

# COUNCIL OF COUNCILS

*An Initiative of the Council on Foreign Relations*



# Council of Councils Thirteenth Regional Conference *Reading Material*

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# COUNCIL OF COUNCILS

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## *Session One*

# The Future of International Cooperation: Broad Multilateralism Versus Minilateralism



Background Memo

*The Asia-Pacific's New Minilateralism<sup>1</sup>*

Council of Councils Regional Conference

October 30–November 1, 2022

Centre for Strategic and International Studies, Jakarta, Indonesia

**James Crabtree**, International Institute for Strategic Studies-Asia

Alliance structures in the world's strategic regions are changing, shifting toward “minilateralism”—small international groups assembled to achieve limited but significant strategic objectives, as opposed to broader, larger, or more formal bilateral or multilateral alliances or institutions. This is especially evident in the Asia-Pacific.

This shift is happening for a number of reasons. Some nations fear that the security architecture and guarantees that the United States created following the Second World War are fracturing. Changing demography, economic output, and military expenditure signal a shift in the relative power of Western states. China and Russia are offering alternative models of domestic and, perhaps, international order. In response, Washington in particular is seeking to construct more flexible and adaptive forms of partnerships that will serve as strategic assets against Beijing. New regional alignments and partnerships are emerging. As power distributions and alliance models change, the status quo in each region is rebalancing.

Two institutional forms have traditionally dominated the Asia-Pacific's security system. The first consists of formal bilateral alliances, particularly the hub and spoke system of nations linked to the United States. The second consists of multilateral security bodies, often but not always linked to the Association of Southeast Asian Nations (ASEAN). Outside of the ASEAN-linked system, a patchwork of other multilateral bodies exists, including the Chinese-led Shanghai Cooperation Organization (SCO).

These two traditional forms are now being augmented by a proliferation of new minilateral partnerships. The quadrilateral security dialogue between the United States, Australia, India, and Japan, widely known as the Quad, has been the most prominent. The more recent trilateral security pact between Australia, the United Kingdom, and the United States, also known as AUKUS, has been another high-profile addition since its formation in September 2021.

The Quad and AUKUS belong to a broader trend involving smaller groupings, some with members that are already part of the Quad or other larger bodies. For example, the long-standing United States-Australia-Japan trilateral security dialogue, which began at the senior official level in 2002, brings together three Quad members. More recently, the Australia-India-Japan trilateral dialogue, formed in 2015, is another important intra-Quad grouping. The United States, India, and Japan have also met for trilateral summit meetings since 2018. Other minilateral partnerships in Asia have developed to draw together small numbers of nations in the region and beyond.

Three strategic trends are driving the Asia-Pacific's new minilateralism and are likely to continue to do so. The first is the rise of China and its resulting competition with the United States, which also involves middle powers such as India and Japan. The second is the weakness of existing regional multilateral security arrangements, which have been unable to resolve many pressing security challenges, such as maritime claims in the South China Sea, leaving a gap that new minilateral arrangements seek to fill. The third is the growing interest in Asian security shown by a range of extra-regional powers, most notably from European nations that are anxious about China's rise and are seeking a greater economic role in Asia. Many of these nations have not played a significant role in the Asia-Pacific in recent decades, but are now seeking partnerships that could help them do so.

China has made clear its opposition to minilateralism in the Asia-Pacific. Not long after the release of the Quad's first joint statement in March 2021, Chinese President Xi Jinping was quoted warning against moves that "stir up ideological confrontation." Since then, many official Chinese statements have condemned the Quad and other similar groupings as what Beijing tends to describe as "small circles." Although Chinese foreign policy may largely abjure formal alliance relationships, China has developed a network of bilateral economic and strategic partnerships since the early 2000s, and it also maintains some larger groupings such as the SCO.

Southeast Asia has a more mixed view of the new minilateralism. A number of Southeast Asian policymakers in private express support for the Quad and AUKUS, although states including Malaysia and Indonesia expressed reservations about AUKUS following its launch. Some countries are concerned that new minilateral groupings will undermine "ASEAN centrality," preferring that the business of regional security be channelled through ASEAN-linked multilateral institutions rather than increasingly taking place in forums such as the Quad, of which ASEAN is not a member.

The rise of minilateralism further complicates Asia's already fragmented security environment. For example, AUKUS, which includes two Quad members, creates overlapping relationships that require some degree of coordination. France's hostile reaction to AUKUS also demonstrated that the creation of a new minilateral body could, if handled maladroitly, provoke distrust in old alliances. To use new bodies to balance China most effectively, the United States and its partners will need to maintain their existing broad, and often divided, coalitions.

None of this means that multilateralism is entirely in decline. Extra-regional states still seek to work with ASEAN as a bloc and attend its many regional meetings. For example, the United Kingdom recently joined ASEAN as a dialogue partner, and it could also seek to join ASEAN Defense Minister Meetings Plus (ADMM-Plus), which comprises ASEAN members and a range of other partner nations. ASEAN also remains an option for addressing many security challenges, in particular those relating to Southeast Asia itself. For instance, it has played a central—if only modestly successful—role in attempts to find a path forward following the 2021 coup in Myanmar.

The trend toward minilateralism is also not uniform or without obstacles. Complex internal dynamics can impede each partnership's development. Until 2021, for instance, fanfare about the Quad had greatly outpaced its actual activities, in large part due to its subtle internal divisions. Recently, the Quad has produced more substantial outputs, including initiatives on vaccines and maritime domain awareness.

The future role of minilateral groupings in the Asia-Pacific depends in large part on the behavior of the two most important regional players: the United States and China. One decisive factor will be the extent to which China continues to behave in ways that other nations in the region and beyond perceive to be assertive, or even aggressive. Such behavior could create further impetus for the development of new and

deeper balancing partnerships and coalitions. Yet the trend toward a new minilateralism also depends on decisions in Washington, and whether the United States will be willing to share capabilities as the basis of new partnerships, as is the case with technology in AUKUS.

Ultimately, viewed from Washington, perhaps the more pertinent question is whether the Asia-Pacific's new minilateral bodies will be able to achieve their objectives, be those balancing China or helping to maintain something akin to the current regional order. Developments over recent years suggest that these minilateral partnerships will continue to grow in prominence, especially given the significance of AUKUS and the ongoing deepening of the Quad partnership. Ongoing moves toward major power competition signal that such bodies will continue to strengthen their capabilities and expand their focus. Minilateralism is therefore likely to remain a central feature of the Asia-Pacific's security landscape for some time to come.

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1. This background memo is adapted and excerpted from "[Changing Alliance Structures](#)," IISS Research Paper, December 2021.

**Policy Report**

# **MINILATERALISM FOR MULTILATERALISM IN THE POST-COVID AGE**

**Amalina Anuar  
Nazia Hussain**

**January 2021**

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## Executive Summary

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As progress in global governance fora decelerates, minilateralism is increasingly pushed to the fore as a complement, and more provocatively, as an alternative to multilateralism. In contrast to the multiple interests of an expanding and diverse membership, as well as the geopoliticisation of governance issues stemming from escalating US-China tensions, minilaterals offer an edge vis-à-vis informality, select membership, and a narrower issue-based focus. Despite this promise, however, minilateralism has a mixed track record given factors, both external and internal, to minilaterals themselves. Considering a recent slew of recommendations for greater minilateral participation on the part of ASEAN members, and more broadly, countries within the Indo-Pacific, this report examines opportunities for and challenges to enhancing the effectiveness of minilateralism in a post-COVID-19 era, with an eye towards strengthening multilateral governance.

# Introduction

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Mounting woes over seemingly irreconcilable interests in global governance, the slow pace of multilateral negotiations, and the ideological impasse fuelling US-China tensions have thrust minilateralism further into the spotlight as a complementary—and more provocatively, as an alternative—mode of diplomacy and rulemaking.

Minilateralism can come in several flavours, from regional-centred outfits (e.g. the Lower Mekong Initiative and Mekong-Lancang Cooperation Framework) to functional issue-based coalitions of the interested (e.g. Digital Nations) and identity-focused blocs of like-minded allies or partners (e.g. the Brazil-Russia-India-China-South Africa [BRICS] or Mexico-Indonesia-South Korea-Turkey-Australia [MIKTA] groupings). Still, by working with “the smallest number of countries needed to have the largest possible impact on solving a particular problem”,<sup>1</sup> thriving off informality and interpersonal relations for open discussion, and compartmentalising complex policy issues into smaller agendas, minilateralism is deemed to deliver speed, ad hoc flexibility, and innovative experimentalism. This stands in contrast to multilateralism, which is increasingly seen to be saddled with rigid traditional norms and structural considerations.

Its potential notwithstanding, minilateralism has a mixed track record. While ASEAN members are no strangers to minilateralism and its various guises,<sup>2</sup> they were recently beset by a slew of recommendations to pursue more minilaterals.<sup>3</sup> Against this backdrop, it is worth identifying the hurdles pertinent to strategically leveraging this diplomatic tool, and questioning how to help minilaterals succeed, especially in a post-COVID era. This report outlines the challenges to and opportunities for establishing and expanding successful minilaterals in the Indo-Pacific region, before closing with policy recommendations on channelling minilateralism for multilateralism.

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<sup>1</sup> Moises Naim. “On Minilateralism.” *Foreign Policy* (2009).

<sup>2</sup> Minilateralism has also been termed smart multilateralism and plurilateralism, among others.

<sup>3</sup> See, for instance, the RSIS Webinar Series on “ASEAN’s Outlook on the Indo-Pacific, COVID-19 and the Future of ASEAN Centrality”.

## Challenges to Minilateralism

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Minilateralism comes with its host of challenges. Some are specific to the kind of minilateral being pursued. For instance, issue-based arrangements could run into difficulties when leveraging issue linkages since the aim would be to parcel negotiations into smaller agendas. This report, however, focuses on outlining hurdles of a more general nature:

### *Sizing matters*

Determining minilateralism's magic number is a puzzle by itself. There are trade-offs between smaller groups and larger outfits due to minilateralism's reliance on informality and strong interpersonal relations. A small membership eases the building and maintenance of trust. Yet with fewer members, agendas are difficult to advance if and when participating countries cannot be present or cannot commit as a consequence of competing diplomatic priorities, changes in government, and the like. For instance, back in 2007, the Quadrilateral Security Dialogue (Quad) was short-lived when its major advocate — Japanese Prime Minister Shinzo Abe — stepped down from his first term in office, and the new Rudd government in Australia decided against the economic risks of antagonising China.

Fewer members and a narrowly framed agenda could also perpetuate certain narratives that are detrimental to the minilateral itself. As evidenced by the Quad initiative, "initial perceptions of groupings being targeted at certain countries can take hold quickly and influence not only current iterations of minilateral institutions but future ones as well".<sup>4</sup> The China-containment narrative associated with the Quad has stuck even after its resurrection as Quad 2.0 a decade later.

Meanwhile, establishing and expanding minilaterals could be challenging where there is a trust deficit or a lack of familiarity between existing and new members. Both reduce the advantage of informality. Moreover, despite its ad hoc nature, it is unclear if downsizing minilaterals could be undertaken when needed, for instance, to remove members no longer able to contribute substantially to a policy issue. Minilaterals, whether functional or otherwise, are an exercise in political signalling. Power structures may be frozen and become irrelevant over time. Although new minilaterals with different memberships could mushroom in response, this runs the risk of duplicating rule-making and policy efforts.

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<sup>4</sup> Prashanth Parameswaran. "The limits of minilateralism in ASEAN." *The Straits Times*, 15 February 2018. <https://www.straitstimes.com/opinion/the-limits-of-minilateralism-in-asean>

## ***Informality as double-edged sword***

As the lifeblood of minilateralism, informality is credited with many advantages. With low bureaucratisation at play, there are more open and honest discussions, more flexibility to create ad-hoc arrangements, and less need to finance institutionalisation, such as a permanent secretariat.

However, informality poses some challenges. A fluid, non-hierarchical arrangement could create a leadership vacuum that works against minilaterals. This might be a more salient affliction among minilaterals comprised of small and middle powers, as minilaterals featuring major powers run the opposite risk of denying smaller members ownership over minilaterals. The medley of middle powers that are present in the MIKTA grouping suffers a “leadership vacuum and is largely left to rely on the annually rotating chair system without sustained investment of money or ideas from particularly committed members”.<sup>5</sup>

Another challenge is that informality contributes to a loss of focus in minilateral arrangements without organising principles, frameworks or institutionalisation. Admittedly, ambiguity could be strategic: broad aims and vague language provide space to manoeuvre among members that cannot agree on appropriate actions, even if there is consensus on reasonable interests. However, without clarification on the contours of purpose and deliverables, progress occurs in unstructured and inconsistent ways.

Low institutionalisation also means minilaterals are often set up for shorter life expectancies than formal multilateral arrangements. While institutionalisation does not automatically translate into the effectiveness of a minilateral forum, a study on whether BRICS institutionalisation enhances its effectiveness showed that, while not across all policy areas, institutionalisation did help advance BRICS effectiveness in areas such as trade and anti-terrorism where “regular meetings of relevant officials and the establishment of new intra-BRICS cooperation mechanisms were in line with a growing number of concrete decisions made and implemented”.<sup>6</sup>

Finally, a reliance on informality and interpersonal relations poses risk with regards to personnel or administrative changes. Interpersonal connections, which take time to develop, have to be forged anew with staffing transitions. The impact is worse for minilaterals that have fewer points of contact among members, since such discontinuity could feed into institutional memory loss, and in turn, undermine the long-term viability of minilaterals.

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<sup>5</sup> Sung-Mi Kim, Sebastian Haug, and Susan Harris Rimmer. “Minilateralism Revisited: MIKTA as Slender Diplomacy in a Multiplex World.” *Global Governance*, vol. 24, no. 4 (2018).

<sup>6</sup> Marina Larionova and Andrey Shelepov. “Is BRICS Institutionalization Enhancing its Effectiveness?” *The European Union and the BRICS* (2015).

## ***Domestic and international support***

One of minilateralism's biggest challenges lies in clinching support and legitimacy. At the domestic level, minilaterals are more susceptible to being culled due to changing political climates and would depend more heavily on buy-ins from governments-of-the-day because of their low institutionalisation. Despite being around for two decades, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) only gained momentum in 2017 when the Modi government recognised that the grouping could further New Delhi's domestic agenda and foreign policy calculus.<sup>7</sup>

In the Indo-Pacific, there is both significant wariness directed towards minilateralism on the whole, and towards certain minilaterals in particular, owing to agendas potentially inimical to the interests of those excluded. There are concerns that minilateralism undermines international institutions and the rules-based order, enables rampant forum shopping (and hence, the rise of club goods rather than public goods), fosters poor accountability (due to non-binding legal arrangements), and can be morally problematic because of their exclusivity.<sup>8</sup>

Whether legally binding agreements at the multilateral level are more effective in engendering compliance as compared to minilaterals is questionable. Nonetheless, there is legitimate angst surrounding minilateralism driving the need to channel its outcomes into the broader, multilateral architecture for more inclusive global governance. Countries engaging in minilaterals can and have addressed this, throughout history and particularly in the economic sphere, by building upon existing multilateral frameworks and filling in their gaps. There is little reason why future minilaterals cannot go down this path as well. Yet, existing suspicion towards minilaterals raises the political costs of engaging in this mode of diplomatic policymaking and could even deter it completely. The ASEAN-X decision-making mechanism remains controversial and slips into underuse for these same reasons.

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<sup>7</sup> Nazia Hussain. "Is BIMSTEC re-modelling for a bigger role?" *East Asia Forum*, 23 November 2018. <https://www.eastasiaforum.org/2018/11/23/is-bimstec-re-modelling-for-a-bigger-role/>

<sup>8</sup> Stewart Patrick. "The New 'New Multilateralism': Minilateral Cooperation, But At What Cost?" *Global Summitry*, vol. 1, no. 2 (2015).

## Minilateralism in Post-COVID Global Governance

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Minilaterals' broader operating environment can influence their trajectories, as evident in the recent COVID-19 crisis. Though the jury is still out on when the pandemic would end, reduced summitry and the rise of virtual diplomacy could prove difficult to dislodge, suggesting a new normal for minilateralism as we know it.

As regards process, the lower frequency of in-person summits could allow minilaterals to gain renewed importance. Minilaterals often take place on the side-lines of summits. Depending on commitment levels, COVID-19 may provide an opportunity to establish minilaterals not as sideshows but as focal points in their own right. The recent Quad meeting in Tokyo was stand-alone, compared to previous meetups held between sessions at the United Nations and ASEAN forums.<sup>9</sup>

Yet, an uptick in virtual diplomacy could also problematise the establishment of new minilaterals among diverse partnerships where trust quotients are low. Minilateralism's success rides on the back of informality and robust interpersonal connections, but telecommunications lend itself to better use at certain stages of the diplomatic process than others. It can prove difficult to build trust online, especially with little pre-established rapport. For instance, while virtual summitry facilitates information exchange, it has proven harder to capture the subtleties of body language, especially with teleconferences showing only facial expressions, or nothing at all when the Internet connection is poor.

Virtual diplomacy can never replace physical socialisation, such as encounters in corridors or during coffee breaks, in building rapport and garnering agreement. For instance, the recently signed Regional Comprehensive Economic Partnership, which would facilitate informal bilateral, trilateral and plurilateral engagements, flowed from years of work done and relationships cultivated often on the sidelines of ASEAN and related summits.

In this sense, COVID-19 could also constrain the agendas of certain minilaterals, where trust is lower, to low-hanging fruit, such as information exchange. Indeed, while COVID-19 itself has become the topic of several minilateral initiatives, these have been limited to fundraising, information sharing, and pledges to keep supply chains open between established trading partners.<sup>10</sup> With regards to clinching agreements and deliberating on more

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<sup>9</sup> Sarah Teo. "What the Quad Meeting Means for ASEAN." *The Diplomat*, 9 October 2020, <https://thediplomat.com/2020/10/what-the-quad-meeting-means-for-asean/>

<sup>10</sup> Malcolm Cook and Hoang Thi Ha. "Beyond China, the USA and ASEAN: Informal Minilateral Options." *ISEAS Perspective No. 63* (2020).

complex negotiations, progress is more likely among countries where trust is already established.

The pandemic might also bump minilateralism down the diplomatic priority list. In times of global recession, issues of financing may see countries commit their stretched resources to key bilateral, regional, and more traditional relationships.

## **Policy Recommendations**

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For minilaterals, the edge of informality, speed and ad hoc flexibility is tempered by issues of exclusivity, lack of structure, and legitimacy. Although minilateralism is an inexpensive option, it is one that is more accessible to countries with a surplus of technical expertise, manpower and finances. On the flip side, minilateralism could be challenging for countries with unstable Internet access and inadequate cybersecurity safeguards. And while minilaterals could be functionally complementary, with each filling a niche agenda, it could also erode seemingly non-functional aspects of global governance, such as socialising across aisles of ideology and interest, due to selective membership.

Harnessing synergies between minilateralism and multilateralism is thus critical for balancing out both modes of diplomacy, and in the larger scheme of the Indo-Pacific, for maintaining ASEAN Centrality and the multilateral rules-based order amidst increased pressure to choose sides between major powers and their minilateral-supported multilateral visions. This entails establishing and expanding minilaterals to break deadlock at the multilateral scale, and ensuring adequate feedback loops to rejoin minilateralism with multilateralism. This could be achieved through the following:

### ***1. Improving trust***

Owing to recurring waves of COVID-19 infection and the rise of virtual diplomacy, there is a need to find ways to improve trust through telecommunications until a form of online-offline hybrid diplomacy can be stabilised. This would enable negotiations to be held virtually while supporting more open exchange of information and catalysing new connections among non-like-minded partners.

### ***2. Leveraging structured informality***

Minilateralism benefits from structure within and between minilaterals. Within specific minilaterals, informality requires strategic direction, leadership and/or collective ownership for progress to be identified, made and assessed in targeted manners. A loss of focus renders minilaterals ineffective, if not

obsolete, in producing concrete outcomes and robust coordination among members. Where relevant, countries should adopt charters with clarified operating principles, frameworks and targets. For instance, the BIMSTEC charter was finalised 23 years after its inception and is likely to be signed at the impending BIMSTEC summit in 2021. Analysts have pointed out that formulating a BIMSTEC charter would be crucial to provide sustained guidance to rules of economic cooperation among members.<sup>11</sup>

Adding structure within minilaterals will likely be easier in the less controversial spheres of practical economic and non-traditional security cooperation, suggesting that governments in the Indo-Pacific may need to shift “high politics” issue areas into “low politics” discourses to gain traction in resolving policy impasses unilaterally. For instance, engaging in issues of marine debris or search-and-rescue technical cooperation rather than freedom of navigation on the South China Sea dialogue. The “Quad-Plus” format seeking to tackle COVID-19 issues with regional powers is a step in the right direction. It could be further complemented with a stronger focus on humanitarian assistance and disaster relief (HADR) and infrastructure development instead of solely emphasising defence engagements or naval exercises.

### ***3. Integrating and strengthening the ASEAN ecosystem***

In terms of unilateral structure, the unilateral ecosystem should be reviewed to avoid duplication of efforts. With US-China tensions likely to stretch into the foreseeable future, competing minilaterals could proliferate in several issue areas, as is already seen in policy spaces such as the Mekong River’s management. Where countries cannot come together in the same forum, ASEAN members should ensure that competing minilaterals are as complementary as possible in offering different focus areas and problem-solving approaches in the Indo-Pacific region.

Considering that the architecture of the broader ASEAN ecosystem is constituted of various ad hoc unilateral structures, each having emerged due to a historically contingent need, there is also space to further assess the utility of existing unilateral platforms, the potential repurposing of “zombie” minilaterals, and integrations to enhance inter-unilateral synergy and relevance in present-day geopolitical landscapes.

Traditionally, ASEAN has prided itself on its convening prowess, which is a function of the value other powers attach to preserving ASEAN’s role as an honest broker in managing their competing interests rather than ASEAN’s influence and strength. Since ASEAN has recently come under increasing

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<sup>11</sup> Anasua Basu Ray Chaudhury and Rohit Ranjan Rai. “Towards a Deliberative BIMSTEC.” Observer Research Foundation, Occasional Paper No. 263 (August 2020).

pressure to take on greater problem-solving capacities in light of major power tensions, ASEAN could develop its capacity as an integrative platform. This could be one avenue to ease into a problem-solving role, specifically in creating interoperable rules to navigate American and Chinese visions of regional orders and become a more proactive rather than reactive rule-maker.

ASEAN has a suite of mechanisms that can be tapped into as an integrative platform, most notably its leaders-led East Asia Summit (EAS) which has the potential to become the leading Track 1 forum for Indo-Pacific cooperation for the following reasons:

- i. More time to discuss issues with EAS' limited membership;
- ii. All relevant players in the Indo-Pacific are included; and
- iii. A leader-led forum in a region where leaders matter.<sup>12</sup>

#### **4. Attaining legitimacy**

Considering the wariness towards unilateralism, such as usage of the ASEAN-X mechanism, ASEAN members would benefit from a clarification of the conditions where unilateralism is encouraged. This is perhaps more pertinent for political-security unilateralism, as ASEAN members have not shied away from various economic unilateralism initiatives over the years. ASEAN members should agree to engage in unilateralism with conditionalities to support ASEAN Centrality in principle or at least, not undermining it.

To ensure better coordination between unilaterals and multilateralism, ASEAN and other international institutions could facilitate exchanges between unilateral groupings, mediate competing agendas, and provide expertise in identifying shortfalls and suggesting solutions.<sup>13</sup> This would require the strengthening of the ASEAN Secretariat to become a more independent and better-resourced organ.

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<sup>12</sup> Discussion with Amb Ong Keng Yong, Executive Deputy Chairman, RSIS.

<sup>13</sup> Erica Moret. "Effective Unilateralism for the EU — What, When and How." *European Union Institute for Security Studies* (June 2016).

## About the Authors

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**Amalina Anuar** is a Research Analyst with the Centre for Multilateralism Studies (CMS) at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. Prior to joining RSIS, she interned in the Foreign Policy and Security Studies Department at the Institute of Strategic and International Studies Malaysia and was a writer for publications such as the Asian Institute of Chartered Bankers' Banking Insight magazine. Her research interests include the digital economy and the trade, (geo)politics and foreign policy developments in that sphere; global and regional trade governance; as well as Malaysian economic foreign policy. Amalina possesses a BA from Monash University and completed her MSc in International Political Economy at RSIS.



**Nazia Hussain** is a Senior Analyst with the Centre for Multilateralism Studies (CMS) at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. Prior to joining RSIS, she interned at the Centre for Humanitarian Dialogue (HD), Singapore. Her research interests include multilateral security cooperation in ASEAN; Indian Ocean security; Sub-regional cooperation in South Asia; and Sino-Indian relations. Nazia holds a MSc in Asian Studies from RSIS; and a BA in International Politics and History from Jacobs University.

## About the Centre for Multilateralism Studies

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The **Centre for Multilateralism Studies (CMS)** is a research entity within the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training, and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in Asia Pacific. It aspires to be an international knowledge hub for multilateral and regional cooperation.

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developments in the global economic architecture to ensure complementarity between global and regional initiatives.

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Research areas include inter-governmental and non-official arrangements such as the ASEAN Regional Forum, ASEAN+3, East Asia Summit, Shanghai Cooperation Organisation, Six-Party Talks, the Council for Security Cooperation in the Asia Pacific, and the like. Initiatives in defence diplomacy include the ASEAN Defence Ministers' Meeting (ADMM) and ADMM Plus, the Shangri-La Dialogue, and alliances.

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# Minilateralism: Weighing the Prospects for Cooperation and Governance

**Aarshi Tirkey**

## **Abstract**

The multilateral frameworks that were established following the Second World War paved the way to strengthening global governance and international cooperation. Over the decades, however, the ability of these multilateral forums to take collective action has been hobbled by institutional inertia, vested interests, and challenges to decision-making. Minilaterals are thus being seen as an alternative route to form partnerships and coalitions “of the willing” to resolve issues of regional and global concern. This brief identifies the strengths and weaknesses of existing minilaterals, and assesses their potential as instruments of international cooperation and governance.

The idea of minilaterals is not new: bilateralism, multilateralism and minilateralism have co-existed in global governance since 1945.<sup>1</sup> Notably, the multilateral institutions that were created in the post-war era were negotiated through “disguised” minilateralism, pursued between the United States (US) and other Atlantic powers.<sup>2</sup> For instance, the General Agreement on Tariffs and Trade 1947 (GATT) can be traced to bilateral or minilateral negotiations between major trading powers, which were subsequently “multilateralised” by including other countries in the discussions.<sup>3</sup>

Nonetheless, it was in the more recent years that there has been a steady proliferation of minilateral initiatives in the areas of trade, security, finance, and climate change. The rise of minilaterals is associated with stagnation in reforms, and the perceived failure of multilateral organisations to achieve global cooperation on the most pertinent issues facing the international community. Present-day multilateral frameworks were mostly established to open a new chapter for strengthening global governance and international cooperation. These structures comprised of formal institutions with independent bureaucracies, where a large number of countries would come together to negotiate and devise norms to address global challenges.

This ideal vision of global cooperation now stands compromised: consensus seems impossible and reforms remain elusive, while vested interests and institutional inertia continue to hamper decision-making.<sup>4</sup> In 2009, Moises Naim famously declared that multilateral initiatives have failed, as talks have stalled, deadlines have been missed, and commitments are no longer honoured—and that one can have the “smallest possible number of countries needed to have the largest possible impact on solving a particular problem”.<sup>5</sup> The frustration with multilateralism has emerged as these forums largely failed to fulfill the objectives they set out to achieve—be it the maintenance of international peace and security through the United Nations (UN), or the next round of trade negotiations within the World Trade Organization (WTO).<sup>6</sup> The COVID-19 pandemic has also highlighted the weaknesses of multilateralism; countries largely chose to go it alone or with preferred partners, rather than use multilateral platforms for coordinating efforts to respond to the pandemic.<sup>7</sup>

The growth of minilaterals is thus often viewed as a solution to address the inefficiency of multilaterals. While minilaterals cannot replace multilaterals to achieve “true” global cooperation, they can supplement the work of multilateral organisations by providing a platform for diplomacy, confidence-building, and cooperation. This lies in the simplicity and ease that minilaterals are associated with, as opposed to the complex, long-drawn negotiations required in multilateral frameworks. This brief ponders such an assumption, by assessing the strengths and weaknesses of minilaterals, and examining their role and function vis-à-vis multilateral mechanisms. This assessment will be based on a short study of some of the key minilateral initiatives in the past five years, with the aim to identify the challenges and prospects that minilaterals present for international cooperation and governance.

“The rise of minilaterals in recent years is associated with the perceived failure of multilateral organisations to foster global cooperation.”

# Minilaterals: Definition and Features

**M**inilaterals refer to informal and more targeted initiatives intended to address a “specific threat, contingency or security issue with fewer states (usually three or four) sharing the same interest for resolving it within a finite period of time.”<sup>8</sup> Certain features are frequently associated with minilaterals: they have a small number of participants, they are ad hoc, and their outcomes and commitments are voluntary in nature. In contrast, multilateralism is defined as a “formal effort by three or more states to build trust and avoid conflict by identifying, institutionalizing and observing rules and norms for a common vision of regional or international order.”<sup>9</sup>

However, scholars point out that focusing on the numerical dimension of the definition overlooks the qualitative aspect of what differentiates minilaterals from multilaterals. Minilaterals focus on gathering the “critical mass” of members necessary for a specific purpose, in contrast to the broad and inclusive approach associated with multilaterals.<sup>10</sup> For illustration, the WTO would be a multilateral framework for international trade regulation, while a minilateral (or plurilateral, as referred to in trade policy jargon) would be the Regional Comprehensive Economic Partnership (RCEP)—a free trade agreement among Asia-Pacific countries.

Minilateral cooperation is being witnessed on all vital themes for international cooperation, such as climate change, economic cooperation, trade, connectivity, financial regulation, and security. The growth of regional clubs for international economic cooperation, such as the European Union (EU) and Association of Southeast Asian Nations (ASEAN), as well as more groupings with more diverse memberships, like the G20, are supplanting “global” multilateralism.<sup>11</sup> The creation of the smallest group necessary to achieve a particular goal, and a turn from formal treaties to non-binding accords and other soft-law mechanisms—are associated with ease and simplicity.<sup>12</sup>

Even for regulating financial markets, regulators and countries now lean towards informal mechanisms such as the Basel Committee and the Financial Stability Board, which tend to adopt “soft law” methods such as recommendations, pledges, commitments, and memorandums of understanding to achieve outcomes and objectives.<sup>13</sup> Such ad hoc approaches to international cooperation bring certain advantages, including speed, flexibility, modularity, and possibilities for experimentation.<sup>14</sup> These arrangements are

# Minilaterals: Definition and Features

voluntary, and follow a bottom-up approach. With a smaller membership, they can expedite decision-making and facilitate policy coordination on important focus areas.

One of the reasons for the shift to minilateralism is the growing importance of strategic alliances over global cooperation. These initiatives can facilitate the creation of issue-specific partnerships between like-minded countries. For instance, minilaterals can provide a forum to strengthen defence and security cooperation in new regional theatres, such as the Indo-Pacific. Because of the importance of security cooperation in this region, a range of minilaterals, such as the Quad,<sup>a</sup> the India-Japan-US trilateral, and the India-France-Australia trilateral have been created to advance the interests of like-minded countries. They also provide an avenue for participation of countries like India, who lack a similar decision-making capacity in forums like the UN Security Council.

Large organisations with formal institutional structure, international bureaucracies, and heterogenous membership, can face hurdles that impede prompt decision-making. These transaction costs associated with multilateral frameworks have made minilateralism a more preferred mechanism. Moreover, the evolving global order and the changing nature of threats are posing difficult questions on the continued relevance of multilateral frameworks. The threat of a global, devastating war drove consensus and precipitated political will towards creating large, multilateral organisations for the maintenance of international peace and security, such as the UN. After the fall of the Soviet Union, such threat of war, or a common challenge to international peace and security, gradually dissipated.

Following the Second World War, the US—as a dominant power—pushed for the establishment of the Bretton Woods Institutions and the UN. However, inconsistency in the US’s global leadership over the years—much before the Trump administration championed the “America First” approach—has challenged the country’s leadership in multilaterals. Furthermore, the rise of a multipolar world—along with the emergence of geopolitical rivalry between the US and China—have heightened fissures in multilateral organisations and stalled decision-making and institutional reforms. For instance, the permanent

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<sup>a</sup> The Quadrilateral Security Dialogue comprises the US, India, Japan, and Australia.

# Minilaterals: Definition and Features

membership of the UN Security Council continues to reflect the power structures of a bygone era, and the initiatives for reform have been slow. In the Bretton Woods Institutions, such as the International Monetary Fund (IMF), reforms in voting share have been piecemeal; the system continues to grant the US an effective veto over any crucial decision.<sup>15</sup>

A relatively unexplored line of enquiry is the correlation between improvement of information and communications technology, and the growth of minilaterals. While this may appear to be a tenuous connection so far, it is undeniable that technology—from telephonic communications, to the Internet—are allowing countries to expand their networks of global and regional cooperation.<sup>16</sup> The rise of technology has undeniably given way to less formal means of communication. In the opinion of scholars such as Chris Brummer, law professor at Georgetown University, with the decline of formality in communications, there is also less preference for formal, large organisations usually characterised by cumbersome procedures.<sup>17</sup>

“Minilateral initiatives can facilitate the creation of issue-specific, targeted partnerships between like-minded countries.”

# The Strengths and Weaknesses of Minilaterals

**M**inilaterals allow a group of countries with shared interests and values to bypass seemingly moribund frameworks, and resolve issues of common concern.<sup>18</sup> Indeed, the failure of the Doha round of WTO negotiations to conclude since 2008 is illustrative. While developing countries intended to pursue the original objectives of the negotiations—i.e., for a single undertaking approach towards a development-oriented agreement—developed countries were keen on introducing new issues to the table.<sup>19</sup> According to Richard Baldwin, Professor of International Economics at The Graduate Institute, Geneva, negotiations have been slowed by the “impossible trinity”:<sup>20</sup> WTO rules a) apply universally, in other words for all members; b) are resolved in consensus; and c) can be implemented via a binding system of dispute resolution. Complicating the matter is that WTO membership has not only grown over the years, but it has also become more heterogeneous.<sup>21</sup>

For developing countries, their numbers are their greatest bargaining power; developed countries—less in number—view this as “tyranny of the majority” which has obstructed consensus in large multilateral organisations. The prevailing North-South dichotomy, where developing countries are keen on retaining special and differential treatment, while developed countries want to shift to discussing new issues outside the Doha development agenda, has become an inflection point for trade negotiations. This dichotomy exists in climate negotiations as well: developing countries point to the historical responsibility of industrialised nations for global warming, while developed countries argue that such an argument is moot as emissions have increased from countries like China, India, and Brazil.

Consequently, in international trade regulation, more success has been achieved in concluding plurilateral initiatives as opposed to multilateral agreements. Because of the slow pace of the Doha trade negotiations, countries have increasingly explored minilateral and plurilateral mechanisms to renegotiate tariffs and remove barriers to trade. Examples include the Trans Pacific Partnership Agreement, the Transatlantic Trade and Investment Partnership, and the more recent RCEP, signed in November 2020.

However, minilateralism also presents dangers of forum-shopping, undermining critical international organisations, and reducing accountability in global governance.<sup>22</sup> Minilaterals promote voluntary and non-binding targets commitments, and not legally binding ones. For countries that are increasingly

# The Strengths and Weaknesses of Minilaterals

showing a preference for “soft law” mechanisms which are easier to negotiate, minilaterals make for an attractive alternative to multilaterals. However, this gives rise to compliance and accountability issues, which can in turn frustrate the objectives of global governance and international cooperation. For instance, the G20’s Mutual Assessment Process (MAP)—where members share national economic plans and disclose their potential negative impacts—has been criticised for being ‘toothless’.<sup>23</sup> It is not immediately clear if the existence of the G20 Framework or the mutual assessment peer review process has actually influenced the policy choices of countries.<sup>24</sup> In this context, it is difficult to measure the actual qualitative and quantitative outcomes of minilaterals.

Moreover, the voluntary, non-binding and consensus-based nature of minilaterals may be less effective in shaping state policy, interests and behaviour. Multilateral organisations, via legally binding frameworks and through their independent bureaucracies, can help shape state behaviour by applying both incentives and constraints. Supranational bodies such as the European Union (EU) have not only helped coordinate political, economic and strategic relations of member countries, but have also consolidated the geographical identity of the region. While the EU has struggled with the ability to act collectively or effectively due to structural issues, it remains one of the most successful experiments in regional organisations.

In contrast, other regional organisations such as the ASEAN function through a broad reading of the principle of non-interference in internal affairs and operate through consensus—a format that is emulated by minilaterals.<sup>25</sup> The “ASEAN Way”—the term for the forum’s distinctive diplomatic style that guards sovereignty—has limited its ability to influence the behaviour and policies of its members.<sup>26</sup> This is perhaps why various security concerns in the region, such as the question of Taiwan and tensions in the South China Sea, continue to remain unresolved.

“Minilateralism also presents dangers of forum-shopping, undermining critical international organisations, and reducing accountability in global governance.”

# The Strengths and Weaknesses of Minilaterals

Preference for minilaterals may also undermine the efficiency and legitimacy of international organisations. This will reduce the incentive for countries to engage with multilateral frameworks—a possibility that not only impacts their relevance, but can also hamper their programmes. For instance, WHO and UNICEF regional offices work with governments to provide important technical and managerial support to implement schemes in health, nutrition, education, and child protection.

Within minilaterals, key to steering countries towards measurable outcomes are leadership, political will, and bilateral relations between members. In 1999, the Trilateral Cooperation and Oversight Group (TCOG) was established between the US, Japan and South Korea in response to North Korea's intensifying nuclear programme. However, the minilateral floundered due to the historically strained ties between South Korea and Japan.<sup>27</sup>

Change in political leadership may also influence the foreign policy priorities of a country, which may in turn affect a member's willingness to participate in a minilateral.<sup>28</sup> The Quadrilateral Security Dialogue (Quad), for example, was first discussed by the US, India, Australia and Japan in 2004, to coordinate humanitarian efforts following the Indian Ocean tsunami disaster. However, Shinzo Abe's resignation in 2007 as Japan's prime minister and Kevin Rudd's election as Australia's new prime minister in the same year caused the first Quad to fail. The absence of Abe, who is credited with initiating the Quad, and Rudd's withdrawal from the Quad proposal marked the end of Quad 1.0.

Multilateral organisations also help build consensus towards legally binding treaties, such as the UN Convention on the Law of the Sea (UNCLOS) which provides a rules-based framework for minilateral cooperation as well. The growing preference for “soft law” mechanisms such as pledges, commitments and memorandums of understanding, can hamper the existence of a rules-based framework in the global order. Moreover, in various segments, minilateral alliances are viewed as second-best options—since they may have a detrimental effect on countries that are not part of negotiations, or that they may reduce incentives to engage with existing multilateral efforts—such as what was seen in the Doha trade negotiations.<sup>29</sup>

# A Survey of Recent Minilaterals

The following tables provide an overview of the most important minilaterals that have been formed in the last five years. Table 1 looks at security-related minilaterals, Table 2 is an overview of those for connectivity, infrastructure, and development cooperation, while Table 3 details minilaterals (or plurilaterals) for economic cooperation. There are unilateral initiatives that were created with a specific objective, but eventually broadened their areas of cooperation. The Quad, for instance—launched for the purpose of creating a free and open Indo-Pacific—recently expanded its cooperation to include access to COVID-19 vaccines, climate action, and critical and emerging technologies.<sup>30</sup>

**Table 1:**  
**Minilaterals for Security Cooperation**  
**(2016-2021)**

| Minilateral/<br>Plurilateral  | Year<br>Created | Objectives  | Significant Meetings and Outcomes   |
|---|-----------------|---|---|
| India-France-Australia<br>Trilateral<br>Dialogue  | 2020            | Cooperation in<br>the Indo-Pacific<br>region                              | <ul style="list-style-type: none"> <li>Foreign Secretaries' Dialogue (2020), followed by the first Ministerial Dialogue (2021).</li> </ul>  |
| Indonesia-Malaysia-The<br>Philippines<br>Cooperation<br>(IMPC)                                      | 2016            | To fight<br>piracy, sea<br>robbery, violent<br>extremism and<br>terrorism | <ul style="list-style-type: none"> <li>Meetings at the level of foreign ministers, defence ministers, chiefs of defence.</li> <li>Air and navy patrols in the Sulu Sea.<sup>31</sup></li> </ul>   |
| Quadrilateral<br>Security<br>Dialogue (Quad)<br><i>Members: India,<br/>Australia, US,<br/>Japan</i> | 2017            | Cooperation in<br>the Indo-Pacific<br>region                              | <ul style="list-style-type: none"> <li>Elevated meeting to leaders' level in 2021.<sup>32</sup></li> <li>Launch of the Quad vaccine partnership, and working groups on climate and, critical and emerging technologies.<sup>33</sup></li> <li>Joint naval exercises (2020).<sup>34</sup></li> </ul> |

# A Survey of Recent Minilaterals

| Minilateral/<br>Plurilateral                     | Year<br>Created | Objectives  | Significant Meetings and Outcomes   |
|--|-----------------|---|---|
| Australia-Japan-<br>India (AJI)<br>Trilateral    | 2015            | Supply Chain<br>Resilience in<br>the Indo-Pacific                                       | <ul style="list-style-type: none"> <li>Ministerial-level meetings.<sup>35</sup></li> <li>Launch of Supply Chain Resilience Initiative to attain strong, sustainable, balanced and inclusive growth in the region.<sup>36</sup></li> </ul> |
| India -Italy-<br>Japan Trilateral                | 2021            | Cooperation in<br>the Indo-Pacific<br>region  | <ul style="list-style-type: none"> <li>Meetings with senior foreign ministry officials.</li> </ul>  |
| Australia-India-<br>Indonesia<br>Trilateral      | 2017            | Cooperation in<br>the Indo-Pacific<br>region  | <ul style="list-style-type: none"> <li>Senior-level meetings.<sup>37</sup></li> </ul>   |
| Japan-US-India                                   | 2018            | Cooperation in<br>the Indo-Pacific<br>region  | <ul style="list-style-type: none"> <li>Leader-level meetings, at the sidelines of G20 summits.</li> </ul>   |
| Afghanistan –<br>Turkmenistan –<br>US Trilateral | 2020            | Political,<br>security, and<br>economic<br>matters                                      | <ul style="list-style-type: none"> <li>In the 2020 meeting, participants committed to the Afghan peace process and improving security cooperation.<sup>38</sup></li> </ul>  |
| US-Afghanistan-<br>Uzbekistan-<br>Pakistan       | 2021            | Quad Regional<br>Support for<br>Afghanistan-<br>Peace Process<br>and Post<br>Settlement | <ul style="list-style-type: none"> <li>No meetings yet. Aims to cooperate to expand trade, build transit links, and strengthen business-to-business ties.<sup>39</sup></li> </ul>   |

The Indo-Pacific region has notably emerged as pivot for minilateral activity in recent years. Apart from the Quad, a number of trilaterals have been established for enhancing cooperation and maritime security in the region, such as the India-France-Australia, Australia-Japan-India, Japan-US-India, and India-Italy-Japan. These minilaterals provide an opportunity for middle powers such as Australia, India, and Japan, to build on common interests and strengthen the regional economic and security architecture.<sup>40</sup> While security is the primary driver for the creation of these forums, a few of them, such as the India-Italy-Japan trilateral, have expanded their objectives to cover collaboration with third countries, multilateralism, and socio-economic concerns.<sup>41</sup>

# A Survey of Recent Minilaterals

Depending on the aims and objectives of each grouping, the summit meetings take place at different levels of seniority and may involve one or more key ministry. The Japan-US-India trilateral meetings have taken place at the level of heads of state, since they occur at the sidelines of G20 summits.<sup>42</sup> Meanwhile, meetings for the Indonesia-Malaysia-The Philippines Cooperation (IMPC) grouping—concerned with fighting piracy, sea robbery, violent extremism and terrorism—have taken place at the level of foreign ministers and defence ministers.

The Indo-Pacific—and the Asia Pacific, more generally—suffers from an institutional deficiency, where extant frameworks such as the ASEAN Region Forum (ARF) and the East Asia Summit (EAS) have been criticised for merely being “talk shops” where lofty promises are made but no significant results are reached.<sup>43</sup> Indeed, formal institutions have had little success in Asia, due primarily to differences in geography and regime types, divergent threat perceptions, and lack of intra-regional trade.<sup>44</sup> On this point, it has also been argued that the Indo-Pacific regional conceptualisation is utilised by the Quad countries to address the deficiencies in Asia’s maritime security and institutional architecture.<sup>45</sup> As a result, such minilateral initiatives can help establish consultations, transparency, and a degree of familiarity and trust between members.

However, there is a clear drawback to solely focusing on minilaterals as the only means for security cooperation in the Indo-Pacific. Most of the countries within the geographical construct of the Indo-Pacific are outside these exclusive groupings. Members might be able to achieve results *inter se*, however, other forums—such as ASEAN—have yet to show an inclination towards embracing this regional construct.<sup>46</sup> Minilateral initiatives in the Indo-Pacific and Asia region also appear to have been created with specific geostrategic objectives. The creation of the Quad and related trilateral groupings are frequently seen as a means to counter the rise and influence of China in the neighbourhood. The rise of China as a significant political, economic and military power is treated with anxiety, and its flagship Belt and Road Initiative is seen as a means to consolidate Beijing’s geopolitical reach.

Beijing, for its part, has introduced initiatives such as the Lancang-Mekong Cooperation (LMC) mechanism at the sub-regional level; its aim is to extend China’s influence in Southeast Asia. Standing out as a direct challenge to the LMC is the Mekong-US partnership mechanism, though its capacity in providing infrastructure development, investment and trade, remains to

# A Survey of Recent Minilaterals

be seen.<sup>47</sup> Similarly, China and Russia have proposed the setting up of a new “regional security dialogue platform”, as their foreign ministers criticised the US for forming small circles to seek bloc confrontation.<sup>48</sup> Minilateralism also fits China’s approach to be functional and flexible, since it has shown reticence to abide by formal frameworks such as the UNCLOS.

To be sure, fluid frameworks may struggle to achieve concrete outcomes. The litmus test, therefore, would be their ability to foster actual cooperation, and overcome the challenges posed by ad hoc mechanisms to achieve measurable outcomes. In some cases, minilaterals make efforts to assess the outcomes achieved in subsequent meetings. For instance, the 2021 Ministerial level dialogue of the India-France-Australia trilateral measured results from the previous 2020 foreign secretaries’ meetings, and concluded that outcomes have progressed on three pillars: maritime safety and security, marine and environmental cooperation, and multilateral engagement.<sup>49</sup> As such, an important metric for their success is going beyond purely rhetorical and visionary statements, to making an actual impact.

Several minilaterals studied in this brief are both the cause and effect of the 21st-century’s great-power competition. While other minilaterals are not free from underlying strategic ends, they were also established for more quantifiable objectives. The India-Iran-Afghanistan trilateral for the Chabahar port—an important project for India to counter the China-Pakistan axis—was created for a specific purpose with a measurable outcome. The development of the Chabahar port, and the international trade and transit corridor, relies on investment towards infrastructure development from the concerned parties—an aspect that can be measured in real time by monitoring funds deployed, contracts signed, and on-ground development of infrastructure. While progress in operationalising the port has been slow due to US sanctions on Iran, the Indian Ministry of External Affairs earmarked funds in 2020-21 for the project.<sup>50</sup> However, as discussed earlier, such frameworks are also not free from the impact of change in political leadership in the country. With the political turmoil in Afghanistan following Taliban’s capture of the country, it remains to be seen if the Chabahar agreement, or any of the minilaterals involving Afghanistan, will be able to achieve their objectives.

# A Survey of Recent Minilaterals

**Table 2:  
Minilaterals for connectivity,  
infrastructure, and development  
cooperation (2016-2021)**

| Minilateral/<br>Plurilateral  | Year<br>Created | Objectives   | Significant Meetings and Outcomes   |
|---|-----------------|--|---|
| India-Iran-Afghanistan<br>(Chabahar Agreement)  | 2016            | Establishment of Transport and Transit Corridor          | <ul style="list-style-type: none"> <li>Trilateral Agreement signed in 2016, first meeting held in 2018.<sup>51</sup></li> </ul>   |
| India-Russia-Bangladesh<br>Trilateral Cooperation   | 2018            | Civil nuclear cooperation                                | <ul style="list-style-type: none"> <li>Signing of memorandum of understanding for construction of the Rooppur nuclear power plant in Bangladesh.</li> </ul>   |
| India-Iran-Uzbekistan   | 2020            | Trade, economy and connectivity                          | <ul style="list-style-type: none"> <li>Trilateral meeting on joint use of the strategic Chabahar port. First meeting in December 2020 at the level of senior officials.<sup>52</sup></li> </ul>                               |
| Afghanistan-Turkmenistan-Azerbaijan<br>Trilateral   | 2021            | Cooperation on Eurasian Connectivity                     | <ul style="list-style-type: none"> <li>A tripartite roadmap for deeper cooperation on the Lapis Lazuli Corridor.<sup>53</sup></li> </ul>  |
| Blue Dot Network (BDN)<br><i>Members: US, Japan, Australia</i>                                  | 2019            | Infrastructure development                               | <ul style="list-style-type: none"> <li>Helps members coordinate national approaches for infrastructure diplomacy, particularly in the Indo-Pacific region.<sup>54</sup></li> </ul>  |
| Mekong-US Partnership<br><i>Members: US, Cambodia, Lao PDR, Myanmar, Thailand, and Vietnam.</i> | 2020            | Development of the Mekong sub-region through cooperation | <ul style="list-style-type: none"> <li>Aims to cooperate on economic connectivity, energy security, human capital development, transboundary water and natural resources management, and non-traditional security.</li> </ul> |

# A Survey of Recent Minilaterals

| Minilateral/<br>Plurilateral  | Year<br>Created | Objectives   | Significant Meetings and Outcomes   |
|---|-----------------|--|---|
| <p>Three Seas Initiative (3SI), also known as the Baltic, Adriatic, Black Sea (BABS) Initiative</p> <p><i>Members: Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia</i></p> | 2015-16         | Co-operation in economic matters: energy, transport and communications infrastructure. | <ul style="list-style-type: none"> <li>Annual summits with heads of states.</li> <li>Established the 3SIIF (Three Seas Initiative Investment Fund) in 2019 to target critical infrastructure investment in Europe.</li> </ul> |
| <p>Lancang-Mekong Cooperation (LMC)</p> <p><i>Members: China, Cambodia, Laos, Myanmar, Thailand and Vietnam</i></p>   | 2016            | Cooperation between the riparian states of the Lancang River and Mekong River.         | <ul style="list-style-type: none"> <li>Three pillars of cooperation: political-security issues; economic affairs and sustainable development; and social affairs and people-to-people exchanges.<sup>55</sup></li> </ul>      |

Other forums have similarly targeted aims: trade-related arrangements, notably regional free trade agreements (FTAs), seek to liberalise trade and investment. Their provisions are enshrined in clear, measurable terms through legally binding agreements. Progress on FTAs can be examined by assessing the ratification status of the agreement, followed by studying the law and policy changes introduced by members to adopt FTA provisions.

The challenge in measuring outcomes from minilaterals is that the results of meetings are articulated in statements, press releases and memoranda of understandings; absent are concrete commitments, hard deadlines, and a discernible implementation framework. Nonetheless, such statements hold immense value in gauging the foreign policy trajectory of member countries, their preferred partnerships and alliances, and understanding the issues that have gained the highest level of salience between a group of countries.

**Table 3:**  
**Minilaterals for Economic Cooperation  
(2016-2021)**

| Minilateral/<br>Plurilateral  | Year<br>Created | Objectives  | Significant Meetings and<br>Outcomes   |
|---|-----------------|---|--|
| Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), previously the Trans-Pacific Partnership (TPP)<br><br><i>Members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam</i> | 2016            | Free trade agreement between Pacific rim countries. | <ul style="list-style-type: none"> <li>The CPTPP has entered into force for Australia, Canada, Japan, Mexico, New Zealand, Singapore and Vietnam.</li> </ul>   |
| Regional Comprehensive Economic Partnership Agreement (RCEP)<br><br><i>Members: China, South Korea, Japan, Myanmar, Thailand, Laos, Cambodia, Vietnam, Malaysia, Singapore, Brunei, Philippines, Indonesia, Australia, New Zealand</i>                | 2020            | Free trade agreement built upon ASEAN+1 FTAs        | <ul style="list-style-type: none"> <li>The RCEP will take effect after it has been ratified by at least six ASEAN and three non-ASEAN signatories. As of writing this brief, Japan, Singapore, China and Thailand have completed the ratification process.<sup>56</sup></li> </ul> |

# A Survey of Recent Minilaterals

| Minilateral/<br>Plurilateral                            | Year<br>Created | Objectives   | Significant Meetings and<br>Outcomes  |
|---|-----------------|--|---|
| United States-<br>Mexico-Canada<br>Agreement<br>(USMCA) | 2018-19         | Replaced the<br>North American<br>Free Trade<br>Agreement<br>(NAFTA) | <ul style="list-style-type: none"> <li>The USMCA builds on the NAFTA. The new Agreement received bipartisan support in the US Senate.<sup>57</sup></li> </ul> |

A common feature among minilaterals is the absence of a formal institutional structure, through a dedicated secretariat and brick-and-mortar offices. As such, these initiatives would not have the same institutional memory associated with multilaterals, which makes it significantly harder to track statements, meeting records, funds deployed, and outcomes achieved. Some minilaterals, such as the India-France-Australia trilateral dialogue, assess outcomes in progressive meetings. However, this does not seem to be a common feature across the board. While this may make it considerably harder to track implementation, the confidential nature of minilaterals is also seen as a strength as it allows members to discuss issues in an open, free and flexible manner. The ad hoc nature of discussions gives the freedom to member states to adopt the objectives and priorities of minilaterals to address the most pressing issues they face.

It is also observed that economic and trade related minilaterals (or plurilateral arrangements), often generate significant debate among the public of participating countries. The withdrawal of the US from the TPP and the withdrawal of India from RCEP, was a result of the opposition to entering these agreements from important stakeholders among the public. The TPP nevertheless survived the withdrawal of a key country from the agreement, and the remaining members entered into the largely intact CPTPP. Meanwhile, the affirmation received from the US public for the USMCA, or the renegotiated version of the NAFTA, played a significant role in the acceptance of the revised FTA. For other minilaterals, such as those on infrastructure, security and energy, there are fewer instances of a comparable level of debate among the public to engage with, or refrain from joining such initiatives.

