for talent exchange and lowers the barriers to global talent cooperation. At the same time, the AGTO protects the rights and interests of individuals and narrows gaps in knowledge and innovation capabilities between different countries. The AGTO should work to enhance communication between international organisations and relevant actors, filling the gaps in global governance and talent management.

## Working Towards an Inclusive, Fair, Multilateral and Sustainable Model of Globalisation

Globalisation is a fluid concept, and its evolution affects not only China, but other countries as well, which means that we must explore solutions together. The course of China's development will profoundly influence the future of globalisation and as the world's expectations of China become greater, the wisdom we share and the solutions we provide will enable China to play a greater and hopefully more positive role in globalisation and global governance. Facing twists and turns in the course of globalisation, we need to work with other countries to identify as many common interests as possible, pursue broader and deeper cooperation in a spirit of mutual benefit, resolve urgent global issues, and promote a model of globalisation that embraces inclusiveness, fairness, multilateralism and sustainability.

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**Henry Huiyao Wang, Ph.D.** is the Founder and President of the Center for China and Globalization (CCG), a think tank ranked among top 100 think tanks in the world. He is also Dean of the Institute of Development Studies of Southwestern University of Finance and Economics of China, Vice Chairman of China Association for International Economic Cooperation, and a Director of Chinese People's Institute of Foreign Affairs. He is currently a steering committee member of Paris Peace Forum and a member of the advisory boards of both Duke Kunshan University and Richard Ivey Business School. He has served as an expert advisor for the World Bank, IOM, and ILO. He pursued his Ph.D. studies at the University of Western Ontario and the University of Manchester. He is the Chief Editor of the Springer Nature book series China and Globalization Series, Chinese Enterprise Globalization Series and the International Talent Development in China Series. He was Senior Fellow at Harvard Kennedy School and Visiting Fellow at Brookings Institute. His books in English include *Globalizing China* (2012); *China Goes Global* (2016); *Handbook on China and Globalization* (2019); *Globalization of Chinese Enterprises* (2020); *Consensus or Conflict?: China and Globalization in the 21st Century* (2021); *The Ebb and Flow of Globalization: Chinese Perspectives on China's Development and Role in the World* (2022); *Understanding Globalization, Global Gaps, Power Shifts in the 21st Century: CCG Global Dialogues* (2022); and *Escaping Thucydides's Trap: Dialogue with Graham Allison on China-US Relations* (2023) .



**Mabel Lu Miao, Ph.D.** is the Secretary-General of CCG, a Munich Security Conference (MSC) Young Leader, and the Deputy Director General of the International Writing Center at Beijing Normal University. She is also an Adjunct Professor at Huaqiao University and an Adjunct Researcher at Beijing Foreign Studies University. She received her Ph.D. in Contemporary Chinese Studies from Beijing Normal University and has been a visiting scholar at New York University's China House and the Fairbank Center at Harvard University. Dr. Miao is a co-author of many Chinese Social Science Academy blue books and Chinese Social Science Foundation's research project reports. Dr. Miao has published a number of books in Chinese, which detail developments in China's outbound business and global talent. Her latest publications in English include *Blue Book of Global Talent: Annual Report on the Development of Chinese Students Studying Abroad*; *International Migration of China: Status, Policy and Social Responses to the Globalization of Migration* (2017); *China's Domestic and International Migration Development* (2019); *Transition and Opportunity: Strategies from Business Leaders on Making the Most of China's Future* (2022); *China and the World in a Changing Context: Perspectives from Ambassadors to China* (2022); *Strategies for Chinese Enterprises Going Global* (2023); and *The Challenge of "Going Out": Chinese Experiences in Outbound Investment* (2023) .

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# China's Inroads into Global Governance: Status Quo and Scope



Tobby Simon

**Abstract** China seeks to endorse multipolarity in a contested world, mitigate what it regards as the US-orchestrated “confinement,” and set the stage regionally for an extended sphere of Chinese influence. Nevertheless, it is incumbent on Beijing to navigate this path in a way that would bolster China’s global persona as a reliable and ethical frontrunner, while concurrently diminishing the perception of China as an escalating “hazard” to its neighbouring countries in Asia.

**Keywords** Global governance · China · G-plus world · Unipolar status quo · Climate change · AI · Supply chains · Multiplex world order

*Zhongguo*—the Middle Kingdom or Central Kingdom—a name that China inherited during its long history of monarchy—was not simply a geographic term, but implied that China was the cultural, political, and economic epicentre of the world. This Sino-centrist worldview is being significantly reflected today, in China’s efforts to influence global governance—the rules, norms, and institutions that regulate international cooperation—in a manner that aligns with Beijing’s values and priorities.

President Xi Jinping, the most influential Chinese leader since Mao Zedong, in his latest Report to the 20th National Congress of the Communist Party of China, has called for the country to “actively participate and guide the reform of the global governance system,<sup>1</sup>” thereby promulgating a vision of fairer and more equitable global governance featuring shared growth through discussion, collaboration, greater democracy in international relations, and true multilateralism by moving away from the unipolar status quo.

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<sup>1</sup> <https://www.cfr.org/china-global-governance/>.

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T. Simon (✉)  
Synergia Foundation, Bengaluru, India

## China's Global Supply Chains<sup>2</sup>

One of the first economies to face the deleterious effects of the Covid-19 pandemic, China reported a negative 6.8% GDP growth in the first quarter of 2020. Although it had managed to tackle the growth drop by 2021, the recent renewed Covid-19 outbreaks in China, zero Covid policies, and demand contraction accompanied with a global economic slowdown have brought on tough headwinds for the Chinese economy, which is presently expected to grow at 4.9% in 2022, which would be the second slowest pace since 1976 for the world's fastest growing major economy.

Around 2017, China announced a huge transition from an investment and export driven economy to a private consumption led growth model that had led major global companies to swoop in to cash in on the Chinese consumption boom. A decade ago, China's retail-goods market was worth about \$1.8 trillion—less than half that of the USA, which by 2021 had reached \$6.5 trillion. However, China's private consumption represented only about 52% of its GDP in 2021—significantly below the US level of 68% and the world average of 63%. This lacuna leaves much room for growth as well as opportunities for investment, especially in businesses that cater to retail consumers.

Inbound foreign direct investment (FDI) has been an integral aspect of the Chinese economy since the 1980s; in fact, it grew 6.3% year-on-year to CNY1.27 trillion in 2022, mostly in the manufacturing industry. However, some sectors including media and the internet are on a negative list for foreign investment.

The internet itself has been a thorny spot with total revenue of Chinese internet firms first falling in 2022 since the data was made available in 2017, amid the global economic slowdown and tightened domestic regulations.

A case in point is a decline in the growth momentum of Alibaba holdings, which was given the highest-ever antitrust penalty imposed in China for allegedly abusing its position of market dominance. It also happens that the CEO had denounced China's "regulatory restrictions" that were "hampering innovation."<sup>3</sup>

Nonetheless, if a business turns out to be successful, taking outside capital for quick nationwide expansion is usually permissible, which has made China one of the most active private-equity markets in Asia.

The US-China trade war and the supply and demand bottlenecks brought on by the Covid-19 pandemic have forced manufacturers everywhere to reassess their supply chains, rethink strategies of lean inventories, and come up with just-in-time replenishment, which can prove to be crippling when material shortages arise. In addition, pressure to make operations more efficient and improve capital use and manufacturing capacity will remain unrelenting.

Since the trade war with the USA began in 2018, some Western manufacturing companies have relocated from China to countries where they perceived themselves

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<sup>2</sup> Data in this section is primarily sourced from <https://hbsp.harvard.edu/product/719034-PDF-ENG>.

<sup>3</sup> <https://wap-business--standard-com.cdn.ampproject.org/v/s/wap.business-standard.com/article-amp/international/alibaba-group-S-jack-ma-slams-financial-regulators-curbs-on-innovation->



as safe from being caught in the geopolitical line of fire. However, with the onset of the Covid pandemic, the world has found itself increasingly dependent on Chinese exports of pharmaceuticals which is corroborated by the fact that critical medical supplies from China have grown by 21% since 2020.

Another less known example is that South Korea and China are the primary producers of a group of chemicals known as nucleoside phosphoramidites and the associated reagents that are used for generating DNA and RNA sequences, making these essential for companies that develop and manufacture DNA- or mRNA-based Covid-19 vaccines as well as DNA-based drug therapies.

Any shift in value chains should be partial and gradual, because it is not cost effective or efficient to move from the most efficient supplier to the second or third best. American companies will do this only if the US tariffs become more penalizing than relocation would be. Moreover, it's relatively easier to shift the sourcing of low-value-added products from China to Vietnam or Mexico than moving an entire supply chain.

Reducing dependency on China will be easier for some products like furniture, clothing, and household goods because their inputs are easy to obtain elsewhere—lumber, fabrics, plastics, and so forth—which are basic materials. On the other hand, finding alternative sources for sophisticated machinery, electronics, and other goods that incorporate parts such as high-density interconnect circuit boards, electronic displays, and precision castings will be harder to find. Additionally, moving production would be counterproductive if the target market is China itself.

Building a new supply infrastructure in a different region will involve huge time and monetary costs, as China's own experience illustrates. Having no indigenous suppliers in the 1980s when it first opened its special economic zones, China had to rely on remotely connected global supply chains and far-flung logistics experts who stocked them for assembly in Chinese factories after procuring materials from around the world. Even though it was supported by government incentives, it took 20 years for China to build a local supply base capable of producing the vast majority of electronic components, auto parts, chemicals, and drug components required for domestic manufacturing.

Furthermore, shifting production from China to Southeast Asian countries would entail major changes to existing logistics strategies. Unlike China, these new locations often are not equipped with efficient, high-capacity ports that can handle direct marine liner services to major markets and the largest container ships, which will mean more transshipment through Singapore, Hong Kong, etc., and longer transit times to destination markets.

All things considered, in the long run, it would be unwise to leave China completely out of the global supply picture because its deep supplier networks, flexible and able workforce, and large and efficient ports as well as transportation infrastructure imply that it will remain a highly competitive value source for years to come.

China also has the second-largest economy in the world; it is imperative that firms maintain their presence in the country to take advantage of its markets and obtain competitive intelligence.

## ***Does the USA have the Power to Hurt China Economically?***

Washington, keen to continue its economic dominance in the wake of a rising China, is fast backtracking on the neoliberal consensus of non-discrimination and interdependence in international economic order that it meticulously built over the last three decades.

This is apparent in the recent adoption of the Inflation Reduction Act which provides huge industrial subsidies to domestic American manufacturers at the cost of imports from foreign companies.

Having been in place for over 40 years, China-US economic cooperation involves deeply integrated industries and highly complementary trade that is generally considered a win-win combination because of the huge profit for both sides due to this interrelation. Therefore, economic harm to one is not possible without harming the other.

Each is the other's largest trading partner, and China's holding of US Treasury bills has lent more than \$1 trillion to the US government. A rising China may threaten America's economic and technological supremacy, but because China doesn't export its ideology or political system, the US national security will be left untouched.

However, in another area of contention, China shows no signs of backing down from its territorial claims. Conflict will be inescapable, with unprecedented adverse consequences for the world market if the US abandons the one-China policy and rallies behind Taiwan's independence.

The technology war launched by the Trump administration drove China to begin developing critical technologies, such as semiconductor chips, for which it had previously sourced from US suppliers, but it will take China years if not decades to level up in this area and it will come at great cost. The technology war also has affected the US because the top ten American semiconductor chip companies sell about three times as much in China as in the USA. The American tech companies, therefore, are unwilling to lose the China market as it will deprive them of funds for further R&D.

## ***Upcoming Risks for China's Economy***

China is the only G20 country to have demonstrated positive growth during the pandemic. Its currency appreciated 6% against the dollar last year, speaking to the strength of the Chinese economy, which has grown over 36 times over the past three decades, mostly due to market-oriented reforms that have also created a vibrant private sector that now contributes to about two-thirds of China's GDP.

Even though it faces imported inflationary pressure, China, buttressed by its continuous industrial transformation and upgrading, is working towards stabilizing global supply chains.

However, the state-owned sector in China is proving to be too big and inefficient. What's more, as home to the world's largest number of ageing people, China's

savings and investment rates will drop significantly in the future. If it is to sustain its remarkable growth, the country will need to privatize and reform its state-owned firms and drive a further shift from investment to private consumption.

Furthermore, a challenge that has continued to haunt Chinese economic diplomacy since 2013 is a trilateral free trade agreement (FTA) with Japan and South Korea, which has not materialized yet because of firstly, the opposition from domestic economic sectors especially agriculture and concerns over loss of market share and intellectual property rights; secondly, each of the three countries has proposed a different FTA framework from the other two, and thirdly, the geopolitical competition in the trans-Pacific region vis a vis the USA with which Korea and Japan are allies but China isn't.<sup>4</sup>

However, the concluding of the RCEP with South Korea and Japan, which is the largest FTA that China has signed to date China shows its efforts to overcome the above hurdles through compromise and negotiation by proposing a new RCEP plus CJK (China, Japan, Korea) FTA and willingness to change in favour of a win-win-win mega trade and supply chain pact.

### *A Capitalist China?*

China is among the most open markets in the world: its rapid economic growth is the result of its adoption of a market economy and private enterprise. It is also the largest trading nation as well as the largest recipient of foreign direct investment, having surpassed the USA in 2020. The major focus of government expenditure has been domestic infrastructure as a result of which China now has better rail systems, highways, airports, and bridges than the USA. China is home to six of the world's ten high-speed rail networks, and it is also the longest.

China can afford to spend so much on infrastructure because its defence budget, even after years of increases, is still only a quarter of what the USA allocates.

Finally, China is in the process of establishing a social safety net, albeit currently undefined and underfunded, but levies no tax on personal capital gains. In 2020, there were more Chinese billionaires than there were American and China outpaces the latter three to one in producing them. Consequently, according to the countries' Gini coefficient, inequality is greater in China than in the USA. Well-rounded economic growth is still an aspiration for China and a goal that it should focus on.

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<sup>4</sup> <https://www.kiep.go.kr/>.

## Global Environmental Governance<sup>5</sup>

Despite its suspicion of the current global order, China has shown support for international institutions and agreements that align with its policy goals, such as the World Bank in economic matters and the Paris Agreement on climate change.

Under the Paris Agreement and the UN Sustainable Development Goals, China strongly emphasized the implementation of its national strategy to mitigate the global climate crisis, mainstreaming the vision of a Community with a Shared Future for Humanity (CSFH) and the construction of international environmental institutions by advocating fair cooperation resulting in mutual gain. This has elevated China's role globally in terms of envisioning policy and pioneering norms attuned to environmental governance.

One of the major elements of President Xi Jinping's global ecological and environmental theoretical system, the CSFH concept holds a crucial normative power for China's practice of environmental cooperation that has been deepened through its work in South–South cooperation, the Belt and Road Initiative (BRI), and international climate regime through the UNFCCC and other international as well as local cooperative platforms.

China is also the largest financier of renewable energy projects in the Indo-Pacific. More than half of its overseas energy investments under the Belt and Road Initiative, amounting to \$20 billion in 2020, are in the renewables sector, which is critical to supporting an energy source transition in the region.

A major rising power continually increasing its influence in global economic, political, and environmental governance, China consumes considerable energy to fuel its industrialization, which creates severe pollution. Having burned around half of the coal consumed in the world, China has been the world's largest greenhouse gas emitter since 2007 and was responsible for 27% of global emissions in 2022—more than the USA and the EU combined. Meanwhile, the rising standard of living, urbanization, and industrialization makes China the largest importer of many raw materials, contributing to it producing almost a third of the world's annual carbon emissions.

The Chinese government prioritizes investing in renewable energy because it enables the country to mitigate air and water pollution and deal with the risks of socioeconomic instability.

Between 2004 and 2010, the country increased its investment in renewable energy 13 times and another two and a half times from 2010 to 2015, reaching \$102.9 billion—by far the world's largest investor (Frankfurt School-UNEP Centre 2016). To control air pollution, the government also introduced a comprehensive action plan in 2013, pledging an investment of CNY1.700 trillion (\$277 billion) by the central government (China Daily 2013). With various efforts by its government, China reduced its energy intensity by 18.2% and carbon intensity by 20% in the

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<sup>5</sup> Data in this section is primarily sourced from <https://risingpowerproject.com/changing-rolechina-global-environmental-governance>.

period between 2010 and 2015. This shows that China is committed to becoming a model for how to clean up the planet, rather than being a threat to it.

More recently, China's leadership announced ambitious plans to mitigate climate change, promote green finance, and control pollution, showing to the world their determination to lead efforts in global environmental governance.

However, some scholars maintain that "China is extremely skeptical towards externally enforced measures that would undermine the potential for social and economic development for the sake of climate change."<sup>6</sup> Despite this, China's environmental diplomacy has changed rapidly over the last few years—with its ambitious plans on the domestic level that matching up to its global environmental commitments.

China's dominance in renewable energy products and control over the supply chains for rare-earth minerals and the processing capacity to produce them is noteworthy. The International Energy Agency estimates that China's global share in all the key manufacturing stages of solar panels, which currently exceeds 80%, will rise to more than 95% in the coming years. The country also produces about 85% of the world's rare-earth oxides and about 90% of rare-earth metals, alloys, and permanent magnets.

Interestingly, China has demonstrated its willingness to use its control of the supply chain in pursuit of its wider geopolitical interests, most notably in 2010 when in retaliation for a maritime dispute with Japan, it restricted rare-earth mineral exports to that country, underscoring that Beijing will leverage this financing for political influence and strategic advantage.

### ***Proactive Actions on Climate Mitigation***

Starting from its 11th Five-Year Plan (FYP) set in 2005, the Chinese government started decreasing national energy intensity and creating a set of strategic low-carbon industries (Lewis). Since 2007, China has shut down thousands of old and inefficient power and industrial facilities, resulting in a consistent decrease in its energy consumption per unit of GDP over the last decade.

In September 2015, Chinese and American leaders issued a Joint Presidential Statement on Climate Change to synchronize their position for the Paris conference, which China finally ratified together with the USA. The two countries also announced their plan to address another important greenhouse gas—Hydrofluorocarbons (HFCs)—in the Kigali amendment of the Montreal Protocol and their backing of action on global emissions under the International Civil Aviation Organization (UNFCCC 2016).

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<sup>6</sup> <https://risingpowerproject.com/changing-rolechina-global-environmental-governance>.

## *An Emerging Leader in Green Finance*

Another area where China shows its willingness to take leadership roles is in green finance, aiming to create a green financial system, develop green credits, green bonds, and establish green development funds. Since 2013, the Chinese government has launched a range of initiatives in order to establish a green financial system, including the fostering of a corporate green bond market to enable China's smooth transition to a low-carbon economy and the joint endeavour of the People's Bank of China (PBoC)—China's central bank—and the UNEP to create a Green Finance Task Force in 2014, which included more than 40 Chinese and foreign experts from think tanks, regulatory institutions, academia, and the private sector.

On the international stage, China also shows its intention to lead global reform. One remarkable outcome of the G20 summit in Hangzhou in 2016 was to recognize the importance of scaling up green financing and identifying a range of efforts needed. Moreover, China's overseas investments including the multilateral development banks under its aegis—the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (“BRICS Bank”) are also green financed.

## *War on Pollution*

The Chinese Communist Party, in 2012, revised its constitution by adding in the Party's overall plan for “the establishment of an ecological civilization,”<sup>7</sup> which highlighted resource conservation and environmental protection as key policies. Meanwhile, between 2011 and 2014, China's legislative body amended its Environmental Protection Law (EPL), which took effect in 2015. The new law set forth a stringent legal framework for China's sustainable development with critical revisions in several aspects, including toughening penalties for environmental offenses, establishing a public environmental litigation system that increases the number of groups eligible to bring lawsuits, makes it mandatory for local environmental protection bureaus to disclose environmental information, and oversees the formulation of unified pollution control and coordination mechanisms for key areas across administrative units.

China has also proposed its own goals for “carbon peaking” and becoming “carbon neutral,” which will set higher objectives and targets for future environmental policies and lead to the promulgation of increasingly complex policies.

Recently, as China phases out cash subsidies to Tesla, the largest manufacturer of electric cars in China, growth of China's EV deliveries may drop to 30% in 2023, after more than doubling in 2022 to around 6.4 million units. However, the sales of home-grown BYD's wholly electric cars rose 4% from November to 235,197 units last month, indicating China's intent to fight fossil fuel-based pollution besides developing indigenous industries.

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<sup>7</sup> <https://www.adb.org/sites/default/files/publication/545291/eawp-021-ecological-civilization-prc.pdf>.

## ***Impediments in the Journey Towards a Green Future***

The aforementioned ambitious plans embody the resolve of China's leadership to improve the country's environment while also increasing China's contribution to global sustainability. In spite of this, China's ultimate impact on the global environment will rest on the implementation of such plans despite a domestic governance model that poses considerable obstacles. Three key areas for future policy reforms are mentioned in the next section that China's leaders have to focus and strategize on to build an ecological civilization for the well-being of the Chinese people as well as the global population.

### ***Correcting: The Power Imbalance between the State and the Civil Society***

First, it is important that private actors can be truly empowered and engaged in governance, because China's progress in environmental policy is characterized by a strong state presence, which uses a top-down approach through the control mechanisms led by Beijing.

However, this approach has its limitations because non-state actors—businesses, NGOs, and the public—are excluded from formally participating in the political process.

The present needs of a sustainable and financially healthy environmental policy can only be met with the infusion of private capital to finance the government's pollution control and energy transition targets. The Chinese government should rope in the expertise of private actors to develop relevant technology and welcome supervision by civil society to increase transparency and better comply with the environment legislation it creates.

Lastly, on green finance, China has not established a credible third-party verification system to evaluate whether or not projects are eligible as "green." Such a system, incorporating the engagement of private actors including auditors, standard-setting institutions, and rating agencies, is crucial for a successful and tenable green financial ecosystem.

### ***Reforming a Fragmented Governance Structure***

The Chinese government must both horizontally and vertically structure and harmonize its fragmented governance system for unified policy management. Some of China's poor track record in environmental performance can be attributed to overlapping and colliding authority across different government agencies (Economy 2014; Wang et al. 2017).

For example, regulatory responsibility for controlling water pollution is shared by multiple ministries, including the Ministry of Environmental Protection, the Ministry of Water Resources (in charge of protection of land-based water resources), the State Oceanic Administration (in cases of marine pollution), the Ministry of Housing and Urban-Rural Development (sewage treatment plants), and the Ministry of Agriculture (agricultural runoff pollution). It is of paramount importance to formally establish a unified governance system under one leading independent agency to coordinate the inter-ministerial sphere of control and strategies on pollution and prevent inefficient implementation due to the varied source, nature, and impact of the pollutants.

Coordination across sub-national units is also critical for effective governance. In this respect, China's decentralized local government system, which lacks enforcement capabilities and autonomy, seems "highly damaging" to the environment (Economy 2016).<sup>8</sup> Moreover, since pollution often affects different administrative units at the same time, the central government at Beijing needs a spearheaded approach to ensure the adoption of control measures in the whole area impacted by pollution while preventing inaction due to various actors shifting the blame.

### ***Raising Public Awareness on the Issue of Sustainable Development***

An efficient governance system should inculcate public awareness about environmental protection and more sustainable development. Many Chinese citizens lack a thorough understanding of the environmental impacts of their behaviour and only care about their local situation, instead of the overall environment, implying a strong feature of Nimbyism (not-in-my-backyard) among the Chinese public in terms of participation in environmental causes.

The impact of China's development on natural resources beyond its borders also requires critical attention. The continuous expansion of its domestic market has made China the world's largest importer and consumer of many commodities and thereby negatively affects the environment in other developing countries. For instance, Indonesia's desire to secure its position in the global supply chain of EV production with help from a powerful partner, China, has resulted in an arrangement where, instead of exporting raw nickel ore, Chinese companies, in partnership with their Indonesian counterparts, are exporting refined nickel products, such as nickel matte, which is a crucial for manufacturing many EV batteries. In August 2018, a government official announced that Tesla had signed a five-year contract with two Chinese nickel-processing companies operating out of Sulawesi to obtain the nickel for use in Tesla's lithium batteries.

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<sup>8</sup> Xu, N., Wang, Y. 2016. "China's green bond market booms with more clarity in policy". China-dialogue, July 26. Available from <https://chinadialogue.net/article/show/single/en/9128-China-s-green-bond-market-booms-with-more-clarity-in-policy>.



But while Indonesia dreams of being a key player in the EV industry, villagers like Anton are left to face the environmental destruction caused by the nickel-processing industry involved in making EVs—much of which is still fuelled by coal—as well as threats to their lands and livelihoods.

China is responsible for half of all trades in illegal wood-based products. Its growth, thereby, indirectly exacerbates deforestation in Africa and Southeast Asia. The Chinese appetite for seafood is also cited as a major cause of illegal fishing and global overfishing (Economy 2015).<sup>9</sup> Nonetheless, most Chinese know little about the adverse environmental impact of their rising standard of living and consequently lack the incentive to demand a policy change or change their own consumption behaviour. Therefore, raising public awareness about the environmental ramifications of China's development trajectory on other countries as well as globally is a necessary part of the solution for arresting and reversing the depletion of global natural resources.

## AI and Emerging Technologies<sup>10</sup>

China's cloud-computing capacity is rapidly increasing. In terms of the sheer volume of research and development on AI, Chinese academics surpass their American peers, and according to earlier research—the China AI Development Report 2018 project—as well as an ongoing study of the economic and social impacts of AI technologies, the country's progress is remarkable.

China's global share of research papers in the field of AI has skyrocketed from 4.26% (1,086) in 1997 to 27.5% of all AI journal articles worldwide in 2021, surpassing every other country in the world, including the USA. China also consistently files more AI patents than any other country. China's central government has a list of "national AI teams" including fifteen China-based companies, including Baidu, Tencent, Alibaba, and iFlytek, whose areas of focus lie more on speech, image, video recognition, and synthesis than their overseas counterparts. Chinese start-ups are also attracting billions in venture capital, leading to China quickly closing the once formidable lead the USA maintained in AI research.

What's more, China has over 1 billion smartphone users, more than any other country, which gives local firms the opportunity to concoct best-in-class AI systems for everything from facial recognition to messaging bots. The government in Beijing too is convinced of the potential it harnesses, thereby outlining a development strategy designed to make China the world's leading AI power by 2030.

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<sup>9</sup> Yingyao Wang, the rise of the 'shareholding state': financialization of economic management in China, *Socio-Economic Review*, Volume 13, Issue 3, July 2015, Pages 603–625, <https://doi.org/10.1093/ser/mwv016>.

<sup>10</sup> Data in this section is primarily sourced from <https://hbr.org/2021/02/is-china-emerging-as-the-global-leader-in-ai#:~:text=Further%2C%20the20uncertain%20business%20environment,to%20have%20long%20lasting%20impacts>.

An AI boom in the world's most populous country holds enormous promise by virtue of its population strength, because no other country can generate such a volume of data that can be fed into machines for them to learn to discern patterns. According to the McKinsey Global Institute, AI-driven automation could add more than a full percentage point to China's annual GDP growth.

How China managed to catch up to the USA underscores a few important factors: how leaders in AI research lack certain technological advantages; how China's huge market is conducive to enhancing AI because of the supply of data; and how the country's friendly regulatory environment encourages AI investment and adoption.

Improvements in AI often come from the virtuous cycle of users generating data through their use of AI and firms refining their product based on what they amass from that user data.

AI is also open science, unlike drug development or computer hardware. In terms of knowledge and technologies, many of the essential algorithms in the field of AI have become public knowledge and are accessible from published papers and conference proceedings. The open science nature of AI is important for latecomers looking to catch up to forerunners, because it allows them to close the knowledge gap in a shorter period of time.

The second way that AI differs from traditional sectors is where innovation creates profit. Put simply, data and talent trump patents in AI research where firms' competitive advantages stem from the size of the database they can assemble and the time they take to develop domain-specific knowledge or applications around it, whereas patents play a critical role in securing firms' positions and protecting profit in traditional sectors such as mobile communications or pharmaceuticals.

China has a vibrant market that is receptive to these new AI-based products, and Chinese firms are relatively fast in bringing AI products and services to the market. Chinese consumers are also fast in adopting such products and services. As such, China's environment supports rapid refinement of AI technologies and AI-powered products.

Given how important large datasets are to innovation in AI, it's easy to see how China's gigantic market size has helped it quickly catch up in the field of AI. Didi is China's counterpart to Uber and the largest ride-sharing company in the world today. According to its CEO Liu Qing, every day, Didi processes more than 70TB of data, amassed from the planning of 9 billion routes per day and the processing of 1000 car requests per second.

In addition to providing advantages in big data, China's huge market also offers firms strong economic incentives and large economies of scale that encourage them to tackle technological challenges. For instance, while chipsets have long been a weak link in China's information and communication technology (ICT) industry, Chinese firms recently have almost narrowed the gap with the USA in AI chipsets reflecting the healthy payoff that investment has wrought in Chinese AI.

In addition to its sheer size, the Chinese market also shows large variety and is fast changing, which allows start-ups and established firms to explore different AI applications in their respective market segments at a fast pace, allowing dynamic

research. These kinds of market dynamics allow latecomers to catch up, resulting in the emergence of new products and ventures.

The final pillar relates to the AI policy environment in China, which has enabled such rapid development of AI research in recent years.

Such policies include, but are not limited to, “Action Outline for Promoting the Development of Big Data,” “Made in China 2025,” “Next Generation Artificial Intelligence Development Plan,” etc., which send a clear signal to different AI stakeholders, from entrepreneurs to investors, and even researchers, that AI is a field backed by the government and is worth investing in.

China's lack of clear regulations in areas such as privacy can also explain how it caught up so rapidly in certain AI application fields. For instance, the omnipresence of surveillance cameras in China provides a big data source for AI firms that specialize in visual and facial recognition. A country where tighter privacy regulations prevailed would not have fostered such a rapid growth of these firms in so short a time.

## Challenges and Future Prospects

By many indicators, China is now on the global frontier of AI in terms of technological development and market applications.

But, paradoxically, while China may have caught up in record time, the conditions that have allowed it to do so may impede its further development in AI.

For example, the open science nature of AI results in Chinese firms favouring applied AI research that can bring quick money and not investing in developing core AI technologies. Unlike developed Western economies, where companies primarily hold AI patents, in China, the majority of AI patents are filed by government-owned or sponsored universities and research institutes because university-industry linkages in China are relatively weak, resulting in a limited technology transfer between the two sectors. Although aggregate AI research outputs, including scientific publications and patents, have seen a rapid rise in China, original ideas and breakthrough core AI technologies that have long-lasting impacts are still lacking. This shows a dire need for improvement and a sustainable shift in objectives for the research culture in China.

Furthermore, as highlighted in the Boao Forum for Asia Annual Conference 2022, AI poses a critical conundrum for intellectual property rights (IPR) and copyright regime in China given the sheer amount of patents filed regarding AI: just as it is important to bolster the patent system to tackle disputes arising out of IPR protection of artificial intelligence given its general open source nature, we also need to address the issue of who are the owners and patentees of inventions created by AI and how to involve the copyright owners of the source material used by AI in the development of such inventions.<sup>11</sup>

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<sup>11</sup> [http://www.chinadaily.com.cn/a/202204/22/WS6261dd49a310fd2b29e587ff\\_8.html/](http://www.chinadaily.com.cn/a/202204/22/WS6261dd49a310fd2b29e587ff_8.html/).  
Boao Forum for Asia Annual Conference 2022.

Another critical area that China needs to develop and regulate is the use of AI in block chain technology because its decentralized nature poses certain policy issues for China's centralized governance and also because China allows certain application of the technology such as NFTs but has banned others like cryptocurrency, rendering the regulatory framework more complex. It also should consider bringing NFTs, which are currently unprotected online virtual assets in the country, within the IPR regime, as they too are capable of infringing copyright laws.<sup>12</sup>

As exemplified above, on the policy front, the relaxed regulatory environment has proven to be a double-edged sword. While some firms are bold enough to take advantage of such an environment by aggressively pushing different AI applications to markets, others feel frustrated as they don't know what is allowed due to such policy uncertainty.

The country's data protection policies also give cause for concern; one worry is that the benefits of Chinese breakthroughs will be affected by such data protectionism. A cyber-security law that came into force in June 2017 requires foreign firms to store data they collect on Chinese customers within the country's borders and outsiders cannot use Chinese data to offer services to third parties. It is not hard to imagine tit-for-tat constraints on Chinese firms. And if data cannot be pooled, the algorithms that run autonomous cars and other products may not be the most efficient.

China's 2017 cyber-security law marked the first major set of rules governing the storage and transfer of data of Chinese origin, and over the past year, the country has added laws on data security and personal information protection.

A second area of concern is ethics and safety. In the USA, the technology giants of Silicon Valley have pledged to work together to involve techniques like boxing that isolate AI from any wayward behaviour in their environment to ensure that compromised behaviour in one component doesn't spread. With the research in deep fake and generative AI reaching its climax in 2022, China has been quick to ponder on regulations that would protect data and creative authenticity.

Chinese AI companies have incentives to act on some of these issues. Unfair and malicious use of AI would be a problem for the planet irrespective of the location it happened in. There is a self-interested case for the formulation of global safety standards for everyone involved. However, another concern—that AI will be used principally to the benefit of China's government—is a less tractable problem.

## Conclusion

The concept of G-Plus governance and a G-Plus world, echoed by China, envisages an increasingly hybrid and decentred form of global governance by including various forms of partnership between governments and private entities such as NGOs, social movements, corporations, which appears to be the best option possible in a fragmented world. This challenges the familiar tendency to think of global leadership

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<sup>12</sup> <https://www.iss.europa.eu/content/chinas-blockchain-and-cryptocurrency-ambitions>.

in terms of exclusive power groups such as G-7 and G-20, leading to what could be termed a Multiplex World Order that organizes international cooperation and addresses conflict-management in new ways.

At present, with the emergence and existence of global problems such as pandemics, AI usage and regulations, space exploration, climate change, protectionism, and recessionary impact on global supply chains, the biggest challenge is whether we can jointly form a balanced development and mitigation model of joint consultation and construction in different regions, countries, and cultural sectors that can contribute to common problems in global governance in an increasingly fragmented world.

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**Toby Simon** is the Founder and President of Synergia, a strategic think tank and translation research company that develops impactful insights and interventions in advanced technologies and its impact on geosecurity. Toby has a postgraduate degree in Management, a graduate from the Harvard Business School. He was a research associate at the Massachusetts Institute of Technology and is currently pursuing his doctoral study in International Security. Toby is a member of the Trilateral Commission and a commissioner of the Global Commission for Internet Governance.

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# Global Governance, China's Role, and Beijing as a Global Political City



Kent E. Calder

**Abstract** Global governance in its ideal form seems unlikely anytime soon given the turbulence pervading contemporary international affairs, but one bright spot is the rise of the “global political city”—an urban community that serves as a major node of governance, agenda setting, and/or resources for the world. Traditionally a “city of walls and gates”, Beijing is transitioning into one of the world’s most important global political cities with an increasingly vibrant idea industry. Beijing’s idea institutions and their understanding of global trends will ultimately be crucial in determining and clarifying China’s global role and its potential contributions to global governance.

**Keywords** Global political city · Global governance · Idea institutions

International affairs in the post-post-Cold War world are clearly growing more volatile. In the security dimension, the Ukraine war, Middle East tensions, strategic rivalries, and the ever-present prospect of global terrorism are just a few of the continuing challenges. Volatility is rising in international finance, intensified by rising inflation and interest rates, while trade protectionism is proliferating as well.

Within many major nations, the danger of domestic political turbulence is rising also, spurred by the persistent volatility of international affairs. Globalization has, over the past four decades, stimulated global growth and taken hundreds of millions of people out of poverty. Yet it has also aggravated major domestic inequalities and frustrations on every continent.

Global governance in the idealistic form contemplated by philosophers like Immanuel Kant seems unlikely anytime soon, given the turbulence pervading

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K. E. Calder (✉)

Johns Hopkins University SAIS, Washington, DC, USA

contemporary international affairs.<sup>1</sup> The operational difficulties which the United Nations has confronted since its inception in 1945 are a case in point. Even less geographically ambitious forms of multilateral governance with promising early trajectories, such as the European Union, have faced recent difficulty.

Nation states have consistently been the dominant actors in global affairs for nearly 400 years. No doubt their standing will continue to be central for the foreseeable future, especially in areas such as national security. Yet the persistent volatility of state-centric international relations, coupled with the difficulty of creating sustainable, over-arching governance structures among nations, and even keeping abreast of fast-moving international events, suggests that nation states need support from elsewhere in human society. One promising source of such support in the twenty-first century could well be the “global political city”.<sup>2</sup>

## The Rise of Global Political Cities

A global political city, I argue, is an urban community that serves as a major node of governance, agenda setting, and/or resources—the classic political functions—in the international political economy as a whole.<sup>3</sup> Such a community typically includes a sophisticated information complex, or “idea industry”, capable of intelligently monitoring international events.<sup>4</sup> Global political cities, of course, are frequently major national capitals, such as Washington and Beijing. They are not, however, necessarily so. Cities such as New York or Shanghai in the financial realm, or Geneva in the humanitarian realm, are major nodes influencing global affairs in their own specialized areas, even in the political realm, without being national capitals.

Deepening the distinction between the capabilities and influence of “nation states” and those of “global political cities”, there are highly significant global political cities that are in fact capitals, but *not* of major nations. Brussels, Belgium is a case in point. It is the site of government to one of Europe’s smaller countries. More importantly, however, from a global perspective, Brussels is the headquarters of both the European Union and NATO, as well as a strategic international agenda-setting node for multinational corporations.<sup>5</sup>

London is likewise the seat of a national government, but one recently declining in its international role, with the eclipse of the British Empire and Britain’s departure

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<sup>1</sup> On the normative argument for global governance, see Immanuel Kant, *Perpetual Peace: A Philosophical Sketch* (translated by Ted Humphreys). London: Hackett Classics, 2003.

<sup>2</sup> On the concept of the “global political city”, see Kent E. Calder, *Global Political Cities: Actors and Arenas of Influence in International Affairs*. Washington, D.C.: Brookings Institution Press, 2019, pp. 3–7.

<sup>3</sup> Calder, *Global Political Cities*, p. 4.

<sup>4</sup> On the concept of “idea industry”, see Calder, *Global Political Cities*, pp. 93–94 and p. 197.

<sup>5</sup> On Brussels’ role, see Calder, *Global Political Cities*, pp. 111–119.



from the European Union. In contrast to the decline of the once-powerful and extensive British Empire, whose scale and influence steadily eroded for a century and more after Queen Victoria, the role of London as a global political city has been steadily rising in influence for over forty years. The expansion of the Euro-markets; the vitality of the London-based global insurance industry and risk assessment sectors, a proliferation of think tanks, strong mayoral leadership, lingering elite networks from imperial days, and the rise of NGOs have together propelled London to a role in world affairs much greater in the 2020s than half a century ago.<sup>6</sup>

The divergent trajectories of London and Brussels as global political cities, on the one hand, from the nation states of which they are a constituent part suggest the importance of understanding the factors that contribute to their rising role as civic actors. These cities, after all, have risen as global transaction hubs, even as the nation states of which they are a part have declined. The concentrated presence of international governmental organizations (IGOs), NGOs, think tanks, and resource-allocating institutions, mainly financial, has contributed to their civic influence. Cosmopolitan trans-national elite networks, with influentials throughout the world, who live in or pass through cities like London, add to the mix. Taken together, these globally oriented yet city-based institutions have created holistic “idea industries” with a capability to quickly, pragmatically, and efficiently analyze problems of both domestic and international imports.

Washington, D.C., and New York, of course, are also host to a variety of cosmopolitan organizations and personal networks, ranging from the Council on Foreign Relations and the Rockefeller Foundation to major think tanks that wield global influence. As in major European centers like London and Brussels, their civil-society institutions, distinct from government itself, constitute an idea industry that also generates policy ideas finding their way onto both domestic and international agendas. Given both the scale and the relative decentralization of the US government itself, this non-governmental “penumbra of power” at times enhances access for non-governmental forces to US official decision-making.<sup>7</sup> But it also enhances the speed, resilience, and situational awareness of national decision-making as well.

## The Rebirth of Global Beijing

Traditional pre-revolutionary Beijing was heavily stove-piped—what some analysts have called a “city of walls and gates”.<sup>8</sup> This structure had its origins in imperial days, driven by the conflicting needs of China's leadership for both specialized

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<sup>6</sup> On the rise of London as a global political city distinct from Britain's national role, see Calder, *Global Political Cities*, pp. 64–76.

<sup>7</sup> On the “penumbra of power” concept, see Calder, *Global Political Cities*, pp. 91–120.

<sup>8</sup> On the notion of a “city of walls and gates” in traditional Beijing, see Lillian M. Li, Alison J. Dray-Novey, and Haili Kong, *Beijing: From Imperial Capital to Olympic City*. New York: Palgrave Macmillan, 2007, p. 2.

information and also monopolistic control over information flow, directed toward inhibiting conspiracy against the state. Tradition, prejudice, and politics in Beijing also conspired to limit interaction with the broader world.

Early revolutionary Beijing did, to be sure, have at least a symbolically internationalist dimension. Foreign activists, ranging from leaders of SNCC and the Black Panthers to the South African ANC, gathered in Beijing and pressed global agendas opposing racial discrimination; feminist leaders, including American actresses Shirley Maclain and Jane Fonda, came to support gender equality. And even Hillary Clinton came to keynote the Beijing global women's conference in 1995.

Despite this internationalist veneer, however, late-twentieth century Beijing remained structurally a city of walls and gates. Its early post-revolutionary "idea industry" remained highly stove-piped.<sup>9</sup> Ideas flowed upward, from a proliferation of state-dominated research and policy institutions, with little horizontal dialogue.

There was, to be sure, a panoply of knowledgeable institutions; however, narrow and often parochial their individual perspectives might be. Most senior chronologically and privileged politically was the Central Party School, founded in 1933. It was complemented by the Chinese People's Institute of Foreign Affairs, a semi-governmental people-to-people exchange program founded in 1949.

The initial catalyst for a conventional research think tank in Beijing was most likely the Hungarian Revolution of 1956. That shocking, unexpected upheaval within a Socialist bloc within which China had been a core member convinced Prime Minister Zhou Enlai and his colleagues that a systematic understanding of global affairs was essential to China's national security. The concrete result of this consciousness was the establishment of a Chinese Academy of Sciences Institute of International relations, later named the China Institute of International Studies (CIIS), supervised by the Foreign Ministry.<sup>10</sup>

The escalation of the Vietnam War in the mid-1960s, which also deeply alarmed China, spurred creation of another important think tank supervised by the Ministry of State Security. It became known as the Chinese Institute for Contemporary International Relations (CICIR). Shortly after the war, as the Cultural Revolution receded, the Chinese Academy of Social Sciences (CASS) was born in 1977.<sup>11</sup>

Together, these think tanks—CICIR, CASS, and CIIS—make up Beijing's "big three". These were followed during the 1980s and 1990s by at least ten more major think tanks—nominally non-governmental, but closely regulated and supervised either by specific ministries; the National Development and Reform Commission of the State Council; the Xinhua News Agency; or the People's Liberation Army

<sup>9</sup> On the history of China's major classical, early post-revolutionary think tanks, see David Shambaugh, "China's International Relations Think Tanks: Evolving Structure and Process", *The China Quarterly*, no. 171, September, 2002, pp. 575–596.

<sup>10</sup> *Ibid.*

<sup>11</sup> CASS was founded in May 1977 and replaced the Chinese Academy of Science's Department of Philosophy and Social Sciences. It currently houses more than 4200 staff members, of whom more than 3200 are professional researchers. CASS maintains relationships with more than two hundred research organizations spanning eighty countries and regions. See the CASS website, at: [http://cas.seng.cssn.cn/about/about\\_cass/](http://cas.seng.cssn.cn/about/about_cass/).

(PLA).<sup>12</sup> As in the case of earlier think tanks, horizontal communication among these institutions remained relatively limited.

A broader paradigm of interaction did begin to emerge in the 1980s, although mainly in the technological sphere. The Zhongguancun area of northwest Beijing, sometimes known as “China’s Silicon Valley”, began to evolve and was recognized as the Beijing High-Technology Industrial Development Experimental Zone in 1988. At around the same time, Beijing’s top universities, several of them also located in the northwest quadrant of the city, began to develop research institutes, such as Tsinghua University’s Research Center for Technical Innovation and Peking University’s International and Strategic Studies Center, with many of the characteristics of think tanks in the West.

## Deepening International Ties

As China’s economy became progressively more integrated with the broader world, following advent of the Four Modernizations in the late 1970s, a variety of major international governmental organizations (IGOs) began to appear in Beijing. The first of the large IGOs to establish a Beijing presence, and arguably still the most influential, was the World Bank. The bank set up its Beijing representative office in 1985 and played a central role in conceptualizing China’s early economic reforms.<sup>13</sup> The IMF arrived in 1991 and was followed by the Asian Development Bank and other IGOs, including the Shanghai Cooperation Organization (SCO) in 2003.

During these early years of Global Beijing’s rebirth, private-sector and semi-governmental networks with the world beyond China also began to deepen, albeit largely within the traditional structures of the past. In 1973 the US-China Business Council was founded. It operated initially from a Washington, D.C. base, but later with offices in both Beijing and Shanghai, and with semi-governmental standing in both nations.<sup>14</sup>

In 1987 the Ford Foundation became the first private foundation to open an office in China. Heading the Beijing office was Peter Geithner, father of future US Treasury Secretary Timothy Geithner. Several other major global NGOs thereafter also

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<sup>12</sup> Min Ye, “Beijing: An Emerging Global Political City”, paper prepared for the 2009 American Political Science Association Annual Convention, Toronto, September 2–6, 2009, p. 17.

<sup>13</sup> The World Bank and other IGOs made a particular contribution to Zhu Rongji’s innovative re-centralization of the Chinese economy during 1993–1994. China’s rapid economic growth and lack of balance-of-payments issues made it an idea partner for these IGOs. See Julian Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China*. Cambridge, Massachusetts: Harvard University Press, 2017.

<sup>14</sup> For details on the US-China Business Council, see the USCBC website, at: [www.uscbc.org](http://www.uscbc.org). Also, see Kent E. Calder, *Pacific Alliance: Reviving U.S.-Japan Relations*. New Haven: Yale University Press, 2009, pp. 201–204.

located to Beijing during the 1980s and 1990s, including the German political foundations, Cambridge Energy Research Associates (CERA), and Medecins sans Frontieres (Doctors Without Borders). Major corporations, such as Google, Intel, AMD, and IBM, also began to arrive, building research centers in the Zhongguancun Technology Park. The international presence was thus rising significantly, even as the Chinese idea-industry structure remained more traditional, with state institutions dominant.

## **Beijing's Olympic Era Transformation**

In the early 2000s, Beijing was awarded the 2008 Summer Olympic Games. This in turn propelled a sweeping and historic land-use reordering of the city, comparable in importance to the creation of Tian'anmen Square following the 1949 revolution. The reordering of Beijing for the Olympics, under the innovative leadership of Mayor Wang Qishan (2004–2007), was one of the most sweeping spatial transformations of a major global city since Napoleon III's restructuring of Paris in the late-nineteenth century. The Olympic transformation, coming amidst China's high-speed growth, had fateful implications both for Beijing's idea industry and ultimately for its global role as well.

The governmental complex of Beijing, surrounding the Forbidden City, including Zhongnanhai and the Great Hall of the People, remains of central importance. Beijing's traditional center, however, is being supplemented, not just by universities and high-tech firms in the northwest of the city, but also by an open and dynamic business and think-tank complex surrounding the former Beijing Olympic site near the National Convention Center. This new idea-industry complex includes the headquarters of China's major banks; the World Trade Center; the World Financial Center; the People's Daily; the headquarters of the CGTN media network; and important think tanks, such as the Center for China and Globalization (CCG), and the Boao Forum for Asia.

The increasingly open and dynamic spatial environment prevailing since the Olympics-driven restructuring of the late 2000s has facilitated the emergence and growth of a new breed of think tanks, uniquely suited to meeting the informational and policy demands of China's rapid growth and globalization. Among the earliest of these new institutions was the Center for China and Globalization (CCG), a Beijing-based non-governmental think tank founded by Henry Huiyao Wang and Mable Lu Miao in 2008. CCG, which has been accorded special consultative status as a non-governmental organization of the Economic and Social Council (ECOSOC) of the United Nations, has over 100 full-time researchers engaged in work on globalization, global governance, international trade, and global migration. CCG has been actively involved with the World Economic Forum, the Munich Security Conference, and other major global agenda-setting bodies, while maintaining active relations with think tanks throughout the world.

Although CCG was a forerunner and pacesetter, several other independent social think tanks have also emerged more recently in Beijing, especially since 2013. The PanGoal think tank, for example, works on de-carbonization; problems of aging societies; the digital economy; and urban renewal and maintains branches throughout China. It engages in consulting for a variety of Chinese ministries, local governments, and enterprises, with a staff of more than 600 researchers.<sup>15</sup>

The Grandview Institution is another major independent Beijing think tank, established in 2013. Like CCG and PanGoal, it works with a variety of institutions, including local and municipal governments, as well as the Chinese Ministry of Foreign Affairs; Development and Reform Commission; and Ministry of Natural Resources. It appears to be somewhat more foreign-affairs oriented than its counterparts, covering ocean security, Belt and Road opportunities and risks, borderland governance, digital governance, and China's bilateral relations with major world powers, including the USA, Japan, the European Union, and India.<sup>16</sup> Grandview has close relations with nearly 20 global think tanks, including the Carter Center, the Quincy Institute of National Affairs, and the Royal Institute of International Affairs (Chatham House) in London.

One final new independent, non-profit Beijing think tank of note is the Taihe Institute, also founded in 2013.<sup>17</sup> Its research focuses on five principal areas, international relations, ethnicity and religion, education and culture, economic affairs as well as science and technology. Taihe accepts commissions from both the Chinese national and local governments, maintaining ties with a broad variety of foreign think tanks, as well as Chinese organizations.

## Challenges for the Future

In the wake of the 2008 Beijing Olympics, both the spatial configuration of China's capital city and the structure of its idea industry have begun to change profoundly. Centers of intellectual activity have proliferated, horizontal communication has increased, stove-piping is reportedly less pronounced, and trans-national contacts linking Beijing and the world along many dimensions have grown.

Decentralization, pluralism, and globalization, of course, have created challenges of their own. Information is more accessible, but managing information flows, conversely, has become more difficult for those desiring more controlled and orderly flows. The Foreign NGO Law of 2016 has inhibited the emergence of some independent non-profit organizations, although those with purely functional concerns in such areas as energy and environmental protection have continued to be active or even expanded.

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<sup>15</sup> For details on PanGoal think-tank activities, see the organization's website, at: <http://www.pangoal.cn>.

<sup>16</sup> For details, see the Grandview website, at: <https://www.grandviewcn.com>.

<sup>17</sup> See the Taihe Institute website, at: <http://www.taiheinstitute.org>.

As China becomes one of the preeminent global powers, and one intent on playing an active role in defining the future structure of global governance, it will need broad international networks, high-quality information flows and technical problem-solving capabilities to sustain its broadening, increasingly worldwide role, that will require both a high-quality information industry in its national capital of Beijing—one realistically understanding and assessing views from throughout the world. It will also require a dense network of experienced interlocutors conversant with the realities of both China and the broader world.

Recent trends suggest encouraging evolution in the needed direction, although the challenge remains vast, given the speed of China's transition to global superpower status. Several hundred thousand Chinese annually are studying abroad, and an experienced corps of returnees with broad and increasingly high-level experience overseas, including at major IGOs, is developing.<sup>18</sup> Min Zhu, formerly Deputy Managing Director of the IMF; Justin Lin, former Chief Economist of the World Bank, and Jin Liqun, former Executive Vice President of the Asian Development Bank are just a few examples of the gifted, veteran senior Chinese IGO executives now supporting China's rising global role while at home in Beijing.

The Beijing-based institutions working to support a constructive Chinese global leadership role are also beginning to emerge. In 2002 the Boao Forum for Asia was established, now headquartered in central Beijing, near the World Trade Center. In 2003, the Shanghai Cooperation Organization established its headquarters in Beijing, within walking distance of the US Embassy. The SCO now includes eight members, including India and Pakistan, as well as four observers and six dialogue partners; it is growing increasingly active across the Eurasian continent. And in 2016 the Asian Infrastructure Investment Bank also established its headquarters in Beijing, with broad global membership, and former Asian Development Bank Ranking Vice President Jin Liqun as its CEO.<sup>19</sup>

Despite significant progress, both institutionally and in the realm of human networks, challenges to the ability of Beijing's information industry to play a dynamic and constructive international role remain, despite China's steady rise as a global power. One limitation is likely a lack of area expertise regarding parts of the world with which China has not extensively dealt in the past, such as Latin America, South Asia, and the Middle East. Another may arguably be the danger of group think due to restraints on pluralism, although independent think tanks may help to arrest this tendency.

China faces a second challenge looking to the future, arguably more serious than overseas observers may often appreciate, that is the daunting challenge of domestic governance in a rapidly growing and changing developing nation of 1.4 billion people. China's leaders cannot avoid anticipating the needs of that huge population on time lines extending many years into the future. China's population is four times the

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<sup>18</sup> In 2019, the last year before the covid pandemic, over 703,000 Chinese students went abroad for foreign study. For time series figures, see the Statista website, at: <http://www.statista.com>.

<sup>19</sup> By the end of 2022, the AIIB had 103 approved members, representing 79 percent of the global population, and 65 percent of global GDP. See the AIIB website, at: <http://www.aiib.org>.

population of the USA, with arguably more socio-economic diversity than even the US experiences. And the PRC has land borders with 14 nations, compared to only two for the USA. So the problem of anticipation and social engineering in China is an immensely complex technical and political task, involving both domestic and international variables immensely difficult to aggregate. A knowledgeable, innovative, and resilient Beijing idea industry could play an important role in responding to emerging governance challenges along many dimensions.

## **Conclusion: The Crucial Importance of Idea Institutions in Global Beijing**

China's growing economy is likely destined to be the largest on earth by any measure inside a decade. And as recent developments in international security also suggest, the People's Republic of China's responsibilities in maintaining global stability is also rising. The world that China now confronts thus raises three daunting challenges for Beijing as a global political city, and for its idea industry, in the historic era now dawning.

The first challenge, and the most immediate, is one of *understanding*: grasping clearly the state of the world today, and what it demands of China. That challenge is for China a relatively novel one—not so much because the facts are new, but because China's role, as it becomes a super power, is novel. China's challenge is similar in kind, although of course not in detail, to what the USA confronted during the 1930s, and then with a vengeance at the end of the World War II. The challenge is acquiring diverse types of new information—strategic and economic; global and area-specific—about much broader realms of experience than previously. And it is a need for unvarnished information that presents the world as it really is, and not as one might wish it to be.

The second challenge is one of *domestic sensitivity and response*. A global role, previous super powers have found, cannot be sustained without resilience in responding to concerns at home. And China's domestic challenge as a global power could be even more demanding than that of either the USA or the Soviet Union has been, given that its population is four times larger than either, and it remains more of a developing nation than previous superpowers have been.

The final challenge—the most difficult of the three, and the most consequential for the future—is one of *definition*. China needs to consider, in more explicit and transparent terms than in the past, the sort of world order, and the type of global governance, to which it aspires. And it needs to decide how to realize those aspirations.

National leadership, no doubt, is central to successfully meeting all three of these challenges. Yet leaders cannot act alone. Leaders need strategic information and need to make allocation and agenda-setting decisions that require communal effort and input. Global experience of the past several decades has shown that the eco-system of policy—the institutional profile of global political cities—is crucial to intelligent decision. In that process, the role of idea industries looms large. In future years, the configuration of Beijing’s idea institutions—and their understanding of global trends—will play a crucial role in determining what China’s global role, and its contribution to global governance, will ultimately become.



**Kent E. Calder** currently directs the Edwin O. Reischauer Center for East Asian Studies at Johns Hopkins University SAIS, as he has done since 2003. He recently also served for varying intervals as Dean, Vice Dean for Faculty Affairs, and Vice Dean for Academic Affairs at SAIS, between 2018 and 2022. Prior to SAIS, Calder served as Special Advisor to the US Ambassador to Japan; Japan Chair at the Center for Strategic and International Studies (CSIS); Tenured Professor at Princeton University; Lecturer on government at Harvard; and as the First Executive Director of Harvard University’s Program on US-Japan Relations. Professor Calder received his Ph.D. from Harvard University, where he worked under the direction of Edwin O. Reischauer, former US Ambassador to Japan. A specialist in East Asian political economy, Kent Calder lived and researched in Japan for eleven years and elsewhere in East Asia for four years. He has served as Distinguished Visiting Professor at Seoul National University; as Rajaratnam Professor at Nanyang University in Singapore; and as Visiting Professor at the University of Yangon in Myanmar. In 2014, Professor Calder was awarded Japan’s Order of the Rising Sun, Gold Rays with Neck Ribbon. His recent publications include: *Global Political Cities: Actors and Arenas of Influence in International Affairs* (2021); *Super Continent: The Logic of Eurasian Integration* (2019); *Circles of Compensation: Economic Growth and the Globalization of Japan* (2018); *Singapore: Smart City, Smart State* (2017); *Asia in Washington* (2014); and *The New Continentalism: Energy and Twenty-First Century Eurasian Geopolitics* (2012).



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# The Strengths and Successes of the Chinese Governance System



Zamir Ahmed Awan

**Abstract** Where are the great empires of the past? Babylon? Rome? They now exist only in museums and ancient ruins. The truth is even great nations rise and fall and any superpower today could be returned to ashes like so many great nations before. China is on the rise and has pursued a unique model of development, combining elements of socialism, market economics, and state-led investment that have enabled it to achieve rapid growth and overall stability. Part of its secret is in long-term planning and investment in infrastructure, high-tech industries, and education, but the success of the Chinese model of governance is rooted in the welfare of its population and a people-centered approach, ensuring continually improving standards of living and, thereby, strong public support.

**Keywords** Chinese system of governance · Good governance · Social policy · Economic policy · Democracy · Development policy

## A Global Background

Throughout history, nations, civilizations, empires, and countries have risen and fallen. While this is a natural cycle and evident in the known history of humankind, the reasons for their rise and fall are varied, and it is often a combination of factors that leads to the ultimate decline of a once-great power.

History tells us that great nations rise and fall. Babylon and Greece, great empires of their time, have fallen. The strong Roman Empire has come and gone. Where are the great empires of the past? Where is the Assyrian Empire? The Babylonian Empire? The Roman Empire? You can find what is left of them in museums only, in ruins, and in a few ancient stone buildings frequented only by modern tourists. Great nations rise and fall! Is it possible that any superpower could be returned to ashes, like so many great nations that have gone before?

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Z. A. Awan (✉)

National University of Science and Technology (NUST), Islamabad, Pakistan

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There will be no one permanent superpower, and the historic cycle of the rise and fall of various nations will continue. We can only be impressed by the great empires of the past. The Babylonian Empire ruled the Middle East, and the armies of Nebuchadnezzar were unstoppable. The mighty Roman Empire lasted for 500 years, before falling to the Vandals and the Heruli. The World War II saw the blitzkrieg expansion of the Third Reich across Europe and North Africa. Hitler's ambitions included the conquest of the Soviet Union, but he failed, and Allied armies pummeled mighty Germany into a rubble heap. Can any nation or empire long endure? Can the USA last much longer as a superpower? What are the lessons of history—and Scripture—and the warnings they portend for Western civilization? The Union of Soviet Socialist Republics consisted of 15 republics and one-sixth of the world's land surface, or 2.5 times the area of the USA. This great superpower disintegrated in 1991. On November 9, 1989, the symbol of its subjugation of Eastern Europe, the Berlin Wall, came tumbling down.

Why do nations decline and fall? History has proven, time and again, that a nation's moral condition and its character are key to its endurance. The Apostle Paul wrote: "Do not be deceived; God is not mocked; for whatever a man sows, that he will also reap." Individuals and nations that sow immorality, violence, and oppression will not long endure.

Note these sobering words by former US Education Secretary William Bennett: "National prosperity, as it happens, is largely dependent on lots of good private character. If lying, manipulation, sloth, lack of discipline, and personal irresponsibility become commonplace, the national economy grinds down. A society that produces street predators and white-collar criminals has to pay for prison cells. A society in which drug use is rampant must pay for drug treatment centers. The breaking up of families means many more foster homes and lower high school graduation rates. A society that is parsimonious in its personal charity (in terms of both time and money) will require more government welfare. Just as there are enormous financial benefits to oral health, there are enormous financial costs to moral collapse."

The history of the world is the story of nations and empires that prospered and later turned to dust. Will we learn from the lessons of history? Some nations declined slowly before their demise. Others were destroyed or conquered suddenly.

One of the most significant factors in the rise of a nation or civilization is its ability to adapt and innovate. This can include technological advancements, economic policies, and cultural changes that enable a society to thrive and expand. For example, the Industrial Revolution in Europe during the eighteenth and nineteenth centuries allowed for unprecedented economic growth and a significant increase in living standards. However, the same factors that lead to a society's success can also contribute to its downfall. Technological innovations can be outpaced or misused, leading to social or environmental problems. Economic policies that once provided prosperity can become outdated or corrupt, leading to economic stagnation or collapse. Cultural changes can also backfire, leading to social unrest or even civil war.

Another critical factor in the rise and fall of nations is their political systems. Democratic and republican systems that prioritize the rule of law and individual rights have been associated with greater stability and success, while authoritarian

regimes that concentrate power in the hands of a few have often led to corruption, unrest, and collapse.

Environmental factors, such as climate change, natural disasters, and resource depletion, can also contribute to a society's decline. Droughts, famine, and disease can devastate populations, while environmental degradation can harm the natural systems that support human societies.

Ultimately, the fate of a nation or civilization often rests on its ability to navigate these various factors and maintain a sense of balance and stability. While no society is immune to decline, those that can adapt, innovate, and prioritize the well-being of their citizens are more likely to thrive over the long term. It is the matter of governance, which makes or breaks nations, civilizations, and countries. Good governance can be long-lasting and endure, which makes its people happy, satisfied, and united. Only an approach of public welfare, security, justice, and prosperity can keep the masses satisfied and become sustainable for longer.

## The Rise of China

China, one of the oldest civilizations in the world, has a rich and complex recorded history that spans over 5000 years. In recent decades, China has undergone tremendous growth and modernization, emerging as a major global economic and political power. The rise of China is a fascinating phenomenon, rooted in its unique history, culture, and strategic approach to development.

Historically, China was a dominant global power for centuries. From the Han Dynasty to the Qing Dynasty, China was a center of innovation, trade, and cultural exchange. However, in the late-nineteenth and early-twentieth centuries, China was weakened by internal political turmoil, foreign aggression, and economic decline. This period of weakness culminated in the Chinese Civil War, which led to the establishment of the People's Republic of China in 1949.

Under the leadership of Mao Zedong, China pursued the path of socialist development, emphasizing self-reliance and collectivism. Despite achieving significant progress in industrialization and social welfare, this period was also marked by political repression, famine, and isolation from the international community.

Since the late 1970s, China embarked on a new phase of economic and social development under the leadership of Deng Xiaoping. This period of reform and opening up has led to unprecedented economic growth, lifting hundreds of millions of people out of poverty and transforming China into the world's second-largest economy.

The Chinese government has pursued a unique model of development, combining elements of socialism, market economics, and state-led investment. This model has allowed China to achieve rapid growth while maintaining social stability and political control. The government's emphasis on long-term planning and investment in key strategic sectors, such as infrastructure, high-tech industries, and education, has

enabled China to become a global leader in areas such as 5G technology, artificial intelligence, and renewable energy.

China's rise has not only been economic but also political and cultural. China has become more assertive in its foreign policy, seeking to expand its influence and protect its national interests. China has also become a leading cultural exporter, with Chinese films, music, and art gaining global popularity.

Despite several challenges, the rise of China has brought significant benefits to the world. China's economic growth has driven global prosperity and contributed to poverty reduction. China has also played a constructive role in promoting global cooperation on issues such as climate change, trade, and public health.

The rise of China is a complex and multifaceted phenomenon that reflects China's unique history, culture, and strategic approach to development. While challenges remain, China's achievements in economic growth, technological innovation, and cultural influence are a testament to the resilience and dynamism of the Chinese people. As China continues to play an increasingly important role in the world, it is important for the international community to engage with China in a spirit of mutual respect and cooperation.

## **An Introduction to China's System**

China's governance system is often scrutinized by the international community due to its unique characteristics and approaches. However, its system has proved to be highly effective in enabling China to achieve impressive economic growth and social stability. This chapter will examine the strengths and successes of the Chinese governance system, highlighting key features and good practices that have contributed to its achievements.

### ***Economic Success***

One of the most significant achievements of China's evolution has been its economic development. China's economic growth has been nothing short of miraculous, with the country's gross domestic product (GDP) growing at an average rate of 9.5% per year over the past 40 years. This growth has been fueled by a combination of factors, including government investment in infrastructure, a focus on manufacturing, and a large and well-educated workforce.

## ***Social Development***

Along with its economic development, China has made significant strides in social development as well. Poverty has been reduced dramatically in China, with over 700 million people lifted out of poverty in the past 40 years. This achievement was made possible through a combination of government policies and private sector initiatives, including investments in education, healthcare, and social welfare programs.

## ***Good Governance***

One of the key features of China's success has been its system of good governance. The Chinese government has been committed to promoting economic and social development while maintaining political stability. This has been achieved through a combination of policies that prioritize the needs of the people, as well as a strong emphasis on transparency and accountability in government.

The Chinese concept of “whole process people's democracy,” which is quite different from Western democracy, is another key to its success. It is based on collective wisdom and continuously changing based on the feedback of stakeholders and experts in various fields. China has introduced reforms gradually and in a timely manner while maintaining core cultural values, social norms, and political ideology. It is the culmination of centuries-old Chinese wisdom and keen CPC leadership.

The success of Chinese governance is based on ensuring the welfare of its population and a people-centered approach. The government spares no effort in improving the standard of living of its people, and in return, the leadership enjoys public support.

This people-centered spirit was demonstrated at the time of the outbreak of COVID-19. The government did every possible thing to save lives, and in return, the public has offered the best possible cooperation in implementing preventive measures.

Eradication of absolute poverty in China was also only possible through choosing the correct policies by a visionary leadership and the selfless hard work of the public. So far, only China has achieved poverty elimination goals set by MDGs well ahead of schedule.

## **The Evolution of Good Governance**

China has come a long way in terms of good governance. Over the past few decades, the country has undergone a remarkable transformation, both socially and economically. The Communist Party of China has played a significant role in guiding the country toward a more accountable, transparent, and participatory governance model.

The evolution of good governance in China began in the late 1970s when the country started embracing market-oriented economic policies. Deng Xiaoping, the architect of China's economic reforms, understood the importance of creating an enabling environment for economic growth, which necessitated a shift toward a more decentralized and market-oriented approach to governance. This policy shift created space for the emergence of non-state actors and increased citizen participation in decision-making processes.

Over the years, the government has taken numerous measures to improve good governance. These include the establishment of an independent judiciary, the strengthening of anti-corruption measures, and the promotion of participatory governance. In addition, the government has also made significant efforts to enhance transparency and accountability in decision-making processes.

One of the most notable developments in China's governance model is the establishment of a rule-based system. The country has enacted numerous laws and regulations that govern various aspects of society, including the economy, the environment, and social welfare. The government has also set up regulatory bodies to ensure that these laws are enforced and implemented effectively.

The Chinese government has also recognized the importance of citizen participation in decision-making processes. The country has implemented various measures to promote participatory governance, such as public consultations, public hearings, and the establishment of citizen advisory committees. These measures have enabled citizens to voice their opinions on important issues and contribute to policy-making processes.

Furthermore, the government has implemented various measures to enhance transparency and accountability in decision-making processes. For instance, the government has set up mechanisms for the disclosure of information, such as the Freedom of Information Act. This law ensures that citizens have access to government information, which promotes transparency and accountability.

Finally, the Chinese government has taken significant steps to combat corruption. The government has established anti-corruption agencies and implemented numerous measures to strengthen accountability mechanisms. The government has also implemented various measures to promote ethical behavior among public officials, such as the establishment of codes of conduct and the provision of training on ethics and integrity.

The evolution of good governance in China is a remarkable success story. The Chinese government has implemented numerous measures to promote transparency, accountability, and citizen participation in decision-making processes. The establishment of a rule-based system and the strengthening of anti-corruption measures are significant achievements that have contributed to the country's overall development. As China continues on its path toward modernization, it is likely that the government will continue to take measures to improve its governance model and build a more prosperous and equitable society.

Modernization in all aspects, which is very much visible, is the result of good governance. China has achieved top global rankings in a number of areas and is

leading Europe and America in several of these, like telecommunication and 5G, high-speed rail, infrastructure, and construction, to name a few.

## **Key Features of China's System of Governance**

China, one of the largest and most populous countries in the world, has a rich history of governance and uses practices that have evolved over centuries. In recent years, China has made significant progress in developing good governance practices, which has contributed to its economic growth, social development, and global impact. Some of the key features of Chinese good governance and practices are discussed below.

### ***Strong Leadership and Political Stability***

China's leadership and political stability have been critical in driving the country's impressive economic growth and development in recent years. Under the leadership of President Xi Jinping, the government has implemented various policy measures and action plans aimed at promoting political stability and ensuring sustainable development. Political stability is vital for economic development and China has attained this, providing a conducive environment, where each individual contributes to the social and economic development of the country.

To maintain a stable political environment that fosters investor confidence and promotes economic growth, the government has implemented several measures, including anti-corruption campaigns, which have helped to restore public trust in the government and promote accountability among public officials. Additionally, the government has taken steps to improve the legal system, increase transparency, and promote good governance, all of which are critical in promoting political stability.

President Xi Jinping, who is also the Secretary General of the CPC, and Chairman Central Military Commission, is one of the strongest leaders in the world. He loves his people and spares no effort to ensure their welfare. He also loves all mankind and is working to best to serve the whole of humanity. This has made him popular both in China and globally.

### ***Effective Economic Management and Planning***

China's economic management and planning have been a driving force in its remarkable economic growth since the reforms introduced in 1978. The country's policies and action plans have been implemented with a focus on achieving high levels of economic development while ensuring sustainability and environmental protection.



One of the key policy measures implemented by the Chinese government is the “Five-Year Plan,” which sets targets for economic development and outlines strategies for achieving them. The most recent plan, covering the period from 2021 to 2025, focuses on innovation, technological advancement, and the development of new industries, such as green energy, to help achieve a more sustainable economy. These efforts have led to significant achievements, both in terms of economic growth. China’s economy has grown at an average rate of over 6% per year since 2010.

China’s economic management and planning have been instrumental in its significant economic growth and achievements. The country’s policies and action plans have prioritized sustainable development. China’s efforts serve as a positive example for other countries.

### ***Emphasis on Education and Human Resource Development***

China has made significant progress in the areas of education and human resource development during the last four decades. The country has implemented various policy measures and action plans to improve the quality of education and training for its citizens, which have led to significant achievements.

One of China’s priorities has been to increase access to education for all. The government has invested heavily in building schools and universities and has also implemented policies to make education more affordable and accessible to low-income families. As a result, the literacy rate in China has increased significantly, and more and more students are pursuing higher education.

Another priority for China has been to develop a highly skilled workforce that can compete in the global economy. To achieve this, the government has implemented a range of measures to improve the quality of vocational training, including partnerships with international companies to provide training and certification programs. Today, the Chinese workforce is highly skilled, efficient, and productive, but more importantly, competitive. Additionally, the country has invested in research and development to support innovation and entrepreneurship, which has led to the emergence of a strong startup ecosystem.

China’s efforts in education and human resource development have been impressive. The country has made significant progress in expanding access to education, improving the quality of vocational training, and developing a highly skilled workforce.

### ***Focus on Innovation and Technology***

China has made huge strides in the fields of innovation, science, and technology over the past few decades, with policy measures and action plans that have boosted these sectors. With a focus on economic development and a desire to become a

global leader in innovation, China has prioritized these sectors to achieve remarkable achievements.

The Chinese government has implemented a series of policies to promote innovation, including the “Made in China 2025” plan, which aims to upgrade Chinese manufacturing through increased innovation and technological advancements. The government has also invested heavily in research and development, leading to the establishment of research institutions such as the Chinese Academy of Sciences, which has made significant contributions to scientific research. China has surpassed many nations including Europe and America in terms of research publications and patents filed, which is often a yardstick used to measure standards of science, technology, and the innovativeness of a country.

In addition to the promotion of innovation, China has made great strides in the field of science and technology. The country has made significant investments in the fields of artificial intelligence, robotics, and 5G technology, among others. These investments have resulted in breakthroughs such as the world’s first quantum satellite and the world’s fastest supercomputer.

China’s achievements in innovation, science, and technology are undeniable, and the country is committed to continued progress in these areas. With its focus on economic development and the promotion of scientific advancements, China is poised to become a global leader in innovation, science, and technology. As China continues to invest in research infrastructure and human resource, I think we can look forward to further advancements and breakthroughs. Chinese universities are hubs for the creation of knowledge and innovations with the number of Chinese universities listed among the world’s best five hundred universities continues to climb.

### ***Strong Social Welfare System***

China’s social welfare system has undergone major changes recently, reflecting the country’s economic growth and social development. The Chinese government has implemented a series of policy measures and action plans to improve social welfare, reduce poverty, and promote social stability.

One of the key priorities of China’s social welfare system is poverty reduction. In 2020, China announced that it had achieved its goal of eradicating absolute poverty, lifting over 800 million people out of poverty over the past four decades. This was achieved through a range of measures, including targeted poverty alleviation programs, investment in infrastructure, and the creation of new jobs.

In addition to poverty reduction, China has also implemented a number of policies to improve access to healthcare and education. The government has expanded the coverage of basic medical insurance and introduced a new system of universal health coverage. This has helped to reduce healthcare costs and improve access to medical services for millions of people. The average life expectancy in China has improved considerably.

Similarly, the Chinese government has invested heavily in education, with a focus on improving access to quality education for all. In recent years, China has increased its spending on education, with a particular emphasis on improving the quality of education in rural areas. This has helped to reduce educational inequality and improve social mobility. As a result, the literacy rate in China has increased significantly.

The country has also introduced a range of policies and action plans to reduce pollution and promote sustainable development. For example, the government has launched a “war on pollution,” which has led to significant reductions in air pollution levels in some of the country’s major cities. Additionally, China has made significant investments in renewable energy that has made it the world’s largest producer of solar and wind power.

China has taken a leading role in global efforts to protect the environment. The country has played an active role in international climate negotiations and was a key player in the development of the Paris Agreement. China has also committed to becoming carbon neutral by 2060, which is a significant step toward achieving global climate goals.

Generally, China’s social welfare system has made significant progress in recent years, with a focus on poverty reduction, healthcare, education, and environmental protection. The government has implemented a range of policy measures and action plans to achieve these goals and has made significant achievements in each of these areas. As such, China’s social welfare system serves as a positive example for other countries to follow.

## ***Environmental Protection***

China has made significant progress in environmental protection in recent years, reflecting the government’s commitment to sustainable development. The country has recognized the importance of preserving the natural environment and has implemented policy measures and action plans to protect it.

One of the key policy measures is the “Beautiful China” initiative, launched in 2015, which aims to improve the quality of the environment and promote sustainable development. The initiative focuses on reducing pollution, increasing green spaces, and promoting sustainable urbanization. It also aims to create a culture of environmental protection and encourage public participation in environmental conservation.

To achieve these goals, the Chinese government has introduced a number of action plans, including the Air Pollution Prevention and Control Action Plan, the Water Pollution Prevention and Control Action Plan, and the Soil Pollution Prevention and Control Action Plan. These plans aim to reduce pollution, improve water and air quality, and clean up contaminated land.

China has also set priorities for environmental protection, with a particular focus on air pollution. The government has introduced measures to reduce emissions from industry and transport, while also promoting clean energy sources such as wind

and solar power. The country has also introduced vehicle emissions standards and encouraged the use of electric vehicles.

China's efforts in environmental protection have yielded positive results. According to the Ministry of Ecology and Environment, air quality in 337 cities improved in the first half of 2021 compared to the same period in 2020. The government has also made progress in reducing pollution in rivers and lakes and has launched initiatives to protect biodiversity and promote ecological restoration.

China's commitment to environmental protection is not only important for the country itself but also has significant global implications. As the world's largest emitter of greenhouse gases, China's efforts in reducing emissions and promoting sustainable development can have a major impact on global climate change. China has taken a leadership role in international efforts to combat climate change, including its commitment to the Paris Agreement and its hosting of the UN Climate Change Conference in 2019.

China has made impressive strides in environmental protection in recent years, reflecting the government's commitment to sustainable development. The policy measures and action plans implemented by the government, coupled with public participation and awareness, have yielded positive results in reducing pollution, promoting biodiversity, and restoring ecological systems. China's leadership role in global efforts to protect the environment is commendable, and its continued efforts in this area are critical for a sustainable future for all.

### ***Success Stories Abound***

China's good governance practices have contributed to its remarkable economic growth and social development in recent years. China has lifted over 800 million people out of poverty in the past four decades, accounting for more than 70% of the world's poverty reduction during this period. The country has also made significant progress in areas such as healthcare, education, and technology development. China's Belt and Road Initiative (BRI), a global infrastructure development strategy, has become an important platform for promoting economic cooperation and development across the world. The BRI has already delivered tangible benefits to many countries, including increased investment, trade, and employment opportunities.

China's good governance practices are based on strong leadership, effective economic management, human resource development, innovation, and social welfare. These practices have contributed to China's remarkable economic growth and social development in recent years and have made China an influential player on the global stage. As China continues to develop and grow, its good governance practices will remain a key driver of its success.

## Conclusion and Recommendations

The Chinese governance system has a number of strengths and achieved multiple successes that have contributed to China's impressive economic growth and social stability. The system's focus on state-led development, decentralized decision-making, collaboration with the private sector, investment in education and social welfare, effective control of crime, and strategic communication have all been key factors in its success. Moving forward, China's government will likely continue to refine and adapt its governance system to meet new challenges and opportunities.

The evolution of China from a backward nation to a modern and prosperous country is a remarkable success story that has taken place over several decades. China's development is a testament to the resilience, hard work, and determination of its people, as well as the vision and leadership of its government. This transformation has been marked by many milestones, each building on the previous one to create a more prosperous and modern China. In this essay, we have examined the evolution of China from backwardness to modernity, with a particular focus on its achievements and key features of good governance.

In a fast-changing world, governance systems must support rapid decision-making under conditions of radical uncertainty, while maintaining accountability. That—not the Western expectation of what a governance system should look like—is the standard by which we should be assessing political developments in China.

The Chinese governance system is a complex and comprehensive system that has evolved over centuries of cultural and historical influences. It is characterized by several key features that have contributed to its strengths, achievements, and successes. In this conclusion, I will summarize some of the most notable aspects of the Chinese governance system.

- **Strong Leadership:** The Chinese governance system is known for its strong and centralized leadership, with the Communist Party of China (CPC) at the helm. This centralized leadership has enabled China to maintain political stability and consistency, which has helped to facilitate economic development and social progress.
- **Effective Planning:** Another key feature of the Chinese governance system is its emphasis on planning and long-term strategic thinking. This approach has allowed China to implement large-scale infrastructure projects and economic reforms that have transformed the country into a global economic powerhouse.
- **Decentralized Implementation:** While the Chinese government has a centralized leadership structure, it also allows for a certain level of decentralized implementation at the local level. This has allowed for greater flexibility and responsiveness to local needs and conditions, which has helped to improve the quality of life for many Chinese citizens.
- **Emphasis on Education:** The Chinese governance system places a strong emphasis on education, with significant investments made in education at all levels. This has helped to create a highly educated and skilled workforce, which has been a major driver of China's economic growth.

- **Effective Public–Private Partnerships:** The Chinese government has effectively leveraged public–private partnerships to facilitate economic development and social progress. This has enabled the government to work closely with private companies to develop infrastructure, promote innovation, and create new jobs.
- **Focus on Innovation:** In recent years, the Chinese governance system has placed a strong emphasis on innovation, with significant investments made in research and development. This has helped China to become a leader in cutting-edge technologies such as artificial intelligence and renewable energy.

Overall, the Chinese governance system has been instrumental in driving China’s remarkable economic growth and social progress over the past several decades. Its strengths, achievements, and successes are a testament to the effectiveness of its leadership, planning, implementation, education, public–private partnerships, and focus on innovation.

### *Recommendations*

China’s remarkable achievements over the last few decades are undeniable, and there are certainly valuable lessons that can be learned from their governance system. Here are some suggestions for the rest of the world to consider:

- **Emphasize long-term planning:** One of the key factors behind China’s success is its focus on long-term planning. The Chinese government has a clear vision for the future and works diligently toward achieving it, even if that means making short-term sacrifices. This approach can be applied to many areas, including infrastructure development, education, and economic policy.
- **Invest in education:** China’s emphasis on education has been instrumental in its rise as a global power. The Chinese government invests heavily in education, from primary school all the way up to higher education. Providing quality education to all citizens is crucial for building a skilled and knowledgeable workforce, which in turn drives economic growth and innovation.
- **Foster innovation:** China’s impressive technological advancements over the last few decades are a result of its commitment to innovation. The Chinese government has established policies and incentives to encourage research and development in various sectors, from artificial intelligence to renewable energy. Encouraging innovation can help countries stay ahead of the curve and remain competitive on the global stage.
- **Focus on sustainable development:** China’s rapid economic growth has come at a cost to the environment, but the country has taken steps to address this issue. The Chinese government has implemented policies to promote sustainable development, including investment in clean energy and efforts to reduce pollution. Focusing on sustainable development can help countries balance economic growth with environmental protection.

- **Prioritize social welfare:** China has made significant progress in improving the standard of living for its citizens. The government has implemented policies to reduce poverty, provide healthcare, and improve social welfare programs. Prioritizing social welfare can help countries build a more equitable society, improve quality of life, and promote social stability.

China's success offers valuable insights into governance and development. By emphasizing long-term planning, investing in education, fostering innovation, focusing on sustainable development, and prioritizing social welfare, countries can learn from China's experiences and build a prosperous and equitable future for their citizens.

It is time to relax and think. Think smartly and wisely. Do not be biased or prejudiced. Focus only on how to improve the standard of life of a nation. Ask the question: how can we look after the public at large? Any system that can keep its people happy and prosperous should be considered a good one. We must move beyond political rivalries and think about the strengths of the Chinese system and how these may be implemented in developing economies worldwide. Some of the developing nations have already replicated the Chinese model and are benefiting, while others are in the stage of adopting it gradually.

China is a great nation and willing to share its experience and willing to assist any nation to improve their country. It has become the largest donor to small and poor nations and contributes to the global economy significantly.

It is time to understand China. The more we understand China, the more benefits we may reap. Learn the Chinese language, culture, history, traditions, political system, governance system, and development experience.

Scholars, intellectuals, and media can play a positive role and project fact-based China instead of propaganda against China. China has surpassed the stage, where any country can coerce China, contain China, counter China, or resist the peaceful rise of China. Those who cooperate with China will reap the fruits of its developments and those who are jealous and trying to resist China will fail. Let's strengthen cooperation with China and transform the entire world into a better place to live. Let's join hands to make our tomorrow better than yesterday.



**Zamir Ahmed Awan** Born on March 1, 1962, Zamir Awan received his graduate degree in engineering in China in 1987, after which he began his career in Saudi Arabia working with Caterpillar. After this, he worked under the Ministry of Science and Technology in Pakistan on S&T and R&D policy from 2002 to 2006, later directing R&D at the National University of Science and Technology (NUST) until 2010. From 2010 through 2016, he served at the Pakistan Embassy in Beijing as a counselor promoting cooperation in the field of S&T and higher education. Mr. Awan founded the Chinese Studies Center of Excellence at NUST, which promotes Sinology, Chinese studies, and understanding of China among the youth of Pakistan. In March 2022, he also established the Global Silk Route Research Alliance (GSRRA)—a think tank focusing on the history and development of the Silk Route.

His unique experience as a student in the 1980s and diplomat in the 2000s has enabled him to witness China's transition from a backward and poor country as well as its emergence as a modern, advanced, and developed country. His education, work, and personal efforts have helped him develop a special interest in China, including the Chinese language, which enabled him to have in-depth interaction with locals and better understand Chinese society, culture, traditions, politics, and governance. After finishing his diplomatic career in 2016, he has focused mainly on promoting Chinese studies, awareness of China and advising the Government of Pakistan on China affairs.

He has published around 4000 newspaper articles, research papers, lectures, interviews, videos, and talks. He has also engaged Chinese mainstream media, think tanks, universities, and intellectual circles to project China's image globally, convey a positive image of Pakistan, and promote friendship between China and Pakistan, earning him the title of "Friendship Ambassador."

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# China's Role in Modernization and Stabilization of the Contemporary Post-Cold War Order



Jasna Plevnik

**Abstract** This paper researches the relevance of the claims about the end of the current post-Cold War world order trying to set today's catchphrase "the new world order" in a broader perspective than of the Ukraine war, judging that changes in the world order are still in an unfolding phase, and many of them are not clear. American unipolar power is not strong as it has been, but the new multipower global order has not been determined yet. In making the point that the world order should be changed evolutionary not through global conflict the paper is focusing on how and why the two leading global powers China and the USA have fundamentally different approaches to the world order, particularly to economic globalization and geopolitics. The paper claims that China's approach to economic globalization, which is in line with the idea of more equal globalization, and its multilateral global initiatives and projects can be understood as factors that ensure the peaceful and gradual emancipation of the world order from geopolitical approaches that destabilize the world order. China is convinced that changes in the world order must be implemented slowly, through cooperation and rejection of hegemony and unipolarity. This paper shows that the USA, though a mature democracy and highly globalized country, now pursues protectionist rules and standards forming politics and events which could restore the world order to the pre-1990's era. The USA's engaging in current international politics has been featured by the weakening of its support to current economic globalization and by the strengthening of the USA's tradition of unipolarism. They both cause geopolitical instability in Europe and Asia-Pacific. The paper suggests that the USA's approach is accepted in the EU, though it is not yet dominant, and influencing the behavior of the EU in international relations and its relations with China. It concludes that tensions in the relationships between China and the USA cannot persist for much longer in its present form and their relationships need to be rebalanced in the interests of the world order strategic stability and global economy.

**Keywords** Current post-Cold World order · Change · China · America · The EU economic globalization · Geopolitics · Power politics · Asia-Pacific · The future

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J. Plevnik (✉)  
Geoeconomic Forum, Zagreb, Croatia

## Introduction

The contemporary post-Cold War order is at a defining moment. However, it must not be allowed to continue because its unipolar side creates chaos, injustice, and instability now, as before 2022, but its turning point should not come from global conflict despite the historically high danger of direct war among great powers.

The function of the world order is to maintain an equilibrium and peace in relations between states with different histories and cultures, but when this is impossible, change should come.

It would be ideal if changes in the world order were the results of its gradual modernization and advancing instead through conflict among great powers.

The history of international relations shows us that with each new century, the duration of the international order becomes shorter. The international order labeled as bipolar ended after 40 years. Following September 11, the USA proclaimed an “end of the post-cold war era”, but it has continued.

The huge crisis, caused by the Russian war in Ukraine, and the West’s historically unprecedented break with Russia has created substantial pressure to the post-cold order, but it has not reached its endpoint.

A world order is new when the basic rules and organizing principles of the previous system fail, the distribution of power and alliances between states are changed, and new global institutions of governance replace the old ones. So far, we see no changes to the overall structure and principles of the current order.