# A Survey of Recent Minilaterals

The minilaterals studied in this section are mostly “coalitions of the willing” to address a specific issue, or engage with a defined geographic region, or achieve a specific objective. In comparison with multilaterals, they do not aim to pursue a larger, comparable goal of achieving international cooperation or devising norms for global governance. Nonetheless, minilaterals do have the intention to support and cooperate towards larger goals, such as adhering to international law, freedom of navigation, and finding peaceful settlement to disputes. In this regard, minilaterals may also play an important role—if members are willing—to generate consensus on new norms and rules.

“Minilaterals not only aim for a specific objective, they also support larger goals such as adhering to international law.”

Discussions on new areas of concern, such as critical and emerging technologies, cybersecurity and supply chain resilience, could lead to the devising of new norms between a select group of countries. New sectors and issues particularly related to 5G, digital trade, ocean acidification, climate change and climate finance, are being increasingly discussed in minilateral platforms. While the norms discussed may be applicable only to the members of a minilateral grouping, they can point to an emerging consensus on the

form and substance of new regulations. However, there is also a concern that such norms may become fragmented, lack consistency, and rather contribute to a weakening of global governance in the long run. The future impact of minilaterals—or multilaterals and global governance—will be based on their ability to foster cooperation and collaboration on international issues, rather than leading to a fragmentation of global governance mechanisms.

# Conclusion

Aarshi Tirkey is Associate Fellow at ORF.

Minilaterals can help in framing targeted partnerships that can focus energies on shared interests and concerns.<sup>58</sup> Members have the option of engaging with different countries over separate frameworks, to coordinate policy approaches. At the same time, the proliferation of minilaterals can lead to a disjointed approach towards policy and strategy on a common issue. Too many frameworks can lead to fragmentation of action, and dilute outcomes which may, in turn, weaken cooperation on global issues. Some of the means by which minilaterals can be more effective is for members to commit to a joint vision, create benefits for members, and work towards clear, measurable, ambitious, and time-bound obligations.

More ways need to be explored on how minilaterals can supplement the work of multilaterals—and not subvert the work that is being done by these larger organisations. In climate action for instance, minilaterals can help countries to cooperate on research and implementation of technologies in the field of renewable energies. They can provide an inclusive platform for interacting with sub-national and non-government actors to formulate innovative solutions for global warming. In trade negotiations, minilaterals can fill gaps in multilateral frameworks, and allow countries to engage in political dialogue to resolve outstanding, global-level issues. In security cooperation, minilaterals are a useful tool of diplomacy as they complement existing bilateral partnerships, allow countries to focus on specific regions, while the closed-door nature of discussions in minilaterals helps retain confidentiality.

A forward-looking perspective needs to be implemented in deducing how minilaterals will affect security and strategic outcomes in diverse neighbourhoods, and how their operations and outcomes can be improved. Plurality and diversity of institutions can help accommodate the imperatives of different groupings; for instance, strategic alliances or minilaterals between developing countries, LDCs and vulnerable economies can help ensure that the discourse generated from minilaterals does not lean heavily towards the interests of major powers.

Minilaterals provide a pathway for increasing political dialogue and enhancing confidence-building between key partners. This in turn can widen opportunities for streamlining negotiations before multilateral platforms and work towards the larger goal of international cooperation and global governance. As part of the foreign policy toolkit, the operation of minilaterals can be improved by setting concrete and measurable objectives, and by utilising them judiciously to supplement efforts of existing multilateral frameworks. 

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## The New “New Multilateralism”: Minilateral Cooperation, but at What Cost?

Stewart Patrick

International Institutions and Global Governance, Council on Foreign Relations.

E-mail: SPatrick@cfr.org

A defining feature of twenty-first century multilateralism is growing reliance on informal, non-binding, purpose-built partnerships and coalitions of the interested, willing, and capable. The rise of minilateral cooperation reflects the failure of formal international organizations to adapt to complex global challenges, dramatic power shifts, and growing normative divergences in world politics. Such ad hoc, disaggregated approaches to international cooperation bring certain advantages, including speed, flexibility, modularity, and possibilities for experimentation. But the new multilateralism also presents dangers, among these encouraging rampant forum-shopping, undermining critical international organizations, and reducing accountability in global governance.

On April 23, 2007, Barack Obama delivered his first major foreign policy address as a presidential candidate, at the Chicago Council on Global Affairs. The junior senator from Illinois excoriated the disastrous unilateralism of the administration of George W. Bush, which he claimed had alienated friends and allies, violated cherished U.S. values, and tarnished America’s once-sterling reputation. The time had come to “open a new chapter in American leadership”. Just as the Truman administration had “built the system of international institutions that carried us through the Cold War”, the United States must now revitalize multilateral cooperation to fit twenty-first century realities. “Real reform will come because we convince others that they too have a stake in change – that such reforms will make their world, and not just ours, more secure” (Obama 2007).

This vision of a multilateral renaissance was premised on the conviction that a new global age had dawned. The core purpose of statecraft was no longer restraining geopolitical rivalry but managing shared dilemmas of interdependence. As the President declared in his first National Security Strategy, “. . . power, in an interconnected world, is no longer a zero-sum game” (White House 2010). This broad congruence of interest created unprecedented opportunities for cooperation. But success was not preordained. It required a new international bargain: established powers would grant emerging ones a place at the global head table, and rising powers would accept greater responsibilities for advancing the common good. The administration assumed the United States could engineer global institutional reform on this basis.

That confidence proved unfounded. The Obama years show just how resistant formal international organizations are to fundamental change. Two of the most obvious cases are the UN Security Council, whose permanent membership still reflects the world of 1945, and the International Monetary Fund (IMF), which has failed to implement governance reforms that

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members painstakingly negotiated in 2010. The sources of these logjams are legion. Three of the most important are clashing big power preferences, generic institutional inertia, and inconsistent U.S. leadership (Stein 2008).

If one focuses solely on formal international organizations, these blockages are grounds for despair. But that pessimistic view obscures a more complicated and promising picture of multilateral cooperation. For what sets the current global era apart is not the absence of international institutions but their astonishing diversity. Faced with resistance to sweeping, transformational change within more encompassing global bodies, U.S. and foreign policy-makers have generated and then exploited a messier form of multilateralism (Haass 2010).

A hallmark of twenty-first century multilateralism (Ruggie 1993) is the rising prominence of alternative forms of collective action as complements to—and often substitutes for—traditional intergovernmental cooperation. Formal organizations persist, but governments increasingly participate in a bewildering array of flexible networks whose membership varies based on situational interests, shared values, or relevant capabilities. States may continue to negotiate and collaborate within conventional bodies like the United Nations or the Bretton Woods institutions. But extensive policy coordination also occurs within parallel frameworks that are ad hoc and temporary rather than formal and permanent.



These institutions are often “minilateral” (Kahler 1992) rather than universal; voluntary rather than legally binding; disaggregated rather than comprehensive; trans-governmental rather than just intergovernmental; regional rather than global; multi-level and multi-stakeholder rather than state-centric; and “bottom-up” rather than “top-down.”

To be fair, not all of the “new” multilateralism” is new (Diebold and Camps 1983). The antecedents of the current Group of 7, for instance, date back decades, to the first major summit of Western market democracies in Rambouillet, France, in 1975. The Financial Action Task Force (FATF), likewise, was created back in 1989 to combat money laundering and (later) terrorist financing. Within academia, the international political economist, Miles Kahler coined the term “minilateralism” back in 1992, and the term was subsequently popularized by the journalist Moises Naim (Naim 2009; Hampson 2010). What *is* new, however, is the dramatic proliferation of such informal arrangements—and their growing importance in contemporary global governance.

By now, numerous analysts have documented the diverse institutional forms that multilateralism now takes (Fukuyama 2006; Abbott, Green, and Keohane 2014; Morse and Keohane 2014). But few have asked whether this patchwork quilt of international cooperation is, on balance, a good thing. At first glance, such “variable geometry” presents exciting opportunities for countries seeking to manage the global economy, to respond to new security threats, or to stabilize the global commons. Rather than relying on tired organizations, countries can adapt nimbly, by creating novel frameworks that are fit for purpose. The new multilateralism holds particular appeal for the United States, a still-dominant power experiencing gradual (albeit relative) decline. By picking and choosing among diverse international structures, the United States can expand its diplomatic and policy options, and, in principle, cement its centrality in the global order.

The “new multilateralism” seems destined to become an increasingly prominent feature of international politics, including U.S. foreign policy. And this, on balance, is a good thing. But its benefits should not be exaggerated—nor should its risks be ignored. Indeed, there are empirical, prudential, and ethical grounds for caution. To begin with, there is little concrete evidence yet that ad hoc frameworks are more effective than formal multilateral bodies at delivering results. The new multilateralism also presents dangers, among these encouraging rampant forum shopping, undermining critical international organizations, and reducing accountability in global governance. Finally, although purely ad hoc approaches to international cooperation may discourage free riding, they are also morally problematic, since they threaten to replace the provision of international public goods with club goods benefiting a narrower range of countries, while marginalizing formal international institutions (Keohane and Nye 2001; Rosecrance and Stein 2001; Paris 2015). Given these potential drawbacks, policy-makers must balance their reliance on flexible frameworks with rededication to improving the functioning of formal organizations whose legitimacy and capabilities the world needs over the long haul.

### The Past is Not Prologue: Obstacles to Institutional Reform

In retrospect, the U.S. institution builders of the 1940s were lucky. They operated in a time of crisis, faced a blank institutional slate, dealt with less intrusive problems, negotiated with few foreign players, and operated at the height of U.S. primacy. None of these factors obtains today.

Significant change within international institutions is rare. It is not impossible, of course—in 1995, the World Trade Organization replaced the General Agreement on Trade and Tariffs (GATT) as the motor of global trade liberalization. Changes of such magnitude are uncommon, however, given the force of institutional inertia and the vested interests of those who wield current power under current arrangements. Accordingly, major institutional change most commonly follows major policy failure, which loosens attachment to reigning orthodoxies, opens eyes to new ideas, and generates political will to transform existing structures (Legro 2005). Thus, the major institutional innovations of Dumbarton Oaks and Bretton Woods occurred in the aftermath of the Great Depression and World War II, respectively (Patrick 2010a).

Today’s statesmen and women—fortunately—have not experienced such catastrophes. But the very absence of crisis tends to favor gradual, incremental adaptation at the margins rather than sudden, discontinuous change analogous to the biological model of “punctuated equilibria”. The old evolutionary logic of *natura non facit saltum*—nature does not make a jump, applies: typically, human institutions do not make leaps, any more than nature does (Gould and Eldredge 1977).

It should be no surprise, then, that the biggest recent advance in global economic governance occurred after the “Great Recession” began in 2007, with the global credit crunch. Suddenly, thrust into one lifeboat, world leaders rowed in the same direction, embracing innovations in multilateral cooperation. They elevated the Group of Twenty (G20) to the leaders’ level, created a Financial Stability Board to improve regulation of systemically important financial institutions, agreed on new Basel 3 capital account

requirements for major banks, and committed to the recapitalization of the IMF. The system may have “worked,” as Dan Drezner argues (Drezner 2014), but it was collective panic that encouraged reforms. As an uneven global recovery took hold, interests diverged, pulling G20 members in different directions and undercutting momentum for further restructuring.

The “wise men” of the 1940s also had the luxury of being—as Dean Acheson put it in his memoirs—“present at the creation” (Acheson 1969; Isaacson and Thomas 1986). The League of Nations had essentially collapsed, and the world was a *tabula rasa* upon which they could construct an entirely new architecture of international cooperation (Drezner 2008). Pity today’s would-be world order builders, who confront encrusted organizations that resist alterations to their mandates, membership, management, and financing, thanks to the vested interests of current power wielders—and, at times, the divergent priorities of entrenched bureaucrats (Johnson 2014). A prime example is the UN Security Council, three of whose five permanent members either adamantly oppose (Russia and China) or are lukewarm toward (the United States) an increase in the number of permanent seats. Another is the outdated International Energy Agency, where membership remains limited to OECD Member States and voting weight is still pegged to 1974 levels of oil consumption, even as it excludes from membership China and India, whose energy demand has expanded ten- and eight-fold, respectively. In sum, retrofitting existing institutions has proven even more daunting than creating them in the first place.

Not only is the slate crowded, the problems are also harder. The architects of post-1945 order could capture early and easy gains from cooperation. The initial GATT rounds of trade negotiations, for example, focused on removing tariffs and reducing subsidies. Today’s negotiators increasingly bargain over regulatory, tax, and other domestic rules, including those governing health and safety standards, investment, or public procurement. The monitoring and verification provisions of arms control agreements have similarly become more intrusive, requiring parties to the Chemical and Biological Weapons Conventions, for instance, to open private sector as well as government facilities to external scrutiny. The growing complexity of contemporary cooperation is most evident in responding to climate change, the most complicated collective action problem humanity has ever faced—and one that will require nothing less than a total transformation of the domestic and global economy. Little wonder there is such nostalgia for earlier eras such as the Truman years.

The changing “demography” (Barnett 2014) of the interstate system poses additional hurdles to institutional reform. Since 1945, the number of UN Member States has surged from 50 to 194, making the world body more heterogeneous and (from Washington’s perspective) intractable. Initially, the United States could count on solid majorities in UN settings. Those days vanished as decolonization accelerated in the 1960s, forcing the United States into a far more defensive stance. By 1978, Daniel Patrick Moynihan would title the memoir of his tenure as U.S. ambassador to the UN, *A Dangerous Place* (Moynihan 1978). Three decades later, President Obama would use his first speech to the United Nations General Assembly (UNGA) to bemoan the persistence of outdated bloc mentalities, which pervade not only UNGA but also other large-membership multilateral bodies like the Conference on Disarmament (Obama 2009).

More recently, the most dramatic reallocation of global economic power in world history has ended the era of uncontested U.S. (and broader Western) hegemony, exacerbated geopolitical rivalry, and sharpened debates between established and emerging powers over both prerogatives and burden-sharing within formal global institutions. In 1990, the advanced market democracies that constitute the Organization for Economic Cooperation and Development (OECD) produced 62% of global GDP. Today, despite the addition of a dozen new members, including The Republic of Korea and Mexico, that figure is 47% and declining (Patrick and Egel 2015). Meanwhile, the BRICS countries (Brazil, Russia, India, China, and South Africa), which generated only 8 percent of global output in 2000, today account for almost 25 percent (Harding, Leahy, and Hornby 2014). By some estimates, China’s economy has surpassed that of the United States—for example, in terms of purchasing power parity (Bird 2014). Although one can exaggerate relative U.S. decline, the contemporary United States possesses neither the scale of economic dominance nor the appetite for global leadership apparently that it did during the early postwar decades. The sheen of its “soft” power has also dimmed, thanks to the global financial crisis, which started on Wall Street itself, and the Snowden affair, which exposed the global reach of U.S. surveillance. Beyond the United States itself, prolonged economic stagnation and international retrenchment in Europe and Japan have weakened the vitality and solidarity of the Western bloc.

Complicating matters, a worrisome normative divergence seems to accompany this diffusion of power. The Cold War was, of course, defined by dramatic ideological differences between East and West, as well as North and South. But the core of the world economy was Western, and like-minded. Today’s big economic engines include emerging as well as established players, and they frequently collide over values. Major points of contention include the appropriate boundaries of national sovereignty, the proper criteria for humanitarian intervention, the right role for the state in the market, and the correct balance between security and human rights. Nor does a common commitment to democratic governance guarantee smooth cooperation, as the often-fractious relations between Western states and large emerging market nations like Brazil, India, Turkey, or South Africa attest.

All rising powers—democratic and authoritarian alike—seek greater voice and prerogatives within established multilateral institutions. But they are also tempted to free ride rather than assume greater burdens within international institutions, in part because of their status—as they continually remind Western diplomats—as “poor” countries facing extraordinary development challenges and rising demands from citizens (Patrick 2010b). Such dynamics help explain why the Obama administration, which had entered office open to UN Security Council expansion—launching an interagency review of the topic and endorsing permanent membership for India—ultimately shelved any such plans (McDonald and Patrick 2010). Beyond worrying that a UN Charter amendment would be impossible to engineer, the administration judged the most likely aspirants—including India, Brazil, and South Africa—to be unreliable partners, both in terms of the positions they were likely to advance and their willingness to contribute to international peace and security (as defined by Washington). As evidence, the administration could point to the tenure of all three countries as elected members of the UN Security Council during 2011. What the United States

had witnessed, said America's then UN ambassador, Susan Rice, was "not . . . frankly, encouraging" (Kelemen 2011). The tendency of emerging power governments to engage in ideological cross-dressing depending on the multilateral venue (the G20 vs. the UN General Assembly, for instance) only increased U.S. skepticism. In the end, the Obama administration concluded that the devil they knew was preferable to the one they did not.

As international power diffuses and global values diverge, the United States has a reduced incentive to invest in formal international organizations, and a greater motivation to pick and choose among frameworks that increase its freedom of action and policy autonomy and more closely approximate its values. Indeed, there has been surprising continuity between the *à la carte* approach to international cooperation advocated by the George W. Bush administration (Shanker 2001) and the orientation of his successor (Patrick 2009a). Both have pursued unilateral fora where the United States can shape the goals consistent with its preferences and minimize constraints on its freedom of action. For the Bush administration, the archetype was the Proliferation Security Initiative (PSI), which the United States launched with a handful of likeminded countries in 2003 to interdict trade in weapons of mass destruction. PSI was consciously designed as an arrangement open to other countries—provided, they endorsed norms and priorities the United States and its affinity group had established. One advantage of this approach, from the founders' perspective, is in increasing the likelihood that the mandate of a coalition will survive the gradual enlargement of its membership (Downs, Rocke, and Barsoom 1998). The Obama administration may have arrived in office committed to reforming formal multilateral institutions. But in practice, it endorsed, and expanded upon, the use of ad hoc arrangements (Steinberg 2010). The result has been a paradoxical combination, institutionally speaking, of "drought and abundance": even as the world's most important formal organizations struggle to adapt, an entire ecosystem of alternative frameworks sprouts around them.

In the absence of transformational change in the architecture of international cooperation, U.S. and international policy-makers are increasingly adopting a messier form of multilateralism (Haass 2010). This approach has four distinctive aspects. One is growing reliance on flexible, often purpose-built groupings of the interested, capable, or like-minded. A second is a preference for voluntary codes of conduct over binding conventions. The third is the search for piecemeal rather than comprehensive approaches to global challenges. The fourth is the shift from purely intergovernmental models of cooperation to new frameworks that are transnational, multi-stakeholder, or multi-level.

### **The New "New Multilateralism:" The Rise of Messy Multilateralism**

For the past several years, pundits have debated whether we live in a G20, G8/7, G2, or even "G Zero" world. In truth, ours is a "Gx" world in which the identity and number of parties at the head table varies by issue area and situation (Alexandrov 2010). In November 2008, the leaders of the world's major economies met in Washington. By the time of the G20 Leaders Summit in Pittsburgh in 2009, these leaders agreed to designate the new G20 as the world's premier forum for macroeconomic coordination.

And yet, contrary to expectations, the presumably obsolete G7/8 did not wither away. It gradually gained a renewed lease on life, thanks to U.S. disillusionment with the unwieldy G20, whose very diversity tended to generate weak, lowest-common-denominator coordination. If anything, the suspension of Russia from the G8 following its seizure of Crimea last year has deepened the importance that the United States attaches to the newly re-emergent G7. While the G20 remains a valuable forum, the G7 offers a narrower grouping whose members share broadly similar values, strategic interests, and major policy preferences, as well as assets to deploy in the service of these convictions.

Rather than relying on standing organizations, or exploiting a single informal framework, the United States and other governments are adopting (as the old British idiom recommends) a “horses for courses” approach. To combat climate change, for instance, the United States participates in the Major Economies Forum (MEF), which unites the seventeen largest emitters of greenhouse gases. To prevent nuclear weapons from falling into the hands of non-state actors, meanwhile, the Obama administration has sponsored the biennial Nuclear Security Summit (NSS), a gathering at the leaders’ level of the fifty odd countries possessing nuclear weapons and/or fissile material. To contain and ultimately destroy the Islamic State in Iraq and Syria, meanwhile, the United States has formed Operation Inherent Resolve, a loose (and non-UN authorized) coalition of the willing composed of approximately sixty nations (albeit with varying levels of commitment). Such informal groupings may result in strange bedfellows. For example, the multinational armada created to combat Somali piracy in the Indian Ocean and Gulf of Aden included vessels not only from the United States and traditional U.S. treaty allies (including members of NATO, as well as Japan and South Korea), but also from countries with which the United States has more complicated relations, including China, India, Indonesia, Malaysia, Russia, Saudi Arabia, and Yemen (Jones 2011).

Minilateralism is also increasingly prevalent in international economic cooperation. As of January 2015, the World Trade Organization (WTO) had received 604 notifications of preferential trade agreements (with 398 in force) (WTO 2015). The two most ambitious free trade agreements (FTAs) now under discussion are U.S.-promoted mega-regional trade deals, the Transatlantic Trade and Investment Partnership (TTIP) and the Transpacific Trade Partnership (TPP). And not all of these new economic frameworks include the United States. The BRICS, for example, are pursuing both a development bank and a contingency fund, intended to provide borrowers with alternatives to the World Bank and IMF.

## Voluntary Codes of Conduct

A second recurrent feature of the new multilateralism is a preference for voluntary commitments over binding conventions. Multilateral treaties are still sometimes negotiated, but states often find it easier to approach global (as well as regional) challenges through non-binding agreements. These can be “pledge and review” arrangements, involving separate national commitments that are subsequently submitted to assessment by their peers. For instance, parties to the UN Framework Convention on Climate Change (UNFCCC) agreed at the December 2014 COP-20 in Lima to submit national

action plans to overcome the decade-long struggle to come up with a “binding” successor to the Kyoto Protocol (UNFCCC 2014). These “intended nationally determined contributions” are to be published online, allowing scientists to assess their impact on curbing emissions—and presumably name and shame laggards. The G20 has an analogous peer review system. Its Mutual Assessment Process (MAP) commits members to explain how they intend to meet common growth targets and prevent negative “spillovers” from these policy choices (IMF 2014). In a similar manner, the participants in each successive Nuclear Security Summit have been expected to arrive with voluntary “gift baskets”, or pledges enumerating their separate national commitments to advance the common goal of global nuclear security.

Rather than striving for unreachable binding treaties, governments have turned to codes of conduct more and more. This pattern has become widespread in governance of the global commons—including outer space, maritime space, and cyberspace—as these domains become increasingly congested, competitive, and contested (Patrick 2015a). In recent years, the United States has deliberated how best to integrate new “space-faring nations” into a common set of rules to mitigate space debris, reduce risks of collision, and discourage militarization of the heavens. Given the difficulty of updating the Outer Space Treaty, the United States has endorsed internationalizing the non-binding European Code of Conduct for Outer Space Activities to establish parameters for responsible behavior. Similarly, in the maritime commons, the United States and several members of the Association of Southeast Asian Nations (ASEAN) favor a code of conduct to manage competing territorial and maritime claims in the South China Sea, in the face of expansive Chinese claims. (The failure of the U.S. Senate to consent to the UN Convention on the Law of the Sea increases the attraction of this informal route for U.S. diplomats.) Likewise in the Arctic, the United States rebuffed calls for a comprehensive multilateral treaty to reconcile rival sovereignty claims, facilitate collective energy development, and address environmental concerns. Instead, it worked with Arctic Council partners to draft the Ilulissat Declaration, a set of general principles of behavior (Ilulissat 2008).

Voluntary codes are likely to guide future norms to limit state-supported attacks in cyberspace. One possibility would be for a cohort of major countries to foreswear certain practices (such as attacking root servers), gradually incorporating outliers into this framework. A potential precedent from another sphere is the FATF, an early experiment in minilateralism, which now includes thirty-six Member States. The FATF’s standard-setting power arises from its ability to distinguish “cooperating” from “non-cooperating” jurisdictions and to name and shame the latter (FATF 2015). One could envision a similar arrangement for cyberspace, starting with a core of like-minded countries committed to basic standards, which could give other jurisdictions their collective seal of approval (Knake 2010).

## Disaggregated Multilateralism

Third, besides turning to voluntary arrangements, national governments are increasingly pursuing “global governance in pieces” (Patrick 2014a). This is the third main feature of the new “new multilateralism”. Rather than

chase elusive, comprehensive multilateral solutions to multifaceted puzzles like mitigating climate change or stemming the proliferation of weapons of mass destruction (WMD), governments are instead pragmatically breaking down these problems into different dimensions. Such a disaggregated, piecemeal approach to international cooperation results not in a single institution or treaty but in a cluster of complementary activities that political scientists term a “regime complex.” The one for climate change, for example, includes dozens of initiatives, ranging from minilateral partnerships to advance “green” technology to a UN program to Reduce Emissions from Deforestation and Forest Degradation (REDD) (Keohane and Victor 2010; Michonski and Levi 2010). International efforts to advance global public health are similarly fragmented (Fidler 2010). The notional core of this system is the WHO, which maintains a Global Outbreak Alert and Response Network (GOARN) and nominal authority over its members through the legally binding International Health Regulations (IHRs). In reality, WHO shares space with other bodies and initiatives, including the Global Alliance for Vaccines and Immunizations (GAVI), UNAIDS, UNICEF, the World Bank, and the Global Fund for AIDS, Tuberculosis and Malaria.

Given the moribund Doha Round, future breakthroughs in trade liberalization will likely also be disaggregated, taking the form of so-called “plurilateral” agreements—or sector-specific accords among a subset of WTO members on issues like public procurement or investment rules. This is not entirely unprecedented, of course: previous rounds of GATT and WTO negotiations were in part plurilateral in character (Steinberg 2002; Gilligan 2004). What is different today is the growing expectation that comprehensive agreements are impossible at the WTO and thus that “variable geometry”—whereby some parties opt into and others opt out of specific commitments—is inevitable. The December 2013 WTO ministerial conference in Bali, which resulted in a modest agreement on trade facilitation, may be the wave of the future. Negotiators are likely to take a similar stance on cyberspace, given the difficulties of negotiating a single treaty covering multiple issues, such as the debate over multi-stakeholder versus intergovernmental models; competing technical standards; cybercrime norms; intellectual property protections; appropriate limits to government surveillance; and balancing security objectives with human rights and civil liberties (Nye 2014).

### Multi-stakeholder Multilateralism

A fourth salient feature of the new “new multilateralism” is a shift away from traditional intergovernmental diplomacy—or cooperation among foreign ministries—and toward novel patterns of cooperation that can be labeled “transgovernmental”, “multi-level”, and “multistakeholder”. Let us take each in turn.

Trans-governmental cooperation refers to the fact that international cooperation increasingly takes place outside the confines of foreign ministries, in the form of transnational networks of government officials, as the scholar Anne-Marie Slaughter (2004) has noted. As sovereign states become increasingly disaggregated, regulators, technical experts, judges, and even parliamentarians have begun to engage one another across national boundaries, on an ongoing basis, on matters big and small. The “real” world order,

Slaughter argues, is this latticework of functional cooperation that emerges as states seek to confront and tame globalization (Slaughter 2004). A recent example is the effort by the U.S. Food and Drug Administration to work with its counterparts abroad to create an informal “global coalition of medicines regulators.” This grouping is designed to help national regulators meet a common goal: ensure the safety of medicine and medical products in an age of segmented supply chains and uneven pharmacovigilance, particularly in emerging economies like China and India, where a majority of active pharmaceutical ingredients are now produced (Patrick and Wright 2014). In this trans-governmental effort, it is the technical agencies rather than the diplomats who are in charge.

In addition, the new “new multilateralism” is increasingly multi-level, involving political units that are above the state—in the form of regional and sub-regional organizations—and below it—most notably in the growing activism within the world’s cities. Although Chapter 8 of the UN Charter envisioned a role for regional bodies, the diplomats at Dumbarton Oaks in 1944 could scarcely have anticipated the remarkable proliferation of regional and sub-regional entities, which today number in the hundreds. To be sure, the aspirations, mandates and activities of regional organizations vary, as a quick comparison of the African Union (AU), the Arab League, ASEAN, the European Union, the Organization of American States (OAS), and the South Asian Association for Regional Cooperation (SAARC) would attest. But their influence and role is growing, particularly when it comes to managing violent conflict. In Africa, for instance, peace operations increasingly take a hybrid form, with variable contributions and leadership provided by the United Nations, African Union, and the continent’s several Regional Economic Communities, as well as from external powers such as France (Patrick 2014c).

Finally, global governance is no longer the exclusive preserve of states meeting in multilateral forums. Cities, for example, are forming networks that cross state frontiers to address transnational problems. The most prominent case to date is the C-40 confederation, which emerged in 2012 at the UN Conference on Sustainable Development in Rio de Janeiro, where Mayor Michael Bloomberg of New York and counterparts from Moscow to Sao Paulo announced a collective commitment to greener cities. To be sure, one should not get carried away: no modern-day Hanseatic League likely will solve global challenges. Still, emerging patterns of “glocality” suggest that as humanity urbanizes, cities will produce some of the greatest innovations in governance, global as well as local (Barber 2013). A case in point is the Lima COP-20, where parties agreed to a Global Protocol for Community-Scale Greenhouse Emission Inventories (GPC), a standardized reporting mechanism for subnational structures like cities, provinces, and regions of states.

National governments, then, are not the only actors with a role in managing globalization. Indeed, the new “new multilateralism” is increasingly multi-stakeholder, seeking to integrate and leverage the capabilities and interests of private actors, including both corporations and NGOs. Consider regulatory and standard-setting bodies, such as the Extractive Industries Transparency Initiative (EITI) or the Kimberley Process for conflict diamonds. Their effectiveness depends on incentivizing private corporations to behave responsibly and mobilizing civil society groups to demand accountability from both governments and companies (Abbott and Snidal 2009; Wright

2014). Multi-stakeholder arrangements and public-private partnerships are now widespread in global public health, too. The Global Alliance for Vaccines and Immunizations, for instance, brings public officials together with private companies to help ensure an adequate supply of life-saving vaccines, at affordable costs, in developing countries. The Global Fund for AIDS, TB, and Malaria, meanwhile, includes the private Gates Foundation as a full member of its Board. It also insists that nations that receive its aid establish coordinating mechanisms that include members of civil society.

The global humanitarian system similarly includes tight linkages among the United Nations, national donor agencies, and humanitarian service providers, including charities like World Vision. The leading umbrella organization of U.S.-based humanitarian NGOs – Interaction – has its own seat on the Interagency Standing Committee (IASC) chaired by the UN’s Office of the Coordinator of Humanitarian Affairs (OCHA), as does the private International Committee of the Red Cross. But perhaps the most well known multi-stakeholder global governance arrangement is one for cyberspace, notably the role played by the Internet Corporation for Assigned Names and Numbers (ICANN), an independent, non-profit entity that operates under license from the U.S. Department of Commerce. To be sure, not all governments are equally comfortable with this “bottom up” approach. The most vocal debates over Internet governance during 2012–2014 pitted Western government that advocated the preservation of the multi-stakeholder model against developing country and (particularly) authoritarian governments that called for a more intergovernmental approach accentuating sovereign control over cyberspace (Patrick 2014b).

### Policy Quandaries and Conundrums

In sum, the new “new multilateralism” is an “ungodly mess.” It is a bit like Paris’ Pompidou Center, with all the improvised plumbing, wiring, and load-bearing pillars nakedly revealed. But is all this complexity a good or a bad thing?

The new “new multilateralism,” it turns out, is a mixed bag. On the positive side, the proliferation of diverse frameworks of informal cooperation has several advantages. At the head of the list are speed and flexibility. Rather than engaging in painstaking, drawn-out negotiations within formal, binding, universal (or large-membership) organizations, governments can move with dispatch, designing nimble coalitions of the relevant, interested, and capable. A third clear benefit is modularity. Instead of trying to digest an entire complex global problem, like mitigating greenhouse gas emissions, governments can bite off manageable chunks, such as reforestation or controls on methane. A fourth advantage is discrimination: Purpose-built frameworks may help governments—and especially great powers—“compartmentalize” their bilateral relationships, so that even geopolitical rivals may cooperate in a given forum to advance common security, economic or ecological or other interests (Patrick and Bennett 2014). A fifth value of informal institutions, particularly multi-stakeholder forums, is leverage—specifically, access to the capacities, expertise, and other resources of private actors, including both corporations and non-governmental organizations. Finally, diverse forms of collective action could, in principle, allow governments to experiment with and glean lessons from alternative design

solutions to cooperation problems, much as it was assumed the fifty U.S. states provide distinct “laboratories of democracy,” in the famous words of the U.S. Supreme Court Justice Louis Brandeis.

At first blush, a world of à la carte options would also seem tailor-made for the United States, allowing it to maximize its freedom of action and domestic policy autonomy by picking and choosing among diverse international institutions, as its situational interests warrant. The Gx world rewards those nations that are well positioned to play simultaneously on different chessboards and in different groupings, thanks to their military, economic, diplomatic, and technological weight, as well as the vitality of their private sector, civil society, and universities. On all these criteria, the United States reigns supreme. It has unmatched capacity to “pivot”, not only among different regions but among diverse frameworks of international cooperation, allowing it (for instance) to simultaneously be a member of the G20 and deepen its links with Western allies within the G7 (to say nothing of NATO). The world may be more fluid, but the United States appears to remain an identified player in many if not most minilateral coalitions.

Still, the advantages of the new “new multilateralism” should not be exaggerated, nor should its possible downside be ignored. The first question is an empirical one. Namely, do the institutional workarounds identified above actually deliver, in terms of achieving results? Are these new instruments having a more positive impact on the relevant challenges—say, climate change or trade liberalization—than an approach reliant on traditional international organizations like the UN might have? Are the goods being provided under these innovative arrangements truly collective, in the sense of benefiting all, or are their benefits restricted to a narrow set of countries? Although in-depth case studies and comparative analyses are clearly needed, anecdotal evidence suggests that at least some of these new frameworks have performed no better than the universal alternative (which of course may have been found wanting, too).

Take the regime complex for climate change. Many anticipated that the MEF would break logjams within the UNFCCC, allowing the countries that really “mattered” to hammer out preliminary agreement among themselves before bringing these commitments to the more encompassing UN process (Patrick 2010c). To date, the actual achievements of the MEF as a body have been negligible. Largely, the group merely releases “chair summaries” with a synopsis of conversations and little mention of agreement on concrete steps. The jury is also still out on the whether the process of voluntary, national pledges UNFCCC member endorsed at the December 2014 COP-20 in Lima will amount to much. The rationale behind this pledge and review approach was that non-binding promises, tailored to national circumstances and capabilities, would actually have a greater collective impact on climate mitigation than the pursuit of uniform, legal commitments, which, if agreed at all, would likely be extremely modest.

The lingering final question, of course, is whether informal commitments lacking any enforcement mechanism to ensure their implementation should be treated as credible. More profoundly, any conceivable pledges, even if fully implemented, would still almost certainly fall well short of the scope of international effort required to stave off the dangers identified by the Intergovernmental Panel on Climate Change (IPCC). One can rearrange deck chairs at either the national or international level, it appears, and it

will still not amount to much. To date, the most promising climate change agreement has been neither multilateral *nor* “minilateral” but a November 2014 bilateral accord between China and the United States that commits each to meet ambitious national emissions reduction targets (White House 2014).

A similar problem arises within the G20’s Mutual Assessment Process (MAP). That voluntary arrangement commits G20 governments to submit to one another and the IMF a summary of their national economic plans, including potential negative impacts of these choices on other countries. In principle, the MAP offers a robust system of peer review that can hold G20 government’s feet to the fire. In practice, it has been toothless, as G20 members have limited the Fund’s ability to play a robust, independent surveillance and monitoring function. Neither the Fund nor individual members have been willing to call out G20 governments that have fallen short (English et al. 2012).

More generally, it seems dubious whether flexible minilateralism can resolve tough cooperation problems. No doubt, in the absence of standing institutions, informal frameworks can facilitate cooperation by reducing uncertainty, improving communication, and providing focal points to coordinate policies. It is less clear that they can be any more successful than other diplomatic forums in promoting mutual policy adjustment when states strongly disagree over policy preferences—such as whether (in the G20 policy context) to pursue policies of fiscal austerity or stimulus or whether (in the context of the MEF) to accept legally binding mitigation commitments. And no amount of “multi-multilateralism” will compensate for a major clash of big power interest, such as the collision between the West and Russia over the latter’s actions in Crimea.

Indeed, while the new multilateralism may help the United States and other countries compartmentalize, so that they can play different games on multiple chessboards simultaneously, it may also complicate the negotiation of “grand bargains”. One advantage of large-member, general interest organizations, like the United Nations, is to permit diplomats to horse-trade across different issue areas, such as between development cooperation and counterterrorism efforts, say. Such issue linkage is harder to pursue when a different network exists for each sphere of interaction—particularly if these institutions are insulated from one another.

The second worry is that ad hoc-ism, if carried too far, could undermine formal institutions whose legitimacy, resources, and technical capacity are needed over the long haul and cannot be easily replaced. The hope, of course, is that the opposite will be true. A decade ago international law scholar Ruth Wedgwood argued that it was “time to give the UN a little competition”. Experimenting with alternative forms of collective action, she implied, might incentivize the UN to raise its game (Wedgwood 2005). Proponents of FTAs likewise argue that preferential trade arrangements could actually spur the WTO to make greater progress on liberalization. But skeptics warn just as vigorously that the proliferation of minilateral arrangements will create a fragmented system of redundant institutions that are stumbling blocks (rather than building blocks) to global cooperation, as well as undercut the capabilities, credibility, and legitimacy of standing, universal membership international organizations (Bhagwati 2008). Thomas Weiss of the City University of New York likens enthusiasts of ad hoc multilateralism to members of a “Global Tea Party” that criticizes formal international

organizations but fails to acknowledge the dangers of marginalizing formal institutions (Weiss 2014).

The evidence then seems rather mixed for the new “new multilateralism”. At times, informal multilateral frameworks have served to reinvigorate formal institutions, including helping them to adapt to new conditions. A case in point is the G20 during its first two activist years. From 2008 to 2010, the consultative body engineered the replacement of the Financial Stability Forum with a Financial Stability Board (FSB), intended, in the words of U.S. Secretary of the Treasury Timothy Geithner, to serve as the “fourth pillar” of Bretton Woods (White House 2009). It also revitalized the IMF and the World Bank, by expanding their mandates, augmenting their resources, and endorsing (though not implementing) alterations to their governance structure. The G20’s success in strengthening the Bank and the Fund reflected in part the close overlap between its own membership and the composition of their executive boards. FATF provides another example. Created out of frustration with the failure of existing institutions to address money laundering, FATF has since succeeded in having its standards incorporated within the IMF, as well as in UN Security Council resolutions.

At other times, however, the rise of alternative institutions has reflected less a desire for partnership than antagonism: specifically, the conscious decision by a coalition of dissatisfied states (and sometimes other actors) to challenge the mandates, rules, and practices of established international institutions. Such “contested multilateralism”, as the political scientists Julia C. Morse and Robert O. Keohane term it, can take one of two forms. The more moderate is when states unhappy with the status quo try to shift the setting for multilateral deliberation and policymaking to an alternative, existing institution whose mandate and decision rules they find more congenial (Morse and Keohane 2014). The more radical strategy is to try to create an entirely new arrangement, as occurred in 2010–2011 when some thirty countries in the Western Hemisphere launched a new multilateral bloc—the Community of Latin American States (CELAC) that consciously excluded the United States and Canada, and whose more left-leaning members hoped might eventually rival the OAS (Saltalamachia 2015).

This brings us to the third potential downside. A world of new “new multilateralism” lends itself to rampant forum shopping (Jupile and Snidal 2005; Busch 2007)—and not just by the United States. For too long, the United States has reassured itself that it is best positioned to play the game of contested multilateralism, picking and choosing among flexible frameworks as the situation demands.

And the United States does retain an unmatched ability to pivot among institutions—for now. As power diffuses to other states, however, they will surely avail themselves of similar opportunities. Indeed, they are already doing so, as the examples of the BRICS New Development Bank and Contingency Fund, the Shanghai Cooperation Organization, and more recently, the Beijing-led Asia Infrastructure and Investment Bank (AIIB) attest. As major non-Western players learn to play the game of flexible multilateralism, the risk increases that the world could fragment into competing blocs, resulting (for instance) in the de facto division of the G20 between G7 members and partners, on the one hand, and rising powers, on the other.

For the United States, the creation of the AIIB in March 2015 offered an object lesson in the possible downside to “contested multilateralism”. The Obama administration expended enormous diplomatic capital in a

misguided and ultimately futile effort to persuade its four closest European allies—the United Kingdom, Germany, France, and Italy—not to become founding members. The U.S. defeat was rich in symbolism, suggesting how quickly the center of gravity of international economic cooperation could shift. China has become a formative regional player, while the Western dominance built on Japan and the United States that has underpinned security in littoral East Asia since the Cold War is fraying (Patrick 2015b).

More generally, the AIIB episode signaled what might be called the limits of American “exemptionalism”. Particularly, since the end of the Cold War, the United States has adopted an ambivalent and selective attitude toward formal multilateral commitments, particularly treaty obligations (Patrick 2009b). Indeed, it has become virtually impossible to get a multilateral treaty ratified by the U.S. Senate, with the Obama administration’s record stacking up poorly compared to its several immediate predecessors (Bellinger 2012). These U.S. constitutional limitations have been one of the main driving forces behind the trend toward minilateral cooperation. While this stance has brought some external freedom of action and domestic policy autonomy, the United States is increasingly discovering that it is not the only nation capable of cherry-picking among international commitments. If the United States is unwilling and unable to revitalize the institutions it founded to accommodate new players, other countries will build new ones in their place.

Finally, the new “new multilateralism” raises normative dilemmas, including concerns about legitimacy, equity, and accountability. To begin with, the rise of “the Informals” (Alexandroff 2014) implies increased reliance on exclusive coalitions, rather than public international institutions, to provide international public goods. Minilateralism is wonderful if your country is in the green room, but less so when it is on the outside peering in. Since its creation in 2008, the G20 has been criticized for behaving as a global directorate, making decisions with global implications as the rest of humanity—the “G174,” if you will—looks on. Successive G20 chairs have tried to ameliorate these concerns with elaborate outreach efforts to non-Member States. But the inherent tension between effectiveness, which implies a group of modest size, and legitimacy, which implies broad representation, persists. Ultimately, this raises an ethical dilemma that the founders of the United Nations sought to address in 1945: poorer countries are excluded from decision-making processes that impact them greatly, and smaller nations have little means to hold bigger countries accountable.

Equity and justice are thus casualties of the new “new multilateralism.” The more that cooperation occurs through informal coalitions rather than formal organizations grounded in international law, the more likely it is to reflect the narrow interests of the dominant players, state and non-state alike. Power, of course, always shapes the design of institutions, as well as their dynamics. But large-member, treaty-based organizations typically possess some internal checks and balances, as well as provide broad “voice” opportunities, which serve to dampen the naked exercise of power, while fostering bargaining and consensus building. They also generally possess independent secretariats staffed by professional international civil servants and technocrats, creating an institutional identity distinct from their Member States. For these reasons formal multilateral bodies—for all their imperfections—may be better placed than narrower groupings to advance the agenda and interests of the otherwise powerless. For example, to secure

the participation of many non-nuclear weapon states—particularly those with little interest in such weapons—to prevent proliferation, nuclear weapon states agreed to promote and facilitate access to nuclear energy for peaceful uses. This bargain has become institutionalized: in addition to its role in safeguarding nuclear material, the IAEA uses nuclear technologies to improve soil and water management, enhance livestock production, and treat cancer.

Last, there is the problem of accountability. As hard as it is can be to hold formal multilateral bodies accountable, the challenges can be even harder when it comes to alternative multilateral structures. One of the biggest frustrations with the G20 remains the lack of a robust mechanism to determine whether its members are fulfilling pledges made at successive summits (G20 Research Group 2015). By contrast, standing intergovernmental organizations like the World Bank have come under increased pressure from NGOs and civil society groups to embrace transparency—and have made positive steps in the direction of accountability as a result. The problem of accountability is especially acute when it comes to transnational networks of government officials. While they may offer a practical solution to the complex challenges of interdependence, they also frequently operate below the radar screen, without adequate legislative oversight from participating governments, contributing to the democratic deficit in contemporary global governance. Meanwhile, multi-stakeholder approaches create their own accountability challenges, in the form of principal-agent dilemmas and the risk of “regulatory capture.” In subcontracting important roles to private actors, including NGOs, governments may unwittingly empower actors more interested in their own agendas, including securing reliable revenue streams. Likewise, regulatory and standard-setting bodies face the dilemma of how to utilize capacities and influence behavior of private firms without allowing themselves to become captive to the interests of those corporations.

Minilateral cooperation is here to stay. The flexibility and short-term gains it provides are simply too tempting to imagine it would disappear. But it would be a mistake for the Obama administration—which arrived with such high hopes of reforming the multilateral system—and its successors to view minilateralism as a cost-free alternative. Unless used deftly and judiciously, minilateralism risks undermining the legitimacy and effectiveness of indispensable international organizations and even accelerating the world’s coalescence into rival coalitions. Purely ad hoc solutions are unlikely to deliver global goods and advance the common interest. If a rule-bound international order is to persist, it must rest not only on flexible coalitions of the moment but also on formal international bodies, grounded in international law.

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# COUNCIL OF COUNCILS

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## *Session Two*

# Managing Geopolitics and Emerging Health Threats in the Post-COVID-19 Era



Background Memo

## *Addressing Emerging Health Threats in an Era of Geopolitical Rivalry*

Council of Councils Regional Conference

October 30–November 1, 2022

Centre for Strategic and International Studies, Jakarta, Indonesia

**Yanzhong Huang**, Council on Foreign Relations

The world is facing no shortage of health challenges. While a new viral wave of COVID-19 is likely on the way, the world is seeing a new set of global health threats emerge. The World Health Organization (WHO) declared the escalating global monkeypox outbreak a public health emergency of international concern (PHEIC), and the United States now joins a list of approximately thirty countries with circulating vaccine-derived poliovirus. In addition, poliovirus has remained a PHEIC since first declared in 2014. For the first time, the world has to simultaneously deal with three PHEICs. Those public health problems are just the tip-of-the-iceberg threats looming on the global health horizon, which include zoonotic spillover, food insecurity, biosafety and biosecurity risks, health hazards of climate change, supply-chain disruption, disinformation, and economic recession.

### **The Shifting Geopolitical Landscape**

These challenges unfold in a reshaped geopolitical landscape, which has compounded and undermined global efforts to address emerging health threats. Three geopolitical challenges can be identified: the rising U.S.-China hostility, a profound rift between Russia and the West, and the shifting global balance of power.

*Rising U.S.-China Hostility.* U.S.-China geopolitical competition is not new, but China only recently became “[America’s most consequential geopolitical challenge](#).” With China’s emergence as the world’s second-largest economic power and U.S. abdication of global leadership under U.S. President Donald Trump, China under President Xi Jinping better positioned to reshape international order and achieve its global leadership ambitions. Emboldened by its emergence as an early winner in the fight against COVID-19, China began to promote “mask diplomacy” and “vaccine diplomacy” in order to [revitalize](#) its Belt and Road Initiative (BRI) and achieve economic and geopolitical gains in the lower- and middle-income countries, especially those in Southeast Asia and Latin America. Concerned about China’s efforts to capitalize on the pandemic to seek geopolitical advantages, the United States moved to counter China’s influence by launching its own vaccine diplomacy (e.g., donating vaccines in Southeast Asia and using the Quad alliance to increase its vaccine supplies in the region). The U.S.-China geopolitical competition, although it mitigated the initial vaccine apartheid between the North and the South (a result of

Western vaccine nationalism), also meant that vaccine diplomacy only prioritized those countries perceived as strategically important, which in turn exacerbated the global disparities in access to vaccines and other COVID-19 supplies.

This type of zero-sum thinking has also contributed to the lack of bilateral cooperation in other areas, such as the probe of the COVID-19 pandemic's origins, sample sharing, supply-chain resilience, and countering disinformation. Furthermore, U.S.-China geopolitical rivalry, combined with the lack of personal exchange during the pandemic, has deepened mutual misunderstandings and misperceptions. As a result, the two nations have had little serious discussion over public health issues, not to mention development of vaccines and therapeutics. To the extent that the United States as the established power and China as the rising power fail to provide the necessary global public goods to mitigate COVID-19's devastating effects and stabilize the international order, the world is falling into the "[Kindleberger Trap](#)," which posited that the disastrous decade of the 1930s resulted from the United States' failure to provide global public goods after replacing Britain as the leading power.

*Profound Rift Between Russia and the West.* The Russian invasion of Ukraine significantly escalated Russia's geopolitical rivalry with the West. The 2022 U.S. National Security Strategy characterizes Russia as "an immediate and persistent threat to international peace and stability." The COVID-19 pandemic apparently has not stopped military operations, neither has it slowed them perceptibly. It runs the other way around: the war has affected the ongoing fight against COVID-19 by diverting governments' attention, both politically and financially. Now the human toll taken by the pandemic needs to be balanced against the war's geopolitical objectives. Moreover, the war has reduced Russia's incentives to participate constructively in global health governance. In justifying its invasion, Russia launched a disinformation campaign [claiming](#) the United States was secretly aiding Ukraine to develop biological weapons (a conspiracy theory echoed by China and the U.S. far right). In fact, laboratories taken over by Russian forces or in areas under direct Russian attack risk releasing pathogens that could start an epidemic. In addition, the war has combined with the pandemic to, first, place pressure on scarce health-care resources in Europe; second, disrupt the supply chain, fuel inflation, and threaten global recession; and third, aggravate food insecurity and population displacement.

*Shifting Global Balance of Power.* Three other geopolitical dimensions of the war and pandemic are shaping the response to future global health challenges. First, the geopolitical realignment of energy supplies from Russia and the relocation of supply chains from China contribute to shifting power balances and alliance shuffling and consolidation. While the U.S.-led alliance against authoritarian states is solidified, the countries sanctioned by the United States—China, Iran, North Korea, Russia, and Turkey—will likely become ever closer economically and strategically. This could worsen the divided global governance problem.

Second, the darkening world economic outlook—the International Monetary Fund [forecasts](#) only 2.7 percent global growth in 2023—will diminish the fiscal space available for countries to invest in health system capacity-building. Meanwhile, the uneven global economic recovery could further shift the global balance of power by expanding the gap between advanced economies and China on the one hand and the emerging and developing countries on the other, contributing to global health disparities. The role of Brazil, Russia, India, China and South Africa, or the BRICS, in global health governance could weaken further as economic stress prevents them from being a powerful and alternative force in global health governance. However, wealthy nations' lack of interest and capacity to mitigate the discrepancy will embroil future international health cooperation in a much wider set of global North-South disputes.

Third, the new era of great-power geopolitical competition seems less clearly in China's favor. This shift is not only because of the rapid Chinese economic slowdown, which threatens to drag China into the so-called middle-income trap, but also because of China's increasing loss of international appeal—as seen in the uptick of unfavorable views of its pandemic response model. Those factors, in combination with the struggling BRI, will undercut China's ambition to become a global health leader and its role in health-related development assistance.

## **Policy Recommendations**

To minimize the harmful effects of geopolitical rivalries on international cooperation in addressing emerging health threats, the United States and its allies should introduce new mechanisms, norms, and policies.

*Build or renew dialogue mechanisms that include geopolitical competitors in forward-looking and results-oriented discussions over global health security.* Prior to the COVID-19 pandemic, international health cooperation was largely insulated from the dynamics of great-power geopolitical competition (e.g., U.S.-USSR cooperation over the development of polio vaccines or U.S.-China cooperation in HIV prevention and control). The COVID-19 pandemic has seen little cooperation between geopolitical rivals, in part because the pandemic has been framed as an existential threat and pandemic response has been perceived as a zero-sum game. This development is problematic for pandemic preparedness and response (PPR), which hinges upon the cooperation among all major powers, including geopolitical competitors (some of whom are considered the biggest risks to global health security). Instead of ostracizing China and Russia in addressing emerging global health threats, the United States and its allies and partners should set up or renew government-to-government dialogues over global health security. In recognition of the need to build up trust and momentum for future cooperation, a track 1.5 dialogue should be developed to conduct serious, forward-looking, and results-oriented discussions, featuring face-to-face meetings of non-government actors—scientists, public health officials, thought leaders, and other nongovernmental representatives—and government officials on both sides. Considering the politically prohibitive environment, the dialogue can move forward incrementally and start with less sensitive but important global health issues such as environmental health, food insecurity, and zoonotic spillover.

*Embed health diplomacy in multilateralist frameworks.* Pursuing bilateral health diplomacy as a geopolitical tool in a strategically hostile and heavily securitized context encourages competitive dynamics that not only exacerbate global inequity in public health resources distribution, but also erode mutual trust for effective international health cooperation and collaboration. To dampen the effects of geopolitical tensions, the United States and others should move to embed health diplomacy in multilateralism. China, for example, could have been encouraged to contribute a significant portion of their vaccine exports to the COVID-19 Vaccines Global Access (COVAX) distribution mechanism. In the post-COVID-19 era, the Group of Twenty (G20) provides a multilateral forum that connects geopolitical competitors as providers of global public goods in a nonthreatening manner. Nested in the G20, which acts as a steering committee directing actions of its members in addressing global challenges, the U.S.-China competition over global health leadership would also become [more manageable](#).

*Retrofit the Pandemic Influenza Preparedness (PIP) Framework to enable emerging and developing countries to quickly access the most effective vaccines and therapeutics.* The PIP Framework, which came into effect in 2012, can be retrofitted for future pandemic preparedness and response (PPR) because it provides a promising approach to insulate PPR from geopolitical tensions while ensuring global equitable access to vaccines and other pandemic-related supplies. Like the PIP Framework, the new pandemic preparedness framework should be multilateral, bringing together major global actors, including the WHO and its

member states, industry, philanthropic actors, and public-private partners. It would improve and strengthen disease reporting and sharing of pathogens with pandemic potential by promising prioritized access to vaccines, therapeutics, and other pandemic-related supplies to frontline countries who comply with WHO International Health Regulation (IHR) in disease surveillance and response. This can be done through direct sharing of the newly developed pharmaceutical products or transferring technologies to countries who can mass-produce them. The WHO is the ideal convener to kick off negotiations to retrofit the PIP framework. Of course, the new framework should operate coherently with the Nagoya Protocol, which aims at balancing access to genetic resources with the fair and equitable sharing of benefits that derive from their utilization to the Convention on Biological Diversity.