Russia’s attack on Ukraine’s territory and violation of the Charter of the United Nations is not a novelty. The USA and NATO did the same to the international order several times, but the order did not end, which meant that the damage to the legal structure of the order was considered reparable.

We are witnessing the strong engagement by China through diplomacy to stabilize the world order with its projects for peace while the USA is focused on strengthening geopolitics in international relations, which increases military spending globally, particularly in the European Union, which was founded to preserve peace in Europe through economic integration, and became globally popular power due to its anti-geopolitical values and diplomatic stance. Now, the EU extensively supports US hegemony, which harms the balance of power in Europe and globally. It is hard to explain how that politics can be a proper tool for the interests of the EU, Europe, and global peace.

However, America considers China, not Russia, the most serious external threat to its global dominance at the economic and strategic levels of the world order. There is a unity in American politics and academia, that China’s growth challenges the USA’s domination in the world order. The USA is presenting China as a threat to the Western-led system of free trade, and rule of law and working on the grouping of democratic forces against China. This is essentially anti-democratic, and in the meantime, the West ignores the concerns of China and other countries about the assertiveness of the USA.

Due to the global shift in economic power caused by the rise of China, America is adopting new legislation that is not friendly to China's global economic goals, economic globalization, and free-market ideology. The USA has begun economic decoupling from China, a concept that seems vague in approach, unfavorable for China, the US capitalistic system, and the economic interdependence of the world.

To contain China's strategic power, the USA has strengthened its geopolitical influence, particularly, in the Indo-Pacific region by reviving old and initiating new political and military alliances that destabilize the regional balance of power. And this growth in strategic instability will not stay confined to the region. Creating alliances in the region reduces the number of neutral countries and increases the chances of a conflict.<sup>1</sup>

These trends and events uncover a new tomorrow in which the global order may not be able to withstand the unipolar politics of the USA, and China will lose its patience with in the face of American geopolitical and economic pressure, which is currently the case.

America has a problem treating China as equal, which is the cause for serious instability and has the potential to become a breaking point of the world order in the not so distant future.

China does not seek the end of economic globalization and Western neoliberalism. Nor does it view the USA as an adversary, but as a market competitor. There is no Chinese exceptionalism. China believes that its economic model is the best way for its development, but every country must find for itself the best way to organize its economy and politics.

In the official documents of the Communist Party of China, the military, and academic literature, globalization is described not as a Chinese or American project, but as a historical and irreversible process of shaping a world in which China is one of the central pieces.

The guiding principles of the 20th CPC National Congress reject a Cold War mentality, geopolitical conflicts, and narrative on deglobalization, seeing them as dangerous for peace, and stability and the opposite of the *Zeitgeist* of our time, that is networking for people's well-being.

The interest of China is to continue the process of economic interdependence and influence other great powers to work together on its modernization.

China does not think that this transition toward a more comprehensive multipolarity will arrive this decade, but it is working toward creating a world order that is something more than power politics and great power rivalry. Since 2013, China, as one of the principal actors in international relations, has been intensively focused on improving the world order and making it more dependent on the interests of humanity which are peace, environmental sustainability, and economic progress for all people.

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<sup>1</sup> "China has always talked about a "non-aligned" and "independent" foreign policy of peace, why? Alliances create enemies, and the US-NATO expansion eastward creates enemies of Russia, which eventually lead to this war". See Wang Yiwei: Chinese-style modernization has rewritten the modern world map China.com's "China Interview", March 2, 2023, [http://m.china.com.cn/wm/doc\\_1\\_474303\\_2445007.html](http://m.china.com.cn/wm/doc_1_474303_2445007.html).

And here we find the factors that have the potential to do both: stabilize the world order and modernize it.

## The Future of Economic Globalization

Economic globalization is not a world order, although it is influenced by the shifting of balance among global powers. Relations between the USA, China, the EU, and Russia have changed in a way that negatively influences global cooperation, infrastructure, and multilateralism.<sup>2</sup>

The increasing insecurity of key global and regional oil and gas transportation infrastructure and global supply chains portends dark times for global cooperation.

The largest gas pipelines in Europe, Nord Stream 1 and Nord Stream 2, which advanced energy cooperation between Russia and Germany, were attacked in 2022. Now, countries that use the Turk Stream gas pipeline fear the danger of a physical attack on their infrastructure.

The USA has taken a pessimistic view of economic globalization, believing that it has been misused by other global powers, particularly by China, as leverage to counter American global dominance and competitiveness.

China's economic success story is now under the pressure from the USA, which plans to initiate a new era in the global economy that is absolutely shaped in favor of how the USA could control and out-compete China, which "is the only country with both the intent to reshape the international order and, increasingly, has the economic, diplomatic, military, and technological power to do it. Beijing's vision would move us away from the universal values that have sustained so much of the world's progress over the past 75 years".<sup>3</sup>

The US realignment of the global supply chain has been moving fast and big companies from the USA are relocating manufacturing outside of China, increasing their investments in India and Vietnam. China is in danger of losing some of its presence in American and global supply chains that were built over decades. The USA is already working on the Indo-Pacific Economic Framework, which excludes China.

The US strategy is to reclaim its role as a global trading power, but nearly 100 countries count China as their largest trading partner, while only 57 have such a relationship with the USA. This might result in a dangerous division of global trade into trading blocs—one focused on China and developing countries, and the other on the USA and its allies. America's new hard unilateral approach to economic globalization is based on security concerns rather than free-market rules.

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<sup>2</sup> An optimistic sign that multilateralism is still alive is the Global Oceans Treaty, signed on March 4, 2023, by 200 countries that agreed to protect marine life in international waters.

<sup>3</sup> See the Administration's Approach to the People's Republic of China, <https://www.state.gov/the-administrations-approach-to-the-peoples-republic-of-china/>.

The relationship between economy and security must be balanced, which requires a careful assessment, but the US push to ban TikTok, the world's leading video-based social media, reveals the serious flaws in its efforts to out-compete China by putting everything in a security context. America seems to have lost trust in its global competitiveness.

Economic globalization also has been under the constant pressure of developing countries to change. Since the 1990s, they have demanded faster reforms of globalization's internal weaknesses, above all rejecting the zero-sum game approach, which has amplified inequality and unfairness in economic relations.

In the last decade, China has invested heavily in the advancement of economic globalization energy and transport infrastructure, strengthening global supply chains, and expanding its influence with its global win-win strategies focused on mitigating inequality in economic cooperation with Asia, Africa, and Europe. Until recently, many expected all these efforts to reduce geopolitical competition among countries, but for us globalists, an era of great awakening has come.

Economic globalization alone cannot sustain development and peace across the globe. International organizations must be stronger to oppose the USA, which threatens countries that oppose its global power with deglobalization.

However, all these tendencies and events do not represent the end of economic globalization yet, but emphasize the differences between the current model economic globalization and that of the 1990s, when the USA led the way in idealized economic globalization, including China's opening to the world and outsourcing of its production to China.<sup>4</sup> Now, America is at the forefront of changing economic globalization through its concept designed to contain Chinese development and lessen its ability to surpass the USA. We are witnessing to its attempts to redefine not only cooperation with China by launching new political ideas like "decoupling" or "de-risking", whatever, but also the very essence of the term cooperation.

The idea of decoupling from China currently could be interpreted as a kind of half-decoupling. Namely, America's leadership perceives China as half-democratic and half-authoritarian, a political version of the half-man, half-bull Minotaur from Greek mythology. For the USA, China is democratic enough to cooperate in the fight against climate change, promoting sustainable development, and managing some global economic issues, but autocratic in terms of science, technology, and military development—the very areas in which the USA wants to contain China.<sup>5</sup>

The Trump Administration's trade war on China, which started in June 2018, has been harmful to the US citizens.<sup>6</sup> The Biden Administration has taken an even more confrontational stance toward China seeing US-China interdependence as the

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<sup>4</sup> How economic globalization was glorified see Justin Rosenberg, *Globalization Theory: A Post Mortem*, *International Politics* 42, 2-74, 2005, <https://link.springer.com/article/10.1057/palgrave.ip.8800098>.

<sup>5</sup> See more Jasna Plevnik, No one-size-fits-all governance model, November 7, 2022, *China Daily*, <https://www.chinadaily.com.cn/a/202211/07/WS63683b7ca3105ca1f227451b.html>.

<sup>6</sup> According to the US International Trade Commission (USITC) and IMF, the prices for imports from China across some of the most affected industries rose by as much as 25 percent in 2019 and 2021.

reliance on an “adversary” and is working to return industrial investment in the USA. In 2022, the USA adopted several anti-globalization laws and strategic documents the purpose of which seems to be discriminatory, especially toward China. Biden Administration’s 2022 US National Security Strategy emphasizes strategic competition with China in which it needs to “outcompete” China. In this way, how it could not influence the rules of commerce, and other countries.<sup>7</sup> America presents its goal as if it was “international law” itself and could forbid China from influence global rules, other countries or to surpass the USA. The Congress behaves as if its laws are globally binding.

Decoupling or containing China’s development has been underpinned by the 2022 Chips and Science Act, which restricts the sale of certain chips to China, prohibits providing Chinese companies with the technology needed to make chips, and prevents China from accessing advanced semiconductor machinery.<sup>8</sup> The USA also requires its allies to take part in its technological war on the Chinese tech and semiconductor industries, where the USA is ahead of China but also encourages them to invest in facilities in the USA.<sup>9</sup>

The America Creating Opportunities for Manufacturing, Pre-Eminence in Technology, and Economic Strength Act of 2022 (America COMPETES Act) is aimed at helping the US economy to compete with China and “will have a huge negative impact on the export of intermediate products originating in China as well as overseas Chinese funded enterprises, which will further affect the ‘going out’ of Chinese enterprises and slow down the implementation process of the Belt and Road Initiative. Its implementation may also lead other countries or regions to follow suit and disrupt the global supply chains”.<sup>10</sup>

The Restricting the Emergence of Security Threats that Risk Information and Communications Technology (RESTRICT) Act will “empower the United States government to prevent certain foreign governments from exploiting technology services operating in the United States in a way that poses risks to Americans’ sensitive data and our national security”. It means Chinese-owned technologies, applications, software, or e-commerce platforms may be sold and banned if they present a national security threat to American users.

<sup>7</sup> See PART III: OUR GLOBAL PRIORITIES, <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>.

<sup>8</sup> See FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China, The White House, August 9, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>.

<sup>9</sup> The Dutch government said it would impose export restrictions on the “most advanced” semiconductor technology. The Hague and Tokyo struck a deal with the USA to limit sales to China. See, Alexandra Alper and David Shepardson, Reuters, February 1, 2023:49 AM GMT+, <https://www.reuters.com/technology/us-official-acknowledges-japan-netherlands-deal-curb-chipmaking-exports-china-2023-02-01/>.

<sup>10</sup> See Hu Jianguo and Chen Yujing, US Cross-Border Subsidy Countervailing System: Historical Evolution, WTO Compliance, and China’s Response, [http://www.guojifayanjiu.org/Admin/Upload/File/Issue/201707170003/2023/2//20230203054612WU\\_FILE\\_0.pdf](http://www.guojifayanjiu.org/Admin/Upload/File/Issue/201707170003/2023/2//20230203054612WU_FILE_0.pdf), in Newsletter of the Global Think Tank Network for Democracy Studies March 3, 2023.

America's protectionism targets not only China, but it is also discriminatory to other countries. The Inflation Reduction Act of 2022, with its clean energy subsidies, was seen as an attack on the competitiveness of key Washington allies including the UK, the EU, South Korea, and Japan.

America's idea of decoupling from China goes against the interest of its capitalist system, which encourages the free flow of capital and the principle of international competition. American, European, and global financial and industrial companies have confidence in China's markets and do not support the narrative on decoupling as they understand it as dangerous for their relationship with China, which could potentially retaliate with countermeasures and close its market, which contributes a great deal to the profits of global companies.<sup>11</sup>

The USA, supported strongly by the EU, has had an opportunity to test hard decoupling politics *in vivo* by imposing sanctions against the Russian economy and blocking access to its wealth abroad. America took advantage of the global financial system, which is subject to the American financial system. With this kind of interdependence, which has never been doubted or seen as excessive or dangerous, the USA has found leverage for its financial attack on Russia and the confiscation of its wealth.

These sanctions have caused great damage to Russia, but have yet to destroy its economy, or separate it from the global economy due to expanded partnership with BRICS countries, and the countries in the Middle East. From the point of view of economic calculation, the biggest victim of this decoupling experiment has been the European Union, whose economy is in recession, and its power to compete globally without Russian energy sources and rare resources is seriously threatened.

The sanctions, not authorized by the United Nations Security Council, have gone wrong because the USA is not as globally dominant as it was thirty years ago, as evidenced by the fact that it is mostly restricted to Western countries and its strategic allies in Asia. Two-thirds of the world does not support America's economic sanctions against Russia.

Though the sanctions have been implemented in response to the Russian invasion of Ukraine's territory, which is a situation that highly differs from normal conditions in the global economy, it has confirmed a commonly held theory: the costs of breaking the current state of global economic interdependence are not limited to only one side.

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<sup>11</sup> See US-China Chip War—Policy Recommendations by PKU Scholar Lu Feng, Thomas des Garets Geddes, and Laura van Megen, February 1, 2023, <https://sinification.substack.com/p/us-china-chip-war-policy-recommendations>.

## China's View on Decoupling and the Future of Economic Globalization

China believes that the world “must have” economic interdependence, as it has proven to be better than “small yards with high fences, which mean seclusion and regression and decoupling”.<sup>12</sup>

China's view of economic globalization radically differs from the Biden administration's, which more forcefully and explicitly focuses on a “zero-sum game”, unlike Presidents Clinton and Obama, whose administrations saw economic ties between China and the USA that were so strong that they were recognized by some as “one economy with two systems”, while America's role in the world order was described as “unipolar multilateralism”.<sup>13</sup>

The Biden's administration underestimates China's power in the global economy while overestimating its own power to determine the deglobalization of China and how China participates in the global economy. This type of miscalculation has caused tension in America's relations with China, and in the world economic order.

The future of economic globalization depends as much on China as on America. Both countries are the main pillars of today's global economy, and China, as well as the USA, has the power to decide on its own how deeply it wants to be globalized, just as the Chinese Communist Party decided on its own to open the country to the world in 1978.

China's economic growth depends on the global economy, and *vice versa*, and breaking interdependency with the West, which had recently reached record levels, would be a catastrophe for China and the global economy.<sup>14</sup> China does not want to separate from the American economy but has prepared itself at home by reducing its reliance on foreign technologies and soften the impact of changes in international relations initiated by the US strategy to out-compete China. Now, as the most successful part of the global economy, China also has significant global weight to respond to the possible consequences of a US-China decoupling—globally, by accelerating the processes of economic globalization with developing countries in the foreseeable future, and by strengthening the role of traditional global institutions and new ones such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank of BRICS, in managing the consequences of the American decoupling policy in Asia, Europe, Africa, and South America. China is by far the most influential foreign power in Africa, and its influence is widely viewed as a

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<sup>12</sup> See Wang Yi: US views on the world, China, China-US relations are seriously miscalibrated, May 28, 2022, Ministry of Foreign Affairs, the People's Republic of China, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/202205/t20220529\\_10694135.html](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202205/t20220529_10694135.html).

<sup>13</sup> On China and the economic Globalisation from 2001 to 2018, see Jasna Plevnik, *China's Capacity to Consolidate Economic Globalisation*, last volume-China's 70-Year Development and the Construction of the Community with a Shared Future for Mankind (Volume 2), 674, December 25, 2021.

<sup>14</sup> Simon Gerards Iglesias and Jürgen Matthes, *Drohender Handelskonflikt: China kann nicht ohne den Westen*, IW Report No. 15 March 6, 2023, <https://www.iwkoeln.de/presse/pressemitteilungen/juergen-matthes-simon-gerards-iglesias-china-kann-nicht-ohne-den-westen-1.html>.



good thing, with 76% of respondents saying that Beijing has a positive effect on the region.<sup>15</sup>

Since 2013, China has become a leading nation at the UN in proposing new concepts for improving economic globalization, which include the Belt and Road Initiative (BRI), the Global Development Initiative (GDI), the Global Security Initiative (GSI), and the idea of creating a “community of shared future for humanity”. These initiatives have proposed general principles for global connectivity, global development, global security, and a new world order, which is, in our view, extremely important for both the continuation of economic globalization and its modernization.

China's Belt and Road and Global Development Initiative strongly underpin China's vision of more equal globalization and have the strength to eliminate barriers brought to the world by geopolitics, neoliberalism, unfairness, protectionism, and populism. The Belt and Road Initiative is economic globalization embodied, focused on creating conditions for the growth of intercontinental connectivity and economic interdependence. Many countries in the world have become partners within the framework and have been linked through the economic land and maritime corridors that make up the BRI. The initiative is also open to third countries as well as regional and global organizations and global companies.

When China launched the BRI, the world was very different than it is today. There was no coronavirus pandemic and no war in Europe. The Ukraine conflict has revealed, among other terrible things, how important food security is, which China listed as one of the GDI's objectives. The BRI also includes a “Digital” Silk Road and “Healthy” Silk Road component, which work for food, energy, and financial stability in global digital development. China has allocated colossal funds for the BRI and will assign more resources for global development cooperation and implementation of the GDI.

The GDI is much younger and even more global than the BRI, which this year celebrates its 10th year. The Belt and Road's comprehensive experience in connecting China with three world regions: Asia, Europe, and Africa, has been precious for China in process of shaping the GDI's concept. Experience comes before theory.

China launched the Global Development Initiative to boost global development, cooperation, and economic integration. The GDI maintains that development has no border and every country has an equal right to pursue modern technology and development, which shows that China's approach to global development is entirely different from America's, which uses geopolitical explanations and “strategic concerns” to deny China the right to high-quality development.<sup>16</sup>

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<sup>15</sup> Poll: China most influential power in Africa as US influence wanes, June 29, 2022, <https://responsiblestatecraft.org/2022/06/29/poll-china-most-influential-power-in-africa-as-us-influence-wanes/>.

<sup>16</sup> On September 21, 2021, Chinese President Xi Jinping addressed the general debate of the 76th session of the United Nations General Assembly and put forward the Global Development Initiative in his speech titled “Bolstering Confidence and Jointly Overcoming Difficulties to Build a Better World”. [https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/zjyh\\_665391/202109/t20210922\\_9580293.html](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zjyh_665391/202109/t20210922_9580293.html).

Both initiatives view the UN as a core part of international relations and China's leadership believes that they can speed up the implementation of the 2030 Agenda for Sustainable Development.

China's efforts to modernize economic globalization have even influenced the USA, G-7, and the EU, which have developed their own versions of the BRI in programs like Build Back Better World and the Global Gateway, hoping to counter China's influence in Eurasia. The fact that these have just started, it is clear that both initiatives are heavy on political rhetoric and light on projects and funds.<sup>17</sup>

## Strengthening of Geopolitics in the Post-Cold War Order

The current difficulties in the global economy mostly come from geopolitics for which macroeconomy has no effective countermeasures. The destiny of the world depends on what happens in the geopolitical area and what global powers will do in the coming months to overcome strategic tensions in international relations. It is politics that leads the economy and not *vice versa*.

The new geostrategic policy of the USA to "out-compete China" focuses on containing China economically at the global level, as described above, and geopolitically at the regional level. It hopes to simultaneously to draw away China from its path of growth and to end or delay its future development.

In its public strategies, the USA views China as a real challenge to its position as a superpower and explains the current international environment as a factor that has greatly favored China's development at the expense of America.

Washington claims that it does not aim to change China's political system, but its new rules in the global system show that China would operate in extremely unfavorable conditions that would be unfriendly to its economy, scientific development, and security.

By slowing down China's development, America undermines the credibility of China's socialist development model globally, curbs China's influence on global governance, and questions the ability of the Chinese Communist Party to lead the country, which appears as the first goal of its not so public strategies. What's more is that in the USA there is a bipartisan consensus that the Communist Party of China is "the greatest threat to the United States".

America has correctly assessed the importance of the Communist Party for the development of China. Many other countries have benefited from participating the cross-border flows of goods, services, capital, data, and people, but China has been the most successful because the task of achieving economic development was not understood as the responsibility of economic globalization, or the USA, but of the Communist Party of China. The leadership has led gradual and persistent institutional and policy reforms, which are the main reasons for China's growth. China's

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<sup>17</sup> See more Jasna Plevnik, "China's Belt and Road Initiative's Impact on Europe", Prunus Press USA, 2022.

leadership has protected the country's national interests in a global context and was able to avoid the Asian financial crisis in 1998 and the global financial crisis in 2008 and solve the global health crisis in 2020–2023 more successfully than the USA. And through global institutions, China has also worked to reduce distortions in the global economy.

The US House of Representatives established an ideological body, the US House Select Committee on Strategic Competition between the USA and the Chinese Communist Party at the beginning of 2023, to help the USA win the new Cold War against China.<sup>18</sup> Under pressure from Congress, the CIA has shifted its focus and resources from counterterrorism to China, which means that CIA operations will be designed to provoke China. These are classic CIA methods. In 2021, the Agency established the Chinese Mission Center and is working on establishing new centers to collect data on China and its new technologies.

The USA thinks of China's containment as a multitasking policy because we live in a time of overlapping global economy, global health, and global security. That explains why in 2023, the USA revived its concerns that the Covid-19 pandemic began with a lab leak in Wuhan, though it did not reveal any evidence for that, or why it aggressively connects China's economic development with security concerns in the West. In addition, Washington often attributes its aggressive global policy as being in response to China.

America has been involved in the war in Eastern Europe, which may finish tomorrow or last a decade. It's also been involved in the war in Syria and intensively focused on the Indo-Pacific region, saying that "the Indo-Pacific faces mounting challenges, particularly from the PRC. The PRC is combining its economic, diplomatic, military, and technological might as it pursues a sphere of influence in the Indo-Pacific and seeks to become the world's most influential power. The PRC's coercion and aggression spans the globe, but it is most acute in the Indo-Pacific".<sup>19</sup>

America's vision is a free, open, democratic, consistent with international law and peaceful Indo-Pacific where governments can make "independent political choices free from coercion".<sup>20</sup> But how should we understand the US contributions to stability and democracy in the region?

NATO has increased its interest in the Indo-Pacific region, criticizing China, which is not "our adversary" and urges allies of the USA to form closer ties since trans-Atlantic and Indo-Pacific security are "deeply interconnected".<sup>21</sup> The new NATO strategic document hints at the possibility that NATO is trying to interfere in China

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<sup>18</sup> See the House Speaker Kevin McCarthy's Floor Remarks on Establishing the China Select Committee, <https://www.speaker.gov/29821-2/>.

See Mike Gallagher's call China and the USA are locked in a Cold War. We must win it. Here's how we will, Fox News, December 8, 2022, 10:11 am EST, <https://www.foxnews.com/opinion/america-locked-china-cold-war-win>.

<sup>19</sup> See Indo-Pacific Strategy of the USA, The White House, February 2022, <https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf>.

<sup>20</sup> Ibid.

<sup>21</sup> NATO chief urges closer ties with Japan to defend democracy, CNBC, January 31, 2023, <https://www.cnbc.com/2023/02/01/nato-chief-urges-closer-ties-with-japan-to-defend-democracy.html>.

and Russia's regional activities, aiming to drive Russia out of Europe and China from the Indo-Pacific.<sup>22</sup>

The strategy echoes America's geostrategic interests and pushes countries from the EU to step up in terms of Indo-Pacific geopolitical competition. NATO and the EU currently have 22 member countries in common while Sweden is on the way to join NATO "as soon as possible" as America's President Joe Biden promises, though Turkey and Hungary block its accession to the alliance. Of the 31 members of NATO, two are North American and 29 are European!<sup>23</sup>

Japan, South Korea, Australia, and New Zealand participated in the 2022 Madrid NATO Summit for the first time. The USA and NATO have pressured its Indo-Pacific partners to provide weapons and ammunition for Ukraine, but they have been unwilling to risk their relations with Russia. However, South Korea has approved Poland's export of artillery weapons with South Korean parts to Ukraine.<sup>24</sup> Joining any military anti-China alliance would be a dangerous decision for South Korea and Japan due to their strong economic interdependence with China. Japan, for example, brings imported oil along the southeast coast of Taiwan, so any conflict in that area would lead to an energy crisis, as well as a crisis of other commodities.

The USA has also formed a new military alliance, which it has named AUKUS, and revived an old one, the Quadrilateral Security Dialogue, under the pretext that the balance of power in the region has changed in favor of China. Seoul announced that it would gradually approach the group to formally join. This trilateral partnership unveiled details of a plan to provide Australia with nuclear-powered attack submarines and it raised questions about nuclear proliferation.<sup>25</sup> India, which is a member of the QUAD alliance, has remained neutral for now, though the USA hopes to get India more involved in countering China in the Indo-Pacific. For now, ASEAN member states are refraining from choosing between the USA and China, considering both important partners.

In 2023 the USA announced the opening of its embassy in the Solomon Islands, after 30 years of without one, in response to the security agreement between China and the island country signed in April 2022. China has emphasized that "China has come to the South Pacific region to build roads and bridges and improve the people's lives, not to station troops or build military bases".<sup>26</sup> However, the USA and its

<sup>22</sup> See NATO 2022 Strategic Concept, <https://www.nato.int/pdf/2...>

<sup>23</sup> Based on NATO estimates for 2022, the USA contributes 1.3 million armed personnel, making up 40.7% of the 3.3 million armed personnel in the alliance. The remaining 59.3% come from Canada and European countries. See <https://shape.nato.int/page13615743>.

<sup>24</sup> Josh Smith and Joyce Lee, Exclusive: Seoul approved Poland's export of howitzers with South Korean parts to Ukraine, Reuters, March 8, 2023, <https://www.reuters.com/world/seoul-approved-polands-export-howitzers-with-skorean-parts-ukraine-official-says-2023-03-08/>.

<sup>25</sup> See Steve Holland, Elizabeth Piper, David Brunnstrom, and Lewis Jackson, Eyeing China, Biden, and allies unveil nuclear-powered submarine plan for Australia, Reuters, March 14, 2023, <https://www.reuters.com/world/eyeing-china-biden-allies-unveil-nuclear-powered-submarine-plan-australia-2023-03-13/>.

<sup>26</sup> See Wang Yi on China-Solomon Islands bilateral security cooperation, June 3, 2022, [https://www.fmprc.gov.cn/eng/zxxx\\_662805/202206/t20220603\\_10698478.html](https://www.fmprc.gov.cn/eng/zxxx_662805/202206/t20220603_10698478.html).

allies view the agreement as a threat to their position in Oceania. The USA and the Philippines have signed an agreement on expanding their military cooperation, in which US troops have been granted access to four more military bases in the Philippines.<sup>27</sup> More members of the US military are based in the region than in any other outside the USA”.<sup>28</sup>

Washington's strategy for the Indo-Pacific increases the US military presence, instability, and defense spending in the region, which makes it difficult to concentrate on building peace in the region and resolve the territorial disputes across the region without US interference. Meanwhile, the USA is also proactively preparing for war in the Indo-Pacific if there is a military conflict with China over “Taiwan independence”.

The American approach to Taiwan is first and foremost defined by a geopolitical doctrine, not by Washington's interests in a democratic Taiwan. Geopolitics is the biggest threat to world stability, but all American presidents have conducted foreign policy as geopolitics which views regions and their people from the perspective of their political value for the interests of great powers. This geopolitical perspective firmly shapes America's national interests as we approach the third decades of the twenty-first century.

Taiwan's strategic geographic location could play an indispensable role in terms of US geostrategy should the USA conduct military operations in the Pacific for its national security and commercial interests.

When Taiwan, which is an integral part of Chinese territory, returns to China, it will increase China's strategic position in Northeast and Southeast Asia and reduce the strategic position of the USA in those areas.<sup>29</sup>

American behavior toward Taiwan questions China's territorial sovereignty, and if it gets involved in the defense of Taiwan, the USA would be in the position of an aggressor against China. America's Taiwan Relations Act, the “Six Assurances” and The Taiwan Policy Act of 2022, contradict the three joint statements made by China and the USA.<sup>30</sup>

At the risk of being wrong, we must stress that recent American changes to the One-China policy in some way remind us of the West's promises that NATO would not expand to Russian borders, but the promises were broken and forgotten.

The West has suffered a lot from the war in Ukraine and the global economy too. There are lessons here to be learned both globally and regionally.

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<sup>27</sup> See Philippines, US Announce Four New EDCA Sites, February 1, 2023, <https://www.defense.gov/News/Releases/Release/Article/3285566/philippines-us-announce-four-new-edca-sites/>.

<sup>28</sup> See Indo-Pacific Strategy of the USA, The White House, February 2022, <https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf>.

<sup>29</sup> On Taiwan's function in the US Pacific strategy see Joseph Bosco, Cross-Strait Relations: the Strategic Importance of Taiwan, February 26, 2018, University of Nottingham, <https://taiwaninight.org/2018/02/26/cross-strait-relations-the-strategic-importance-of-taiwan/>.

<sup>30</sup> The Taiwan Policy Act of 2022, [https://www.foreign.senate.gov/imo/media/doc/SBS%20Taiwan%20Policy%20Act%20FINAL%20\(1\).pdf](https://www.foreign.senate.gov/imo/media/doc/SBS%20Taiwan%20Policy%20Act%20FINAL%20(1).pdf).

## China's View on the Strengthening of Geopolitics in the World Order

China thinks that the twenty-first century world order should be very different from that of the twentieth century and it has proposed building a “community with a shared future for humanity”, which prioritizes the common interests of humanity over the geopolitical interests of great powers. Though that view for modernization of the world order looks like it came to us from the future it has come to the world from the long history of China's foreign policy.

China does not rely on geopolitical doctrine to understand the world and shape its relations with other countries. It did not wage global or regional wars to control other countries' geographical features to expand and ensure its prosperity and strategic superiority, nor did it compete with other countries over territories and regions. China does not have the concept of geopolitics and its narrative is about global cooperation and “shared development”.

China believes nowhere should be regarded as “America's backyard” and does not see the world as a geopolitical chessboard.<sup>31</sup> China does not aspire to global hegemony and has proven it a thousand times over, but the USA, which has 800 military bases around the world, compared to China's one, does not trust China.

The constitutions of both the PRC and the CPC reject any path that leads to hegemony which destroys peace and corrupts international relations. Beijing rejects Cold War mentality and bloc trade politics and does not want to take on the US role on a global or regional level. For China, the core of the world order is the UN, and it has made real efforts to put the UN's principles into practice. China is committed to the UN, WTO, WHO, WB, IMF, and other multilateral agencies.

China's basic approach to the USA is democratic. China does not look for conflict with the USA, it does not view the USA as a systemic rival either, nor it has been working with other countries and global organizations to build an anti-USA world order as America is doing now to China. China thinks that geopolitics cannot frame international relations forever and it keeps on believing that the best way to govern international relations is peaceful cooperation and harmony among nations.<sup>32</sup> However, it understands that everything in international relations could be determined by geopolitics.

China appears patient, but it has made clear to the USA, and its allies, that America's global domination will not be based on China's economic weakening,

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<sup>31</sup> See Mo Jingxi, FM: Asia-Pacific is not a “chessboard”, China Daily, March 7, 2022, Harvard University Press, Cambridge, Massachusetts & London, England. 2022<https://www.chinadaily.com.cn/a/202203/07/WS6225d038a310cdd39bc8af23.html>.

<sup>32</sup> See a conversation between Chinese scholar Wang Yiwei, director of the Institute of International Affairs at the Renmin University of China, and British sociologist Martin Albrow. Hu Yuwei and Gu Di, “Community with a shared future for mankind” contrasts sharply with the Western thesis of “clash of civilizations”: scholars, Global Times, August 2, 2022, <https://www.globaltimes.cn/page/202208/1272051.shtml>.

changing of the strategic balance of power in the Indo-Pacific and violating China's territorial sovereignty in the matter of Taiwan.

At the regional level, China is focused on using soft power diplomacy, but its position is clear and consistent: in the event of a change in the status of Taiwan, it is ready for war. In 2005, Beijing adopted an anti-secession law, which states that it would attack Taiwan if it declared independence. The Communist Party of China has taken numerous actions to convince its compatriots that they wish to achieve reunification without force, and on these grounds, in 1981, it published the Nine-Point Proposal for the Resolution of the Taiwan Question.

Thanks to numerous agreements on the development of bilateral relations, first in the field of trade, transport, and postal services, and later in the field of tourism, political, cultural, financial, and sports cooperation between countrymen, there has been great progress in the field of economic cooperation and growth of political trust. Taiwan exports significantly more to China than to America.

The true history of diplomatic relations between the world's largest economic powers began with the American recognition that Taiwan is an inalienable part of China's territory. Ever since the Nixon-Kissinger foreign policy, America has refrained from supporting Taiwan's independence and membership in international organizations, but recent changes in Washington on the One-China policy worry China as does increased sales of US arms to Taiwan, which challenge the three joint communiques of 1972, 1979, and 1982.

Relations between China and Taiwan have seen through many crises, most of which were caused by America. The 2022 visit of the Speaker of the US House of Representatives to Taiwan undermined China-US relations and regional stability, while also failing to win political points for the Democratic Party. During that visit, China demonstrated that it could surround and isolate Taiwan from all sides with its navy and it can target any point on the island with missiles. The visit, which the American president could have prevented, reveals an ignorance of the USA for China's warnings.<sup>33</sup>

With regard to global governance China has answered with a new concept the Global Security Initiative (GSI) to counter current security imbalances in the world order caused by strengthening geopolitics in the world system.<sup>34</sup> The President of China Xi Jinping proposed the Global Security Initiative at the Opening Ceremony of the Boao Forum for Asia Annual Conference 2022.<sup>35</sup>

In addressing conflict in Europe, China is the only major power that offered a document that proposed a political settlement of the Ukraine crisis focused on

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<sup>33</sup> See Jasna Plevnik, One China, One USA, and (not) One War, Večernji list, September 3, 2022. <https://www.goeconomic-forum.com/en/research-and-opinion/233-one-china,-one-usa,-and-not-one-war.html>.

<sup>34</sup> See The Global Security Initiative Concept Paper, Ministry of Foreign Affairs of the People's Republic of China, February 21, 2023, [https://www.fmprc.gov.cn/mfa\\_eng/wjbxw/202302/t20230221\\_11028348.html](https://www.fmprc.gov.cn/mfa_eng/wjbxw/202302/t20230221_11028348.html).

<sup>35</sup> See Xi Jinping Delivers a Keynote Speech at the Opening Ceremony of the Boao Forum for Asia Annual Conference 2022, Ministry of Foreign Affairs of the People's Republic of China, April 21, [https://www.fmprc.gov.cn/eng/zxxx\\_662805/202204/t20220421\\_10671083.html](https://www.fmprc.gov.cn/eng/zxxx_662805/202204/t20220421_10671083.html).



bringing peace to Ukraine, and stopping the military-economic chaos that has spread around Europe.<sup>36</sup> The 12-point document emphasizes that nuclear weapons must not be used and that nuclear wars must not be fought.<sup>37</sup>

However, the will for the war is prevailing in the West, which suits American geostrategic interests. The USA can easily be defined as a direct party in the Ukrainian conflict if we look at its military, intelligence, and cyber involvement, while in Brussels, there are only two or three member countries, Hungary for example, that are concerned about the economic and strategic interests of the European Union.

In the Middle East, China's diplomacy increased efforts into building stronger economic ties with that region. It urges Saudi Arabia to help speed up efforts for Gulf free-trade zone. After years of hostility, Saudi Arabia and Iran announced their agreement to re-establish diplomatic relations based on talks held in Beijing. China facilitated the agreement that will likely increase stability and security in the Gulf and help extinguish conflicts in the Middle East from Yemen to Syria.<sup>38</sup> China's economic and political pivot to the Middle East has strengthened the perception of China as peaceful power around the world.

China leads an independent foreign policy based on its essential interests and predominant trends in the world aiming to develop well relations with all countries and improve global governance in cooperation with other powers.

After the war in Ukraine, China must reassess on which major powers it can count on to strengthen peace and shape a bolder multipolar world order in the future without jeopardizing its strategic interests. In 1990, China, Russia, and the EU shared the idea of a stronger multipolar world, but now the European Union rejects all relations with Russia, following the US's non-peaceful solutions for resolving the conflict in Europe.

In that context of realignment of relations between the main powers, China's strategic choice is strengthening of strategic coordination with Russia, which is, as well as China, committed to realizing the multipolarity world.<sup>39</sup> China's strategic choice is strengthening of strategic coordination with the EU based on "Strategic Partnership", established in 2003.<sup>40</sup>

The legacy of almost five decades of a close partnership between the EU and China that until now has not been burdened by geopolitics gives optimism, but the extent of the Union's commitment to the US hegemony is seriously worrying and inexplicable.

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<sup>36</sup> See China's Position on the Political Settlement of the Ukraine Crisis, February 24, 2023, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/202302/t20230224\\_11030713.html](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202302/t20230224_11030713.html).

<sup>37</sup> Ibid.

<sup>38</sup> See Parisa Hafezi, Nayera Abdallah, and Aziz El Yaakoubi, Iran and Saudi Arabia agree to resume ties in talks brokered by China, Reuters, March 10, 2023, <https://www.reuters.com/world/middle-east/iran-saudi-arabia-agree-resume-ties-re-open-embassies-iranian-state-media-2023-03-10/>.

<sup>39</sup> See Xi meets Putin in Moscow, China Daily, Xinhua, March 20, 2023, <https://www.chinadaily.com.cn/a/202303/20/WS641861d9a31057c47ebb57d7.html>.

<sup>40</sup> How the European Union's attitude toward China has changed from synergy to "strategic challenges", see Jasna Plevnik, "China's Belt and Road Initiative's Impact on Europe", Prunus Press USA, 2022. pp 113-139.



It is difficult to estimate when these changes will affect relations between China and the European Union.

The founding fathers of a United Europe, Robert Schuman, and Jean Monnet, would be shocked by the current EU's strategic dependence on the USA in resolving the war in Europe, which is first and foremost a European problem. The EU's leadership appears paralyzed, completely deprived of political global, and European initiatives for peace. Meanwhile, the USA is using Poland and the Baltic states, which have a long history of bad relations with Russia, to put pressure on the balance of power within the European Union and in Europe in a direction toward East Europe. Development in that direction could weaken the cooperation between China and the countries of Central and Eastern Europe.

## Conclusion

The USA is seriously missing an attentive and non-ideological assessment of China's global diplomacy for better global governance, and trust in China's view on "shared development".

China strives for cooperation and opposes a decoupling mentality among countries by implementing regionally and globally new models of cooperation through its main global platforms: the Belt and Road Initiative, the Global Development Initiative, as well as its concept of a Community with a Shared Future for Humanity, and the Global Security Initiative which is based on the principle of "indivisible of security".

America's strategists seriously overestimate China's will to take over the US's hegemonic position in the world order, while underestimating China's results in global infrastructure, eradication of poverty, and healthcare results in fighting Covid-19, which strengthen the stability of the world.

Both powers have a moral duty to change the world for the better and to do that have to coexist and cooperate. China and America respect each other in many things regardless of ideological differences, and economic wars, and must find a way to reboot cooperation and reduce tensions in the world.

A conflict between America and China is possible to avoid now, and for a hundred years on. We believe that China and the USA will one day work together on saving the world from chaos as they defended the world together in the novel by Liu Cixin titled *The Three-Body Problem*.



**Jasna Plevnik** is the founder and president of the Geoeconomic Forum Croatia. She is the author of several books on international relations including *China's Belt and Road Initiative's Impact on Europe* (2022); *The Belt and Road Initiative and its Implications for Southeast Europe* (2016); *China in the Balkans* (2013) with Former President of Croatia Stjepan Mesić. She is also the author of *The Age of Economic Diplomacy* (2011) together with Stjepan Mesić, Former President of Croatia; *The Price of the New World Order: World Challenges to National Interests* (2009); *Beyond Globalization* (2003) translated in Albanian as *Pas globalizimit* (2003).

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# **Global Relations—China and the World**

# The Sino-American Conflict: From Escalation to Resolution



Stephen Roach

**Abstract** In the past five years, the USA and China have become embroiled in a trade war, a tech war, and now a potential new Cold War. Both nations should take their relationship risks far more seriously than they are doing so. Just as human pathology tells us that relationship conflicts cannot be resolved with one side imposing its system, its values, on the other, the same is true of nations. In that spirit, this article offers a three-part plan of Sino-American conflict resolution that breaks from the dysfunctional approach of the past.

**Keywords** US-China relations · Trade war · Tech war · Cold War · Trust deficit

The trajectory of conflict escalation between the world's two great powers is unmistakably ominous: in the past five years, the USA and China have become embroiled in a trade war, a tech war, and now a potential new Cold War. I argue in a new book, *Accidental Conflict*, that this perilous path could have been avoided had it not been for a confluence of false narratives that both nations have embraced toward each other.

The hows and whys of these dueling false narratives are an outgrowth of a now dysfunctional relationship. Two seemingly strong nations are, in fact, surprisingly vulnerable. The once unstoppable Chinese growth model is today in serious need of repair. Meanwhile, the USA not only faces its own economic struggles but is also beset by political and social instability.

It has become politically expedient for both nations to blame their vulnerability mistakenly on each other. China views America's efforts to contain its rise as nothing short of an existential threat to Xi Jinping's aspirational vision of rejuvenation and goals of great power status. Yet its failed efforts at economic rebalancing reflect shortcomings of its own making. For the USA, China is seen as the existential threat

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S. Roach (✉)  
New Haven, US

to its economy, its dominance as the world's leading innovator, and ultimately its national security. Yet an outsized trade deficit with China has become America's foil for a chronic shortfall of domestic saving that undermines US innovation potential far more than any Chinese threat.

This combination of vulnerability and political expediency has spawned the dueling false narratives of accidental conflict—the high-octane fuel of escalating confrontation that could be ignited by the slightest spark. And there are plenty of potential sparks to worry about: from America's perspective, think Taiwan, human rights allegations over China's treatment of ethnic Uyghurs in Xinjiang Province, and China's new unlimited partnership with Russia and from China's perspective, think about Nancy Pelosi's recent provocative visit to Taipei, the Biden Administration's full-throttle sanctions on Chinese technology, and a US national security strategy that singles out China's in terms of both intent and power as the greatest long-term threat to world peace.

Both nations should take their relationship risks far more seriously than they are doing so. The USA smugly presumes that its victory in the first Cold War against the former Soviet Union is a template for success in a second Cold War against China. Yet the most decisive feature of that earlier conflict—the economic supremacy of a then vibrant US economy relative to much smaller and progressively weakening Soviet economy—is not applicable in a second Cold War against a large and still strong Chinese economy. Similarly, China is convinced in the superiority of its state-directed blend of socialism and capitalism, especially as compared to its perception of a declining America. Both nations are overly confident, in the grips of a worrisome denial.

This complacent reaction is both surprising and dangerous. A dysfunctional Sino-American relationship is in desperate need of repair—before it is too late to prevent the accidental conflict of false narratives from erupting into a full-blown clash of great powers. This is, first and foremost, an urgent relationship problem that needs a relationship solution. Just as human pathology tells us that relationship conflicts cannot be resolved with one side imposing its system and its values, on the other, the same is true of nations. Both the USA and China need to imagine a new approach to mutual engagement. In that spirit, I offer up a three-part plan of Sino-American conflict resolution that breaks from the dysfunctional approach of the past.

## **From Distrust to Trust**

There is, at present, little in the way of trust between the USA and China. An era of constructive engagement has given way to blame, scapegoating, and distrust. Once lost, it is hard to recreate trust. Yet there is a rich agenda of trust-building options available to the USA and China. The trick is first to pick the low-hanging fruit and then gradually start to move to the higher branches of the tree.

As with individuals, the resolution of conflict between nations must start with the restoration of trust, a long and arduous process under the best of circumstances.