*Revitalize the Global Health Security Agenda (GHSA) to tackle multiple global health crises or threats.*

The presence of multiple and complex global health challenges requires the development of multisectoral and multilateral institutions to tackle the challenges in a coherent and comprehensive way. In the global health regime complex, however, a polycentric governance structure in which decisions are made by multiple, formally independent global health entities addressing single-dimension issues often causes significant redundancies, delayed responses, and a waste of resources. GHSA, launched in 2014 as a global effort to strengthen countries' capacity to prevent, detect, and respond to emerging infectious disease threats, can be revitalized to cope with the new reality of global health security for two reasons. First, the network is inclusive, featuring a growing partnership of international organizations, nongovernmental organizations, and more than fifty countries. Second, it works through the One Health approach that integrates human, animal, and environmental health into a comprehensive, multi-sectoral framework. To make GHSA effective in coordinating global efforts to address multiple health crises or threats, the United States and its allies and partners should expand GHSA membership, broaden its mandate, increase funding and introduce organizational change process to institutionalize the initiative.

*Develop new international norms that support investment in prevention and help counter disinformation in PPR.*

The shifting balance of power and the growing global health challenges highlight the importance of prevention in PPR. Studies have [found](#) that investment in outbreak prevention only costs a fraction of the total damages of COVID-19 pandemic. Yet, existing PPR still pays relatively little attention to the root causes behind the outbreaks, [lest](#) doing so would “sap resources from achieving the goals of rapid identification and containment of pandemic threats.” The proposed pandemic treaty and/or new IHR should consider including articles that focus on tackling the drivers of emerging global health threats, including deforestation, wildlife trade, lab safety problems, and the health of farmed animals and their environment. In the meantime, given that disinformation has been used to advance geopolitical objectives, developing international norms against disinformation is imperative to reduce its harmful effect on international health cooperation. As shown in the COVID-19 pandemic, dangerous conspiracy theories, often peddled by government sources, not only undercut trust between nations, but also impede efforts to vaccinate the world. In light of the limits of the current IHRs and Biological Weapons Convention, the new pandemic treaty should have articles on refuting rumors, authorizing independent investigation, or encouraging reciprocal inspections. Efforts to counter disinformation can be more effective if WHO member states are obliged to invest in tools to raise news literacy, identify fake news and threat actors, and negate possible harm. The new norms will not end geopolitical rivalry, but they will reduce the incentives of disinformation and minimize its damage to global health security.

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*Global Health Security*

## **COVID-19 and Global Health Diplomacy: Can Asia Rise to the Challenge?**

*By Mely Caballero-Anthony*

### **SYNOPSIS**

*Averting the catastrophic impact of the COVID-19 pandemic requires no less than a coordinated and effective global response with the participation of all actors at multiple levels of governance. Asia must seize the opportunity to define its role in this endeavour.*

### **COMMENTARY**

PEOPLE AROUND the globe are waking up to a new reality of a world shutting down, as countries desperately try to contain the spread of this raging COVID-19 virus. In three months since the outbreak of this disease, people's lives have severely upended with cities locked down, millions of jobs gone, and thousands of lives lost.

With no end in sight as to when the spread of the disease can be contained, countries are grappling to prevent the collapse of their national health systems and averting catastrophic consequences. With 170 countries already affected, the effects of closing national borders and stopping international and domestic travels point to a long-drawn-out global economic recession, signalling more pain and human suffering.

### **Missed Opportunity?**

Against an apocalyptic scenario where humanity faces a singular existential threat to human and state security, it would need the collective will, effort and commitment of the whole international community to put their resources together and fight the disease. Sadly, this show of collective effort and solidarity have been slow in coming.

The lack of a concerted global effort is significantly hampered by the inability of the two global powers, the United States and China, to work closely together and lead a coordinated and effective international response to contain and stop the pandemic.

Much has already been said about the failure of governments to act swiftly to prepare against the pandemic. The World Health Organisation's Director General, Tedros Adhanom Ghebreyesus, described the delay as a "[missed opportunity](#)" given that there was a window of time during its first outbreak in China when other parts of the world could have prepared aggressively to respond when the COVID-19 reached their borders.

Given the dire situation facing the global community today, there is clearly no point for recrimination nor dwell on the 'what-ifs'. Instead, the impetus to push for a more concrete global action at multiple levels to fight the pandemic has become more urgent than ever.

Notwithstanding US-China tensions, there are already several initiatives undertaken by a range of actors at different levels to respond and contain the spread of COVID-19. Awareness of these emerging international efforts helps generate more support and allows for spawning more initiatives geared towards helping more countries and communities contain the disease.

### **Strengthening Global Health Diplomacy**

The WHO, UN Foundation and the Swiss Philanthropy Foundation have launched the [Solidarity Response Fund](#) to help countries, particularly the less resourced and those with weak health systems to prepare and respond to the disease. These include improving detection capacity, providing protective equipment for medical workers, and helping scale up public health systems.

In the race to find a vaccine for COVID-19, groups like the Coalition for Epidemic Preparedness Innovation (CEPI) are now spearheading efforts to [finance and coordinate vaccine development](#) with the University of Oxford and Novavax, a US-based biotechnology company. Meanwhile, the WHO has also launched its Global Solidarity Project that aims to start "[global megatrials](#)" of potential coronavirus therapies.

A number of countries have already indicated their willingness to participate in these multi-country clinical trials including Thailand and Malaysia. Other private foundations like the Bill and Melinda Gates Foundation and Facebook have [teamed up to donate US\\$25 million](#) for more research on vaccines and other therapeutics.

Most recently, amidst fears of prolonged recession, the G-20 countries have [pledged US\\$5 trillion](#) as economic stimulus to help restore global growth and provide market stability. G-20 trade ministers [affirmed their commitment](#) to trade and reduce risks to the global health supply chain.

### **Can Asia Rise to the Challenge?**

While international efforts to raise financial resources and develop vaccines take time to materialise, there are things that Asia can do as part of the global efforts to fight COVID-19.

### *Setting Standards and Norms in Pandemic Preparedness and Response*

Many medical experts and analysts are pointing to the way Singapore, South Korea, Hong Kong, Taiwan and Vietnam have effectively responded to the COVID-19 outbreak. The speed, decisiveness and the extent to which their governments have gone to control the virus spread -- from strict restrictions on travel and movements of people, social distancing, massive testing and lockdown -- have gone a long way in “flattening the curve” of new infections.

While lessons are being learnt, the measures adopted by these countries constitute the core set of norms in pandemic preparedness and response that the WHO and health officials worldwide have encouraged countries to adopt in their national pandemic preparedness plans (NPPs).

Since 2003, when Asia had to deal with the SARS, H1N1 and MERs, the WHO had urged countries to review and strengthen their NPPs to prepare for the prospect of a pandemic of global proportions. A number of table-top exercises by health officials had also been held. Looking ahead, more of these kinds of exercises should be organised in the region to better institutionalise the best practices and norms of pandemic preparedness.

### *Strengthening Regional Cooperation: Three Priorities*

Within ASEAN and ASEAN Plus Three frameworks, existing mechanisms among health officials and health ministers that promote cooperation in public health emergencies, such as regular technical updates and information exchange on pandemic response, can be developed further. This is to address three critical problems related to containment and mitigation of COVID-19 and future pandemics.

First, is resource constraints. In the short-term, the leaders of ASEAN Plus Three should come together and work with their health officials and related agencies to craft a mechanism to build a regional stockpile of critical medical equipment for distribution to countries that are in dire need of items like PPEs, masks, gloves and even ventilators. Building a supply of anti-virals and vaccines (when available) as part of this regional stockpile should also be explored.

The region already has logistical systems in place that can be used to help with the distribution of these items as and when they are needed. These include the Disaster Emergency Logistics Systems of ASEAN (DELSA) that store a number of relief items donated by countries like Japan, China and the European Union. DELSA can be readily mobilised and deployed in times of natural disasters through the ASEAN Coordinating Centre for Humanitarian Assistance (AHA) Centre.

Second, is creating a pool of medical experts. Just as China and Cuba have started to send their doctors to beleaguered Italy to help, the idea of creating a pool of regional

medical experts to help advise countries on containment and mitigation strategies should be considered.

Third, given the likelihood that more pandemics can emerge, strengthening public awareness is another crucial agenda that the region should work together on. The media, civil society and local groups of communities across the region must be actively engaged as important partners in conveying the right messages to the public and fight 'fake' news.

The COVID-19 pandemic is described arguably as a "once in lifetime" health threat. Asia should learn more and seize the opportunity to shape its role in global health diplomacy.

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*Mely Caballero-Anthony is Professor of International Relations at the S. Rajaratnam School of International Studies and Head of the RSIS Centre for Non-Traditional Security Studies (NTS Centre), Nanyang Technological University (NTU), Singapore. This is part of a series.*

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**Nanyang Technological University**  
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798  
Tel: +65 6790 6982 | Fax: +65 6794 0617 | [www.rsis.edu.sg](http://www.rsis.edu.sg)

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## **Preparing for Future Crises: Lessons from the COVID-19 Pandemic**

*By Tan Ming Hui and Nazia Hussain*

### **SYNOPSIS**

*The COVID-19 pandemic has changed modern lives on an unprecedented scale and severity, teaching us lessons in terms of national policy-making and multilateral cooperation. Drawing from the experiences of Singapore and ASEAN (Association of Southeast Asian Nations) may help us better prepare for future crises.*

### **COMMENTARY**

Singapore has pivoted to an endemic strategy in combatting COVID-19, having achieved a high vaccination rate and sustained a resilient healthcare system to tackle the virus. This has enabled the country to [ease mask-wearing rules and other restrictions](#). At the same time, Singapore faces other challenges such as climate change, transboundary haze, new communicable diseases, and their economic and socio-cultural consequences.

Such threats will come at a high cost, with potential [catastrophic impact on health and death rates](#), which could negatively [affect economies](#) around the world. These require urgent national action in addition to multilateral cooperation and the search for durable solutions. The COVID-19 crisis has clearly demonstrated the importance of preparedness and early intervention to avoid more devastating harm in the future. What lessons can we draw from the COVID-19 crisis to help us better prepare for future crises?

### **Agile Policymaking and Using Science and Data**

The COVID-19 pandemic provided a learning opportunity on agile policymaking and governance. In the absence of vaccines and treatments during the early stage of the crisis, it was necessary to act decisively, including the implementation of lockdowns

and mass testing, to save lives. Countries which moved quickly to adopt strict measures before the virus could spread out of control were able to minimise death rates and avoid a collapse of the healthcare system.

Singapore has since moved away from the initial zero-Covid policy towards learning to live with the virus. Even so, the current approach remains a calibrated one that emphasises adaptability to an evolving situation. Supported by scientific evidence and data, new variants continue to be carefully monitored. An endemic policy also does not rule out the use of timely interventions in the future to manage sudden surges and seasonal outbreaks.

Globally, many governments also quickly rolled out various innovative digital technologies to facilitate timely public announcements, contact tracing, exposure notification, and social distancing measures.

In Singapore, for example, the [TraceTogether](#) and [SafeEntry](#) contact tracing programmes were rolled out swiftly, with their relative success supported by high digital literacy and high smartphone usage. By December 2020, TraceTogether achieved [more than 70%](#) take-up rate. However, the lack of digital literacy skills and access to computing devices and the internet among the elderly, lower-income families, and migrant workers remain a problem. This has to be addressed urgently. When schools were closed at the height of the pandemic, students from lower-income families [faced difficulties accessing home-based learning](#).

Similar principles of agile policymaking can be applied to other complex, constantly evolving crises. This means leveraging technology, science, and data to design flexible, adaptive, and innovative responses.

The COVID-19 pandemic has also pointed to the importance of promoting partnerships among relevant government, research, industry, and civil society groups to facilitate joint initiatives and promote a resilient community beyond the pandemic. The timely development of a range of diagnostic kits was made possible by [partnerships between healthcare providers and research institutes](#). One of the test kits, the Fortitude Kit, has been subsequently [deployed in more than 20 countries](#).

### **Public Trust Vital to Policy Effectiveness**

Public trust and compliance are key to successful crisis management measures. An endemic strategy relies heavily on the population exercising social responsibility. For instance, the effectiveness of Singapore's Home Recovery Programme, whereby COVID-19 patients self-isolate, depends on the people's discipline in adhering to guidelines despite their pandemic fatigue. When there is high public trust, people comply more readily without the need for strict policing, even if the regulations imposed may bring them inconveniences. Policymakers would also be empowered to take actions decisively.

Unfortunately, there is a worrying trend of [populist anti-science backlash](#) across the world in reaction to pandemic restrictions. Policymakers will likely face similar anti-science sentiments and potential pushbacks, including from countries and national

leaders who [deny or downplay](#) climate change, when pressured to take climate action measures.

This highlights the importance of effective and consistent communications from the government, addressing misinformation, as well as regularly reviewing education and messaging policies, to keep communities engaged and informed. Effective communications must be timely, frequent, and accessible – before the public hears about developments and policy announcements from less credible sources which may lead to consternation or even panic. To prevent information overload, the messages put out should also be precise and easily understood. Finally, to maintain credibility, communications must be transparent, factual, and backed up by science and data.

The COVID-19 pandemic has also raised public awareness of society's vulnerability to nature and the need for science-driven policies and rules-setting. Many communities have gotten accustomed to daily inconveniences such as social distancing and mask-wearing measures for the public good. Potentially unpopular policies, such as tougher regulations on emissions and green taxes, can ride this momentum to garner public support, and promote awareness and individual responsibility.

### **Global Crises Require Multilateral Solutions and Collective Action**

ASEAN member states and their partners have worked collectively to manage the COVID-19 crisis for two years now and, to prepare for future crises, it is essential to review the effectiveness of the grouping's plans and their implementation.

ASEAN's lack of a coordinated response when the pandemic first started, highlighted the weakness of existing arrangements for communicable disease occurrence in the region. Given that many countries were caught unprepared, the knee-jerk response was to quickly close borders in order to minimise transmissions and deaths. Unfortunately, this was done without prior consultation or warning, which led to migrant workers being [stranded](#), and often without social and financial support.

ASEAN was quick to recover. A Special ASEAN Summit and the Special ASEAN-Plus Three Summit were held in April 2020 to address the multifaceted problems brought about by COVID-19. Regional health mechanisms, such as the ASEAN Emergency Operations Centre Network for Public Health Emergencies, were activated to augment and enhance national measures and information sharing in a timely manner – such as in the establishment of hotlines and call centres in ASEAN member states. Singapore [donated US\\$100,000 to the COVID-19 ASEAN Response Fund in November 2020](#) and [S\\$7.9 million worth of medical supplies to the ASEAN Regional Reserve of Medical Supplies in October 2021](#).

ASEAN needs to maintain the momentum for pursuing multilateral solutions with its partners. Providing a platform for public knowledge sharing, ASEAN developed a [Portal for Public Health Emergencies with Canada and Germany](#). ASEAN, in cooperation with Japan, also recently operationalised the [ASEAN Centre for Public Health Emergencies and Emerging Diseases \(ACPHEED\)](#) which aims to standardise and accelerate the implementation of public health protocols across the region to keep policymakers updated and informed.

Even after the current pandemic is over, ASEAN must keep these multilateral lines of communications open and continue to share situational updates promptly, especially since new diseases and other variants of COVID-19 remain an active threat. ASEAN and Canada have already developed the [Mitigation of Biological Threats Programme](#), which prepares and responds to outbreaks and emerging dangerous pathogens. Going forward, such coordinated efforts can enhance regional capacity and credibility to prevent, detect, and respond to future crises and emergencies.

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*Tan Ming Hui is Associate Research Fellow in the Policy Studies Group and Nazia Hussain is Associate Research Fellow with the Centre for Multilateralism Studies (CMS) at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.*

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**S. Rajaratnam School of International Studies, NTU Singapore**  
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798  
T: +65 6790 6982 | E: [rsispublications@ntu.edu.sg](mailto:rsispublications@ntu.edu.sg) | W: [www.rsis.edu.sg](http://www.rsis.edu.sg)

NTS Insight, no. IN20-03, June 2020

This insight is part of the centre's COVID-19 series, looking at current developments in the global pandemic and its future implications for the social, political and economic spheres in the region.

## COVID-19 and Food Security in Asia: How Prepared are We?

By **Mely Caballero-Anthony, Paul Teng and Jose Ma. Luis Montesclaros**

*The COVID-19 pandemic has been described as a 'once in a lifetime' crisis that has severely upended peoples' well-being and security, with potentially long-lasting consequences. Governments have already taken measures to restrict supply chain activities, people movement and food exports. Absent well-thought out preparedness planning and policy responses, the disruptive impact of pandemics can rapidly escalate into a food crisis of global proportions, aggravating problems of malnutrition and hunger, and potentially triggering conflicts. This NTS Insight examines the impact of the COVID-19 pandemic on food security in Asia, and explores measures that countries can take to 'pandemic-proof' the food security of their constituents to prevent pandemic-induced food crises. It looks at Singapore's approaches in food security as potential best-practices for countries that both produce and import food, and also proposes a roadmap in averting and mitigating the serious consequences of pandemics on food security.*



Source: Photos taken by Jose Ma. Luis Montesclaros

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- 'Pandemic-Proofing' as a Tool for States' Food Security
- Pandemic-Proofing and Singapore's experience in food security
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- Conclusion

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## Introduction

The COVID-19 pandemic has been described as a 'once in a lifetime' crisis that has severely upended peoples' well-being and security. The disruptive effects of this pandemic on human society are so pervasive that it affects all facets of human life from the social to the economic, political and technological forces, with long-lasting consequences. The forced lockdowns to stop the spread of COVID-19 have frozen economic activities, affected supply chains and restricted peoples' movements, causing millions of jobs lost. The domino effects have resulted in acute problems particularly on low-income households that are increasingly vulnerable to the multiple impact of the pandemic.

The impact of pandemics on food security can be very dire if food production, access and distribution are severely disrupted, as has been seen in the first half of 2020 because of COVID-19. Absent well-thought preparedness planning and policy responses, the disruptive impact of pandemics can rapidly escalate into a food crisis of global proportions, aggravating problems of malnutrition and hunger, and triggering conflicts.

The paper examines the disruptive impact of the COVID-19 pandemic on food security in Asia and explores pathways to prepare and avert the severe consequences of pandemic-induced food crises. Our analysis looks at how the pandemic outbreak has affected the four elements of food security, namely: production/availability, physical access, economic access and utilization, paying particular attention to food importing countries that are more vulnerable to the kinds of risks posed by pandemics. We argue that while the effects of this global health emergency have already led to negative outcomes, such as in the form of economic crises,<sup>1</sup> it does not necessarily have to lead to the same devastating outcomes as food crises. Certain strategies can be designed to avert and mitigate the serious consequences of a pandemic on regional food security.

Given that global pandemics like COVID-19 have long-lasting consequences, the paper further argues that having 'pandemic-proof' food security strategies at national and regional levels becomes more urgent than ever if states are to adequately respond to the multi-faceted disruptions caused by pandemics or other types of crises. Using Singapore as a case study, we examine how the small island state of about 800 km<sup>2</sup>, which imports 90% of its food needs from over 170 countries geographically spread,<sup>2</sup> has been ranked as the most food secure country out of 113.<sup>3</sup> Singapore's food story offers important insights on the kinds of policies, capabilities and technologies that ensure food security in non-crisis situations and its recent responses offer useful learnings when challenged by a pandemic crisis. This has important implications at the regional level where in a post-COVID environment, the imperatives of preparedness and response in

<sup>1</sup> International Monetary Fund (2020). World Economic Outlook, April 2020: The Great Lockdown. Accessed 3 June 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/World-Economic-Outlook-April-2020-The-Great-Lockdown-49306#:~:text=Summary%3A,the%202008%E2%80%9309%20financial%20crisis>.

<sup>2</sup> Singapore Food Agency. (2020). Levelling up Singapore's food supply resilience. Online publication. Accessed 28 April 2020, <https://www.sfa.gov.sg/food-for-thought/article/detail/levelling-up-singapore-s-food-supply-resilience>

<sup>3</sup> The Economist Intelligence Unit. (2019). Global Food Security Index. Accessed 15 January 2020, <https://foodsecurityindex.eiu.com/>.

public health and food crises require comprehensive, multi-sectoral engagement and planning, and stronger multilateral cooperation.

## The Impact of Pandemics on Food Security

Even in the absence of COVID-19, food production systems were already facing structural vulnerabilities. Severe weather, natural calamities, and pest and disease outbreaks have influenced food availability by reducing crop yields and overall production; rising energy prices, trade disruptions, crop diversion and criminal activities have affected physical and economic access by preventing the transport of food from production areas to consuming areas, leading consequently to reduced supply and food price rises; and food contamination and diet changes have affected food utilization.

The COVID-19 pandemic adds to these pre-existing risks. The rapid growth in the number of COVID-19 infections, and their geographic spread, have triggered unexpected policies involving extreme movement controls or 'lockdowns' adopted by countries globally. The shutting of borders severely impacted global supply chains, which in turn threatened food security. The extent of the impact is highlighted below:

### ***Disruptions in the supply of labour and inputs to production***

Many governments implemented some form of people movement control as a direct response to minimising disease spread. One effect of lockdowns is the delay, or in worse cases, constraints preventing farmers from getting the agricultural inputs they commonly use in their cropping process, such as fertilizers, seeds or pesticides. They may also face shortages in getting sufficient workers in the fields. The absence of fertilizers may mean that agricultural yields will be significantly reduced, while the lack of stress-resistant seeds and pesticides means that crops are more vulnerable to environmental stressors such as droughts and floods, pests and diseases. Therefore, a potential impact of lockdowns is a reduction in the yields and greater vulnerability of farmers to these stressors.

These impacts can be dire, since farmers need to follow distinct cropping seasons. The failure to plant their crops on time can lead to a failure of the cropping season altogether. For instance, India's planting cycle for its 'Kharif' or rainy season coincides with the lockdowns in March to May. The same problems are faced by Thailand and Vietnam. These three largest exporters of rice in Asia therefore face supply-chain vulnerabilities based on their planting cycles,<sup>4</sup> which in turn affect food availability based on crop planting phase.

### ***Disruptions in access to markets***

Another impact of travel and transport restrictions during the COVID-19 pandemic is the increased difficulty faced by farmers in transporting their produce to markets. Transport capacity for food, from exporting to importing small island states like those in the South Pacific via sea and air, have also been drastically reduced.<sup>5</sup> In combination, these reduce physical access to food.

Moreover, given that cropping seasons require farmers to harvest their crops once they have matured, farmers and governments will need to expand their capacity to store food and to protect it from pestilence (e.g. rodents, or insects) for

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<sup>4</sup> CGIAR (2014). Ricepedia. Online publication. Accessed 2 June 2020, <http://ricepedia.org/>.

<sup>5</sup> Teng, P. (2020). COVID-19: Maintaining Food Security in Asia Pacific. Opinion Editorial published by Inter Press Service News Agency, FAO, UN, Rome, April 16 2020. Accessed 2 June 2020, <https://www.ipsnews.net/2020/04/covid-19-maintaining-food-security-asia-pacific/>.

the duration of the lockdowns. The failure to do so can lead to crops rotting and food being wasted, which seriously affects food availability in the region. For instance, COVID-19 lockdowns are likely to already affect Vietnam's Winter-Spring rice harvesting season (April-June) and if lockdowns are extended, it could also affect the Summer-Autumn harvest (August-September). In case it lasts until the end of the year, it could also affect its main harvest season (September-December).

### ***Limited access to food supplies and increased undernourishment***

A knock-on effect of delays in the transport of food is that on supermarkets in urban centres of archipelagic countries that are not able to replenish their food stocks. The impact is also acute for food importing countries. Whenever physical access is limited and food becomes scarcer within these local settings, food prices increase. This potentially places food beyond the grasp of poorer populations, thus having a negative impact on their food security.<sup>6</sup> For instance, during the 2007-08 food crisis, a World Bank report showed estimates of between 100 million and 200 million more individuals being classified as impoverished (that is, because food price inflation significantly reduced the real incomes of poorer populations), and an increase of 63 million undernourished individuals.<sup>7</sup> Today's 'lockdowns' have deprived millions of daily-waged workers of their ability to purchase food in Asia, with an estimated 109-167 million falling to unemployment regionally,<sup>8</sup> and 140 million falling into extreme poverty globally.<sup>9</sup> It is anticipated that there will be increased hunger and malnutrition in many developing countries.

Thus, the vulnerability of countries to this disruption (with negative implications on food affordability and undernourishment), depends on the extent of their import-dependence for their consumption requirements. In the case of cereals which make up the majority of calorie consumption, the most vulnerable countries based on the latest UN FAO data (2011-13) are Singapore (100% dependence) and Brunei (100% dependence), followed by Malaysia (72.6%), and to a smaller extent, Indonesia (15.4%), the Philippines (17.8%) and Timor-Leste (15.7%).<sup>10</sup> However, even with higher import-dependence, countries can still be resilient if they are able to 'pandemic-proof' their food import supply chains.

### ***Push toward export restrictions***

Experience from the 2007-08 food crisis has shown that unexpected agricultural production shocks lead to panic reactions by governments to restrict food exports and accumulate domestic stocks, thereby precipitating a chain of events that lead to temporary food shortages, price spikes, price gouging by sellers and food hoarding by consumers. These have all been seen in the first months of the current pandemic in different countries.

The International Food Policy Research Institute (IFPRI) has projected, using data from FAO, UN and its own models, that there are ample food stocks for 2020 and there is no justification for export restrictions.<sup>11</sup> Both food availability and economic access to food have been affected by hasty reactions to the perceived threat of reduced food stocks. Thus, as shown by 2019 data in the EIU/GFSI, as long as imports are not hindered and there is trade continuity through supply chains, food security of a country is not lessened because of any dependency on imports (Figure 1, in Appendix).

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<sup>6</sup> The most vulnerable countries will be small island states who also face other disruptors, like severe weather events, natural disasters, and pest and disease outbreaks.

<sup>7</sup> IEG (Independent Evaluation Group). 2014. *The World Bank Group and the Global Food Crisis: An Evaluation of the World Bank Group Response*. Washington, DC: World Bank. doi: 10.1596/978-1-4648-0091-7. License: Creative Commons Attribution CC BY 3.0 IGO.

<sup>8</sup> ADB (2020). Updated Assessment of the Potential Economic Impact of COVID-19. ADB Brief, No. 133, May 2020. Manila: Asian Development Bank. Accessed 5 June 2020, <https://www.adb.org/publications/updated-assessment-economic-impact-covid-19>.

<sup>9</sup> Laborde, D. Martin, W. and Vos, R. (2020). Poverty and food insecurity could grow dramatically as COVID-19 spreads. IFPRI Blogs. Accessed 5 June 2020, <https://www.ifpri.org/blog/poverty-and-food-insecurity-could-grow-dramatically-covid-19-spreads>.

<sup>10</sup> UN FAO (2020). FAO Stat Database: Suite of Food Security Indicators. Accessed 21 May 2020, <http://www.fao.org/faostat/en/#data/FS>.

<sup>11</sup> Glauber, J., Laborde, D., Martin, W. and Vos, R. (2020). COVID-19: Trade restrictions are worst possible response to safeguard food security. IFPRI Blog. Accessed 5 June 2020, <https://www.ifpri.org/blog/covid-19-trade-restrictions-are-worst-possible-response-safeguard-food-security>.

On the other hand, risks from other disruptors remain which may confound these projections. If food producing or exporting countries were unable to ‘pandemic-proof’ their supply chains for food inputs in particular areas, then they may face worse yields and greater vulnerability to environmental stressors wiping out their crops. Examples of these environmental stressors, which have coincided with the current pandemic, are the Fall Armyworm affecting the corn crop in multiple countries stretching from Sub-Saharan Africa, through South Asia to China; the worst locust swarms in decades affecting Pakistan and Somalia leading them to declare national emergencies; Thailand’s worst drought in 40 years; and bushfires in Australia that affect both crops and livestock.<sup>12</sup>

### **Reduced production targets for farmers**

Finally, a further risk is if farmers in the food producing countries reduce their food production targets. If farmers anticipate that they will not be able to sell their produce because of the enhanced travel restrictions, then they may reduce their production targets in the next planting seasons. For instance, if farmers see 30% of their produce unsold, then they may reduce their future production targets by 30% in order to avoid additional costs to storing food; in fact, some have already dumped fresh produce because they could not be sold, as in the case of Malaysia’s vegetable farmers.<sup>13</sup> Even if lockdown measures were lifted, this still means reduction in food sales. There is also the added effect of reduced demand by consumers as large numbers have suffered losses in their earnings.

It is also evident that a pandemic like COVID-19 is but one of many potential disruptors to farm-level production. Even in the best of times, farmers already face challenges such as unexpected severe weather events when farming in a region known to have high frequencies of such environmental stressors.<sup>14</sup>

## **‘Pandemic-Proofing’ as a Tool for States’ Food Security**

One of the key messages often lost as countries struggle to manage the multiple consequences of a severe pandemic outbreak is the importance of preparedness. Within the framework of global health security, pandemic preparedness requires three things: to prevent, detect and respond to outbreaks of infectious diseases. Having the ability to do all three allows countries to contain and mitigate the grave consequences of pandemics by strengthening their respective health systems and putting in place policies and infrastructure that can be readily deployed when disease outbreaks become Public Health Emergencies of International Concern (PHEIC).<sup>15</sup>

We find that despite recent precedents of pandemics like SARS and H1N1, the responses have very often been reactive rather than anticipatory and proactive.<sup>16</sup> Reactive policies are usually inadequate to prevent and contain the spread of

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<sup>12</sup> Montesclaros, Jose Ma. Luis (2020). From a Health Pandemic to Food Crisis. *Khmer Times*, 9 April 2020. Accessed 20 May 2020, <https://www.khmertimeskh.com/711039/from-a-health-pandemic-to-food-crisis/>; Paul S. Teng (2020). Global Health Security – COVID-19: Its Impact on Food Sufficiency. *RSIS Commentary*, 25 March 2020. Accessed 21 May 2020, <https://www.rsis.edu.sg/rsis-publication/nts/global-health-security-covid-19-its-impact-on-food-sufficiency/#.Xsa2umgzbb0>.

<sup>13</sup> Lim, Janice (2020). The Big Read: Global supply chain shock has farmers dumping food as consumers fret over shortages, price hikes. *Channel News Asia*, 20 April 2020. Accessed 1 June 2020, <https://www.channelnewsasia.com/news/singapore/big-read-covid19-global-supply-chain-shock-food-shortages-12655836>.

<sup>14</sup> Wood, J. (2018). Why Asia-Pacific is especially prone to natural disasters. World Economic Forum. Online Publication. Accessed 5 June 2020, <https://www.weforum.org/agenda/2018/12/why-asia-pacific-is-especially-prone-to-natural-disasters/>.

<sup>15</sup> For Public Health Emergency of International Health Concern (PHEIC), see *International Health Regulations* 2005, (IHR), <https://www.who.int/ihr/procedures/pheic/en/>, accessed 1 June 2020.

<sup>16</sup> Caballero-Anthony, Mely (2018) Health and human security challenges in Asia: new agendas for strengthening regional health governance. *Australian Journal of International Affairs*, 72:6, 602-616. See also Caballero-Anthony, Mely (2005), SARS in Asia: Crisis, Vulnerabilities and Regional Responses. *Asian Survey*, Vol. XLV, No. 3, pp. 475-495.

infectious diseases. It is notable how government officials have struggled to reduce risks and increase national capacity and resources (both financial and human resources) to respond effectively.

Similarly, when applied in the context of food security, 'preparedness and response' begin with prevention, anticipating what could go wrong when a severe pandemic breaks out and putting in place measures to prevent and reduce the kinds of risks that could result from a health crisis. In this regard, we introduce the concept of 'pandemic-proofing' as a key tool for preventing, preparing and responding to a pandemic-induced global food crisis.

'Pandemic-proofing' covers a slew of measures that address multiple issues from food production and access, import restrictions and resilience of food supply chains to economic access including pricing and nutrition. The kinds of measures to be taken, which can be divided into immediate, short term and long-term strategies, constitute a proactive agenda for ensuring food security both in non-crisis and crisis situation.

In looking at how we can envision 'pandemic-proofing' in practice, we start by setting out a comprehensive agenda for food security that is most relevant to Southeast Asia which has a mix of four net food exporting and six net food importing countries. More significantly, Southeast Asia has the Association of Southeast Asian Nations (ASEAN) as the regional organisation that has developed mechanisms specifically geared toward helping members states address collectively shared problems and issues on food security. ASEAN also provides an important platform for its member states to engage with other countries in the wider Asian region and find opportunities to work together on strategies and policies aimed at ensuring the food security of Asia, such as through the ASEAN Plus Three Emergency Rice Reserve (APTERR) mechanism,<sup>17</sup> the ASEAN Food Security Information System (AFSIS),<sup>18</sup> and the Senior Officials Meeting of the ASEAN Ministers on Agriculture and Forestry (SOM-AMAF).<sup>19</sup>

In the post-COVID environment, ASEAN's food security agenda in the immediate to short term should focus on the following:

*Ensuring sufficient access to food production inputs:* ASEAN countries will benefit from putting in place special arrangements to ensure that food production inputs and labour for farms, are available in a timely manner, prioritising farms whose planting seasons coincide with lockdowns. China pioneered this by establishing 'Green Channels' in their transport system to allow free flow of inputs, labour and supplies related to food.<sup>20</sup>

*Supporting farmer decisions:* Advisory services and subsidised financing will need to be provided to farmers. This is to provide them with additional assurance so that they do not reduce their production targets in fear they may not be able to sell them, in anticipation of lockdown extensions. Moreover, since the COVID-19 has occurred alongside other major food threats such as floods and pestilence in the first quarter of 2020, a focused approach by the AFSIS will be needed to guide the farmers and consumers accordingly to reduce production- and food-safety risks.

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<sup>17</sup> The ASEAN Plus Three Emergency Rice Reserve (APTERR) mechanism is a 'virtual stockpile' of rice that is made up of rice pledges/commitments by ASEAN Plus Three countries (i.e. ASEAN and China, Japan and South Korea).

<sup>18</sup> The ASEAN Food Security Information System (AFSIS), focuses on systematic collection, analysis and dissemination of food security related information.

<sup>19</sup> The Senior Officials Meeting of the ASEAN Ministers on Agriculture and Forestry (SOM-AMAF) guides overall cooperation in food and agriculture among ASEAN countries.

<sup>20</sup> Fei, Shulang and Ni, Jia (2020). Local food systems and COVID-19: A look into China's responses. *UN FAO City Region Food Systems Programme: Reinforcing Rural-Urban Linkages for Resilient Food Systems*. Accessed 1 June 2020, <http://www.fao.org/in-action/food-for-cities-programme/news/detail/en/c/1270350/>.

*Expanding food storage capacity:* ASEAN countries can identify ways of expanding their storage capacity, especially countries whose crop harvesting seasons coincide with the COVID-19 pandemic. This further leads to increased food stocks which confer more confidence to governments. Supporting countries to adopt the best practices in food stocking and the most cost-efficient ways to expand storage capacity, is a potential new role that the APTERR council can possibly explore.

*Securing food imports:* Food imports are critical especially in the case of countries with limited natural resources to self-produce. Thus, countries will need to provide sufficient support and standardised mechanisms for workers in the industry, to ensure that the transport of food from exporting/producing countries is not disrupted.<sup>21</sup> Singapore, for example, implemented a 'supply chain connectivity agreement' with ten other countries.<sup>22</sup> Such initiatives may be explored in supporting regional cooperation in food and agriculture.

*Preventing supply crises arising from export restrictions:* It is important that countries refrain from panicking and restricting their exports. Otherwise, this could lead to worse crises, such as a repeat of the 2007-08 food price crisis mentioned earlier where over 63 million people fell into undernourishment.<sup>23</sup> ASEAN is well-positioned in this regard, given the recent Joint Statement issued by ASEAN Ministers on Agriculture and Forestry (AMAF) to 'minimise disruptions in regional food supply chains by working closely together to ensure that markets are kept open and transportation of agricultural and food products are facilitated'.<sup>24</sup>

*Supporting consumers to maintain regular food consumption.* Earlier, we raised that consumers may, as a result of lockdowns, be prevented from obtaining their regular incomes. This contributes to reduce food demand which may cause producers to reduce their targets for production in the immediate-to-short-term; these could spell temporary shortages in the supply chains in the long-term. Governments will thus need to provide their consumers with sufficient income to meet their regular food consumption requirements.<sup>25</sup>

## **Pandemic-Proofing and Singapore's Experience in Food Security**

Much of the work and progress in realising a 'pandemic-proofing' agenda depends on how this agenda is translated and implemented at the national level. Here, we bring in Singapore's approach to food security, both in non-crisis and crisis situations, which reflects most of the issues outlined in the agenda above. As a city-state which is 90 per cent import-dependent on its food supplies, Singapore's 'food story' (Box 1) offers salient insights on how it became one of the most food secure countries globally.<sup>26</sup>

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<sup>21</sup> This applies especially to countries that have higher external dependence for their food consumption needs.

<sup>22</sup> Ministry of Trade and Industry, Singapore (2020). *Joint Ministerial Statement by Australia, Brunei Darussalam, Canada, Chile, Laos, Myanmar, Nauru, New Zealand, Singapore, the United Arab Emirates and Uruguay Affirming to Commitment to Ensuring Supply Chain Connectivity Amidst the COVID-19 Situation*. 3 May 2020. Accessed 1 June 2020, <https://www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2020/05/Joint-Ministerial-Statement-on-supply-chain-connectivity-3-May-2020.pdf>.

<sup>23</sup> Ibid.

<sup>24</sup> ASEAN (2020). ASEAN pledges to ensure food security during COVID-19 outbreak. Press Release, 17 April 2020. Accessed 21 May 2020, <https://asean.org/asean-pledges-ensure-food-security-covid-19-outbreak/>.

<sup>25</sup> Helping governments do so, can be a special focus that complements the ASEAN's current efforts, such as its commitment of 10% of ASEAN Development Fund/cooperation funds to support essential commodities. For further reference, see ASEAN (2020). Declaration of the Special ASEAN Summit on Coronavirus Disease 2019 (COVID-19), 14 April 2020. Accessed 25 May 2020, <https://asean.org/storage/2020/04/FINAL-Declaration-of-the-Special-ASEAN-Summit-on-COVID-19.pdf>.<sup>26</sup> Singapore Food Agency. (2020). Levelling up Singapore's food supply resilience. Online publication. Accessed 28 April 2020, <https://www.sfa.gov.sg/food-for-thought/article/detail/levelling-up-singapore-s-food-supply-resilience>.

<sup>26</sup> Singapore Food Agency. (2020). Levelling up Singapore's food supply resilience. Online publication. Accessed 28 April 2020, <https://www.sfa.gov.sg/food-for-thought/article/detail/levelling-up-singapore-s-food-supply-resilience>.

The Global Food Security Index (GFSI) rank given to Singapore was based on a multi-rubric scoring system that adopted the 1996 World Food Summit definition for Food Security – that it ‘exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life.’<sup>27</sup> Singapore scored high on the rubrics concerning availability, affordability, quality and safety, but low on natural resources and resilience.

### Box 1: ‘Pandemic-proofing’: Insights from the Singapore Food Story

#### *Food Availability and Physical Access to Food*

As with other small island states, food availability is made possible through limited self-production of some food items; importation of most food items; and having sufficient stockpiles. Self-production is done mainly in surrounding coastal waters (for fish) and in six agro-technology parks which collectively comprise about 1.8 % of total land area (used to produce fish, vegetables, eggs and miscellaneous minor items like quails and frogs). As of 2019, there were 77 vegetable farms, 3 egg farms and 122 fish farms. These farms met, respectively, 14%, 10% and 26% of the island’s needs of vegetables, fish and eggs, for a population of 5.7 million.<sup>28</sup> Singapore, like most middle-to-high income island states, applied an approach which the Food and Agriculture Organization of the United Nations (UN FAO) called ‘self-reliance’. This means maintaining some level of domestic food production, while ensuring sufficient capacity to import from the world market as needed.<sup>29</sup> There is no explicit goal to achieve 100% food self-sufficiency.

The second approach to make food available is what Singapore calls its ‘Resilience’ strategy for food import sourcing. This strategy is implemented by importing from a geographically diverse group of countries for each food item. For example, chicken is imported mainly from Brazil, Malaysia, U.S.A. and Argentina while vegetables are imported from Malaysia, China, India and Australia.<sup>30</sup> The government’s food agency routinely sends out ‘scouting’ teams around the world to develop new sources and supply chains.

Stockpiles are the third approach used by most countries to ensure availability of key food items during periods of scarcity. A recent study by the Southeast Asian Center for Graduate Studies and Research in Agriculture (SEARCA) showed that every one of the ten countries in ASEAN had stockpiles of, minimally, rice.<sup>31</sup> While the Singapore government does not intervene directly in market operations, it does support firms to become resilient; for example, it requires rice importers to hold stocks of roughly two months’ worth of rice.<sup>32</sup> In the case of other commodities, such as vegetables, fish and meat, importers have avenues through which they can request for government support should they face challenges to maintain sufficient stocks, such as in keeping bilateral trade lines open.

<sup>27</sup> Food and Agriculture Organization of the United Nations. (2009). Draft Declaration of the World Summit on Food Security, Rome, 16-18 November 2009. Document no. WSFS 2009/2. [http://www.fao.org/fileadmin/templates/wsfs/Summit/Docs/Declaration/WSFS09\\_Draft\\_Declaration.pdf](http://www.fao.org/fileadmin/templates/wsfs/Summit/Docs/Declaration/WSFS09_Draft_Declaration.pdf). Accessed 25 April 2020.

<sup>28</sup> Singapore Food Agency. (2020). Levelling up Singapore’s food supply resilience. Accessed 28 April 2020, <https://www.sfa.gov.sg/food-for-thought/article/detail/levelling-up-singapore-s-food-supply-resilience>.

<sup>29</sup> Konandreas, P. (2000). *Trade and food security: Options for developing countries*, in Multilateral Trade Negotiations on Agriculture: A resource manual, FAO, Rome.

<sup>30</sup> Singapore Food Agency. (2020). Levelling up Singapore’s food supply resilience. Online publication. Accessed 28 April 2020, <https://www.sfa.gov.sg/food-for-thought/article/detail/levelling-up-singapore-s-food-supply-resilience>.

<sup>31</sup> Teng, P.S. & Darvin. B.A.C. (2019). (Ed). *Food Reserves: A Comparative Study on Food Reserve Management and Policies in Southeast Asia*. SEARCA College, Los Baños, Laguna, Philippines.

<sup>32</sup> Enterprise Singapore (2018). Rice Stockpile Scheme. Online Publication, last updated 7 March 2018. Accessed 2 June 2020, <https://rice.enterprisesg.gov.sg/Home/RiceStockpileScheme.aspx>.

### *Economic access to food*

The affordability of food, as another important dimension of food security, depends on the price of food and the purchasing power of citizens. A zero-tariff policy on food, and efficient food logistics systems, are two factors which help prevent the need to raise prices.

Empowering its citizens with purchasing power adds to the favorable economic access of food, and consequently, overall food security (Figure 2, in Appendix). The average Singapore household has a relatively high Gross Domestic Product (GDP) per household, and with zero tariffs on food, this makes food expenditures a relatively small part of household budgets; by government statistics, the share of household budgets allocated for food is less than 10%. This compares well with neighbouring countries in which household expenditures on food are in the range of 30-45% of household incomes.<sup>33</sup> It may be argued that economically less developed island states may not have the same capacity to import and provide food with affordable access to most of their citizens because of lower GDP per household.

Additionally, during the COVID-19 pandemic, the Singapore government provided local consumers with income support, which helps in maintaining regular food consumption levels. This came in the form of three relief packages – the Unity Budget, the Resilience Budget, and the Solidarity Budget.<sup>34</sup>

### *Food Utilization*

Another foundational reason for Singapore's high GFSI ranking is with respect to food quality and safety, which influences food utilization. It is generally recognized in the Southeast Asian region that the country has one of the strictest and most robust systems to assure food safety, whether it is chemical or biological. Additionally, food handling regulations stipulate procedures to maintain the nutritive value of fresh produce.

As with other small island states, Singapore lacks the natural resources and ecological resiliency in its agriculture base. But the country has attempted to counter this by focusing on space-limited, technology-enabled urban farming which currently provides about 10% of its needs.<sup>35</sup>

Singapore's strategy of self-reliance, mixing imports, self-production and food stock management, provides an example of how each state can, according to its own circumstances, strike the proper balance to achieve resilience from a food security perspective. Furthermore, Singapore's story of 'preparedness and response', as seen through its pro-active and comprehensive strategies and policies in food security, is instructive for ASEAN and the wider region. The insights that can be gleaned from this story of preparedness and 'pandemic-proofing' are useful to ASEAN countries if they were to draw up a strategic roadmap to manage food security risks resulting from, but not limited to, severe pandemics like COVID-19.

<sup>33</sup> Our World in Data. (2020). Determinants of food expenditure. Engel's Law. <https://ourworldindata.org/food-prices>. Accessed 15 April 2020.

<sup>34</sup> Gov.Sg Portal (2020). Solidarity Budget 2020 : Additional cash payments to help families get through Circuit Breaker phase. Online publication. Accessed 2 June 2020, <https://bit.ly/3gMLvMs>.

<sup>35</sup> Singapore Food Agency. (2000). Singapore's modern farm series. Online publication. Accessed 15 April 2020, <https://www.sfa.gov.sg/food-for-thought/tags?tag=singapores-modern-farm-series&page=1>.

## Food Security Preparedness Imperatives in Asia

Much like pandemic preparedness, being prepared to ensure food security particularly in times of crises requires long-term and sustained planning. It is akin to having a roadmap that sets out pathways/strategies to help us realise the agenda of being food secure. Against a post-COVID environment, the roadmap sketched out below identifies key policy approaches at national and regional levels which are critical to preventing and mitigating the consequential impact of COVID-19 pandemic and other crises.

*Expanding intra-regional food production and trade:* ASEAN, as noted by Singapore Ambassador Tommy Koh, 'is an intergovernmental body rather than a supranational body'.<sup>36</sup> In this regard, the agency in ensuring food security at the national level falls primarily on the governments of member states, although they may rely on the regional body to help in coordinating policies and preventing food crises.

As COVID-19 increases the risk of trade and transport disruption in ASEAN, countries in the region would benefit from exploring ways of improving the productivity of their crop production levels, thus boosting regional self-production. For instance, as rice is primarily transported by sea rather than by air or land, a significant delay can be expected for rice to be shipped in cases of emergencies. Other commodities such as wheat, soybean and corn need to go through longer distances whenever they are imported from outside the region. In fact, intra-ASEAN agrifood trade makes up only 25% of member states' exports, and all states import agrifood products from outside the region.<sup>37</sup>

A potential initiative is to explore the crops where 'regional food corridors' can be developed, to expedite the exploration of opportunities for increased intra-regional food production and trade. For instance, Table 1 (Appendix) shows the top produced crop is rice, but the region still imports 1-2% of this crop. This indicates potential for the region to explore whether the farmers in the producing countries can increase their self-production capacity to meet the additional demand by their Southeast Asian neighbours. Complementary to this, the AFSIS can help in bridging information gaps to help farm farmers providing such information.

*Ensuring food trade between and within regions through diverse supply chains with geographically distributed origins:* As Asian countries improve economically and become more urban, there is a corresponding increase in the demand for more diverse diets and for more of specific food types like animal protein and temperate climate foods. The FAO food security definition has recognized that there is no common, static food secure state, but rather that food security has to meet 'dietary needs and food preferences'. Asia has to recognize this changing food security landscape.

To satisfy the needs and preferences of their citizens, countries need to ensure that the capacity to trade remains strong. The earlier observation that more food is traded outside the region than within the region shows that much can be done to remove the hurdles for increased intra-ASEAN trade. Currently, Asia is home to many large agro-commodity traders with annual revenue over US\$ 1 billion, such as Wilmar, CP Group, Sime Darby, Olam, FELDA Holdings, IOI Bhd., IndoFood, San Miguel, and Golden Agri-Resources. Their effectiveness to move food around, however, is also

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<sup>36</sup> Centre for International Law (2020). Where is ASEAN in COVID-19? Part 5 of e-Conference Series, 'Covid-19': A challenge to the International Legal Order? <https://cil.nus.edu.sg/event/e-conference-series-on-covid-19-session-5-of-5/>

<sup>37</sup> Teng, Paul S. (2020). Sustaining ASEAN Food Supply and Food System Resilience - Challenges and Opportunities (2020-2025). ILSI ASIA COVID-19 Webinar Series: Part 1, Food System Resilience - Global and Asian Perspectives.

dependent on in-country logistics and infrastructure. This calls for further supportive policies and regulations which enable increased intra-regional export and import.

*Improving food system resilience and food security robustness:* At a recent global webinar, Dr Fan Shenggen, former IFPRI Director-General, argued that countries need to have resilience, defined as ‘helping people, communities, countries, and global institutions prevent, anticipate, prepare for, cope with, and recover from shocks and not only bounce back to where they were before the shocks occurred, but become even better-off.’<sup>38</sup> To do this, food systems would have to be more inclusive of all stakeholders, from the smallholder farmers, to consumers and institutions. This inclusiveness will have to further build-in resilience along the food supply chain, from input supply, production, processing, all the way to retail, so that each step of the supply chain has capacity to adjust to stressors like COVID-19.

In an earlier study, the RSIS had proposed adopting the concept of ‘robustness’<sup>39</sup> when aiming for food security. ‘Robustness’ is the ability to withstand perturbations to food systems based on four rubrics that aims to answer an associated question. These rubrics are: (1) farm-level actors- whether farmers have the capability and means to be productive over the longer term; (2) demand and price factors that look at how food security needs in the country are likely to evolve in terms of quantity, affordability and access; (3) environmental factors that look at the capacity in the country to provide for long-term agricultural productivity and sustainability; and (4) policy and trade -whether they encourage open markets, investment and innovation on an on-going basis. COVID-19 has affirmed that food security robustness has to be achieved in a country and is integral to its preparedness.

*Increasing investments in the agrifood sector through R&D and entrepreneurship:* The Asian region has a poor record of investing in agricultural R&D, which as shown by the EIU GFSI data for 2019, is positively linked to food security (Figure 3, in Appendix). Unmet goals to increase and diversify crops, animals and fish will remain as such until governments invest more in R&D to spur new enterprises in the agrifood sectors of Asian countries. Expanded R&D is needed to promote food systems that offer nutritious and healthy food, use climate-smart and resource efficient technologies, and in the longer term are sustainable and resilient.

## Conclusion

The severity and magnitude of the impact of COVID-19 pandemic have demonstrated how hundreds and thousands of lives can be lost, livelihoods destroyed, and our way of life drastically altered-- in so short a time if we are ill-prepared to deal with risks and uncertainties. Given how interconnected states and societies have become, the pandemic has also shown that it is not a stand-alone crisis but has easily spiraled into an economic crisis of global proportions. These dual crises have in turn threatened food security and other facets of human security.

The foregoing discussion has laid out a comprehensive agenda and a roadmap to mitigate the impact of the pandemic and economic crises on food security. In doing so, we looked at the experiences of countries, like Singapore, which are instructive in adopting an anticipatory and pro-active approach to food security. We argued that the goal of being food secure in non-crisis and crisis situations is made possible by being well prepared. And preparedness is more than a state

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<sup>38</sup> Fan, Shenggen (2020). Impact of COVID-19 on Global Food Supply Chain - Current Status, Implication, and Outlook into the Future. *ILSI ASIA COVID-19 Webinar Series: Part 1 Food System Resilience - Global and Asian Perspectives*. [www.ilsisea-region.org](http://www.ilsisea-region.org).

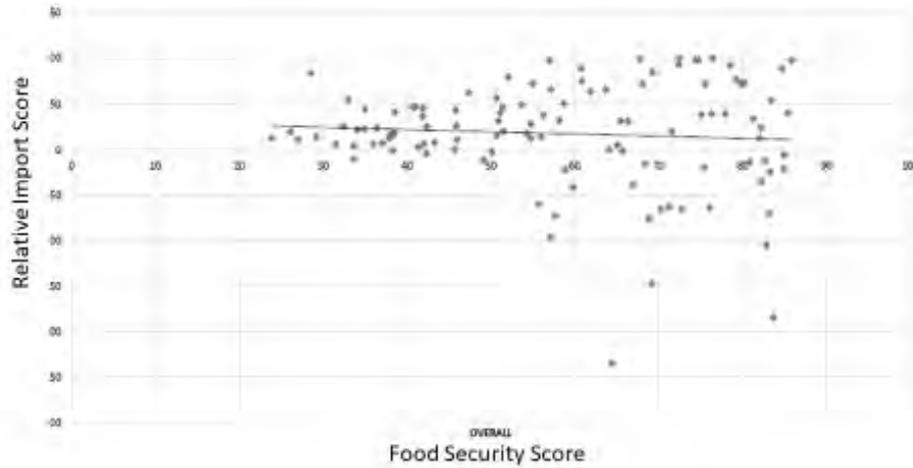
<sup>39</sup> Teng, P. and M.C.S. Morales (2013). A new paradigm for food security: robustness as an end goal. *RSIS NTS Policy Brief* PO 13-05. 6 pp.

of mind. It requires foresight, well-thought out policies, and implementing strategies that are responsive to the growing list of complex factors that define the global security environment. It is these complexities that compel states to be always prepared for disruptions and decisively respond to them.

More importantly, preparedness in food security requires no less than a 'whole of government' approach. In practice, this has to involve more than just the government agencies concerned with agriculture and food, and include agencies responsible for trade, climate change, manpower development and transport. It also needs to be more inclusive, getting other actors involved, like the private sector that has the technological advantage and the resources that can support farmers boost food production. One must also not forget the role of NGOs and other civil society organisations that can provide much needed services to strengthen national and regional food systems and collectively help to ensure food security.