The trust problem does not exist at the person-to-person level in either the USA or China. Even though US public opinion polls report the most unfavorable view of China on record, Americans' negative perceptions are largely focused on the Chinese government. The target of Chinese distrust is similar, focused on US government actions aimed at punishing China or containing its rise.

Distrust has been brewing between the USA and China for a long time. It almost seemed as if Chinese leaders knew trouble was coming in the months before Xi Jinping assumed office, in November 2012. Earlier that year, as vice president and heir apparent, he had embarked on a five-day "getting to know you" tour of the USA. On the eve of the visit, then Vice Foreign Minister Cui Tiankai said, "There is certainly a trust deficit between China and the United States." Cui, who later became China's longest-serving ambassador to the USA, had a deep understanding of America, but even he may not have suspected the full range of trust problems that were to come.

What might break the ice, shift the pendulum from distrust to trust? There are, in fact, several easy options. These include the reopening of closed consulates in both nations—Chengdu in China and Houston in the USA. Other examples include restarting once popular and highly successful student foreign exchange programs and a relaxation of now tough visa requirements for travelers between the two nations. Reducing new constraints on non-governmental organizations (NGOs) is a longer reach higher up the tree. But it is critical to rebuild civil society relationships at all levels—cultural and professional, alike.

Finally, there are big reaches in the upper branches of the Sino-American trust-building tree—climate change, world health, and cybersecurity. The first two pose grave threats to humanity, and the third issue, cybersecurity, jeopardizes global platforms of commerce as well as to the delicate equilibria of social, political, and military stability in each nation. These three issues stand out as urgent challenges facing both the USA and China. And they pass the litmus test of urgency by underscoring the consequences of failure—climatic disaster, recurring pandemics, and commercial and state-sponsored cyberwarfare.

To be sure, it is an uphill battle on all three of these big issues. The imminent threats of climate change are hard to deny. The August 2021 report of the Intergovernmental Panel on Climate Change dispelled any doubt of the devastating impact of human actions in boosting greenhouse gas emissions. And the extreme weather events of 2021–23—an unprecedented confluence of storms, fires, and floods—tell us that climate change is already here and demands urgent global action. For the USA and China, leadership moments like this rarely occur with such clarity.

The lingering perils of the Covid-19 pandemic are also ripe for mutual action. Even in the USA, where scientific breakthroughs have led to miraculously quick development and distribution of vaccines, the mutation of new variants has collided with political backlash against widely accepted public health practices. In today's interconnected world, it is virtually impossible to arrest pandemics without a global cure. Approaching the problem narrowly as a national threat is a recipe for failure—especially with the high likelihood of a steady stream of variants, to say nothing of the distinct possibility of another pandemic at some point in the not-so-distant future.

Again, this is a clear opportunity for the USA and China to share leadership on a global issue of historic importance.

Finally, the unprecedented global outbreak of ransomware—hackers holding institutions and individuals hostage over cyber access—leaves little doubt that of the corrosive threat to cybersecurity. Business activity already has been crippled in key segments of the US economy, including energy, food supply, travel services, higher education, Internet services, and water. Similar incidents have been reported in the UK, in Continental Europe, and throughout Asia. Even China, with its supposedly airtight control over the Internet, has seen several instances of reported ransomware in areas such as shipping and online services platforms. China has been accused as a perpetrator and identified as a victim in the outbreak of criminal ransomware activity. Ransomware is only one aspect of the many issues that could compromise cyber connectivity around the world—including allegations of stolen trade secrets, intellectual property theft, piracy, and destabilizing social and political turmoil amplified through social networks. An urgent global solution is needed to address these threats, and US-China leadership could be decisive in leading the way.

There is an important lesson in these crosscurrents of action and inaction: US-China joint commitments on climate change, while tentative at best, show that similar collaborative efforts are also possible on pandemics and cybersecurity. Action often tends to be event driven. Such was the case on climate after a profusion of weather-related natural disasters in 2021. While it is extremely disappointing that the worst pandemic in a century has not sparked comparable collaborative action on global health, there is growing recognition that some form of collective response will be required to prevent the inevitable next pandemic. It will probably take a major cross-border cyber failure to bring the USA and China to the table to address risks to the digitized world's precarious infrastructure.

But there is an important risk to this reactive approach. With climate change, global health, and cybersecurity, waiting for facts may be too late. China and the USA have a joint opportunity for a rare demonstration of global leadership. Trust building between two conflicted nations, to say nothing of the fate of the world, may hang in the balance.

From a relationship perspective, the goals of trust building are simple: reengagement in proactive discussions, troubleshooting common problems, and relearning the art of familiarity that comes from working together. While simple in concept, the rebuilding of trust is complex in execution. Yet without trust, leaders are afraid and reluctant to take risks on conflict resolution. Trust gives them the courage to act. After years of deepening distrust, there can be little hope for the grand kumbaya moment of a spontaneous reversal. Picking the low-hanging fruit is the best place to start.

## The Bilateral Investment Treaty

Trust building is necessary but not sufficient for conflict resolution. It only opens the door to the next and even tougher phase, which requires a fundamental rethinking of the perspective and framework of engagement.

For the USA and China, economics has long been the anchor of their engagement and cross-border trade is where the anchor gets most of its weight. Yet for far too long, the USA has been saddled with a misdirected approach to trade policy. Granted, foreign trade deficits are emblematic of a leakage of jobs and income to a nation's trading partners. But rather than understand and tackle the forces giving rise to this condition—namely a shortfall of domestic saving—the USA has preferred instead to pin the blame on others. Japan was the scapegoat in the 1980s, and now it is China.

Yet facts and economic theory underscore the futility of this approach. Nations like the USA, with low domestic saving, must borrow surplus saving from abroad in order to invest and grow. To attract foreign capital, they run current account and multilateral trade deficits. America's multilateral trade gap consisted of 106 bilateral deficits in 2022 and the measurement of many of those imbalances is seriously distorted by the impacts of multinational supply chains that are not captured in official country-specific trade statistics. Unless the USA raises domestic saving—exceedingly difficult to do in an era of chronic federal budget deficits—there can be no targeted bilateral strategy fix to America's pervasive multilateral trade problem.

The US government—Congress and the White House—unfortunately has no desire to cut budget deficits and raise domestic saving. Instead, it would rather blame its largest trading partners for trade deficits—first Japan, now China—than get its own fiscal house in order. This “bilateral bluster” also resonates with a hard-strapped US middle class. America's political economy of trade bashing has broad-based and deep appeal.

That was exactly the presumption of the so-called Phase I agreement, signed by America and China in January 2020, that was purported to be a big step toward solving the US trade problem. As the label of the approach suggests, additional phases were expected, presumably building on the bilateral effort that was adopted in early 2020.

Unsurprisingly, Phase I did not work. Not only did the overall US trade deficit get worse, but as economic theory would have predicted, without fixing its saving problem, the US trade was diverted from China to higher-cost foreign producers such as Mexico, Canada, Vietnam, Taiwan, Singapore, South Korea, India, and others. That, and the added costs arising from sharply increased tariffs on many Chinese imports, made for the functional equivalent of a tax hike on American consumers and businesses. Moreover, the Phase I deal did virtually nothing to address the deeper structural aspects of the US-China conflict embedded in two very different systems of governance. Furthermore, if Phase I is ever followed by second phase, we can expect more of the same.

This flawed logic can be corrected only when the mindset of a bilateral approach is abandoned. Thankfully, the deal expired at the end of 2021, but the bilateral thinking



behind this approach unfortunately didn't. Katherine Tai, US Trade Representative (USTR) for the Biden Administration, remains steadfast in her insistence of holding China accountable for compliance with the flawed Phase I agreement of the Trump Administration. The continuity of the anti-China policy of these two administrations is striking.

Phase I was a fig leaf that allowed both the USA and China to fixate on bilateral trade while ducking the tough issues that divide them, namely, saving imbalances—the US saves too little and China saves too much—and a wide range of disagreements over so-called structural issues, such as innovation policy, forced technology transfer, intellectual property protection, and alleged unfair subsidies for state-owned enterprises. It makes no sense to cling to a misdirected and analytically unsound bilateral trade deficit framework. The misdirected thinking behind this zero-sum approach must be abandoned.

But then what? This is where the relationship aspect of the US-China conflict needs to be addressed head on. The current battle over technology, innovation, and intellectual property is a prominent case in point. The Biden Administration has just issued comprehensive regulatory restraints on Chinese tech companies that take direct aim at one of the key pillars of Xi Jinping's aspirations of China's great rejuvenation—the indigenous innovation of a state-directed technology superpower. For the USA, technology leadership and sustained prosperity go hand in hand. For China and its tech-enabled great power aspirations, there is no room for compromise.

That gets to the core of the relationship problem. Two nations, with two very different systems, are trying to tackle a hugely contentious shared issue in very different ways—a classic recipe for conflict. Yet both the USA and China each want fair and increased access to the other's large and expanding markets in order to promote long-term economic growth and prosperity. Each nation believes in the merits of its own carefully crafted approach, and yet each doubts the integrity of the other's approach. What authority or which framework might credibly adjudicate disputes over technology transfer and intellectual property rights protection arising from these two very different systems is left as a prominent loose string.

A *bilateral investment treaty* (BIT) is a time-tested approach that many nations have embraced as a means toward that end. Over the years, the USA has signed forty-seven BITs, of which thirty-nine are currently in force. China has 106 BITs in force, more than any other nation. My recommendation: the USA and China should do a framework swap, trading Phase I and its associated tariffs for a strong, high-standard BIT.

A BIT is a broad rules-based framework for cross-border investment between partner countries, whatever their economic structures may be. This flexibility is especially important to its potential as a mechanism to address the US-China structural agenda. BITs provide leeway in designating “negative lists” of industries that the partners agree will *not* be covered, as well as opportunity to focus on innumerable issue-specific side considerations (dubbed “non-conforming measures” in the US BIT model template) that receive considerable attention in drawn-out country-by-country negotiations.

These side issues have covered a wide range of special concerns. Side issues in US BITs include foreign exchange reserves (Egypt), exemptions for debt-to-equity conversions (Argentina), new developments in intellectual property investment (Poland), local content requirements (Turkey), government procurement practices (Uruguay), and minority affairs and social services (Rwanda). Such case-specific modifications provide the flexibility to create bespoke BITs tailored to the structural characteristics of each of America's partnerships. That is the special attraction of the BIT as a template for structural arbitrage between the USA and China.

Of course, there is an obvious and important political aspect of a US-China BIT. Two-thirds of the US Senate is required for ratification of any treaty. In America's current hyper-charged political climate, that spells trouble for a BIT, especially one with China. This has prompted some to suggest rebranding the effort as an "agreement" rather than push for enactment of a politically impossible treaty. A congressional-executive agreement, like those that framed both NAFTA and its successor, USMCA, would be a BIT in everything but name; but it would "only" require the approval of the president and a congressional majority, avoiding the unrealistic hurdle of two-thirds Senate approval.

Politics aside, a big caveat to be sure, the BIT approach to US-China structural arbitrage is far preferable to clinging to the mindset of the misdirected and unworkable Phase I bilateral trade framework. Shifting the focus from bilateral trade to a BIT-like adjudication of the structural aspects of the conflict gets to the crux of the growth challenges that both the USA and China face. Going back to the bargaining table and putting the finishing touches on BIT negotiations that were nearly completed in 2016 deserves the highest priority in a negotiated, relationship-focused strategy of conflict resolution.

## **A US-China Secretariat**

In days past, at least the USA and China could rely on an architecture of engagement to try and sort out their differences and push the ball forward. Regular meetings of the Joint Commission on Commerce and Trade (dating back to 1983) and then the once- or twice yearly economic and strategic summits (starting in 2006) were the most notable attempts at bilateral Sino-American engagement. Both efforts were terminated by America's Trump Administration when the trade war began in 2017–18.

What little remains of US-China engagement are sporadic leader-to-leader meetings (physically and virtually) and infrequent high-level meetings between national security, foreign policy, and trade officials. Unfortunately, these meetings are long on glitz and short on substance. They accomplished very little as the relationship deteriorated and ultimately became a platform for cold-war-like posturing.

Engagement has become all but an oxymoron for the two most powerful nations in the world. There is no constituency in the US Congress in favor of rebuilding

America's relationship with China. The US business community is afraid to speak out. Public opinion polling shows US sentiment toward China at record lows, irrespective of political party, demographic cohort, or educational background. There can be no mistaking the strident consensus of America's anti-China mindset.

This is a recipe for accidental conflict. The US Congress is falling over itself to craft new legislative initiatives that will only make matters worse by taking dead aim at China. The Biden Administration's new proposal for a 14 nation Indo-Pacific Framework follows the approach of Obama's TPP, forging an Asian alliance that excludes China. A new House Select Committee on China has been established that will only further inflame Sino-American tensions over Taiwan. China is responding in kind, deepening its commitment to a new unlimited partnership with Russia just when Russia is prosecuting an unthinkable war in Ukraine.

Now more than ever, the USA and China both have urgent and compelling reasons to rethink the way they exchange views, trouble-shoot seemingly intractable problems, and resolve differences. They need a new structure for their dialogue, a new architecture of engagement.

A *US-China Secretariat* could provide that structure. Like the multinational secretariats of organizations like the United Nations, the Organization for Economic Cooperation and Development, the World Trade Organization, and many others, a US-China secretariat would provide administrative and coordinating cohesion between the USA and China. It would be the first such effort involving just two nations.

Significantly, a US-China secretariat would shift the attention on relationship issues from part time to full time. The previous periodic dialogues, until they were canceled by the Trump administration, were more like event-planning exercises supported by massive temporary staffs drawn from numerous government ministries and agencies. They were exercises in political theater that accomplished little while conflict deepened.

The new US-China secretariat would be housed in a permanent office, located in a neutral jurisdiction, and staffed by equal complements of American and Chinese professionals for whom the relationship would be a full-time job. It would serve as a collaborative platform focused on all aspects of US-China relations—from trade and technology, to subsidies of state-sponsored activities, to human rights, climate change, global health, and cybersecurity. The new secretariat, organized functionally rather than as two stand-alone, siloed, country-specific efforts, would have four key responsibilities:

- ***Relationship framing.*** The secretariat would play an important role in framing the US-China relationship, serving as an official evidence- and research-based platform recognized by both sides. Importantly, the research function would also oversee joint database development and management, that would include proprietary data gathering, quality scrubbing of dual-platform statistics maintained individually by the two countries, and broad coverage in all areas pertinent to the relationship. The secretariat would provide experts and decision-makers in both nations with a common set of shared, fact-based policy options. This function would feature a collaborative research program, with jointly authored policy

background, or “white papers,” focused on mutual growth opportunities as well as on conflict resolution; joint policy recommendations would be channeled directly into designated congressional committee deliberations of both nations.

- **Convening.** The secretariat should also serve as an important hub for convening and integrating networks of relationship expertise that already exist in both nations, including academics, think tanks, business, and trade associations. The intent would be to serve as a clearinghouse of expert talent that could be drawn on to address issues of mutual interest. The lack of collaborative efforts during the early stages of the Covid-19 pandemic is a good example of how the convening function of an effective secretariat might have made a real difference in crisis management.
- **Oversight and compliance.** The secretariat would oversee the implementation and monitoring of agreements between the USA and China. The development and use of “dashboards” as a tracking device to assess detailed implementation and compliance requirements of joint agreements would be especially helpful with new agreements such as the Bilateral Investment Treaty stressed above.

In today’s rapidly changing world, conflicts are bound to arise over contentious structural issues—especially intellectual property rights, technology transfer, state-supported industrial subsidies, and cybersecurity. The US-China secretariat, empowered with a transparent conflict resolution screening function, has the potential to play a leading role in conflict management. It could provide a first stop for the airing of grievances between the USA and China. If, for example, agreement on a BIT was ever reached, inevitable disputes could be screened, evaluated, and conceivably resolved by the secretariat prior to formal submission of complaints to the World Trade Organization or the World Bank’s International Centre for Settlement of Investment Disputes.

- **Outreach.** The secretariat should also have an important outreach function. A transparent, open, uncensored, web-based communications platform is essential, complete with a public version of the US-China database, working papers of the secretariat’s staff researchers, and a coauthored quarterly review of US-China relationship issues. The secretariat should sponsor regular public conferences on key relationship issues.

The new secretariat should not be viewed as an autonomous policy authority but more as an *apolitical* bilateral think tank and consultative organization. Earlier joint efforts between the World Bank and China’s Development Research Center—the *China 2030* project of 2013 and *Urban China* of 2014—are noteworthy precedents that underscore China’s potential to engage in collaborative policy-driven research. As such, the secretariat should be staffed by experts—call them technocrats, if you like—who possess the professional skillsets required of the complex tasks of Sino-American relationship management. That would include, but not be limited to trade experts, economists, lawyers, diplomats, scientists, and technologists.

Chinese and American co-heads of the secretariat, empowered as cabinet level policy advisors to their respective governments, would be responsible for talent selection. While the co-heads would oversee their respective staffs, they would be

urged to integrate them into comingled US-China departments rather than operate as siloed, country-specific teams. Secretariat leadership should consult regularly with an actively engaged outside advisory board with equal representation from the USA and China but also including members from other key nations and regions.

The basic point of the secretariat is to elevate the bilateral US-China relationship to the importance it deserves in the governance of both nations. A US-China secretariat won't immediately bestow a new spirit of mutually constructive engagement. But it would be an important step in that direction. The world's most important bilateral relationship needs constant attention—not just now, at the height of conflict, but also during more normal times so as to avoid future conflicts. A new secretariat, in conjunction with a high-standard Bilateral Investment Treaty that addresses key areas of structural difference, would give Sino-American relationship building a much better chance than it has today.

## The Clean Slate

Conflict resolution of a dysfunctional relationship between the USA and China requires urgent attention. But the resolution must be on terms that are mutually acceptable to both. This is especially challenging for two powerful yet very different nations, each with its own set of values, governance, and historical experience. The current approach to relationship management has failed. The USA mistakenly believed that a reformed China would conform to western liberal values. China mistakenly believed that the West would be tolerant of what the CPC has dubbed Chinese characteristics. The relationship dissonance that arises from this clash of two very different systems must be addressed head on. The approach I have presented above—trust building by picking the low-hanging fruit of common interest while creating a bespoke BIT and a companion US-China Secretariat—was imagined with that objective in mind.

A new and different strategy for conflict resolution must be carefully aligned with the character of the relationship and the sources of conflict that have arisen in that relationship. At a minimum, this requires a strong and enforceable agreement on key contentious issues that have fractured the US-China relationship. All that and more can come from a high-standard Bilateral Investment Treaty. A new secretariat has the added potential to make this treaty a living document that nurtures a dynamic, productive, and expanding interdependency. It would also offer the added bonus of a shared workspace to nurture a climate of interpersonal familiarity. Trust building often starts with small steps.

Most of all, this combination of formal agreement and new institutional support would allow China and the USA to directly address the tough and important structural issues that have divided them. Fear of the consequences of failure should be a palpable incentive for collective action. The ominous trajectory of conflict escalation has put the relationship in the danger zone. With the shocking outbreak of war in Europe, worrisome geostrategic tensions add an exclamation point to that warning.

Political accountability is another incentive. The political economy of expediency could well be the most insidious aspect of this accidental conflict. Both nations have been compromised by the globalization of a polarized interconnected world that has put considerable pressure on workers and their families. When they view their options as voters or as citizens, they tacitly condone the “easy” solutions of the nationalistic blame game that pits a rising China against the incumbent hegemon, the USA.

The dark forces of a troubled relationship are not easy to contain. There is nothing automatic in any agenda for resolution, including the approach I have suggested. But whatever the option, one thing is certain: focus on both sides needs to shift from finger-pointing to seizing the collective opportunities of mutual collaboration. Without trust, wisdom, and courage, leaders in both nations will be stymied, unable or unwilling to take that critical step.

For the USA, the strength to undertake that rethinking must come from within—not from strategies of adversarial containment. China has an equally urgent need to confront its internal imbalances and dispel fears of its global intentions, now supported by its increasingly muscular projection of power. For both nations, avoiding accidental conflict will require an end to the clash of dueling false narratives. It would be one of history’s great tragedies to squander that opportunity.



**Stephen Roach** is a Senior Research Scholar of the Paul Tsai China Center at Yale Law School, which he joined in 2010 after 30 years at Morgan Stanley. A passionate teacher and a prolific writer, his books include *Accidental Conflict: America, China, and the Clash of False Narratives* (2022), and *Unbalanced: The Codependency of America and China* (2014). His works are also published in academic journals and on Project Syndicate’s platform.

His vision of the “Next China” grew out of his respect for the past as a template for the possibilities of China’s uncertain future based in his experience as a leading US economist and an influential analyst of a rising China. His views have helped to shape policy debates from Beijing to Washington.

Prior to joining Morgan Stanley in 1982, Roach served on the research staff of the Federal Reserve Board and was also a research fellow at the Brookings Institution. He holds a Ph.D. in economics from New York University.

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# US-China Strategic Competition and Southeast Asia



Keng Yong Ong and Tiang Boon Hoo

**Abstract** There has been a pronounced shift in dynamics between China and the USA, towards one where competition is now the defining character of their relationship. Yet, growing great power competition does not mean that other international actors do not have agency to shape their strategic circumstances. With a focus on Southeast Asia, we highlight two cases of this agency. The first is ASEAN-China cooperation in COVID-19 pandemic recovery, while the second looks at China-Singapore cooperation to build a more secure regional order. Both ASEAN and Singapore have well-known, robust partnerships with the USA. Yet their relationship with the USA has not stopped ASEAN and Singapore from exercising their prerogative to work with China—when it suits—to improve the circumstances of the region. The cases show that the choices of Southeast Asian states are not necessarily defined by the US-China competition.

**Keywords** Great power competition · China · The USA · Southeast Asia · Strategic agency

The international order is undergoing a marked recalibration. This state of affairs—“transitional polycentrism” or “between orders” as some have described it—reflects a global context where several of its existing features are under increasing stress from new, emerging forces.<sup>1</sup> These changing dynamics include rising protectionism and nativist sentiments; deglobalization and reshoring; rising non-traditional security threats; and the challenges associated with post-pandemic recovery. This is a global phenomenon and the Asia-Pacific region is by no means isolated or insulated from wider global pressures and forces.

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<sup>1</sup> Shivshankar Menon, “A World between Orders,” *Foreign Affairs*, 26 January 2023; Hoo Tiang Boon, “Flexing Muscles Flexibly: China and Asia’s Transitional Polycentrism,” in Alan Chong, ed., *International Security in the Asia-Pacific: Transcending ASEAN towards Transitional Polycentrism* (Cham: Palgrave Macmillan, 2018).

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K. Y. Ong (✉) · T. B. Hoo  
S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University (NTU), Singapore, Singapore



But arguably, the most important strategic development, one with widespread ramifications, is the shift in dynamics between China and the USA.<sup>2</sup> It is evident that in recent years, the competition between the two has intensified. This is not to say both powers are in a new “Cold War”—at least not yet. Or that they will not cooperate when it suits them. More fundamentally, competition is now the “new normal” of US-China relations, with their competition spanning the key contours of the international system: economics, ideology, politics, military, and technology.

Some have depicted this development as marking the “age” or “return” of great power competition in the international system.<sup>3</sup> Such characterizations belie the point that there has always been varying degrees of contestation among the great powers of the day and that such competition is normal from a historical perspective. Notwithstanding America’s relative unipolar moment after the end of the Cold War, the history of the past 200 years is essentially one dotted by conflicts among the great powers. From that perspective, the international system is in fact reverting to a more normal state of affairs.

## Enduring Great Power Competition

Several persistent conditions mean that a fundamental reset in US-China relations—akin to the 1970s rapprochement—will be difficult. First and foremost, the strategic foundation between the two powers is essentially fragile. The key factor that bonded China and the USA during their 1970s rapprochement was a shared perception of the security threat of the Soviet Union. That *raison d’être* receded with the end of the Cold War and the latter’s dissolution. Ever since then, both sides have struggled to locate a common strategic motive to underpin relations.

Initially, economics was a key logic and glue sustaining American efforts to engage and integrate China into the US-led global order. Today it is increasingly a source of fracture, as exemplified by the ongoing bilateral trade and technological conflict that shows little sign of abating. Rightly or wrongly, perceptions in the USA that China’s rise has come at the expense of the American economy remain pervasive. What is more, economic motivations are being superseded by political logics in the USA that prioritize national security over costs and efficiencies. At the political level, many American elites had held the tacit belief that China became more capitalistic, sooner or later, this would be followed by greater political freedoms. When that did not happen—and even worse in the American view, a more tightly controlled

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<sup>2</sup> Parts of this article have been adapted from the co-author Hoo Tiang Boon’s Institute of Defence and Strategic Studies (IDSS) Paper on “China in an Age of Great Power Competition”.

<sup>3</sup> Elbridge Colby and Wess Mitchell, “The Age of Great Power Competition: How the Trump Administration Refashioned American Strategy,” *Foreign Affairs*, January/February 2020. Matthew Kroenig, *The Return of Great Power Rivalry: Democracy versus Autocracy from the Ancient World to the US and China* (Oxford: Oxford University Press, 2020).

and globally assertive China<sup>4</sup> emerged under Xi Jinping—many Americans started wondering whether it was in their country’s interests to continue engaging China in ways that meant supporting the economic rise of a political and ideological rival.

A key inflexion point was the advent of the Trump administration. Beginning with the Trump administration, the USA set in motion a series of policy shifts that signalled a more muscular approach towards China. These included the imposition of tariffs on a broad range of Chinese imports, sanctions on a number of Chinese companies, and restriction on Chinese access to American technological components.

The Biden administration has largely maintained its predecessor’s competitive approach, with Washington pitching its rivalry with China in terms of a longer-term contest between democracies and autocracies in which latter governments cannot be allowed to prevail. To shape China’s strategic environment, the Biden administration also made strategic adjustments that have seen a greater incorporation of multilateralism and alliances including inaugurating new mechanisms such as AUKUS and the Indo-Pacific Economic Framework (IPEF). At the same time, the Biden administration has not only continued with Trump’s economic and technological curbs on China, but also upped the ante by expanding the list of sanctioned Chinese companies/individuals and introducing new restrictions that aim to deny Chinese access to the tools needed to make advanced tech. Semi-conductors are a case in point. In October 2022, for example, the USA introduced additional rules restricting exports to China covering both semi-conductor components and the equipment to produce them. The rules also covered restrictions on US technological talent.<sup>5</sup> At the time of writing, the USA was seeking to induct allies such as Japan and the Netherlands in its technological curbs on China.<sup>6</sup>

From China’s perspective, it sees itself as being drawn into a “reluctant rivalry.”<sup>7</sup> Beijing resists using a “competition” narrative to characterize US-China relations, with Xi reportedly telling Biden that “the so-called ‘democracy versus authoritarianism’ narrative is not the defining feature of today’s world.”<sup>8</sup> The Chinese perception is that China is being compelled to defend its legitimate rights and interests in the face of “unreasonable [American] suppression” and that while it does not seek confrontation, it is also “not afraid” of one.<sup>9</sup> In this view, China is being “forced” to

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<sup>4</sup> On the debate on Chinese assertiveness, see Hoo Tiang Boon, “Hardening the Hard, Softening the Soft: Assertiveness and China’s Regional Strategy,” *Journal of Strategic Studies*, Vol. 40, No. 5 (2017).

<sup>5</sup> “U.S. aims to hobble China’s chip industry with sweeping new export rules,” *Reuters*, 10 October 2022.

<sup>6</sup> “Chip war: Japan and Netherlands expected to join US in ban on tech exports to China,” *The Guardian*, 1 February 2023.

<sup>7</sup> Wang Dong, “Reluctant Rival: Beijing’s Approach to US-China Competition,” *Global Asia*, Vol. 16, No. 4 (2021).

<sup>8</sup> “President Xi Jinping Meets with U.S. President Joe Biden in Bali,” *Embassy of the PRC in the United States*, 14 November 2022.

<sup>9</sup> “China condemns ‘unreasonable suppression’ as U.S. expands economic blacklist,” *Reuters*, 11 July 2021.

become the US's rival. Beijing's strategic dilemma is that Washington has already determined that China's rise is antithetical to US and Western interests.

China's response to American moves has been to push for the acceleration of homegrown innovation and greater self-reliance in key technologies and industries. Strategic "self-reliance" is seen and pitched as the only sustainable way to ensure that the country's supply chain security and technological development remain "firmly grasped" in Chinese hands.<sup>10</sup> In 2022, the 20th Party Congress of the Chinese Communist Party (CCP) basically confirmed that China will double-down on its existing approach towards this contest. Beijing will continue to emphasize the urgency for greater self-sufficiency in science and technology. It will also maintain the primacy of technology and innovation as primary source of growth and the need for state-led policies to foster it, including enhancing the national scientific infrastructure.

## **Southeast Asia: Agency (Still) amid Great Power Competition**

Great power competition is not new to Southeast Asia. Throughout its history, the region has been a crucible of contestation among the powers of the day. In the twenty-first-century version, how the contest between China and the USA evolves will have a major bearing for people living in Southeast Asia.

It has been suggested that ASEAN states could be an inadvertent beneficiary of the ongoing China-US trade and technological war if more multinational companies shift production from China to Southeast Asia due to American tariffs and curbs. While that may be true to an extent, in the longer term, a prolonged China-US economic war could re-configure the global supply chain in ways that may not be good for the region's ambitions to move up the value chain or become more economically integrated. What is more, a full-blown China-US conflict would have dire consequences for Southeast Asia. In particular, if this conflict leads to pressure that compels ASEAN countries to choose sides, the region will bear inevitable costs (such as the undermining of its unity). A serious conflict would also destabilize the wider regional and global environment, leading to conditions that would not be conducive for the region's long-term economic development.

These potential repercussions mean that even as most ASEAN states have their own preferences (and grievances) towards China and the USA based on issue areas and their respective national interests, they do not want to choose, or be placed in situations where they could be compelled to choose, between the two powers. The reality is that, to varying degrees, most ASEAN states have considerable and enduring economic and/or security linkages with both powers. This explains why strategic neutrality is the preferred position for most ASEAN states when it comes

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<sup>10</sup> "Xi stresses basic research for self-reliance in science and technology," Xinhua, 22 February 2023; Hoo Tiang Boon, "China's Great Quantum Leap Forward," *The Straits Times*, 5 March 2022.

to Beijing and Washington.<sup>11</sup> This strategic preference, however, does not mean that ASEAN countries do not face pressure (overt or otherwise) from the great powers. As great power rivalry heats up, it could become more difficult for Southeast Asian countries to find a “sweet spot” between the two.<sup>12</sup>

Institutionally, while ASEAN is not always unified on issues, it has so far done relatively well to navigate this more complicated strategic landscape. Yet it should not rest on its laurels and can do more. Because of the greater uncertainty generated by US-China frictions, ASEAN has to be more pro-active in shaping strategic currents. It must be in the driver’s seat more, including accelerating ASEAN community building and consolidating the economic integration of ASEAN member states.

This brings us to an observation often taken for granted: ASEAN countries are co-drivers too and have agency. Although ASEAN has its institutional weaknesses and Southeast Asian countries face their respective domestic challenges, they are not without agency to shape the strategic circumstances of the region. Strategic agency is not only in the hands of the big powers.<sup>13</sup> In this paper, we highlight two under-appreciated cases of this agency. The first is ASEAN-China cooperation in COVID-19 pandemic recovery, while the second looks at China-Singapore cooperation to build a more secure regional order. Both actors (ASEAN and Singapore) have well-known and robust partnerships with the USA. Yet their relationship with the USA has not stopped ASEAN and Singapore from exercising their prerogative to work with China—when it suits—to improve the circumstances of the region. This is what we mean by agency: the choices of Southeast Asian states are not necessarily defined by the US-China competition.

### ***ASEAN-China Cooperation in Pandemic Recovery***

There are two principal aspects to pandemic recovery: pandemic control and socio-economic recovery. On the first (pandemic control), even as ASEAN member states have each embarked on their own focused programs of national vaccination, China is a primary partner for ASEAN in the fight against COVID-19.

Initially, during the early stages when China was facing intense challenges in its fight against the COVID-19 pandemic, ASEAN states supported China by contributing medical supplies. Then as the pandemic started spreading globally, especially with the advent of new variants, China acted as a responsible regional player and helped support ASEAN countries in their pandemic response. For example, by

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<sup>11</sup> For a similar argument regarding middle powers, see Hoo Tiang Boon and Sarah Teo, “Caught in the Middle? Middle Powers amid U.S.-China Competition,” *Asia Policy*, Vol. 17, No. 4 (2022).

<sup>12</sup> William Choong, “Chinese-U.S. Split Is Forcing Singapore to Choose Sides,” *Foreign Policy*, 14 July 2021.

<sup>13</sup> On the strategic autonomy of small states vis-à-vis big powers, see Hoo Tiang Boon and Charles Ardy, “China and Lilliputians: Small States in a Big Power’s Evolving Foreign Policy,” *Asian Security*, Vol. 13, No. 2 (2017).

2021, China has provided more than 190 million vaccine doses to ASEAN countries, as well as other critical health and medical supplies.<sup>14</sup>

Both sides also launched the China-ASEAN Public Health Cooperation Initiative and have continued to advance the “China-ASEAN vaccine friends” platform to promote policy communication and information sharing on vaccines.<sup>15</sup> According to *The State of Southeast Asia: 2021 Survey* by ISEAS, China is seen as the dialogue partner that “provided the most help” to the ASEAN region during the pandemic.<sup>16</sup>

But pandemic recovery is not only about controlling the pandemic; it is also about regional recovery on a socio-economic level. Here, we want to highlight the significance of the ASEAN Comprehensive Recovery Framework endorsed at the 37<sup>th</sup> ASEAN Summit. The framework represents not only ASEAN’s exit strategy from COVID-19, but also a coordinated roadmap for the region to bounce back, both intra-regionally and together with its partners. Five key strategies have been proposed, including: (i) enhancing health systems; (ii) strengthening human security; (iii) maximizing the potential of intra-ASEAN market and broader economic integration; (iv) accelerating inclusive digital transformation; and (v) advancing towards a more sustainable and resilient future.<sup>17</sup>

On these strategies, China has proven to be a vital partner for ASEAN states. Indeed, China’s then foreign minister and now State Councillor Wang Yi stated that “China would like to work with ASEAN to implement the ASEAN Comprehensive Recovery Framework.”<sup>18</sup> China’s support and cooperation have been welcomed by regional states. On economic recovery, for example, despite the pandemic, trade grew between both sides in 2020, and ASEAN in fact became China’s largest trading partner, overtaking the EU.<sup>19</sup> And given that the 15-nation Regional Comprehensive Economic Partnership (RCEP) entered into force for the majority of participating countries by 2022, the trade pact’s implementation will continue to enhance and consolidate trade flows and supply chain networks in the Asia-Pacific region, helping the economic re-opening and recovery of both the ASEAN region and China.

But economic recovery is not the only aspect. It is also about healthy societies at a socio-psychological level. Here, there is room for both China and ASEAN countries to boost people-to-people exchanges or pursue new initiatives to help enhance societal resilience on both sides. It is important to develop mentally resilient nations because COVID-19 may not be the last pandemic the world will face.

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<sup>14</sup> “Wang Yi: China provides over 190m COVID-19 vaccine doses to ASEAN members,” *CGTN*, 4 August 2021.

<sup>15</sup> “Wang Yi Attends the ASEAN-China Ministerial Meeting,” *Ministry of the Foreign Affairs of the PRC*, 3 August 2021.

<sup>16</sup> *The State of Southeast Asia: 2021 Survey Report* (ISEAS Yusof Ishak Institute, 2021).

<sup>17</sup> *ASEAN Comprehensive Recovery Framework Document* (ASEAN Secretariat, 2020).

<sup>18</sup> “China, ASEAN should create new era of cooperation: Chinese FM,” *Xinhua*, 4 August 2021.

<sup>19</sup> “China-ASEAN trade skyrockets by 85 times in three decades,” *Xinhua*, 30 July 2021.

## ***Singapore-China Cooperation to Build a More Secure Regional Order***

At a broader level, while China and Singapore have their respective national interests, there are no fundamental strategic disagreements between them. Indeed, both countries share and support many of the strategic ideas that underpin global order today: peace and stability, free trade, globalization, and economic inclusivity.

For instance, China and Singapore are like-minded partners in their belief in, and support for, globalization and free trade. Both countries actively worked and pushed for the signing of the RCEP, which constitutes 30% of global GDP and forms the world's largest trade bloc. Singapore is also a firm supporter of China's Belt and Road Initiative (BRI) and is working with China on jointly developing projects under the BRI. A prime example of this is the Chongqing Connectivity Initiative (CCI), the third government-to-government project between the two countries, which aims to develop Chongqing into a key node connecting the Silk Road Economic Belt ("Belt") and Maritime Silk Road ("Road"). In Southeast Asia, Singapore's strategic position as a regional hub serves as a "gateway for Chinese investors to access ASEAN markets and opportunities, as well as a key node to channel investments into China from the rest of the world." Up to a quarter of Chinese outward BRI investments moved through Singapore, with the city-state playing an important role in the "external circulation" of China's "dual circulation" economic strategy.<sup>20</sup>

Convergence in the fundamental ideas that undergird the global order is not the only anchor in the "all round cooperative partnership" between China and Singapore.<sup>21</sup> Most people are aware of the deepening economic ties between the two countries. Equally important is the burgeoning security partnership between China and Singapore. Bilateral defence cooperation and coordination have grown from strength to strength over the years.

For example, since 2009, the armed forces of both countries have engaged and trained with each other professionally through the platform of Exercise Cooperation. In 2019, the fourth edition of Exercise Cooperation was successfully conducted and soldiers from the Singapore Armed Forces (SAF) and the People's Liberation Army (PLA) trained together in various combat functions, culminating in a counter-terrorist urban raid in the final mission exercise.<sup>22</sup>

A recent high point of this security relationship is the Enhanced Agreement on Defence Exchanges and Security Cooperation (ADESC). First formalized in 2008, the ADESC provides a framework for the development of defence relations between China and Singapore. In 2019, both sides agreed to upgrade the ADESC, to include new areas of defence collaboration and exchanges. These areas include, among

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<sup>20</sup> Tan Dawn Wei, "Singapore can play key role in China's 'dual circulation' economy: Vivian Balakrishnan," *The Straits Times*, 30 March 2021.

<sup>21</sup> "Singaporean PM, Chinese state councillor stress all-round cooperative partnership," *CGTN*, 30 May 2019.

<sup>22</sup> Choo Yun Ting, "Singapore and China conduct 10-day bilateral army exercise," *The Straits Times*, 27 July 2019.

others: (i) establishing a regular Singapore-China Ministerial-level dialogue mechanism; (ii) continuing high-level cross-attendance in multilateral conferences of both countries (such as the Shangri-La Dialogue and the Beijing Xiangshan Forum); (iii) committing to regularize and scale up exercises and exchanges between the services of both armed forces; (iv) inaugurating a Visiting Forces Agreement for troops in bilateral exercises; (v) starting a mutual logistics support mechanism; (vi) setting up of a bilateral hotline; and (vii) conducting academic exchanges among the military academies and think tanks of both countries.<sup>23</sup>

Even amidst the challenges of the COVID-19 pandemic, in 2021, the navies of China and Singapore conducted a joint maritime exercise in international waters of the South China Sea, a collaboration that incorporated communication operations, formation movements, and search and rescue operations.<sup>24</sup>

On a multilateral basis, both countries have been contributing to regional security through their active engagement of and involvement in ASEAN-centric security processes. One such mechanism is the ASEAN Defence Ministers' Meeting Plus (ADMM-Plus), through which China and Singapore have been active "security contributors" since the forum's establishment in 2010. While the ADMM-Plus is not perfect, it represents the regularization of high-level communication among the defence ministers of ASEAN countries and key regional players including China, the USA, Russia, India, Japan, ROK, Australia, and New Zealand. The process helps foster a degree of baseline understanding and confidence-building among participating countries.

But the ADMM-Plus is more than just a regional "talk-shop." Through its respective Experts' Working Groups (EWGs), the forum helps to increase regional capacity-building in practical domains such as maritime security, counterterrorism, humanitarian assistance and disaster relief, peacekeeping, military medicine, humanitarian mine (clearance) action, and cyber security.

China and Singapore have also actively contributed in their own respective ways to the process of regional technical and operational cooperation. A notable example of regional capacity-building came in 2018 when the first ASEAN-China Maritime Exercise was successfully conducted in Zhanjiang, Guangdong. Co-organized by Singapore and China, the multinational exercise involved all the ASEAN countries and more than 1000 personnel. The regional exercise also enabled the participating navies to implement Code for Unplanned Encounters at Sea (CUES), improving operational communication and coordination in the maritime space. It is "not a given" that militaries will naturally work together, so the 11-country ASEAN-China Maritime

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<sup>23</sup> "Singapore and China Step Up Defence Cooperation Through Enhanced Agreement on Defence Exchanges and Security Cooperation," *Ministry of Defence of Singapore (MINDEF)*, 20 October 2019.

<sup>24</sup> Teddy Ng, "China and Singapore start joint naval drills as Beijing boosts ties in Asia," *South China Morning Post*, 24 February 2021; Liu Xuanzun, "Chinese, Singaporean navies hold joint drills in the South China Sea 'boosting trust and cooperation'," *Global Times*, 23 September 2021.



Exercise should be seen as a notable milestone, especially in terms of developing trust and confidence among regional actors.<sup>25</sup>

## Conclusion

It is often said that the rise of Asia is the central story of the twenty-first century. This is certainly true, but there is also another important sub-narrative that is often less appreciated: Asia's rise is also about the rise of Southeast Asia and the important role played by ASEAN to facilitate this. The facts speak for themselves. Southeast Asia is currently the fifth largest economy in the world. It has a combined GDP of more than US\$3 trillion, accounting for 7.8% of worldwide trade. Intra-ASEAN trade is among the world's densest.<sup>26</sup> And with RCEP coming in force, the region is set to grow even further, becoming even more connected and prosperous.

Yet continued progress is not a given. As Singapore's Prime Minister Lee Hsien Loong has noted, the stars may not "always be so neatly aligned" in the future.<sup>27</sup> A concerning trend that could well result in less favourable conditions for Southeast Asia's growth is the escalating great power competition between China and the USA. Unbridled strategic rivalry and economic decoupling between two global heavy weights could lead to poorer overall international economic collaboration and a climate of mistrust, resulting in negative externalities for Southeast Asia. Repercussions will be keenly felt in countries like Singapore which are especially dependent on trade and a dynamic international economic system.

The current uncertainties underscore the need for greater strategic understanding and clarity. Although tensions between the USA and China are a deep concern, competition between the two countries need not result in conflict. Both sides should find ways to forge a more stable and sustainable path, for themselves and the rest of the world.

No country can fully insulate themselves from the effects of US-China competition, an entrenched issue that is quickly becoming a structural component of the international system in the twenty-first century. Yet, strategic agency is not the sole preserve of the great powers and Southeast Asian countries need not be passive players in their own region. At the very least, they can develop better understanding and clarity of their evolving strategic landscape and develop policy options that are not delimited by great power competition. As the two cases in this paper show, they can also exercise their own prerogative to make choices that help improve the circumstances of their external environment.

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<sup>25</sup> Lim Min Zhang, "China and ASEAN should hold more and bigger maritime exercises in the future: Ng Eng Hen," *The Straits Times*, 23 October 2018.

<sup>26</sup> Ayman Falak Medina, "Why Does the US-ASEAN Special Summit Lack Substantial Value?" *ASEAN Briefing*, 19 May 2022.

<sup>27</sup> *2015 National Day Rally Speech by Prime Minister Lee Hsien Loong*, 23 August 2015.





**Keng Yong Ong** has been Executive Deputy Chairman of the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University (NTU) in Singapore since November 2014. He was Secretary-General of the Association of Southeast Asian Nations (ASEAN) for five years from January 2003 and has also served as Singapore's Ambassador to India, Nepal, and Malaysia. He graduated from the National University of Singapore and Georgetown University in Washington D.C., U.S.A.



**Tiang Boon Hoo** is an associate professor at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU). He holds a Ph.D. in International Relations from the University of Oxford and was awarded the US-ASEAN Fulbright Scholar Award in 2020. Professor Hoo is the author/editor of several publications on China and US-China relations, including *China's Global Identity: Considering the Responsibilities of Great Power* (Washington, DC: Georgetown University Press, 2018); *Chinese Foreign Policy under Xi* (New York and London: Routledge, 2017); and *Chinese Regionalism in Asia: Beyond the Belt-Road Initiative* (New York and London, Routledge, 2022).

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# China–Africa Partnership in Influencing the New World Order



Omar Mjenga

**Abstract** China is the largest developing country in the world, and Africa has the largest number of developing countries. Shared past experiences and similar aims and goals have brought China and Africa closer together and will contribute to making them part of a community with a shared future. In this spirit, cooperation between China and Africa through FOCAC, South-South Cooperation or the BRICS framework, has proven African wisdom that “If you want to go fast, go alone and if you want to go far go together.”

**Keywords** China–Africa relations · FOCAC · South-South co-operation · BRICS

The relations between China and Africa are historical. Existing evidence shows that China began trading with Northeast Africa before the Christian era, while several Chinese travelers reportedly visited Africa during the early part of the Christian era. China’s first significant contact with Africa occurred during the Ming Dynasty when the fifth and sixth voyages of the famous Zheng He naval fleet reached the northeastern coast of Africa during the first quarter of the fifteenth century. The voyages were, however, an anachronism in Chinese history and were followed by a return to China’s inward-looking approach to the rest of the world (Snow, 1988: 30–1). A hiatus in the China–Africa relationship then set in for several centuries until Chinese laborers and traders came to several regions of Africa beginning in the latter part of the eighteenth century (Shinn and Eisenman, 2012: 17–26).

Modern China and Africa have enjoyed a long-lasting friendship. Chairman Mao Zedong and other first-generation leaders of the People’s Republic of China (PRC), along with older generations of African statesmen including Tanzania’s founding father Mwalimu Julius Nyerere, Kwame Nkrumah of Ghana and others, laid the foundations for this China–Africa friendship. China has always expressed respect, appreciation, and support for Africa, and the Chinese people have shared weal and woe and mutual assistance with African people, exploring a distinctive path to win-win cooperation.

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O. Mjenga (✉)

Center for International Policy-Africa (CIP), Dar Es Salaam, Tanzania

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The establishment of modern Sino-African relations began in the late 1950s, when China signed bilateral trade agreements with Algeria, Egypt, Guinea, South Africa, and Sudan. Chinese Premier Zhou Enlai made a ten-country tour of Africa between December 1963 and January 1964.

Africa has been crucial to China's foreign policy since the end of the Chinese civil war in 1947. China also supported several African liberation movements during the Cold War, and for every year since 1950, bar one, the foreign minister of the People's Republic of China (PRC) has first visited an African country. This tradition has been kept to the present day. In January 2021, Chinese Foreign Minister Mr. Wang Yi visited five African countries including Nigeria, the Democratic Republic of the Congo-DRC, Botswana, Seychelles, and the United Republic of Tanzania. During my one-hour interview with the state-owned Tanzania Broadcasting Corporation (TBC) on this visit, I emphasized the strong and concrete relations that exist between China and Africa, particularly Tanzania. I clearly underscored the weight attached to the relations between Tanzania and China and that China recognizes Tanzania as its entry point and gateway to Africa.

It should be recalled that on October 25, 1971, following the passage of UN General Assembly Resolution 2758, the votes of African countries were instrumental in winning the PRC control of China's seat in the UN General Assembly and Security Council—displacing representatives from Chinese nationalist forces, who had been defeated in the civil war and governed only Taiwan.

Tanzania had played a leading role in the campaign to restore China's lawful seat in the UN every year in the United Nations General Assembly since 1969. It was also among the 23 co-sponsors of the draft resolution calling for restoring the lawful rights of the People's Republic of China in the UN in 1971. Tanzania made outstanding contributions to the restoration of China's lawful seat in the UN. The then Tanzanian Permanent Representative to the UN, Dr. Salim Ahmed Salim, successfully foiled attempts to retain Taiwan's seat in the UN during the vote on Resolution 2758, which has always been appreciated and remembered by the Chinese people. China recognizes that it is their African brothers and sisters who lawfully restored them to their seat at the United Nations. China is not one to forget those who have helped it through the many decades of its rich and prosperous history. China is willing to continue working together with Africa and all other developing countries to uphold the authority of the UN and safeguard true multilateralism.

In the 1960s and 1970s, the Chinese government supported African independence movements and gave aid to newly independent African nations. Among the most notable early projects was the 1860 km TAZARA Railway, linking Zambia and Tanzania, which China helped to finance and build from 1970 to 1975.

China is the largest developing country in the world, and Africa has the largest number of developing countries. Shared past experiences and similar aims and goals have brought China and Africa closer together. China and Africa will always be part of a community with a shared future. Developing solidarity and cooperation with African countries has been the cornerstone of China's foreign policy, as well as a firm and long-standing strategy. In the fight for national liberation and independence, China and African countries have supported each other and fostered mutual political

trust in the process. In pursuing economic development and national rejuvenation, both sides have been helping the other and increasing their scope of cooperation. On major international and regional issues, they have coordinated their positions and jointly safeguarded international equality and justice.

## **Forum on China–Africa Cooperation-FOCAC**

The Forum on China–Africa Cooperation-FOCAC was established in 2000 as a uni-multilateral partnership platform between China and 54 African states (all African states except Eswatini, which maintains diplomatic relations with Taiwan). Of the many partnership platforms Africa has today with a single external actor, FOCAC remains the most strategically intertwined and far-reaching in terms of its depth, scope, and level of cooperation. In theory, the Forum creates a form of multilateralism in which all countries are equal partners, but the comparative weight of China’s state capacity effectively engages 54 pairs of bilateral relationships under a single architecture.

Contrary to the conventional belief that FOCAC was initiated by China, the Forum was created in response to a proposal by the then-African leader Madagascan Foreign Minister Lila Ratsifandrihamanana. The new organization saw China emulate other Western nations who were steps ahead in partnering with Africa, most notably the Commonwealth Heads of Government Meeting, the Africa-France Summit, the US-Africa Business Forum, the US-African Leaders Summit, the EU-Africa Summit, the Tokyo International Conference on Africa Development (TICAD), and others. Recently, there have been efforts to hold a Turkey-Africa Forum and a GCC-Africa Summit and others are expected to mushroom in the future. All these demonstrate the potential that the African continent holds in shaping the world order.

Contrary to the ad hoc nature of the EU-Africa Summit or Japan’s TICAD, after two years of initial incubation, FOCAC was institutionalized with a clear operating architecture. FOCAC has evolved from a forum of diplomatic exchange and development-centric body to a comprehensive economic-political-security-soft power nexus, which advances China’s long-term vision in Africa. It features tri-annual ministerial-level meetings with core secretarial responsibilities housed in the Ministries of Foreign Affairs, Commerce, and Finance.

The inaugural FOCAC meeting was convened in 2000 during Chinese leader Jiang Zemin’s era. In 2006, FOCAC gathered over 40 heads of states or governments from Africa for the first time, overseen by then Chinese President Hu Jintao. Its elevation during the Xi Jinping era from 2013 to an all-encompassing strategic uni-multilateral framework spanned issues on health, the environment, trade, finance, security, politics, ideology, and human development.

Among the eight FOCAC Forums held during this period, three were elevated to a China–Africa Leaders’ Summit, attended by heads of state and government: the 3rd FOCAC in 2006 in Beijing, the 6th FOCAC in 2015 in Johannesburg, and the 7th FOCAC in 2018—again in Beijing. Not coincidentally, each summit redefined the

form and scope of the uni-multilateral relationship. At the FOCAC Beijing Summit held in September 2018, the two sides decided to build an even stronger China–Africa community with a shared future and guide China–Africa relations and cooperation into a new era. China and Africa have stood together in success and adversity, setting an example for building a global community with a shared future.

Today, FOCAC has grown far beyond a single development parameter. It has become the quintessential component in China’s grand strategy for the global South. In Africa, in contrast to the continent’s old colonial powers, China’s soft power has deepened alongside its hard power. In the following decades, China’s focus in Africa switched to eliminating all remaining recognitions for Taiwan’s government. Burkina Faso, Malawi, Liberia, Senegal, and others all switched their recognition from Taiwan to the PRC. Eswatini is the only African nation still to recognize Taiwan’s government in 2023.

As we enter a new era, Chinese President Xi Jinping has outlined the principles of China’s Africa policy—sincerity, real results, amity and good faith, and pursuing the greater good and shared interests, charting the course for China’s cooperation with Africa, and providing fundamental guidelines. The dual successes of the Johannesburg Summit in 2015 and the Beijing Summit of the Forum in 2018 pushed China–Africa cooperation to a new and unprecedented height. President Xi Jinping and African leaders unanimously decided at the FOCAC Beijing Summit that the two sides would work to build an even stronger China–Africa community with a shared future and advance cooperation under the Belt and Road Initiative, establishing a new milestone in China–Africa relations.

The China–Africa friendship, however, was not an overnight success, nor has it been gifted from on high. Rather, it has been fostered throughout the years when China and Africa supported and stood alongside each other in trying times. China has aided the development of Africa to the limit of its capabilities and has been grateful for the strong support and selfless help African countries and their peoples have extended to China for a long period of time. Since the beginning of the Covid-19 pandemic, China and African countries have continued to provide mutual support, writing a new chapter in China–Africa solidarity and friendship at times of crisis.

The FOCAC partnership platform between China and Africa has produced increasingly deep and complex relations between regions. Africa has benefited from significant investments and China has developed extensive soft power. China’s premiere institutional venture in Africa is now FOCAC and China’s recent experiences demonstrate that working through institutions is a formula for success in Africa. Its efforts through NEPAD, FOCAC, and the United Nations have had not only the most positive impact in Africa, but also the highest approval ratings among African nations. Currently, where its institutional approach is weakest is in a formal partnership with the African Union. But, it should be remembered that the AU has now appointed its diplomatic representative based in Beijing, which is expected to bring new synergies in coordinating with the African continent.

China, in its cooperation with Africa, has always honored its commitment and worked in a practical and efficient manner. China, as the world’s largest developing country, and Africa as is the continent with the largest number of developing countries

ensure that the mutual assistance between the two sides when they are pursuing economic development and national rejuvenation will help enhance the common welfare of the 2.7 billion people that live in China and Africa.

Concrete actions have been put in place to implement the outcomes of the 8th FOCAC Ministerial Conference, which are deepening and substantiating the building of a China–Africa community with a shared future in this new era.

China has always followed the principles of sincerity, real results, amity, and good faith and pursued the greater good and shared interests in its cooperation with Africa. The two sides have built over 10,000 km of railways, nearly 100,000 km of highways, nearly 1000 bridges and 100 ports, as well as a large number of hospitals and schools. As long as China and Africa maintaining their solidarity and cooperation, they will definitely explore a new path for developing countries to achieve modernization and common prosperity.

The spirit of China–Africa friendship and cooperation, which features sincere friendship and equality, win–win cooperation and common development, fairness and justice, and progress with the times and openness and inclusiveness, will be carried on from generation to generation. As they join hands for modernization and the building of a China–Africa community with a shared future, China and Africa will surely write a glorious chapter in the history of human civilization.

## **South-South Cooperation**

Since its founding in 1949, the People’s Republic of China has always demonstrated a spirit of internationalism and humanitarianism following and supporting other developing countries’ efforts to improve their people’s lives and achieve development. From the outset, even though China was itself short of funds, it started offering assistance to needy countries in support of their fight for national independence and liberation, and their effort to promote economic and social development, which laid a solid foundation for long-term friendship and cooperation with those countries. After launching reform and opening up in 1978, China has provided other developing economies with even more aid in more diverse forms to boost common development. Countries like my own—the United Republic of Tanzania, immensely benefited from the support of the construction of the Tanzania-Zambia Railway-TAZARA, Urafiki Textile, and many more projects, which have brought huge impact to the lives of our people.

Over the past few years, the Chinese government has pursued a common prosperity agenda with a series of reforms. Africa has forged cooperation and partnerships with major regions and economies like the EU, the USA, China, Japan, France, Germany, Russia, the Arab League, India, Turkey, South America, and Korea, among others. Yet, no other partnership has attracted as much attention or as much scrutiny as the China–Africa partnership. Partnership and cooperation are undertaken on the basis of political will—from both sides—to promote their interests through each other,

and benefits can occur through the synergy this creates. This is the best platform that elucidates the benefits of a South-South Cooperation.

China and Africa enjoy long-standing and historical relations that were elevated to a Comprehensive Strategic Cooperative Partnership in 2018 during the Beijing FOCAC Summit. The formation of Forum on China–Africa Cooperation (FOCAC) two decades ago took the existing relations between Africa and China to a new height. The institutionalization of the cooperation framed not only areas of cooperation, but it also made it predictable and measurable.

*“If you want to go fast, go alone and if you want to go far, go together”* is the African wisdom of expressing the need for unity and solidarity. I believe that China–Africa cooperation has, at its crux, made a choice to go together and to go far.

Many global geopolitical observers tend to agree that the current global situation is volatile, complex, and uncertain. No country, big or small, developed or developing, south or north, east or west, can handle the enormous challenges facing human kind alone. Hence, to navigate through uncertain and fast-changing global situations, the need for partnership and strong multilateralism cannot be over-emphasized. The current pace of partnership between China and Africa and the Global South is poised to create a new system of global governance, moving from a uni-polar setup into a multipolar one.

This is not to say that existing partnerships or multilateralism is perfect—but they are the basis for moving forward. Therefore, the China–Africa partnership should also be seen in this context, as a leveled platform of purpose and of action to forge a concerted intercontinental approach for mutually beneficial partnership and responses. And judging from the complementary nature of multifaceted areas of interaction and the convergence of interests, partnership between China and Africa is not only important, it is absolutely necessary.

New South-South cooperation embraces the massive rise of emerging economies and the new international economic system. It insists on the substantive characteristics of South-South cooperation, namely mutual respect, equal treatment, mutual benefit, win–win results, and joint development, thus contrasting sharply with the existing inequalities in the North–South economic relations.

At the same time, the overall strength of emerging economies has been greatly enhanced, meaning that they can now receive financial, technological, managerial, marketing, and other developmental support through the new South-South cooperation, whereas before these were only available through North–South cooperation. In this way, a new international economic system is being formed based on investment, trade, finance, and industrial transfers between emerging economies, thus setting a new world order, from uni-polar to multipolar.

There is no doubt that the global landscape of development cooperation has changed drastically in recent years. The era of one-way cooperation has become outdated, as countries of the South, with China taking the lead, are engaging in collaborative learning models to share innovative, adaptable and cost-efficient solutions to address their development challenges. Conscious that effective cooperation should go far beyond financial contributions and North–South technical assistance, a large and expanding group of Middle- and Low-Income Countries (MICs and LICs)

are creating new and innovative responses to their socio-economic-environmental challenges, ranging from poverty and education to climate change, post-conflict, and reconstruction.

In this context, South-South Cooperation (SSC) has become the expression of collaboration and partnership among countries from the South, interested in sharing, learning, and exploring their complementary strengths to go beyond their traditional role as aid recipients. Knowledge Sharing, one of the most dynamic dimensions of SSC, has developed into a third pillar of development cooperation, complementing finance and technical assistance. This changing context is allowing the emergence of a paradigm where “Horizontal Partnerships,” based on equity, trust, mutual benefit, and long-term relations, become an alternative way to do development cooperation. This is a cooperation of the like-minded, most of the countries being developing.

South-South Cooperation is an important component of Deng Xiaoping Theory. China maintains that developing countries must, on the premise of self-reliance, enhance solidarity, support, and help each other through South-South Cooperation. Although trade and investment are two central means by which China engages economically with developing countries, China has also become a significant provider of South-South Cooperation in Asia, Latin America, and especially in Africa. In many least-developed countries (LDCs), China is now believed to be the major source of aid, trade, and investment. It has a long tradition of providing foreign aid, longer than that of some members of the OECD’s Development Assistance Committee (DAC). However, it is important to note that the various instruments stated as part of the Chinese aid program cannot all be considered Official Development Assistance (ODA) as defined by the OECD: in addition to technical assistance, concessional loans and debt relief, components such as non-concessional finance, preferential trade agreements, investment schemes go well beyond the ODA definition. Chinese aid is also very much integrated with trade and investment.

Aid, in the form of financial aid and investment, has become increasingly prevalent in both bilateral and multilateral partnerships in the BRICS. In Africa, the Forum on China–Africa Cooperation provides the official framings for forms of development assistance to the continent, with financial forms of aid available through the New Development Bank and the China–Africa Development Bank (CADFund).

It should be recalled that during the High-Level Roundtable on South-South Cooperation co-hosted by China and the United Nations in September 2015, President Xi Jinping announced a plan to establish an Institute of South-South Cooperation and Development (ISSCAD). In April 2016, ISSCAD was set up in Peking University with the goal of sharing China’s experience in state governance and train talent from other developing countries to modernize their governance capacity. Since its founding, ISSCAD has enrolled around 220 doctoral and master’s candidates from 59 developing countries, representing governments, academic institutions, news media, and NGOs. This was another way that China is making good on its promises.

The rise of China as the second largest economy in the world (though some scholars argue with statistics that China is the largest economy now, surpassing the USA) and Africa’s biggest trading partner since 2009 has changed the global geopolitical landscape. The increasing Chinese presence in Africa has created



considerable debate among scholars and development experts. While there is broad consensus among scholars that China's growing economic influence in Africa exerts significant impact on Africa, opinions are divided on the exact consequences that China's presence will bring to the political, social, and economic development of the continent.

Africa is blessed with enormous untapped natural resources that allow for cooperative interdependence for countries in dire need of natural resources. China needs Africa's raw materials for its emerging industries and sustained growth and Africa needs to sell these raw materials to China to ensure its continued growth; politically, both China and Africa are committed to seeking revision of the global institutions that constrain economic prosperity in the developing world. Such mutual need fosters interdependence. However, drawing from a recently held China Lecture, hosted on June 10, 2023, in Dar es salaam in Tanzania by the Centre for International Policy-Africa (CIP-AFRICA) in collaboration with Beijing's China Africa Institute (CAI), participants including seasoned diplomats, politicians, academics, researchers and youth, called upon China to ensure that Africa's raw materials were processed on the continent for finished goods in order to enhance industrial growth and job creation within the continent. There was consensus that China–Africa cooperation today is the best form of cooperation that has ever existed on the continent. Investing in agriculture was highlighted during the debate, calling for Chinese companies to turn into investing in agriculture to address the problem of absolute poverty on the continent.

China's policy toward Africa is based on constructive pragmatism and is both action-oriented and functional; thus, it can provide a shield against exploitation by wealthy, industrialized nations and against the negative consequences of globalization. It also offers a realistic alternative to North–South trading patterns that have dominated global trade since the colonial era. Advocates of the China–Africa economic partnership, to which I personally also subscribe, often point to FOCAC as a good example of South-South cooperation. In addition, the elevation of the China–Africa relationship from “strategic partnership” to “comprehensive strategic and cooperative partnership” is a clear indication of the prioritization of China's relationship with Africa, and a step forward in strengthening South-South cooperation.

Nevertheless, the much-touted benefits of South-South Cooperation often underestimate the unequal power relationship, especially with regard to China's emergence as a global power, both economically and politically, and its expanding geopolitical influence. I want to underscore the fact that China is rapidly growing its military capabilities in Asia, but nowhere else in a significant way. That is increasingly concerning to America's Indo-Pacific allies, who now rely on the US security umbrella more than before. We have witnessed this with the Russian-Ukraine war, where Europe seems to be more dependent on US-led NATO plans. This leaves the USA with a uni-polar security order and not a uni-polar economic order.

The extremely limited and unequal access to Covid-19 vaccines in the Global South and the so-called “vaccine diplomacy” of China and India during the recent pandemic have generated renewed interest among scholars and policymakers in better

understanding the idea of South-South Cooperation and its impact on global development. Under the broad umbrella of South-South Cooperation, countries in the Global South exchange resources, technology, and knowledge. The role of China and India in South-South Cooperation has gained significant attention due to their growing economic influence and engagement in development initiatives in other countries. China in particular highlights its logistical prowess, which has enabled it to build impressive infrastructure at home and abroad.

Recently, on June 7, 2023, at a seminar co-organized by the Institute of African Studies at Zhenjiang Normal University and Research and Education for Democracy-REDET of the University of Dar es salaam in Tanzania, held at University of Dar es salaam’s Confucius Institute, where I was invited to speak, I underscored the point that many global geopolitical observers tend to agree that the current global situation is volatile, complex, and uncertain.

This is not to say that existing partnerships or multilateralism is perfect—but they are the basis for moving forward. Therefore, the China–Africa partnership should also be seen in this context, as a leveled platform of purpose and of action to forge a concerted intercontinental approach for mutually beneficial partnership and responses. And judging from the complementary nature of multifaceted areas of interaction and the convergence of interests, partnership between China and Africa is not only important, but it is absolutely necessary.

I seized the opportunity to lament the importance of think tanks in advancing the debate on South-South cooperation, noting that think tanks are important actors in global policy-making, and those from the Global South are gaining relevance and forming a community that will together ensure the implementation of the finest and informed policy-making processes. Here, think tanks can define and shape a forward-looking research agenda on South-South Cooperation and triangular cooperation for sustainable development. Promoting and conducting collaborative research involving other thought leaders from the Global South is also important.

The sharing of knowledge and solutions is an increasingly important pillar of South-South Cooperation. Think tanks provide thought leadership on Sustainable Development Goals (SDGs), informing policymakers and development practitioners with knowledge, research findings, and solutions to SDGs. However, there is still a significant knowledge gap impeding informed decision-making on agendas relevant to the SDGs. The global network of think tanks will help reduce such knowledge gaps, and more connections and dialogues will be created between think tanks and international development agencies. We need to have a strong network of think tanks where the global South and North can come together and engage in policy dialogues and share knowledge and perspectives.

## The BRICS

Another development worth mentioning is the emergence and creation of the BRICS. Brazil, the Russian Federation, India, China, and South Africa (BRICS) now form one of the world's most important economic blocs, representing more than one quarter of global GDP, and 42% of the world's population. Some of the benefits it brings include increased economic growth, improved cross-border business operations, enhanced innovation, improved public services, and strengthened regional cooperation.

BRICS has three pillars: political and security, economic and financial, and cultural and people-to-people exchanges. The New Development Bank and the Contingent Reserve Arrangement were established at the 2014 Fortaleza Summit. So far, the NDB has sanctioned almost \$8 billion in renewable energy and infrastructure projects across the BRICS countries.

The BRICS countries had and still have a common goal of overhauling the international financial and monetary systems, as well as a strong desire to create a more just and balanced international order. The BRICS community plays a critical role in setting global economic policy and promoting financial stability, accounting for 17% of global trade and one-third of global GDP. The countries have made significant contributions to global poverty alleviation. Continued BRICS growth is critical for poverty reduction and decreasing international disparities. Through poverty alleviation and unwavering efforts to bridge inequalities, BRICS has recently emerged as the voice of developing countries, or the global south, and has played an essential role in defending the rights of the developing countries of the world.

In conclusion, BRICS must be an instrument of pressure for change in the international system. South-South cooperation is therefore the vehicle to this change. We must therefore, for the global south to prosper and become a global influencer, set the right direction for openness and inclusiveness. We must walk together leaving no one behind. As the famous African wisdom of expressing the need for unity and solidarity goes, "*If you want to go fast, go alone and if you want to go far go together.*" let us, as developing world, walk together in order to go far.



**Omar Mjenga H. E. Omar Rajabu Mjenga, ndc**, is a senior Tanzanian diplomat who has served in the Foreign Service for more than 25 years. He holds two Masters Degrees in Security and Strategic Studies from the National Defence College, Tanzania, and was awarded with the Most Prestigious and Top Military title of "**ndc.**" He also has a Masters in Public Administration, Diplomacy, and International Relations from the University of Dar es salaam, Tanzania.

In 2002, he became the Private Secretary (2002–2005) to the Minister of Foreign Affairs and International Cooperation, H. E. Jakaya Mrisho Kikwete, who in 2005, became the President of the United Republic of Tanzania. His Excellency Omar R. Mjenga, **ndc** also served as the National Executive Secretary for the Helsinki Process on Globalization and Democracy for six years, an initiative launched by the Governments of

Finland and Tanzania together with 12 more countries across the world to work on global governance through a multi-stakeholder approach.

He also acted as the head of the United Nations Agencies, Funds, and Programs and the General Assembly Affairs Section of the Permanent Mission of the United Republic of Tanzania to the United Nations in New York, USA, from 2007 to 2011. He served as a member and vice president of the Bureau of the UNDP/UNOPS/UNFPA/UNICEF/WFP Executive Board for a period of three years beginning in January 2009. He held the position of the Country Director and Resident Representative of the United Nations Office for Projects Services (UNOPS) in Sierra Leone. In 2013, he was appointed Deputy Ambassador and Consul General of the United Republic of Tanzania to Dubai and Northern Emirates, UAE.

He is the founder for CIP-Africa, and currently, its President and Chief Executive Officer.

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# A Dialogue of Civilizations to Heal a Fractured World—Global Issues and the Role of China



Steve Howard

**Abstract** We are living in a world that is now severely geo-politically fractured, not just fragmented and, without a major turnaround, this condition is likely to worsen, with serious consequences. The opening up of the world to trade and commerce in the 1980's and 1990's looked for a long while as a win-win proposition for all, lifting millions from poverty in the developing world, but there were both winners and losers with inequalities arising within and across national borders. Meanwhile, the hollowing out of some advanced economies due to unfettered globalization has fuelled fears of the rise of the 'other'. We must revisit and embrace a 'dialogue between civilisations' that goes deeper and higher than nation-state geopolitics and that respects and regards the 'other' in a renewed spirit of 'co-operative globalization'.

**Keywords** Globalization · Global South · SDGs · Rules-based order · Interdependence

## A Fractured, not just Fragmented, World

In addressing the theme of how to enhance global governance, and how to encourage China's role in particular, my starting position is framed by this observation: we are living in a world that is now severely geo-politically fractured, not just fragmented, and without a major turnaround, this condition is likely to worsen and result in serious consequences.

It feels like a 'hinge moment in history' for the global commons, as Larry Summers has called it, or in the words of Pope Francis, it is the 'end of an epoch, not just an era'.

Recently, the 2023 *State of the World Roundtable* convened by the Global Foundation was addressed by many eminent figures from across the globe. The opening expert presentation from Bain & Co suggested that the past 80 or so years, since the

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S. Howard (✉)  
The Global Foundation, Melbourne, Australia

end of World War Two, has been relatively benign in terms of global stability, at least compared to the 100 or so years before that. [*Bain & Co presentation to the 'State of the World' Roundtable February 2023*]

Co-operation and collaboration have been the hallmark of recent decades and have underpinned economic globalization, which drove increased global prosperity. This recent era of prosperity and relative peace, however, is rapidly giving way to fracturing, de-globalization, containment and, potentially, conflict.

The global Covid-19 pandemic and the war in Ukraine have exacerbated underlying geopolitical forces, which have been coalescing for several years into a toxic cocktail of multilateral mistrust and political withdrawal behind national borders.

Co-operation is now increasingly difficult to achieve on matters that affect the global commons, which do not respect national borders and require effective forms of global governance and collaboration.

## **Globalization and Its Malcontents**

The opening up of the world to trade and commerce in the 1980s and 1990s looked for a long while as a win-win proposition for all. Millions were elevated from poverty in the developing world, most notably in China, through capital investment and corresponding exports and consumption by the West. This was a remarkable achievement.

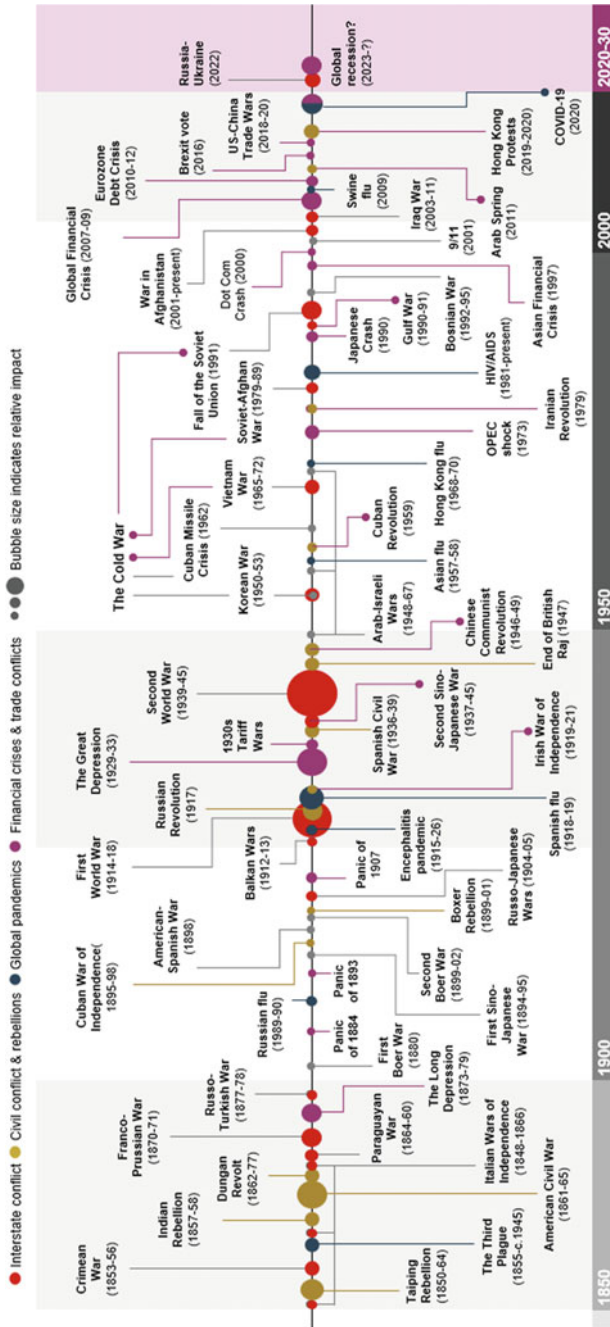
Yet, these unprecedented flows of global capital and goods did not allow all boats to rise evenly, instead producing winners and losers. Inequalities, both real and perceived, arose within and across national borders. The hollowing out of some advanced economies as a consequence of unfettered globalization has fuelled fears of the rise of the 'other'.

While still heavily reliant to a large extent on their mutual interdependence, a political chasm has opened up between the 'West', principally the United States and the 'East', principally China.

The dividing line over so-called national values, of democracies versus autocracies, has now become an important rallying cry in the West. Exhortations towards 'reshoring' and 'friend-shoring' are now influencing business actions, with the consequent impact of nations pulling further apart and security considerations trumping economic rationality.

Beyond the US-China rivalry, however, is another powerful and intersecting force. Asia, more generally and the Global South overall, have risen considerably in economic significance that is as yet unmatched by their geopolitical weight. The Global South wants a greater say and a greater share than the existing world powers are, for now at least, willing to concede.

A world of competing blocs aligned around the two great powers may not fully emerge, if multiple other nations prefer to have their say and express their intentions to work with both the US and China, at least on those matters which affect the global commons—peace, stability, a sustainable and prosperous planet.



**Fig. 1** If our world seems more turbulent than at any time in living memory, it's because it is

## A World Order Out of Alignment

There is a strong and emerging sense in global affairs that the way in which global governance has been organized for the past 80 or so years, since the end of the Second World War, is no longer fit for purpose and needs to be re-made. The old order has yet to give way to a new, still-emerging order that is more genuinely reflective of contemporary and economic power.

The United Nations, as it is presently structured, is unable to resolve many of the issues it was designed to address. The Bretton Woods institutions that have overseen global finance and development matters over the past 80 years are struggling and in need of structural reform, to reflect the realities of the current and emerging era.

If it is in fact ‘*a hinge moment in history*’, as Larry Summers suggests, or ‘*the end of an epoch, not just an era*’, according to Pope Francis, is it possible to confront the scale of the challenges facing the world, in order to make fundamental reforms to the institutional systems of global co-operation through peaceful means?

And, if that is the intention, are those in power, in the leading nation states, willing to work together for such a common purpose? The alternative—failure and a second cold war, or even worse, a hot war—is too horrible to contemplate.

Muddling through, with incremental changes, may simply defer the day of reckoning, by which time those with power are likely to be less influential in bringing about change than they are today.

Is there, in a short-term, a way through, to head off crisis and to bring to the table all parties of influence, in a genuine process of co-design? I certainly hope so.

## Working Towards Effective Governance of the Global Commons

Right now, based on current indications, it appears unlikely that governments alone will agree to take the lead in working together to achieve the dramatic global governance reforms that will be required.

Yes, there have been some important recent gains such as the recent Global Oceans Treaty to help preserve the high seas of the world. But these are the exception and not the norm, and international co-operation now seems much more unlikely.

Leadership for major systemic change may need to come from multiple actors, including but not limited to enlightened governments. Creative middle and small powers, acting together, are capable of having weight, as seen through the Bridgetown Initiative of the Prime Minister of Barbados, in relation to action on climate change.

However, governments are not the only actors in the global governance space and it may be increasingly necessary for other voices to coalesce, in helping governments and inter-governmental processes to move further and faster.



In this regard, the alignment of global non-government actors towards common cause would represent a powerful voice. This impact would be even greater if these actors, drawn from diverse backgrounds and traditions, could align.

Imagine if it were possible to design processes to bring together leaders from across the globe, from business, academia, faiths, non-government organizations, institutions, and civil society, along with governments, to seek common agreement about pathways for systemic reform at the global level?

In fact, this work is going on in many places in various forms, including loose and tight coalitions and affiliations. It appears however that this work, while important, is not of itself sufficient, and that renewed, more globally impactful global governance reform efforts are required.

## **The UN Sustainable Development Goals as a Stepping Stone**

A major issue that impairs efforts for global governance reform is the lack of an agreed destination, or a set of outcomes that can be committed to, shared across humanity and measured and held to account along the way.

A partial exception to this are the UN Sustainable Development Goals for 2030, which have been agreed by all governments, setting targets for the achievement of 17 goals in the service of humanity. It was quite a remarkable effort to win such an agreement under the UN banner.

However, while these goals are absolutely worthy and serve as common, short-term guideposts for humanity, the responsibility for their achievement and enforcement sits in a kind of soft ether of accountability.

Similarly, the Paris Agreement for action on global climate change is struggling to land on accountability and delivery mechanisms, not least of which is the matter of what financial compensation the developed world will agree to pay the developing world for past emissions—an issue about which the Global South has raised its voice.

One small act of genius on the part of Italy, which took the helm of the G20 in 2021, was the agreement for China and the United States to chair an upgraded working group on climate change under the G20 banner. However, while this has wavered and is now re-instated, with the great powers nominally working together, genuine leadership and progress is not yet evident.

These are not just matters of collective inter-governmental will, as important as this is, they also highlight the failure or at least the inadequacy of current international systems. For example, major global investors are increasingly willing to make very large-scale commitments of investments to address and help turn around the devastating trajectory of global climate change. They find, however that the international financial system, as it is presently structured, is inadequate for this purpose, such that the investors' plans are frustrated and, in some cases, through inaction, put their own business models at risk.

## An Instructive Lesson

The Global Foundation originated in Australia 25 years ago, supported by the commitment and funding efforts of Australian and global investors, business and academic leaders, also civil society and non-government actors, all working in concert with respective governments of the day. The Foundation's purpose was and is to strive, together for the global common good, rising above all forms of boundaries, whether real or imagined.

Along the journey, the Foundation and its many supporters and allies forged alignment around some of the most pressing global issues, never putting itself in the foreground, rather preferring to lend its skills in support of alignment and encouragement of many more powerful actors.

One example relates to China's rise and its global engagement. For more than 20 years, the Foundation has worked closely with China as it has emerged on the world stage, particularly in relation to matters of global engagement and global governance. A highlight was the decision by China to form the Asian Infrastructure Investment Bank (AIIB) in 2014.

The Foundation was ready from the beginning to assist China as it took on this new formative role for an international institution and helped bring together many nations that in turn lent their support to the creation of the AIIB.

One of the pivotal moments in this early stage formation of the AIIB was at a forum in Beijing co-sponsored by the Foundation and addressed by China's Finance Minister, who said: *'This bank will be world's best practice. But who's best practice are we referring to?'*

This was the precise moment when China, not only for its own sake but also for the developing and emerging world, was politely challenging the norms that had governed the international financial development system since the Bretton Woods Agreement in 1945.

Here was a direct—and in my view—entirely appropriate challenge issued by China to the prevailing wisdom that had underpinned international development for many decades—the so-called *'rules-based order'* primarily determined by the West, albeit benignly, in its own image in the wake of victory in World War Two.

China and for that matter, the Global South as a whole, was suggesting that the principles and structures that had delivered the rules-based order of the Bretton Woods system needed revisiting, not just for tinkering, but perhaps for more fundamental overhaul.

Of course, these voices were not listened to by some great powers, who chose not to support China's leadership of the AIIB. This example helps, in part, to explain the imbroglio we have in world affairs today.

## What Is Needed—A Common Destination

It is not possible to undo what has been done, or not done, as the case may be.

It is however possible and, I contend, essential, to look forward to the future with boldness and clarity and to be unafraid to confront and rebuild international systems of co-operation that will impact a whole new era.

Among the barriers to success in a fundamental rebuild of the world order is the ambition of states themselves, in world that operates as if nation states are the only or most powerful consideration in governing the world as it has been in world affairs for nearly 400 years.

Hence, all the systems of legitimate international governance today are built around nation states and the sharing of power between them.

Imagine if it might be possible to step outside this whole paradigm and to think of the world—our planet—as one whole, unitary system that required at least some forms of singular, joined-up thinking and actions to follow.

Imagine if it would be possible to step outside thinking of our global future as a being achieved by a process of incremental decisions and instead recognizing that step-changes are required to successfully arrive at a sustainable future.

Might it be possible to start at the other end, to imagine and possibly agree a shared future destination for humanity, built around agreed shared values? And if it were possible to agree on at least some of the principles of this destination, and to then work backwards to today, to determine pathways, shared or alternate, to get there, rather than the other way around, as at the present—which is proving to be unviable.

Could we conceive of shared and agreed language, around terms such as ‘*universalism*’, which is promoted by French President Emmanuel Macron as a more holistic concept than that of ‘*multilateralism*’ as we know it at present, with its implications of trade-offs and agreements only between nation states.

Would it be possible to imagine a universalism which has at its core the notion of a pact for ‘*global human security*’, to embrace all facets of the human condition?

And from this, might we imagine such a framing statement for our global future as a ‘*global declaration of interdependence*’, that takes and elevates the principles that informed the United Nations at its founding and created new forms of power and decision-sharing that are much more reflective of today’s changed world?

One thing is for sure, in the eyes of the Global Foundation and many of its much more influential interlocutors—we cannot continue doing things as we have.

## Shared Pathways to Seek Common Goals and Shared Pathways to the Future

In recent years, the Global Foundation has called for the need to revisit and embrace a *'dialogue between civilisations'*, a form of continuous exchange that goes deeper and higher than nation-state geopolitics and that respects and regards the *'other'*—through appreciation of different cultures, traditions, and values.

Multiple faiths, working together and with other belief systems, have an important role to play in this process. That's why the Foundation itself, over the past 10 or so years, has brought together leaders from large and small powers across the world, including China and the US, as well as representatives from business, academia, institutions and civil society, meeting together with faith leaders, including the Pope at the Vatican in Rome.

As our Global Advisory Council chairman has said, if the majority of people in the world identify with some form of organized faith, why wouldn't we work with them and include them in our conversations?

In June 2023, the Foundation partnered with the Pontifical Academy of Social Sciences at the Vatican and with Professor Jeffrey Sachs of Columbia University, to co-sponsor a *'dialogue between civilisations'*, around the Sustainable Development Goals. The dialogue included China and other emerging nations, along with those of the developed West, which were represented by top global scholars and thought-leaders. This project was intended to build common ground through mutual understanding of great civilisations, their ancient and modern histories, and their overlapping commonalities as they impact the global common good.

Building upon this work, the Foundation is planning to convene a further dialogue between global leaders in Rome later in the year, at which the thorniest of questions about an imagined future world order can be discussed, freely. We hope that it will be possible to re-make globalization as positive force for good, and in a form which is genuinely transformative, fair and inclusive, built upon a sustainable prosperity. World leaders have supported this call for a renewed form of what the Global Foundation terms *'co-operative globalisation'*.

We hope that, through dialogue and collaboration, it will be possible to shape an informal road map, for many affiliates and others to consider and adopt, where possible. China will be always in the room for these conversations.

Overlapping with the above are the continuing efforts by many partners, through formal channels, such as the G20, which India leads this year and also less-formal channels, such as the *Assisi Accord* for climate action and Paris Peace Forum.

This is a pivotal moment in world history, when it is possible to foresee the worst of outcomes for humanity without strong and positive interventions, but these will require an unprecedented effort and imagination and a spirit of collective human generosity. Are we as citizens of the world, up to the task of acting ambitiously together? The Global Foundation hopes and firmly believes so.



**Steve Howard** is Founding Secretary General of the non-profit Global Foundation. He has led the necessary global push for the adoption of ‘co-operative globalisation’, a positive strategy for inclusive, ‘win-win’ economic development and a sustainable global economy. Many world leaders, including Pope Francis, the Archbishop of Canterbury, Christine Lagarde, Pascal Lamy and Mark Carney, have personally participated in and endorsed this and related initiatives.

Through this collaborative and low-key approach, Steve has helped to shape global affairs with practical outcomes over 20 years. He led the successful renaissance strategy for Melbourne, in Australia in the 1990s, including a national strategy for private sector investment in public infrastructure, now adopted as a business model, worldwide. He continues to advice on complex infrastructure projects and funds in emerging markets.

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# Sustaining Cooperation in a Fragmented World—a Malaysian Perspective



Faiz Abdullah

**Abstract** Global governance should support a system that enables every country, regardless of size or wealth, an opportunity to participate and gain benefits. In a fragmented world, it is imperative for all countries to work toward improving global governance and supply chain networks. China has been working toward this through global initiatives like the BRI, GDI, GSI and GCI. Meanwhile, the concept of Malaysia Madani approaches bilateral and multilateral engagements with ethics, sincerity and integrity to achieve an independent, inclusive, peaceful, and prosperous Malaysia and Greater Asia. However, this concept is also fundamentally a universal philosophy or approach that can bridge the East and the West.

**Keywords** Global governance · China · BRI · GDI · GSI · GCI · Malaysia Madani

## Introduction

In an increasingly fragmented world, it is imperative for all countries plugged into the global governance and supply chain networks—and there is almost no country in the world that is excluded here—to seek ways to sustain and improve current cooperative and collaboration mechanisms. Global governance should support a system that enables every country, regardless of size or wealth, an opportunity to participate and gain benefits. Global governance initiatives should focus on empowering small and developing states, rather than becoming yet another avenue for major power competition. Indeed, global governance should support smaller states' ability to respond to and mitigate the pressures from various challenges.

This essay aims to outline a uniquely Malaysian perspective on the existing global governance ecosystem, how it links with China's vision of global governance and its follow-on initiatives, as well as how stakeholders can foster cooperation in a fragmented view. It will also highlight Malaysia's past experiences with global initiatives

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F. Abdullah (✉)

Institute of Strategic and International Studies (ISIS), Kuala Lumpur, Malaysia

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from China, namely the Belt and Road Initiative (BRI) and Malaysia's own current philosophy of nationhood—Malaysia Madani.