## Appendix: Figures and Table

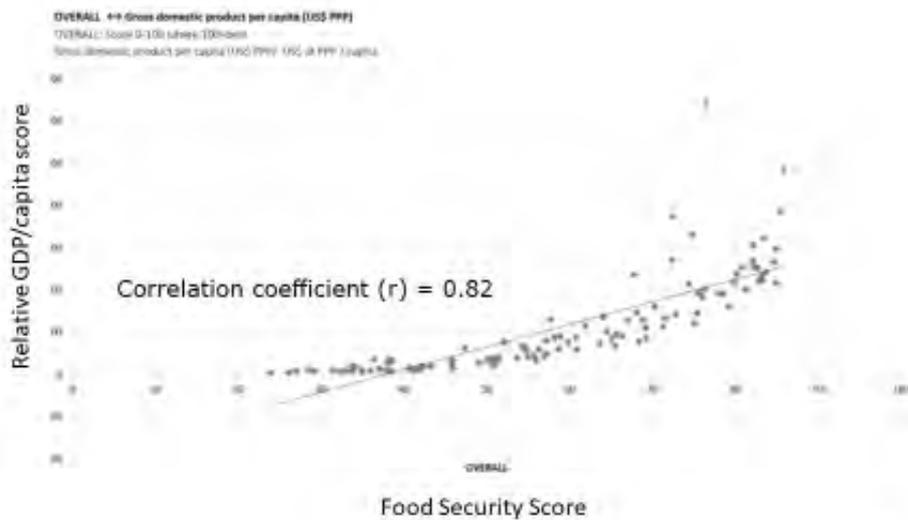
Figure 1: Food security scores and import dependence



Data Source: EIU/GFSI 2019

Source: Teng, Paul S. (2020). *Sustaining ASEAN Food Supply and Food System Resilience - Challenges and Opportunities (2020-2025)*. ILSI ASIA COVID-19 Webinar Series: Part 1 Food System Resilience - Global and Asian Perspectives.

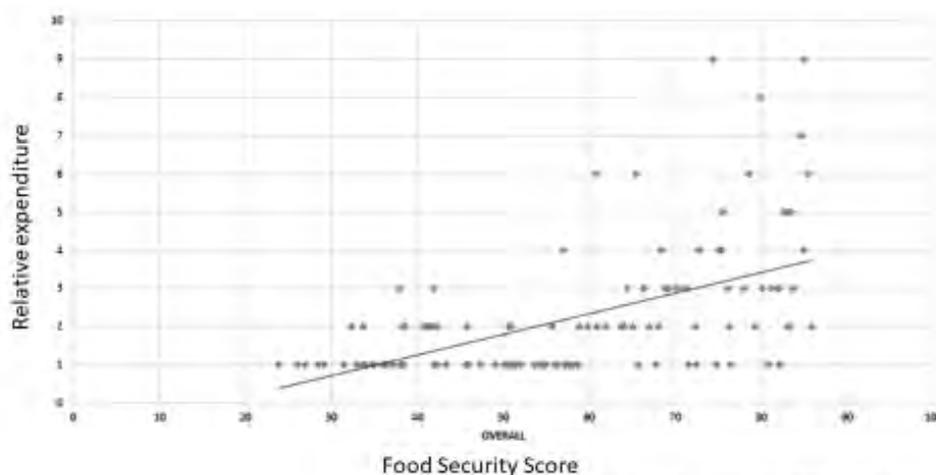
Figure 2: GDP per Capita and Food Security Scores



Data Source: EIU/GFSI 2019

Source: Teng, Paul S. (2020). *Sustaining ASEAN Food Supply and Food System Resilience - Challenges and Opportunities (2020-2025)*. ILSI ASIA COVID-19 Webinar Series: Part 1 Food System Resilience - Global and Asian Perspectives.

**Figure 3: Relationship between investments in agriculture R&D and food security scores**



Data Source: EIU/GFSI 2019

Source: Teng, Paul S. (2020). *Sustaining ASEAN Food Supply and Food System Resilience - Challenges and Opportunities (2020-2025)*. ILSI ASIA COVID-19 Webinar Series: Part 1 Food System Resilience - Global and Asian Perspectives.

**Table 1: Top ASEAN Food Crop Production and Imports in 2018 (million tonnes)**

| Rank | Top Crops Produced           |        | Top Crops/Crop-Derived Items Imported |       |
|------|------------------------------|--------|---------------------------------------|-------|
| 1    | Rice, paddy                  | 218.88 | Wheat                                 | 25.42 |
| 2    | Sugar cane                   | 184.17 | Cake, soybeans                        | 14.99 |
| 3    | Cassava                      | 73.39  | Maize                                 | 12.61 |
| 4    | Maize                        | 50.93  | Soybeans                              | 7.97  |
| 5    | Coconuts                     | 36.33  | Sugar Raw Centrifugal                 | 6.14  |
| 6    | Vegetables, fresh nes*       | 27.57  | Beverages, non alcoholic              | 2.74  |
| 7    | Bananas                      | 17.69  | Sugar refined                         | 2.62  |
| 8    | Palm kernels                 | 15.51  | Rice - total (Rice milled equivalent) | 2.47  |
| 9    | Rubber, natural              | 10.70  | Food prep nes                         | 1.63  |
| 10   | Mangoes, mangosteens, guavas | 8.06   | Fatty acids                           | 1.31  |
| 11   | Fruit, tropical fresh nes*   | 8.18   | Cashew nuts, with shell               | 1.29  |
| 12   | Pineapples                   | 7.60   | Meal, meat                            | 1.19  |
| 13   | Fruit, fresh nes*            | 6.80   | Cassava dried                         | 1.08  |
| 14   | Beans, dry                   | 5.39   | Malt                                  | 0.96  |
| 15   | Plantains and others         | 4.30   | Flour, wheat                          | 0.94  |

Source: UN FAO (2020). *FAO Stat Database: Commodity Balances – Crops Primary Equivalent*. Accessed 21 May 2020, <http://www.fao.org/faostat/en/#data/BC>.

Note: \*nes refers to 'other vegetables (or fruits or items under the same category) that are not identified separately because of their minor relevance at the international level' as reported by countries to FAO, based on UN FAO (1994). Definition and classification of commodities. Accessed 1 June 2020, <http://www.fao.org/waicent/faoinfo/economic/faodef/faodefe.htm>.

## **About the Authors**

**Professor Mely Caballero-Anthony, PhD** is Professor of International Relations and Head of the Centre for Non-Traditional Security Studies (NTS Centre), S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. She is currently the Secretary-General of the Consortium on Non-Traditional Security Studies in Asia, and has previously held positions including: Member of the UN Secretary General's Advisory Board on Disarmament Matters (serving as its Chairperson in 2016); Director of External Relations, ASEAN Secretariat; and Member, World Economic Forum (WEF) Global Agenda Council on Conflict Prevention.

**Professor Paul S. Teng, PhD** serves as Adjunct Senior Fellow (Food Security) in the same centre, while serving also as Dean and Managing Director of the National Institute of Education International Pte Ltd ("NIE International") at NTU. He has over thirty years of experience in developing countries holding positions at the World Fish Centre and the International Rice Research Institute among others, and has conducted research on new agri-technologies, science-based entrepreneurship, food security and sustainable development, with recent focus on urban food security and agtech. He received the Eriksson Prize in Plant Pathology, among others, and has published over 250 technical papers.

**Mr Jose Ma. Luis Montesclaros, MPP** is an Associate Research Fellow with the same centre. He conducts policy analysis with dynamic models of food security, agriculture, climate change and urban agriculture in ASEAN. As consultant, he co-authored the World Bank's 'Bridging the Development Gap: ASEAN Equitable Development Monitor Report 2014'. He holds a Master's Degree in Public Policy from the Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (ASEAN Scholar), and a BS Economics Degree from the University of the Philippines, Diliman.

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The Centre for Non-Traditional Security Studies (NTS Centre) conducts research and produces policy-relevant analyses aimed at furthering awareness, and building the capacity to address NTS issues and challenges in the Asia Pacific region and beyond. The Centre addresses knowledge gaps, facilitates discussions and analyses, engages policymakers and contributes to building institutional capacity in the following areas: Humanitarian Assistance and Disaster Relief; Climate Security and Migration. The NTS Centre brings together myriad NTS stakeholders in regular workshops and roundtable discussions, as well as provides a networking platform for NTS research institutions in the Asia Pacific through the NTSAsia Consortium.

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## COVID-19: the case for prosociality

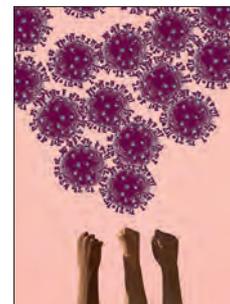
*The Lancet Commission* on lessons for the future from the COVID-19 pandemic, published on Sept 15, lays bare what has been nothing less than a massive global failure—a failure of rationality, transparency, norms of public health practice, operational coordination, and international solidarity. The Commission shows that national governments were too slow and too cautious in their response to the outbreak of SARS-CoV-2. They paid too little attention to the most vulnerable groups in society. Their responses were hampered by low public trust and an epidemic of misinformation and disinformation. The result was millions of preventable deaths and a reversal in progress towards sustainable development for many countries. A multilateral system developed after the World War 2 did not hold up to a modern pandemic. Global collaboration and solidarity were good in business and science but poor in politics and international relations. The Commission proposes five pillars that are essential in fighting emerging infectious diseases: prevention, containment, health services, equity, and global innovation and diffusion. To achieve these pillars the Commission argues that governments, regulators, and institutions must be reoriented toward society as a whole, rather than the interests of individuals—a concept the Commissioners call prosociality. Without this shift, the world is vulnerable and unable to tackle effectively any global threat.

The Commission gives recommendations in three main areas. First, practical steps to finally control and understand the COVID-19 pandemic, such as a vaccination strategy that is sustainable and not just reactive, with the goal of protecting populations. Second, realistic, feasible, and necessary investments to improve the first line of defense in countries by strengthening health systems and widening universal health coverage. Third, ambitious proposals to ignite a renaissance in multilateralism, integrating the global response to the risk of future pandemics with actions to address the climate crisis and reversals in sustainable development. In this way, the Commission boldly sets out a vision of a different future, defined by a properly financed and better-prepared global architecture that is driven by cooperation and shared responsibility rather than globalised profit-seeking.

The Commission began with a task force on the origins of the pandemic. But, regrettably, the divisive public discussion about the source of SARS-CoV-2 damaged the trust needed for the task force to complete its work. This Commission therefore has no additional new evidence to contribute to the ongoing investigation of the pandemic's origins. The recommendation to intensify the search for the source of the pandemic is an urgent plea for countries to strengthen cooperation to elucidate the causes of this catastrophe. This will aid the prevention of future pandemics. Some Commissioners have come under unprecedented attack and pressure as a result of their work. *The Lancet* thanks them for their time and dedication to scientific enquiry.

There have been an estimated 17.7 million excess deaths due to COVID-19 globally, and this number is likely to be an underestimate. The number of reported new weekly cases decreased or remained stable across all six WHO regions. However, many countries have reduced their surveillance, causing uncertainty about the true number. Surveillance and testing capacity must be safeguarded and rescaled to prepare for potentially increasing numbers during winter in the northern hemisphere. Japan, South Korea, Australia, Chile, and parts of Europe such as Greece continue to have very high numbers of new cases. The risk of new variants remains elevated and there are uncertainties around the strength and duration of immunity from vaccination. But perhaps most importantly, as many countries and institutions try to find a path out of the pandemic, many questions about what went wrong and how future pandemics can be prevented remain unanswered.

The war in Ukraine and climate and economic instability have diverted attention away from COVID-19. But as the Commission demonstrates, reassessing and strengthening global institutions and multilateralism will not only benefit the response to COVID-19 and future pandemics but also to any crisis that has global ramifications. The release of *The Lancet Commission* on COVID-19 offers the best opportunity to insist that the failures and lessons from the past 3 years are not wasted but are constructively used to build more resilient health systems and stronger political systems that support the health and wellbeing of people and planet during the 21st century. [□ The Lancet](#)



Boris SJ/Getty Images

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See [The Lancet Commissions](#)  
page 1224

# The G7 Summit's Geopolitical Pivot Signals a Difficult Future for Global Health

*The G7's focus on war, power, and ideology overshadowed global health concerns*

Think Global Health

David P. Fidler

June 30, 2022

Germany hosted the annual [summit](#) of the Group of Seven (G7) from June 26-28 at Elmau in the Bavarian Alps. The need to respond to the armed conflict in Ukraine and China's continued global rise dominated the summit. The G7 leaders' [communique](#)—and pre-summit minister [meetings](#)—did not ignore global health. The communique and other G7 statements identified many global health challenges. However, the group's focus on the threats that war in Europe and shifts in the global balance of power create for its members and a liberal international order pushed global health down the G7's priority list and toward the margins of world politics.

## The Times They Are A-Changin'

COVID-19 and the need to be better prepared for future pandemics were [priorities](#) at the G7 summit in 2021 at Carbis Bay in the United Kingdom. Squabbles among G7 members in 2020 [prevented](#) the group from reaching agreement on how to handle the pandemic. Given the disaster that COVID-19 had become, and with controversies raging about G7 members [hoarding vaccine supplies](#), the G7's credibility was on the line at Carbis Bay. Although the G7's promises on vaccine sharing did not [mollify](#) its critics, the group prioritized the pandemic.

One year later, COVID-19 and future pandemic governance had no such prominence at Elmau. One must scroll well down the communique to reach the results of the summit's deliberations on COVID-19 and pandemic governance. The difference between the 2021 and 2022 summits is easy to explain. COVID-19 is no longer the searing crisis that G7 countries and the world faced in June 2021. G7 governments sustained national vaccine campaigns that helped control COVID-19. Vaccines used by G7 countries continued to work well enough against variants (for example, the delta and omicron variants) that emerged after Carbis Bay. These strains proved highly transmissible but generally caused less serious illness and fewer deaths than the original virus. As vaccine production increased, G7 countries shared more vaccines globally. By the 2022 summit, vaccine scarcity was no longer a global problem. These developments do not mean G7 members covered themselves in glory concerning the pandemic (far from it), but they highlight why COVID-19 was not one of the most pressing problems the G7 confronted at Elmau.

Instead, the G7 focused on new and metastasizing geopolitical threats to its members, the broader community of democracies, and the global balance of power. The new threat came from Russia's invasion of Ukraine, an act of authoritarian aggression that endangers security and democracy in Europe and has caused collateral economic, energy, and other damage around the world. G7 countries have been

consumed with helping Ukraine fight Russia and managing the war's aftershocks. This armed conflict and its far-reaching consequences understandably [commandeered](#) the G7's attention at Elmau.

The mounting threat comes from China. This threat was prominent at the G7 summit in 2021, where G7 members launched a global infrastructure program—the [Build Back Better World \(B3W\) Partnership](#)—to counter China's strategy to increase its global power and influence through its [Belt and Road Initiative](#) (BRI). The B3W plan [flopped](#), so, at Elmau, the G7 promised \$600 billion for a [Partnership for Global Infrastructure and Investment](#) (PGII). Along with the G7's actions on the Ukraine war, the PGII is a signature outcome from the 2022 summit.

### **This Wheel's on Fire**

Behind the communique's rhetoric about democratic unity, shared values, and commitment to an equitable world, the G7's responses to Russian aggression and Chinese power demonstrate that its members are on the defensive geopolitically in Europe and beyond. This context is not good for global health. The COVID-19 pandemic already saw the G7 fearful that China and Russia could gain balance-of-power and ideological advantages during this crisis, and G7 countries reacted with geopolitical intentions in sharing vaccines. The Ukraine war and the lack of a counterweight to China's BRI again finds the G7 reacting to moves by rival powers, a context that will draw global health deeper into geopolitical machinations.

For example, PGII funds will be allocated to build "vaccine and other essential medical product manufacturing" capacity in low-income countries and meet the need for more geographical distribution of such capacity highlighted during COVID-19. However, this need pre-dated the pandemic. In all the years of being engaged on global health, the G7 never addressed this need before the geopolitical threat from China's BRI demanded a response.

Geopolitical considerations prodded the G7 to take other global health actions, such as addressing [global food security](#) problems created by Russia's invasion of Ukraine. The Elmau commitments on pandemic governance (for example, the [G7 Pact for Pandemic Readiness](#)) are also motivated by the ideological desire to demonstrate that, in the words of the communique, "when the world is threatened by division," democracies can "find solutions to pressing global challenges," such as pandemics and climate change. This motivation begs the question why, when the world was not geopolitically divided after the Cold War, G7 democracies did not find solutions to pandemics—despite being leaders in global health—or to climate change, a problem they disproportionately contributed to causing.

The communique devoted much attention to climate change and supported actions (for example, establishing a global [Climate Club](#)) on mitigation of greenhouse gas emissions and adaptation to the damage that climate change causes, especially in low-income countries. Climate change is a threat to global health, so the G7's treatment of it is important. However, geopolitical problems also plague this aspect of the G7's global health agenda.

The energy security crisis that the Ukraine war has caused puts the G7 on the [defensive](#) concerning climate change. G7 countries are compromising their mitigation ambitions in scrambling to secure fossil fuel supplies to meet their energy needs. The G7's attempts to punish Russia in the energy sector are undercut

by other countries, such as China and India (a democracy [invited](#) to Elmau as a G7 partner), [buying](#) Russian oil.

G7 countries are unlikely to generate ideological benefits by providing climate adaptation assistance because they bear great responsibility for causing climate change. However, the lack of geopolitical incentives for adaptation will create problems for G7 policymakers, who are struggling with stretched resources to respond to climate adaptation problems at home and authoritarian aggression, power, and influence abroad.

Further, most global health issues identified by the G7 at Elmau—ranging from noncommunicable diseases to antimicrobial resistance—will not receive more attention because balance-of-power and ideological competition are intensifying. The lack of any connection between these problems and geopolitics means that the long-standing lack of foreign policy interest in them will continue in a world that is more dangerous for G7 countries.

### **Chimes of Freedom?**

At Carbis Bay and Elmau, the G7 attempted to rally its members to meet a historical moment when the power, influence, and credibility of democracies are under threat. Global health is trapped in this moment.

China and Russia turned the geopolitical tables on democracies despite decades of global health leadership by G7 countries. That reality sends a warning that such leadership does not produce balance-of-power or ideological benefits for democracies. Nor did those decades of global health leadership make the G7 democracies reliable partners concerning the two greatest transnational threats to global health—pandemics and climate change.

At the same time, global health does not escape the distorting lens of geopolitics that countries, including G7 members, now apply in foreign policy. This dynamic tempts rivals to exploit some global health issues for power and influence rather than to support a rules-based multilateral order, shared values, or an equitable world. As the Elmau summit demonstrates, democracies in geopolitical trouble can conflate this temptation with acting as defenders of the principles and values of democracy.

# New Approaches Needed to Unlock Global Health Funding

*Addressing the lessons of the COVID-19 response means a fundamental rethink of what the international community must fund and how the effort is organized.*

Chatham House Expert Comment  
Creon Butler and Emma Ross  
June 17, 2022

Although the COVID-19 response saw remarkable institutional innovations focused on controlling the pandemic once it had begun – notably the Access to COVID-19 Tools Accelerator (ACT-A) with its [vaccine arm COVAX](#) – the pandemic still frustratingly demonstrated once more the enormous costs of failing to invest adequately in prevention and control measures and other global health activities to protect the world.

The sad reality is that despite an overwhelming humanitarian and financial case for fully funding ongoing international measures against COVID-19 as well as longer-term measures to prepare for and prevent future pandemics, the international community has so far failed to mobilize the level and breadth of political commitment needed.

A good illustration of the challenge was the [Coalition for Epidemic Preparedness Innovations](#) (CEPI) replenishment summit in March. Although it was a good outcome – considering competing demands on international financing – that funders committed \$1.5 billion to underwrite CEPI’s plan for fostering development of new vaccines within 100 days of a future pandemic being identified, and ensuring a fair and equitable global distribution, it was still well short of the \$3.5bn requested.

Since then, international efforts have seen further development of the International Monetary Fund (IMF) Resilience and Sustainability Trust (RST) at the spring meetings of the World Bank and IMF, the global COVID-19 Summit, the announcement of the World Bank-hosted Financial Intermediary Fund for Pandemic Preparedness and Response, and Pfizer’s new initiative to supply patented drugs, including vaccines, at cost price in low-income countries.

But the combined impact of these efforts still falls well short of what is needed, especially in respect of their long-term sustainability and the extent to which they assure global equity. Meanwhile, the Ukraine invasion has placed large additional financial demands on Western governments, and aid budgets may have to respond to an emerging global food crisis. Finding funds to support international health interventions is inevitably harder now.

## **Weakened Global Governance**

At their latest meeting in May, G7 finance ministers clearly acknowledged the need for additional funding to fight the pandemic and to close financing gaps in pandemic preparedness and response. But

they appeared to push responsibility forward to the G20 Summit at the end of October, noting that ‘more efforts by all members of the international community, including the G20, are required’.

This is certainly in line with the G20’s declared role as the ‘premier global economic forum’ and reflects the reality that G20 members outside the G7 will also share substantially in the benefits of suppressing COVID-19, and reducing the risk of future pandemics, as well as having considerable economic and financial capabilities of their own. But in the present circumstances it also significantly raises the risk the financing gap will not be closed in 2022.

Russia’s attack on Ukraine has seriously damaged the G20 as a global coordination and decision-making body as Western countries balk at working in a group where a leading member is undermining the entire international governance system. But other major economies are not prepared to expel or suspend Russia from G20.

China’s continuing struggle with COVID-19 and its determination to maintain a ‘zero COVID’ strategy, at least until the autumn, means the domestic response remains the top priority for the Chinese authorities, potentially further complicating the job of developing a decisive G20 response on global health financing.

It is not yet clear how the shortfall in global governance will be addressed – a lot will depend on how quickly and in what way the war in Ukraine is brought to an end. In the unlikely event that a generally acceptable resolution happens relatively quickly, the G20 may still be able to play an effective and leading role – however if it drags on, another grouping may need to be found.

But to capitalize on the opportunities which do become available, it is becoming increasingly clear that the approach to official funding of international health priorities, and particularly those that serve to protect the entire world population, needs a fundamental rethink.

This rethink needs to take account of the context in which the ultimate decision-makers – such as finance ministries and political leaders – make decisions and prioritize the available finance between vitally important but competing priorities. Long-standing international funding efforts in areas such as HIV/AIDS and antimicrobial resistance (AMR) provide valuable insights.

## **Components for a Solution**

Ongoing research at Chatham House has highlighted three factors which should lie at the heart of this rethink.

First, the overall ‘ask’ for international funding of global health priorities has become too elastic – it needs to be more specific in terms of scope and timescale, with clear prioritization and justification.

There also needs to be a clearer articulation of which global health priorities should be funded domestically and what should be funded through collective international initiatives, whether in the form of vertical funds or other structures.

Second, the complexity of, and lack of faith in, the international architecture for funding global health priorities is a major source of hesitancy among funders.

Wholesale reform, even if desirable, is unlikely to be politically and administratively realistic, and attempting it could be counter-productive in the near term.

But agreement on the direction of travel and a plan for sustained incremental improvement in institutions and procedures would at least rebuild confidence. In this respect, the following areas deserve particular attention:

- The role of OECD Development Assistance Committee rules – both the design of the rules themselves and the way they are interpreted by members states.
- The role of the international finance institutions (IFIs) at both the country level and in support of collective international priorities, including issues such as the risk appetite of the IFIs and use of capital.
- The role of periodic replenishments for initiatives such as CEPI – how they interact with national funding decision-making systems and with each other.

Third, civil society has at times played an enormously powerful role in mobilizing political support for the international funding for global health priorities. But crucially this depends on the availability of high quality, politically-independent information on the nature and impact of specific global health threats, as well as the most effective response.

A new approach is urgently needed to ensure the public is provided with such information, and it should draw on models in other global threat areas, such as the The [Intergovernmental Panel on Climate Change](#) (IPCC) for climate change science.

Addressing these issues will not on its own ensure the international community finds a solution to sustainable funding of global health priorities – that is ultimately dependent on political leadership. But doing so will make the most of whatever political leadership the international community can muster.



## FOREIGN AFFAIRS

# Monkeypox and the Perils of Vaccine Nationalism

Rich Countries and the WHO Must Heed the Lessons  
of COVID-19

**BY THOMAS J. BOLLYKY, SAMANTHA KIERNAN, AND HAMZA TARIQ CHAUDHRY**  
**June 24, 2022**

THOMAS J. BOLLYKY is Director of the Global Health Program at the Council on Foreign Relations.

SAMANTHA KIERNAN is Program Coordinator for Global Health at the Council on Foreign Relations.

HAMZA TARIQ CHAUDHRY is an intern in the Global Health Program at the Council on Foreign Relations.

For the first time since the COVID-19 pandemic began, the World Health Organization may be on the cusp of declaring a different disease threat—monkeypox—to be a public health emergency of international concern. There are now more than 3,500 confirmed cases in the latest monkeypox epidemic, which has expanded steadily across 44 countries over the past ten weeks. Yesterday, a WHO emergency committee met in Geneva to discuss the epidemic, and some experts anticipate it will advise WHO Director General Tedros Adhanom Ghebreyesus to make the emergency declaration.

Monkeypox and SARS-CoV-2, the virus that causes COVID-19, may both constitute international public health emergencies, but they are very different pathogens. Monkeypox is an older virus. It belongs to the orthopox family of viruses, which also includes smallpox. It spreads less efficiently than SARS-CoV-2, kills fewer people (no one so far outside of endemic countries in Africa), and poses its greatest threat to young children, pregnant women, and people who are immunosuppressed. The monkeypox virus spreads mainly through close contact, with the current outbreak occurring mostly among men who have sex with men, but it is now starting to expand beyond that population.

The biggest difference between the two pathogens may be that for monkeypox, unlike for the novel coronavirus, there were already tools to combat the virus when it emerged. A polymerase chain reaction (PCR) diagnostic test for monkeypox already exists, although the U.S. Centers for Disease Control and Prevention has again been slow to expand access to it, as happened with the PCR test for COVID-19. And although monkeypox patients generally require only supportive care, there is a smallpox treatment in U.S. stockpiles that may work against monkeypox in patients who develop more severe disease. There are also two vaccines against smallpox that could be used against monkeypox. The U.S. government—through the Biomedical Advanced Research and Development Authority (BARDA)—funded the development of MVA-BN (known as Jynneos in the United States), a two-dose vaccine that was originally developed for smallpox but is effective against monkeypox and is the only vaccine that the U.S. Food and Drug Administration has authorized specifically for that use. Bavarian Nordic, a Denmark-based manufacturer, makes the vaccine; supplies are extremely limited, and the vaccine is costly. The other vaccine, ACAM2000, has a

higher risk of producing more serious adverse events and is not suitable for mass immunization.

The WHO does not currently recommend mass vaccination for monkeypox but calls instead for using MVA-BN to vaccinate close contacts of monkeypox patients and health workers at risk of exposure. It is an open question whether this strategy will help slow the spread of the outbreak. Time is of the essence since MVA-BN has not yet been proved to be effective in a single dose, and the two doses are supposed to be administered four weeks apart. Forcing close contacts to wait for a second dose would require broader behavioral change to prevent the spread of infection.

Meanwhile, even this limited WHO-recommended approach would still require vaccine supplies. This raises the key question of whether the monkeypox epidemic will be different from COVID-19 in one last way: will doses go where they can do the most good by disrupting transmission, preventing deaths, and stopping other severe outcomes? Or, in a rerun of what occurred during the COVID-19 pandemic, will wealthy nations buy and stockpile available supplies in advance?

As the COVID-19 pandemic progressed, many world leaders professed to regret the deeply inequitable vaccine distribution that resulted when a few countries bought up early supplies and failed to sufficiently support international distribution. Monkeypox is an immediate test of whether these countries have learned the lessons of COVID-19—especially that, in the end, vaccine nationalism hurts everyone and only prolongs international public health emergencies. So far, the report card has been less than satisfactory.

## **WHO SHOULD GET THE VACCINES?**

Bavarian Nordic is a relatively small vaccine manufacturer, and the limited supplies of its MVA-BN vaccine are already disappearing fast. Five days after the monkeypox outbreak began, the United States exercised its option to purchase an additional 500,000 doses, on top of the 1.4 million doses already in the U.S. stockpile. On June 14, the European Union signed a deal with Bavarian Nordic for the supply of 109,090 doses of MVA-BN, even though the European Medicines Agency has yet to authorize the vaccine for use against monkeypox. Germany has purchased 40,000 doses and reserved an option for 200,000 more. France is already vaccinating with MVA-BN and Denmark, Spain, and the United Kingdom have likewise announced purchases. Exactly how many MVA-BN doses are left to buy remains unclear, but there are signs that current supplies may be running short. Canada, which recently signed a \$56 million contract with Bavarian Nordic for MVA-BN vaccines, will have to wait until 2023 for its first deliveries to arrive.

The WHO has urged its member countries to work together to ensure monkeypox vaccine supplies are “made available adequately and equitably,” including “to countries with limited/no vaccine supply.” The organization says it will establish coordination mechanisms to make vaccines available where needed, as it tried to do with COVID-19.

Maximizing the potential of scarce vaccine supplies against monkeypox in this epidemic depends on doses going where they can do the most good. But there is currently no consensus on where that would be.

One strategy would be using scarce vaccines to control the spread of the monkeypox epidemic outside of settings where the virus has traditionally been endemic. Uncontrolled global spread increases the likelihood that the virus will acquire new mutations that make it more transmissible or deadly,

and that the virus takes hold in animal population reservoirs, which would make it hard to eliminate or control in new territories.

Four-fifths of the confirmed monkeypox cases in this epidemic are in Europe and the United Kingdom, but there is also some indication that the number of new monkeypox cases in Europe may be flatlining. It is not clear whether the limited vaccination that has occurred in France and the United Kingdom has contributed to slowing the epidemic. The United States is more of a black box. It currently has 173 confirmed monkeypox cases, but U.S. testing has been very limited so far. Many of the current U.S. cases are not known contacts of one another, which suggests other unidentified cases were the source of those infections.

Others are rightly uncomfortable with a strategy that devotes scarce vaccines and global attention to monkeypox only once the virus has spread to wealthy nations. Monkeypox has long been endemic in Africa. With limited testing, no one knows how many cases there are in endemic countries or whether a change in the virus circulating in those countries has contributed to its global spread. In 2022, deaths have been limited to West Africa and central Africa, where more than 70 people have died from the disease this year. Some experts have argued there is a moral obligation to ensure MVA-BN doses go to Africa as the late-stage clinical trials for MVA-BN were conducted in countries in the region where monkeypox is endemic.

Ahmed Omgwall Ouma, acting director of the Africa Centres for Disease Control and Prevention, has argued that “the place to start any vaccination should be Africa and not elsewhere.” According to press reports, U.S. officials have been noncommittal to date; earlier this month, a senior Biden administration official told The Associated Press that the White House was

“exploring all options.” In the meantime, the potential fallout over monkeypox vaccines may threaten nascent efforts to rebuild global cooperation around future pandemic preparedness and response after the stark inequities of the response to the COVID-19 pandemic.

### **NO MORE VACCINE NATIONALISM**

In responding to monkeypox, leaders and experts must recognize that this new outbreak is taking place in the geopolitical shadow of COVID-19. Two and a half years into the pandemic, 82 percent of people in low-income countries have yet to receive even one dose of a COVID-19 vaccine, whereas residents of wealthy countries have abundant access to third and even fourth shots. Promised vaccine donations were, generally speaking, slow to materialize and doled out according to national strategies rather than according to global health needs. The frustrations, unfulfilled promises, and inequity of the COVID-19 response will color how countries cooperate and respond to monkeypox.

At the same time, monkeypox is a different disease than COVID-19, and vaccine allocation should reflect the public health needs of this epidemic rather than attempt to compensate for the shortcomings of the last pandemic response. To tackle the public health priorities of the present crisis while being mindful of the scars remaining from the last one, the world needs a clearly articulated global strategy that makes it clear that African countries, especially those where the disease is endemic, will receive the same priority as wealthy nations, and that is tailored to the particulars of the monkeypox outbreak, the affected populations, and the available medical interventions.

MVA-BN may be a crucial tool in this fight. The vaccine is potentially useful for health workers in all affected countries, including those in Africa

in which monkeypox is endemic, because it offers greater protection for those who treat confirmed or suspected patients. Countries with doses should donate a portion of them to WHO global vaccination efforts focusing on health workers.

Whether MVA-BN can be effective for a larger containment strategy is not yet clear. The WHO and the governments of affected countries urgently need to conduct more research to determine whether one dose of MVA-BN is sufficient to stop the spread from infected patients to their close contacts. If it is, then vaccines are likely to be most useful in countries where there is adequate surveillance to identify cases and their contacts early and where there is an opportunity to prevent the virus from spreading and becoming endemic. In the near term, that may mean using more doses in Europe and North America, where the outbreak may yet be controlled, and in countries that have the capacity to perform contact tracing.

But such a strategy can only succeed if the WHO, the United States, and other global health donors make equal investments in a robust test-and-treat strategy in settings where limited surveillance stymies contact tracing and weaker health-care systems increase the risk of poor outcomes. Research funders such as BARDA must make investments in improving treatments quickly—and be mindful of the need to develop new antiviral treatments (or treatment combinations) to prevent the emergence of resistant strains of the virus.

Wealthy countries, especially the United States, must avoid re-creating the vaccine nationalism that produced inequity and marred the global response to COVID-19. Failing to do so risks exacerbating the economic, political, social, and health effects of this latest epidemic and threatens to undermine U.S. efforts to rally the world around American leadership in global health.

The monkeypox outbreak may be occurring in the shadow of COVID-19, but the course of the response need not stay within the shadows. By articulating and advancing a clear, need-based public health strategy, countries can avoid a second round of vaccine nationalism and ensure that limited doses go where they can do the most good.

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## **CORRECTION APPENDED (JUNE 2022)**

An earlier version of this article incorrectly stated the name of the vaccine authorized for use against monkeypox. The vaccine is known as MVA-BN, not MVA.

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Centre for Strategic and International Studies, Jakarta, Indonesia

**Wang Zhongmei**, Shanghai Institutes for International Studies

Since 2020, unilateral interventionism in the global economy has increased. Various countries have adopted generally protectionist policies in the financial, trade, and investment systems that depart from the liberalized economic governance mechanisms in operation since the Second World War—and those policies have rattled and divided the global economic order. Although some piecemeal multilateral resolutions were reached at the World Trade Organization’s ministerial conference in 2022, multilateralism is still declining. At the same time, intra- and trans-regional alliances, which are intricately linked to globalization, are accelerating, and discrimination against those outside the alliances is increasing.

In the past, global markets shaped supply chains. Regional supply-chain networks had strong support from various local elements (e.g., labor, land, raw materials, etc.). However, recently, the alliance-based efforts to reshape supply chains through strong centralized interventions rely on more complex means, including subsidies, tariff reductions, and investments, most of which are discriminatory. This is not a supply-chain diversification strategy in the name of resilience, but a politicized attempt to foreclose parts of a regional market.

**The Inclusivity of Asian Supply Chains and Economic Integration**

Due to the efficiencies of specialized divisions of labor and the flexibility of large-scale collaboration, Asian supply chains are more inclusive and cooperative, and the economic links between countries are more intricate than in other regions. North American and European supply chains do not have the characteristics of this cooperative network. Until recently, the just-in-time model was still successful in Asia. Well-integrated supply chains, abundant and cheap shipping, and data on customer behavior made the model work for companies in Asia, especially in capital-intensive industries such as semiconductor manufacturing. Those factors have allowed the region to develop special advantages and still have even more potential.

In line with the needs of Asian supply-chain networks, regional economic integration has also accelerated over the past decade. The Regional Comprehensive Economic Partnership (RCEP) is undoubtedly a leap forward. It is the largest free trade agreement to date, and its inclusive rules of origin and facilitation regulations accommodate standardized, modular production. RCEP has demonstrated its resilience, even with pandemic disruptions, and its benefits improve regional integration.

**Distorting This Model Will Be Costly**

The gap between economic development levels and vertical specialization within the region helps guide the still-expanding and deepening Asian supply chains. RCEP's biggest successes are the creation of a general certificate of origin and the establishment of intra-regional accumulation rules, which will directly promote the regional trade of intermediate products, significantly improving the utilization of the preferential tax rates in the agreement. It will also allow multinational companies to implement flexible business plans, which will facilitate intra-regional investment and supply-chain transfers.

The "China plus one" strategy, where companies diversify their investments in China and another country, started around 2010. Companies usually choose to invest in ASEAN countries, which has produced a decade of manufacturing-driven prosperity in Laos, Malaysia, Myanmar, Thailand, Vietnam, and elsewhere. Such intra-regional transfers are dominated by labor-intensive products but will gradually expand to capital-intensive products, a trend that RCEP will reinforce.

However, some new initiatives by small-scale alliances—for example, in semiconductor production—enhance fragmentation and set up discriminatory rules that harm regional integration. In this new round of interventionism driven by the pandemic, the supply chains have become the main target of intervention, and the direct effect could be to decouple and relocate critical regional product supply chains. This intervention has disrupted the original supply chains, greatly distorted the flow of trade and investment, and will heighten uncertainty in the post-pandemic global economic recovery.

### **Be Inclusive, Not Discriminatory**

Asian supply chains can be fortified by promoting the expansion of their production networks, allowing more Asian countries to participate in future development, rather than excluding other countries through small-scale alliances solely based on decisions by some major countries. The just-in-time model's inadequacies and risks, which the trade wars and COVID-19 pandemic underscored, can be lessened in two ways. First, companies should expand the scope of suppliers in the region. Second, they should facilitate the digital integration of regional supply chains. Increasing and deepening the cooperation between Asian supply chains is imperative, taking advantage of network efficiencies, developing intermediate product trade and investment in the region, and simultaneously promoting the next round of RCEP negotiations.



## FOREIGN AFFAIRS

# The Myth of the Global

## Why Regional Ties Win the Day

**BY SHANNON K. O'NEIL**

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SHANNON K. O'NEIL is the Nelson and David Rockefeller Senior Fellow for Latin America at the Council on Foreign Relations. She is the author of the forthcoming book *The Globalization Myth: Why Regions Matter*, from which this essay is adapted.

A constant and largely unquestioned refrain in foreign policy is that the world has globalized. Closets are full of clothes stitched in other countries; electronics and cars are often assembled far from where consumers live. U.S. investment flows into Asian markets, and Indians decamp to the United States for graduate school. The numbers show the magnitude of international exchange. Trade among all countries hovers around \$20 trillion, a nearly tenfold increase from 1980. International capital flows also grew exponentially during that period, from \$500 billion a year to well over \$4 trillion. And nearly five times as many people are traveling across borders compared with four decades ago.

It is, however, misleading to claim that this flow of goods and services and people is always global in scale. Globalization, as commonly understood, is mostly a myth; the reality is far closer to regionalization. When companies,

supply chains, and individuals go abroad, they don't go just anywhere. More often than not, they stay fairly close to home.

Consider trade. If long distances didn't affect international sales, the typical journey for any given purchase would be some 5,300 miles (the average distance between two randomly selected countries). Instead, half of what is sold abroad travels less than 3,000 miles, not much farther than a flight across the United States, and certainly not far enough to cross oceans. A study by the logistics company DHL and scholars at the NYU Stern School of Business concluded, "If one pair of countries is half as distant as another otherwise similar pair of countries, this greater physical proximity alone would be expected to increase the merchandise trade between the closer pair by more than three times."

Companies' forays abroad have been more regional than global, as well. A study of the Fortune Global 500, a list of the world's largest companies, shows that two of every three dollars of their sales come from their home regions. A study of 365 prominent multinationals found that just nine of them were truly global, meaning that Asia, Europe, and North America each accounted for at least 20 percent of their sales.

Additionally, the oft-repeated term "global supply chains" is a misnomer. The making of things across borders tends to be even more regional than the buying and selling of finished products: the pieces and parts that come together in modern manufacturing are more likely to be shipped between neighboring countries than from farther away.

International capital flows are also more regional than global. Cross-border buyers of stocks, bonds, and other financial instruments don't invest as far away as one would expect given how global their options are, on average going no more than the distance between Tokyo and Singapore. Foreign

direct investment tends to follow trade. Over half of all cross-border financing circulates solely within the European Union. And lending, borrowing, and foreign direct investment in Asia by Asian banks and companies is on the rise.

People tend to orient their lives regionally, as well. Most people never leave their own countries. And for those who do travel abroad, well over half never leave their regions. The vast majority of travelers taking European vacations are European. The same goes for people in Asia and North America. Those who move permanently abroad also tend to stick close to their countries of origin; the majority don't leave their immediate region. And although students who venture internationally tend to go farther than other travelers, 40 percent don't leave the geographic area in which they were born.

Over half the international flows of goods, money, information, and people occurs within three main regional hubs: Asia, Europe, and North America. The economic rise of China, South Korea, Taiwan, and Vietnam began with regional investments and inputs. Eastern Europe's fast-paced growth came from linking to western Europe. Between 1993 and 2007, Mexico's economy more than doubled in size, thanks in large part to the North American Free Trade Agreement (NAFTA), reached in 1993 with Canada and the United States.

The overlooked reality of regionalization has implications for U.S. policy. Although NAFTA was revised in 2020—it is now the U.S.-Mexico-Canada Agreement (USMCA)—the North American hub is still not as integrated as that of its East Asian and European counterparts. In industries for which North American regional supply chains developed and solidified, such as vehicles and aerospace, local production maintained its edge. But in other

sectors, including electronics and textiles, North America's more limited regionalization led whole industries to move wherever regional links provided a leg up.

Ideally, the United States would be inking international trade deals to expand its market access and pursue its geopolitical aims, such as countering China's rise. That does not appear politically possible at the moment, however. A more viable policy would be to fortify and tap the United States' regional network. That would allow Washington to access a broader swath of the global marketplace and stave off losing more of its competitive advantage to countries that are expanding their own regional footprints.

### **WHY REGIONAL TRUMPS GLOBAL**

The major reason networks skew regional is simple: geography matters. Even with massive container ships, moving things across oceans still costs time and money. A transatlantic voyage adds a week to delivery, and a trip across the Pacific Ocean adds a month before parts or goods show up in U.S. warehouses and factories. That means producers and stores need to maintain larger inventories of goods that come from far away.

And it is not only cargo that can be delayed or lost when trade takes place over great distances. Even with virtually free calls, video, and file sharing, the inherent difficulty of communicating and coordinating across space and time can add to the costs of doing business. Language and cultural cues vary by country, and these differences often grow with distance. (This is one reason that a quarter of trade happens among countries that share a language.) Legal codes and administrative norms also tend to be more similar the closer countries are, eliminating the need for duplicate teams of lawyers, accountants, and human resources specialists. And the intangible but vital task of finding things in common and building trust and

understanding for teamwork can get harder as the distance between people grows.

Trade pacts as well tend to be regional. Although the 1990s saw the creation of the World Trade Organization (WTO) and the expansion of its membership and oversight powers, what has been as important, if not more so, over the last 30 years has been the proliferation of bilateral and multilateral free-trade agreements, which tend to involve countries in the same region. European countries turned first to each other for trade. Brazil joined with Argentina, Paraguay, and Uruguay. After reaching a bilateral trade deal with Israel, the United States turned to Canada and Mexico and later to ten other nations in the Western Hemisphere. Asian nations banded together through the free-trade area of the Association of Southeast Asian Nations and later the Regional Comprehensive Economic Partnership (RCEP). Global arrangements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the successor to a pact that was engineered by Washington but that the United States later abandoned, are so far more the exception than the rule.

Companies see differences in their bottom lines depending on their geographic dispersion. Many have gone abroad to boost their earnings, benefiting from the cross-country advantages of differential skills and wage costs. Yet go too far, and costs begin to rise again. In 2010, an academic study of 123 U.S. multinationals found that returns on assets improved as companies expanded internationally within their region but declined when they ventured farther from home. The management consulting group McKinsey & Company dubs this “the globalization penalty,” finding in a survey of 500 multinational corporations that earnings diminished as operations spread out. It seems the optimal distance for private-sector profits is a Goldilocks zone: not too close but not too far.

## **THE RULE OF THREE**

The strength of the regional networks that a country belongs to are therefore particularly important. And in this regard, European countries are well situated. Although Brexit and mounting populist Euroskepticism may make the EU appear fragile, the European continent is, in fact, the most integrated region in the world. The deep ties that connect its countries are rooted in over a half century of diplomatic bargains that created a single market, a common passport, and a shared currency. Today, Europeans make things together and sell to one another, with nearly two-thirds of EU trade staying within the union. Similarly, internal European investment exceeds that from the rest of the world by 50 percent.

Asia is not far behind in its integration. According to the Asian Development Bank, the proportion of the region's trade that takes place internally has risen from 45 percent in 1990 to nearly 60 percent today, surpassing North America and closing in on Europe. Decades of export-oriented development propelled by Asian business leaders and backed by bureaucrats tied country after country together through production supply chains. Asian countries make things together and increasingly buy from one another: nearly one-third of Asian finished goods are sold to consumers in the region.

North America's countries have also deepened their economic ties to one another. In the wake of NAFTA, trade between Canada, Mexico, and the United States rose fourfold, outpacing that between those countries and ones outside the region. Investment, too, became more regional, particularly for Mexico, where since NAFTA's signing in 1993, one of every two dollars flowing in has come from its neighbors. In particular, North America's agricultural and advanced-manufacturing supply chains expanded and

strengthened over the course of the 1990s, leading regional commerce to jump by more than a quarter.

This integration didn't last, however; after China's 2001 accession to the WTO, regional exchanges dwindled, falling from around 47 percent of the continent's total trade in 2000 to a low of 39 percent in 2009, before recovering slightly to around 40 percent by 2018. Still, although North America's internal connections remain significantly less robust than those in Asia and Europe, they far outstrip those among the countries of Africa, Latin America, the Middle East, and South Asia—regions where less than a quarter of trade and investment occurs between neighbors.

### **JUST IN TIME**

During the COVID-19 pandemic, border closures and rising transportation costs have prompted companies to consider bringing production closer to home. Governments have suddenly become keen to exercise more control over international supply chains for pharmaceutical and medical products. At the same time, ongoing technological innovation has made it easier for the private sector to expand production in different geographic neighborhoods. Automation, in particular, is making far-flung factories and supply chains less vital and less profitable than in the past. As sensors increasingly monitor assembly lines and equipment and robots and other forms of mechanization take over many manufacturing processes and tasks, wages make up a smaller part of operating costs. That development has diminished, at least in part, the once strong draw of locations with cheap labor.

New ways of making things, such as 3-D or additive printing, are also changing manufacturing processes, making small-batch production runs more affordable and reducing the need for specialized factories. These

advances lower the numbers of workers that companies need and change the skill sets they seek: in many sectors, skilled (and higher-paid) technicians have become far more important than line workers. That shift diminishes the advantages of economies of scale, enabling at least some companies to move production closer to consumers without sacrificing profits.

The value of time is growing, too. As consumers expect faster delivery and near-immediate gratification, the longer lead times for goods produced by factories thousands of miles away can mean lost sales. The popularity of customized products also makes mass-producing facilities abroad less relevant than in the past.

Moreover, demographic shifts are raising the low wages that once drew so many companies to developing countries. In China, the great migration that brought over 200 million workers from the hinterlands to manufacturing centers has largely ended. After decades of strict family planning, more workers are now exiting the labor market than entering it. This trend looks set to accelerate: the national workforce is expected to shrink by 100 million people over the next 20 years. Working-age populations are contracting throughout much of Asia, limiting labor pools and driving up wage rates across electronics and other supply chains. In Europe, working-age populations are in decline or appear to be headed that way. Millions of Hungarians, Romanians, and other eastern Europeans have headed to their western neighbors in search of better pay and opportunities, and an influx of migrants—and, more recently, refugees—is only partly replenishing workforces.

Another factor curbing globalization is climate change. Extreme weather will increasingly upend logistics as ports flood, rails buckle, and airplanes are more frequently grounded by storms. Longer supply chains increase these

vulnerabilities and potential costs. Meanwhile, policies designed to slow the planet's warming by cutting emissions are raising global transportation prices, incentivizing companies to manufacture goods closer to consumer markets.

### **THE POWER OF POLITICS**

It's not just technological and demographic shifts and climate change that will curb globalization and favor more regionalization; political change is playing a role, as well. After decades of opening up to the world economy, many countries are pulling back. The Global Trade Alert, a nonprofit that tracks and collates trade policies from official sources around the world, has calculated that since the 2008 global financial crisis, new protectionist measures have outpaced liberalizing ones three to one.

Meanwhile, the WTO has been sidelined. It is no longer the forum to negotiate new trade rules. Its efforts to reshape global trade ended in 2015, when the so-called Doha Round of talks sputtered to a close. More niche efforts, such as attempts to reduce fishing subsidies in mostly rich nations, are struggling. Since 2018, the WTO has been unable to punish countries that break the rules, as the United States, under both the Trump and the Biden administrations, has refused to approve new judges to its Appellate Body.

Instead, regional accords have stepped in to govern international trade. The USMCA regulates North America's trade ties and arbitrates disputes. In Asia, the RCEP now governs commercial exchanges among 15 countries, removing most tariffs and combining rules of origin requirements to favor regional supply chains. The African Continental Free Trade Area agreement aspires to do something similar, replacing a tangle of bilateral rules and

regulations with a single, almost continent-wide commercial system. Regional accords now set the rules for more than half the world's trade.

Geopolitical tensions threaten to fragment international commerce even further. Economic competition has become a pillar of great-power rivalry. With industrial policy back in vogue, many countries, including the United States, are throwing up protectionist barriers. The U.S. government has identified semiconductors, large-capacity batteries, pharmaceuticals, and dozens of critical minerals as vital to national security and is now implementing policies and spending tens of billions of dollars to expand stockpiles, beef up manufacturing capacity at home and in friendly nations, and redraw global supply chains in these designated sectors. Countries everywhere are drawing up their own lists, some of them adding information and data flows, fragmenting cross-border flows of services. As governments work to reshape the business environment across more industries, they are also implicitly or explicitly asking other countries to choose sides through export controls and other mechanisms. This will further limit international ties.

The push to reshore critical products and services is underway almost everywhere. But what most countries will find is that outside of a few highly sensitive or vital products, companies can't or won't bring production back home. Those that try to do so are more likely to go bust as costs rise and innovation falls. The most probable scenario is that multinationals will turn away from globalized supply chains in favor of shorter, more duplicative regional ones. Regionalization, not globalization, will set the corporate agenda in the coming decades.

## **AMERICA'S ADVANTAGE**

Many of these technological, demographic, and policy shifts favor the United States. The declining importance of cheap wages and the rising role of skilled labor should advantage better-paid U.S. workers. A trove of intellectual property and intangible assets, including several of the new technologies transforming work and workplaces, will allow many U.S.-based companies to reap outsized benefits. Abundant financing means more discoveries, more patents, and more products. The United States also boasts clear laws and regulatory regimes—which is why so many investors prefer stocks and bonds issued under New York law—and a generally receptive and entrepreneurial business environment. For all these reasons, the U.S. economy should fare well in this next round of globalization.

Still, Washington's advantages aren't immutable. Other countries are also investing in education, research, and development and advancing their own technologies and national corporate champions. Moreover, the next billion new buyers of cars, clothes, and computers will be in Asia, where middle classes are growing faster than in any other region. To tap into this growth, U.S. multinationals and exporters will need to adapt.

To effectively compete, the United States should pursue reforms at home to take better care of its people and workers and to prepare them for a more fluid and volatile economic future. This will require expanding safety nets, ensuring labor rights, and improving educational opportunities that upgrade Americans' skills. Domestic infrastructure also needs an upgrade to lower logistical costs that weigh down American-made goods. The \$1.2 trillion set aside in the 2021 Infrastructure Investment and Jobs Act to pay for improvements to highways, bridges, electric grids, and broadband is a good start. More public spending for basic science and research and development should follow to usher in cutting-edge scientific breakthroughs and technologies.

In addition to getting its own house in order, the United States needs a more strategic approach to trade. One of the country's challenges is the eroding price competitiveness of its exports in an increasing number of international markets. The countries to which the United States enjoys preferred access account for less than 10 percent of the world's GDP, and few of them are among the fastest-growing markets. As other countries have formed and joined trade accords, the cost of U.S. exports has risen in relative terms. Because of the RCEP, cars assembled in Japan and South Korea no longer face the double-digit tariffs that U.S.-manufactured alternatives still confront in the region, and Chinese steel, chemicals, and machines all face lower levies than options made in the United States.

In an ideal world, the United States would pursue a robust and comprehensive trade agenda. Joining the CPTPP; restarting negotiations over the Transatlantic Trade and Investment Partnership, which would have linked the U.S. and EU markets; and revitalizing the WTO would open up more markets to U.S. goods and services and reinforce more transparent, fair, and environmentally friendly ways of doing business. The United States would also do well to regain its leadership in international standard-setting bodies, restoring its traditional role as a rule-maker and not just rule-taker.

But until the politics of trade change in the United States, none of that is likely to occur. In the meantime, Washington can benefit by turning to its neighbors. Canada and Mexico have preferred access to many global markets where the United States pays full fare. Their respective portfolios of free-trade agreements each cover some 1.5 billion consumers, representing nearly 60 percent of global GDP. Feeding into Canadian or Mexican manufacturing supply chains can give U.S. producers and parts makers preferential access to the world's consumers, which they currently lack on their own. For instance, Mexican-made cars sold in Europe dodge the ten

percent tariff U.S.-made models face, lowering the sticker price by some \$3,000 on a Ford Focus and by over \$4,000 on an Audi Q5, a savings that makes it hard for U.S. carmakers to compete. The opposite is true for U.S.-based parts makers: Mexican plants can source up to 40 percent of their Europe-bound models from suppliers in countries that are not part of the bargain. That means imported Mexican-made cars sold in France or Germany also keep U.S. factories humming.

In today's more regionally focused world, exports are more competitive when countries make them together. Much of Germany's touted international commercial success has resulted from its regional manufacturing ties. By seeding plants and operations throughout eastern Europe, Germany's private companies—the famed *Mittelstand*—have bolstered the country's manufacturing base and created jobs at home as their products have thrived on global markets. China's spectacular rise and export dynamism similarly has depended largely on its incorporation into regional supply chains.

If the United States wants to help its companies replicate these successes, it also needs a regional approach. Regionalization brings competitive advantages that a single country, even one as large and wealthy as the United States, cannot match on its own. To make products as good, affordable, and fast as the competition, U.S. companies need to be able to source parts from many places and complete some tasks and processes in other countries.

A regional commercial strategy will also help more work stay on the continent—and thus in the United States. When part of production is located in Canada or Mexico, U.S. suppliers are more likely to keep or gain contracts and remain in business than when production moves overseas. And when orders rise, so do jobs all along the supply chain. The

Organization for Economic Cooperation and Development estimates that, on average, nearly 40 percent of the value of U.S. imports from Mexico is created in the United States. For Canada, that figure is just over 25 percent. Conversely, U.S. input into imports from the rest of the world averages just 4.4 percent, reflecting how few U.S.-based suppliers are part of the global production process.

To enhance North America's regionalization, the continent needs to improve its linking infrastructure. This means adding land crossings, upgrading thoroughfares that lead to and away from the border, expanding rail lines and depots, and investing in people and technology to staff and to support ports of entry. With faster connections and lower logistical costs, manufacturers in North America can make products that are more globally competitive.

As parts and components move between the three countries, workers must be able to follow. More and easier legal work-based migration paths are needed to make the region as a whole more productive, and they will require transferable credentials, licenses, and diplomas; business visas; and longer-term migration avenues. Greater coordination in education and training can help address gaps in skill and improve work environments to ensure that North America's population growth, already a bright spot for the region, continues. Educational exchanges, language learning, and cross-border apprenticeships and skill development programs can all help build a continental workforce better able to entice new businesses and investment. Stiffening migration barriers will just lead more firms to go elsewhere.

And as the U.S. government rolls out industrial policies to increase the resilience of and access to a host of critical supply chains, its neighbors can help. Geographic diversification can offset the risks that natural disasters

and accidents pose to stockpiles and production capacity. Regional manufacturing can lower the public financial burden of subsidies, as goods are more likely to attain a higher quality at lower cost when drawing on a cross-border network of suppliers.

North America's regional trade has recovered, albeit slightly, from a 2009 nadir of just 39 cents of every dollar thanks to expanding textile, machinery, and produce supply chains. But no North American leader is prioritizing a continental commercial future. Mexico is turning inward, with energy and natural resource nationalism threatening its manufacturing base. Canada is looking to diversify its international commercial ties by reaping the benefit of trade deals with the United Kingdom and the European Union and in Asia as a member of the CPTPP. And the Biden administration is guided by another repeated but unsubstantiated refrain, that NAFTA and other trade agreements hurt, rather than help, U.S. workers. That is misguided: most of the studies trashing NAFTA don't calculate the better-paid export-oriented jobs gained as a result of more favorable terms in the United States' two biggest export markets; nor do they consider how lower North American production costs kept industries, such as auto manufacturing, alive and even allowed them to thrive in the face of global price competition from vehicles manufactured in other, rival regional hubs.

Through integration, a more competitive North American economy is possible. Three decades of freer trade, the existence of sophisticated supply chains in specific sectors, and widespread cross-border ties between communities and workers due to the movement of tens of millions of people could be energized and expanded. But deeper, more sustainable regionalization will also require a change in mindset. It will require recognizing that the United States' middle and working class would prosper more from engagement in the global economy than they would from a

retreat to the domestic market. Americans could gain more jobs, profits, and financial security if their country decided to take what is on offer: a slice of a large and growing economic pie.

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# SWP Comment

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## A New Geopolitics of Supply Chains

The Rise of Friend-Shoring

*Günther Maihold*

**A succession of disruptions to world trade have put the reorganisation of international supply chains high on the political agenda. The difficulties began with the trade war between the United States and China, deepened with the Covid-19 pandemic and culminated in the sanctions and export controls imposed by Western countries after Russia's invasion of Ukraine. The increased risk of interruption of supplies forces businesses today to price in political factors and respond to political demands. However, realistic timeframes for reconfiguring supply chains are largely incompatible with the rapid responses expected by political decision-makers, especially where chains are long and complex. A process needs to be developed for dealing more effectively with political supply chains risks. It should be transparent for all involved.**

The consequences of the Covid-19 crisis, growing tensions between the West and China and the war in Ukraine have placed the question of reorganising international and global supply chains firmly back on the political agenda. The further the economic sanctions are expanded, the more strongly trade relations become an instrument of foreign and security policy. The idea of free trade as an intrinsic value falls by the way-side. Now, staking out spheres of influence and assessing the reliability and trustworthiness of suppliers and countries is the order of the day. That is the background to the recent recommendation by US Treasury Secretary Janet Yellen to pursue “friend-shoring” by shifting supply chains to “trusted countries”. This, she said, will allow us to “continue to securely extend

market access” and “lower the risks to our economy as well as to our trusted trade partners” Yellen's Canadian counterpart Chrystia Freeland took up her proposal, welcoming friend-shoring as a “new norm” that “may require some new institutions, some new relationships”. This pursuit of political convergence in the guise of shifting supplier relationships to states espousing similar values has been taken up in the European context, for example in the European Commission's Strategic Foresight Report 2022. The key concept of “secure trade” calls into question the multilateral system of the World Trade Organisation. WTO Director-General Ngozi Okonjo-Iweala criticised this trend towards fragmentation of the world trade order as a “wave of protectionism”. Voices from the Global South



also reject friend-shoring on principle, arguing that it would exclude poor countries even more strongly from international trade, fail to provide them with income and employment, and endanger their internal stability.

## Geopolitical divides in the supply chain world

Friend-shoring builds on an open partnership model, encompassing those states that share the American understanding of open markets, while at the same time implementing labour and environmental standards. That has been expedited by Europe's decision to terminate economic relations with Russia. It raises the prospect of the emergence of a new trading bloc, composed of democratic states pursuing economic and regulatory convergence. What that means for supply chain governance is the introduction of a new and strongly geopolitical facet into the broader discussion about geographical "re-shoring" (relocation to the home country) that had to date encouraged diversification in a more neutral sense. This applies especially to strategic sectors such as aerospace, automotive, micro-electronics, medical devices and pharmaceuticals, but also to mineral, energy and agricultural resources and their processing.

Yellen's proposal introduces the geopolitical dimension of "trusted trade partners" into a debate that has hitherto concentrated on the operational reliability of supply chains. In other words, the political convergence outlined above comes on top of the existing criteria of efficiency, sustainability and resilience. The proposed reversal of corporate location policies and the shortening of supply chains will be financially costly and will require considerable time, especially with complex supply chains. Thus it is estimated that up to 26 percent of global exports could potentially be relocated in the next five years, amounting to up to US\$4.6 trillion. However, the associated corporate decisions now have to take increasing account of political aspects that

they previously preferred to ignore. Assessing the profitability of friend-shoring involves a strategic reorientation that could mean a far-reaching reconfiguration of the existing supply chain networks. Achieving that will inevitably demand a great deal of time and financial investment.

Concretely it would mean abandoning the simple logic of "off-shoring" (relocating production abroad) and replacing it with a flexible mix of "near-shoring", "re-shoring" and "friend-shoring". Depending on the availability of production factors and locations, such a mix would lead to a modular reconfiguration of the various segments of a supply chain. It will be imperative to contextualise the specific conditions at each stage of the supply chain from a strategic and operational perspective.. That can only be achieved if state and corporations work hand in hand. The final destination of efforts to establish "secure" supply chains for strategic goods and services would then be a geopolitical reordering of the world, dividing it into "North-North" and "South-South" supply chains. In that case it would be expedient to gather a coalition of allies.

However, given the global geographical distribution of resources, it is questionable whether such a model would be viable. It must be expected that applying such a logic would lead to massive disruption of trade flows, bringing with it enormous price increases for consumers.

## Operationalising political convergence

The proposal to pursue friend-shoring draws supply chains into the sphere of geopolitical rivalry and the division of the world into free-market democracies and allies of the authoritarian regimes of China and Russia. One central motive for friend-shoring is the desire for greater independence from suppliers whose autocratic disposition creates dangers of political blackmail and economic coercion. If vulnerability to interdependency is reduced, it is hoped, supply chains will become more

robust and their participants less exposed. Ultimately it is a means to protect global supply chains from external disruption and economic coercion. The EU's ambitious plans to invest €43 billion in its semiconductor industry and the US CHIPS Act to boost domestic production are both clearly "re-shoring" endeavours. However, problems over availability of raw materials, dependency on imports and the cost of labour place limits on the possibilities to replicate such endeavours. Here there is no getting around China, which is by far the most important producer of textiles, electronics and many raw materials. China, as a node in the system of global supply chains, has been able to expand into upstream production stages in the automotive and textile sectors, as well as in raw material processing and control of rare earths. The flip side is a negative record on observance of human rights.

It is as yet unclear how far the friend-shoring process is supposed to go. Is the point merely to encourage businesses to locate their production primarily in "trusted" countries? Or is there to be a prioritisation according to the strategic value of the goods and services? How can political convergence be handled as a manageable criterion? Conflicts are inevitable. Businesses strive for efficiency and scale effects, while political decision-makers prioritise securing access to important products. So what weight is assigned to democracy, human rights and sustainability when judging the "trustworthiness" of states? Oversimplification is not helpful here. Instead, states pursuing the friend-shoring concept need a balanced assessment of interests that takes into account all the criteria of sustainability. This also applies on a global scale with respect to potential beneficiaries of relocation of production and employment.

All the signs certainly point to change. Consulting firm Kearney's 2021 Reshoring-Index reports that just 8 percent of manufacturing executives were not "considering reshoring manufacturing operations". 47 percent had "already reshored some

manufacturing operations to the United States" in the past three years and another 29 percent had decided to do so within the next three years. Note that the survey was conducted before the invasion of Ukraine and resulting energy crisis.

So the United States wants to reduce its dependency on authoritarian regimes like China for essential products, above all rare earths, electronics such as semiconductors and other goods with military uses. To that end it is seeking closer cooperation with South Korea and Japan. Europe in turn is looking to decouple itself from Russian suppliers of crucial resources, especially energy, grain and fertiliser.

It becomes problematic, however, if all the Western states seeking "trusted" sources turn simultaneously to Indonesia, Malaysia, Vietnam and other countries in the Indo-Pacific region, or in Europe's own region to Bulgaria, Romania and the Mediterranean states. Simply shifting factories, jobs and investment en masse to those countries is not a terribly promising strategy. While it would achieve a degree of geographical diversification of global supply chains, it would not necessarily make them more resilient to external shocks. Many of the transport routes would be largely identical and subject to massive disruption through the same events, be they tropical storms, political blockades or bottlenecks in the Suez Canal. Nor would it eliminate political risk factors affecting the new diversification partners in South East Asia, or China's regional hegemony. If operationally and socially robust production cycles are to be created, they will have to be embedded in a more strongly political orientation on Western values and the corresponding behavioural norms, in order to reshape corporate behaviour. Moreover, a classification of particular states as "trusted" cannot be expected to remain constant over time. Such black-and-white thinking ignores the realities of trade and economic policy, and the shades of grey that tend to predominate there.

Nevertheless, this line of thought is gaining ground in the political discussion.

It also plays a role in the Partnership for Global Infrastructure and Investment announced at the G7 summit in Germany at the end of June 2022. This promises almost US\$600 billion in strategic investments in global infrastructure over the coming five years, and will support friend-shoring. This Western alternative to the Chinese Belt-and-Road-Initiative is intended to demonstrate economic and political strength and contain China's plans.

### **Geopolitical reconfiguration of supply chains**

The demand for political convergence shifts the emphasis of supply chain governance to the producer side, especially where critical raw materials are concerned, while tracking, traceability and auditing become less central. Because the supply of inputs and precursors from abroad is no longer reliable (or desired) a reorganisation of production is on the agenda in many industrial and agricultural sectors. The geographically highly dispersed manufacturing enabled by low transport costs now appears increasingly disadvantageous. In addition to doubts over the dependability of supplies and suppliers, once reliable logistics relations have been affected by port bottlenecks and restrictions at particular production facilities, for example through Covid-19 outbreaks.

Given the number of economic transactions and steps involved in the production of goods, such a shift will mean reordering the relationship between private-sector business decisions and government regulation. This applies in particular to the question of where production facilities can and should be located, but also to the classification of goods and services as strategically important. Due to their central role in the shaping of international manufacturing networks, lead firms influence the benchmarks of any economic transaction – price, volume, number of suppliers, their qualification – as well as characteristics the suppliers should possess aside from the

question of price, such as quality, labour and environmental standards.

The way this plays out will differ between producer- and buyer-driven supply chains: The role of lead firms is stronger in the producer-driven supply chains found in capital-intensive sectors such as the automobile industry, where the need for great technological expertise and enormous investment function as the main entry barriers and cement the positions of the biggest manufacturers. Producer-driven supply chains are therefore characterised by strong vertical integration. The buyer-driven supply chains found for example in agriculture and in the fashion, footwear and toy industries, on the other hand, are characterised by labour-intensive processes run by outside contractors. In those sectors the entry barriers are market information, product design, and marketing/advertising.

Both models are based on an outsourcing logic that seeks to relocate cost-intensive and labour-intensive segments of the production process to regions of the world with lower cost conditions. While the academic debate has come to regard the distinction between producer-led and buyer-driven supply chains as largely outdated – tending instead to speak of modular organisation of supply chains – the distinction gains a new meaning under the strategic aspect of security of supply. If supply chains are to be reorganised for geopolitical reasons, the question of how central manufacturing steps need to be reconfigured and relocated in order to satisfy national interests will have to be clarified.

This places front and centre those actors that possess far-reaching coordinating and coordinating functions in the supply chains: the lead firms with their great market power. Decisions and agreements made at the interface between the lead firms and their first-tier suppliers have great influence on and consequences for a broad spectrum of actors further upstream. The leading companies are now in the first place required to rethink and increase their strategic stockholding. They are also seeking to reduce possible supply bottlenecks by

diversifying their production facilities across multiple countries and to increase their flexibility by improving the substitutability of inputs. However, such measures are always also associated with political judgements about the host countries, for which businesses now expect political guidelines. In order to preserve the viability of global supply chains, new forms of coordination between the public and private sectors are therefore needed.

## Orchestrating supply chain governance

“Sovereignty over supply” has become the watchword of the debate, which has moved beyond the idea of achieving technical sovereignty through decoupling from China. Now, the thrust of the discussion has been reversed: Where once businesses resisted regulatory intervention in supply chains, they now call for state instructions for organising robust production processes. To that extent they have become victims of their own decisions, which were motivated solely by cost efficiency and externalised environmental and social costs to the detriment of the producing countries. Not so long ago European and German regulation of due diligence was regarded as unwarranted interference; now industry calls for state support and guarantees for reconfiguring its supply chains.

The search for greater autonomy is interlaced with expectations of possible gains in autarchy. But the underlying thinking is a dead end. The question is ultimately how the innate risks and the reliability of the suppliers are assessed. Here the complex structure of supply chains must be taken into account, along with the associated cascading effects. Operational questions are therefore also on the agenda, for example the possibility of shortening supply chains, expanding vertical integration by taking over suppliers, or increasing stockholding.

Prioritising capital efficiency led many manufacturers to employ subcontracting to lower production costs. Yet minimising

costs is incompatible with the expense of investment in duplicate facilities, and with the challenges associated with distributing production volume across multiple locations. While businesses have often sharply rejected state intervention in operational affairs, the importance of eliminating vulnerabilities in logistics, ensuring security of supply and complying with due diligence now forces them to rethink. The criterion of political convergence requires that supply chain governance be “orchestrated” between state and industry. This can range from new trade agreements to the creation of a “trusted suppliers” platform. There is also the question of who covers the additional costs. Many decision-makers are sceptical whether businesses or consumers will really be willing to bear the structural costs incurred in relocating production and the friction costs of reconfigured supply chains.

The shift to new production locations can be orchestrated best in and in coordination with lead companies that shape producer-driven supply chains, with capacity to regulate, options for rapid action, and a need to secure strategic products and segments. Because they control the nodes of their supply chains, these lead firms possess considerable leverage over the relationships within the entire chain.

Although recent research demonstrates that such multi-stakeholder processes involving state(s), businesses and civil society are not per se more effective in enforcing standards, they do enjoy much greater legitimacy. This applies not least with respect to the representation of producers and NGOs from the Global South, which is vital for local implementation of environmental, social and human rights standards. Here the question is above all how the lead firms will distribute the accruing costs. Studies suggest that these are often unloaded onto upstream suppliers. That places a great burden on small and medium-sized companies in supplier countries and forces many of them out of the supply chain altogether. This is neither sensible in development terms, nor will the governments of

the affected countries tolerate it in the longer term. State subsidies can only compensate part of the cost of resilience and convergence. Instead one should concentrate on the successes achieved through orchestration by “lead firms” with states taking supporting measures. This could also spur other branches to take similar action.

Orchestration of supply chain governance demands multiple modifications to process and structure, which need to be taken in hand as rapidly as possible within and between businesses. For example strategic goods need to be selectively secured against concrete identified risks by increasing stockholding. Additionally it may be advisable for manufacturers to take over their suppliers. Guarding against supply chain risks and assessing transport security are on the agenda, along with corporate enforcement of environmental and social standards and the suppliers’ obligations to deliver.

Ultimately all this touches on economic and regulatory questions that also relate to the degree of concentration in a sector. One of these would be the expectation that successful orchestration will lead to increases in coordination problems and transaction costs. Firms with a dominant role will be affected most: major supermarket chains, pharmaceutical companies, commodity traders, but also seed producers.

Ever more leading companies are based in countries of the Global South. There, efforts to found state-owned corporations to manage and exploit national resources can currently be identified, seeking to bolster their sovereignty and political autonomy. That is likely to make it harder to enforce sectoral and political standards and transnational regulations, because due diligence arrangements heighten the national sensitivity of questions of manipulation of trade law and accusations of trade restrictions. There will therefore be a need for governmental agreements with these “lead firms”, in order to provide political conditions for the actions of businesses. Here it will be necessary to weigh the strategic significance of the respective sector or segment, because

across-the-board regulation is likely to remain the exception. Processes orientated on local ownership thus become more important than classical instruments guided by compliance requirements. This orientation is not least a consequence of individual countries in the Global South agreeing to establish new regional supply chains under their own standards.

## Political geography and legislation

The spatial reordering of supply chains under the criterion of “political convergence” requires a reconfiguration of the geography of production, transport and consumption. It must be assumed that the maxims of friend-shoring and security of supply will bring regions closer together and cause logistic and operational hubs to be reconfigured. As supply chains are reconfigured, global competition for cheap wages, appropriate production and transport infrastructures, and tax incentives are likely to play an important role again. The more strongly supply chains come under the sway of geopolitical rivalry, the weaker will be their economic determination. There are various dimensions to the politicisation of supply chains. The role of uncertainty and risk factors grows in line with their massive implications for economic activity and political stability. Guidelines will need to be laid down for partners (structures), be it in the scope of resource partnerships, in the establishment of new consortia or through acceptance of central rules and standards. The distribution of the costs of a geopolitically driven reordering of supply chains is a central point of discussion that needs to be clarified between state(s) and businesses.

A first attempt to coordinate international action was undertaken in June 2022 by ten Western states and the EU, in the form of the Minerals Security Partnership (MSP). This seeks to ensure that critical minerals like cobalt, lithium and nickel are extracted, processed and recycled in a manner that enables the member states to share

their geological resources with “friendly” states. This cooperation seeks to establish robust and responsible supply chains for raw materials through public and private infrastructure investment, in a form that also meets the requirements of the EU’s Green Deal.

The MSP links the production, processing and recycling of critical raw materials. Its members – Australia, Canada, Finland, France, Germany, Japan, South Korea, Sweden, the United Kingdom and the United States – include both resource-poor and resource-rich states. A supply chain bloc formed by these countries would thus come very close to the friend-shoring concept. As such, these supply chains would function without the involvement of China, which currently plays a central global role in the processing of the aforementioned minerals. Establishing such a thoroughgoing supply chain from mining through refining to manufacturing and recycling would thus be a first step towards reordering global supply chains to Western standards, including observance of climate standards and guaranteeing security of supply with critical raw materials. The degree to which the participating states are willing to cooperate is likely to decide whether this step towards geopolitical separation of supply chains is actually realised.

Until then countries will continue to pursue national paths to security of supply. But the priorities should not be entirely turned on their head. In view of raw material shortages and the associated restructuring of supply chains, there have already been calls to suspend the due diligence legislation. But that would not be conducive to a reorientation of the political geography of the supply chains. Instead it must be ensured that the statutory requirements are integrated into the corporate processes and orientated on reducing human rights risks. Regulatory trade-offs between efficiency, sustainability, resilience and poli-

tical convergence need to be avoided. Corporate responsibility must prevail precisely in the conflicts of goals between the different demands. Otherwise significant disruption of an economic and political nature must be expected. Stakeholder value possesses special weight in complex structures like supply chains and must be made visible. If the reconfiguration of supply chains is to be successful, government will have to support individual companies and the economy in general and on the road to realising this potential.

Ultimately the possibility to build coherent blocs (along the lines of the MSP) will remain limited. And new provisions of competition and trade law are likely to increase the complexity of creating geopolitically “secure” supply chains.

*Prof. Dr. Günther Maihold is Deputy Director of the SWP and leads the SWP contribution to the research network on Sustainable Global Supply Chains, which is funded by the German Federal Ministry for Economic Cooperation and Development.*

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**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
[www.swp-berlin.org](http://www.swp-berlin.org)  
[swp@swp-berlin.org](mailto:swp@swp-berlin.org)

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# Project Syndicate

## A Better Globalization Might Rise from Hyper-Globalization's Ashes

May 9, 2022 | **DANI RODRIK**

CAMBRIDGE – The post-1990s era of hyper-globalization is now commonly acknowledged to have come to an end. The COVID-19 pandemic and Russia's war against Ukraine have relegated global markets to a secondary and at best supporting role behind national objectives – in particular, public health and national security. But all the talk about deglobalization should not blind us to the possibility that the current crisis may in fact produce a better globalization.

In truth, hyper-globalization had been in retreat since the global financial crisis of 2007-08. The share of trade in world GDP began to decline after 2007, as China's export-to-GDP ratio plummeted by a remarkable 16 percentage points. Global value chains stopped spreading. International capital flows never recovered to their pre-2007 heights. And populist politicians openly hostile to globalization became much more influential in the advanced economies.

Hyper-globalization crumbled under its many contradictions. First, there was a tension between the gains from specialization and the gains from productive diversification. The principle of comparative advantage held that countries should specialize in what they were currently good at producing. But a long line of developmental thinking suggested that governments should instead push national economies to produce what richer countries did. The result was the conflict between the interventionist policies of the most successful economies, notably China, and the "liberal" principles enshrined in the world trading system.

Second, hyper-globalization exacerbated distributional problems in many economies. The inevitable flip side of the gains from trade was the redistribution of income from its losers to its winners. And as globalization deepened, redistribution from losers to winners grew ever larger relative to the net gains. Economists and technocrats who pooh-poohed the central logic of their discipline ended up undermining public confidence in it.

Third, hyper-globalization undermined the accountability of public officials to their electorates. Calls to rewrite globalization's rules were met with the retort that globalization was immutable and irresistible – "the economic equivalent of a force of nature, like wind or water," as US President Bill Clinton put it. To those who questioned the prevailing system, UK Prime Minister Tony Blair responded that, "You might as well debate whether autumn should follow summer."

Fourth, the zero-sum logic of national security and geopolitical competition was antithetical to the positive-sum logic of international economic cooperation. With China's rise as a geopolitical rival to the United States, and Russia's invasion of Ukraine, strategic competition has reasserted itself over economics.

With hyper-globalization having collapsed, scenarios for the world economy run the gamut. The worst outcome, recalling the 1930s, would be withdrawal by countries (or groups of countries) into

autarky. A less bad, but still ugly, possibility is that the supremacy of geopolitics means that trade wars and economic sanctions become a permanent feature of international trade and finance. The first scenario seems unlikely – the world economy is more interdependent than ever, and the economic costs would be huge – but we certainly cannot rule out the second.

Yet, it is also possible to envisage a good scenario whereby we achieve a better balance between the prerogatives of the nation-state and the requirements of an open economy. Such a rebalancing might enable inclusive prosperity at home and peace and security abroad.

The first step is for policymakers to mend the damage done to economies and societies by hyper-globalization, along with other market-first policies. This will require reviving the spirit of the Bretton Woods era, when the global economy served domestic economic and social goals – full employment, prosperity, and equity – rather than the other way around. Under hyper-globalization, policymakers inverted this logic, with the global economy becoming the end and domestic society the means. International integration then led to domestic disintegration.

Some might worry that emphasizing domestic economic and social objectives would undermine economic openness. In reality, shared prosperity makes societies more secure and more likely to countenance openness to the world. A key lesson of economic theory is that trade benefits a country as a whole, but only as long as distributive concerns are addressed. It is in the self-interest of well-managed, well-ordered countries to be open. This is also the lesson of actual experience under the Bretton Woods system, when trade and long-term investment increased significantly.

A second important prerequisite for the good scenario is that countries do not turn a legitimate quest for national security into aggression against others. Russia may have had reasonable concerns about NATO enlargement, but its war in Ukraine is a completely disproportionate response that will likely leave Russia less secure and less prosperous in the long run.

For great powers, and the US in particular, this means acknowledging multipolarity and abandoning the quest for global supremacy. The US tends to regard American predominance in global affairs as the natural state of affairs. In this view, China's economic and technological advances are inherently and self-evidently a threat, and the bilateral relationship is reduced to a zero-sum game. Leaving aside the question of whether the US can actually prevent China's relative rise, this mindset is both dangerous and unproductive. For one thing, it exacerbates the security dilemma: American policies designed to undermine Chinese firms such as Huawei are likely to make China feel threatened and respond in ways that validate US fears of Chinese expansionism. A zero-sum outlook also makes it more difficult to reap the mutual gains from cooperation in areas such as climate change and global public health, while acknowledging that there will necessarily be competition in many other domains.

In short, our future world need not be one where geopolitics trumps everything else and countries (or regional blocs) minimize their economic interactions with one another. If that dystopian scenario does materialize, it will not be due to systemic forces outside our control. As with hyper-globalization, it will be because we made the wrong choices.

## **DANI RODRIK**

Dani Rodrik, Professor of International Political Economy at Harvard University's John F. Kennedy School of Government, is President of the International Economic Association and the author of *Straight Talk on Trade: Ideas for a Sane World Economy* (Princeton University Press, 2017).

# Focused Trade Agreements can Sustain the WTO in Time of Economic Nationalism

*PIIE Real Time Economics*

Gary Clyde Hufbauer

April 12, 2021

Despite the slowdown of growth in trade worldwide, the United States has been holding unpublicized discussions with the European Union, Japan, China, Canada, and other countries on specialized trade agreements on single issues like ecommerce. These negotiations are conducted in the World Trade Organization (WTO), which has hosted single-subject accords among a subset of members, known as plurilateral agreements, since the Tokyo Round of Multilateral Trade Negotiations (1974–79).<sup>[1]</sup>

Plurilateral negotiations are an excellent way to sustain the world trading system at a time of rising economic nationalism. Four are underway not only on ecommerce but also on environmental goods, investment facilitation, and trade in services. The new WTO director-general, Ngozi Okonjo-Iweala, has called for their successful conclusion before the 12th Ministerial Conference, to be held in November 2021.

## INDIA AND SOUTH AFRICA ARE USING SPURIOUS LEGAL ARGUMENTS AGAINST CURRENT PLURILATERAL NEGOTIATIONS

But there is a snag. India and South Africa filed a communication ([WT/GC/W/819](#)) with the WTO in February 2021, objecting that these four plurilateral agreements, if reached, would be “legally inconsistent” with WTO rules and principles. Behind this legal objection, India and South Africa do not want to make the concessions necessary to join the new accords and instead are trying to hold them hostage for concessions on subjects dear to their own commercial interests, such as waivers on intellectual property rights.

The legal arguments buttressing the Indian–South African objections are flawed. Their objections are more than parochial. They imperil the future of the WTO as a negotiating forum for all plurilateral talks. These talks need to be sustained in order to revive the much-maligned WTO as an institution, to the benefit of all WTO members—but especially those without strong commercial links to the big economic powers. In addition, these negotiations can provide vital platforms for cooperation on other issues on the frontier of technology changes in the world trading system.

India and South Africa (ISA) contend that the *only* permitted plurilateral agreements are those authorized by Annex 4 of the [Marrakesh Agreement](#). Only four were authorized when the Marrakesh Agreement was signed in April 1994, and only two of those are still in existence (government procurement and civil aviation). Apart from Annex 4 plurilaterals, in the ISA view, every trade agreement in the WTO must be a multilateral accord—in other words, agreed by all members.

Underpinning this contention, ISA cite Article X.9 of the Marrakesh Agreement. They insist that Article X.9 requires all new plurilateral agreements to be reached “exclusively by consensus” of WTO

members. To permit plurilateral agreements outside of Annex 4 would, in the ISA view, require amending the Marrakesh Agreement, a process that requires a majority vote of two-thirds of the members (Article X.1), and a process that, so far, has not been used.

The ISA argument suffers from three flaws. First, “exclusively by consensus” in Article X.9 applies *only to agreements added to Annex 4*. Other members are not proposing that their plurilateral agreements, called Joint Statement Initiatives (JSIs), be added to Annex 4. Second, the multilateral character of the WTO does *not* imply uniform rights and obligations among WTO members. Indeed, at its inception, the General Agreement on Tariffs and Trade 1947 (GATT) contained special provisions for pre-GATT preferential arrangements between members. As the GATT evolved and was later replaced by the WTO, special and differential terms were added to accommodate developing countries. Third, Article IX.2 of the Marrakesh Agreement states in part:

*The Ministerial Conference and the General Council shall have the exclusive authority to adopt interpretations of this Agreement and of the Multilateral Trade Agreement. . . . The decision to adopt an interpretation shall be taken by a three-fourths majority of the Members. . . .*

Unless and until India and South Africa can persuade three-fourths of WTO members to accept their narrow binary interpretation of Article X.9, other WTO members are free to join plurilateral agreements.

## **HOW BILATERAL AND REGIONAL TRADE AGREEMENTS BECAME THE NORM**

The rise of bilateral and regional trade agreements, by which two or more countries promote free trade and investment between themselves, partly stems from dissatisfaction with the WTO’s broken negotiating arm since the Uruguay Round was concluded in 1994. WTO negotiations have adopted the “single undertaking” approach: “virtually every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately.” This approach has advantages that led to successful conclusion of the Uruguay Round: It prohibits free riding, and member states can offset concessions given on one issue by concessions received in another area.

When the last round of multilateral trade negotiations was launched in Doha in 2001, with the express aim of helping developing countries, the concept of a single undertaking was carried over from the previous negotiations known as the Uruguay Round. However, the Doha Round failed because of a refusal on all sides to make mutually agreed concessions. Developing countries did not want to lower their applied tariffs or eliminate the “water” between their bound (permitted) and applied (actual) tariffs. For their part, advanced countries did not want to zero out their applied tariffs or roll back intellectual property disciplines agreed in the Uruguay Round.

Today, the “single undertaking” approach of multilateral trade negotiations is no longer a feasible modality for WTO negotiations. WTO members are far apart on items that should be covered in the agenda, meaning that the multilateral big package that characterized the Uruguay Round is out of sight. [Rising economic nationalism](#) across the globe, heightened by the COVID-19 pandemic, further erodes the appetite for agreements that would encompass all 164 WTO members.

## **PLURILATERAL AGREEMENTS PROVIDE NEEDED FLEXIBILITY FOR THE WTO**

Plurilateral agreements among subsets of members introduce essential flexibility for the WTO to continue its vital role as a negotiating forum. Each agreement reached under a plurilateral framework [should be open](#) to any WTO member that decides to join, both to accept the obligations and enjoy the rights. Over time, perhaps decades, each plurilateral agreement should evolve into a multilateral accord.

Given the current high level of geopolitical tensions, a bilateral US-China trade or investment agreement does not seem realistic. Within the next decade, China might join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Conceivably, China's interest in the CPTPP could push President Joseph R. Biden Jr. to reconsider US membership, indirectly joining the United States and China in an agreement, but again that possibility seems remote.

Joint membership in WTO plurilateral agreements devoted to single subjects, however, provides a viable platform for the United States, the European Union, and China, to deepen their trade and investment ties without sparking political headlines. Moreover, through plurilateral agreements, all three economic giants can strengthen ties with WTO members with which they do not have bilateral or regional agreements. The United States, the European Union, and China should jointly lead negotiations in which they are participants, such as talks on ecommerce and environmental goods, and aim for early conclusion and ratification.

In addition to ongoing plurilateral talks, other topics seem ripe for the United States, the European Union, and China to take the lead. Climate change tops the agenda. In September 2020, President Xi Jinping announced that China will aim for carbon neutrality by 2060. With his election, President Biden rejoined the Paris Agreement and promised a green agenda. The European Union will soon announce its proposals for a carbon border adjustment mechanism. These commitments pave the way for plurilateral talks on carbon emissions related to international commerce. These talks might establish rules that avoid the proliferation of contradictory inspection and tax regimes.

Apart from climate change commitments, China accepted novel obligations in other areas in its Comprehensive Agreement on Investment (CAI) with the European Union. Some of the new obligations, such as commitments on state-owned enterprises, technology transfers, and transparency on subsidies covered by the CAI might also form the foundation for plurilateral WTO agreements. Productive work awaits the WTO under its new director-general.

### **NOTE**

1. The Tokyo Round was conducted under the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO.

# G7 Can Help Build Resilient and Secure Supply Chains

*By addressing both short and long-term supply chain issues, G7 can pave the way to a global economic recovery and create better resilience to future shocks.*

Chatham House Expert Comment  
Marianne Schneider-Petsinger  
June 22, 2022

When Germany took over the G7 presidency in January, supply chain resilience was identified as a key priority, and now – ahead of the G7 leaders' summit – the goal of '[creating open, fair, resilient and sustainable supply chains](#)' has gained even greater urgency.

Russia's invasion of Ukraine has challenged global supply chains on top of ongoing disruptions stemming from the COVID-19 pandemic. But although these extraordinary shocks sent potentially long-term ripples through global production and transportation networks, strategic competition with China and climate change present gradual risks for supply chains over a much longer timescale. Against this backdrop, G7 leaders need to strike a careful balance of responding to short-term fragilities without losing sight of the long-term objectives.

Supply chain conditions have improved somewhat since port congestions and shipping costs reached record highs at the end of 2021, but they are [unlikely to recover to pre-COVID days](#) by 2023. If left unaddressed, supply chain disruptions will continue to add to inflation which reached a four-decade high among G7 countries when it hit seven per cent year-on-year in March.

But there are five priorities which offer a path for G7 countries to build resilient and secure supply chains and prevent disruption from hampering the global economic recovery and clouding the long-term growth outlook.

## **1. Take joint action, starting with an early warning mechanism**

Over the past two years, [G7 leaders have called](#) for greater supply chain resilience and committed to open and rules-based trade to support this approach. Although members have started to build consensus and implemented some steps at the national level, now is the time to focus on tangible deliverables as a group.

As a first step towards joint action, G7 leaders should develop a common early warning and monitoring system to share information about potential disruptions – starting with a focus on semiconductor supply chains. More ambitious efforts can then follow, such as setting up common stockpiles and developing stress-tests for their management.

## **2. Focus on strategically important sectors**

Supply chain resilience has become a buzz phrase across all industries, but initiatives to strengthen resilience should focus on critical sectors or products. Tackling fragile supply chains in public health, food production, and energy have risen to the top of the agenda given the compounding crises of the last two years.

But advancing the resilience of supply chains in sectors for the green and digital economic transition is also critically important in the long run. A particular emphasis should be put on supply chains for critical minerals and raw materials for renewable energy, solar panels and products, and semiconductors.

## **3. Work with the private sector**

Supply chain resilience is ultimately strengthened at the level of individual businesses, and therefore [greater cooperation between the public and private sector](#) is needed. But policymakers and business leaders have different concerns and approaches as the former needs to take many different sectors and the entire economy into consideration.

One area for public-private action is [designing efficient stockpiling systems](#) or agreements to boost the production capacity of essential goods. Such bold long-term efforts could build on recent initiatives. For instance, G7 governments are [already working with global food and agriculture businesses](#) to improve the environmental and social impact of global food supply chains.

As a forum of the world's leading democracies, G7 is well-placed to work closely with the private sector to ensure supply chains reflect the values contained in environmental and human rights standards.

## **4. Coordinate with other forums and partners**

Although G7 countries account for 33 per cent of global exports and 36 per cent of global imports, they cannot build resilient supply chains alone, so fostering cooperation with like-minded partners beyond the grouping is essential for a more global solution.

Forums such as G20 can support supply chain resilience but, with Russia's participation in the G20 summit in Indonesia still a possibility, it is far from certain that steps towards food security and the rolling back of trade restrictions will happen.

Instead, better linking up the different supply chain resilience efforts among G7 countries and key allies could be low-hanging fruit. The US-EU Trade and Technology Council has a [working group](#) dedicated to secure supply chains and has already identified some recommendations

such as an [early warning system](#) for semiconductor supply chains. For greater impact, this effort should be extended to other G7 members – namely, Japan, Canada, and the UK.

The Indo-Pacific Economic Framework for Prosperity (IPEF) also contains a focus on supply chain resilience and aims to develop an early warning system. Launched by the US, it comprises a dozen countries including the 2023 G7 president Japan, South Korea, Australia, and New Zealand.

In this formation of variable geometry, the G7 is uniquely positioned to create synergies between the supply chain resilience efforts of its members and leverage their engagement with like-minded countries.

## **5. Create an enabling environment**

By reinforcing an open and rules-based global trading system, G7 governments will encourage supply chain resilience. In particular, [continued efforts to reform](#) the World Trade Organization (WTO) might stand a better chance of success since members agreed to limited deals at the recent Ministerial Conference – the first such event since 2017.

Even if multilateral solutions cannot be found, G7 countries can still drive forward ambitious commitments and set new rules in bilateral, regional, and sectoral trade agreements with like-minded partners.

With supply chains under continued stress, coordinated action by the G7 and like-minded partners is desperately needed. Building resilience is more important than ever because chronic challenges continue to flare up and it is difficult to predict where the next acute challenge will come from.

*This piece is part of a project on transatlantic cooperation on trade and technology, funded by the Hanns Seidel Foundation.*

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# **REGIONAL ECONOMIC INTEGRATION IN THE POST-PANDEMIC ERA**

Edited by Xue Gong

**S. Rajaratnam School of International Studies**

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Nanyang Technological University

Block S4, Level B3, 50 Nanyang Avenue

Singapore 639798

Telephone: 6790 6982 Fax: 6794 0617

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Produced by **BOOKSMITH**

([chrys2@singnet.com.sg](mailto:chrys2@singnet.com.sg))

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# Indo-Pacific Solution for Global Trade Problems

Jeffrey Wilson

Regional economic integration in the Indo-Pacific finds itself in surprisingly good health. On 1 January 2022, the 15-member Regional Comprehensive Economic Partnership (RCEP) entered into force. The world's largest regional trade agreement by GDP, RCEP finally provides the Indo-Pacific an integrated instrument covering almost all major economies. And after four years of quiet operation, the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has begun its expansion phase: during 2021, the United Kingdom commenced formal accession negotiations; China, Taiwan and Ecuador submitted accession applications; and South Korea declared an intent to soon do the same.

The Indo-Pacific's trade successes are all the more surprising when viewed against the challenges currently facing the global trading system. Protectionism has accelerated in the wake of the COVID-19 pandemic. The US-China trade war remains unresolved after five years. Coercive trade practices have become unfortunately common, as geopolitical rivalries between the major powers spill over into the economic domain. The WTO has struggled to conclude new agreements, while its dispute settlement mechanism is currently non-functional. By global comparison, the Indo-Pacific is doing exceedingly well in building an open and rules-based trading architecture.

But it would be a mistake to assume that the Indo-Pacific's trade future is secure. Despite recent successes, the threats facing the global trade system augur poorly for a region that contains many of the world's most open and trade-exposed economies. RCEP and the CPTPP currently do little to protect the Indo-Pacific from global trade headwinds. The region therefore needs to take its commitment to open and rules-based trade embodied in these agreements and articulate it into broader fora that have the capacity to address global-level trade problems. The ultimate test of RCEP and the CPTPP is not what they can do for the Indo-Pacific, but how their principles can help sustain the integrity of the global trading system.

## THE LOGIC OF REGIONAL TRADE BLOCS: LIBERALISATION, HARMONISATION AND RULE-MAKING

The CPTPP and RCEP are widely viewed as competing models for the Indo-Pacific economic architecture. This is a natural response, given their differing memberships, objectives and provisions. It is also reinforced by geostrategic commentary: particularly claims by the Obama administration that the original TPP would allow the United States to “write the economic rules of the road” in the region,<sup>41</sup> and PRC-propagated claims that RCEP is a “China-led” agreement.<sup>42</sup> However, this is grossly misleading. Far from being in competition, the CPTPP and RCEP offer distinct but complementary models for the next phase of regional economic integration.

Multilateral trade agreements are not solely about achieving “free trade”. Rather, they can promote one of three distinct policy objectives:

1. *Liberalisation*: Reducing conventional trade barriers — tariffs, quotas and customs procedures — between members.
2. *Harmonisation*: Providing a consistent set of trade rules among a group of countries, particularly where multiple (and inconsistent) bilateral free trade agreements (FTAs) already exist.
3. *Rule-making*: Establishing new disciplines in “trade-related” areas of economic regulation not currently covered by WTO provisions.

The principal purpose of RCEP is *harmonisation*. Architecturally, it takes five of the existing “ASEAN+1” FTAs and integrates them into a single overarching agreement. Its rules-of-origin (RoOs) provisions provide an illustrative example. By establishing a single and integrated RoOs framework for the bloc, including highly permissive cumulation rules, RCEP will greatly improve trade facilitation relative to the status quo ante of the “noodle bowl” of overlapping bilaterals in the region.<sup>43</sup> Euler Hermes has estimated that RoOs harmonisation alone could create an additional US\$90 billion

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41 The White House, “Statement by the President on the Signing of the Trans-Pacific Partnership”, 3 February 2016, <https://obamawhitehouse.archives.gov/the-press-office/2016/02/03/statement-president-signing-trans-pacific-partnership>.

42 Jeffrey Wilson, “Who’s Afraid of the RCEP?” *9DashLine*, 4 October 2021, <https://www.9dashline.com/article/whos-afraid-of-the-rcep>.

43 Parmila Crivelli and Stefano Inama, “Making RCEP Successful Through Business-Friendly Rules of Origin”, ADB Blog, 12 February 2021, <https://blogs.adb.org/blog/making-rcep-successful-through-business-friendly-rules-origin>.

of trade between its members annually.<sup>44</sup> Harmonised minimum standards for investment, services and e-commerce all perform a similar function.

By contrast, the CPTPP is primarily a *rule-making* agreement. Its stated purpose — to establish a trade agreement for the “21st century” economy<sup>45</sup> — specifically targets the creation of new rules which advance beyond WTO disciplines. Many “WTO-plus” issues are included, such as services, investment, intellectual property, anti-corruption, environment, e-commerce, state-owned enterprises (SOEs), telecommunications, financial services and labour standards. Not only does the CPTPP set a regulatory high-water mark for the Indo-Pacific, but it can also function as a model for other regional and global trade negotiations. For example, the negotiations for the 2020 US-Mexico-Canada (USMCA) agreement borrowed heavily from the TPP, copying 57% of its text, according to one analysis.<sup>46</sup>

Thus, there is a complementary division of labour between the Indo-Pacific’s two mega-regional trade agreements. RCEP establishes an integrated and inclusive trade architecture among all major economies, while the CPTPP allows the more ambitious members to break new ground on WTO-plus rule-making. While neither agreement is strongly liberalising — an objective already achieved by the region’s bilateral FTAs — they nonetheless make a positive contribution by filling missing bilateral links. Modelling by the Peterson Institute suggests the CPTPP will add US\$147 billion to global GDP by 2030, and RCEP US\$186 billion, largely accruing to their respective members.<sup>47</sup>

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44 Euler Hermes, “RCEP: Common Rule of Origin Could Boost Regional Trade by around USD90bn Annually”, 17 November 2020, [https://www.eulerhermes.com/en\\_global/news-insights/economic-insights/RCEP-common-rule-of-origin-could-boost-regional-trade-by-around-USD90bn-annually.html](https://www.eulerhermes.com/en_global/news-insights/economic-insights/RCEP-common-rule-of-origin-could-boost-regional-trade-by-around-USD90bn-annually.html).

45 CPTPP Commission, “Comprehensive and Progressive Agreement for Trans-Pacific Partnership Ministerial Statement”, Tokyo, 19 January 2019, <https://www.dfat.gov.au/sites/default/files/19-jan-2019-cptpp-ministerial-statement.pdf>.

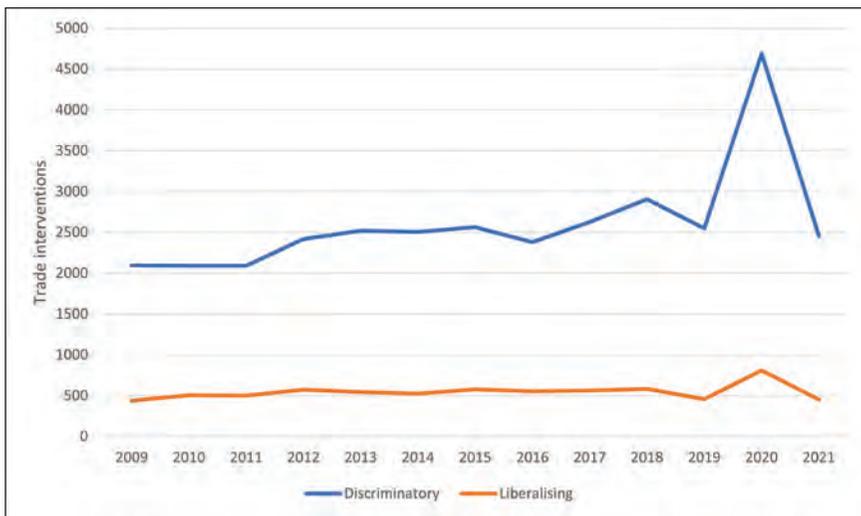
46 Wolfgang Alschner and Rama Panford-Walsh, “How much of the Transpacific Partnership is in the United States-Mexico-Canada Agreement?”, Ottawa Faculty of Law Working Papers, No. 2019–28, 2019, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3410658](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3410658).

47 Peter A Petri and Michael G. Plummer, “East Asia Decouples from the United States: Trade War, COVID-19, and East Asia’s New Trade Blocs”, Peterson Institute for International Economics Working Papers, 20–9, 2020, <https://www.piie.com/system/files/documents/wp20-9.pdf>

## THE CRISIS IN THE GLOBAL TRADING ENVIRONMENT

Good progress in the CPTPP and RCEP unfortunately runs against the prevailing winds of the global trade system. Since the global financial crisis of 2008, there has been a marked turn towards protectionism around the world. As data from Global Trade Alert reveals, in the last decade governments have enacted discriminatory trade measures at five times the rate of liberalising ones, with a major peak in 2020 in response to the COVID outbreak (see Figure 1). While this pattern is observed across almost all countries, the United States, China, India, United Kingdom and EU members account for the largest shares of the global total. While the Indo-Pacific pushes ahead with trade integration through ambitious mega-regional agreements, the rest of the world appears to be returning to protectionist settings.

Figure 1. Global Trade Interventions per Year, 2009–2021



Source: Global Trade Alert.<sup>48</sup>

Those who subscribe to the “bicycle theory” of trade liberalisation will attribute blame to the inability to finalise new multilateral trade negotiations.

48 Global Trade Alert, “Global Dynamics Database”, [https://www.globaltradealert.org/global\\_dynamics](https://www.globaltradealert.org/global_dynamics).

While the General Agreement on Tariffs and Trade (GATT), the forerunner of the WTO, completed eight major “rounds” of negotiations during its history, the WTO has been unable to complete a single comprehensive round since 1995. Nor has its record in sectoral agreements proven better, delivering only the 1996 Information Technology Agreement and the 2017 Trade Facilitation Agreement. Longstanding negotiations on environmental goods, fisheries subsidies and dispute settlement reform are in deadlock, while significant member divisions remain over emerging issues such as carbon pricing in trade and a trade-related intellectual property rights (TRIPS) waiver for COVID vaccines. After three decades of underperformance in its negotiating function, expectations for new rule-making from Geneva are very low.

Perhaps the greatest challenge is the crisis over dispute settlement, the principal mechanism of the WTO’s enforcement function. To simplify the challenge greatly, the controversy is over whether the Appellate Body (AB) is acting in a way that exceeds its official mandate. While many countries have concerns with AB performance, the United States has led demands for change<sup>49</sup> and is blocking appointments to the AB in order to force reform. As a result, the AB became inquorate in December 2019, allowing members to circumvent adverse outcomes through a tactic known as the “appeal into the void”.<sup>50</sup> The AB crisis has left the WTO without an effective and depoliticised enforcement mechanism.

Compounding matters, there is also the challenge from coercive trade practices. It involves the arbitrary application of trade measures with the deliberate intent of economically harming a trade partner during a (non-trade) diplomatic dispute. Trade coercion has become more common in recent years, particularly from both China and the United States, who have deployed it against many countries.<sup>51</sup> It is also a serious threat to the global

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49 Marianne Schneider-Petsinger, “Reforming the World Trade Organization Prospects for Transatlantic Cooperation and the Global Trade System”, Chatham House, 2020, <https://www.chathamhouse.org/2020/09/reforming-world-trade-organization>.

50 So called because, while the Appellate Body is inquorate and unable to hear cases, any appeal of a panel ruling disappears “into the void” of a backlog of unheard AB cases.

51 Jeffrey Wilson, “NATO for Trade: A Bad Answer to a Good Question?” Hinrich Foundation, 13 July 2021, <https://www.hinrichfoundation.com/research/article/sustainable/nato-for-trade/>.

trading system. It breaches core WTO principles of non-discrimination, asymmetrically affects small and medium economies, and cannot be effectively addressed by existing dispute mechanisms.<sup>52</sup> The re-emergence of politicised trade augurs extremely poorly for confidence in and the integrity of a rules-based global trading system.

## INDO-PACIFIC TRADE AGREEMENTS TO THE RESCUE?

For a highly trade-exposed region like the Indo-Pacific, these global trade problems are a serious threat. Most countries in the region have openness built in to their economic structures, utilising high levels of foreign direct investment to build export industries oriented to world markets. While this open economic model has performed exceptionally well, it is also premised on a liberal and rules-based global trading environment. As this comes under increasing threat, so too do the region's development strategies. Can the Indo-Pacific's new trade agreements offer protection against these global threats?

Unfortunately, RCEP's structure means it is unlikely to do so. Its key strengths are its inclusivity (achieving near-universal regional membership) and its harmonisation effects. But its reach is purely regional and does not include extra-regional players who might champion its approach globally. The absence of India, which left the negotiations in 2019,<sup>53</sup> also deprives the bloc of a powerful voice in Geneva. And RCEP's comparatively lower ambition — its regulatory provisions are far more modest than those of the CPTPP — means it will not function as a template for other global-level trade negotiations. While it is a powerful tool for fostering economic integration in the Indo-Pacific, it is simply not configured to be projected beyond the region.

By contrast, the CPTPP suffers an inverse problem: an exclusive, and controversial, membership. Its regional coverage is very patchy, and at present lacks many important economies. Questions remain over how smoothly its forthcoming accessions may work. There will be significant controversy

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52 Wendy Cutler et al., "Responding to Trade Coercion: A Growing Threat to the Global Trading System", Asia Society Policy Institute and Perth USAsia Centre, 2021, <https://asiasociety.org/policy-institute/responding-trade-coercion-growing-threat-global-trading-system-0>.

53 Surupa Gupta and Sumit Ganguly, "Why India Refused to Join the World's Biggest Trading Bloc", *Foreign Policy*, 23 November 2020, <https://foreignpolicy.com/2020/11/23/why-india-refused-to-join-rcep-worlds-biggest-trading-bloc/>.

over China and Taiwan's applications, given complex geopolitical issues of Taiwan's status and international recognition.<sup>54</sup> Ongoing bilateral tensions between Japan and South Korea may threaten the latter's forthcoming application. Until these membership issues are resolved, the CPTPP cannot be effectively projected out into the global trading system.

Meanwhile, major trade powers are largely ignoring what is happening in the Indo-Pacific. After a year in office, the Biden administration is yet to take any meaningful trade policy actions. It also retains most of the destructive policies of the Trump era, particularly the distortive "Phase One" managed trade agreement with China and the AB appointment veto. China continues to deploy coercive trade practices, targeting Australia (an RCEP and CPTPP member) in 2020<sup>55</sup> and Lithuania in 2021.<sup>56</sup> For its part, the European Union has unilaterally pushed ahead with developing rules for carbon pricing in trade despite concern from many trading partners. There is little evidence that the major players in the global trade system are adjusting their outlooks or policies in light of the positive example set by the Indo-Pacific.

## REGIONAL ADVOCACY FOR GLOBAL PROBLEMS

Indo-Pacific governments cannot rely on regional instruments to shape the global trade agenda. Rather, they must now tackle global trade challenges at the locus of the problem. Regional governments need to participate in global trade debates and advocate in support of open and rules-based trade arrangements. This approach to trade diplomacy would see the Indo-Pacific draw on the content of its new regional agreements and project these values and ideas into global economic fora. There are three immediate ways the region can "go global" with its trade diplomacy.

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54 Natasha Kassam and Jeffrey Wilson, "China v Taiwan Dilemma for Trade Pact", *Australian Financial Review*, 1 October 2021.

55 Jeffrey Wilson, "Australia Shows the World What Decoupling from China Looks Like", *Foreign Policy*, 9 November 2021, <https://foreignpolicy.com/2021/11/09/australia-china-decoupling-trade-sanctions-coronavirus-geopolitics/>.

56 Jonathan Hackenbroich, "Coercion with Chinese Characteristics: How Europe Should Respond to interference in its Internal Trade", 24 January 2022, <https://ecfr.eu/article/coercion-with-chinese-characteristics-how-europe-should-respond-to-interference-in-its-internal-trade/>.

First, put trade issues squarely on the agenda of key global fora. Indo-Pacific governments have a unique window to do this, given the hosting schedule for upcoming global summitry. Indonesia hosts the G20 Summit in 2022 and will become the ASEAN chair in 2023, while Japan will host the G7 Summit in 2023. This presents an opportunity to elevate trade on the agenda of three core summits and articulate the region's commitment to a global audience. The Indo-Pacific's four OECD members should support this agenda through advocacy in Paris, while the Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit provide fora for the region as a whole to engage the United States on trade issues.

Second, regional governments need to step up engagement with WTO reform. While there is a temptation to view the AB dispute as a narrowly US-EU issue, the lack of a global trade umpire is a global problem and cannot be left to the United States and European Union to resolve. Indo-Pacific governments need to actively lobby the protagonists on the need for a speedy resolution. More importantly, lobbying needs to be done beyond normal trade diplomacy channels in Geneva, taken directly and bilaterally as a matter of serious concern. As both the European Union and United States seek to court regional governments with their recent "Indo-Pacific" strategies, this provides an opportunity to press for the importance of a functioning global trade umpire.