## **A Malaysian View of the Global Governance Environment**

It has become fashionable to say that global governance is in crisis or desperately needs a significant overhaul. Indeed, there is no paucity of examples where global governance structures have shown to be less than optimal. One of the most egregious examples of this concerns the World Trade Organisation (WTO), specifically its Appellate Body. Established in 1995, the Appellate Body is as close as one gets to having a supreme court for international trade. Yet the United States has blocked the appointment of new judges to the Appellate Body since the Trump administration of 2017–2021, precipitating a major crisis in the rules-based international trading system. Following the expiry of the term of the last sitting judge on 30 November 2020, the Appellate Body has been unable to review appeals under the WTO dispute settlement mechanism. By continuing to reject proposals to select new members of the panel, the United States has rendered the WTO Dispute Settlement Understanding (DSU) thoroughly ineffective. This failure of global governance is understandably of concern to Malaysia and other similar countries dependent on both bilateral and multilateral international trade.

It is easy to blame the deficits in effective global governance on major power rivalries. In recent years, the increasingly fraught relations between major powers such as the United States, China and Russia have brought to greater focus the many shortcomings in global governance. For example, collective and concerted action was arguably deficient in response to the COVID-19 pandemic. Many countries, again with developing countries at the shorter end of the stick, struggled with mitigating the pandemic while major powers acted in self-interest, sometimes with excess abandon. So have the international community's response to the ongoing global hunger and malnutrition crisis, which the World Food Programme estimates to affect 345.2 million people in 2023.

Yet, it is also important to remember that major powers cooperated in strengthening global governance in the past, even when they viewed each other as existential threats. Key among these were landmark international treaties such as the 1968 Nuclear Non-Proliferation Treaty (NPT), which has arguably limited the growth of nuclear weapon states, and the 1982 United Nations Convention on the Law of the Sea (UNCLOS), which is regarded as the constitution and final arbiter for the legal and policy matters on oceans. Negotiated and concluded during the Cold War, these treaties demonstrate that major power rivalries need not necessarily impede global governance.

Malaysia has a vital interest in maintaining a global governance structure that promotes the sovereign equality of states and a relatively free international trading system. This stems from its strategic location and its high dependence on external trade. Because Malaysia is a littoral state of the Malacca Strait and the South China

Sea, its policymakers are keenly aware that the country is in an area that attracts the interest of and competition among the major powers, especially the United States and China.

Accordingly, Malaysian policymakers have long attached a premium on the primacy of international law and a global governance structure that insulates it—however imperfectly—from the exercise of the military and diplomatic might of bigger countries. Furthermore, as a country whose international trade exceeds its economic output—its trade as a percentage of GDP was 131 percent in 2021—Malaysia has a significant stake in global governance institutions that promote the opening of external markets and the relatively untrammelled flow of capital.

### **The Belt and Road Initiative: China’s Vision of Global Governance and Its Opportunities and Challenges with Malaysia**

In recent years, China has played an increasing role in global governance, especially in emphasising the need to help developing countries. In response to the 2008 Global Financial Crisis, then Vice Premier Wang Qishan called on the Group of 20 (G20) to look “beyond the needs of the top 20”, further arguing that the developing world should have a greater say in the major decisions that shape international financial systems. Following up, a decade late in 2018, China submitted a proposal for WTO reform. The proposal detailed the need to preserve core values of non-discrimination and openness in a multilateral trading system, while safeguarding the interests of developing economies. Through the BRICS grouping, China has also called for global governance to be more inclusive and fairer in order to allow developing countries a greater voice in international affairs. These examples point towards China’s leadership in using its growing economic significance to stand up for the interests of the developing world, an effort that was previously lacking in the Western-led system. Such sentiments echo Malaysia’s vision of an inclusive global governance which empowers smaller states to develop and participate meaningfully in international economic affairs.

China also began its own initiatives in global governance, premised mainly on economic development, the most notable example being the BRI. Although the BRI is bilateral in practice, the initiative aims to draw connectivity between regions and emphasises the importance of equitable development globally. It is a bilateral initiative that acts with a vision of global governance, articulated through the concept of a “Community with a Shared Future for All Mankind”. Recognising the importance of infrastructure as key to economic development, the BRI initially focussed on mega-infrastructure projects in developing countries.

When the BRI was launched, Malaysia quickly became one of the largest beneficiaries and partners of BRI projects and investments. These were mostly in construction and infrastructure but also involved tech and communication initiatives,



involving both the public and private sectors. Signature BRI projects included the Malaysia–China Kuantan Industrial Park (MCKIP), East Coast Rail Link (ECRL) and Kuantan Port Expansion Project, alongside smaller projects such as the USD 10 billion Malacca Gateway and the USD 969.9 million Trans-Sabah Gas Pipeline (TSGP). These projects aimed to advance connectivity between the east and west coast of Peninsular Malaysia, thereby significantly improving Malaysia’s competitiveness in the regional supply chain. For example, the completion of the Kuantan Port was projected to make Malaysia the largest logistic hub in Southeast Asia and through one of the region’s largest container ports, thus enhancing Malaysia’s role and prospects in the region.

The progress of BRI projects took a shift in the lead-up to and aftermath of the 13th General Election in May 2018, when the Barisan Nasional (BN), against the prevailing forecast of pundits, lost. This marked a turning point in Malaysia’s electoral history with the coalition suffering defeat for the first time since independence, smashing to smithereens the myth of invincibility which had held sway for six decades. Under then Prime Minister Mahathir Mohamad, who returned for a second stint at the helm, the new Pakatan Harapan (PH) government sought to review BRI projects that were linked to former Prime Minister Najib Razak who was embroiled in the 1Malaysia Development Berhad (1MDB) financial scandal. Indeed, a number of these BRI related projects, and Najib’s perceived close ties with China became campaign fodder for the PH coalition during the highly contested lead-up to the elections. Soon after forming government, PH announced the review and potential cancellation of the ECRL and TSGP projects.

The purpose of the ECRL and TSGP projects were never in question; both ECRL and TSGP projects were designed to improve the socio-economic development in Malaysia. The review and potential cancellations were meant to scrutinise the lack of transparency and due diligence of the projects, especially considering the costs of ECRL were linked to Najib Razak’s 1MDB scandal. After several negotiations, the ECRL was revived as a new deal in April 2019, with the costs reduced from USD 16 billion to USD 10.6 billion. The route was revised as well—which might have helped with the lower costs. On the TSGP, the Perikatan Nasional (PN) government that succeeded PH—after the infamous ‘Sheraton move’ in March 2020—planned to revive the cancelled project. However, little progress has been made to date on this.

Despite these developments, the BRI never truly lost its attractiveness in Malaysia. When the PH government announced the cancellations, Malaysia went from being touted as a BRI success story to being castigated as contractual miscreant riding rough shod against the grain of economic diplomacy, conjuring the ghost of Sri Lanka’s debt trap fiasco. Certainly, Malaysia faced issues with many BRI projects including exorbitant costs, environmental implications, source of labour, lack of transparency and slow progress. However, according to the BRI Monitor launched by the Institute for Democracy and Economic Affairs in July 2022, “while there is a general tendency to blame all the issues on Beijing’s loans [...] the research shows that this viewpoint neglects to hold the gaps in Malaysia’s project governance equally accountable.” While it would be naïve if not altogether disingenuous to cast off the challenges

posed by the Chinese projects, the fluctuating status of BRI projects in Malaysia can be best explained by the shifting local political dynamics and instability, as evidenced by the ever-changing policies between the various governments.

Contrary to some assessments at that time, the BRI for Malaysia was far from unattractive and certainly not “dead”. Rather, PH sought a new direction with the BRI, a necessary step to distinguish itself from the previous Najib Razak-led government. Instead of mega-infrastructure projects, PH preferred cooperation on knowledge and technological transfer. For example, the PH government was keen to keep the Digital Free Trade Zone (DFTZ), which was launched in November 2017 by former Prime Minister Najib Razak and Alibaba Group Founder Jack Ma, as a means to grow Malaysia’s digital economy and advance Industry 4.0. The DFTZ indicates the initial phases of the BRI’s Digital Silk Road in Malaysia.

Collaboration between carmaker Zhejiang Geely Holdings Group and Malaysia’s national automobile group Proton is another case in point. Ever since, Proton has experienced an exponential growth particularly in its exports, which grew 290% between 2018 and 2022. Prime Minister Anwar Ibrahim’s visit to China in April this year saw a windfall of FDIs including the signing of a Heads of Agreement in Beijing, underscored by an investment of RM32 billion to spur expansion. Although the Geely-Proton partnership is not widely recognised as a BRI project, it demonstrates how China’s private sector is venturing into BRI markets and co-developing with companies abroad. Such an initiative not only bolsters Malaysia’s economic capabilities, it also echoes China’s global governance approach of improving relations while driving development.

## Global Governance and New Chinese Initiatives

The BRI and the “Community with a Shared Future for All Mankind” promoted a China-led vision of economic and political global governance. In advancing this vision, especially in a global setting ravaged by the human, security and economic effects of the global pandemic, China soon announced a trio of initiatives—the Global Development Initiative (GDI), Global Security Initiatives (GSI) and Global Civilisation Initiative (GCI). While the details of these initiatives are still unclear, what is apparent is that they are non-hierarchical and are inclusive of the developing world. They do not appear, at least at this stage, to create the political distinction between developed and developing countries, but instead aim to bridge the development imbalance between the Global North and Global South.

This approach differs from the traditional global governance structures that were erected in the aftermath of the Second World War, before the decolonisation phenomenon, which saw ideas and doctrines such as “liberalism”, “democracy”, and “free market” being embedded and institutionalised under the auspices of Western (read American) leadership. Further, in the name of providing collective security, these systems were ostensibly designed to maintain peace and stability,

while also facilitating economic activity, particularly via the Bretton Woods Institutions, namely, the IMF and World Bank. While this is not the forum to critically assess their importance, suffice it to say that they played a crucial role in promoting international economic cooperation and making globalisation work, on the one hand. On the other, detractors point to the institutions being weaponised as instruments to foist the Washington Consensus' doctrine of the "free market," on borrowing countries (generally less developed and developing countries) by prescribing conditionalities in the lending protocols. These became more glaring in the aftermath of the Asian financial crisis of 1997 which, coupled with other events, has since set off a chain of reactive sequences, including the erosion of acceptance of the global governance structures. Today, we are at the crossroads of a new critical juncture which demands the reform of the global governance structures including a reordering of the priorities for the benefit of developing countries.

Nevertheless, it would be naïve to assume that reform in this direction would be plain sailing or that the powers that be would concede. The upshot: build alternative but complementary global governance institutions in order to ensure the participation of developing countries. This seems to be China's intention with the GDI, GSI and GCI, considering this trio of initiatives were designed at the outset to align with the principles of the United Nations Charter.

The primary aim of the GDI is even directed at the UN Sustainable Development Goals 2030, which demonstrates China's recognition that climate change and environmental degradation are the central challenges of our time. More importantly, the GDI should be seen as an initiative that qualitatively improves the process of development. It proposes the concept of "common development" which puts the interests of developing economies on an equal level to developed economies because the economic success of one country is directly related to that of its neighbours and the world at large.

The GSI was introduced soon after the GDI, recognising that security is a precondition for development. The current security climate is increasingly hostile and dominated by great power rivalry, such as US–China competition and the Russia–Ukraine War, which has significantly impacted the global economy. Such divisions have intensified the polarisation of international affairs, disproportionately affecting smaller countries that are less able to respond and manage uncertainty. The GSI recognises this imbalance and introduces the concept of "indivisible security" whereby all countries are equal in terms of interests. It envisions a security architecture that is common, comprehensive, cooperative, and sustainable.

Both the GDI and GSI highlight that regardless of their development status, all countries will experience their own challenges and insecurities but ultimately aspire for peace and prosperity. Yet, distrust between countries and systems continues to deepen tensions and divisions. Here, it harkens to the central thesis of Huntington's "clash of civilisations", that despite international systems in place, differences in culture, language, history, tradition or religion are the primary sources of conflict within and among societies. No doubt, while Huntington himself has conceded that this theory is a simplification, not to mention that without more, such a theory is

negative and destructive, it nevertheless speaks to the shaping of a new world political and economic order slouching towards divergence rather than convergence.

To address this challenge, the GCI aims to focus on the civilisational divide by promoting the common values of humanity, such as peace, justice, equity and freedom. Just as the GSI views all countries' interests as equal, the GCI aspires for true equality among all civilisations and forego feelings of superiority. This hopes to promote dialogue and encourage cultural exchanges to transcend estrangement. China's mediation in the Saudi–Iran reconciliation seven years after ties were severed and all other efforts failed potentially demonstrates the success of GCI in practice.

## Malaysia Madani and China's Global Initiatives

In principle, China's vision of global governance as articulated through the Global Initiatives falls in line with Malaysia's aspirations of a global system that values and respects the participation of all countries, regardless of size, systems of governance, ideologies, or wealth. In fact, a cursory examination indicates that there are many similarities between the GCI and Malaysia Madani, the philosophy of nationhood for Malaysia advocated by Prime Minister Anwar Ibrahim. This includes but is not limited to embracing pluralism, not in the narrow sense of confessional articulation of religious tenets but within the larger context of multicultural and multi-religious societies and the imperative of respecting differences.

As a policy based on inclusivity and integrity in shaping the nation's identity, Malaysia Madani is guided by six core values of sustainability, prosperity, innovation, respect, trust, and compassion. It calls for greater sincerity in policymaking towards realising a more humane economy, predicated on a more holistic approach to development and growth steered by empathy, ethics and anchored on the principles of justice and welfare. In essence, the growth of the national economy must not only be productive and business friendly, but must also give opportunities to all, especially to the segments of community that fall through the cracks. The concept parallels the GDI in working towards reducing inequality and enhancing standards of living while keeping sustainability at the forefront.

In the realm of foreign policy, Malaysia Madani approaches bilateral and multi-lateral engagements with ethics, sincerity and integrity. The philosophy emphasises the drive to restore Malaysia's global reputation of dignity and glory, with the hope that this in turn will once again play a role in the resurgence of an Asian renaissance characterised by the revival of an independent, inclusive, peaceful, and prosperous Asia. Again, it is not too far when it comes to the bridging of concepts and goals between Malaysia Madani and China's Global Initiatives.

It is imperative to note that while Malaysia Madani is immersed in both Malaysian and Asian pride and values, it is fundamentally a universal philosophy or approach that can bridge the East and the West. Despite differences in cultures across the region and the world at large, diplomacy and dialogue guided by values of respect, trust and compassion encourages mutual understanding and peaceful cooperation. This vision

echoes that of China's GCI, in building compassion and peace in an increasingly divisive world.



**Faiz Abdullah Prof. Dr. Mohd Faiz Abdullah** is the Chairman of the Institute of Strategic and International Studies (ISIS) Malaysia. As author and scholar, Prof. Faiz has extensive experience in public policy and research, including serving as special adviser on international policy and affairs with the Selangor government and later as an adviser on strategic and international relations in the Ministry of Economic Affairs and Ministry of Investment, Trade and Industry. In 2009, with Dato' Seri Anwar Ibrahim, Prof. Faiz co-founded the World Forum for Muslim Democrats, dedicated to providing a common platform for public intellectuals to articulate their views on Islam, reform, democracy, and governance.

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# **A New Vision for the Global Governance**

# Europe's Future in a Contested Global Environment



Fabian Zuleeg

**Abstract** Far from being only a watershed moment in European history, Russia's invasion of Ukraine has become a global tempest. Beyond economics, the war has shaken the very foundations of global governance. With the international economic and political order under siege on multiple fronts, the *age of permacrisis* is increasingly marked by the deterioration of international cooperation at a time when all countries face common and existential challenges. In a world that is sliding into a more contested environment where state power and economic security are becoming the predominant norms, a "new multilateralism" is needed now more than ever. Against this backdrop, the ability of the EU to act together to address the triple challenge it faces (watershed moment of Russia's aggression against Ukraine, fundamental structural transformations, ongoing challenge of the permacrisis) will determine its global position and its power to shape global dynamics.

**Keywords** Permacrisis · Global governance · Economic security · Multilateralism · Climate change · Digital innovation · Globalisation

## A Global Tempest

Russia's war of aggression against Ukraine, in conjunction with the global COVID-19 pandemic, has shaken the foundations governing the international economic and political order. It has also raised questions about the future of globalisation. While the COVID-19 pandemic did indeed inflict significant health, social, economic and political costs across the world, Russia's ongoing war against Ukraine has not only dampened the prospects of post-pandemic recovery but also brought significant instability to global governance. With the world economy facing downward pressures, the

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F. Zuleeg (✉)  
European Policy Centre, Brussels, Belgium

geopolitical environment has become more contested, challenging global institutions and the framework in which globalisation has taken place in recent decades.

## **A Watershed Moment in European History**

Europe's response to these changes in globalisation and international economic governance will be shaped by the triple challenge Europe faces: the watershed moment of Russia's invasion of Ukraine, fundamental structural transformations, and the ongoing challenge of the permacrisis.

The invasion of Ukraine launched by President Putin represents a watershed moment in European history (Zuleeg, 2022a). Russia has threatened European stability and security by violating the territorial integrity of an independent country. In both its foreign and domestic policy, the EU has always emphasised the importance of multilateral cooperation and respect for international law. Economic and political interdependence has been seen as a way of reducing the possibility of war while at the same time promoting prosperity, peace and security, as well as the respect of fundamental rights and freedoms. Regrettably, in the case of actors like Russia, which do not share Europe's values and are willing to disregard international law, this assumption has been proven wrong; Russia's second invasion of Ukraine in less than a decade on the 24th of February 2022 demonstrated that Putin does not feel constrained by the human and economic costs he is inflicting on Ukraine, Russia and the rest of the world. The policies and strategies of all countries will have to adapt to this realisation, which is a moment of truth for Europe (Zuleeg and Emmanouilidis, 2022).

This watershed moment not only increases uncertainty and volatility in the EU's political, economic and financial system, it also provides an important test for European democracy and the future of liberal democracies on the continent and beyond. The EU has been able to react swiftly in conjunction with international partners, specifically the US. In a matter of days following the invasion, the EU has welcomed Ukrainian refugees and provided military and financial support to Ukraine. It has also imposed ten sanction packages on Russia and adapted its security and energy policies at the national and European level. However, Russia's invasion of Ukraine is not only a regional war as it marks a defining moment in the reshaping of the geopolitical order, with repercussions for both Europe and the world.

The global economic environment remains challenging for the coming period. The rate hikes around the world to tame inflation, tightening financial conditions and China's slowdown have weighed on global growth in 2022 (OECD, 2022). Investment and consumption rose in the third quarter of 2022, but economic activity (in China especially) slowed down in the fourth quarter. However, recent events could lead to some improvements for this year thanks to China's full reopening and the easing of supply bottlenecks. Further crunch points might emerge throughout the year. For instance, some emerging markets face debt distress (despite the recent



US dollar depreciation and a general easing of global financing conditions) (International Monetary Fund, 2023). In addition, financial markets are currently representing a source of vulnerability, in the context of monetary tightening. The collapse of the Silicon Valley Bank on 10 March prompted concerns worldwide of widespread contagion. Stock markets fell in recent days and in Europe Credit Suisse, the second largest bank in Switzerland, avoided bankruptcy thanks to the buyout from the UBS group.

The knock-on effects of Russian aggression on the EU economy are considerable, given its historical reliance on Russian gas. The invasion has triggered a cost-of-living crisis in Europe, with many households struggling to pay for food, heating and transport. In the Euro Area, inflation has been at a record high fuelled by high energy and commodities prices. Energy prices have been declining since the peak of August 2022 (Trading Economics), bringing down headline inflation which was (on a yearly basis) 8.6% in February 2023 down from 8.5% in January (Eurostat, 2023). The ECB will keep raising interest rates as core inflation increases, potentially posing financial stability concerns for overindebted countries. The outlook looks less gloomy than a few months ago, but relatively low growth and inflation will remain (European Commission, 2023a).

These immediate challenges arising from this watershed moment coincide with fundamental transformations the EU is already facing: mitigating and adapting to climate change, dealing with a global technological revolution and population ageing. These are, to a large extent, global phenomena, but they have particular salience for the EU. In addition to these transformations, which will all require structural reform and enormous investments, the EU now also needs to transform its economy in order to achieve greater economic security. Russia's war of aggression has disrupted the global supply chain ecosystem and demonstrated that dependence on commodities and energy from unreliable partners can be costly indeed. But the concerns go beyond these sectors and it has become even more obvious that unsustainable dependency in key enabling technologies will have to be addressed.

Addressing these issues is especially challenging, particularly in an era that the European Policy Centre, in 2021, dubbed the "age of permacrisis" (Zuleeg et al., 2021). For the last 15 years or so, the EU has experienced a number of crises related to the global financial system, the Euro and sovereign debt, migration and asylum, internal and external security, COVID-19, Brexit, populism and the rule of law, and so on. One challenge has been seamlessly followed by the next, straining the ability of the EU to address the subsequent crisis. However, despite some gloomy predictions, the EU has been able to overcome these crises, and at times even making significant forward steps in terms of European integration. This has been true in the case of the Recovery and Resilience Facility, which temporarily allowed common EU borrowing to finance investment in response to the economic repercussions of the COVID-19 pandemic. But the permacrisis also has created lasting damage, not least reducing Europe's ability to deal with future challenges.

From the perspective of the EU, in this moment of uncertainty and risk as it faces three major challenges, effective global governance is needed now more than ever. However, there is a mounting consensus that the global system has to change. A

“new multilateralism” is needed that reflects ongoing shifts in the world economy, demography, and political power distribution. However, current global trends are moving in a different direction, towards a more contested environment where state power is becoming predominant and multilateralism is in decline.

## Global Economic Governance in Decline

At least in part, the global economic system and the associated international rules as we know them now are an US invention put in place in the wake of World War II. This shaped the rise of global economic interdependence which, in turn, has generated economic benefits for many across the globe. The hope of the architects of the system was that this could help to spread prosperity, peace and democracy across the world, within a rules-based multilateral system.

However, in recent years, this belief has been increasingly questioned. First, the rise of inequality, especially in advanced countries, can be partly explained by international trade and the formation of global value chains (Roberts, 2017), suggesting that economic globalisation does not benefit all, and certainly not equally. Second, the 2008 global financial crisis was perceived by many as a by-product of globalisation and an unhealthy focus on excessive economic profit. Third, the rise of new global actors has put the global system into question, in particular with respect to China, which has engaged successfully in geo-economic competition with the West. China has now become a key hub in international value chains (Buisse and Essers, 2022) and a crucial player in the technological race (especially in micro and nanoelectronics, robotics, as well as in Artificial Intelligence) (Heimberger and Karaulova, 2021). While the world has benefitted from China’s economic progress, increasingly there have also been concerns, mainly due to its state-driven form of capitalism and the perceived nature and practice of Chinese competition.

As a result of the longer-term global trends and recent challenges, we are seeing a change in how economic globalisation is perceived. International trade and investment are no longer perceived a positive-sum game by many, and even more common are concerns regarding the distributional consequences of global economic exchanges. Global interdependence has also become a geopolitical concern, given its potential to be weaponised (Drezner et al., 2021) for political purposes if over-reliance on critical goods and technology from foreign partners results in systemic vulnerabilities. The Trump presidency, with its counterproductive antagonistic stance vis-a-vis all international partners, was a stark expression of these new trends, resulting in the US withdrawing its support from the multilateral system it had founded and shaped. While the Biden administration is very different, when it comes to the support of the multilateral system many of the challenges of the Trump era persist.

The international economic order is currently facing significant challenges: unprecedented technological innovation, “my country first” and “take back control” movements, the rise of new regional players and non-state actors, as well as new societal challenges, which are fuelling growing complexity and are accelerating the

fragmentation of the multilateral world order, which can be seen clearly when it comes to the ability of the World Trade Organisation to adjudicate trade disputes. COVID-19 and the war against Ukraine, with all the supply and value chain disruptions these issues have caused, reinforced the current global paradigm shift. In sharp contrast with the age of the free market, we are witnessing resurgent public interventionism in economic, industrial and trade policy, and economic security has become one of the predominant objectives of public policy. Policymakers in Europe and elsewhere are mapping strategic dependencies, supporting businesses to boost the production of critical goods and to accelerate climate action, reorienting supply chains and deploying trade instruments more aggressively.

Paradoxically, this deterioration in global cooperation comes at a time when all countries face the common and existential challenge of climate change that can only be addressed if countries work together. Addressing climate challenge requires a dramatic shift in economic structures, which necessitates further public investments and decisive industrial policies. China made the domestic manufacturing of clean technologies (fuelled by public funding) a national priority and now the country is a powerhouse in solar photovoltaics, wind turbines and batteries for electric vehicles (International Energy Agency, 2022).

Similarly, the US Inflation Reduction Act (IRA) will direct \$400 billion to reduce carbon emissions through a system of tax incentives targeting both corporations and consumers (Badlam et al., 2022). A key feature of the IRA is a subsidy scheme for electric vehicles, which includes local content and assembly requirements, putting producers on the other side of the Atlantic at a disadvantage. In response to this, the EU has adopted the “Green Deal Industrial Plan”, which includes several initiatives to boost the EU net-zero industrial transformation (European Commission, 2023b). In line with the new industrial plan, the Commission tabled the “Net-Zero Industry Act”. This proposed regulation sets a 40% target for green tech manufacturing capacity in the European Union.<sup>1</sup> (European Commission, 2023c). In order to reach these ambitious objectives and react to the global industrial competition, the European Union is stepping up access to finance for business. The Commission already eased state aid rules and president Von der Leyen announced in September 2022 her willingness to propose the establishment of a new Sovereignty Fund (also for green projects, see section below “policy response across the globe”). In the short term, however, the green deal industrial plan is focussed more on streamlining and simplifying existing tools (such as InvestEU and RepowerEU). These developments highlight the difficulties in addressing climate change in the current economic governance system, given that competitiveness, level playing field, technological progress, state intervention and climate change action are all intertwined.

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<sup>1</sup> The eight strategic industrial sectors covered by the regulation include solar photovoltaic and solar thermal technologies, onshore wind and offshore renewable technologies, battery/storage technologies, heat pumps and geothermal energy technologies, electrolyzers and fuel cells, sustainable biogas/biomethane technologies, carbon capture and storage (CCS) technologies and grid technologies.

## Policy Response Across the Globe

The ongoing fragmentation of the geopolitical order started long before Russia's war of aggression against Ukraine. In recent years, many governments have increasingly turned to bilateral or regional deals, and issue-based cooperation rather than multilateral agreements, leading to a decline in the effectiveness of international institutions. This, together with a general public distrust towards international economic governance, and a lack of global confidence in its ability to find common sustainable solutions, have mutually reinforced a vicious circle where countries no longer gravitate towards the mechanisms set up by international treaties and organisations.

Unilateral actions in the economic and political environment have shown how global governance is increasingly shaped by power politics, with a multipolar world order taking shape. Meanwhile, international organisations—which have not been able to adapt fully to the changing environment and challenges—face legitimacy problems with public opinion increasingly questioning the effectiveness and integrity of established institutions, citing conflicts of interest, poor leadership and a gap between expectations and reality.

Whether or not one supports a multipolar or multilateral world order, a battle for influence is unfolding. Future transformations in global governance will most likely reflect the expanding geopolitical role that some of the most developed Asian countries are playing. At the same time, global powers such as the US and China have competing visions on how global economic governance should be structured.

What are the consequences for economic interdependencies and globalisation? Globalisation will not disappear and rules, national policies and interests will continue to shape economic dynamics. While trade has never been completely unrestrained, these new tendencies will reshape globalisation. Like-minded partners will presumably engage in “friend-shoring activities” in critical sectors and try to align trade, industrial and technology policies to face the challenges of geo-economic and political competition. The transatlantic coordination on export controls in the aftermath of the Russian Invasion, the EU–US Trade and Technology Council and the “Chip 4” initiative on semiconductors (Gargeyas, 2022) are cases in point (Buysse and Essers, 2022).

The EU is currently adapting to the above-mentioned trends, and the current watershed moment will lead to further consequences, in particular with regard to the pursuit of economic security. Only a few years ago, the EU had already adopted a long-term strategy to achieve ‘open strategic autonomy’ (European Commission, 2021). With this strategy, the EU aims to become an economic powerhouse of critical goods and technologies, thus reducing critical dependencies. While remaining open to international trade, this strategy will allow it to react to unfair practices and act more autonomously in defence and security. Broadly speaking, strategic autonomy means shaping global dynamics and defending European interests.

In a range of areas, from industrial, trade and economic policies, to security and foreign policies, the EU is already equipping itself with a set of new instruments and

others will follow. The “Enforcement Regulation” enables the EU to adopt counter-measures if the block receives a favourable ruling from a WTO dispute settlement panel, and the other party drops the dispute into a void by appealing the panel report (given the current gridlock of the Appellate Body) (European Parliament and European Council, 2021). Other measures include a mechanism to screen foreign direct investment (European Commission, 2022a), foreign subsidy instrument (European Commission, 2022b) and a proposed anti-coercion tool (Szczepanski, 2022). More recently, as mentioned above, sanctions have been imposed on Russia in conjunction with Western allies (European Council, 2022a).

Furthermore, in pursuit of sustainability, EU institutions have agreed on establishing a Carbon Border Adjustment Mechanism (CBAM), which will impose a carbon price on imported goods equivalent to the one applied to the same goods manufactured in the EU. If an EU trading partner prices the carbon content similarly to the EU, it will be exempted from the CBAM. This new mechanism should also prevent European industries from relocating to countries whose climate objectives are less ambitious than the EU's.

COVID-19 and recent watershed events have reinforced the need for the EU to retain its ability to act independently. The EU is looking for autonomy in strategic goods such as chips (European Commission, 2022c) and raw materials (European Commission, 2023d) where the block relies on just a few suppliers and is thus potentially vulnerable (Noyan, 2022). In addition, given that Russian aggression has brought the threat of large-scale war back to the European continent, the EU will need to be united and improve its military industrial base. The EU has already provided important military aid to Ukraine through the European Peace facility and proposed a procurement system which would enable member states to jointly procure defence technologies (European Commission, 2022d). The European Parliament is discussing the proposal, however delayed negotiations and concerns over its proper legal basis risk to undermine the whole project (Pugnet, A., 2023).

The COVID-19 crisis necessitated deeper fiscal integration through the establishment of the Recovery and Resilience Facility and recently President Von der Leyen, in her State of the Union speech, announced the creation of a Sovereignty Fund to direct resources towards industrial projects (Von der Leyen, 2022), potentially providing a route for the EU to invest in the future technologies (Zuleeg, 2022b). Calls for speeding up the establishment of the new fund have recently increased in the light of the US IRA. The Commission intends to table a proposal in summer. However, so far, there is no consensus among member states, as some are reluctant to introduce a new fiscal mechanism, especially if financed through common debt. In parallel, as mentioned above, the Commission loosened state aid rules to incentivise green investments (European Commission, 2023e), which is also not uncontroversial, given that it might distort the EU's Single Market.

Russia's invasion has also resulted in Europe rethinking its reliance on Russian energy. Through RepowerEU, the block is aiming to end its dependency on Russian energy, by saving energy, diversifying supply sources, and boosting renewable energy. Funding will come from the sale of Emission Trading System allowances, from cohesion policy and unused Recovery and Resilience Facility funding. Member

states will add an energy chapter to their respective national recovery plans. New projects will fund sustainable transport, energy efficiency measures in buildings, investments in renewable energy and energy security (including oil and gas infrastructure, but only to meet immediate security supply needs) (European Council, 2022b). In addition, the EU has made the first steps towards joint purchases of gas (European Council, 2022c).

## **Time to Act Together**

The ability of the EU to act together in facing this triple challenge and the associated energy, economic and security crises, will determine its global position and its power to shape global dynamics. Within the block, member states need to establish a consensus and act in a united way on the above-mentioned economic and industrial policies. If the block is fragmented along national lines, EU credibility would be undermined and its ability to act on the international stage would be compromised.

However, this should not be seen as an intention to dismantle the global economic governance system. The first preference for the EU is still the multilateral rules-based order. However, it is also clear that the global system needs to be reformed to take into account not only global developments, but also the legitimate pursuit of societal objectives such as climate change mitigation, recognising that this will inevitably affect free trade and globalisation. In the absence of effective global systems, the EU will maintain its commitment to principles of multilateralism, but in its day-to-day activities it will increasingly become ‘normalised’, i.e. acting in a manner similar to other economic and political actors across the globe.

Yet, international economic coordination remains necessary as no country or regional block can face existing global challenges on its own.

First, countries have to agree on a path that leads to a sustainable planet. Those areas concern, among others, shared indicators to measure emissions in the production process and along value chains, coordination on national carbon border adjustment mechanisms (Bernasconi-Osterwalder and Cosbey, 2021), and involving developing countries by also providing them key technologies to decarbonise their economies.

Second, the use of industrial policy instruments, including subsidies (in the legitimate pursuit to green transition and economic security), must be framed under new common rules, leveraging existing discussion fora to promote communication among like-minded partners, namely the US-EU-Japan trilateral negotiations and the Trade and Technology Council. Those discussions must be complemented with additional exchanges with relevant actors, including China, which must be at the negotiating table.

Third, COVID-19 showed us that supply shortages can paralyse the global economy and threaten not only economic progress but human health and well-being. Building resilience within supply chains is important, but interdependence will not disappear and nations will always rely on third partners for specific goods. Against

this background, avoiding unilateral and disproportionate restrictions in the name of “my country first” should represent a key objective of global economic cooperation. More broadly, uncoordinated fiscal, monetary and trade responses to global crises may exacerbate the downside risks. This implies that countries should not abandon macroeconomic policy cooperation. A successful example was the work of the G-20 in the aftermath of the financial crisis. Back then, countries set out a shared approach for the macroeconomic response and rejected raising new barriers and protectionist measures (Dadush and Suominen, 2011).

Europe must work with partners to rebuild an effective system of global economic governance while bearing in mind that the global environment existing before the aggression against Ukraine, COVID-19 or even the Trump presidency will not return. Frictions will be as common as cooperation, but in order to negotiate from a position of strength and be ready to act, EU countries will have to integrate further on economic, security and foreign policies. Moreover, it is in the EU's interest to draw clear red lines: there can be no tolerance of the disregard for international law and practice that Russia has shown. Trust and cooperation are the basis of the rules-based multilateral order. While Europe remains committed to the multilateral order, this should not be misunderstood as naivety, given the era we have entered. Europe stands ready to defend its values and interests in this more contested global environment.

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**Fabian Zuleeg** Since October 2013, Dr. Zuleeg has been Chief Executive of the European Policy Centre with responsibilities that include providing strategic direction, managing staff and resources and representing the EPC at various functions. He also continues to act as the EPC's Chief Economist (a post he has held since January 2010). Fabian holds a PhD on the political economy of EU accession from Edinburgh University. Before coming to the EPC, he worked as an economic analyst in academia as well as the public and the private sector.

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# A European Perspective on the Role of Large Corporations in Shaping Global Governance



Timo Gerrit Blenk and Lena Schorlemer

**Abstract** This paper explores the role of corporations in the increasingly fragmented global governance landscape, focusing on five major pressure points driving the fragmentation. It argues that corporations can act as policy entrepreneurs and help set the agenda of global governance, while at the same time highlighting the restrictions on the role of corporations in global governance. Drawing from theoretical assumptions about critical junctures, uncertainty, and institutional change, this paper seeks to initiate a more nuanced debate on the transformation of global governance in the aftermath of multiple crises.

**Keywords** Global governance · Critical juncture · Business actors · Corporate policy entrepreneurship

## Introduction

In the last two decades, global crises such as the Covid-19 pandemic, climate change, large-scale migration, and the Russian war against Ukraine, have become more frequent and intense. This has weakened business confidence and increased uncertainty in economic policy and international relations. Political power and economic influence have become more intertwined. Strategic competition between nations has shifted to focus on economic issues like access to cutting-edge technology, setting norms and standards, and restricting access to key resources and materials through sanctions. Meanwhile, investments are being directed away from financing “hostile” innovation through mechanisms like the proposed outbound investment screening in the United States. These developments have changed the requirements and design of global governance institutions.

As strategic competition between countries and global uncertainty continues to affect economic development, businesses are becoming increasingly important actors in global governance. Companies are essential for attaining technological supremacy,

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T. G. Blenk (✉) · L. Schorlemer  
Agora Strategy, Munich, Germany

defining industrial standards, securing raw materials, and implementing sanctions. Their role is twofold: they act as “executers” of public directives such as sanctions and as “facilitators” to achieve specific goals such as setting industrial standards and developing technology. As the global population continues to grow and resources become more scarce, geopolitical tensions and competition will likely continue to intensify, resulting in a further breakdown of international governance and a more significant role for the private sector. This will usher in a new era of institutional formation in global governance.

However, it is unclear how this institutional formation in global governance will evolve. Drawing from theoretical assumptions about critical junctures, uncertainty, and institutional change, this paper seeks to shed light on the role of corporations in the increasingly fragmented global governance landscape. With a focus on five major pressure points driving this fragmentation. Our goal is to initiate a more nuanced debate on the transformation of global governance in the aftermath of multiple crises that carefully considers the role of corporations. The following section outlines the theoretical basis and summarizes key assumptions of this paper.

## Theoretical Conceptualization

When analyzing the drivers of disruptive institutional change, it is essential to consider critical junctures, which can create a sense of uncertainty that enables changes in institutions. To concentrate on the role of corporations, we refer to the concept of policy entrepreneurs and start from Hall’s concept of the first-, second-, and third-order change.

Ikenberry (1994), Thelen (1999) and Capoccia and Kelemen (2007) distinguish between two different paths of institutional formation: developmental pathways and critical junctures. Both approaches build on the concept of path dependency, which assumes that previous decisions or events influence future institutional developments. Developmental pathways occur gradually over time, in response to changing conditions. An example of this is the EU integration processes (Pierson, 1996). Critical junctures, in turn, are “crucial moments of institutional formation at a specific point in time” (Blenk, 2019, p. 66). Critical junctures can set a state or national economy on a different institutional pathway that will shape later development (Ikenberry, 1994, p. 16–18). Examples include the 2008 global financial crisis, which revealed the fragility of the global financial sector, triggered a wave of government interventions and highlighted the need for financial sector reform, or the global Covid-19 pandemic, which demonstrated the weakness of multilateralism and resulted in the first reforms in global health governance.

Following the assumption that a crisis can act as an opportunity for fundamental institutional change, it is vital to understand why certain crises lead to profound changes, while others do not. Soifer (2012) suggests that certain conditions need to be present for a crisis to lead to meaningful institutional change. He distinguishes between permissive and productive conditions. Permissive conditions create

a window of opportunity in which transformative changes can take place, while productive conditions are what actually shape the new institutional outcome after the critical juncture (Soifer, 2012, pp. 1573, 1576–1577). When the window of opportunity closes, it is the productive conditions that remain, enabling the new outcome to persist.

Uncertainty is a second important factor in understanding why institutional change may or may not occur. Here, uncertainty is defined as collective ignorance of future policy outcomes (McNamara, 1998, p. 57). In terms of Soifer's distinction between permissive and productive conditions, uncertainty serves as a vital permissive condition, allowing for the potential of disruptive institutional change. According to Blyth (2011), outcomes are often unpredictable, and the generators of the outcome are not visible (Blenk, 2019, p. 67). This makes it difficult to calculate the risk of certain outcomes. Therefore, second- and third-order changes, as categorized by Hall (detailed below), can be expected in times of high uncertainty.

A distinction in three so-called worlds illustrates the problem of hidden generators and risk calculation under the assumption of uncertainty (Abdelal et al., 2010a; Blyth, 2011; Taleb & Pipel, 2004). In a type-1 world, directly observable generators produce outcomes with calculable probabilities and models based on past data are reliable in predicting future outcomes, e.g., dice numbers. In a type-2 world, generators are not or only partially observable and interdependent with actor interpretations. Thus, outcomes become uncertain and models based on past data hardly predict them. For example, in a stock market, stock fluctuations are observable but hardly the reasons why shares move. In a type-3 world, generators are not observable and produce unexpected outcomes, e.g., the end of the Cold War or the Financial Crisis in 2008. Theories based on past data offer no predictability. Systems seem to be stable for a certain period and then radically change.

This argument also links back to Minsky's financial instability hypothesis (1977), which forms the basis of post- and neo-Keynesian theory on financial economics (Blenk, 2019, p. 3; Tavasci & Toporowski, 2010, pp. 2–5). Minsky argues that investors assume a stable investment environment as inherent over time, investment strategies get more and more aggressive and thus destabilize the whole system until it collapses. This suggests that systems can appear most stable when they are in fact most vulnerable. Many authors have built on Minsky's hypothesis and focused on the role of uncertainty (Bibow, 2009; Fontana & Gerrard, 2004; Pech & Milan, 2009; van Ees & Garretsen, 1993). This is also linked to the debate on the role of ideas for institutional change in a situation of collective uncertainty. Interests can be vague and can fail to explain institutional change (Abdelal et al., 2010b, pp. 11–12; Goldstein, 1993, p. 23; March & Olsen, 1996). In complex societies, information asymmetries become prevalent, making ideas an even more powerful tool in influencing change (Jacobsen, 1995, p. 293).

Kingdon's (1984) concept of "policy entrepreneurs" can be used to better understand the role of corporate actors in institutional formation. Following a critical juncture, when overall uncertainty is high, policy entrepreneurs have the potential to be successful in pushing for their preferred institutional outcomes (Blenk, 2019, p. 104).

**Table 1** Hall's typology of policy changes

	Subject-matter	Description
First-order change	Shift of basic policy instruments	Overall policy goals and instruments remain constant, only precise instrument settings are adapted to new situations
Second-order change	Shift of techniques and instruments	Overall policy goals remain similar, but policy instruments and their settings to attain these goals are adapted as response to lessons from past experiences
Third-order change	Paradigm shift	Change of the overall policy discourse, including a strong entrenchment in university doctrines and scientific journals

Source: Hall, 1993, pp. 278–279

This is achieved by connecting new ideas to existing problems and contributing to agenda-setting (Kingdon, 1984, pp. 205–218; Mehta, 2011, p. 28).

When considering disruptive change following a critical juncture and the role of policy entrepreneurs, it is important to delineate the extent of institutional change. How can we differentiate minor changes from more comprehensive, institutional change? Although institutional theory provides several concepts and differentiations, many elements relate to Peter Hall's typology of policy changes (Table 1).

The last few years have witnessed a significant rise in global uncertainty due to a series of crises. This has had a pivotal effect on the existing state of global governance, bringing about drastic changes to the institutional structure at a global level. Although it is too soon to accurately assess the extent of these changes, we can expect to see at least second-order changes to start unfolding.

Building on the conceptualization developed here, this paper will begin to focus on the role of large corporations in responding to these changes as policy entrepreneurs. The underlying assumption is that we currently witness a phase of fundamental change in global governance after a series of multiple crises. The next section looks at the pressure points on the global economic order that are challenging the pre-Covid-19 state of the world, leading to fragmentation and with which the existing system of global governance cannot keep pace.

## **Five Interrelated Pressure Points Driving the Fragmentation of the World Economic Order**

Over the past decade, the global economic order has become increasingly fragmented mainly due to five factors: (1) the rise of great powers like China and Russia, (2) technological disruptions, (3) the weaponization of critical raw materials, (4) the rise in nationalism, anti-globalization sentiment, and increased protectionism, and (5) climate change and widening economic inequalities.

Of these, the rise of market-oriented, but partly or wholly illiberal economies such as China and Russia but also of India and Brazil, has had the most significant impact on the global balance of power, shifting it away from American hegemony toward a multipolar world. This shift is most evident in China's share of global GDP (adjusted for PPP) almost doubling from 9.6% in 2005 to 18.6% in 2021, while the US' share has shrunk from 19.1% to 15.7% (IMF, October 2022). Moreover, the G20 as the global group of major developed and emerging economies have begun to rival the G7 (formerly: G8) group of industrialized countries for their role in shaping global governance and international institutions.