Finally, regional governments need to get active in the emerging "plurilateral" space. This modality — where a "reform-ready" subset of WTO members negotiate in a specific sector — appears to offer a viable path for rejuvenating the negotiation function.<sup>57</sup> Plurilaterals will be especially important for making rules in 21st century economy domains. Ongoing plurilateral negotiations over environmental goods and e-commerce will prove critical, while the recently completed plurilateral on Domestic Services Regulation should create movement for further services negotiations. While Indo-Pacific economies often participate in these plurilaterals, they should be accorded high priority, given that they are the most likely vehicle for global-level rule-making today.

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57 Gary Clyde Hufbauer, "Focused Trade Agreements Can Sustain the WTO in Time of Economic Nationalism", 12 April 2021, <https://www.piie.com/blogs/realtime-economic-issues-watch/focused-trade-agreements-can-sustain-wto-time-economic>.

# COUNCIL OF COUNCILS

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## *Session Four*

# Future Flashpoints: Managing Potential Conflicts in the Indo- Pacific



## Background Memo

# *Avoiding Conflict in the Indo-Pacific: An Australian Perspective*

Council of Councils Regional Conference

October 30–November 1, 2022

Centre for Strategic and International Studies, Jakarta, Indonesia

**Susannah Patton**, Lowy Institute

The U.S.-China bilateral relationship is the critical determinant of whether large-scale conflict in the Indo-Pacific will occur. An active discussion is happening in Australia on what steps the United States can take to reduce the risk of catastrophic conflict. Although more than one potential flashpoint exists, conflict in Taiwan is widely considered to be the most dangerous scenario. Current U.S. approaches to reducing the likelihood of conflict include

- strengthening deterrence in coordination with the United States and allied countries. This includes approaches such as deterrence by denial, deterrence by punishment, narrow military deterrence, or integrated deterrence, which focuses on broadening coalitions;
- establishing guardrails for managed strategic competition—essentially, establishing mutually recognized red lines and maintaining intensive closed-door dialogue, as former Australian Prime Minister Kevin Rudd has proposed;
- leader-level coordination between U.S. President Joe Biden and Chinese President Xi Jinping. This is particularly important, as White House Indo-Pacific Coordinator Kurt Campbell said in 2021 that Chinese Foreign Minister Wang Yi was “nowhere near, within a hundred miles” of Xi’s inner circle;
- confidence-building measures, such as the Code for Unplanned Encounters at Sea or military-military hotlines that can help address and prevent uncertainties. However, many analysts question the utility of these mechanisms given that, according to U.S. National Security Advisor Jake Sullivan, Chinese military vessels and aircraft have undertaken a sharp increase in unsafe and unprofessional behaviour in 2022, suggesting a limited willingness by China to lower the risk of conflict; and
- diplomatic commitment to shaping the region around China, rather than shaping China’s own behaviour, as detailed in the United States’ 2021 Indo-Pacific strategy.

## **Australia’s Perspective**

Australian Foreign Minister Penny Wong said in a recent speech to the UN General Assembly, “So I say to small and medium sized nations like my own: we are more than just supporting players in a grand drama of global geopolitics, on a stage dominated by great powers.” In other words, “we cannot leave it to the big powers.” This statement reiterates a speech she gave in Jakarta in 2019, in which she said, “The rest of us are not just in the slipstream.”

The questions remain as to what exactly this means in practice, and if there actually is much that other countries such as Australia can do to prevent conflict. Australia has advanced several approaches:

- *Contributing to collective deterrence.* Since 2019, Australia has articulated the view that the United States alone cannot maintain deterrence, and that collective action is required. AUKUS, the trilateral technology partnership between Australia, the United States, and the United Kingdom, reflects this logic of collective deterrence. However, the timeline for Australia to upgrade its military capabilities through AUKUS is lengthy, which could mean that Australia would have limited capability to contribute to U.S. efforts if a conflict over Taiwan occurred in the next decade.
- *Privately encouraging both the United States and China to avoid taking action that could lead to conflict.* As a close U.S. ally, Canberra has historically had some limited influence in shaping Washington's approach to the Indo-Pacific, although less so in relation to the U.S. bilateral relationship with China. It should be noted that Australia has only resumed political-level dialogue with China since the election of a new government in Australia in May 2022.
- *Supporting the rules-based order and international law.* Australia has consistently sought to call out instances of using force or coercion, and attempts to resolve disputes by non-peaceful means in concert with other nations. For example, in August 2022, Australia issued a joint statement with Japan and the United States expressing concern about China's large-scale military exercises in the Taiwan Strait.
- *Promoting transparency.* Australia has sought to be transparent in formulating its defense and strategic policies. For example, in 2020 it issued a Defence Strategic Update that articulated Australia's concerns about the growing—although still small—risk of high-intensity conflict in the Indo-Pacific. Australia could do more to explain the purpose of some of its policies and approaches, such as AUKUS, to reduce the likelihood that they are misunderstood.
- *Supporting inclusivity in regional groups.* Australia has long been a supporter of inclusive regional groups such as the Asia-Pacific Economic Cooperation, East Asia Summit, and the Group of Twenty (G20), seeing them as an opportunity for dialogue that could reduce the risk of conflict. However, optimism about the role that these groups can play has diminished over the past ten years.
- *Supporting Taiwan.* To avert a Taiwan conflict, Canberra maintains strong unofficial ties and economic links with Taipei.
- *Advocating for more robust crisis avoidance:* Some scholars have argued that Australia needs to advocate for more robust crisis avoidance, management and confidence-building measures, including in coalition with potential like-minded regional countries such as Japan and Singapore and Japan to avert conflict over Taiwan. However, Australia has notably not taken forward any major diplomatic initiative explicitly focused on reducing the risk of conflict.

# The South China Sea: Realities and Responses in Southeast Asia

**ASYURA SALLEH, SUMATHY PERMAL,  
PEACHES LAUREN VERGARA,  
NGUYEN HUNG SON, EVAN A. LAKSMANA**

**EDITED BY ELINA NOOR**

**A REPORT OF THE ASIA SOCIETY POLICY INSTITUTE**



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## ABOUT THE EDITOR

**Elina Noor** is Director, Political-Security Affairs and Deputy Director, Washington, D.C. office at the Asia Society Policy Institute. A native of Malaysia, Elina focuses on security developments in Southeast Asia as well as global governance and technology.

Elina was previously at the Daniel K. Inouye Asia-Pacific Center for Security Studies, Institute of Strategic and International Studies Malaysia, and Brookings Institution. Between 2017 and 2019, she was a member of the Global Commission on the Stability of Cyberspace. She currently serves on the ICRC's Global Advisory Board on digital threats during conflict.

Elina graduated from Oxford University, the London School of Economics and Political Science, and Georgetown University.

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### NEW YORK

725 Park Avenue, New York, NY 10021

+1 212 288 6400

### WASHINGTON, D.C.

1779 Massachusetts Avenue NW, Suite 805

Washington, D.C. 20036

+1 202 833 2742

# VIETNAM / NGUYEN HUNG SON

**The South China Sea dispute is one of the most serious traditional security challenges Vietnam faces today.** The Vietnamese Communist Party's 13th Congress, the country's most important political event involving its policy-setting body, met in January 2021 and highlighted in its political report that "territorial and maritime disputes have become more tense, contentious and complicated," and that "peace and stability in the East Sea [the South China Sea] is under threat, and conflict is probable."<sup>158</sup> Further, few other topics are considered as emotionally charged as the South China Sea among Vietnam's near 100 million population. Successive Vietnamese politicians and governments have found themselves pressured from both within and without in handling the dispute.

## Vietnam's Position on the South China Sea Claims

Vietnam has two types of claims in the South China Sea: sovereignty and maritime. Vietnam believes its sovereignty claims to the Paracel and Spratly Islands in the South China Sea date back to the 17th century when these hazardous areas in the middle of the ocean were to be avoided by navigators and offered no value to most states. In today's legal terminology, these territories would have been considered *terra nullius*, or no-one's land. The fact that regional fisherfolk fished in the shallow seas surrounding the islands and occasionally took shelter on them did not imply the establishment of title over these features, under prior and current interpretations of international law.<sup>159</sup> Vietnam believes that China, as a massive land power that culturally favored land over the sea throughout its history, had no logical reason to want these remote

little rocks or submerged sand banks, contrary to what China claims now.

**Few other topics are considered as emotionally charged as the South China Sea among Vietnam's near 100 million population.**

commodities it could not otherwise afford in merchant shipwrecks, many of which were European. The 1988 Vietnamese White Paper on the Paracels and Spratlys indicated that the state of Vietnam had sent annual voyages to the area to "retrieve from wrecked ships in the vicinity of these archipelagos such commodities as gold and silver, coins, guns and ammunition, tin, porcelain and glass wares, etc."<sup>160</sup> Vietnam believes these publicly recorded and continuous acts directed by Vietnam established its title over these archipelagos. Vietnam also believes that successive Vietnamese states, including the protectorate French colonial government, continuously and effectively maintained those titles until the eastern part of the Paracels and six reefs and atolls in the Spratlys were forcefully, hence illegally, taken by China in 1974 and 1988, respectively. Further, Vietnam argues that the complex series of historical events during most of the 20th century leading up to the country's unification and independence did not strip it of its legal rights under international law.

The feudal Vietnamese state, however, had a reason to risk its way to the Paracels and Spratlys since at least the 17th century: to find luxurious

Vietnam's official position, therefore, is that it has the legal and historical foundation for sovereignty over the Paracels and Spratlys, that others' claims are either weaker or unfounded legally and historically, and that all current foreign occupation in the Paracels and Spratlys is illegal and a violation of Vietnam's sovereignty.<sup>161</sup>

Vietnam's other claim in the South China Sea is that of maritime zones established under the 1982

UN Convention on the Law of the Sea (UNCLOS). Aside from clashes on sovereignty, Vietnam also faces maritime disputes derived from legitimate yet overlapping claims of states with opposite coastlines. The disagreement is exacerbated by illegitimate maritime claims, such as that of the nine-dash line. Vietnam only recognizes a dispute if the claims causing the dispute are based on UNCLOS. As a consequence of discrepancies in the interpretation and application of UNCLOS, disagreement exists over whether there are, indeed, legitimate disputes in several areas of the South China Sea.

Vietnam's approach is that sovereign disputes over the Paracels and Spratlys should be managed and resolved peacefully, without the threat or use of force, and in accordance with international law, especially the principles under the U.N. Charter. If a dispute is bilateral in nature, such as that in the Paracels, it would best be handled bilaterally. However, other peaceful means, such as third-party assistance through good offices, mediation, arbitration, or adjudication should not be precluded. If a dispute is between more than two parties, such as those in the Spratlys, it should be managed multilaterally. Maritime disputes, on the other hand, should be resolved in full compliance with international law, particularly the 1982 UNCLOS. These principles and approaches have been frequently stated by Vietnam's Ministry of Foreign Affairs spokespersons and also reflected in an agreement between Vietnam and China on the occasion of the visit by Nguyen Phu Trong, secretary-general of the Communist Party of Vietnam, to China in 2011.<sup>162</sup>

**The interaction between the Vietnamese people, both inside and outside the country, and the government has been a key factor in influencing the government's actions on the South China Sea.**

### **Vietnam's Domestic Politics on the South China Sea**

The South China Sea is a highly emotional topic among the domestic population in Vietnam as well as the Vietnamese diaspora community. The interaction between the Vietnamese people, both inside and outside the country, and the government has been a key factor in influencing the government's actions on the South China Sea. As in other countries across the region, nationalism has been rising amid heightening territorial tensions. Pressure for government transparency is high, as the population actively participates in discussions among themselves and with the government on how Vietnam should respond.

Given the country's historical interaction with its northern neighbor, the Vietnamese are especially sensitive about how their leaders handle relations with China. Any sign of weakness or compromise is deemed intolerable. Government legitimacy is dependent on the state's ability to protect national interests, with territorial integrity being a core interest. The Vietnamese diaspora, especially those formerly associated with the fallen South Vietnam government, whose regular objective is to delegitimize the Communist Party and the current Vietnamese government, has also found the South China Sea a good pretext to unite and to criticize the government for not doing enough to stand up to China.

In response, Hanoi has been making efforts to demystify and desensitize, as well as socialize, the issues related to the South China Sea among the public with the aim of maintaining national unity and managing nationalism. In contrast to its previous treatment of the dispute as a highly sensitive issue that the uninformed public might not be welcomed to openly discuss, the government has steadily encouraged public awareness and participation. It has started feeding information to the public through various

channels including opening an official website on Vietnam's territorial issues,<sup>163</sup> encouraging the media to carry columns on the subject, and soliciting policy recommendations from various think tanks.

The resulting public awareness and attendant patriotism have provided the backing for the government's resolve in times of need, such as during the HD981 oil rig standoff in 2014 when Vietnam's economy suffered a setback due to suspended ties with China. Conversely, however, this patriotism has also bound the government's hands and reduced its flexibility in searching for breakthroughs or innovative ideas to move forward.

The risks to Vietnam's interests in the South China Sea are to both its sovereignty and its maritime claims. Having been subjected to aggression twice in recent history – the first time in 1974 resulting in the Chinese occupation of the Paracels and the second in 1988 leading to the Chinese occupation of Gạc Ma (Johnson Reef), Co Lin (Collins Reef), and Len Dao (Lansdowne Reef) – Vietnam considers the defense of its current outposts its highest priority. Vietnam currently holds 33 outposts in 21 features in the Spratlys.

The second and related priority is to maintain the status quo, which is to prevent other claimants from occupying currently unoccupied features. Since all the high-tide features (features that are above water at high tide) are already occupied, the risk now lies with the submerged features. When China gathered a large number of fishing boats in Whitsun reef in March 2021, concerns arose that this might have been a prelude to China's taking control of, and occupying, this submerged feature.<sup>164</sup>

The most serious risk to Vietnam's maritime claims, however, is Chinese activities within Vietnam's exclusive economic zone (EEZ) in violation of Vietnam's sovereign rights. Vietnam has seen repeated encroachment into its EEZ in recent years. The most prominent incident was in 2014 when China sent its

**As with other claimant states, Vietnam is concerned China will use its asymmetrically larger power to intimidate smaller neighboring states into giving up their rights or settling these disputes on China's terms.**

largest oil rig to an area near Tri Ton Island southwest of the Paracels, which is only around 80 miles off the coast of Vietnam, well within what Vietnam considers its 200-nautical mile EEZ. The standoff lasted more than two months with dangerous encounters and even physical confrontations on the water, such as boat ramming and sinking and the use of high-pressured water cannons. In 2019, China deployed a research vessel to conduct a seismic survey in the central part of Vietnam's EEZ. In addition, several Chinese coast guard ships interfered with Vietnam's

oil exploratory activities in the Tu Chinh area in the southern part of Vietnam, which China calls Vanguard Bank. Vietnam views the Tu Chinh area completely within its continental shelf, far from any land feature in the Spratlys, which would otherwise only afford it 12 nautical miles of territorial sea at most under the 2016 ruling of the Permanent Court of Arbitration (PCA).

As with other claimant states, Vietnam is concerned China will use its asymmetrically larger power to intimidate smaller neighboring states into giving up their rights or settling these disputes on China's terms. Nevertheless, Vietnam is still hoping for an equitable, peaceful, and long-lasting dispute settlement mechanism in accordance with international law. This would preferably manifest through negotiation or,

if necessary, through other means, such as garnering the assistance of third parties, including through adjudication.

Though this seems unlikely given the current state of affairs in the South China Sea, it is nevertheless still possible to reach such a scenario. In 2000, Vietnam and China negotiated the delimitation of the Gulf of Tonkin to the satisfaction of both sides based on the principles of international law, particularly UNCLOS.

For such textbook dispute resolution mechanisms to be successfully extended to other parts of the South China Sea, a few conditions need to be met. First, China must be convinced its nine-dashed line and now “four-sha claim,”<sup>165</sup> based on the concept of archipelagic baseline of outlying archipelagos of a continental state, has no place under UNCLOS. Vietnam must contend that this behavior is not established state practice, contrary to China’s official claim in its *note verbale* to the UN secretary-general in September 2020.<sup>166</sup> As long as China thinks its claims merit sympathy or are grounded in international law, it will likely hold on to and fold this narrative into its campaign to mislead the uninformed public. The exchange of *notes verbales* in 2020 – a series of more than 20 official notes to the UN by a dozen countries to express their legal opinions on the South China Sea – has legally assessed and clarified many of the Chinese claims by both regional and extra-regional countries. The consensus was clear: Beijing’s claims have no legal ground, as was authoritatively determined by the 2016 PCA ruling. This consensus needs to be repeatedly underscored by the international community.

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Second, there needs to be strong and continued international presence in the South China Sea to ensure multipolarity and a dynamic equilibrium in the regional security architecture. This is to avoid regional countries from being overly dependent on China for either security or economic reasons and, therefore, from being less susceptible to pressure from China.

Third, the Association of Southeast Asian Nations (ASEAN) needs to coordinate member states’ positions more effectively to collectively promote established regional norms, such as dialogue and the renouncing of the threat or use of force in settling disputes. A united ASEAN will also serve as a legitimate platform to engage external players in regional cooperation to strengthen those norms.

### **ASEAN Neutrality on Sovereignty Claims but Not on Maritime Claims or Their Resolution**

The main barrier to a united ASEAN voice on the matter is that several members of the group are not claimants or even bordering states of the South China Sea. Moreover, all ASEAN member states value their relationship with Beijing, and most would not want the dispute to stand in the way of growing ties. A diplomat from the region even observed that “China has very cleverly got every ASEAN country thinking first of its own relationship with Beijing”<sup>167</sup> in their approach to the South China Sea issue. This phenomenon became even more pronounced after ASEAN’s expansion to include the continental Southeast Asian states of Laos, Myanmar, and Cambodia, which have no direct interests in the South China Sea. ASEAN’s divergent views

are further exaggerated by the very different approaches of even the four claimant states.<sup>168</sup>

ASEAN changed its perception and approach in the South China Sea after China officially declared its nine-dashed line claim in May 2009.<sup>169</sup> This prompted fierce diplomatic responses from several ASEAN countries. Indonesia, for example, retorted that the claim “clearly lacks international legal basis and is tantamount to upset the UNCLOS 1982.”<sup>170</sup> That same year, Hilary Clinton, then–U.S. secretary of state, announced at the ASEAN-U.S. Post- Ministerial Conference in Phuket in July that the “United States is back in Southeast Asia.”<sup>171</sup> In 2010, Secretary Clinton also mentioned that the United States had a “national interest” in freedom of navigation in the South China Sea.<sup>172</sup> ASEAN then realized the South China Sea was no longer just a territorial issue among a few claimant states but also a theater of geopolitical competition ASEAN could not afford to ignore.

Since 2010, prompted by Vietnam’s chairing of ASEAN that year, ASEAN has repeatedly expressed its views on the South China Sea issue. The only exception was in 2012 when the ASEAN Ministerial Meeting failed to agree on a joint communiqué. In 2020, with Vietnam the chair again, ASEAN further strengthened those views. ASEAN does not take a position on sovereignty claims over the Paracel and Spratly Islands. However, ASEAN does have views on the principles on which maritime claims should be made and how sovereign disputes and overlapping maritime claims should be resolved. ASEAN’s consistent position is

**Vietnam does not seek to proactively internationalize the issue, as it already became a center of worldwide attention owing to China’s expansionism.**

that disputes, both sovereign and maritime, must be peacefully settled “in accordance with the universally recognised principles of international law, including the 1982 UNCLOS.”<sup>173</sup> In 2020, ASEAN also insisted that “the 1982 UNCLOS is the basis for determining maritime entitlements, sovereign rights, jurisdiction and legitimate interests over maritime zones, and the 1982 UNCLOS sets out the legal framework within

which all activities in the oceans and seas must be carried out.”<sup>174</sup> This is the most explicit statement yet that ASEAN has made on the merit of maritime claims and activities in the South China Sea.

To Vietnam, ASEAN’s usefulness is not the hard power it possesses to stop or deter Beijing’s excessive claims and assertiveness in the South China Sea but its soft power to clarify and delegitimize China’s claims and activities that are in contravention of international rules and norms, thus providing a reference point for the international community to assess China’s behavior.

Vietnam believes the international community has vested interests in the South China Sea not just because of the amount of trade it carries through annually – which at US\$3 trillion is the value of nearly half of global tonnage by sea – but because precedents set in the South China Sea will have ramifications elsewhere and in other areas of international relations. British Secretary of State for Defense Ben Wallace said at the Diplomatic Academy of Vietnam that the United Kingdom believes the South China Sea issue is “not just a regional issue, nor is it even just a maritime issue” because “if the terms of a law-making international treaty, bearing the signature of 168 parties, can be junked on a whim, it becomes not just an attack on one or other article or treaty but a wholesale assault on the international system.”<sup>175</sup> Vietnam therefore believes international engagement on the South China Sea, including by the United Kingdom, should be welcomed as long as such engagement is for the purpose of strengthening the international rules-based order in the region and globally.<sup>176</sup>

## Conclusion

Vietnam's approach to the South China Sea dispute especially since the 2016 PCA ruling, has rested on regional diplomacy, particularly through ASEAN; promotion of the rules-based international system, especially UNCLOS; and management of international engagement in the region. Vietnam does not seek to proactively internationalize the issue, as it already became a center of worldwide attention owing to China's expansionism. Vietnam, however, welcomes the measured engagement and support of external players to uphold international rules and norms in the South China Sea and to help regional countries build capacity to better enforce those rules and norms themselves. Although specific views may differ, there is more convergence than divergence within ASEAN on that approach.

# China-US Signaling, Action-Reaction Dynamics on the Taiwan Question

中美围绕台湾问题的信号释放与“行动—反应”（一项初步研究）

邵育群 施道安 吴蕊思 傅瑞珍 季伊昕 艾莉

*How to avoid the "fourth Taiwan Strait crisis" from triggering a direct conflict between China and the United States?*

## China-US Focus

SHAO Yuqun, WU Chunsi, and JI Yixin

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Speaker of the House Pelosi's visit to Taiwan directly triggered the "fourth Taiwan Strait crisis", making the Taiwan question the most pressing issue in China-U.S. relations again. The importance of a joint project by researchers from both the Shanghai Institutes for International Studies (SIIS) and the U.S. Institute of Peace (USIP) was underscored by the high level of concern in policy and research circles about the possibility of a direct military conflict between China and the United States in the Taiwan Strait, although the results of this study were actually completed quite some time before Pelosi's visit.

The project, "China-U.S. Signaling, Action-Reaction Dynamics on the Taiwan Question: A Preliminary Examination", studies signaling and action-reaction dynamics between China and U.S., with a focus on Taiwan, during the first ten weeks of the Biden administration. The project was prompted by the desire to understand how China and U.S. interpreted each other's signals on the Taiwan question and responded to them in order to help avoid unintentional escalation and unintended conflict on both sides.

The specific methodology of this joint study can be found in the respective reports released by SIIS and USIP, and the SIIS team would like to make a few further points here, taking into account the project's findings and Pelosi's visit to Taiwan.

**First, we found through our research that both sides interpreted each other's signals on Taiwan in conjunction with each other's policies and actions in other areas.** The Chinese emphasized they believe that other aspects of the Biden administration's China policy—whether human rights, Hong Kong, or the stance on the Belt and Road Initiative—not only exacerbate bilateral distrust, but also are connected and complementary to the administration's Taiwan Strait policy and are an intrinsic part of Biden's entire "containment policy" toward China. These policies further confirm the perception that the Biden administration's real policy objective is to "contain China with Taiwan". The U.S. side also observed that understanding signaling and reactions in the US-China relationship requires looking beyond one specific issue area, because actions in one area (or toward another country) affect the way the two countries view each other in other policy areas as well. The

broader context of the relationship informs each country's actions and perceptions and thus needs to be taken into account. How the United States approaches China, including assessing China's actions vis-à-vis Taiwan, is also impacted by broader actions such as China's actions affecting Hong Kong or toward Europe.

**Second, we found through our research that both sides receive and interpret each other's signals in a complex environment.** The Chinese believe that although both sides had taken actions that seem closely connected according to the timeline, one side's actions have not necessarily been taken in direct response to the behavior of the other side. Some actions are routine policy implementations that should not be overinterpreted. The U.S. side has also warned against over-interpretation. At the same time there are different interpretations of the same action within each side. For example, Admiral Philip Davidson, the former commander of the US Indo-Pacific Command, testified before members of the Senate Armed Services Committee and said, "Taiwan is clearly one of their ambitions...I think the threat is manifest during this decade, in fact, in the next six years." In this regard, China and the U.S. each have different internal interpretations. Some Chinese thought Davidson's statement was an important policy signal and represented the concrete views of the US military regarding the Chinese mainland's military actions toward Taiwan, while others believed that it was not important and was more representative of Davidson's personal opinion. On the U.S. side, one described the statement as a "routine briefing", while another asserted the statement was a "big deal" for both the U.S. and China, because it was the first time a commander of the United States Indo-Pacific Command provided an estimate for a specific time period within which "a Chinese invasion of Taiwan could happen".

**Third, we found through our research that there are significant differences in how the two sides view the joint U.S. actions with "third parties".** The most notable example of this is the US-Japan 2+2 statement on March 16, 2021 that touched on Taiwan. From China's perspective, these moves illustrate the Biden administration wants Japan to play a larger role in the Taiwan question. Given the history of China-Japan relations and Japanese colonial rule of Taiwan, the Chinese side is extremely sensitive to the prospect of a more prominent Japanese role in the United States' Taiwan Strait policy. Thus, Beijing views the Biden administration's move to have Japan play a greater role in Taiwan-related issues as a reflection of either the absence of "real China hands" on the Biden team, resulting in a lack of understanding about the sensitivity and importance of the Taiwan question in China-US relations, or a lack of desire to bring China-US relations back on a stable track. While the U.S. side saw its discussions with American allies about a Taiwan contingency, such as the US-Japan 2+2 statement regarding Taiwan, as a response to Beijing's pressure on Taipei and consistent with responsible alliance behavior.

**Fourth, we find through our research that there are significant differences in the interpretation of policy signals between the two sides, and that political struggles within the U.S. make the process of transmitting and receiving policy signals more difficult for both countries.** The influence of the U.S. Congress on foreign and security policy has risen. Especially in recent years, Congress's China policy has been more consistently uncompromising than it was a decade ago and its increased support for Taiwan has been unprecedented. Congress has continuously

broken through restrictions imposed by the administration on U.S. policy toward Taiwan and has strengthened relations with Taiwan. The growing risk that Congress will undermine the limited consensus reached by China and the United States has already evoked high levels of unease in Beijing. Moreover, the current political polarization in the U.S., the Biden administration's strong need for congressional help on key items on its domestic agenda, and the distrust created by the Trump administration in the president's use of diplomatic and security powers will give Congress greater power to intervene in US diplomatic and security affairs. Additionally, Congress's approach to decision-making is clearly different from that of the executive branch. Policy signals sent by Congress have always been diverse, vague and radical, which is not good news for an issue as sensitive and dangerous as the Taiwan question. The serious impact of Pelosi's visit to Taiwan on China-U.S. relations confirms our view.

Based on the above views, we put forward three policy implications in the SIIIS report. First of all, restart mechanisms for in-depth dialogue, which is extremely important to maintain a stable and predictable relationship between the two great powers. **[1]** Just because one or more dialogues do not achieve one party's desired result does not mean that they are not needed. Dialogue mechanisms are difficult to establish but easy to abandon. Currently, the suspension of dozens of dialogue mechanisms between the two governments is not only a waste of resources but also detrimental to the overall stable development of bilateral relations. Relevant dialogue mechanisms should be restarted as soon as possible.

Secondly, to reduce the risk of conflict between China and the United States in the Taiwan Strait, the two sides should conduct regular in-depth dialogues on the Taiwan question at all levels. Summits between the two heads of state have strategic significance, not just in terms of addressing the Taiwan question, but also in terms of preventing miscalculations on both sides. In addition, the two sides should begin strategic dialogues on regional security and working-level dialogues on the Taiwan question as soon as possible. Furthermore, the two sides should overcome the obstacles created by the COVID-19 pandemic and maintain frequent contact and exchanges at the track-1.5 and track-II levels.

Last but not least, both sides should pay close attention to the influence of both public opinion and new media on their own and the other side's decision-making environment. The diversification of information sources and the "echo chamber" phenomenon can have a simultaneous and significant impact on public opinion. Policymakers need to pay close attention to the issue of how to handle fake news and information warfare while accurately evaluating public opinion.

While it is unfortunate that our report was not released before Pelosi's visit to Taiwan, it appears that the "fourth Taiwan Strait crisis" triggered by the visit may only be just beginning. In the coming period, it is crucial for both China and the United States to avoid miscalculations at the strategic and tactical levels due to signal reception and interpretation that could lead to direct military conflict between China and the U.S. in the Taiwan Strait. We hope that our report will be of value to both policy and research communities

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[1] The recommendation was made prior to the visit. The visit significantly changed the political climate between the two countries. The fourth Taiwan Strait crisis, on one hand, justified our previous proposal and, on the other hand, added new difficulties to the re-engagement between the two sides.

# Risks of War and Paths to Peace across the Taiwan Strait

By Zhang Tuosheng

Since the outbreak of the Russia-Ukraine war, there have been voices in the United States, Japan and Taiwan to the effect that Ukraine today will become Taiwan tomorrow. Most notably, former Japanese Prime Minister Shinzo Abe publicly described attacks on Taiwan as attacks on Japan and the US-Japan alliance. During his recent visit to Japan, President Joe Biden responded positively on the spot to a question about whether the US would militarily defend Taiwan, although American officials afterwards claimed there was no change to Washington's Taiwan policy.

What is the situation across the Taiwan Strait in recent years? What are the major security risks there at present and in the foreseeable future? What are the main reasons behind those risks? How can we maintain peace and stability across the strait?

## **The Recent Security Situation in the Taiwan Strait**

From the spring of 2008 to the spring of 2016, great progress was made in cross-strait relations because leaders on the two sides stuck to the 1992 Consensus and opposed Taiwan independence. They achieved the "Three Direct Links," resumed and developed further, regular official dialogue, negotiated an Economic Co-operation Framework Agreement (ECFA), and witnessed strong economic and trade co-operation and cultural exchanges. In 2015, the leaders of the two sides also met directly for the first time since 1949, reaching important common understandings on jointly maintaining the development of cross-strait relations, following the path of peaceful development, and jointly creating a brighter future in cross-strait relations.

However, the Democratic Progressive Party (DPP) and President Tsai Ing-wen, who pursues Taiwan independence, came to power in Taiwan in 2016, and Donald Trump, who regarded China as Washington's main strategic rival, came to office as US president in 2017. The new trend of peaceful development that had existed in the previous eight years across the Taiwan Strait was seriously undermined. The Tsai administration refuses to recognize the 1992 Consensus, pursues gradual

independence and cultural independence, goes all out for de-Sinicization, and obstructs cross-strait exchanges. Moreover, it tries to seek Taiwan independence by soliciting US support. Actions by the Taiwan authorities resulted in a suspension of the cross-strait official communication mechanism and led to a serious setback in cross-strait relations.<sup>1</sup>

The Trump and Biden administrations are playing the Taiwan card to pressure China. For more than five years, they have not only vigorously defended Tsai's policies but also repeatedly elevated official relations with Taiwan through frequent visits by senior officials, normalizing arms sales to Taiwan, significantly increasing the US military presence in the Taiwan Strait, gradually promoting bilateral military co-operation, and the passage of a series of Taiwan-related bills by the US Congress, turning the Taiwan Strait into a main battlefield in the US effort to pressure China.

The actions by the US and Taiwan seriously deviate from the One China principle and have forced the Chinese government to intensify its struggle against Taiwan independence.<sup>2</sup> In recent years, in addition to diplomatic representations and protests against the US, the People's Liberation Army (PLA) has stepped up joint military exercises in and close to the Taiwan Strait, with military aircraft and warships operating close to and around the island gradually becoming more and more routine. This is not only to deter the current pro-independence forces and foreign interventionists, but also to strengthen military training in preparation for the long-term military struggle against Taiwan independence in the future. In this situation, the US has hyped up the prospect of a Chinese attack on Taiwan by force, and some have even called for the US to move from strategic ambiguity to strategic clarity and announce its full support for the defense of Taiwan. Such voices are also on the rise in Japan. After the outbreak of war in Ukraine, voices clamoring about the Chinese mainland reunifying Taiwan by military force and the need for the US and its allies to jointly defend the island reached an unprecedented level in the US and Japan. As a result, tensions across the Taiwan Strait have further escalated.

In short, the pro-independence developments on Taiwan and American and Japanese favoritism and connivance have seriously damaged China's core interests and made the situation across the Taiwan Strait increasingly tense.

### **Major Military-Security Risks**

The tense situation across the Taiwan Strait carries great military-security risks. These risks may not only lead to a major crisis, but also trigger a military conflict or

even war. At present and in the foreseeable future, there are at least four military-security risks.

First, the military presence of both China and the US in the Taiwan Strait and nearby waters has increased. We see more military exercises conducted by China, the US and Japan and their other allies in the relevant waters, and various Taiwanese military activities in recent years. As a result, the probability of a military crisis or conflict caused by accidents or miscalculations between military aircraft and warships frequently encountering each other is growing with each passing day.

Second, the American government and the Taiwanese authorities continue to provoke the Chinese mainland with salami tactics, which is highly risky. Once these provocations cross the bottom line set by the Anti-Secession Law passed by the National People's Congress of the People's Republic of China, the Chinese government will certainly adopt non-peaceful means against these provocations. If the US and Taiwan do not rein in their actions at that time, the possibility of a military conflict across the Taiwan Strait will rise significantly.

Third, as the US proposes to significantly strengthen Taiwan's defense capabilities and the alliance's ability to assist Taiwan, a former US Defense Department official has openly proposed taking the initiative when necessary to attack the mainland's warships and aircraft in their bases, block its key ports and suppress its C4ISR systems to prevent a Chinese "invasion." Such extremely dangerous propositions are to a certain extent representative and influential in the US. Once translated into policy and action, they will inevitably trigger a major military conflict or even war in the Taiwan Strait.

Fourth, after the outbreak of the Russia-Ukraine war, the US has not correctly learned the lessons of how the crisis in Ukraine spun out of control, but rather continued to support pro-independence forces in Taiwan. House Speaker Nancy Pelosi's plan to visit Taiwan in March was not carried out, otherwise it would have already triggered a major crisis across the Taiwan Strait. More dangerously, in both the US and Japan, some people believe that dragging China into a war similar to the one in Ukraine may be the best way to weaken China in the future. The US is already reviewing the Ukrainian resistance experience, on the basis of which it is adjusting its arms sales to Taiwan and assisting the island with military trainings in an effort to strengthen the island's ability to engage in asymmetric warfare with the Chinese mainland.

## **How to Safeguard Peace and Stability in the Taiwan Strait**

The crisis in Ukraine spiraled out of control and into a hot war in February this year, leading to a full-scale revival of the Cold War in Europe. It is foreseeable that if a military conflict breaks out in the Taiwan Strait, the Cold War in Europe will spread rapidly to East Asia and even the whole Asia-Pacific region, which would be a huge disaster not only for the two sides of the Taiwan Strait but for all countries in the region. How can we safeguard peace and stability across the Taiwan Strait and avoid a military conflict? I would like to make a few points in this regard.

First, the Chinese government unswervingly pursues a policy of peaceful reunification of the two sides of the Taiwan Strait; this is the fundamental guarantee for peace and stability. When China started its reform and opening up more than 40 years ago, it readjusted the policy of preparing to liberate Taiwan by force to promoting peaceful reunification by way of One Country, Two Systems on the basis of the One China principle. Over the past decades, the policy has evolved along with changes in cross-strait relations and the prevailing international situation, with much progress achieved.

In recent years, the peaceful reunification process has been severely challenged by the pro-independence forces and foreign interventionists. So far, however, the Chinese government has repeatedly declared its readiness to strive for peaceful reunification with utmost sincerity, patience and effort. China adheres to this policy because it is fully aware of the devastating nature of war and believes peaceful reunification is in the best interest of the people on both sides of the Taiwan Strait and those in the region and the world at large. The policy is also based on the belief that time and the general trend are on the mainland's side and that through long-term, serious and arduous efforts it is possible to ultimately realize peaceful reunification.

Nevertheless, shortly after proposing the peaceful reunification policy, Deng Xiaoping, China's top leader at the time, made it clear that China would "never promise to renounce the use of force." He saw it as a necessary deterrent and containment of possible separatist forces in and outside of the island. The Anti-Secession Law enacted by the National People's Congress in 2005 made a further legal declaration to this effect.

In short, the peaceful reunification policy is an integral whole, with the One China principle serving as the foundation, reunification the objective, peaceful dialogue, integrated development and One Country, Two Systems the main ways to achieve the objective, and the policy of not renouncing the use of force as the necessary

means to ensure that the prospects for reunification will not be destroyed by the secessionists.

Second, for countries around the world, especially the US and Japan, adhering to the One China principle is an essential prerequisite for peace and stability in the Taiwan Strait.

Taiwan has been Chinese territory since ancient times. The Taiwan question is a legacy of the Chinese civil war. The Cairo Declaration and the Potsdam Proclamation, two international legal documents issued by the anti-fascist allied governments during the Second World War, Resolution 2758 adopted by the 26th United Nations General Assembly in 1971, and the communiqués establishing diplomatic relations between China and the vast majority of countries in the world all embody the One China principle. Therefore, if peace and stability are to be maintained in the Taiwan Strait, it is an essential requirement that all countries in the world adhere to the One China principle and never support Taiwan independence.

At present, the Chinese government strongly demands that the US and Japan abide by the One China principle universally adhered to by the international community, live up to the commitments made to China under their One China policy, and change the dangerous trend of moving away from the One China principle in their policies. In the foreseeable future, any move by the US or Japan to further elevate official relations with Taiwan, support the Taiwan authorities' initiative towards de jure independence or strengthen arms sales to Taiwan, increase their military presence in the Taiwan Strait, strengthen secret military co-operation with Taiwan and formulate any additional Taiwan-related acts will for sure send wrong signals to the Taiwan authorities and increase the risk of a crisis or military conflict across the Taiwan Strait.

It is hoped that the US and Japan will be sober-minded in this regard. Otherwise, peace and stability across the Taiwan Strait will be seriously undermined, which will in the end damage the self-interest of those who choose to play with fire.

Third, to maintain peace in the Taiwan Strait, it is very important for China and the US and its major Asian ally, Japan, to engage in dialogue on reducing strategic mutual suspicion and managing differences and crises better on the question of Taiwan.

The Taiwan question has always been highly sensitive and lies at the center of China-US relations and China-Japan relations. It has always been an important part of dialogue between China-US and China-Japan leaders, and their diplomatic and defense departments. However, in recent years, the deterioration of bilateral relations and the Covid-19 pandemic have seriously hindered dialogue at all levels (Although the China-US military hotline still plays a role, up to now a China-Japan military hotline has not yet been established since an agreement to do so was reached in 2018). Under such circumstances, mutual security concerns and strategic doubts on the Taiwan question have seriously increased. At present, the Chinese side is highly concerned about the US and Japan playing the Taiwan card to pressure China, or even supporting Taiwan independence and deliberately provoking a crisis or military conflict in the Taiwan Strait. The US and Japan, on the other hand, are highly concerned that China may invade Taiwan in pursuit of reunification by military force in the near future. Unless serious security concerns and mutual strategic suspicions are reduced and resolved as soon as possible, the possibility of military miscalculations and conflicts will grow day by day.

Therefore, it is of great significance for China to resume and maintain top leaders' dialogue and high-level strategic dialogue with the US and Japan as soon as possible and to conduct and strengthen exchanges on the Taiwan question. The central task of the dialogue is, on the basis of the One China principle, to resolve their major security concerns, to clarify their respective bottom lines, avoid strategic miscalculation, and identify the direction of efforts with regard to managing major differences and maintaining the peace and stability of the Taiwan Strait.

It is a positive sign that the Chinese defense minister met his American and Japanese counterparts recently on the sidelines of the Shangri-la Dialogue in Singapore. It is hoped that these dialogues will be sustained and institutionalized. Other important defense dialogues and mechanisms that have been stalled for years, such as the China-US joint staff dialogue, the China-US defense talks and the China-Japan defense dialogue, should also be gradually resumed. During these dialogues, strengthening crisis management should be an important topic.

Equally important is the Military Maritime Consultation Agreement mechanism between the Chinese and American militaries and the maritime and air liaison mechanism between the Chinese and Japanese defense agencies to strengthen consultations on air and naval risk assessment, implementation of the code of conduct, crisis notification, crisis communication mechanisms and confidence-building measures with regard to the Taiwan Strait and other related regions. This will play an important role in preventing accidental discharge of fire, managing

contingencies and preventing an unexpected military conflict in the Taiwan Strait. Besides, at the moment of a contingency or crisis, the defense hotlines between China and the US and between China and Japan must be given a role to play.

It should be noted that in order to maintain peace and stability and prevent a military conflict, it is also very important for the two sides of the Taiwan Strait to resume dialogue and contacts and improve relations. This is what the Chinese government has been working hard to achieve. But cross-strait dialogue must be on the basis that the Chinese mainland and Taiwan belong to one and the same China, which is the central meaning of the 1992 Consensus. Given the DPP's refusal to recognize this, its announced expectation of cross-strait dialogue in recent years is hypocritical. On this, the Chinese government has no room for compromise.

In his conversation with Biden via video link at the end of 2021, President Xi Jinping again made clear the Chinese position and policy on the Taiwan question. His statement contained three main points. First, "the complete reunification of China is the common aspiration of all Chinese people." Second, to realize the common aspiration, "we have patience and stand ready to strive for the prospect of peaceful reunification with the utmost sincerity and efforts." Third, however, "should the separatist forces for Taiwan independence provoke us, force our hand or even cross the red line, we would have to take resolute measures."

China's top leader has made it clear where the risks of war in the Taiwan Strait are and where the paths to peace are. It is hoped that all peace-loving countries will support the Chinese government's efforts to promote peaceful cross-strait relations and the reunification of China and jointly oppose separatist acts by pro-independence forces, thus preventing the risk of war that could be brought about by the pursuit of Taiwan independence. The peaceful development and eventual peaceful reunification of the two sides of the Taiwan Strait is in the common interest of not only the people on both sides but also all peoples around the world.

#### **Notes**

1 Officially, the mainland's Association for Relations Across the Taiwan Straits (ARATS) and Taiwan's Straits Exchange Foundation (SEF) have institutionalized dialogues, and the mainland's Taiwan Affairs Office of the State Council and Taiwan's Mainland Affairs Council consult each other regularly and have a hotline between them.

2 The One China policy established by the United States in the three joint communiqués with China is basically in line with China's One China principle. At that time, the US made solemn commitments to China, one of which was to only develop unofficial relations with Taiwan. At that time, China was firmly opposed to the Taiwan Relations Act and the so-called Six Assurances introduced by the US. The One China principle and the three joint communiqués formed the basis for the establishment of diplomatic ties between China and the US and the development of bilateral relations over 40 years or so. In recent years, however, the US has seriously violated its commitments to China under its One China policy, and the part of it which in line with the One China principle is being increasingly hollowed out.

*Hanns Günther Hilpert, Alexandra Sakaki and Gudrun Wacker*

## Conclusions and Recommendations

This research paper examined the Taiwan policies of the U.S., Japan, Singapore, South Korea, Australia, India, the EU and selected European countries, revealing many similarities, but also significant differences and some remarkable peculiarities as outlined below.

### Commonalities

The most important common feature is that all countries examined here have committed themselves to a one-China policy. This means that they diplomatically recognise the People's Republic of China (PRC) as the legitimate representation of China and therefore cannot maintain formal diplomatic relations with the Republic of China (ROC), i.e. Taiwan. Nevertheless, informal relations in the areas of politics, economics, society, science and culture are possible. Informal relations are pursued, institutionally, not through governments and embassies, but rather bilateral representations under the guise of an array of imaginative names. In the case of Germany, for example, these are the German Institute Taipei and the "Taipeh Vertretung in der Bundesrepublik Deutschland". These unofficial missions not only promote exchanges in trade, business, culture and science, but they also represent *de facto* political and other interests in the host country and assume real diplomatic, especially consular, tasks. Furthermore, these representative offices act on behalf of governments as contracting parties to intergovernmental agreements. Political contacts at the highest political level, on the other hand, are carefully avoided. At best, ministers who are responsible for an economic or technical portfolio travel to Taiwan.

Complementary to the executive level, the national parliaments of the countries studied (with the exception of Singapore) have also established relations with the Taiwanese parliament, the Legislative Yuan. In many cases, the parliamentarians and parliamentary groups that are sympathetic towards Taiwan have

served as driving forces for more intensive bilateral relations.

All of the countries studied maintain mutually beneficial, and quite substantial economic relations. And although these are nowhere near the level of trade and investment exchanges with the PRC, they are all considered important and expandable. In fact, Taiwan's share in the foreign trade of the countries studied has tended to increase slightly from the middle of the last decade, after having declined in the previous decade. Due to Taiwan's leading global position in the manufacturing of semiconductors, all the countries studied are somewhat dependent on the island for their supplies. In order to expand trade and economic relations as well as to advance economic and technical cooperation, all of the countries studied have concluded bilateral agreements of various kinds with Taiwan.

Another common feature is the cultural and scientific exchange that all the countries studied pursue with Taiwan. However, there are differences in terms of content and intensity.

### Differences

Major differences in the Taiwan policies of the countries studied can be found in the areas of foreign and security policy, as well as in foreign economic relations.

In view of Beijing's robust claim to reunification, the U.S.'s promise of protection — albeit ambiguously formulated, open to interpretation and certainly not unconditional — is central to the *de facto* independence and territorial defence of the island. In the event of a confrontation between the PRC and Taiwan, the most that the U.S. could expect is military and logistical support from geographically neighbouring Japan, although Tokyo is keeping all its options open. When French and British warships cross the Taiwan Strait, it can be seen as symbolic backing for Taiwan, while at the same time signaling to Beijing that these

are international waters. The other states examined here share the view that the status quo in the Taiwan Strait is a prerequisite for maintaining peace in the region. However, some distinct nuances are discernible. South Korea, Singapore and India strictly reject taking sides and recognise the sovereign rights of the PRC over Taiwan without any ifs and buts. As far as Australia is concerned, its then Foreign Minister Alexander Downer was still of the opinion in 2004 that the Australia, New Zealand, United States Security Treaty (ANZUS) did not apply to Taiwan. This position was qualified in November 2021 by the then Defence Minister Peter Dutton and Foreign Minister Marise Payne, referring to Australia's alliance obligations to the U.S.<sup>1</sup> Taiwanese observers also expressed the hope that the trilateral security pact AUKUS (Australia, the United Kingdom, and the U.S.) would enable Australian nuclear submarines to contribute to deterring China.<sup>2</sup>

The U.S. is the only country that directly supports Taiwan's national defence both through arms exports and through education and training measures. In addition, due to its limited land area, Singapore conducts annual military training programmes on Taiwan's territory and in cooperation with Taiwan's army. Two European countries (France, the Netherlands) have refrained from delivering arms to Taiwan for more than two decades. France, however, has signalled its willingness to support Taiwan within the framework of existing treaties in retrofitting the frigates it delivered to the island in the early 1990s.

The U.S. and Japan are the most vehement foreign policy advocates of Taiwan's right to exist below the threshold of state sovereignty. Moreover, in recent years they have most emphatically strengthened their commitment to Taiwan at the political, economic and civil society levels. In doing so, they accept the negative effects this has on their bilateral relations with the PRC.

<sup>1</sup> See Anthony Galloway, "Marise Payne Says 'Every Action' Needs to Be Taken to Prevent War over Taiwan", *The Sydney Morning Herald* (online), 18 November 2021, <https://www.smh.com.au/politics/federal/marise-payne-says-every-action-needs-to-be-taken-to-prevent-war-over-taiwan-20211117-p599mp.html> (accessed 3 February 2022).

<sup>2</sup> See Katherine Wei, "Aukus Pact to Benefit Taiwan in US-China Power Struggle: Experts", *The Straits Times* (online), 30 September 2021, <https://www.straitstimes.com/asia/east-asia/aukus-pact-to-benefit-taiwan-in-us-china-power-struggle-experts> (accessed 10 November 2021).

The Asian neighbours South Korea, Singapore and India are clearly more reserved. Australia and some EU member states, on the other hand, have realised that a stronger commitment to Taiwan is politically necessary in view of Beijing's threatening military gestures, and they are expressing their views accordingly.

The U.S. and Japan in particular are taking active steps to support and engage Taiwan internationally, with some states joining such measures and others rejecting them.

- Support for Taiwan's efforts to gain (functional) membership or observer status in international organisations is official policy of the U.S., Japan, the EU, the European G7 members as well as Australia, but not of India, Singapore and South Korea.
- Japan since 2019 and Australia since 2021 have participated as partner countries in the Global Cooperation and Training Framework (GCTF), an initiative launched by the U.S. and Taiwan in 2015 to enable exchanges on global issues with Taiwanese experts. Singapore, South Korea and European countries such as the United Kingdom, the Netherlands, Sweden and Slovakia have participated in the GCTF initiative as host nations. Other countries, including European ones, have sent participants to exchanges under this framework.

There are striking differences in the nature of economic relations with Taiwan, depending on geographic proximity, foreign trade profiles and political commitment.<sup>3</sup>

Taiwan's trade intensity with Japan, South Korea, Singapore, India and Australia is above-average, if the island's share in global trade is taken as a yardstick. In particular, electronic components dominates both Taiwan's exports and imports with Japan, South Korea and Singapore. Australia and India, on the other hand, are mainly important suppliers of raw materials and fuel for Taiwan.

Measured against Taiwan's share in global trade, the US trade relations with the island are only average, yet still higher than that of European countries. Taiwan's trade with the U.S. and Europe is broadly diversified across practically all industrial sectors. Taiwan's shipments of electronic components play an important, but not dominant role with import shares of 23.8% (U.S.) and 13% (EU 27).

<sup>3</sup> For numerical data, see United Nations Conference on Trade and Development (UNCTAD), "UNCTADstat", <https://unctad.org/statistics>.

Among foreign investors in Taiwan, the traditional industrialised countries lead the way, with the EU holding the biggest share (25.7%), followed by the U.S. (13%) and Japan (12.4%), while those of Singapore, South Korea, India and Australia remain marginal. However, Asian companies of different provenance use offshore financial centres such as Hong Kong or British overseas territories in the Caribbean as hubs for investment in Taiwan. Conversely, Taiwanese companies invest mainly in the PRC (55%) and the ASEAN region (11.5%).

The range of agreements that Taiwan has concluded with the countries studied here is broad and diverse. First and foremost, Singapore, the U.S. and Japan have formalised their relations with Taiwan in the areas economy, technology and law:

- Singapore is the only country examined here to have signed a free trade agreement (FTA) with Taiwan. It not only provides for the dismantling of tariffs, but also includes the liberalisation of investment and services trade as well as various sectoral chapters, for example on industrial property protection. Taiwan's hopes for FTAs with other partners (Australia, some ASEAN countries, the EU, the U.S., Japan) have not materialised, with deliberations either discontinued or failing to reach a conclusion.
- The U.S. concluded a framework agreement with Taiwan back in 1994 to promote trade, investment and economic relations. Efforts are being made to modernise this agreement or even to expand it into an FTA. However, this has been met with resistance on both sides, especially from domestic constituencies. Whether the launch of new bilateral talks in June 2022 to negotiate agreements on trade standards and practices and to promote bilateral trade will bear fruit remains to be seen.
- Japan has agreed on several far-reaching agreements with Taiwan, including a fisheries agreement that defuses the bilateral territorial conflict, an open skies agreement and a modern investment agreement. In addition, there are various agreements on legal, technical and economic cooperation. Japan, for its part, sees little urgency in tariff liberalisation, given the already low level of customs protection and sensitivities in the area of agricultural trade on both sides.
- The other states examined have concluded various agreements with Taiwan for specific areas of cooperation based on international or civil law. There are agreements on investment protection (India), air transport (South Korea), double taxation (Ger-

many, India), intellectual property rights and competition law (Australia, Germany, South Korea) and customs clearance (Australia, India). In addition, there are numerous agreements on industrial, financial and agricultural cooperation. The U.S., the EU, Japan, South Korea and Singapore have reciprocally agreed with Taiwan on visa-free entry for tourists, while India grants visa facilitation to Taiwanese citizens. Visa agreements are of enormous importance to Taiwan's diplomacy, as they allow Taiwanese citizens and business people to travel more freely.

## Distinctive features

In addition to the aforementioned similarities and differences, striking peculiarities can be observed in the relations with Taiwan in some of the countries studied:

The U.S. has significantly influenced Taiwan's political, economic, social and cultural development over the past seven decades. Until 1979, the presence of US troops on the island made for an American imprint on everyday life. Since 1949, about one million Taiwanese have emigrated to the U.S., many of whom or their children have returned to Taiwan. American schools and colleges are also a popular destination for Taiwanese students. What is more, Taiwan's semiconductor industry could never have reached its current world-leading position without the brain drain and technology import from the U.S. and it remains dependent on American basic research.

Japan has also shaped neighbouring Taiwan politically, economically and culturally, first as a colonial ruler and then as an institutional model for transforming the island into an advanced industrial country and a modern society. Relations and ties between the two countries are also close due to the many Taiwanese who study or work in Japan and the activities of Japanese companies in Taiwan.

Japan's and Singapore's ties to Taiwan are intense because they are based on historical relations from the time before 1945 and 1949, respectively. Both the Chinese migration to Singapore, partly from Taiwan, and the development and modernisation of the island under Japanese colonial rule have left their mark, facilitating access to one another in politics, society and the economy.

Taiwan's East Asian neighbours Japan, South Korea, Singapore and, since recently, also Australia

engage in silent diplomacy with the Republic of China, so as not to irritate the PRC. Apart from diverse think tank cooperation, silent diplomacy includes reciprocal visits by former high-ranking government officials, ministers and even heads of state and government. For example, Australia's former Prime Minister Tony Abbott travelled to Taiwan in September 2021. The ruling parties of Singapore (PAP) and Japan (LDP) also maintain party-to-party relations; the former with the KMT and the latter with the DPP.

## German and European interests

The question arises whether the countries examined in this research paper offer ideas or clues for further shaping German and European Taiwan policy. In order to answer this, it is necessary to first reflect on Germany and Europe's interests vis-à-vis Taiwan. In addition, the costs and risks of both a more engaged Taiwan policy and a "business as usual" policy should be carefully weighed against each other.

With regard to Taiwan, Germany and Europe have interests in the areas of security, foreign policy, and the economy. The primary security objective is to maintain peace and stability in the Taiwan Strait. A military conflict between the U.S. and the PRC could be ignited over Taiwan. German and European security policy should contribute to preventing such a scenario and to mitigating the risks of military incidents and of escalation overall. The best chance of achieving this goal is to maintain the status quo. It is therefore just as important to avert a Taiwanese declaration of independence as it is to avert a change in the status quo by China. A Chinese annexation would put an end to freedom and democracy in Taiwan. It would also endanger Japan's security and permanently damage or even destroy the credibility of the U.S. as a guarantor of security and stability in the Indo-Pacific. To avert such negative consequences, the U.S. is likely to respond to a Chinese attempt to take the island by force by intervening militarily. In its efforts to maintain the status quo, Germany is unlikely to contribute militarily. Nevertheless, a clear position by Germany and Europe can make the PRC realise that violent action against Taiwan would come at a high cost. This would help to preserve stability. In any case, ambivalence on the part of Germany and Europe would be difficult to maintain in the event of a conflict.

In terms of foreign policy, Germany and Europe have an interest in ensuring that Taiwan's Western liberal model of society and democracy endures, especially in fending off China's constant attempts to wear down or divide Taiwanese politics and society domestically and to damage the island's economy. Europe's solidarity should be with the people of Taiwan, who want to continue to live freely, under the rule of law and principle of democratic self-determination, and who wish to represent their own interests in the international system. Beyond that, however, what is at stake is also the resilience and success of a geographically and politically exposed democracy that represents a real alternative to the authoritarian-totalitarian system of the PRC. In the global systemic conflict between liberal democracies and authoritarian systems, Taiwan occupies a prominent position not only symbolically but also in terms of real politics, especially since China has recently been propagating the superiority of its own system over Western ones.

It is also in Germany and Europe's foreign policy interest to involve Taiwan in tackling global issues. Taiwan has significant competence and knowhow in the areas of health, development and digital infrastructure. Therefore, Taiwan can make valuable contributions, for example, to achieving the Sustainable Development Goals. Taiwan, which is highly motivated to make a visible contribution internationally, should not be excluded from efforts to provide global goods of sustainability, development and human security.

In terms of foreign trade, Germany and Europe have a vested interest in closer trade and economic relations with Taiwan, as the latter plays an indispensable role in worldwide supply and production chains and is a leading global supplier of semiconductors and electronic equipment. Strengthening economic ties with Taiwan is expected to have a positive impact on trade, production and income, and provide impetus for competition and innovation. Stronger bilateral cooperation and integration could not only help increase Taiwan's economic security, but would also reduce Europe's dependence on the PRC. To better supply the European market with semiconductors and develop additional European manufacturing capacities in electronic components, Taiwan is an important partner.

It is hardly possible to adequately assess the costs and risks of an interest-driven Taiwan policy without insight into the debates and decision-making pro-

cesses within the PRC's party and military leadership. In the absence of certainties, therefore, only (negative) impact assessments remain. Here it seems as if Europe only has a choice between two evils: if Europe pursues a Taiwan policy that China interprets as confrontational, and Taiwan or the U.S. change the status quo at the same time, the PRC could see itself forced into an annexation war. Conversely, a soft-spoken Taiwan policy on the part of Europe could also increase China's confidence in an offensive policy and tempt it to make aggressive moves.

China's authoritarian, if not totalitarian, hardening of domestic policies stands in striking contrast to the consolidation of the rule of law, democracy and pluralism in Taiwan. Solidarity with Taiwan's people and government must be the logical consequence of a value-driven European foreign policy, which is increasingly confronted with the PRC's global challenge as a powerful counter-model to the liberal West.

In view of the overriding interest in maintaining peace and stability in Asia, there can be no doubt about the political will of the EU and Germany to adhere to a one-China policy and to support the status quo in the Taiwan Strait. However, a review of the Taiwan policies of the countries examined in this research paper shows that even with a fundamental adherence to the one-China policy, there is far greater room for manoeuvre than Germany and the EU have so far perceived, not to mention explored. What is necessary, however, is the willingness to stand up for Taiwan's right to exist and the continuation of freedom, democracy and the rule of law on the island, to support the country internationally in a more committed manner and to expand bilateral relations on a broader front. Various agreements other countries signed with Taiwan show that this is possible, such as the investment agreements with India and Japan, the FTA with Singapore, the fisheries agreement with Japan and the aviation agreements with Japan and South Korea.

Making better use of the available leeway, however, requires not only imagination and creativity, but also the political will to bear the consequences, namely responses from Beijing such as diplomatic interventions, economic pressure or even "punitive measures". German and European policy should also signal to Beijing in no uncertain terms that there would be serious negative consequences if China were to annex Taiwan by military force. Such a stance could help to influence the Chinese leadership's cost-benefit calculation in favour of preserving the status quo.

In this sense, Germany and the EU should view Taiwan as a democratically constituted, and economically and technologically advanced key partner in the Indo-Pacific, with which relations should be comprehensively expanded on various levels.

## Concrete proposals

### Foreign and security policy

#### a.) unilateral

- Contingency planning: thinking through conceivable political and military scenarios in the Taiwan Strait as well as considering the response options for Europe and Germany, which will enable quicker decision-making and action if necessary.

#### b.) bilaterally with Taiwan

- Allow and intensify informal government contacts at all levels (e.g. at the level of state secretaries) below the highest state offices.
- Strengthen parliamentary exchanges with Taiwan.
- Cultivate silent diplomacy along the lines of the Asian model (visits by former leaders; think tank dialogues; use of sports or cultural events as an occasion to invite Taiwanese politicians).
- Deliberately use virtual formats as a low-threshold means to introduce dialogues.
- Include Taiwan in the Indo-Pacific policy of the German government (as well as in the implementation of the corresponding strategy of the EU, which explicitly mentions Taiwan).

#### c.) bilaterally with the PRC

- Officially protest against military and other provocations by the PRC directed against Taiwan; make this part of official government talks.

#### d.) multilateral

- Reaffirm German interest in peace and stability in the Taiwan Strait in the context of bilateral and multilateral meetings (similar to the G7 statement on Taiwan).
- Support Taiwan more actively in its efforts to achieve observer status in international institutions (WHA, ICAO, UNFCCC, World Customs Organization, Interpol); coordinate with countries that are also pursuing this goal.

- Support Taiwan's contributions to solving global problems and acknowledge them internationally (climate protection, health policy, cybersecurity).
  - Acquire membership in the GCTF (EU and Germany), finance and organise workshops in Europe and in third regions (Africa, Near and Middle East, South Asia).
  - Cooperate with Taiwan in international development policy on issues such as democratic transformation, development of the rule of law, securing freedom and human rights.
  - Integrate Taiwan into international export control regimes.
  - Show European solidarity when the PRC reacts to the strengthening of informal relations of an EU member state with Taiwan through punitive economic measures.<sup>4</sup>
- Support Taiwanese efforts to build an overseas Chinese information and media service, as an alternative to PRC media offerings.

### Trade and economic policy

- EU: Start negotiations for a comprehensive bilateral investment treaty (BIT), with the longer-term perspective of a bilateral FTA.
- Actively promote Taiwanese direct investment in Europe, especially in the electronic components and cybersecurity sectors.
- In the short term, reach agreements on individual sector chapters, such as technology and legal protection, cybersecurity, supply chain security, e-commerce, health, energy, cooperation between small and medium-sized enterprises, customs clearance, recognition of rules of origin, and market access in agriculture.

### Science and cultural policy

- Promote and strengthen cooperation in science and technology, such as exchanges among academic researchers in technical fields.
- Intensify cultural exchanges (for example, through town twinning and the promotion of civil society exchanges).
- Make greater use of Chinese language training in Taiwan; financially support and politically promote Taiwan's efforts to establish Chinese language training centres in Europe.

<sup>4</sup> This was recently the case with Lithuania, which, however, had not coordinated its action with the EU in advance.



# ANCHORING THE INDO-PACIFIC

THE CASE FOR DEEPER AUSTRALIA-INDIA-INDONESIA TRILATERAL COOPERATION

PREMESH SAHA | BEN BLAND | EVAN A. LAKSMANA

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Observer Research Foundation  
20 Rouse Avenue, Institutional Area  
New Delhi, India 110002  
[contactus@orfonline.org](mailto:contactus@orfonline.org)  
[www.orfonline.org](http://www.orfonline.org)

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# Executive Summary

The growing importance of the Indian and Pacific Oceans have given new momentum to the ‘Indo-Pacific’ as a geostrategic construct. India, Australia and Indonesia are particularly prominent players. Indonesia lies at the crossroads between the Indian and the Pacific Oceans, while India flanks the Indian Ocean and Australia lies between the Indian and the South Pacific Oceans. In essence, Indonesia, India, and Australia strategically anchor the Indo-Pacific in the middle, northwest, and southeast. The long-term strategic stability of the Indo-Pacific thus depends to a significant degree on these three countries and how they interact with one another.

This paper calls for deeper trilateral cooperation between Australia, India, and Indonesia. Given the regional uncertainty in the Indo-Pacific, and the limitations of existing multilateral institutions and bilateral partnerships, we argue that stronger cooperation and alignment between the three countries could boost regional stability and provide strategic benefits for all three states. We acknowledge that India, Australia, and Indonesia have engaged in preliminary trilateral dialogues and cooperative initiatives. But the activities thus far have not been designed strategically nor have they been part of a broader trilateral framework. To address this gap, we offer a policy framework to elevate the trilateral relationship between India, Australia, and Indonesia.

The framework is built around two premises. First, the bilateral relationships that form each side of the triangle should be strengthened to ensure a stronger, equitable, and sustainable trilateral relationship. As we will show in this report, the trajectory of bilateral ties—Indonesia-Australia, India-Australia, and Indonesia-India—has been uneven over the past fifteen years. The strength varies across different policy areas, of course, but we focus on a few key indicators such as diplomatic engagement, economic ties, and military exercises. In essence, a strong trilateral partnership should be supported by equally strong bilateral relationships among the three countries.

Second, we offer a broad spectrum of policy areas and initiatives, from short to long term and from government-to-government to people-to-people. The policy proposals we outline here can be broadly grouped under: (1) Politics and diplomacy, (2) Defence and security, (3) Economy and sustainable development, and (4) Maritime domain. We also wish to note that the “core” of our proposals centre on the maritime domain as we consider it to be the most obvious point of strategic convergence. We suggest that policymakers in Canberra, New Delhi, and Jakarta lay the foundations for deeper trilateral cooperation in the maritime domain.

These policies are nonetheless sufficiently broad to accommodate a wide range of activities and engagements, from highly informal conversations to formalized and institutionalised cooperation. Policymakers therefore have the flexibility to pick and choose which initiatives they would like to start with and build further. This “accordion-like” principle is necessary as different capitals have different appetites for “new initiatives”. Taken together, this report is not proposing a new formal alliance between the three countries. What we are calling for is a realignment of foreign policy focus based on mutual understanding, comfort levels, convergence of interests, and shared modalities. We further argue that the main challenges to this trilateral trajectory are the uneven strength of the bilateral ties among the three countries and the absence of a trilateral cooperative framework. Our report seeks to fill this gap and builds on our research and interviews with dozens of policymakers across the three capitals.

Finally, we note some of the prospects and challenges to our call for a deeper trilateral cooperation. Any new initiative will suffer from the chicken and egg conundrum. Without meaningful, practical issues and projects to discuss, it is hard to build new habits of cooperation. Government officials in all three countries warned of the dangers of setting up “another meaningless talking shop” but disagreed about whether the trilateral relationship should be top-down, framed around ministerial dialogues, or bottom-up, focused on specific areas of practical cooperation.

Another major problem is the different approaches the trio take toward alignments. Despite concerns about the US’ long-term commitment to Asia, Australia is and will remain a key treaty ally of the US for the foreseeable future. By contrast, Indonesia jealously guards its non-aligned status and some in Jakarta fear that even loose trilateral cooperation initiatives such as this could undermine its diplomatic freedom of movement. Similarly, in India, some diplomats fear that Australia wants to use the trilateral to bandwagon against China, undermining its “issue based-aligned” approach.

Despite the challenges, the strategic rationale for deepening trilateral cooperation between Australia, India and Indonesia is clear. These three multi-ethnic, multi-cultural democracies form the anchor of the Indo-Pacific, which all three governments see as their defining geography. All three have articulated new or refreshed visions for their own engagement with the region, Indonesia through its work in pushing the ASEAN Outlook on the Indo-Pacific, India through Prime Minister Narendra Modi’s vision for the Indo-Pacific, and Australia through the white papers that lay out its determination to ensure a “secure, open and prosperous Indo-Pacific”. If the Indo-Pacific view of the world is to prove meaningful, these three anchor nations will need to find new ways to deepen their strategic conversation and their practical cooperation across a wide range of areas.

# Strategic Triangularity: Policy Proposals

This report does not propose a new, formal *alliance* between India, Australia and Indonesia. Instead, it makes the case for deepening the *alignment* between the three, centred on the idea of “strategic triangularity.”<sup>33</sup> The concept of alignment is useful because it does not infer content, nor does it prejudge the type or level of cooperation involved. More importantly, an alignment also does not necessarily or inherently contain an exclusively security-centric focus.<sup>34</sup> As such, they can be built around deeper and coordinated cooperation on a wide range of issues, from military to economics, involving various governmental and non-governmental actors. The idea is to encourage these countries to devote more energy and investment—in the diplomatic, political, economic and security realms—to a trilateral cooperative relationship to help manage the changing regional order in the Indo-Pacific. In other words, for India, Australia and Indonesia to deepen their strategic conversation and work closer together on issues of common interest and strategic significance of the Indo-Pacific.

The authors envision the strategic triangularity between India, Indonesia and Australia to be a gradual process based on a convergence of interests (all three are geostrategic anchors of the Indo-Pacific), some shared values (all three are pluralist democracies) and similar power structures (all three are middle-powers seeking to stem the tide of great power politics).<sup>35</sup> The range of policy ideas starts from informal conversations in the short term, and extends to formalised cooperative engagements between key agencies in the long run. The aim is not to promote endless content-light meetings and position statements, but to kick-start a long-term process of cooperation and dialogue that will help to re-programme diplomatic muscle memories so that these three anchor nations can better work together in combatting both apparent and as-yet-unforeseen regional challenges to come.

The policy proposals we outline here can be broadly grouped under: (1) Politics and diplomacy, (2) Defence and security, (3) Economy and sustainable development, and (4) Maritime domain. It is important to note that the “core” of the proposals centre on the maritime domain as the authors consider it to be the most obvious point of strategic convergence. Ideally, policymakers in Canberra, New Delhi and Jakarta must start to lay the foundation for a trilateral cooperation at the maritime domain. The overall ideas will nonetheless cover two levels: government-to-government and people-to-people relations across different time frames (short, medium, long term).

Despite the general sense of resource constraints and the overwhelming number of diplomatic engagements in the Indo-Pacific, the authors’ conversations with policymakers suggest there is still room for further trilateral cooperation between

India, Indonesia and Australia as a form of “minilateral hedge” against the regional uncertainties. According to a policy advisor to the Ministry of External Affairs, “India needs to venture out to non-near neighbourhood where China has a presence and therefore it is important for India to be championing the Indo-Pacific concept and working with countries like Indonesia and Australia.”<sup>36</sup>

The authors have formulated the proposals below by considering several key elements. First, it is important that the issues tackled in the relationship should generate “a trilateral sense of ownership,” without overloading governments and militaries that are already stretched on all three sides.<sup>37</sup> To “overreach and try to do everything at once” would undermine the nascent trilateral relationship, warned one Australian diplomat.<sup>38</sup> A senior Indonesian diplomat concurs, “We cannot simply add load or fatigue to the diplomats. Instead we need to relieve the stress between bigger and different meetings.”<sup>39</sup> Successful trilateral relationships require an entrepreneurial approach from policymakers, trying out different formats and initiatives, and seeing what works. Therefore, the authors have deliberately injected flexibility into the menu of policy proposals below, so that policymakers can pick and choose which areas to build from.

Second, the authors are not proposing alternatives to replace existing multilateral organisations or bilateral alliances and commitments. The suggestions could build from and further strengthen existing institutions. The proposals include a range of options, from informal conversations to institutionalised engagements in the future. As one Indonesian policymaker warns, “Initial moves should be kept informal. We need to keep the habit of meetings, such as through regularly meeting on the side-line of existing forums.”<sup>40</sup>

Third, the authors recognise the possibility that a stronger trilateral relationship between the Indo-Pacific “maritime democracies” might be seen as a strategic challenge to China. Our conversations with various policymakers in the three capitals certainly underline such concerns. According to an Indian diplomat, “There is deep scepticism about whether these partnerships will last in the face of the China challenge, whether one of the partners strikes a deal with China on the side-lines separately or succumbs to Chinese pressure. The question is how can trust or confidence in such trilateral partnerships be built?”<sup>41</sup> A senior former Indonesian official agreed that the three governments will have to manage the likely external perception that the trilateral partnership is an “anti-China grouping.”<sup>42</sup> The authors are, therefore, developing “task-oriented” policy proposals, centred on common or shared regional challenges instead of advocating for abstract notions like “liberal international order.” A senior Indonesian diplomat suggests that having “well-defined target(s) will allow the trilateral to flourish without unnecessary geopolitical responses from other countries.”<sup>43</sup>

## POLITICS AND DIPLOMACY

### Short Term

In the political and diplomatic realms, India, Indonesia and Australia could start by meeting on the side-lines of various multilateral forums. The three countries should build on the existing senior officials meeting by working towards an annual trilateral foreign ministers meeting, which could be held on the side-lines of a bigger forum such as the EAS. This would provide an opportunity to deepen personal relationships at the highest level and engage in a strategic conversation about shared interests and concerns. The governments must also collaborate on a few key issues in IORA, e.g. disaster relief, search-and-rescue, and collective maritime safety and security. The three countries can also push and lead the process for an IORA Indo-Pacific Statement, perhaps based on the ASEAN Outlook on the Indo-Pacific.<sup>44</sup> According to an Indonesian diplomat, “The heart of the AOIP is economics and this a “language” shared by all.”<sup>45</sup> A similar collaboration could also be considered within the EAS.

However, relying only on high-level, top-down approach alone may involve diplomatic risks (e.g. angering China) that policymakers may not be ready to take.<sup>46</sup> According to an Australian diplomat, “smaller building blocks” in the form of junior-level meetings is a more viable approach for this trilateral.<sup>47</sup> If so, there are several bottom-up approaches one can take. Jakarta, New Delhi and Canberra could, for example, start by organising workshops at the embassy level and invite the other two countries to discuss trilateral policy areas. The governments could also initiate visiting programmes between members of parliaments in a trilateral setting. Two parliamentary delegations (e.g. Australia and India) could be hosted by the third country (e.g. Indonesia) on a rotational basis and discuss common issues of good governance in the region. One could also initiate similar programmes for provincial governments from the three countries (building from existing bilateral programs). An Indo-Pacific Youth Forum spearheaded by the three countries could also be a step worth considering, as are Track 2 dialogues involving think tanks to discuss broader regional issues of concern, including the role of women in international security. The process should be lean, such that these initial meetings and conversations can lead the way towards future potential cooperation.

### Medium Term

It would be productive to develop some geographically targeted cooperation with the Pacific Island nations. According to a former Indian naval officer, “Australia’s development assistance in the South Pacific can be a lesson or model for India’s outreach in that region as well. There can be joint projects undertaken by the three countries in the South Pacific.”<sup>48</sup> Australia, the primary power and largest aid donor in the region, launched a Pacific “step-up” in 2017. Earlier this year, Indonesia announced its own Pacific “elevation” plan. India has its own Pacific initiative as well—the “Forum for India–Pacific Islands Cooperation.”

All three nations are motivated by different factors.<sup>49</sup> However, the trilateral partnership could work on development assistance and cooperation with the Pacific Islanders; climate change and disaster relief are issues of concern that have come up in discussions.<sup>50</sup> The three nations also bring different capabilities to the table.<sup>51</sup> For example, Australia can help India and Indonesia in their desire to expand their respective footprints through disaster-resilient infrastructure. Another possible area for collaboration is UN peace-keeping operations. Australia is already working with Fiji to transform the Blackrock Camp in Nadi into a regional hub for police and peace-keeping training. India and Indonesia are looking to increase their involvement in UN peacekeeping operations. Australia must think about ways it could involve India and Indonesia in the revamped Blackrock centre, whether through strategic dialogues, training or other exercises.

## **DEFENCE AND SECURITY**

The state of bilateral defence relationships between India, Indonesia and Australia has been uneven over the past decade. Unsurprisingly, the appetite for a stronger trilateral security relationship varies from one capital to another. According to a former Indian naval officer, “India and Indonesia need to have more dialogues on their idea of security.”<sup>52</sup> In Indonesia, for example, a senior diplomat argues that while the country could be aligned with one state on one issue, but not aligned on another, “it will never touch the realm of security.”<sup>53</sup> A senior Indonesian naval official also suggests that for a trilateral security relationship to be viable, “it needs to avoid being perceived as a security grouping and should not involve combat activities.”<sup>54</sup> That being said, there are several possible areas of trilateral cooperation policymakers could explore.

### **Short Term**

The chief of staffs of each service could meet their counterparts every year and discuss service-specific new challenges, building on the first trilateral maritime security workshop. As the previous section shows, the bilateral service-specific exercises are also uneven. The armed forces of the three countries could formulate future exercises to fill the gaps that are required. The chief of the defence forces could further form regular or annual meetings. The meetings could take place as part of a working dialogue or forum over a wide range of regional issues, such as peacekeeping, counterterrorism, maritime security, humanitarian assistance and disaster relief. The defence ministers could also meet on the side-lines of ADMM Plus. After a few rounds, those meetings could be elevated into a strategic dialogue held rotationally every year.

### **Medium Term**

Once the armed services and defence ministers have their regular meetings, the engagement could be expanded to include defence educational and research institutions. At this point, the meetings should also involve the broader civilian

defence communities from the three countries. There could be coordinated patrols done by the three navies in the Sunda and Lombok straits, since these straits are strategically very important for all three countries, for their interests in the Indian Ocean. These straits are being increasingly used for people smuggling. Additionally, there is a growing presence of Chinese vessels and submarines in these straits. The countries can consider increasing the scope and intensity of bilateral exercises, such as the AUSINDEX (between India and Australia) and Samudra Shakti (between India and Indonesia). They can hold trilateral joint exercises, in addition to the existing bilateral exercises, as well as increase naval interaction to raise trust and interoperability.

### **Long Term**

There should be joint or combined exercises involving all three services (army, navy and air force) between the respective armed forces of the three countries. However, such a trilateral combined exercise should be preceded by bilateral combined exercises between India and Indonesia, between Indonesia and Australia, and between Australia and India. Thus far, there have been no major trilateral combined exercises amongst these countries. Education exchanges and training exercises must be expanded to include all levels—from the academy to the senior staff colleges.

## **ECONOMY AND SUSTAINABLE DEVELOPMENT**

Any trilateral cooperation between India, Australia and Indonesia will not be sustainable without closer economic collaboration. As noted above, the level of bilateral economic ties has been uneven for the three countries. However, it is clear that their shared prosperity lies within the Indo-Pacific region and in collaborating to strengthen the regional economic architecture. Yet, with regard to economic cooperation, the three countries cannot ignore the private sector. Cooperation will be easier and more concrete if it starts from promoting business engagements, perhaps starting with the chamber of commerce and then trade. Therefore, by the time a higher-level diplomatic framework is endorsed, business-to-business relationship will already be on the way.<sup>55</sup>

### **Short Term**

Completing the ratification and implementing the Indonesia Australia Comprehensive Economic Partnership Agreement discussed above should be a priority for Canberra and Jakarta. India is drawing up an economic strategy for Australia to mirror a high-level study commissioned by Canberra.<sup>56</sup> New Delhi and Jakarta should complete these steps as the foundation for broader economic engagement and sustainable development. Another short-term priority is perhaps discussing the pathways ahead for India to re-join the Regional Comprehensive Economic Partnership (RCEP) trade agreement. According to an Indonesia diplomat, “RCEP would be a game changer and could open up possibilities for the three to be economically complementary to

each other.”<sup>57</sup> In the meantime, the three countries could consider convening on the side-lines of the annual G20 finance ministers’ and central bank governors’ meeting to discuss geo-economic developments. The three countries can also consider developing a Joint Blue Economy Task Force to better engage the Pacific Island countries on broader economic development. The chambers of commerce and business associations in India, Australia and Indonesia can organise workshops on trilateral connectivity (e.g. how to deepen trade between Aceh and the Andaman and Nicobar Islands, or between Darwin and eastern Indonesia).

### **Medium Term**

One area that would be fruitful for structured discussions is infrastructure development. Australia has the technical expertise in financing and assessing infrastructure projects, while India and Indonesia have a significant need for enhanced connectivity. Both India and Indonesia want to increase their overseas cooperation in this area.<sup>58</sup> All three countries are members of PM Modi’s recently launched Coalition for Disaster Resilient Infrastructure (CDRI) and face severe challenges in building and/or retrofitting infrastructure to withstand disasters.<sup>59</sup> Alongside IORA, the CDRI could be another initiative where the three countries can cooperate on medium-term economic outcomes.

### **Long Term**

The three nations must find a way to better understand and overcome their differences in their approaches to international trade and economic development. India and Indonesia have strong protectionist tendencies. Australia, on the other hand, is a committed supporter of economic openness and greater trade and investment liberalisation. With India dropping out of RCEP, the three countries are unlikely to be aligned on trade policy. However, they can find many more ways to deepen trade and investment, and to collaborate on sustainability issues related to the ocean, from reducing marine plastic debris to curbing illegal, unreported and unregulated fishing.

## **MARITIME DOMAIN**

Over 90 percent of global trade is conducted through the maritime route, with a value that has grown from US\$6 trillion to about US\$20 trillion in 15 years. Over 60 percent of world’s oil production also moves through sea routes.<sup>60</sup> Strategic stability in the Indo-Pacific thus depends on the ability to reap economic benefits from the oceans and to respond to the challenges in the maritime domain. The challenges are multi-faceted and transnational: sea-borne terrorism, piracy, climate change, natural and man-made disasters, and the proliferation of maritime disputes and flash-points across the Pacific and Indian Oceans. According to a retired senior Indonesian official, “the maritime domain is an obvious selling point” for a stronger trilateral cooperation between India, Australia and Indonesia.<sup>61</sup>

## Short Term

There can be an exercise involving the coastguards of the three countries. Considering that BAKAMLA (the Indonesian Coast Guard) is a new establishment, it is possible to provide training at the Indian naval war colleges. However, as an institution directly under the president, BAKAMLA has the flexibility to manage its own international cooperation. One Indonesian official cautions that while a relationship with Australia and India could flourish, interoperability could become an issue.<sup>62</sup> Nonetheless, small-scale and gradual trilateral cooperation amongst coastguards, from visits to table-top exercises, could strengthen the maritime security capacity of the three countries. This is particularly likely if the focus of such joint activities is on law enforcement and humanitarian efforts.

Indonesia could also invite the Indian and Australian coastguards to the ASEAN Coast Guard and Law Enforcement Forum. There can be Track 2 workshops centred on capacity-building, maritime safety and security for Indo-Pacific coastguards led by India, Indonesia and Australia. Similarly, workshops on both maritime domain awareness and UNCLOS familiarity amongst the maritime security practitioners of the three countries is worth pursuing. One Indonesian diplomat highlights the importance of understanding and interpreting different regional views on how “freedom of navigation” applies to foreign military activity in exclusive economic zones.<sup>63</sup> Broader joint research on maritime studies involving think tanks and universities from India, Australia and Indonesia could further strengthen these bottom-up approaches to maritime security architecture-building.

## Medium Term

The three countries can cooperate on the sustainable use of ocean resources, joint efforts in managing humanitarian disasters, disaster relief and search-and-rescue, as well as collective maritime safety and security issues (e.g. countering maritime terrorism or managing illegal migration). Further, Australia can coordinate maritime research and information in the strategic seas. Bilateral naval exercises that are already in place can be elevated to trilateral joint maritime exercises between the navies of the three countries. The navies and coast guards can conduct anti-piracy operations.

The three nations can work towards ensuring Maritime Domain Awareness, especially in the Indian Ocean Region (IOR).<sup>64</sup> Trilateral cooperation in the IOR can start at the provincial level of the three countries facing the Indian Ocean. For instance, a Gujarat–Aceh–Darwin or Bengkulu–Gujarat–Darwin cooperation on maritime research could lay the initial groundwork for a broader focus on the IOR.<sup>65</sup> Information-sharing is another medium-term challenge for the IOR that the three countries must address. This can be done through direct communication and by sharing agreements between the respective maritime agencies or the three could find new mechanisms to work with regional information fusion centres. The initial focus for such an information-sharing mechanism can be on trans-national crime, e.g. drug smuggling.<sup>66</sup>

## **Long term**

Both the Indian Navy and the Australian Navy can work together to aid the capacity-building of the Indonesian Navy. There can be structured programmes for the training of in-service military officers. Institutions such as the Naval War Colleges of Goa, Mumbai, Madras, SESKOAL (Indonesia's Naval Staff and Command School), Indonesian Defence University, the Australian Naval War College, Sea Power Institute, Wollongong University can be made a part of this. Deals can be entered into with the Indian shipyards to supply patrol vessels and coast guard ships to the Indonesia coast guard.

# In Search of a Middle-Power Rethink on North Korea Policy

*An international commission could potentially transform an outdated and failed approach to the Korean peninsula.*

*The Interpreter*

Jeffrey Robertson

November 25, 2020

Given its many foreign policy priorities, there will be around six months before the Biden administration can turn to North Korea. [Pyongyang will not wait patiently](#). If expectations are correct, the incoming president will be forced into early action. Encouraging middle-power partners to pursue a guided, multilateral approach through an international commission on the Korean peninsula could see progress from day one. An international commission would then lay the foundations on which the Biden administration could build an informed, sustainable, practical and ultimately successful North Korea policy.

[International commissions](#) are ad hoc transnational investigative mechanisms, which can be constituted as either a temporary intergovernmental organisation (IGO) or a non-governmental organisation (NGO). Their significance lies in their ability to transform the assumptions and staid thinking that plague long-standing problems in international relations – such as the question of Korean peninsula peace and security.

Classic examples of international commissions include the [Brandt](#) (1980), [Palme](#) (1982), [Brundtland](#) (1984), [Global Governance](#) (1992), [Canberra](#) (1995), and [Intervention and State Sovereignty](#) (2001) commissions, which overcame and transformed outdated thinking on international development, disarmament, environmental protection, global governance, nuclear non-proliferation and humanitarian intervention. These international commission reports are still guiding documents for academics and policymakers in the search for viable solutions to complex problems.

Their success lies in allowing and even encouraging creativity within the confines of international relations practice. They have specific terms of reference which allow the receipt of submissions, interviewing of witnesses, engagement with experts (including commissioned research, modelling, analysis and advice) and, in certain cases, holding of public forums.

This includes engaging experts in multilateral processes; policymaking; socio-economic, political, military and strategic affairs; legal jurisprudence; and subject specialists relevant to the topic at hand. Facilitators and sponsors can also decide to seek ideas outside the domain of international relations “expertise” and engage civil society actors who have on-the-ground, practical knowledge of the subject. International commissions thus encourage creativity in addressing problems where political leadership and more traditional diplomatic processes have failed.

At the same time, international commissions adhere to the standards of international diplomacy. They are routinely led by influential and persuasive senior, often retired, politicians or leaders, and include a range of similarly respected commissioners, including senior government, military, academic and NGO representatives. They are well-resourced, with the support of a single or several foreign ministries, multilateral agencies, and/or philanthropic foundations.

An international commission would have particular advantages in the context of the Korean peninsula.

First, an international commission would avoid the descent into [crisis diplomacy](#), which occurs with each new US and South Korean administration. Crisis diplomacy forces parties to accept short-term compromise to avoid descent into expanded, unmanageable conflict. Crisis diplomacy provides tools to manage and avoid conflict (or, for the aggressor, achieve limited gains), but it doesn't provide tools to transform the root causes of tension.

In stepping outside the confines of crisis diplomacy, an international commission would establish a stable platform for the exploration of underlying problems.

Second, international commissions allow more space for policy-agile [middle powers](#) to mediate and facilitate change. Major powers are inherently constrained by domestic politics and international competition. Encouraging states such as South Korea, Denmark, Sweden, Australia and/or other middle powers, to play a leading role in the establishment and coordination of an international commission would allow the US to "lead at a distance" through guided multilateralism – the facilitation and support of mutual interests through commitment to international norms, rule of law and global governance. An international commission would build broader global support from the international community.

Would North Korea participate in such a venture? North Korea's historical recalcitrance and unpredictability means its participation could not be assured. An international commission would expose underlying issues, including perceptions of insecurity, lack of trust, adherence to international norms and commitment to resolution. But there would also be a strong rationale for North Korea to participate.

Participation would give North Korea a global audience to highlight its position on sanctions, perceived threats and other areas of concern. North Korea may see an international commission as an opportunity to secure short-term gain, in much the same way it has viewed other diplomatic processes since the 1990s. In this case, early flamboyant participation followed by an equally flamboyant staged walkout would not be surprising.

Participation would also hold interest for North Korea's leadership and elites. In a comprehensive investigation, an international commission could look at issues such as prosecutions and amnesties, unification governance structures, property rights, marketisation, and time frames – areas of personal and familial interest to elite stakeholders in the maintenance of division and the progress towards unification. In this case, North Korea would seek to maintain at least an observer status within the commission.

Finally, not participating would leave North Korea more alienated, more vulnerable to punitive measures, and potentially at risk of abandonment by remaining supporters. The comprehensive and authoritative nature of a commission report would build consensus and be a direct influence on global policy on Korean peninsula affairs for the next five to ten years – perhaps longer, if scheduled reviews are recommended. It would ultimately be against North Korea's interest to remain outside the process.

Most importantly, an international commission would strengthen America's alliance with South Korea. US and South Korean policy aims on North Korea have diverged. Since the 1990s, North Korea's nuclear and ballistic missile programs have increasingly diverted US attention from questions of threat reduction, stability, legitimacy, diplomatic normalisation and unification. With Seoul in range of massed artillery just over the border, it was never going to see nuclear weapons as the sole priority. Today, [policy options once on the fringe](#) – such as abandoning the US alliance, acceding to China's dominance, declaring a position of neutrality and/or securing an independent nuclear weapons capacity – have entered mainstream political debate. An international commission would bring out these differences, highlight areas of agreement and build a stronger, more flexible bilateral relationship and alliance.

It's time to admit that US North Korea policy has failed. Democrats and Republicans have repeatedly sailed into the headwind of [North Korea's nuclear ambitions](#) to no avail. The Biden administration will likely set sail with yet another crew of North Korea experts whose only experience is [tacking a leaky sailboat](#) from port to starboard, from Democrat to Republican. Before getting back to the water, they should rethink and redesign the vessel. It's time to explore alternatives. It's time to explore the potential of an International Commission on the Korean Peninsula.

# COUNCIL OF COUNCILS

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Conflict Management: The  
Russian-Ukrainian War

# Does Putin's Gamble Make Russia's War in Ukraine More Dangerous?

*Russia's moves to mobilize thousands more troops and to annex more of Ukraine's territory signal a new, potentially more dangerous phase of the war.*

CFR In Brief  
Thomas Graham  
September 21, 2022

## **How significant are Russian President Vladimir Putin's order for a "partial mobilization" to replenish Russian military forces and his support for referendums to formally annex several regions in eastern Ukraine?**

Putin's order is designed to reconfigure the character of the conflict to Russia's advantage after it recently suffered stinging setbacks in Kharkiv Oblast. The sham, hastily organized referenda in the Luhansk and Donetsk Oblasts of the Donbas region and occupied territories of the Kherson and Zaporizhzhia Oblasts will inevitably lead to their annexation by Russia, perhaps as early as next week.

Although no major country is likely to recognize the annexations, the regions will nevertheless become Russian territory as far as the Kremlin is concerned. That provides a legal basis in the Russian system for greater efforts to defend them, such as this partial mobilization and perhaps a more general mobilization in the future, as well as the possible use of nuclear weapons.

The partial mobilization, which Russia's ministry of defense said would call up some three hundred thousand reservists in coming weeks, is intended to fill the manpower gap left by the massive casualties Russian has suffered so far. It is also an indication that Russia is planning for a prolonged fight. It will likely take weeks to retrain the reservists and organize them into units for deployment along the one-thousand-kilometer front in Ukraine.

Meanwhile, the Kremlin hopes its nuclear saber-rattling will deter the West from providing ever more sophisticated weapons in ever greater numbers to the Ukrainians, and raise the specter of a nuclear response should Ukraine press too hard militarily in the soon-to-be-annexed regions that the Kremlin will then consider inalienable Russian territory. Russia's nuclear doctrine clearly allows for the use of such weapons should Russian territory come under nuclear or conventional attack.



Source: Institute for the Study of War and American Enterprise Institute.

COUNCIL *on*  
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### **Do these moves pose risks to Putin’s regime at home?**

Russians’ support for the war has so far been mostly passive and untested; few have been called upon to make genuine sacrifices on the front lines. The widespread view in Moscow is that the Kremlin has avoided calling a general mobilization because of doubts that young Russians were ready to actually fight and die for Putin’s goals in Ukraine. Tellingly, Russia’s ministry of defense took pains to explain that students would not be subject to the call-up, and that conscripts would not be sent to Ukraine, two extremely sensitive points for young men and their families. That said, the Kremlin turned to the partial mobilization to mitigate the hard-line blowback it has already faced because of the military’s stunning retreat in recent weeks and the overall general lack of progress on the ground in Ukraine. As the conflict continues, the Kremlin will have to balance constantly between those two challenges.

### **Putin again raised the threat of using nuclear weapons. How should the United States and North Atlantic Treaty Organization (NATO) respond?**

The threat of nuclear weapons has formed the backdrop to this conflict from the very beginning. Particularly given Russia's recent setbacks, it is hardly surprising that Putin would raise the threat once again. In response, U.S. President Joe Biden [repeated in his United Nations address](#) on Wednesday the formula that President Ronald Reagan and Soviet leader Mikhail Gorbachev developed in the late 1980s, and which the five permanent members of the UN Security Council reaffirmed this past January: A nuclear war cannot be won and therefore should never be fought.

The United States and NATO should continue to put the onus for breaking the nuclear taboo on Putin and urge other countries, especially China and India, to reiterate their opposition to the first use of nuclear weapons. At the same time, the United States is certainly reviewing with greater urgency the range of possible responses to Russia's use of nuclear weapons in the Ukraine conflict, and should continue to stress, as Biden already has, that Russia will pay a heavy price.

### **These moves came despite repeated calls at the United Nations this week for Russia to de-escalate. Is there a path for peace in Ukraine?**

There is no near-term path to peace, and the prospects for diplomacy will dim further with these annexations. The conflict has become a war of attrition. Although both sides have suffered significant casualties, Ukraine's economy is collapsing, and Russia's is under growing stress, each side still has large reserves to draw on. The struggle is existential for Ukraine. Public opinion polls show overwhelming support among Ukrainians for continuing the struggle and confidence in ultimate victory; they will not back down, especially as long as they receive large-scale military and economic support from the West.

The conflict might not be existential for Russia, but it certainly is for Putin and his entourage. The Kremlin continues to insist that the goals it laid out at the beginning, the demilitarization and "de-Nazification" of Ukraine, will be achieved—and the most serious resistance that Putin is facing comes from hard-line forces who advocate even more aggressive action.

All sides believe that this coming winter will test their resilience. The Kremlin is orchestrating a massive energy crisis that it hopes will cause an economic recession and, in turn, will undermine Europeans' support for Ukraine. While taking emergency measures to deal with the crisis, European countries (along with the United States) are maintaining a tough sanctions regime that they hope will crack Russian resolve, particularly if Ukraine continues to make progress on the ground. In these circumstances, diplomacy is dead as long as each side believes it can win on the battlefield.

It cannot be said too often that peace in Ukraine will not resolve the broader question of relations between Russia and the West. Putin stressed in his remarks that Russia is engaged in an existential struggle with the West, which in his telling is out to destroy and dismember Russia. Ukraine is only the current focus of that struggle.

# Ukraine, Russia, and the New World Order: Interview with Fyodor A. Lukyanov

Institut Montaign  
October 13, 2022

*Russia's invasion of Ukraine on February 24, 2022, marked the re-emergence of war on the European continent, and an ultimate attempt to correct the Western-led system prevailing since the end of the Cold War. Fyodor A. Lukyanov, Chairman of the Presidium of the Council on Foreign and Defense Policy, clarifies the motives behind the Russian leadership's decisions in Ukraine. He also shares how Russia views shifts to the new world order and how global governance could be improved. This article is part of [Ukraine Shifting the World Order](#).*

**Several rationales have been advanced by President Putin and his circle to justify the attack on Ukraine. How do you assess the respective weight of the motivations behind Russia's move?**

The launching of a military campaign against Ukraine is undoubtedly a groundbreaking event in post-Soviet history - perhaps the most significant. Many intertwined motivations guided this decision. We can try to summarize the most important ones.

- First, there was development both inside and around Ukraine pointing to increased military cooperation between Ukraine, NATO and the US. During the war, many things from the previous period came up, confirming the Kremlin's suspicious belief that military interaction between Ukraine and the West had been essential and growing after 2014. Now the secret is out in the open and has become a matter of pride for the US, the British and NATO. Since Moscow noticed this dynamic for a protracted while, a conclusion was made that either Ukraine (or Ukraine together with NATO) may try to challenge Russia one day in the foreseeable future. So, when Russian leaders said that the February move was a preemptive strike, they meant it.
- Ukraine is the culmination of a long history of Russian attempts to limit NATO expansion, which started in the 1990s and never stopped since. From the Russian point of view, NATO abused its exceptional position obtained after the collapse of the Soviet Union. The alliance *de facto* positioned itself as equal to the European security system. Its expansion was presented as the consistent extension of the security zone in Europe despite Russian claims that this went against the overall consensus on indivisible securities. Starting from the late 1990s, Russia came up with several proposals about how to adapt the European security architecture to address Russia's concerns as a country never considered a potential NATO ally. All Russian ideas were consistently dismissed by Western allies without proper discussions. The assumption that security arrangements (as they emerged in the wake of the collapse of communism and the USSR) were non-negotiable was seen by Western powers as an axiom. Russian bitter irritation grew with each new state joining NATO, and it was clear since 2008 that Moscow considered Ukraine as an absolute red line when it came to NATO membership, Putin warned about that during NATO's

Bucharest summit. The 2014 Euromaidan in Ukraine, passionately supported by the West, contributed to the feeling that the West decided to disregard any red lines drawn by Russia.

The specific part of this decision clearly outlined in [President Putin's article in July 2021](#) is a perception in Russia that Ukraine in its current borders, and with its current identity based on sharp distancing from Russia, is an artificial creature with no real historical grounds. This is a complicated reckoning with the Soviet past, considered in today's Russia in an ambivalent way - both as a historic peak of Russian might and an experiment that undermined traditional Russia and encouraged quasi-ethnic separation. Some call the current situation a postponed Russian civil war: one which the nation avoided immediately after the collapse of the Soviet Union, but with growing internal tensions fueled by what was described above.

### **Was NATO not *de facto* in decline? Was the NATO threat not exaggerated by the Russian leadership?**

I would not deny that Russia's leadership and strategic community were excessively focused on the NATO threat. But Moscow had reasons to grow suspicious of this organization. How should one define the decline of NATO? 1991 - 16 member states, 2022 - 30. Is this decline? NATO did not engage in any military campaign during the Cold War, but starting from the 1990s, NATO (or at least NATO countries like Iraq) launched several big campaigns, including a big military operation in Europe (Kosovo war) immediately after the first post-Soviet enlargement in 1999. Obama was supposed to be reluctant to make any new military commitments but he made new ones.

Trump was presented as friendly to Russia, but he proclaimed in his [strategic doctrine](#) the new era of great power rivalry between China and Russia. NATO officially stated in 2008 that Ukraine and Georgia will be members of the alliance and did stick to this commitment all the way. Should leaders of those countries and Russian leadership have seen those statements as jokes? Chancellor Scholz said in a recent interview that he told Putin privately that Ukraine had no chance to join NATO within the next 30 years. Well, why not declare this publicly? It was exactly what Russia asked for: denounce the open-door policy.

Especially given the fact that the Kremlin had the experience of oral and private commitments about NATO, which were just abandoned by the US and its allies when they didn't need them anymore. And, of course, the military support for Ukraine was rapidly growing over several years, regardless of the probability of formally joining NATO. We see it now in the war.

### **Do you agree that shaking up a world order still dominated by the West (more specifically the US) was an important motivation for the Russian leadership?**

Allow me to formulate it differently. Russia did not want to shake up the Western-led world order. Rather, as it saw signs of a weakening world order due to multiple objective reasons (while remaining pushy when it came to expansionist moves), Russia wanted to use this decline to get rid of post-Cold War arrangements. It is hard to deny that Russia raised this issue many times in different forms - from polite and constructive suggestions in the early 2000s until the ultimatum in December 2021. Until the end, the West assumed that Russia had no legitimate right to demand something beyond the

"rules-based order", whereas rules were formulated without real Russian participation. It should be emphasized that Russia literally turned to arms after decades of other, peaceful attempts to correct (not destroy) the Western-led system and find a proper place there. It did not produce any meaningful response from the West, because the West was fully convinced that the existing scheme was fine for all. And those who thought differently were just wrong.

**Seen from Moscow, what kind of developments, triggered by the war in Ukraine, should produce a real weakening of the grip of the West on the main pillars of the world order?**

The most remarkable result so far is that the US failed to recruit any country beyond its official allies to join the anti-Russian coalition. Given the severity of the crisis and the heavy human consequences of it, one could expect the broader scope of countries to support Western attempts to punish Russia. It did not happen; a majority of nations preferred not to join anti-Russian measures. It does not mean they support what Russia is doing, but they flatly rejected to follow prescriptions from the West. And this is a sign of a changing constellation of forces in international relations, and certain Western fatigue among the "Rest". US monopoly after the Cold War was too overwhelming. The lack of alternatives that did exist during the bipolar era prompted many to aspire to more diversity. The movement towards a new order and away from the hegemonic one has started and will continue.

The way in which the US and its allies orchestrated economic warfare against Russia, which is primarily based on the monopoly of the US dollar, and almost monopoly of the Western financial infrastructure (international payment systems, insurance, currency reserves), moved many nations to question how to avoid such a critical dependence. It will not happen very soon, but sooner than we could imagine, profoundly shifting the international landscape.

On the other hand, Russia was not able to get strong support from many countries, including for instance in Central Asia.

Russia is implementing its own security agenda with very harsh methods. This is a national task as formulated by the leadership and basically supported by a large part of the population. Russia did not consult anybody and did not ask for advice because Russian leadership is convinced that it should be done, despite how the rest of the world views it. In such a situation it would be strange to expect "strong support" from anybody. But the very fact that many countries remain neutral or express understanding is important per se.

As far as Central Asia is concerned, expectations that this region will become an apple of discord between Russia and China are not new. As always, the reality is finer and more nuanced. The main reason why it is not happening is that Central Asian countries are much more sophisticated than one suggests. All of them know that they:

- Need to keep friendly and balanced relations with powerful neighbors;
- Feel more comfortable with Russia due to cultural and historical closeness and the economic gravity of Russian space;

- Try to use economic opportunities offered by China, but know exactly that there is no such thing as free cheese;
- Follow changes in the international environment to finetune their policies. To ask who will *overtake* Central Asia means to be arrogant *vis-à-vis* those states.

**Even if Russia wins on the ground in Ukraine, it looks like it is doomed to end up in bad shape i.e, more dependent on China, isolated from the West, maybe keeping some support in the Global South, but with less capacity for influence. Do you have a different view?**

Russia is facing enormous challenges, no doubt about that. The Russian leadership decided that the path of the last thirty years was wrong and should change. The Soviet Union, by the end of its history, experienced a sharp political and economic decline, but paradoxically, was at the peak of countries' technological capacities and strategic self-sufficiency. The decision to open up and integrate into a globalized international environment led to improved conditions for a part of the population, but a loss of many skills and rapidly increasing dependency on international markets.

The Russian economy thirty years after the Soviet Union's collapse became more simplistic, and raw material based than in the Soviet time. Expectations that the technological level can be improved through cooperation and interdependence faced obvious limitations because technological leaders were predictably not keen to share the most advanced developments. Rather the opposite, the post-Soviet period was marked by the massive brain drain and leak of technologies, additionally weakening Russia (as the other former Soviet Republic's) innovative potential.

While small or even middle-sized countries could base their strategies on integration into other powers' technological spheres, Russia was too big to count on that. And too ambitious to take a subordinated position.

Of course, the next question arises, whether Russia will be able to catch up with its technological level being cut from the West and increasingly dependent on China. One can have well-grounded doubts about that. But Russian history showed that the country can produce unexpected results in the situation of *force-majeure* while comfortable prosperity leads to strange apathy. Second, the peaceful and linear development of globalization started to show signs of disruption well before the Ukrainian conflict, interdependence has been replaced by the growing rivalry between great powers, and the conclusion made by Russian leadership was that strengthening independent sovereign capacities is the only way to be prepared for the next stage of international development - a Hobbesian style fierce competition on all levels.

As far as China is concerned, the Sino-Russian rapprochement will have the same limits as the Russian-Western one. When Russia starts to feel that there is a chance to lose strategic independence (which is not the case by far yet), it will start to distance itself and seek counterbalances.

**Retaining the hypothesis of a relatively weakened Russia - politically and economically *vis-à-vis* the US and China - will Moscow increasingly rely on military power and social control to**

**assert dominance? Will destabilizing Europe be the solution for Russian strategists to offset the relative weakening vis-à-vis the US and China?**

Relying more on military power and domestic societal control is undoubtedly the path forward for Russia in the foreseeable future. There is simply no other alternative in this crisis environment. The question is whether Russia will be unique in this sense, or whether those trends in various forms will prevail universally. The more crisis and instability worldwide, the more inclined to rely on force and control; this is a universal trend, although forms can differ depending on the political system.

Russia is certainly not capable of breaking the EU, even if this scenario may be seen as desirable in certain constituencies in Moscow. There is another issue that the European integration process shows multiple signs of internal crisis, mostly unconnected to Russian affairs. In the current stage of relations, the European Union is clearly of no value to Russia. So, there is no reason to believe that Moscow will do something to strengthen ties with the European Union anytime soon.

There are different views in Russia on how to behave *vis-à-vis* Europe in the next period - to take distance as much as possible and stress differences with Europe at all levels, or to contribute to European transformation towards a more traditional "*Europe of nations*". There is an open debate, but no result yet.

**To what extent is the "special relationship" with China counted in Russia's strategic calculations? What does it mean for Taiwan's future? Would such a showdown be anticipated as the "last nail" in the coffin of Western dominion over the world order?**

The "special relationship" with China is crucial for Russian development in the next period for several reasons. Conflict with the West is the obvious one, but there are other motives of equal importance. China's position in world affairs fluctuating between being the first or the second superpower is likely under any circumstances. China is Russia's biggest neighbor, this simple logic suggests that good relations are indispensable. Both economic and geopolitical gravitation of China is in place, this is fact of life. China carefully avoids any allied status in relations with Russia, but objectively, countries move towards each other as both of them are labeled as dangerous revisionists by the US. In the case of Taiwan, China sees the US as an ultimate provocateur who is ready to destroy any mutually beneficial interdependence for its own sake. Russian views on the US, and especially the EU in the Ukrainian context are similar. So, the interests of Russia and China are not coinciding, but the logic of how the West sees them brings Moscow and Beijing ever closer together.

**Finally, for the Russian leadership, what new order should replace the current one? Any alternative to the last 30 years? How can global governance for our most pressing issues be assured in a new world?**

The second half of the 20<sup>th</sup> century was a unique period in the history of international relations. Institutions played a defining role in how to shape relations between states, it has never been the case before (not to that extent at least), and there are doubts that this will be repeated in the future. The international constellation of powers was too specific and exceptional between 1945 and 1991. The more traditional and "normal" situation in international relations is a much more chaotic stance with

situational arrangements and agreements based on changing power balances - both regionally and now even globally. It does not mean a high degree of stability, on the contrary, but at least the permanent awareness of all important players, that they should be cautious and always think about the intended and unintended consequences. The universalist ideological framework as it emerged after the end of the Cold War (i.e. after the end of the period with two competing ideological frameworks) can't stay without an overwhelming dominance of a superpower, the polycentric system requires a "peaceful coexistence" of different ethical and cultural frameworks, based on pragmatic balance and mutual benefits, not on the perception of sides of history, which are "right" or "wrong".

If this picture is correct, one conclusion follows: the order as we knew it from the previous decades is unlikely to be restored any time soon. All major international problems (including those which used to be called "global") should be addressed on a much more flexible transactional base, in the process of permanent adjustment of interests and possibilities. This does not promise a very stable future. But in the situation of a deeply asymmetric international environment (multiple players of different caliber and characteristics) without a chance to install anybody's solid control (be it institutions or great powers) each country should be prepared for a protracted period with very limited ability to strategize.

# Getting to Negotiations

*Why it's so hard to find a route to a diplomatic resolution in Ukraine*

Substack

Lawrence Freedman

October 19, 2022

The regular calls for negotiations to end Russia's war with Ukraine tend to be more directed at Kyiv or Washington than Moscow, as if they are the main stumbling blocks. Yet it is Vladimir Putin that is demanding that this war leads to a fundamental change in borders and political arrangements, that on any reading of international law he has no right to demand. Vladimir Putin does not preclude talks, but only so long as Russia is allowed to hold on to occupied territory, and even territory from which it has had to retreat. Volodymyr Zelensky demands withdrawal, and while at the start of war he might have been ready to go back to position of 23 February 2022 he now expects to go to the position of eight years earlier before Russia annexed Crimea.

The problem is not just that this gap looks, for the moment, to be unbridgeable but also that Putin has so far refused to scale down his demands to meet his diminished power. His past duplicity undermines any confidence Ukraine might have that a deal once reached would be honoured. Not only are the two sets of demands incompatible but there is no trust. There are any number of proposals around describing 'deals' that might end the war, as if this was equivalent to a business transaction that could be settled with a handshake. Ending this war in a way that leads to as stable a relationship that is possible between these two countries, after one has been viciously attacked and the other humiliated in battle, will require addressing issues that would be complex under the best of circumstances, and these are the worst.