Technological disruption constitutes a second pressure point in the global economy. The digital revolution has enabled the emergence of new markets and businesses, allowing companies to operate on a global scale. This has led to an integrated world economy, where competition is fiercer than ever, and the cost of devolution is high (Kobrin, 2015). High-tech and innovation technologies have become a key battleground for major industrial economies fighting to stay ahead of the curve and remain competitive.

Third, the race for critical raw materials (CRMs), or rather their weaponization, is another pressure point. The geopolitical realignments, the urgency to decarbonize, and the race to lead in 5G networks and artificial intelligence (AI) in a digitalized world have all resulted in increasing competition to secure uninterrupted access to CRMs as indispensable inputs for high-technology applications. Rare earths, lithium, and cobalt are among the most critical raw materials. They are found in high geographic concentration, creating hotspots of contention, especially in unstable parts of the world. Few governments have articulated, let alone implemented, an effective resource strategy, and supplier countries may leverage their supply advantage in trade wars, as seen with China in 2019 (Kalantzakos, 2020). This has put critical minerals center stage in the competition among leading industrial actors.

Nationalism, anti-globalization sentiment, and increased protectionism constitute a fourth pressure point. As governments engage in geopolitical conflicts, protectionism and state discrimination have proliferated rapidly and have become the "new normal" (Hoekman, 2015). The rise in protectionist and discriminatory measures has taken place on a much greater scale and with greater dynamics than that of liberalization. In 2021, governments worldwide intervened with protectionist and discriminatory measures rather than liberalizing ones with a ratio of 5:1 (or 28,552 to 5,474, to be exact: Evenett & Fritz, 2021). Protectionist policies, incl. barriers and obstacles to international trade and cross-border investments, undermine multilateralism.

Climate change imposes a fifth pressure point on the global economic order, widening existing disparities and deepening the divide between the haves and the have-nots. It is intensifying extreme weather events—causing destruction, displacement and disruption of economic activity—and disproportionately affecting poorer, more vulnerable populations with fewer resources to respond or adapt. Inequality is at levels similar to those of the early twentieth century, and the pandemic has only exacerbated the gap. The richest ten percent of the world's population own 190 times more wealth than the poorest half (Chancel et al., 2022), and they receive 52% of all income, compared to the not even 9% earned by the latter. This inequality

has far-reaching implications, impacting individuals, governments, and international governance.

The five pressure points discussed above are changing the demands on global governance. The rise of major powers such as China and Russia has challenged the traditional US-led global order, leading to increased competition and the need for new forms of global cooperation. Technological disruption has enabled the emergence of new markets and businesses, resulting in an integrated global economy with new challenges for regulation and governance. The weaponization of critical raw materials has created new geopolitical tensions and raised concerns about supply chain security. Rising nationalism, anti-globalization sentiment and protectionism have eroded the multilateralism that has underpinned global governance, while climate change and economic inequality are putting pressure on governments and international institutions to coordinate action. The current period of high uncertainty and market volatility, exacerbated by the Covid-19 pandemic and Russia's attack on Ukraine, presents a window of opportunity for change in global governance and redefinition of the role of corporations. As Soifer points out, crises can provide opportunities for institutional change (2012). Corporations as policy entrepreneurs have an important role to play in shaping the future of global governance in these turbulent times.

## **The Role of Corporations in an Increasingly Fragmented Economic World**

The current global governance system has been unable to keep up with the complexities and scale of transnational pressures discussed in the previous section, leading to a “global governance gap”—a lack of effective global governance structures for addressing them (Crane et al., 2008). This has made coordinating and taking decisions on global issues that require collective action increasingly difficult at a time when it is needed more than ever (Kobrin, 2015). Simultaneously, multiple intertwined pressure points, such as the emergence of a multipolar world and the weaponization of critical raw materials, have also changed the global business landscape. The private sector cannot escape these realities, particularly the way that geopolitical competition is playing out in the private sector.

In response to the governance gap, corporations have taken on quasi-governmental responsibilities, such as promoting environmental initiatives and investing in critical infrastructure and renewable energy (Crane et al., 2008, p. 86). However, this should not be seen as a zero-sum dynamic, in which firms compensate for the absence or failure of government, as the relationship between corporate and state powers is intricately intertwined (Eberlein, 2019). Still, corporations can serve as powerful allies or “facilitators” to governments, aiding in the attainment of objectives like enhancing supply chain security, optimizing resource management, and establishing

industrial standards. Moreover, they can also take a leading role in implementing government-instituted regulations, such as those concerning sanctions.

### ***Supply Chain Security and Resource Management***

The US–China trade conflict, the Covid-19 pandemic, and Russia’s war against Ukraine have all had disruptive effects on global trade, prompting governments to prioritize supply chain security for key sectors such as energy, microelectronics, medical technology, and pharmaceuticals. The private sector has been called upon to assist in “re-shoring,” “near-shoring,” and “friend-shoring” strategies by adjusting its production strategies based on political judgments about host countries and policy guidance to meet national (security) interests. For example, the Biden administration is investing federal funds to form a public–private consortium that will re-shore the production of essential active pharmaceutical ingredients to the United States. Phlow Crop. has pledged to restore domestic production by building manufacturing capacity (Rowland, 2022). Additionally, the US and EU have enacted legislation that provides tax credits, grants, and other incentives to companies that invest in chip production and research. As an example, Intel is receiving government subsidies to build factories in Ohio and Arizona in a bid to reduce costs and increase autonomy in semiconductor chip manufacturing (King, 2022). Private sector representatives are also consulted as part of special government task forces to identify international dependencies and increase the resiliency of critical supply chains. Examples of these include the US Supply Chain Disruption Task Force, which includes the CEOs of FedEx and Yellow Corp, and a White House virtual summit with the CEOs from Alphabet, AT&T, Intel and General Motors to address the global semiconductor shortages.

### ***Standards-Setting***

International standards for new technologies promote interoperability and enable safety and quality of service. While standard-setting is primarily viewed as a technical process, it also has economic implications due to patents, royalty obligations, and market access, as well as political dimensions because standards may have social consequences or reflect the interests of the stakeholders involved (Voo and Cremers, 2021). As tech competition continues to heat up, the geopolitical implications of standards are becoming more and more apparent, with corporations taking a leading role as policy entrepreneurs in the standard-setting process. China has adopted a government-led strategy that encourages Chinese firms to participate in standards-setting activities and promotes standards that are in line with China’s strategic interests (Reynolds, 2022). As a result, China has significantly increased its participation in international standard-setting organizations over the past decade. The number



of Chinese-occupied secretariats in the International Organization for Standardization (ISO) and International Electrotechnical Commission (IEC) rose by 73% and 67%, respectively (Li and Chen, 2021). Chinese nationals have also held leadership positions in the three major standard-setting organizations: Zhao Xiaogang (ISO 2015-17), Zhao Houlin (ITU 2015-22) and Shu Yinbiao (IEC 2020-22). However, as of January 2023, none of the three organizations is headed by a Chinese national.

Standards are typically set by a group of industry-leading firms and international industry associations. China did not actively participate in the first wave of mobile and internet infrastructure standards-setting but is now taking the lead in 5G technology standards-setting. To this end, China is leveraging its presence in international standard-setting organizations but also its national telecoms champion Huawei. As of early 2022, Huawei not only held the most 5G standards essential patents<sup>1</sup> (14.5%), ahead of Samsung of South Korea (11.7%) and Qualcomm Inc. of the US (9.8%) but also led in standards proposals to the 3rd Generation Partnership Project, an umbrella term for standards organizations developing protocols for mobile telecommunications, a quarter of which had been approved (Singla, 2022). It is understood that China not only sets standards through certain companies but also actively coordinates its private sector representatives. In a 3rd Generation Partnership Project vote on a technology called low-density parity check, a representative from Lenovo, who had previously voted for a Qualcomm-led proposal, voted for a Huawei-led proposal. The Lenovo founder reasoned that “Chinese companies should be united and cannot be played off each other by outsiders” (Gorman, 2020). This case demonstrates the role companies can play in furthering policy objectives and setting standards.

### ***Sanctions: The Role of Corporations in Implementing Sanctions and Upholding the Rules-Based International Order***

The use of economic sanctions as a coercive foreign policy tool has increased significantly in the last two decades, with a particularly noticeable spike since 2018. By August 2022, the Global Sanctions Index (GSI) reported 273 sanctions in place, a 14.6% year-on-year increase and with over 52,000 persons and entities affected. This marks a 270% increase since the base date of January 2017 (Refinitiv, 2022). Economic sanctions are imposed to limit or restrict economic activities in order to achieve political or diplomatic objectives, such as preventing illicit activity that could jeopardize national security and the security of allies and partners. These sanctions may take the form of embargoes, tariffs, restrictions on foreign aid, or investment prohibitions.

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<sup>1</sup> Standards essential patents (SEPs) include key components required for the operation of a standard. A simple count of such patents is not particularly useful because not all patents are equally important. The analyst’s methodology determines how many SEPs a company has. Various sources name Huawei, Samsung, Qualcomm, or Nokia as SEP leaders.

As sanctions become a more common element of foreign policy, corporations have been forced to navigate a politically charged environment. Previously, businesses that traded with countries seen as international pariahs had a clear divide between commerce and politics. Now, companies must consider the potential implications of sanctions when making decisions. It is the responsibility of corporations to uphold these sanctions, which often come with a hefty price tag.

Companies can find themselves in the middle of geopolitical disputes but may also be able to influence geopolitical issues via their agenda-setting power. In October 2022, the United States Commerce Department announced a series of export restrictions on advanced semiconductor technologies traded with China (US Department of Commerce, 2022). These restrictions, based on *de minimis* and foreign direct product regulations, require companies worldwide that use US-origin technology or intellectual property to obtain a US license before exporting. The Biden administration sought to restrict the flow of primarily commercial technologies to China, recognizing advanced semiconductors as “force multipliers” for military strength and critical to US economic security. The move was part of Biden’s national security strategy to maintain a lead in key technologies over China. The export restrictions have far-reaching implications, impacting US chip manufacturers such as Intel and Nvidia, as well as semiconductor equipment providers like Applied Materials. Applied Materials estimates the regulations have cost them \$400 million in the fourth quarter of 2022 alone (Applied Materials, 2022). Additionally, US and Western suppliers have started to sever ties with Chinese chip factories, such as KLA Corp. and Lam Research Corp. of California, pausing support of installed equipment and halting new installations at YMTC. The export restrictions have also sent shockwaves throughout Asia, although they still have another year to take effect, threatening semiconductor manufacturers such as TSMC, SK Hynix, and Samsung. Moreover, the US export restrictions will also have far-reaching effect on trade and investment decisions made by the EU, such as those outlined in the European Chips Act. Companies will have to adjust their R&D, mergers, and acquisitions strategies in response to US measures, while cooperation between the EU and the US, and between the EU and China on emerging technologies such as quantum computing could be greatly impeded.

That companies can get caught in the crossfire of geopolitical tensions through sanctions became very evident in 2018. President Donald Trump’s decision to abandon the Iran nuclear deal and the subsequent reinstatement of US sanctions on the country has made it hard for businesses to understand and abide by the international trade embargo. Not only were they obliged to follow US sanctions, but they also had to adhere to the EU’s “blocking statute,” which was created to protect European companies from US penalties for doing business with or in Iran (Harris and Ewing, 2018). This has created a dilemma for businesses, as following either option could lead to penalties.

Even when caught in the geopolitical crossfire, the private sector has the power to influence geopolitical issues. The war in Ukraine has led to unprecedented sanctions from NATO countries and their Western allies, as well as the exodus of over 1000 companies who have chosen to curtail or terminate operations in Russia beyond what is mandated by sanctions (Sonnenfeld et al., 2023). This corporate activism shows

the power that the private sector has to limit or block Russia's access to economic and financial resources and contribute to upholding the rules-based international order. Reputational and operational factors have driven the huge exodus, as companies have sought to disassociate themselves from Putin's regime and compensate for transportation routes and supply chains that have been interrupted.

## Conclusion

This paper argues that we are currently presented with a window of opportunity for initiating significant second- and third-order change in global governance. Growing uncertainty in the international political and economic sphere has changed the requirements for the design of global governance structures. Large corporations have taken on a more active role, acting as both "executers" and "facilitators" of policies, which has resulted in their increased politicization. To adequately address global challenges such as climate change, effective global governance regimes must be in place. However, the global governance system is fragmenting, as new actors and institutions compete with the more traditional UN-based system in a multiplex world (Acharya, 2017). As a result, liberal values and institutions must be able to coexist and interact with the ideas and institutions of other nations, particularly those created by China.

Multinational corporations can act as a bridge between different world regions, and contribute to the effectiveness of global governance. From a normative perspective, companies should take on a more active role as policy entrepreneurs and help set the agenda of global governance. This is necessary due to the further digitalization of societies, threats to cybersecurity, and the weaponization of economic tools. It is also clear that the corporate sector will be greatly impacted by government decisions, so it is rational for them to shape global institutions and address issues such as resources scarcity and climate change. Nevertheless, there are restrictions on the role of corporations in global governance. The extent to which companies are independent from state influence varies greatly depending on the region, and competition between companies at a global level must also be taken into account.

To gain a better understanding of the role of corporations in global governance, further research is needed into the various types of corporate behavior. Studies have largely focused on global political structures, but less attention has been paid to the role of business in international relations. It is thus essential to explore how businesses can act as policy entrepreneurs, leveraging changes in global structures to more effectively address global issues.

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**Dr. Timo Gerrit Blenk** is a renowned expert on geopolitics and security policy. Since 2018 he has been Partner and CEO of Agora Strategy, a strategic political consultancy co-founded by Ambassador Wolfgang Ischinger with a focus on global geopolitical risk analysis and business intelligence. Before joining the Agora Strategy Group, Dr. Blenk served as Secretary-General of the Swiss Political Science Association. Dr. Blenk holds a Ph.D. in International Economics for a thesis on Eurozone financial regulation from the University of St. Gallen and the Harvard Business School. Dr. Blenk further holds two Master Degrees from the Institut d'Etudes Politiques de Paris (SciencesPo) and the Freie Universität Berlin.



**Lena Schorlemer** is a project manager at Agora Strategy, a political consultancy, where she advises private sector clients on the business implications of geopolitical events and trends. In parallel, she is currently pursuing a DPhil in Politics at Oxford University, where she is analyzing the links between radical right parties and fringe extremist groups in Western Europe. She holds a BA in Politics and Economics and an MSc in Comparative Politics. Her research interests include European politics, electoral and party politics, social movements, radical right parties and political extremism.

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# Can an International Constitution of Information Empower a New Community with a Shared Future in Cyberspace?



Emanuel Pastreich

**Abstract** The drive to restrict access to the Internet, to shadow-ban users and to crackdown on international exchanges in the name of “national security,” around the world has vastly reduced our ability to come together to address common concerns. We need an international charter or constitution to determine what is true and real, who controls institutions and organizations, as well as intellectual and spiritual priorities. This would help create a Community with a Shared Future in Cyberspace, ensuring that the citizens of the Earth are in control and have access to reliable information.

**Keywords** Community with a Shared Future in Cyberspace · Information security · Constitution of Information

In his letter to the World Internet Conference on November 9, 2022, China’s President Xi Jinping called for the construction of a “Community with a Shared Future in Cyberspace,” identifying such a move as a critical step for mankind.

The significance of Xi’s proposal was not lost on the Internet experts from around the world who gathered for the event in China. Xi’s call for a transparent Internet that is, by its nature, cooperative and shared, that empowers a meaningful dialog of civilizations, stands in marked contrast to the efforts of the insidious forces of greed, paranoia, and isolationism at work day and night to undermine the original vision of the Internet as a platform for collaboration between the citizens of the Earth.

We have witnessed a drive in the United States, Europe, and elsewhere, including China, to restrict access to the Internet, to shadow-ban users and to crackdown on international exchanges in the name of “national security,” that have vastly reduced our ability to come together to address common concerns.

Most disturbing has been the trend in the United States to limit, and even to prohibit, cooperation between scientists in the United States and China on issues of global significance like the environment and health. The United States Congress has made cultural exchange and collaboration between the two largest economies

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E. Pastreich (✉)  
The Asia Institute, Seoul, Korea



nearly impossible. Even more severe bans have been put in place with regards to cooperation with Russia and Iran.

Granted that we all face the threats of ecological collapse, nuclear war, the uncontrolled development of technology, and the radical concentration of money, we need even more intense collaboration between like-minded scientists and humanists around the world to come up with workable solutions, not bans and paranoia.

Moreover, the recent decisions by the social media giants Facebook (Meta) and Twitter to radically reduce their staff and their scale, and to move forward with bans on collaboration between the citizens of the Earth according to internal decisions that are opaque and lack any scientific basis, has sent a chill through the international community.

Although globalism, the abuse of global power over finance, ideology, and technology to benefit the few, has infected much of international cooperation, we must not use that abuse of international connections as an excuse to wipe out internationalism, the pursuit of a global good by those motivated by idealism and humanitarian principles from around the world.

No country is immune from the dangerous privatization, commercialization, and balkanization of the Internet. As a result, the vision for the Internet as a true global village articulated in the 1990s is in danger of being tossed into the dust bin of history.

Xi challenged the international community to work together, rather than to compete, to create a mutually owned cyberspace wherein access is more equitable for all citizens of the Earth, one in which science is the foundation for discourse, and one in which ethical principles, not profits, are central.

He suggested that in light of the risks associated with digitalization and the expansion of technology it is an imperative for the international community to create an open, inclusive, and accessible internet around the world.

His vision suggests a real alternative to the domination of cyberspace by big tech, like Google, Microsoft, Facebook, and Amazon who have strangled the creative capacity of the citizen. Xi was both suggesting a direction forward, and also a return to the original vision of the internet as a stable, long-term shared platform for vibrant exchange between citizens.

Xi wrote, “The international community must increase dialog and exchange, increase the depth of collaboration, and we must all join hands in the construction of a platform for exchange that is fairer and more rational, open and inclusive, stable and safe, one that offers an organic potential in cyberspace.”

It is for that reason that Xi’s call for a Community with a Shared Future in Cyberspace is so important for our age, especially as the rush toward militarism, isolationism and vicious global competition undermines the central institutions of global governance. Nowhere is the need greater than in US-China relations which are infected with misunderstanding because citizens have literally no opportunities to talk.

Xi’s proposal for the Internet grows out of his larger proposal for a “Community of Shared Future for Mankind.” That proposal for an international community-based around people and culture dedicated to mutual support and collaboration is one of the more exciting proposals of recent years, and can be seen as an effort to return



to the true traditions of internationalism and ethical commitment to international collaboration that inspired the League of Nations and later the United Nations.

Much of tradition of internationalism and idealism of the United Nations has been lost, however, as private institutions have taken over governance and ethical concerns, such as those that drove the struggle against fascism, have taken a backseat.

Xi's vision of a new global community that promotes partnerships, that pursues true security based on mutual respect and addressing common threats in a scientific manner, that advances a dialog between civilizations for constructive progress, and that envisions a global economic system that is dedicated to protecting the ecosystem is the only viable and inspiring vision for international relations offered by a major power. It stands in marked contrast to the militarism and corporate globalism promoted by the United States and the European Community. Of course that vision has yet to be implemented.

Whether he is talking about global governance or the Internet, Xi emphasizes a shared project, shared ownership, that is meant for the benefit of the citizens of the Earth. The contrast with the efforts of multinational technology firms and investment banks to privatize all aspects of human society, of the natural world, and of information could not be more striking.

## **The Immediate Task for a Community with a Shared Future in Cyberspace**

Creating a responsible and scientific platform for cooperation of citizens around the world to respond to the risks, and the opportunities, of the Internet is one of the most pressing issues of our day. The privatization and the abuse of the Internet for profit by interest groups is one of the greatest challenges we face.

We are subject to so many fake news stories, that circulate through for-profit social media at a dizzying speed, that the political process for determining what is true and what is relevant has broken down in all nations and the standards for transparency and accountability that we took for granted have collapsed, even at famous institutions like Harvard and Stanford. All information is for sale. A pernicious Gresham's Law of information has taken effect so that the super-rich hoard accurate information and the vast majority of citizens are drowned in specious information meant to deceive.

Facebook, Twitter, YouTube, Viacom, and Amazon roam this vast information wasteland, using unaccountable parties to confirm the "accuracy" of information that is provided to unwitting citizens, parties who have no other compass to guide them but short-term profit.

The truth is dead and buried. And now as universities are dismantled, and intelligence agencies are hacked apart and sold at auction to Facebook, Microsoft, and Amazon, the decay of information will hit a new low in the years ahead, going far beyond anything we have experienced, perhaps a new dark age on the scale of the

loss of science and philosophy, governance and ethics, experienced during the fall of the Roman Empire.

The inevitable development of new technologies for reproduction and alteration of texts, images, and videos has converged with the concentration of wealth around the world to create a new space in which a handful of ruthless players distribute false information, in increasingly realistic formats, to as to disrupt existing systems, and create unprecedented chaos.

It is not clear to us, caught in the midst of this massive transformation, what the relationship between technological evolution and moral decay may be, but we can take concrete steps to formulate long-term responses to both crises.

Let us start with the concrete and the scientific: how we will establish global systems to assure the accuracy of information and take the power to arbitrate truth away from multinational corporations like Facebook, Amazon, Alphabet, Microsoft, and Oracle. That task must be the immediate duty for a future Community with a Shared Future in Cyberspace.

The exponential increase in our capability to gather, store, share, alter, and fabricate information of every form, coupled with a sharp drop in the cost of doing so, has given these institutions the tools for absolute domination, and the citizens of the world, dumbed down by years of commercial media, are incapable of responding to this frontal attack.

We need a platform, and ultimately an international charter or constitution, concerning how we determine what is true and what is real, who controls institutions and organizations, and what the priorities for intellectual and spiritual significance for the citizens of the Earth should be.

The emerging challenge in the United States cannot be solved simply by updating the Electronic Communications Privacy Act of 1986 to meet the demands of the present day.

We must rethink our society and culture and create new, unprecedented institutions. A change in human life and priorities is demanded to respond to the threats of the information age. The International Data Corporation (IDC) estimates that digital data will rise to an astounding 175 zettabytes of data by 2025, up from 4.4 zettabytes (4.4 trillion gigabytes) in 2013. The explosion in the amount of information circulating in the world, and the increase in the ease with which that information can be obtained or altered, will change every aspect of human experience.

We need a comprehensive response to the information revolution that not only proposes innovative ways to employ new technologies in a positive manner, but that also addresses the risks concretely in an international manner free of the influence of corporations searching out profit. The ease with which information of every form can now be reproduced and altered is an epistemological, ontological, and institutional challenge for us.

The manipulability of information is increasing in all aspects of life, but the constitutions—whether in the US or elsewhere—on which we base our laws and our government has little to say about information, and nothing to say about the transformative wave sweeping through society as a result. No wonder that the hijacking

of commercial media, medical research institutions, and global collaborative organizations by a handful of the super rich allowed them to push through dangerous and ridiculous policies around the world with so little opposition.

We have trouble grasping the seriousness of the information crisis because it alters the very lens through which we perceive the world. If we rely on the Internet to tell us how the world changes, for example, we are blind to how the Internet itself is evolving and how that evolution impacts human relations. For that matter, given that our very thought patterns are molded over time by the manner in which we receive information, we may come to see information that is presented online as more reliable than our direct perceptions of the physical world.

The information revolution has the potential to dramatically change human awareness of the world and inhibit our ability to make decisions if we are surrounded with convincing data whose reliability we cannot confirm. These challenges call out for a direct and systematic response. There are a range of piecemeal solutions to the crisis being undertaken around the world. The changes, however, are so fundamental that they call for a systematic response.

We need to hold an international constitutional convention through which we can draft a legally binding global “constitution of information” that will address the fundamental problems created by the information revolution and set down clear guidelines for how we can control the terrible cultural and institutional fluidity created by this information revolution. The process of identifying the problems born of the massive shift in the nature of information, and suggesting workable solutions will be complex, but the issue calls out for an entirely new universe of administration and jurisprudence regarding the control, use and abuse of information.

As the American writer and novelist James Baldwin once wrote, “Not everything that is faced can be changed. But nothing can be changed until it is faced.”

## **An “Information Constitution”**

Given the scale of the threats detailed above, it is critical for the Community with a Shared Future in Cyberspace to set forth standards for the integrity of information, a true “constitution of information” that does not merely promote the interest of tech giants, but it concerned with humanity and civilization.

The changes cannot be dealt with through mere extensions of the constitutions of nations or the existing legal code, nor can the effort be left to intelligence agencies, communications companies, congressional committees, or international organizations that were not designed to handle the convergence of issues related to increased computational power, but end up formulating information policy by default. We must bravely set out to build a consensus in the US, and around the world, about the basic definition of information, how information should be controlled and maintained, and what the long-term implications of the shifting nature of information will be for humanity.

We should then launch a constitutional convention and draft a document that sets forth a new set of laws and responsible agencies for assessing the accuracy of information and addressing its misuse. Those who may object to such a constitution of information as a dangerous form of centralized authority likely to encourage further abuse are not fully aware of the difficulty of the problems we face. The abuse of information has already reached epic proportions, and we are just at the beginning of an exponential increase. There should be no misunderstanding: I am not suggesting a totalitarian Ministry of Truth that undermines a world of free exchange between individuals.

We need a system that will bring accountability, institutional order, and transparency to the institutions and companies that already engage in the control, collection, and alteration of information. Failure to establish a constitution of information will not assure preservation of an Arcadian utopia, but rather encourage the emergence of even greater fields of information collection and manipulation entirely beyond the purview of any institution.

The result will be increasing manipulation of human society by dark and invisible forces for which no set of regulations has been established—that is already largely the case. The constitution of information, in whatever form it may take, is the only way to start addressing the hidden forces in our society that tug at our institutional chains. Drafting a constitution is not merely a matter of putting pen to paper. The process requires the animation of that document in the form of living institutions with budgets and mandates.

It is not my intention to spell out the full parameters of such a constitution of information and the institutions that it would support, because a constitution of information can only be successful if it engages living institutions and corporations in a complex and painful process of deal-making and compromises that, like the American Constitutional Convention of 1787, is guided at a higher level by certain idealistic principles. The ultimate form of such a constitution cannot be predicted or determined in advance, and to present a version in advance here would be counterproductive.

We can, however, identify some of the key challenges and the issues that would be involved in drafting such a constitution of information. Threats posed by the Information Revolution the ineluctable increase of computational power in recent years has simplified the transmission, modification, creation, and destruction of massive amounts of information, rendering all information fluid, mutable, and potentially unreliable. The rate at which information can be rapidly and effectively manipulated is enhanced by an exponential rise in the capacity of computers.

Following Moore's Law, which suggests that the number of microprocessors that can be placed on a chip will double every 18 months, the capacity of computers continues to increase dramatically, whereas human institutions change only very slowly. That gap between technological change and the evolution of human civilization has reached an extreme, all the more dangerous because so many people have trouble grasping the nature of the challenge and blame the abuse of information on the dishonesty of individuals or groups rather than on the technological change itself.

The cost for surveillance of electronic communications, for keeping track of the whereabouts of people and for documenting every aspect of human and non-human

interaction, is dropping so rapidly that what was the exclusive domain of supercomputers at the National Security Agency a decade ago is now entirely possible for developing countries, and will soon be in the hands of individuals. In the near future, advanced computational power will mean that a modified laptop computer can track billions of people with considerable resolution, and that capability is combined with autonomous drones, we will need a new legal framework to respond in a systematic manner to the use and abuse of information at all levels of society.

If we start to plan the institutions that we will need, we can avoid the greatest threat: the invisible manipulation of information without accountability. As the cost of collecting information becomes inexpensive, it is becoming easier to collect and sort massive amounts of data about individuals and groups and to extract from that information relevant detail about their lives and activities. Seemingly insignificant data taken from garbage, e-mails, and photographs can now be easily combined and systematically analyzed to essentially give as much information about individuals as a government might obtain from wiretapping—although emerging technology makes the process easier to implement and harder to detect.

Increasingly smaller devices can take photographs of people and places over time with great ease, and that data can be combined and sorted so as to obtain extremely accurate descriptions of the daily lives of individuals—who they are and what they do. Such information can be combined with other information to provide complete profiles of people that go beyond what the individuals know about themselves. As cameras are combined with mini-drones in the years to come, the range of possible surveillance will increase dramatically. Global regulations will be an absolute must for the simple reason that it will be impossible to stop the gathering of this form of big data.

In the not-too-distant future, it will be possible to fabricate cheaply not only text and data, but all kinds of images, recordings and videos with such a level of verisimilitude that fictional artifacts indistinguishable from their historically accurate counterparts will compete for our attention. Currently, existing processing power can be combined with intermediate user-level computer skills to effectively alter information, whether these are still-frame images using programs like Photoshop or videos using Final Cut Pro. Digital information platforms for photographs and videos are extremely susceptible to alteration and the problem will get far worse.

It will be possible for individuals to create convincing documentation, photos or videos, in which any event involving any individual is vividly portrayed in an authentic manner. It will be increasingly easy for any number of factions and interest groups to make up materials that document their perspectives, creating political and systemic chaos. Rules stipulating what is true, and what is not, will no longer be an option when we reach that point. Of course, the authority of an organization to make a call as to what information is true brings with it incredible risks of abuse.

Nevertheless, although there will be great risk in enabling a group to make binding determinations concerning what is authentic (and there will clearly be a political element to truth as long as humans rule society), the danger posed by inaction is far worse. What is reality? When fabricated images and movies can no longer be distinguished from reality by the observer and computers can easily create new

content, it will be possible to continue these fabrications over time, thereby creating convincing alternative realities with considerable mimetic depth. At that point, the ability to create convincing images and videos will merge with the next generation of virtual reality technologies to further confuse the issue of what is real.

We will see the emergence of virtual worlds that appear at least as real as the one that we inhabit. If some event becomes a consistent reality in those virtual worlds, it may be difficult, if not impossible, for people to comprehend that the event never actually “happened,” thereby opening the door for massive manipulation of politics and ultimately of history. Once we have complex virtual realities that present a physical landscape with almost as much depth as the real world, and the characters have elaborate histories and memories of events over decades and form populations of millions of anatomically distinct virtual people, the potential for confusion will be tremendous.

It will no longer be clear what reality has authority, and many political and legal issues will be irresolvable. But that is only half of the problem. These virtual worlds are already extending into social networks. An increasing number of people on Facebook are not actual people at all, but characters and avatars created by third parties. As computers grow more powerful, it will be possible to create thousands, then hundreds of thousands, of individuals on social networks who have complex personal histories and personalities. These virtual people will be able to engage human partners in compelling conversations that pass the Turing Test—the inability of humans to distinguish answers to the same question given to them by machines and people. And, because these virtual people can write messages and Skype 24 hours a day, and customize their messages to what the individual finds interesting, they can be more attractive than human “friends” and have the potential to seriously distort our very concept of society and reality.

There will be a concrete and practical need for a set of codes and laws to regulate such an environment. Long-term exposure to “fake truth” will make virtual reality seem much more real and more convincing to people who are accustomed to it than actual reality. That issue is particularly relevant when it comes to the next generation, who are being exposed to virtual reality from infancy.

Yet, virtual reality is fundamentally different from the real world. For example, virtual reality is not subject to the same laws of causality. The relations between events can be altered with ease in virtual reality, and epistemological assumptions from the concrete world do not hold. Virtual reality can muddle such basic concepts as responsibility and guilt, or the relationship of self and society. It will be possible in the not-too-distant future to convince people of something using faulty or irrational logic whose only basis is in virtual reality. This fact has profound implications for every aspect of law and institutional functionality. And if falsehoods are continued in virtual reality—which seems to represent reality accurately—over time in a systematic way, interpretations of even common-sense assumptions about life and society will diverge, bringing everything into question.

As virtual reality expands its influence, we will have to make sure that certain principles are upheld even in virtual space, to assure that it does not create chaos in our very conception of the public sphere. That process, I hold, cannot be governed in

the legal system that we have at present. New institutions will have to be developed. The dangers of increasingly unverifiable information are perhaps a greater threat than even terrorism.

While the idea of individuals or groups setting off “dirty bombs” is certainly frightening, imagine a world in which the polity can never be sure whether anything they see/read/hear is true or not. This threat is at least as significant as surveillance operations, but has received far less attention. The time has come for us to formulate the institutional foundation that will define and maintain firm parameters for the use, alteration and retention of information on a global scale.

We live in a money-based economy, but the information revolution is altering the nature of money itself right before our eyes. Money has gone from an analog system that was once restricted to the amount of gold a government possessed to a digital system in which the only limitation on the amount of money represented in computers is the tolerance for risk on the part of the players involved and the ability of national and international institutions to monitor the system. In any case, the mechanisms are now in place to alter the amount of currency, or for that matter many other items such as commodities or stocks, without any effective global oversight.

The value of money and the quantity in circulation can be altered with increasing ease, and current safeguards are clearly insufficient. The problem will grow worse as computational power, and the number of players who can engage in complex manipulations of money, increases.

Then there is the explosion in the field of drones and robots, devices of increasingly small size that can conduct detailed surveillance and that increasingly are capable of military action and other forms of interference in human society. The US had no armed drones and no robots when it entered Afghanistan, but it has now more than 8000 drones in the air and more than 12,000 robots on the ground. The number of drones and robots will continue to increase rapidly and they are increasingly being used in the US and around the world without regard for borders.

As technology becomes cheaper, we will see tiny drones and robots that can operate outside of any legal framework. They will be used to collect information, but they can also be hacked and serve as portals for the distortion and manipulation of information at every level. Moreover, drones and robots have the potential to carry out acts of destruction and other criminal activities whose source can be hidden because of ambiguities over control and agency. For this reason, the rapidly emerging world of drones and robots deserves to be treated at great length within the constitution of information.

## **Drafting a Constitution of Information for the Community with a Shared Future in Cyberspace**

The constitution of information will be an internationally recognized, legally binding document that lays down rules for maintaining the accuracy of information and protecting it from abuse. It could also set down the parameters for institutions charged with maintaining long-term records of accurate information against which other data can be checked, thereby serving as the equivalent of an atomic clock for exact reference in an age of considerable confusion. The ability to certify the integrity of information is an issue that is of an order of magnitude more serious than the intellectual property issues on which most international lawyers focus today, and deserves to be identified as a field entirely in itself—with a constitution of its own that serves as the basis for all future debate and argument.

This challenge of drafting a constitution of information requires a new approach and a bottom-up design in order to sufficiently address the gamut of complex, interconnected issues found in transnational spaces like that in which digital information exists. The governance systems for information are simply not sufficient, and overhauling them to meet the standards necessary would be much more work and much less effective than designing and implementing an entirely new, functional system, which the constitution of information represents.

Moreover, the rate of technological change will require a system that can be updated and made relevant while at the same time safeguarding against it being captured by vested interests or made irrelevant. A possible model for the constitution of information can be found in the “Freedom of Information” section of the new Icelandic constitution drafted in 2011. The Constitutional Council engaged in a broad debate with citizens and organizations throughout the country about the content of the new constitution, which described in detail mechanisms required for government transparency and public accessibility that are far more aligned with the demands of today than other similar documents.

It would be meaningless, however, to merely put forth a model, international constitution of information without the process of drafting it because without the buy-in of institutions and individuals in its formulation, the constitution would not have the authority necessary for it to be accepted and to function. The process of debate and compromise that would determine the contours of that constitution would endow it with social and political significance, and, like the US Constitution of 1787, it would become the core for governance.

For that matter, the degree to which the content of the constitution of information would be legally enforceable would have to be part of the discussion held at the convention. To respond to this global challenge, we should call a “constitutional convention” in which a series of basic principles and enforceable regulations would be put forward that are agreed upon by major institutions responsible for policy—including national governments and supranational organizations and multinational corporations, research institutions, intelligence agencies, NGOs, and a variety of representatives from other organizations.



Deciding who to invite and how will be difficult, but it should not be a stumbling block. The US Constitution has proven quite effective over the last few centuries even though it was drafted by a group that was not representative of the population of North America at the time. Although democratic process is essential to good government, there are moments in history in which we confront deeper ontological and epistemological questions that cannot be addressed by elections or referendums and require a select group of individuals like Benjamin Franklin, Thomas Jefferson, and Alexander Hamilton.

At the same time, the constitutional convention cannot be merely a gathering of wise individuals, but will have to involve those directly engaged in the information economy and information policy. That process of drafting a constitution will involve the definition of key concepts, the establishment of the legal and social limits of the constitution's authority, the formulation of a system for evaluating the use and misuse of information and policy suggestions that respond to abuses of information on a global scale.

The text of this constitution of information should be carefully drafted with a literary sense of language so that it will outlive the specifics of the moment and with a clear historic vision and unmistakable idealism that will inspire future generations, just as the US Constitution continues to inspire Americans. This constitution cannot be a flat bureaucratic rehashing of existing policies on privacy and security. We must be aware of the dangers involved in trying to determine what is and is not reliable information as we draft the constitution of information.

It is essential to set up a workable system for assuring the integrity of information, but multiple safeguards, and checks and balances will be necessary. There should be no assumptions as to what the constitution of information would ultimately be, but only the requirement that it should be binding and that the process of drafting it should be cautious but honest.

## **Private Versus Public**

Following the argument that David Brin advances in his book *The Transparent Society*, one essential assumption should be that privacy will be extremely difficult, if not impossible, to protect in the current environment. We must accept, paradoxically, that much information must be made "public" in some sense in order to preserve its integrity and its privacy. That is to say that the process of rigorously protecting privacy is not sufficient, granted the overwhelming changes that will take place in the years to come. Brin draws heavily on Steve Mann's concept of sousveillance, a process through which ordinary people could observe the actions of the rich and powerful so as to counter the power of the state or the corporation to observe the individual.

The basic assumption behind sousveillance is that there is no means of arresting the development of technologies for surveillance and that those with wealth and power will be able to deploy such technologies more effectively than ordinary citizens. Therefore, the only possible response to increased surveillance is to create a system

of mutual monitoring to assure symmetry, if not privacy. Although the constitution of information does not assume that a system that allows the ordinary citizen to monitor the actions of those in power is necessary, the importance of creating information systems that monitor all information in a 360° manner should be seriously considered as part of a constitution of information.

The one motive for a constitution of information is to undo the destructive process of designating information as classified and blocking off reciprocity and accountability on a massive scale. We must assure that multiple parties are involved in that process of controlling information so as to assure its accuracy and limit its abuse. In order to achieve the goal of assuring accuracy, transparency, and accountability on a global scale, but avoiding massive institutional abuse of the power over information that is granted, we must create a system for monitoring information with a balance of powers at the center. Brin suggests a rather primitive system in which the ruled balance out the power of rulers through an equivalent system for observing and monitoring that works from below.

I am skeptical that such a system will work unless we create large and powerful institutions within government (or the private sector) that have a functional need to check the power of other institutions. Perhaps it is possible to establish a complex balance of powers wherein information is monitored and abuses can be controlled, or punished, according to a meticulous, painfully negotiated agreement between stakeholders. It could be that ultimately information would be governed by three branches of government, something like the legislative, executive, and judicial systems that has served well for many constitution-based governments.

## **Accuracy Assurance**

The need to assure accuracy may ultimately be more essential than the need to protect privacy. The general acceptance of inaccurate descriptions of a state of affairs, or of individuals, is profoundly damaging and cannot be easily rectified. For this reason, I suggest as part of the three branches of government, that a “three keys” system for the management of information be adopted. That is to say that sensitive information will be accessible—otherwise we cannot assure that information will be accurate—but that information can only be accessed when three keys representing the three branches of government are presented. That process would assure that accountability can be maintained, because three institutions whose interests are not necessarily aligned must be present to access that information. Systems for the gathering, analysis, and control of information on a massive scale have already reached a high level of sophistication.

What is sadly lacking is a larger vision of how information should be treated for the sake of our society. Most responses to the information revolution have been extremely myopic, dwelling on the abuse of information by corporations or intelligence agencies without considering the structural and technological background of those abuses. To

merely attribute the misuse of information to a lack of human virtue is to miss the profound shifts sweeping through society today.

The constitution of information will be fundamentally different than most constitutions in that it must contain both rigidity, in terms of holding all parties to the same standards, and also considerable flexibility, in that it can readily adapt to new situations resulting from rapid technological change. The rate at which information can be stored and manipulated will continue to increase and new horizons and issues will emerge, perhaps more quickly than expected. For this reason, the constitution of information cannot be overly static and must derive much of its power from its vision.

## The Representative System

We can imagine a legislative body to represent all the elements of the information community engaged in the regulation of the traffic and the quality of information as well as individuals and Non-Governmental Organizations (NGOs). It would be a mistake to assume that the organizations represented in that “legislature” would necessarily be nation states according to the United Nations formulation of global governance. The limits of the nation state concept with regards to information policy are increasingly obvious, and this constitutional convention could serve as an opportunity to address the massive institutional changes that have taken place over the past 50 years.

It would be more meaningful, in my opinion, to make the members, companies, organizations, networks, local governments—a broad range of organizations that make the actual decisions concerning the creation, distribution, and reception of information. That part of the information security system would only be “legislative” in a conceptual sense. It would not necessarily have meetings or be composed of elected or appointed representatives. In fact, if we consider the fact that the actual physical meetings of government legislatures around the world are mostly rituals, it is clear that the whole concept of the legislative process requires a great deal of modification.

The executive branch of the new information accuracy system would be charged with administering the policies set down by the legislative branch. It would implement rules concerning information to preserve its integrity and prevent its misuse. The details of how information policy is carried out would be determined at the constitutional convention. The executive would be checked not only by the legislative branch but also by a judicial branch. The judicial branch would be responsible for formulating interpretations of the constitution with regards to an ever-changing environment for information, and for assessing the appropriateness of actions taken by the executive and legislative branches.

The terms “executive,” “legislative,” and “judicial” are meant more as placeholders in this initial discussion, not actual concrete descriptions of the institutions to be established. The functioning of these units would be profoundly different from

branches of current local and national governments, or even international organizations like the United Nations. If anything, the constitution of information will be a step forward toward a new approach to governance in general. It would be irresponsible and rash to draft an “off the shelf” constitution of information that could be readily applied around the world to respond to the complex situation of information today.

Although I accept that initial proposals for a constitution of information may be dismissed as irrelevant and wrong-headed, I assert that as we enter an unprecedented age of information, most of the assumptions that undergirded our previous governance systems based on physical geography and discrete domestic economies will be overturned. There will be a critical demand for new systems to address this crisis. This initial foray can help to identify the problems to be addressed and the format in which to do so in advance.

In order to effectively govern a new space that exists outside existing systems of governance (or in the interstices between systems), we must make new rules that can effectively govern that space and work to defend transparency and accuracy in the perfect storm born of the circulation and alteration of information. If information exists in a transnational or global space and affects people at that scale, then the governing institutions responsible for its regulation need to be transnational or global. If unprecedented changes are required, then so be it.

If all records for hundreds of years exist online, then it will be entirely possible, as suggested in Margaret Atwood’s 1985 novel *The Handmaid’s Tale*, to alter all information in a single moment if there is not a constitution of information. But the solution must involve designing the institutions that will be used to govern information, thus bringing an inspiring vision to what we are doing. We must give a philosophical foundation for the regulation of information and open up new horizons for human society while appealing to our better angels.

Oddly, many assume that the world of policy must consist of turgid and mind-numbing documents in the specialized terminology of economists. But history also has moments such as the drafting of the US Constitution during which a small group of visionary individuals managed create an inspiring new vision of what is possible. That is what we need today with regard to information. To propose such an approach is not a misguided modern version of Neo-Platonism, but a chance to seize the initiative and put forth a vision in the face of ineluctable change, rather than just a response.

## **A Community with a Shared Future in Cyberspace and the Future of Information**

The proposed Community with a Shared Future in Cyberspace offers us a rare opportunity to imagine how cyberspace can serve a positive role in the world beyond the short-term profits of multinational corporations. Granted the manner in which information is degraded these days, rapid implementation of such a Community with a Shared Future in Cyberspace is absolutely essential so as to make sure that we,

the citizens of the Earth, are in control and have access to reliable information. An effective constitution of information for the Earth will be a critical key to that undertaking.



**Emanuel Pastreich** is currently President of the Asia Institute, a think tank with offices in Tokyo, Seoul and Washington D.C. that is committed to promoting cooperation in Asia on issues including climate change, the impact of technology on human society, the rapidly shifting nature of international relations, and the spread of a culture of anti-intellectualism. He ran as an independent candidate for President of the United States in 2020 and continues his campaign of “Fear No Evil” for the restoration of the rule of law from Tokyo, Japan. Pastreich has published numerous books in English, Chinese, Japanese, Korean, and other languages, including the Korean book “A Republic of Korea that Koreans do not know” which was designated as a national security book by the South Korean Ministry of Defense. Fluent in Chinese, Japanese, and Korean, Pastreich has an BA in Chinese from Yale College, an MA degree in comparative literature from the University of Tokyo, and a PhD degree from Harvard University in East Asian Studies. He is a senior fellow at the Global Peace Foundation and a researcher at Yale University’s Council on East Asian Studies. He is also a senior associate at the Center for China and Globalization (CCG) in Beijing.

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# The World Needs a Form of Global Governance for All



Mehri Madarshahi

**Abstract** Globalization has both strengthened global connections and contributed to fragmentation in international relations, resulting in regional trade blocks and a multipolar world. China's contribution to global governance is mainly economic, but with its rising international status, China has begun to shoulder more responsibilities in a world consumed with increased social tensions and political polarization, democratic decline, and geopolitical splits. Ultimately, could China contribute to the creation of a new form of global governance?

**Keywords** Global governance · China–US relations · Globalization · Fragmentation · Multipolarity

## Introduction

Today, global governance and the world order are facing challenges from slower economic growth, global warming, pandemics, supply disruptions, food and energy insecurity, and more volatile financial markets—all coupled with geopolitical rivalry and deep divisions among great powers. These various global crises have dimmed the possibility of progress and prosperity worldwide. The world has also been thrust into a fraught period of geopolitical realignment due to the war in Ukraine, creating a deep divide between a united West against non-Western nations, a trajectory that could lead to a gradual demise of multilateralism and in turn that of the world order. These shocks have endangered the social and political stability in some countries while weakening the ability of the world to confront its foremost long-term challenge: climate change.

Although the strategic and geopolitical rift began with trade (be it global or bilateral), Covid-19 and its lingering effects triggered and intensified US–China strategic competition and sent their bilateral relations into a tailspin. Geopolitical

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M. Madarshahi (✉)

Institute for Public Policy (IPP), South China University for Technology, Guangzhou, China

Guangdong University for Foreign Studies, Guangzhou, China

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rivalry deepened further when China's policies for achieving greater self-reliance in advanced technology presented additional momentum to trends in the US and some other Western nations leading to further mistrust of China. Chinese companies were excluded from markets and prevented from installing their technologies. As a result, the process of decoupling the economic, diplomatic, military, and ideological relations have intensified. The ensuing blame game has created enduring resentment on both sides that could influence mutual policies across a whole range of issues for the foreseeable future.

It was only a couple of years ago, when frequent references to G-2 (China-US) bilateral economic cooperation were the slogan of the day for policy makers and political analysts. Today—and just a short while later—the talk is about “decoupling.” The Anti-China hawks are busy destroying all bridges that had linked the two countries on scientific, technological, and economic matters. The US limits on exports to China of high-end technologies and semiconductors have targeted the growth of the technological capabilities of industries that China has identified as its highest priority. Restrictions on Chinese digital and cyber telecommunication facilities are indicative of growing political tensions between the United States and China over the past few years. In this context, Covid-19 should be considered a major cause of severe breakdown in trust, leading to the present geopolitical contests.

This deepening division was reflected recently in a decision by the United Nations Security Council—where the five members with veto powers could no longer find a like-minded approach on important security matters. This was also the case during the meeting of G-20 Finance Ministers in Delhi in late-February, where due to objections to certain wording by China and Russia, no agreements on a final communique could be reached.

Pierre-Olivier Gourinchas, the IMF's chief economist, described it as a sudden geopolitical shift that “reveals hidden underlying fault lines.” He warned of a world fragmenting into “distinct economic blocs with different ideologies, political systems, technology standards, cross-border payments and trade systems, and reserve currencies.”

Elizabeth Economy, author of a new book called *The World According to China*, argues that Beijing is aiming for a “radically transformed international order” in which the US is in essence pushed out of the Pacific and becomes merely an Atlantic power. Since the Indo-Pacific is now the core of the global economy, that would essentially make China “number one.” This is a very different game—it is now a geopolitical contest between the world's number one power, the United States of America, and the world's number one emerging power, China!

Rush Doshi, a China scholar working in the White House, makes a similar argument in his book, *The Long Game*, where he cites various Chinese sources in making the case that, “China is now clearly aiming for American-style global hegemony.”

## **In a Fragmented World can a Unipolar World Survive?**

Events of the early 21st century, such as the unexpected attacks on the World Trade Center in NYC on September 11, 2001, marked a turning point after which the US seemed to modify its principles of democracy and freedom by practicing surveillance on its own citizens as well as the leaders and people of other countries. The financial crisis of 2008 intensified assumptions about the impending decline of America's might, and its unipolar supremacy.

Considering this background and rapidly advancing Asian countries, discussion of America's decline began, eliciting feelings of triumph and concern (depending on one's preferences) among observers. It is worth mentioning that much of the security and institutional architecture of the current world order emerged as World War II ended.

In the aftermath of World War II, the UN, the World Bank, and the IMF were founded, with their headquarters in the US. The General Agreement on Tariffs and Trade (GATT) came into force in 1948, NATO was created in 1949, the US-Japan Security Treaty was signed in 1951, the European Coal and Steel Community (the predecessor of the EU), was also founded in 1951. After the end of the cold war, rival Soviet-backed institutions such as the Warsaw Pact collapsed, and NATO and the EU expanded up to the borders of Russia. China joined the World Trade Organization in 2001.

The question now is whether Russia's and China's desire for a "new world order" will also need a war to come to fruition and is Ukraine's destiny a decisive turning point toward that objective?

Barely recovered from the crises of the early 21st century, the US upheld the desire to maintain its position as the world's only superpower even with the cost of undermining the power of its competitors. These "efforts" have been making the world a more turbulent place in recent years. After the 9/11 attacks on New York and Washington (implicated Osama Ben Laden), NATO invoked Article 5—its mutual-defense clause—and invaded Afghanistan demonstrating America's willingness and ability—if required—to transform the world by force. Unanimity within the G-7 and EU to assist Ukraine in its conflict with Russia is yet another example of the "America is back again" slogan in the global governance.

In recent years, apprehensive about the rise of China, the US has become increasingly determined to stop China as a rival. In doing so, the US has chosen a more protectionist policy, prioritizing self-sufficiency over global inter-dependency. Could this new paradigm shift give rise to a reconsideration of multilateral agreements, or lead to a goal of unilateral political superiority at any cost? What will this mean for the current model of global governance? Could it feed into the widespread doubt about the adequacy of the present world order?

In contrast, China has used its trading power to expand its global influence. In 2013, Beijing launched the Belt and Road Initiative (BRI) to fund infrastructure that stretches into Central Asia, Africa, Europe, and the Americas. In 2015 China also



launched the Asian Infrastructure Investment Bank (AIIB). The AIIB is a multilateral financial institution that invests in infrastructure projects and other productive sectors across Eurasia. In addition, the establishment of the Regional Comprehensive Economic Partnership, a vast new free-trade area in the Asia-Pacific with several American strategic allies such as Japan and Australia, created easy accesses to the Chinese market.

Since then, as part of its goal to return China to its former glory, the government has adopted a global governance strategy focusing on four major issues: global health, Internet governance, climate change, and development finance. In October 2017, plans to make China a “cyber superpower.” were launched, helping the country to become a leader in the global Internet governance by promoting the idea of “cyber sovereignty.” On climate change, China has shifted from resisting international cooperation on climate change to supporting such cooperation. China’s activism at home has been matched by new activism on the global stage, where it has worked with existing international institutions and has been a leader on climate change. In 2015, the United States partnered with China to call for a strong, legally binding treaty that ultimately became the Paris Agreement. Now Beijing is trying to save the agreement as others, including the United States, are shifting their focus.

More subtly, China has moved on a series of foreign policy initiatives to create alternative structures for international cooperation, particularly with the developing countries. In conflict resolution, China’s 12-point Position Paper (released on Feb 24, 2023) outlines a political settlement of the Ukraine crisis. Citing positions that China has long held in international fora, China offers several useful insights into the role it wishes to play in the international arena as well as its positioning with respect to global dynamics of power. In the context of this plan, China invites all countries to strictly uphold the sovereignty and independence and territorial integrity of all and choose dialogue and negotiation in resuming peace talks. China signaled its willingness to continue to play a constructive role in these negotiations. The document openly condemns the use of nuclear weapons and calls for a military de-escalation between the warring parties.

President Volodymyr Zelensky welcomed this paper as “an important signal that China’s willingness to participate in a peace formula” and volunteered to meet with President Xi. On 26 April, President Xi Jinping spoke with President Volodymyr Zelensky on the phone. The two sides exchanged views on China–Ukraine relations and the Ukraine crisis.

## **Can Globalization Be the Savior of a Fragmented World?**

Today, notions of global governance, globalization and world order have become rather closely connected. Rapid globalization for decades, resulted in increasing economic integration and inter-dependence among countries, leading to the emergence of a global marketplace. Multinational companies manufactured products in

many countries and sold them all over the world. Money, technology, and raw materials—breaking international barriers—permitted developed economies to integrate with less developed economies through foreign direct investment, elimination of trade barriers, and economic reforms. However, globalization is being challenged by widely differing expectations, standards of living, cultures and values, legal systems as well as unexpected global cause and effect linkages.

Globalization has given rise to inequality, growing social divisions and a deepening economic disparity with an end game of an unavoidable backlash most visibly through political manifestations around the globe. It has prompted populists, extremists, and nationalists around the world to condemn multilateralism, globalization, and the current world order as the sources of inequality.

Many analysts believe that rising populism in the US and Europe is a result of and is enhanced by the persistently widening income and wealth gap due to the disparate gains between capital and labor. These are the root causes that continue to feed populist anger against elites by electing Donald Trump to the US presidency and the UK's vote to leave the European Union. Populism and nationalism were driving policy initiatives behind “make America great again” and the Brexit campaign that focused on resurgence of national lost industries and traditional jobs. In such circumstances, fake and alternative truths influence people's opinion, and the social media has become a dominant factor in shaping the dynamics of the world politics and social order of the day.

Taking advantage of the perceived and actual flaws in the current world order and governance, and their impact on the combination of institutions, ideas and power structures, the competitors joined forces determined to create a new world order that would better accommodate their differing interests. Two features of the current world order are of their particular concern—“unipolarity” and “universality.” To put it more simply, they believed that the current arrangements gave America too much power. For more than two millennia, China had seen itself as one of the dominant actors in the world. The concept of “*zhongguo*”—the Middle Kingdom, as China calls itself—is not simply geographic. It implies that China is the cultural, political, and economic center of the world. This Sino-centrist worldview has in many ways shaped China's outlook on global governance—the rules, norms, and institutions that regulate international cooperation.

Yet China also now seeks to shape the global governance system more actively, to advance its model of political and economic development. This development model is characterized by extensive state control over politics and society, and a mix of both market-based practices and statism in core sectors of the economy.

President Xi Jinping has often called for more shared control of global governance. He has declared that China needs to “lead the reform of the global governance system with the concepts of fairness and justice.” The terms fairness and justice signal a call for a more multipolar world, one potentially with a smaller role for the US in setting international rules.

Joining forces with Russia, the two countries have become determined to change “unipolarity” in global governance. Fyodor Lukyanov, a Russian foreign policy thinker, believes that unipolarity “gave the United States the ability and potential

to do whatever it saw fit on the world stage.” He argues that “the new age of American hegemony was ushered in by the Gulf War of 1991—in which the US assembled a global coalition to drive Saddam Hussein’s Iraq out of Kuwait.” (FT.COM) The Gulf War was followed by a succession of US-led military interventions around the world—including in Bosnia and Kosovo in the 1990s. NATO’s bombing of Belgrade, Serbia’s capital, in 1999, has long formed part of Russia’s argument that, “NATO is not a purely defensive alliance.”

America’s defeat in Afghanistan, symbolized by the chaotic withdrawal from Kabul in the summer of 2021, has given the Russians hope that the US-led world order is crumbling. Lukyanov argues that the fall of Kabul to the Taliban was “no less historical and symbolic than the fall of the Berlin Wall.” Influential Chinese academics are thinking along similar lines. Yan Xuetong, Dean of the School of International Relations at Tsinghua University in Beijing (President Xi’s alma mater), writes that “China believes that its rise to great-power status entitles it to a new role in world affairs—one that cannot be reconciled with unquestioned US dominance.”

Like Lukyanov, Yan believes that “the US-led world order is fading away. In its place will come a multipolar order.” The echo of this assumption could be heard from President Xi when he referred in some speeches that “the East is rising, and the West is declining.” Since becoming China’s Communist Party leader a decade ago, Xi has adopted a more assertive stance on foreign relations. In October 2017, he told the party’s 19<sup>th</sup> congress “it is time for us to take center stage in the world.” During the 20<sup>th</sup> Congress meeting, he codified the new foreign policy doctrine with a 24-character formula that included the “dare to fight” phrase mirroring Deng Xiaoping’s strategy. For Russia and China, the creation of a new world order is not simply a matter of raw power; it is also a battle of ideas. While the Western liberal tradition promotes the idea of universal human rights, Russian and Chinese thinkers make the argument that different “civilizations” should be allowed to develop with different doctrines. In a similar vein, Beijing argues that a fusion of Confucianism and Communism means that China will always be a country that stresses collective rather than individual rights.

The new world order that Russia and China are demanding would be based on distinct spheres of influence. The US would accept Russian and Chinese domination of their neighborhoods and would abandon its support for democracy that might threaten other regimes.

## **New Paradigm—New Global Governance? Problems of the Transition Period and the Balance of Power**

Multilateralism, in both its global and national versions and across the whole range of issues, is also under severe strain and may be subjected to continued interpretation, revision, and rewriting. An inward-looking US, a militarized Europe, and a stagnant Japan and Korea could provide fertile ground for the rise of economic giants such as

China and India in Asia as well as the emergence of several developing states from Mexico to Malaysia and Indonesia, which may wish to take leading positions in the world of the future. Taking this development into account, along with the economic and financial powers of some multinational companies and private sectors, any new model of governance will be subject of scrutiny and doubt.

With the expectation of a US demise, the search for a new balance of power, manifested in the active forming of various alliances and coalitions of countries and their associations, has already begun. Changes in the global balance of economic power could create objective conditions for a reorganization of the existing world order. However, it will not necessarily result in an automatic change in military and political balances. In this sense, economics replaces politics as a driver of global change.

If and when the US loses its privileged position as the world primary power, needs will arise for a comprehensive search for new patterns. A different and new world order may result in a world without a hegemon, but with several centers of power and influence, of which the United States is likely to be the most important. But it would only be “first among equals” and not a superpower.

The US at present, is involved in too many aspects of global leadership and this is a challenge not easy to overcome. It is impossible to predict where the world will be twenty years from now, but the question remains—can the “sunset” of the USA turn into a new “sunrise” for others? The shape of a new world order in future will strongly depend on who will lead in technology, especially if innovations are translated into military supremacy.

Today developing world such as India invests more and more into technology with the hope to have a seat at the global governance table. For them, a credible new global order would entail:

1. A solid balance of power and interests.
2. New models of a supranational government and coordination of global processes.
3. New ideologies to replace the idea of the universal democracy at all levels with a new paradigm and new cooperation patterns.
4. Avoiding fragmentation that could slow increased global integration and foster localization in production, trade, finance, and technology.

At the 2023 World Economic Forum’s (WEF) annual meeting in Davos, IMF chief economist Gita Gopinath came out swinging and alerted business leaders and government functionaries of the dangers of fragmentation and deglobalization. IMF Managing Director Kristalina Georgieva went further. On February 5, on CBS’ 60 Minutes program she said that “if world trade slips, global GDP would decrease by USD 1.5 trillion or 1.4%, and this could be as high as 3% in Asia.”

## Conclusion

Globalization has given rise to significant connections in the world but also a greater risk of fragmentation of international relations. While some may consider the phrase “fragmented globalization” a dichotomy, but it could lead to strengthening of regional trade blocks and with like-minded partners leading to a multipolar world and not necessarily a “de-globalized” one.

Globalization is overwhelmingly a technological and economic process while fragmentation is primarily political in nature. Even though they take place in different spheres, it is often assumed that there is a relationship between the two.

Trade systems are at risk of fragmentation not only due to geopolitical rivalries, but also because they are not being updated to meet the biggest challenges facing humanity from climate change to future pandemics.

Rebuilding the global economy after Covid-19 will require rebuilding trust in free trade and support of increased capital flows, especially for developing and emerging nations. China’s contribution to global governance has so far focused mainly on economic cooperation. *However*, along with its rising international status, China has begun to shoulder more responsibilities in narrowing the gap between rich and poor, promoting South-South Cooperation, and other global affairs. These efforts have played a key role in lifting many out of poverty over the years.

As its economy grows, and as it was mentioned earlier, Beijing is taking a more active role in global governance, signaling its potential to lead and to challenge existing institutions and norms. China has become a powerful force in global governance. Increasingly, however, its efforts appear to be deepening divides with other countries, particularly democracies that are committed to existing norms and institutions. Ultimately, this divide could make it harder for states to collaboratively address major international challenges, such as global health, climate change, and development finance that require engagement from all nations, in the form of international cooperation to rebuild the rules-based environment, as well as domestic policies that minimize the uncertainties associated with country-specific political and economic risks. As a recent McKinsey Global Institute report reminds us, “no region is close to being self-sufficient.” Meanwhile, environmental collapse also threatens to exacerbate social tensions and political polarization, democratic decline, and geopolitical splits that drive a wedge between and within countries.

Given the fact that the rare confluence of geopolitical, economic, and technological forces now confronting the world may reverberate for generations, I wish to end this article with a quote from Jie Dalei, Professor of International Studies at Peking University: “One does not have to change [or] become the other, to be able to coexist. In fact, the existence of multiple competitive ideologies has been normal throughout most of human history. The dominance of one ideology in the global marketplace of ideas is the exception rather than the rule.”



**Professor Mehri Madarshahi** is currently an Honorary Professor at Institute for Public Policy (IPP), South China University for Technology, and Adjunct Professor at the Guangdong University for Foreign Studies. Prior to this, she served as a senior economist for the United Nations and the Paris correspondent for MaximsNews and the United Nations Diplomatic Bulletin (UNDIP). Since her retirement from the UN, Mehri has taken on a number of positions. In addition to those mentioned above, she is also a visiting professor at Jinan University, Vice Chair of the Asia Pacific Exchange and Cooperation Foundation in Beijing, a member of the Advisory Board of the International Center for Creativity and Development (ICCS) and was recently appointed as a non-resident Senior Fellow at the Center for China and Globalization (CCG). She also represents the China Folklore Photographic Association at UNESCO. She has founded various associations and companies focusing on conflict resolution, environmental issues, and international exchanges. She has also worked with UNESCO and other international organizations to create a new role for cultural diplomacy. She has received awards from the Aspen Institute America (Awards of Excellence), UNESCO, and others for her innovative approach to peace and dialogue. She is a contributing author to many publications and has authored multiple articles and research essays on environmental sustainability, circular economy, urban renewal, and technological innovations. More and details of her work can be found at: [www.melodydialogue.org](http://www.melodydialogue.org)

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# Reshaping the Global Order



Pascal Lamy

**Abstract** The previous international order is being shaken by increasing tensions and a change in the balance between geoeconomics and geopolitics, resulting in less of a rules-based system more of a force-based system, which obliges us to consider new paths. Issues of environment, minority rights or intergenerational accountability need to be a part of new collective ambitions, rights and responsibilities. While a ‘tabula rasa’ approach would probably be unrealistic, a solution originating in the Westphalian model and the role of Europe’s multilateral experience are the most likely pathways for a viable solution.

**Keywords** Polycrisis · Global order · Westphalian principles · SDGs · The ‘European order’

*That the world is in the midst of a global ‘polycrisis’ or ‘permacrisis’ has rightly and unfortunately become conventional wisdom. The evidence is everywhere, from the Russian invasion of Ukraine to global warming, from the Covid pandemic to a looming debt overhang in developing countries, from the return of inflation to the rise of autocracies, from the increase in poverty and inequalities to the loss of biodiversity.*

*The main international institutions in charge such as the United Nations Security Council (UNSC), the World Trade Organization (WTO), the International Labor Organization (ILO), the World Bank and the World Health Organization (WHO) are paralyzed or weakened. Wide governance gaps are also appearing in areas that are of great importance for the future like space, cyber or the ocean. In short, the previous international order, insufficient as it may have been, is broken and history*

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Pascal Lamy, ‘Reshaping the Global Order,’ *Progressive Yearbook 2023*, Foundation for European Progressive Studies (FEPS), pp. 171–176 (6 pages), <https://feeps-europe.eu/wp-content/uploads/2023/01/17.-Reshaping-the-global-order-by-Pascal-Lamy.pdf>.

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P. Lamy (✉)  
Paris Peace Forum, Paris, France

Jacques Delors Think Tanks (Paris, Berlin, Brussels), Paris, France

*tells us that such moments in the past have all too often preceded major conflicts, suffering and horrors—the perspective of which had progressively faded away since the end of the second world war nearly 80 years ago. Antonio Gramsci coined his famous sentence in 1930: ‘The old is dying and the new struggles to be born: now is the time of monsters.’*

*Shaping or reshaping a global order of some sort has always been part of a progressive agenda for many reasons, the main one being that we trust the capacities of humans to cooperate and to harness their impulse to violence with solidarity in order to improve humankind—which we believe is possible. Internationalism is part and parcel of the progressive movement and cannot remain just wishful thinking. This short chapter on a formidably complex matter will try to analyze the main causes of the current situation and to propose some avenues forward, including for the EU at a time when its international posture is seriously challenged.*

The reasons behind the breakdown of the international order are many. Some of them are of a structural nature, others more conjunctural.

The main long-term, structural factors at play can be summarized by sovereignty as a founding principle of an international order, by the obsolescence of the previous order, and by the US-China rivalry.

Sovereignty has been, is, and will remain the main obstacle to building a fully fledged international order as long as it is accepted as the core principle of international law. Indeed, sovereignty maintains that political legitimacy lies first and foremost with the nation state, hence only the nation state can enter into agreements that constrain or limit this sovereignty, whether in subscribing to collective disciplines or in participating in so-called member-driven international organizations. As long as these seventeenth-century ‘Westphalian’ principles remain in place, any form of cosmopolitanism will remain a distant dream, and global governance will be intrinsically weaker than national governance as it can only deliver a parcel of the main outputs of any governance system—i.e., legitimacy, leadership and coherence.

Obsolescence has to do with the origins of the current global system, the architecture of which dates from arrangements made after the Second World War. The ‘universal’ nature of these arrangements is increasingly seen as a product of a past pattern of Western dominance at a time when new nation states are now reshuffling the old power distribution—hence a growing frustration in the South vis à vis the North, which comes on top of the still vivid memory of colonization or imperialism in many places.

The intensification of the US-China rivalry is the third main factor shaping the demise of the international order, as this rivalry increasingly pits the two main world superpowers against each other. Indeed, they now believe they have become dangerously vulnerable to each other—hence a change of view on both sides about globalization. Whereas the US and China previously celebrated the benefits of increased economic interdependence in fostering development and reducing poverty, they are now trying to address what today they consider as overdependence and have embarked on a decoupling journey which challenges the rest of the world with hard



binary choices and which permeates international life in the form a sort of ‘cold war 2.0.’

These long-term trends are aggravated by recent developments which accelerate and increase the divisions between countries and the shift to more nationalistic power games.

This is obviously the case with the Russian invasion of Ukraine, which is pitching the US and the EU in support of Ukraine against Russia supported, at least in principle, by China. This can be seen in the United Nations General Assembly votes in March 2022, while a large part of the rest of the world avoided taking sides—a surprise for many of us, which has triggered a big soul-searching exercise.

This aggravation of long-term trends by recent developments was also the case during the Covid-19 pandemic, when vaccines and treatments were reserved for domestic use in many (although not only) developed countries for a long time, thus creating yet another North-South divide.

It is still the case in respect to climate change where resources to cope with mitigation or adaptation remain mostly in the North while the biggest impact of climate change is in poorer countries and will keep hurting them in the coming decades. Nonetheless, these countries’ responsibility is often minimal in terms of the stock of carbon dioxide accumulated in the atmosphere, leading to tensions on the now open issue of ‘loss and damage.’

This also risks being the case in the aftermath of Covid, during which rich countries with solid signatures have been able to borrow trillions to support their economies and their populations, while poorer countries do not have access to these cheap sources of finance and are now struggling with a looming debt crisis.

All in all, the previous international order is being shaken by increasing North-South and East-West tensions and frustrations, and by a change in the balance between geoeconomics and geopolitics, the former losing the force it had gathered in recent decades, and the latter regaining its past dominance over world affairs.<sup>1</sup> We are thus moving toward less of a rules-based system, and more toward the use of force. This context obliges us to consider new paths, tentative as they may be.

For progressives, exploring these paths should start with a fundamental reconsideration of the ‘software’ of a new international order, before looking at various ‘hardware’ options.

The existing outdated order had a foundation in values in the form of the Universal Declaration of Human Rights, adopted by the UN in 1948. A reshaped global order would need a similar instrument, fit for the twenty-first century, a sort of new charter of universalism. It would take into consideration the obvious mismatch between some of the principles of the 1948 declaration, and today’s realities, such as ‘periodic and genuine elections,’ the ‘right to social security,’ or ‘equal pay for equal work.’ Not that many of us would disregard them as irrelevant, but they remain too much

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<sup>1</sup> Lamy P. and N. Gnesotto (2019) *Strange New World: Geoeconomics vs Geopolitics* (Paris and New York: Odile Jacob).

of an aspiration for too many on this planet to pretend that they are universally implemented.

New issues such as environmental sustainability, the rights of minorities, or inter-generational accountability need to find their rightful place in a re-statement of collective ambitions, rights and responsibilities. This would need to be thoroughly prepared and developed using the model of the sustainable development goals (SDGs) in order to reflect a genuinely ‘universal pluralism,’ encompassing the views, traditions, cultures and beliefs of countries and people who were not recognized, did not exist or had no say 75 years ago.

Just agreeing to embark on such a journey would give a powerful signal that we all recognize that this world is in need of a new ethic, a new recognition of values that bind us all, albeit in different ways, starting, for example, with human dignity, freedom, equality, justice, openness and the peaceful resolution of conflicts. Various initiatives by different stakeholders in different quarters—be they philosophers, or intellectuals for faith representatives—are already working on such streams of thought. These initiatives deserve to be developed.

Such a preamble would facilitate discussion and, later, negotiation about changes in the ‘hardware’ of global governance, not least by entrusting emerging powers with the responsibility of proposing their own agenda in a way that would be commensurate with the new status they are seeking. While a ‘tabula rasa’ approach would probably be unrealistic, several possible avenues should be considered simultaneously, including three approaches to reform of the present broken system: neo-Westphalian, para-Westphalian and post-Westphalian.

The neo-Westphalian option consists of improvements to be agreed between and among sovereign entities, respecting the intergovernmental way of addressing various existing flaws.

Some examples of these improvements are below.

- Reforming the international monetary system by increasing the role and the weight of a ‘world currency’ such as the International Monetary Fund’s (IMF) special drawing rights (SDRs) in order to provide necessary liquidity in a fairer and more predictable way. This would entail a clarification and, if necessary, a redefinition of the respective missions of the IMF and the Bank for International Settlements (BIS).
- Rebuilding the global financial architecture, including the World Bank and regional development banks, around a new priority for green finance for developing countries, as suggested recently by Mia Mottley with her ‘Bridgetown agenda.’
- Creating a ‘global carbon pricing comparability platform’ in order to avoid new trade frictions by improving the articulation between different approaches, policies or instruments for the decarbonization of production.<sup>2</sup>
- Realigning under a single roof various requirements of agrifood systems such as availability, affordability, sustainability and resilience.

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<sup>2</sup> Lamy P. et al., Greening Trade article series, Europe Jacques Delors ([www.europejacquesdelors.eu/policy-areas/trade-environment](http://www.europejacquesdelors.eu/policy-areas/trade-environment)).

- Developing new instruments and policies for pandemic preparedness, production and distribution of medicines and treatments as a follow-up to the Covid crisis.
- Revamping ocean governance by breaking down the silos which prevent an adequate response to the systemic nature of the hydrosphere.<sup>3</sup>
- Creating a ‘global digital stability board,’ modeled on the financial stability board, to oversee the development of digital ecosystems governance in a way that properly balances their convergence and concomitant benefits with their coexistence in case of various legitimate limitations to openness.<sup>4</sup>
- On a more logistical side: reforming the diplomatic nature of the selection process of most leaders of international organizations in order to adopt state-of-the-art professional and transparency criteria.
- Mandating a review every 10 or 20 years of the content of international agreements and the goals of international organizations to ensure that they remain fit for purpose, inserting, where appropriate, sunset clauses for their continuation.
- Building on the relative success of innovations such as the G20 deal on corporate taxation or the nationally determined contributions of the Paris Climate Agreement which provide for more flexible arrangements than hard law, thus allowing a wider participation of countries.
- Launching the negotiation of a new global settlement, reviewing memberships, weights, composition of boards (or their equivalent) and rotation arrangements, including the UNSC, the IMF and many other bodies in need of a serious update of their representation.

The para-Westphalian option starts from the idea that today’s real stakeholders in the international order go way beyond traditional sovereign states and include a wide variety of actors, many of whom have more weight and influence than many of the members of the UN: NGOs, multinational businesses, sub-national entities such as large cities or regions, major philanthropic or academic organizations, to name a few. These bodies are often able to deploy major resources in coalescing and working together to find solutions to many of the unresolved issues of our times. This concept of ‘poly-lateralism’ was behind the creation of the Paris Peace Forum<sup>5</sup> in 2018 as a new and innovative mode of international cooperation, building, nurturing, monitoring and upscaling purpose-led multi-stakeholder coalitions to deliver impactful solutions. The ambition is not to create a brand new global ‘order,’ but to address the causes of more disorders in a pragmatic, efficiency-driven mode. It can lead to quite impressive progress in a relatively short time.

Some examples of achievements through that method are below:

- Surrounding the Antarctic continent with marine protected areas.
- Creating a global fund to help develop independent media.

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<sup>3</sup> Lamy P. et al., Ocean Governance article series, Europe Jacques Delors ([www.europejacquesdelors.eu/tags/ocean-gouvernance](http://www.europejacquesdelors.eu/tags/ocean-gouvernance)).

<sup>4</sup> Lamy P. and B. Liebhberg (2022) ‘Global governance for the digital ecosystems.’ CERRE.

<sup>5</sup> Paris Peace Forum, <https://parispeaceforum.org/>.

- Collecting in just a few weeks, \$200 million for Covid vaccines for specific purposes.
- Midwifing a coalition of major digital companies, NGOs and certain governments to protect children on the internet.
- Incubating a common taxonomy for a large number of multinationals to help them benchmark their trajectory toward the SDGs.

The third option, post-Westphalian, is advocated by the promoters of regional integration as a sort of ‘minilateralism,’ which is meant to be easier to achieve given geographical, historical, cultural, religious or linguistic proximities—a supposed fertile ground for unification of various kinds of collective preferences. Unfortunately, the experience shows that the main reference point of this model—i.e., European integration—is and has good reasons to remain quite exceptional. Nowhere else, with the exception of the ASEAN grouping, has regional integration really prospered according to plan: no Latin American attempt has succeeded yet and some have failed; intra-African regional communities are still struggling, as are the even more ambitious projects of African continental unification. The European Union itself still has to pass further tests before it can be considered as a long-term historical success, even if it has, so far, delivered reasonably well on its initial economic unification purpose. It is still unclear whether economic union will morph into a genuine political union, a step without which the ambition of the EU to become a global player is likely to remain in limbo, especially in the present increasingly brutal geopolitical context.

Finally, what should or could be the contribution of the EU to reshaping a global order?

At first sight, it can put to good use the benefits of its unification experience and know-how. The EU has already reached a level of ‘European order’ much tighter than any sort of possible global order. It can also serve as a demonstration of the possibility to combine the benefits of integration with those of diversity and pluralism: *in varietate concordia*.

But Europe also has handicaps in taking the lead of such an ambitious agenda. These have to do with Europe’s past worldwide dominance and with the scars this has left, many of which persist. These handicaps also have to do with Europe’s demographic decline, and with its current relatively low growth potential.

Yet, if one wants to remain faithful to the very purpose of European integration—i.e., keeping the ‘European option’ (broadly defined as a specific way of life and a particular mix of political, economic and cultural values) available for other humans—Europeans must engage, even if the present circumstances, dominated by the Russian war in Ukraine, challenge the relevance of Europe’s recent geopolitical ambitions.

Even if the jury is still out on whether Putin’s folly will result in a strengthening or in a weakening of European unification, building a new global European agenda seems to have become a must.

Framing such an exercise should start with two basic interconnected considerations:

- The first concerns the narrative: the EU should resist adopting the ‘West against the Rest’ posture which is in vogue in Moscow and Beijing, as well as in Washington, for good reasons seen from their point of view. This idea is in contradiction to European strategic autonomy ambitions, and it will fuel aggressive nationalism and confrontation rather than cooperation. Unless it opens the way to a new ‘non-alignment 3.0’ coalition between India (whose population has surpassed that of China), Brazil, Indonesia and the like, with which case by case, ‘variable geometry’ type alliances could be built.
- The second consideration has to do with reshaping the EU’s own international agenda. If the coming decades are dominated by the US–China rivalry, which is the most likely scenario, the EU should rapidly reshape its relationship with developing countries around its own new strategic axis, the green deal, thus putting together a new ‘green diplomacy.’ In this case, a priority should be given to a coalition with Africa, the continent whose future matters most for the European future.



**Pascal Lamy** is Vice President of the Paris Peace Forum, coordinator of the Jacques Delors Institutes (Paris, Berlin, Brussels). He was the longest-serving WTO Director-General so far (2005–2013). Between 1999 and 2004, he was the EU Trade Commissioner. He holds degrees from the Paris based *École des Hautes Études Commerciales*, the *Institut d’Etudes Politiques* and the *Ecole Nationale d’Administration*. He began his career in the French civil service at the *Inspection Générale des finances* and at the *Treasury*, then became an advisor to the Finance Minister Jacques Delors, and subsequently to Prime Minister Pierre Mauroy. He served as Chief of Staff to EU President, Jacques Delors between 1984 and 1999.

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# About the Center for China and Globalization

The Center for China and Globalization (CCG) is a Chinese non-governmental think tank based in Beijing. CCG has been granted the official special consultative status by the Economic and Social Council of the United Nations (ECOSOC) as a non-governmental organization in 2018. In the “2020 Global Go To Think Tanks Index” by the University of Pennsylvania Think Tanks and Civil Society Program (TTCSP), CCG ranked 64th of the top think tanks worldwide and among the top 50 global independent think tanks. CCG has also been recognized as a “4A non-governmental organization” by the Beijing Municipal Government civil affairs department.

Founded in 2008 and headquartered in Beijing, the Center for China and Globalization (CCG) is China’s leading global non-governmental think tank. It has more than ten branches and overseas representatives and over 100 full-time researchers and staff engaged in research on globalization, global governance, international economy and trade, international relations, and global migration. CCG is also a national Post-doctoral Programme Research Center certified by the Chinese Ministry of Human Resources and Social Security.

While cultivating its own research teams, CCG has also built an international research network of leading experts in China and overseas. CCG engages in ongoing research on China and globalization from an international perspective. CCG publishes more than 10 books every year in English and Chinese and a series of research reports. It shares its research findings with the public and has published hundreds of thousands of related books and reports, which receives hundreds of thousands of website visits annually.

CCG has been involved in promoting many national development and global governance policies. It regularly submits policy recommendations to relevant state agencies and ministries, many of which have been commented on by the central leadership and have served as reference for major decisions made by relevant departments, continually promoting government policymaking and institutional innovation.

## Other Publications in the China and Globalization Series

### ***The Ebb and Flow of Globalization: Chinese Perspectives on China's Development and Role in the World***

Author: Huiyao Wang

Publisher: Springer (August 2, 2022)

Globalization is an irresistible force. Given the high stakes at hand—for stability, continued growth, and the future of our planet—it is more important than ever that China gain a deeper understanding of the rest of the world, and that the rest of the world also comes to a clearer understanding of China.

This book focuses on globalization and China's evolving role in the world, offering unique perspectives on a remarkable period, which saw the global landscape reshaped by China's continued rise, intensifying great power competition, and a deadly pandemic.

The essays center on three interconnected themes—China's remarkable development under its policy of Reform and Opening-up, China's deepening integration into the global economy and rise in an increasingly multipolar world, and the quest to reinvigorate global governance and multilateralism to address the pressing global challenges of the twenty-first century.

These insights are useful for academics, policymakers, students, and anyone trying to deepen their understanding of China's development and role in making globalization work for our multipolar world.

### ***Soft Power and Great-Power Competition: Shifting Sands in the Balance of Power Between the United States and China***

Author: Joseph S. Nye, Jr.

Publisher: Springer (April 26, 2023)

This open-access book consists of essays selected from Joseph S. Nye, Jr.'s last three decades of writing and illustrates a variety of perspectives on the nature of power, the role of the United States in the world, and US-China relations. Through this collection, it is hoped that readers will gain a better understanding of today's

global environment and find that while great power competition may be inevitable in a world as centers of power shift, cooperating to address transnational challenges can be a positive sum game.

The contents of this book are divided into four main parts. Part One discusses the origins and political progress of the concept of “Soft Power.” Part Two explores soft power in the American experience, its sources and interaction with US foreign policy, as well as its ebb and flow in the age of Obama, Trump, and Biden. Part Three examines the rise of and the opportunities and difficulties for Chinese soft power, focusing on China’s investment in soft power and how this demonstrates its commitment to a peaceful rise. However, it also addresses the question of how can China get “smart” on how it uses soft power. Part Four provides a bird’s-eye view of power shifts in the twenty-first century and the interactions between the USA as an established power and China as a rising power, while also reassuring readers that Thucydidean fears are unnecessary and a Cold War is avoidable. Both countries have to realize that some forms of power must be exercised with others, not over others, the development of soft power need not be a zero-sum game. Ultimately, the US-China relationship is a “cooperative rivalry” where a successful strategy of “smart competition” is necessary and cooperation on transnational challenges, like climate change, pandemics, cyberterrorism, and nuclear proliferation, will serve to benefit not only China and the USA, but the world as a whole.

***The Future of China’s Development and Globalization: Views from Ambassadors to China***

Editors: Henry Huiyao Wang and Mabel Lu Miao

Publisher: Springer (January 1, 2024)

As the world continues to recover from the fear and uncertainty of the COVID-19 pandemic, a new set of challenges like increased geopolitical tensions and climate change have become increasingly prominent. This open-access book, which contains the views of ambassadors to Beijing on topics ranging from bilateral relations to potential cooperation, global development, and even more of the most immediate issues, aims to help readers make sense of our changing world and China’s role in it.

Building on the success of our previous volume *China and the World in a Changing Context: Perspectives from Ambassadors to China*, the Center for China and Globalization (CCG) has invited 27 ambassadors to examine China’s role in this context of constant flux, focusing specifically on China’s perspective, including its trade and investment ties with other countries, as well as its role in multilateral regional relations and global governance.

These diplomatic envoys from countries around the world serve as pivotal contact points between nations across a wide range of fields, from economics and culture to health and the environment. Their perspectives, representing both developing and industrialized countries, are both invaluable and illuminating—not only in conveying the views and experiences of their own country, but also for their insights into global affairs and China’s development.



It is our hope that the views expressed in this volume will inspire even more discussion on the next best step to take in finding solutions to the problems we face, and in particular how China can use its own experience and wisdom to better contribute and engage with the world in finding solutions together. This book provides a wealth of perspective and insight that we hope will benefit not only academics and policymakers, but also the private sector and individuals.

***China and the World in a Changing Context: Perspectives from Ambassadors to China***

Editors: Huiyao Wang and Lu Miao

Publisher: Springer (March 5, 2022)

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Ambassadors are diplomatic envoys serving as pivotal contact points between nations across a wide range of fields, from economics and culture to health and the environment. The special group of ambassadors in this book—those based in Beijing—are at the forefront of what for many countries is one of their most important bilateral relationships, as well as one of the most striking and consequential aspects of global affairs in the twenty-first century: the rise of China on the world stage.

This book aims to present an overview of China and the world from diverse angles. It brings together essays by ambassadors to China on a range of bilateral and multilateral issues, including trade and investment, regional economic cooperation, sustainable development, technology and innovation, and entrepreneurship. Given their familiarity with China and extensive international experience, the insights of these ambassadors are useful for policymakers, academics, entrepreneurs, students, and anyone trying to make sense of our rapidly changing world.

***Transition and Opportunity: Strategies from Business Leaders on Making the Most of China's Future***

Editors: Huiyao Wang and Lu Miao

Publisher: Springer (February 17, 2022)

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Multinational corporations (MNCs) have long played a crucial role in the Chinese economy. This role is one that is set to continue in the post-pandemic era as China works to transition to a high-quality growth model that is more sustainable and innovation-driven. With global experience and frontline involvement in some of the most pressing economic, technological, and environmental issues of our day, leading figures in MNCs and chambers of commerce are well-placed to share insights that could potentially contribute to policymaking and development strategies so that everyone can “make the most” of China’s future.

This collection of essay aims to share these invaluable insights with a wider audience, offering balanced and diverse perspectives from companies and advocacy groups working on a range of issues related to China’s domestic development, international economic cooperation, and China-US competition. These insights are useful not only for the wider business community, but also for academics, policymakers,

students, and anyone trying to deepen their understanding of this exciting period of “transition and opportunity,” and make the most of China’s bright future.

***The Asian Twenty-First Century***

Author: Kishore Mahbubani

Publisher: Springer (January 1, 2022)

This open-access book consists of essays written by Kishore Mahbubani to explore the challenges and dilemmas faced by the West and Asia in an increasingly interdependent world village and intensifying geopolitical competition.

The contents cover four parts. Part one discusses the end of the era of Western domination. The major strategic error that the West is now making is to refuse to accept this reality. The West needs to learn how to act strategically in a world where they are no longer the number one. Part two discusses the return of Asia. From the years 1 to 1820, the largest economies in the world were Asian. After the spectacular rise of the West in the nineteenth and twentieth centuries, even great Asian civilizations like China and India were dominated and humiliated. The twenty-first century will see the return of Asia to the center of the world stage. Part three discusses the peaceful rise of China. The shift in the balance of power to the East has been most pronounced in the rise of China. While this rise has been peaceful, many in the West have responded with considerable concern over the influence China will have on the world order. Part four discusses the challenges of globalization, multilateralism, and global cooperation. Many of the world’s pressing issues, such as COVID-19 and climate change, are global issues and will require global cooperation to deal with. In short, human beings now live in a global village. States must work with each other, and we need a world order that enables and facilitates cooperation in our global village.

***Consensus or Conflict? China and Globalization in the Twenty-First Century***

Editors: Huiyao Wang and Alistair Michie

Publisher: Springer (September 28, 2021)

This open-access book brings together leading international scholars and policymakers to explore the challenges and dilemmas of globalization and governance in an era increasingly defined by economic crises, widespread populism, retreating internationalism, and a looming Cold War between the United States and China. It provides the diversity of views on those widely concerned topics such as global governance, climate change, global health, migration, S&T revolution, financial market, and sustainable development.

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