Those who urge a 'deal' based on mutual concessions that has any chance of being turned into treaty language need to recognise that this will not stop the war in short order because nothing can be agreed or even implemented in short order. We need to think in terms of a two-stage process (and possibly more). This requires separating the fundamental territorial issue, which is now the main driver of the fighting, from all the other and consequential issues that will have to be addressed in a proper peace process. When we get to that stage the main factor influencing process may well be the sanctions imposed by the West and this will therefore require a direct role for the US, EU, UK and other interested parties. The first stage may well require mediation and devices such as international observers and even peacekeepers but it will need to be kept as simple as possible if it is to be linked to a cease-fire.

## The Early Negotiations

In a recent [press conference](#) after a meeting of the Collective Security Treaty Organisation in Kazakhstan Putin answered a question on negotiations. First, he acknowledged that he was being

pressed by India and China on the ‘importance of dialogue and peaceful resolution.’ While respecting their position as ‘our close allies and partners’, he also commented on Kyiv’s position:

‘they kept saying they wanted talks, and even sort of asked for them, but have now passed an official decision that bans such talks. Well, what is there to discuss?’

He also repeated a claim that has become something of a theme of Russian propaganda on the subject of negotiations:

‘We have always said that we are open. We reached certain agreements in Istanbul, after all. These agreements were almost initialed. But as soon as our troops withdrew from Kyiv, the Kyiv authorities lost any interest in the talks. That is all there is to it.’

This claim needs examining, not only because it is relevant to the question of who is to blame for the failure of negotiations thus far. More importantly, it can also help us understand some of the issues that would emerge should negotiations resume.

Direct talks between Ukraine and Russia began a couple of days after the Russian invasion. The gap in objectives was soon evident. [Russia claimed](#) that it was ready to stop its military campaign ‘in a moment’, but that would require not only that Ukraine halt hostilities but also acknowledge Crimea as Russian territory, accept Donetsk and Luhansk as independent states, and change its constitution to preclude entry into NATO or the European Union. The demands for Ukraine’s ‘de-militarisation’ and ‘de-Nazification’ were never quite withdrawn.

During this early period it is clear that Zelensky assumed that the main concession needed by Putin was a promise not to join [NATO](#). On 8 March, when explaining that he was ready for dialogue, Zelensky explained that

‘I have cooled down regarding this question a long time ago, after we understood that ... NATO is not prepared to accept Ukraine. The alliance is afraid of controversial things and confrontation with Russia.’

He also sounded conciliatory on the question of [Donetsk and Luhansk](#):

‘I think that items regarding temporarily occupied territories and pseudo-republics not recognized by anyone but Russia, we can discuss and find a compromise on how these territories will live on .... What’s important to me is how the people in those territories who want to be part of Ukraine are going to live.’

When it came to [Crimea](#) he added that he could ‘not recognize it as the territory of Russia but that it will be difficult for Russia to recognize that this is the territory of Ukraine.’ This implied some form of joint sovereignty or shared citizenship.

The first high-level meeting between the two foreign ministers – Ukraine’s Dmytro Kuleba and Russia’s Sergei Lavrov - took place in Turkey on 10 March. [Kuleba described](#) the Russian proposals for ending the war as a demand for surrender. Nonetheless soon the Ukrainians, including Zelensky, began to sound more optimistic, noting that Russia had moved away from ‘ultimatums’. There was

then a brief moment of optimism, with stories in a number of newspapers, including the [Financial Times](#) and the [Washington Post](#) about a 15 point peace plan. The aim appeared to be to draft a document for Zelensky and Putin to sign.

The core deal was one in which in return for a cease-fire and full Russian withdrawal Ukraine would abandon plans to join NATO, although the Ukrainian side of this deal appeared to be more developed than the Russian. Zelensky [repeated](#) on 15 March his previous point:

‘It is clear that Ukraine is not a member of NATO. We understand this. For years we heard about the apparently open door, but have already also heard that we will not enter there, and these are truths and must be acknowledged.’

Tellingly (and contrary to claims that he opposed the potential deal) then UK Prime Minister Boris Johnson, one of Ukraine’s strongest supporters in NATO, [observed that](#):

‘Everybody has always said — and we’ve made it clear to Putin — there’s no way Ukraine is going to join NATO anytime soon. But the decision about the future of Ukraine has got to be for the Ukrainian people.’

The concession from Russia was apparently that neutrality, while precluding membership of NATO and foreign bases, would not require full demilitarisation. Nonetheless the Ukrainians also wanted security guarantees from other foreign states to prevent attacks on Ukraine. These might not come from NATO and instead from a pool of allies, it would still offer the main benefit of NATO – security guarantees – without actual membership.

One problematic aspect of these discussions was that while Russian withdrawal was envisaged it was not clear how, if at all, this would include Luhansk and Donetsk, and most importantly whether this would be integral to any deal or could be taken as a separate matter for discussion once a cease-fire was in place.

One part of the optimism at this time, in addition to the assumption that NATO really was the big issue for Russia, was that Russian forces would be obliged to leave Ukrainian territory soon anyway because Ukrainian forces were fighting back so effectively. Russia had failed to take any cities, suffering heavy losses in equipment and personnel, and was experiencing unexpectedly severe economic sanctions.

The optimism did not last long. The regular talks failed to make progress. Zelensky proposed direct talks with Putin to end the war: [Lavrov](#) said the two sides would need to be much closer to a settlement before there could be direct talks. Moreover there would be procedural issues even if a deal could be reached on neutrality. Any security guarantees, once agreed, would need to be ratified by the guarantors’ parliaments. In addition, Zelensky promised that any deal would be put to a referendum. If agreed it could take up to a year before Ukraine’s constitution could be amended.

It soon became apparent that Ukraine needed to sort out the big territorial questions as part of any deal. Once a cease-fire had been agreed there would be few incentives in Moscow to discuss the return of any newly occupied territory. The Russians were also pushing for agreements on restoring

Crimea's water supply, pledging not to try to retake the peninsula by force, and the protection of the Russian language in Ukraine. All of this would add to the complexity of any negotiations and the time required for implementation.

Despite the Russian Ministry of Defence's announcement of 25 March that it would be leaving the area around Kyiv and elsewhere in the north as a 'goodwill gesture' to support the peace talks, as opposed to a concession to military realities, the Ukrainians were now disillusioned with the effort. Chief negotiator Mikhail Podolyak wrote that: 'Any agreement with Russia isn't worth a broken penny. Is it possible to negotiate with a country that always lies cynically and propagandistically?' [Zelensky](#) said the only person worth talking to was Putin, since he made all the decisions. 'It doesn't matter what their foreign minister says. It doesn't matter that he sends some negotiating group to us ... all these people are nobodies, unfortunately.' Discussions continued, with Russia conceding that it was no longer demanding 'denazification' (though only Russia thought that Ukraine was 'nazified') and allowing membership of the EU.

When it came to a treaty on neutrality and security guarantees the Russians lost interest when the Ukrainians brought forward their own draft which diverged significantly from the one which they had tabled. By mid-May the talks were effectively over. Lavrov now claimed that the West was using the conflict for its purposes and did not want it to end. More to the point, Ukrainian attitudes were being re-shaped and hardened by Russia's brutal conduct of the war and the evidence of war crimes revealed with the liberation of areas previously occupied by Russian forces near Kyiv. Russia's focus on taking all the Donbas and not just the two enclaves, highlighted the territorial issues. On 25 May, [Zelensky](#) stressed that 'Ukrainians are not ready to give away their land, to accept that these territories belong to Russia.'

What can we conclude from these early talks? First the reason why the talks failed was not simply because Kyiv abandoned a deal close to signature but because the territorial issues had not been resolved and Russia's conduct of the war made Ukraine determined to liberate all occupied areas.

Second, the ideas canvassed at this time to address some of the issues at the heart of the war might still be relevant. Those on neutrality and security guarantees were the most mature. But these reflected a misapprehension that the only thing that really mattered to Putin was keeping Ukraine out of NATO, and his objectives in Ukraine were in some way secondary. There were ideas from Kyiv on ways to enable those living in Ukrainian territory to identify as Russian if they so wished were less developed, and evinced no interest from Russia, but they might become relevant in the future.

Third, even were these issues addressed in good faith, they could not be settled quickly and any agreements would take a long time to implement. A full peace negotiation would not necessarily be a quick route to end the fighting.

### **Discussions about Discussions**

As it has become clearer that Russia had embarked on a war on conquest it has become even harder to imagine a negotiated solution. If the end-state is to be based on territorial holdings when the fighting stops, both sides have an incentive to keep fighting. Putin has never claimed to be abandoning talks but

at all times his terms suppose that he would be negotiating from a position of strength, which he would expect Ukraine to recognise.

The news outlet *Meduza*, run by Russian journalists now working out of Riga, has been doing some interesting work on current thinking about negotiations in both Moscow and Kyiv. Their articles can be found [here](#) and [here](#).

The line taken by Russians in meetings with foreigners, as with Putin at the CSTO, is that they are ready to talk but only if their conditions are met. On 6 October Federation Council Speaker Valentina Matvienko [proposed](#) inviting Ukraine's delegation to a preparatory meeting for next month's G20 summit and that the two countries begin peace negotiations 'today.' She urged that the two sides should 'try to understand each other, find an agreement.' Later however she made it clear that she was not expecting to discuss Russia's annexation of Ukraine's occupied territories, adding 'We're willing to put an end to further military action in Ukraine, but on the terms offered by Russia.'

There have been reports that Moscow is encouraging Turkish President Recep Erdoğan to convince Ukraine to return to negotiations with Russia. Most intriguingly there has been the so-called Musk plan, proposed by the Tesla billionaire, and short enough to fit into a tweet:

- Redo elections of annexed regions under UN Supervision;
- Russia leaves if that is the will of the people;
- Crimea formally part of Russia, as it has been since 1783 (until Khrushchev's mistake);
- Water supply to Crimea assured;
- Ukraine remains neutral.

It has been alleged that Musk proposed these ideas after speaking with Putin (although this has been denied). Russia expert Fiona Hill has reported that Musk was trying these ideas out at various forums during September. [She is convinced](#) that he is 'transmitting a message for Putin'.

The last three points fit with past Russian demands, and reflects their case for holding on to southern Ukraine in addition to the Donbas. The idea of 'redoing' the referendums of the annexed regions is something of a joke given the sham way they were conducted in the first place. It is hard to see how they could be conducted reliably, whatever the UN role, while the Russians were still in occupation (and depopulating the areas), and also fighting to hold on to them. If they were conducted after withdrawal Russia would soon lose interest.

The Ukrainian view now is that any discussions on 'post-war coexistence' depend on Russia completely withdrawing troops from all the territory of Ukraine, including the enclaves and Crimea. Defense Minister Oleksiy Reznikov has acknowledged that this is different from the March position when the Ukrainians were only asking for a return to the positions of 23 February. 'Back then, it was possible. But now they have passed more than one point of no return, and this option has long been impossible.' Zelensky now refuses to negotiate with Putin, but only with his replacement. The feeling is mutual. Putin does not want to grant Zelensky any legitimacy or status by meeting with him.

All this confirms the conclusion from the earlier talks that even under more propitious conditions there is no obvious basis for a peace settlement and that any attempt to negotiate one will be prolonged and difficult and not provide a quick way to end the fighting.

### **Cease-fires and Disengagement**

An alternative approach to a full peace settlement has always been to agree to a cease-fire. This would mean postponing full talks that might lead to a durable settlement. These could then be undertaken under less pressure and without one eye always on what is happening in the battle. *Meduza* reports that the Kremlin has been considering a scenario in which Ukraine instead of a 'full-fledged peace treaty' Ukraine is persuaded to agree to a temporary ceasefire. 'Russia's leaders believe this could be arranged through negotiations between Russian and Ukrainian troops — without the involvement of either country's president.'

It goes on to note that Putin sees the main benefit of this not as a means of ending the war but as part of a 'strategy to buy time for training conscripts and replenishing supplies in order to launch a "full-scale offensive" in February or March.' Unsurprisingly, as this thought has also occurred to Kyiv, Ukraine rejects such proposals as a snare and a delusion. Podolyak is quoted as saying:

'What does a ceasefire give Ukraine, in the Russian scenario? A chance to fix a de facto new line of separation and hastily dig up Russians in the temporarily occupied territories? Can they really believe we're going to agree to that? Especially against the backdrop of the counteroffensive...

A clear operational pause for the brutally battered Russian units, so they can at least train a few hastily mobilized soldiers and send a new quantity of death-bound men to the battlefield? What would we want that for?'

The main Ukrainian interest now is in defeating Russia militarily:

'Because that's the only thing that will allow us to truly end the war, gain the opportunity to brutally punish the war criminals through legal channels, and indirectly facilitate the launch of a scenario in which the Russian political system of Russia itself is transformed.'

All this explains why Ukraine is unlikely to agree to a ceasefire. At the very least it would allow Russia to freeze the existing lines of contact and continue with its occupation. A truce would allow it to prepare for the next stage of the war.

One thing that might change Ukrainian attitudes might be greater Russian success in holding defensive lines and preventing further retreats. But even assuming continued military success for Ukraine, Kyiv needs to develop its own scenario for ending the war. If Russia pushes for a cease-fire under any circumstances, including fear that it will be pushed back even further, there will be many in the West eager for Ukraine to accept.

Ukraine's best response to proposals for immediate cease-fires is not to dismiss them out of hand, but to agree that it will cease fire while Russian forces withdraw back to internationally recognised

borders, and that all attacks on Ukrainian cities and infrastructure stop. This could be conducted in principle on a military-to-military basis without Putin and Zelensky being directly involved, when they are unwilling to talk to each other, but also enabling them to reserve their positions on the form a long-term settlement might take.

Even if this approach was accepted in principle, which probably requires that the Russian high command realises that it is facing an even more calamitous defeat, this is still not necessarily something that could be agreed easily or quickly - just more easily and quickly than a full peace settlement. What is decided at this point would have implications for any future deal. The largest and most obvious issue is Crimea. There would also be questions about whether this was a disengagement agreement, which might be easier for Russia to accept if it meant that Ukrainian forces would not move into the land that Russian forces were leaving. The Ukrainians would be worried that this would leave local people feeling unsafe and uncared for, and also that evidence of war crimes would be lost. It would also require a UN force or something equivalent to move in. There would also be issues about prisoner swaps, which have loomed large in past armistices (although a number of these have already been implemented) and, more difficult, the fate of the many residents, including children, that the Ukrainians believe have been taken from occupied territories.

The next stage would be a proper peace settlement, which would need to define the border between the two countries, agree the status of Crimea, possibly offer measures to deal with residents of Ukraine who might identify more as Russians (far fewer now than before), considers questions of neutrality and security, and address issues of reparations and war crimes. The point about this stage is that other parties would need to be involved simply because it is hard to see how Moscow could agree to much while the many layers of sanctions were still in place. These layers could only be removed with confidence as agreements were being fully implemented. Just stating a possible agenda illustrates the problems facing a conference intended to produce a durable peace.

And that is before the Putin question, the one with which we always seem to end. So long as he remains in power can there be a serious negotiation at all, and will the US, UK and EU feel that they can lift sanctions? The concessions required would probably be too much for Putin to swallow but would that mean Russia was left economically and politically isolated.

None of this is predictive, for how all this works out depends on future military and political developments that will shape the bargaining positions of the two sides and how they approach talks. They are, however, all issues that are worth thinking about now.

# The Risks of Escalation in the Ukraine War are Rising Fast

*No comprehensive settlement is possible for the moment, but the US must start laying the groundwork for crisis diplomacy*

*Financial Times*

Alexander Gabuev

October 10, 2022

Russia's latest attacks on Ukrainian cities are a sad reminder that the most horrific pages of this ugly war are still ahead of us. But they also point to something more profound: Vladimir Putin's appetite for escalation, and the emotional nature of his decision-making. With Ukraine increasingly victorious on the conventional battlefield, the Kremlin's response is becoming ever more erratic, disproportionate and destructive.

The indiscriminate air strikes came in retaliation for blowing up the Kerch bridge to Crimea. For the Kremlin, the bridge is not only a lifeline connecting mainland Russia with the annexed peninsula (enabling military supplies, among other things), but also a symbol of Putin's legacy as the ruler who returned Crimea to Mother Russia. Coming the day after Putin's 70th birthday, the attack must have added insult to injury.

The Kremlin's response contains two significant lessons. First, Russia still has a vast toolkit for escalation. The tragic events of October 10 are a reminder that no part of Ukraine is safe from Russian attacks, and so no full-scale return of refugees and no reconstruction are possible at this point. Suspected covert attacks against German critical infrastructure show that Nato territory is vulnerable too.

The second lesson is Putin's reaction to humiliating setbacks. Far from backing down, he will double down with little regard for the strategic consequences of his actions. The air strikes, for example, will most likely result in more western support for Kyiv, including the swift delivery of much-needed air defence systems, and further boost Ukraine's will to fight the aggressor. Yet Putin ordered the strikes. The same approach prompted his disastrous reaction to the Maidan protests in 2014, and his decision to invade Ukraine.

These lessons are increasingly important. Ukraine's military gains and the Kremlin's inability to counter them conventionally may bring the west to the very top of the escalation ladder with a nuclear superpower. Given Putin's emotionality, this moment could arrive swiftly and unpredictably, leaving decision makers with little time to prepare for something like a Russian military garrison in Kherson being encircled and captured or killed.

President Joe Biden's sobering remarks about the threat of the use of nuclear weapons show that the White House is clear-eyed about the risk of escalation. For understandable reasons, Washington wants to maintain strategic ambiguity in public while communicating its views to the Kremlin in private.

However, attempts to use a combination of new sanctions, more diplomatic isolation and possibly conventional Nato strikes against Russian military targets in Ukraine to deter a desperate Putin from using weapons of mass destruction, should he feel cornered, are by no means guaranteed to succeed. To improve the chances of preventing a showdown, the quiet groundwork for crisis diplomacy should be laid now.

Given the high stakes and emotions, the window for diplomacy is likely to open at the most dramatic moment: for example, when Putin starts to unpack his nuclear toolkit, which will be visible to Nato and involve a lot of signalling by Moscow. Only then might the Ukrainian and western publics be convinced there is an urgent need to negotiate. Diplomacy will have to involve Biden, since the Kremlin considers him the only real head of the opposing coalition.

Close co-ordination with Ukrainian president Volodymyr Zelenskyy and Nato is essential. The sooner honest, closed-door conversations start, the higher the chance of climbing down the escalation ladder. Finally, given the irreconcilable differences between Moscow and Kyiv on core issues such as the status of Crimea and Donbas, as well as Ukraine's and the west's moral imperative not to trade territory for peace, only an armistice that will freeze the front lines can be agreed at this point, not a comprehensive solution to the war.

# Ending the War in Ukraine: Practical, if Painful, Possibilities

*The Bulletin*

Edward M. Ifft

July 22, 2022

The world is in the midst of the most dangerous European security crisis since World War II. The war in Ukraine has caused enormous destruction and loss of life, and millions of people have been displaced. Some perceive a risk that the conflict could spread further into Europe or set the stage for later conflicts in countries bordering Russia, or even increase the possibility of war over Taiwan. There are finally some calls for thinking about how to achieve a ceasefire and a general settlement of the Ukrainian-Russian issues, in the context of the broader European security situation. Actually, the time to begin to think about this was February 24, when the Russian invasion began, but there has been an understandable reluctance to do this until now.

The tragedy of this situation is compounded by the fact that Russia and Ukraine ought to be close friends. It is after all largely true that geography is destiny. A more compelling reason is the extraordinary amount of history, language, religion, and culture the two countries share. To be sure, in Soviet times, especially under Stalin, Ukraine was sometimes grievously abused, but the two Republics were always tightly connected. Russian children do not grow up wanting to kill Ukrainians. Intermarriage is common, and Ukrainian names are found everywhere in Russia.

So this war is quite baffling, at least to Western minds. Persistent efforts by some in the West to pull Ukraine away from Russia may be one dissonant note in this story. In any case, the friendly and cooperative state of relations that ideally ought to exist between these two neighbors seems very distant indeed today and that is the situation with which the rest of the world must deal.

## **The dismal situation**

Neither Russia nor Ukraine and its allies seem willing to contemplate what compromises they would be willing to make to bring this war to an end. Both sides seem to believe that “victory” is possible and that prolonging the war now will improve conditions for a more favorable eventual settlement. Neither side has clearly articulated what a realistic “victory” would look like and, of course, both sides will need to claim victory in the end. Actually, however, there can only be losers to this war. Regardless of what policy arrangements may be agreed, and where territorial boundaries may be drawn, Russia will have suffered huge losses of military personnel and equipment, gained pariah status in the international community, and have to endure punishing long-term sanctions. Ukraine will have suffered enormous losses to its population, housing, industrial capacity, and infrastructure, from which it will take years to recover.

Compared to other conflicts in recent memory, the lack of calls for a ceasefire and peace settlement on the part of the UN and United States is really quite remarkable. Aside from a few muted suggestions for a ceasefire from third countries, such as China, one almost gets the impression that much of the

world wants the war to be as long and as bloody as possible. Statements that the primary purpose of the war should be to “weaken Russia” seem to point in this direction.

Any reasonable settlement will require both sides to stop dredging up grievances from the distant past. On the Russian side, this means ceasing the emphasis on how segments of the Ukrainian population welcomed the Nazis during World War II and extrapolating that to today’s Ukraine. Of course, there are neo-Nazi groups in Ukraine today, just as there are in many countries, including the United States, UK and Germany itself, but they are by no means in influential positions. For their part, the Ukrainians need to get over a fixation on the Holodomor, the manmade famine brought on by Stalin’s terror almost 100 years ago, along with other crimes of the Soviet period.

### **Strategic mistakes**

It is useful to identify the moves made by both sides that led to this tragic war in the first place. It is ironic that, on both sides, policies designed to avoid a dreaded catastrophe actually ended up leading to just what the country was trying to avoid.

The primary motivation on President Putin’s part was presumably to prevent Ukraine from joining NATO, bringing NATO bases and NATO weapons (including perhaps even nuclear weapons) right up to Russia’s borders in a land intimately associated with the historical Russia. This could have included even the loss of Russia’s major naval base at Sevastopol, Headquarters of the Russian Black Sea Fleet. Russia’s aggression, however, has brought about precisely what it was trying to prevent—enlargement of NATO, with the addition of Finland and Sweden to the alliance and a massive strengthening of anti-Russian, pro-Western sentiment in Ukraine itself. The invasion was based upon the belief that the Ukrainian population would welcome the Russian intervention and a more pro-Russian government installed with little trouble. In asking how such a colossal mistake could have been made, it is useful to recall the similar mistake made by the United States in its invasion of Iraq.

For its part, Ukraine’s motivation in aggressively seeking membership in NATO (even writing it into its constitution) was to protect itself from possible Russian aggression. Its pursuit of that goal has been a factor in bringing about precisely what it was trying to avoid, and worse. It was a major tragedy that the good people along the Dnieper (Dnipro), along with their friends to the west, failed to understand that NATO membership was a bright red line for Russia, which would go to war to prevent what it perceived as a worst-case outcome. President Zelensky ran on a platform that included the promise that he would solve the Donbas problem and improve relations with Russia in general. It is fair to ask which would have been better for Ukraine—implementing the Minsk Accords, which would have resulted in full Ukrainian control of the pro-Russian Donbas, but given it “special status,” or the current and likely future status of the Donbas?

Another unhelpful forerunner of the war was the fact that the Bush/Cheney administration forced through NATO an official statement that “Ukraine and Georgia will be members of NATO.” This went far beyond the traditional policy line that NATO has an Open Door Policy and welcomes qualified applicants, and countries should be free to choose their associations.

### **Possible solutions**

The war in Ukraine has been transformed from a policy dispute to a fight over territory. In some ways, that simplifies matters down to, putting it crudely, drawing lines on a map. On the other hand, it also complicates the situation, as both sides try to achieve more favorable geographical control before the fighting stops. That, of course, leads to more death and destruction on both sides as fronts move back and forth, with a stalemate as the likely result. Another reason to seek a settlement soon, or at least a ceasefire, is that it would put a stop to the dangerous and irresponsible talk from the Kremlin of the possible use of nuclear weapons in Ukraine.

*Crimea.* Regardless of the wishes of much of the international community, Crimea as a part of Russia, which it was for 250 years until Khrushchev arbitrarily transferred it to Ukraine in 1954, is a *fait accompli* that is extremely unlikely to change. If a settlement in which it reverted to Ukraine could somehow be agreed, it could presumably also allow Russia to keep its naval base at Sevastopol, creating a sort of Guantanamo Bay-in-Cuba situation. In any case, in an ideal world, Russia would have no need for a land bridge from Russia to Crimea, nor complete control of the Sea of Azov. Ukraine would allow free land passage between Russia and Crimea. It would also reopen the canal that provides water to thirsty Crimea (and charge Russia for the water, which comes from the Dnieper River). Had Ukraine offered such an arrangement before the war, it might have been quite helpful, but it seems unlikely to be sufficient to solve the problem now. Whatever the details of a settlement, both Ukrainian and Russian citizens should have easy access to Crimea for commerce, tourism, family visits, etc.

*The Donbas.* The best case for Ukraine would be regaining control over all the Donbas, including the portions controlled by the separatists since 2014. The worst case would be for Russia to control essentially all of it. With enough good will and common sense, either case could be made to work, with a more-or-less normal life for Donbas inhabitants. Most observers expect the fight over the Donbas to end in a stalemate, although Russia is slowly gaining the upper hand.

A settlement in which Ukraine has at least some control would probably need to include some version of the Minsk Accords, in which citizens would have full Ukrainian/Russian language rights, along with additional influence in the Verkhovna Rada (parliament) in Kyiv. The line of separation between Ukrainian and Russian/separatist territory should be monitored by UN or Organization for Security and Cooperation in Europe (OSCE) peacekeepers. The arrangements should be such that the intermittent shelling across the line of control, which has occurred since 2014 (mostly from the separatist side), stops. Russia could try to annex parts of the Donbas, along with other portions of Ukrainian territory it controls—it is already issuing Russian passports to citizens of the Donbas. It could also try to create for it some separate status, as it has done in Abkhazia and South Ossetia. In the former arrangement, Russia would be responsible for the enormous rebuilding required after the war. In the latter case, it might try to shift this responsibility to the international community, whose reaction would be interesting to see. It is worth noting that a Ukraine Recovery Conference has already been meeting in Switzerland.

In both Crimea and Donbas, a clean international agreement on the legal status of the territory in question would certainly be the best solution. However, one could end up with a situation analogous

to that of the Baltic states for many years—i.e., treated by the West as *de facto* parts of the Soviet Union, without ever formally recognizing this legally.

*Ukraine and the West.* Much has been made of President Putin's view of Ukrainian history (or lack thereof) and an apparent refusal to acknowledge its status as a sovereign nation separate from Russia. Detailed analyses of these views have been presented elsewhere. Of course, Ukraine is a sovereign nation and member of the UN—this has never been seriously challenged by any country and certainly will not change in any scenario. Nevertheless, Putin's apparent goal to "return and fortify" historic Russian lands does sound ominous.

In the recent past, Russia and Ukraine have worked together to resolve difficult problems, such as allocation of assets following the dissolution of the Soviet Union, the status of the Sevastopol Naval Base, large Ukrainian debts for purchases of Russian energy, and so on. The current issues largely date from the Maidan Revolution in 2014. The desire to join Western institutions on the part of the majority of Ukrainian citizens is well-known. This has obviously been strongly reinforced by the war. Another factor: Many pro-Russian citizens who oppose this course of action have fled to Russia and Belarus and no longer have a vote in the matter.

Without discussing the history and ramifications of all this, one can say that NATO membership is the real sticking point and proximate cause of the war (although Putin has also hinted at larger, completely outrageous goals probably not shared by Russian society in general). A realistic settlement of the current crisis will very likely need to include an understanding that Ukraine will be militarily neutral and not seek membership in NATO. This could be accompanied by appropriate security guarantees. The model for this would be the Austrian State Treaty of 1955, which has been a great success. Austria is today a highly secure, flourishing and attractive country, with no need for a huge military. Switzerland is another highly successful militarily neutral state in the heart of Europe, though Austria is the better example for Ukraine.

This solution, clearly not one desired by Ukrainian patriots, would not apply to joining other Western institutions, in particular the EU. Ukraine already has EU candidate status and this must be allowed to advance, though full membership will probably take years, with others, such as Turkey, already in the queue for EU membership. The choice of other countries to join non-military Western institutions has not been strongly opposed by Russia. This was even true of the Soviet Union regarding its allies in earlier times.

Recalling that being forced to choose between commercial arrangements with the West or East was the primary cause of the Maidan Revolution in 2014, the EU should seek arrangements that permit Ukraine to trade appropriately also with Russia and other neighbors to the east. Similar arrangements are being discussed in a civilized and constructive manner regarding Northern Ireland's relations with both the UK and EU under Brexit and, with enough good will, Ukraine might actually be an easier problem to solve.

Another difficult problem, not much noticed in the West, concerns the dispute between the Ukrainian Orthodox Church and the Russian Orthodox Church. Although these two important branches of

Eastern Orthodoxy have very similar beliefs and practices, they disagree on who owns churches and their related possessions in Ukraine. Unlike the other issues discussed, this appears to be a bilateral problem, without serious linkages to the broader European situation.

### **Beyond Ukraine: arms control and European security**

A large subject that cannot be explored fully here concerns the overall security situation in Europe. With the recognition that the current “rules-based” order has somehow failed, it is now widely recognized that a new and comprehensive security architecture is needed. Then-President Dmitry Medvedev proposed something like this—a new European Security Treaty—in 2008. It was not explained well but involved an expanded role for the OSCE. In any case, the idea was rejected almost out-of-hand by the United States and NATO.

The demise of the Intermediate-range Nuclear Forces (INF) Treaty has opened up an unlimited competition, which no one wants, in these dangerous missiles. This is one of the most urgent problems in arms control today. A long-term solution may well involve combining INF-range missiles in some way with the longer-range systems now included in New START. In the near term, however, some sort of moratorium on the deployment of these missiles is needed. Russia has already proposed this, but its apparent opening position on the subject is clearly a non-starter.

The moribund status of the Conventional Armed Forces in Europe (CFE) Treaty also cries out for new negotiations to deal with the new situation on the continent. The Open Skies Treaty, from which the United States withdrew, is another agreement most European states would like to see revived in some form. New START, also highly relevant to European security, does not expire until 2026, but its replacement will be difficult to negotiate and talks on this have been suspended because of the war in Ukraine. All of these problems are both complicated and urgent but made even more difficult by the new hostility and lack of trust brought on by the war in Ukraine.

# COUNCIL OF COUNCILS

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## *Session Five*

# *The Future of Energy, Climate, and Geopolitics*



## FOREIGN AFFAIRS

# Green Upheaval

## The New Geopolitics of Energy

**BY JASON BORDOFF AND MEGHAN L. O'SULLIVAN**

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JASON BORDOFF is Co-Founding Dean of the Columbia Climate School and Founding Director of the Center on Global Energy Policy at Columbia University's School of International and Public Affairs. During the Obama administration, he served as Special Assistant to the President and Senior Director for Energy and Climate Change on the staff of the National Security Council.

MEGHAN L. O'SULLIVAN is Jeane Kirkpatrick Professor of the Practice of International Affairs at the Harvard Kennedy School and the author of *Windfall: How the New Energy Abundance Upends Global Politics and Strengthens America's Power*. During the George W. Bush administration, she served as Special Assistant to the President and Deputy National Security Adviser for Iraq and Afghanistan.

It is not hard to understand why people dream of a future defined by clean energy. As greenhouse gas emissions continue to grow and as extreme weather events become more frequent and harmful, the current efforts to move beyond fossil fuels appear woefully inadequate. Adding to the frustration, the geopolitics of oil and gas are alive and well—and as fraught as ever. Europe is in the throes of a full-fledged energy crisis, with staggering electricity prices forcing businesses across the continent to shutter and energy firms to declare bankruptcy, positioning Russian

President Vladimir Putin to take advantage of his neighbors' struggles by leveraging his country's natural gas reserves. In September, blackouts reportedly led Chinese Vice Premier Han Zheng to instruct his country's state-owned energy companies to secure supplies for winter at any cost. And as oil prices surge above \$80 per barrel, the United States and other energy-hungry countries are pleading with major producers, including Saudi Arabia, to ramp up their output, giving Riyadh more clout in a newly tense relationship and suggesting the limits of Washington's energy "independence."

Proponents of clean energy hope (and sometimes promise) that in addition to mitigating climate change, the energy transition will help make tensions over energy resources a thing of the past. It is true that clean energy will transform geopolitics—just not necessarily in the ways many of its champions expect. The transition will reconfigure many elements of international politics that have shaped the global system since at least World War II, significantly affecting the sources of national power, the process of globalization, relations among the great powers, and the ongoing economic convergence of developed countries and developing ones. The process will be messy at best. And far from fostering comity and cooperation, it will likely produce new forms of competition and confrontation long before a new, more copacetic geopolitics takes shape.

Talk of a smooth transition to clean energy is fanciful: there is no way that the world can avoid major upheavals as it remakes the entire energy system, which is the lifeblood of the global economy and underpins the geopolitical order. Moreover, the conventional wisdom about who will gain and who will lose is frequently off base. The so-called petrostates, for example, may enjoy feasts before they suffer famines, because dependence on the dominant suppliers of fossil fuels, such as Russia and Saudi Arabia, will most likely rise

before it falls. And the poorest parts of the world will need to use vast quantities of energy—far more than in the past—to prosper even as they also face the worst consequences of climate change. Meanwhile, clean energy will come to represent a new source of national power but will itself introduce new risks and uncertainties.

These are not arguments to slow or abandon the energy transition. On the contrary, countries around the world must accelerate efforts to combat climate change. But these are arguments to encourage policymakers to look beyond the challenges of climate change itself and to appreciate the risks and dangers that will result from the jagged transition to clean energy. More consequential right now than the long-term geopolitical implications of a distant net-zero world are the sometimes counterintuitive short-term perils that will arrive in the next few decades, as the new geopolitics of clean energy combines with the old geopolitics of oil and gas. A failure to appreciate the unintended consequences of various efforts to reach net zero will not only have security and economic implications; it will also undermine the energy transition itself. If people come to believe that ambitious plans to tackle climate change endanger energy reliability or affordability or the security of energy supplies, the transition will slow. Fossil fuels might eventually fade. The politics—and geopolitics—of energy will not.

### **PERSISTENT PETROSTATES**

World War I transformed oil into a strategic commodity. In 1918, the British statesman Lord Curzon famously said that the Allied cause had “floated to victory upon a wave of oil.” From that point forward, British security depended far more on oil from Persia than it did on coal from Newcastle, as energy became a source of national power and its absence a strategic vulnerability. In the century that followed, countries blessed with

oil and gas resources developed their societies and wielded outsize power in the international system, and countries where the demand for oil outpaced its production contorted their foreign policies to ensure continued access to it.

A move away from oil and gas will reconfigure the world just as dramatically. But discussions about the shape of a clean energy future too often skip over some important details. For one thing, even when the world achieves net-zero emissions, it will hardly mean the end of fossil fuels. A landmark report published in 2021 by the International Energy Agency (IEA) projected that if the world reached net zero by 2050—as the UN Intergovernmental Panel on Climate Change has warned is necessary to avoid raising average global temperatures by more than 1.5 degrees Celsius above preindustrial levels and thus prevent the worst impacts of climate change—it would still be using nearly half as much natural gas as today and about one-quarter as much oil. A recent analysis carried out by a team of researchers at Princeton University similarly found that if the United States reached net zero by 2050, it would still be using a total of one-quarter to one-half as much gas and oil as it does today. That would be a vast reduction. But oil and gas producers would continue to enjoy decades of leverage from their geologic troves.

Traditional suppliers will benefit from the volatility in fossil fuel prices that will inevitably result from a rocky energy transition. The combination of pressure on investors to divest from fossil fuels and uncertainty about the future of oil is already raising concerns that investment levels may plummet in the coming years, leading oil supplies to decline faster than demand falls—or to decline even as demand continues to rise, as it is doing today. That outcome would produce periodic shortages and hence higher and more volatile oil prices. This situation would boost the power of the petrostates by

increasing their revenue and giving extra clout to OPEC, whose members, including Saudi Arabia, control most of the world's spare capacity and can ramp global oil production up or down in short order.

In addition, the transition to clean energy will wind up augmenting the influence of some oil and gas exporters by concentrating global production in fewer hands. Eventually, the demand for oil will decline significantly, but it will remain substantial for decades to come. Many high-cost producers, such as those in Canada and Russia's Arctic territory, could be priced out of the market as demand (and, presumably, the price of oil) falls. Other oil-producing countries that seek to be leaders when it comes to climate change—such as Norway, the United Kingdom, and the United States—could in the future constrain their domestic output in response to rising public pressure and to hasten the transition away from fossil fuels. As a result, oil producers such as the Gulf states—which have very cheap, low-carbon oil, are less dependent on the financial institutions now shying away from oil, and will face little pressure to limit production—could see their market shares increase. Providing more or nearly all of the oil the world consumes would imbue them with outsize geopolitical clout, at least until oil use declines more markedly. Other countries whose oil industries might endure are those whose resources can be brought online quickly—such as Argentina and the United States, which boast large deposits of shale oil—and that can thereby attract investors who seek faster payback periods and may shy away from longer-cycle oil investments given the uncertainties about oil's long-term outlook.

An even more intense version of this dynamic will play out in natural gas markets. As the world starts to use less natural gas, the market shares of the small number of players that can produce it most cheaply and most cleanly will rise, particularly if countries taking strong climate action decide to curb

their own output. For Europe, this will mean increased dependence on Russian gas, especially with the advent of the Nord Stream 2 pipeline connecting Russia to Germany. Today's calls from European lawmakers for Russia to increase its gas output to avoid an energy crisis this winter are a reminder that Moscow's importance to Europe's energy security will rise before it declines.

## **POWER FROM POWER**

In order to understand the geopolitics of a world moving away from fossil fuels, it is critical to grasp which elements of being a clean energy superpower will actually yield geopolitical influence. Here, too, reality differs from the conventional wisdom, and the transition process will look very different from the end state. In the long run, innovation and cheap capital will determine who wins the clean energy revolution. Countries with both those attributes will dominate in at least four ways.

One source of dominance—the power to set standards for clean energy—will be more subtle than the geopolitical power that came with oil resources but just as enduring. Internationally, a country or company that sets global standards for equipment specifications or norms of engagement maintains a competitive advantage over others. For example, Australia, Chile, Japan, and Saudi Arabia have emerged as early adopters in trading low-carbon hydrogen and ammonia across borders and thus may be able to set infrastructure standards and certification norms for those fuel sources, giving their favored technologies and equipment an edge. And for technologies that involve vast quantities of data, such as digital tools that optimize electric grids or manage consumer demand, whoever defines the standards not only will be able to export compatible domestic systems but also may be able to mine data from them.

Standard setting will be particularly important when it comes to nuclear energy. According to the IEA, global nuclear energy generation will need to double between now and 2050 for the world to achieve net-zero emissions. As of 2018, of the 72 nuclear reactors planned or under construction outside Russia's borders, more than 50 percent were being built by Russian companies and around 20 percent by Chinese ones; fewer than two percent were being built by U.S. companies. This will increasingly enable Moscow and Beijing to influence norms regarding nuclear nonproliferation and impose new operational and safety standards designed to give their own companies a lasting leg up in a sector that will need to grow as the energy transition unfolds.

A second source of dominance in a clean energy world will be control of the supply chain for minerals such as cobalt, copper, lithium, nickel, and rare earths, which are critical to various clean energy technologies, including wind turbines and electric vehicles. Here, the analogy to oil power holds, to an extent. According to the IEA, should the world begin to move with haste toward a more sustainable energy mix, demand for such substances will far outstrip what is readily available today; in the agency's estimation, a world on track for net-zero emissions in 2050 will by 2040 need six times as much of them as it does today. Meanwhile, global trade in critical minerals will skyrocket, from around ten percent of energy-related trade to roughly 50 percent by 2050. So over the course of the transition, the small number of countries that supply the vast majority of critical minerals will enjoy newfound influence. Today, a single country accounts for more than half the global supply of cobalt (the Democratic Republic of the Congo, or DRC), half the supply of lithium (Australia), and half the supply of rare earths (China). By contrast, the world's three largest oil producers—Russia, Saudi Arabia, and the United States—each account for just ten percent of the

world's global oil production. Whereas smaller, poorer countries, such as the DRC, may be hesitant to use their mineral strength to exert pressure on more powerful countries, China has already demonstrated its willingness to do so. China's embargo on the export of critical minerals to Japan in 2010, in the context of rising tensions in the East China Sea, could be a sign of things to come.

China's control over the inputs for many clean energy technologies is not limited to its mining prowess; it has an even more dominant role in the processing and refining of critical minerals. At least for the next decade, these realities will give China real and perceived economic and geopolitical power. Yet in the long term, this influence will wane. The oil price spikes of the 1970s led new players to search for new sources of oil; the mere prospect of political manipulation of scarce minerals is producing the same phenomenon. Moreover, such minerals can be recycled, and substitutes for them will also materialize.

The third element of clean energy dominance will be the ability to cheaply manufacture components for new technologies. This will not confer the same advantages as possessing oil or gas resources has, however. China, for example, accounts for the manufacturing of two-thirds of the world's polysilicon and 90 percent of the semiconductor "wafers" used to make solar power cells. By suddenly removing these items from global supply chains, China could create major bottlenecks. But inputs for clean energy products that produce or store energy are not the same as the energy itself. If China did restrict exports of solar panels or batteries, the lights would not go out. China would not be able to bring economies to a standstill overnight or put the well-being and safety of citizens at risk—as Russia did when it curtailed natural gas exports to Europe during the frigid winters of 2006 and 2009.

To be sure, China's actions would create disruption, dislocation, and inflation akin to the effects of the delays in computer chip exports throughout 2021. Such turmoil could stall the energy transition if it encouraged consumers to turn back to gasoline vehicles or cancel plans to install rooftop solar panels. Yet even if China adopted that tactic, over time, markets would respond, and other countries and companies would generate their own substitute products or supplies—in a way that is much harder to do with a natural resource available only in certain locations, such as oil.

A final way in which a country could become a clean energy superpower is through the production and export of low-carbon fuels. These fuels—especially hydrogen and ammonia—will be critical to the transition to a net-zero world given their potential role in decarbonizing hard-to-electrify sectors, such as steel production; fueling trucks, ships, and other heavy vehicles; and balancing grids supplied primarily by renewable sources of energy that can experience intermittent disruptions. The IEA's "net zero by 2050" scenario anticipates that trade in hydrogen and ammonia will rise from almost nothing today to more than one-third of all energy-related transactions. Over time, hydrogen supplies are projected to consist mostly of green hydrogen produced in places with abundant, low-cost renewable energy, such as Chile and the Gulf states, which have vast quantities of cheap solar energy. In this way, some of the petrostates threatened by the move away from fossil fuels may be able to transform themselves into "electrostates."

If a well-supplied and diversified market for hydrogen and ammonia eventually develops, a gap in one location can be offset with supplies from another, much as with oil today. This will limit the geopolitical influence of dominant suppliers. In the near to the medium term, however, the evolving production and trade of low-carbon fuels will create tensions and

geopolitical risks. Much as was true of the nascent global market for liquefied natural gas decades ago, the supply of low-carbon fuels will at first be dominated by a small number of producers. As a result, if a country such as Japan bets on hydrogen and ammonia and depends heavily on just one or two countries for its supply of fuel, it may face outside energy security risks.

The dominant suppliers of low-carbon fuels will also evolve over time.

Before green hydrogen (or ammonia, which is easier to transport and can be converted back to hydrogen) becomes dominant, “blue” hydrogen will likely prevail, according to the IEA. Blue hydrogen is made from natural gas using carbon capture technology to reduce emissions. Countries with cheap gas and good carbon dioxide storage capacity, such as Qatar and the United States, may emerge as some of the top exporters of blue hydrogen or ammonia. For countries that lack natural gas but have the capacity to store carbon dioxide underground, the cheapest way to get hydrogen—which is hard to transport over long distances—may well be to import natural gas and then convert it into hydrogen close to where it will be used, thus presenting some of the same risks and dependencies that natural gas presents today. And worst off will be countries that lack both gas and storage capacity, such as South Korea, and so will have to import blue hydrogen, green hydrogen, and ammonia; these countries will remain vulnerable until a much larger and more diversified market for hydrogen and ammonia develops.

### **GREENER BUT LESS GLOBAL**

A net-zero global economy will require large supply chains for clean energy components and manufactured products, trade in low-carbon fuels and critical minerals, and continued trade (albeit much smaller than today) in oil and gas. At first blush, then, a decarbonized world might seem likely to be more globalized than today’s fossil-fuel-dependent planet. But getting to

that net-zero world will generate three forces that will push against globalization.

First, a decarbonized world will rely more on electricity—and a more electricity-reliant world will see less global trade in energy. The IEA has projected that in a net-zero world of 2050, total energy-related trade will be only 38 percent of what it would be if the world were to stay on its current trajectory. The cheapest and easiest way to decarbonize several sectors of the economy, such as cars that run on oil products or heat generated by burning natural gas, is often to electrify them and ensure that the electricity is generated from zero-carbon sources. For this reason, total electricity usage in the United States will likely be two to four times as great in a fully decarbonized economy as compared with today, according to the Princeton researchers. And compared with oil and gas, decarbonized electricity is much more likely to be produced locally or regionally; less than three percent of global electricity was traded across borders in 2018, compared with two-thirds of global oil supplies in 2014. That is because electricity is harder and more expensive to transport over long distances, notwithstanding the evolution of high-voltage, direct-current transmission technology. Dependence on imported electricity also creates more energy security concerns for a country than, say, dependence on imported oil, since electricity is much harder to stockpile and store in the case of supply disruptions or to import from other sources.

Additional pressure against globalization will come from the fact that clean energy is already contributing to the trend toward protectionism. Countries around the world are erecting barriers to cheap clean energy inputs from abroad, fearing dependence on other countries and seeking to build job-generating industries within their own borders. A prominent example of this is the customs duties and tariffs that India is placing on Chinese solar panels

in order to nurture its own domestic solar industry. In a similar vein, the U.S. Congress is considering a tax credit that would favor companies that manufacture electric vehicles in the United States with union labor. And international efforts to eliminate obstacles to trade in environmental goods, such as wind turbines and solar panels, have stalled.

Finally, countries taking strong steps toward decarbonization may try to compel others to follow suit through economic statecraft—which in turn might lead to global fragmentation. For instance, policymakers in the EU are intent on instituting border adjustment mechanisms related to greenhouse gas emissions by 2023. Under this policy, goods imported from countries that do not match the EU's climate standards will be subject to tariff-like fees intended to equalize the price of goods based on their carbon content. That way, “green” steel made in Europe, for example, will not be disadvantaged in the European market relative to “dirty” imported steel. Over time, however, tariffs aimed at leveling the playing field might morph into tariffs aimed at pressuring countries considered too slow in decarbonizing to pursue stronger climate policies. And although the idea of using sanctions to compel speedier decarbonization may seem over the top now, in a world in which carbon emitters are increasingly seen as threats to international peace and security, sanctions could become a common tool to force laggards to act.

## **WINNERS AND LOSERS**

Moving to a net-zero global economy will require an unprecedented level of global cooperation but will also lead to conflict along the way and ultimately produce winners and losers. Some great powers, such as China and the United States, are well positioned to benefit from the transition. Others, such as Russia, seem more likely to wind up worse off. These diverging paths will, of course, alter relations among the great powers.

The relationship between Beijing and Washington is more fraught now than it has been in decades. Thus far, cooperation between the two powers on climate change has been minimal, notwithstanding a last-minute agreement to work together on the issue that they reached at the COP26 (26th Conference of the Parties) meeting in Glasgow this past fall. If recent developments—such as Chinese President Xi Jinping’s failure to attend the Glasgow meeting in person, China’s lackluster revision of its climate targets, and Beijing’s softening on coal policy in the face of recent gas shortages—are indicative of a trend, China and the United States could increasingly clash over climate change, which may then sap the political will of other countries to take strong climate action.

The transition to clean energy seems likely to become yet another sphere in which the two countries compete aggressively over technology, talent, supplies, markets, and standards. That competition may accelerate the pace of clean energy deployment, but it will also fuel tensions between the two great powers. China will increasingly assert its power, leveraging its dominant position in clean energy manufacturing and its control of critical minerals. As the transition progresses, however, China’s influence may wane as new technologies emerge elsewhere, supply chains shift, and more plentiful materials are used to produce clean energy.

Another great-power relationship that the energy transition might transform is that between the United States and its European allies. At a time when transatlantic relations require repair and rejuvenation, climate policy could potentially act as a powerful bonding agent. Washington and its partners in Europe could ultimately use their collective economic and diplomatic power to spur decarbonization around the world; they might form a “climate club” of countries committed to net-zero emissions that would impose tariffs on imports from outside the club—as advocated in

these pages by the Nobel Prize–winning economist William Nordhaus in 2020. They could also put in place joint mechanisms to decarbonize the most energy-intensive industries, such as steel, cement, and aluminum, and even repurpose nato to focus on responding to climate-related environmental and security disasters.

Yet in the short term, the road to a net-zero world may not be smooth for U.S.-European relations. Washington’s convoluted climate politics require tortured policy approaches, such as trying to use congressional budget reconciliation to overcome Republican opposition to stringent emission standards and carbon taxes and relying solely on carrots (such as subsidies) rather than sticks to change corporate and consumer conduct. This will make it difficult to harmonize policies across the Atlantic and risks exacerbating trade tensions as Europe commits to measures such as carbon border tariffs.

Finally, the energy transition will inevitably transform Russia’s relations with the other major powers. Russia is highly dependent on oil and gas exports, and in the long term, the clean energy transition will pose significant risks to its finances and influence. In the messy transition, however, Russia’s position vis-à-vis the United States and Europe may grow stronger before it weakens. As European countries come to increasingly depend on Russian gas in the coming years and as volatility in the oil market rises, both the United States and Europe will count on Russia to keep prices in check through its partnership with Saudi Arabia as leaders of the OPEC+ alliance, which is made up of the members of OPEC and ten other major oil-exporting countries.

Meanwhile, Russia’s largely dismissive approach to climate change will become a growing source of tension in Moscow’s relations with Washington

and Brussels—even though Putin’s recent rhetoric has become more climate-friendly. And in a decarbonized world that is increasingly electrified and interconnected digitally via the Internet of Things, Russia may find it hard to resist targeting energy infrastructure with cyberattacks, as it did when it took down Ukraine’s electric grid in 2015 and 2016. Moreover, as traditional energy consumers in the West curb their fossil fuel use, Russia will increasingly turn to the Chinese market to offload its supplies, fostering the geopolitical alignment of Moscow and Beijing.

### **FROM CONVERGENCE TO DIVERGENCE**

For the past 30 years, rates of growth in the developing world have on the whole exceeded those in the developed world, fueling a gradual economic convergence of rich countries and poor ones. In the long run, the transition to clean energy promises to reinforce that trend. Although a net-zero world will still entail hardships, it will also mean far less pain for developing countries than a world of unchecked climate change. Moreover, many developing countries enjoy abundant, low-cost clean energy resources, such as solar power, which they will be able to use at home or export as either electricity or fuels. A fair number also boast geologic formations excellent for storing carbon dioxide that will need to be removed from the atmosphere. (According to some estimates, one-fifth of the reduction in carbon dioxide necessary to achieve net-zero emissions will come from carbon removal.)

The rocky pathway to decarbonization, however, also poses serious risks for developing countries. The rift between rich and poor nations was on full display at the climate meeting in Glasgow. Lower-income countries were emphatic in their calls for industrialized nations to pay for the damage their historical greenhouse gas emissions have caused. Climate change is the result of cumulative carbon emissions over time. One-quarter of total

emissions from the beginning of the industrial age until now have come from the United States, and nearly as much, from Europe. A mere two percent has come from the entire continent of Africa. As rich countries feel an increased urgency to slash carbon emissions and developing countries remain focused on the need to deliver growth to their citizens, the two groups are set to clash.

There was also evidence of tension over the fate of the \$100 billion in aid to poor countries that rich countries pledged at the 2009 Copenhagen climate summit to deliver by 2020. That commitment remains unfulfilled—and even that large sum is a rounding error compared with the roughly \$1 trillion to \$2 trillion needed annually in clean energy investment in developing and emerging-market economies to achieve net-zero emissions by 2050. As the urgency of decarbonization increases along with the costs of climate change, the failure of rich countries to assist poor ones will be a growing source of geopolitical tension—particularly as developing countries disproportionately bear the brunt of damage they did not cause.

Given how long the world has waited to act on climate change, poor countries will need to follow development trajectories different from the one taken by rich countries; developing countries will have to rely far less on fossil fuels. Yet nearly 800 million people lack access to any energy services, much less the amount of energy needed to drive meaningful levels of economic growth and industrialization. Although solar power, wind, and other renewable sources of energy can be an excellent way to meet some of the needs of the developing world, they are currently insufficient to power industrialization and other paths to growth, and there are limits to how quickly they can be scaled up. Some developing countries will also face obstacles that rarely crop up in rich countries. For example, charging an

electric car may not be viable in countries that experience blackouts every day or where electric grids are backed up by diesel generators.

If rich countries increasingly seek to prevent the use of fossil fuels and developing ones see few viable, affordable alternatives to them, the gap between the rich and the poor will only widen. For instance, last April, the U.S. Treasury Department announced that the United States would no longer finance natural gas projects overseas because of climate change concerns—except in the poorest of countries, such as Sierra Leone—even though 60 percent of U.S. electricity still comes from fossil fuels. Shortly thereafter, Nigerian Vice President Yemi Osinbajo argued in *Foreign Affairs* that it was unfair to ask his country to develop without using natural gas.

Tensions between developed countries and developing ones will escalate not only over the use of fossil fuels but also over their production. Several of the world's poor countries, such as Guyana, Mozambique, and Tanzania, have significant hydrocarbon resources they would like to tap. But rich countries that see themselves as climate leaders will increasingly pressure those and other developing countries, or the companies that want to partner with them, not to drill, even as at least some of those rich countries continue to extract their own oil, gas, and coal. And financial institutions will face growing pressure from activists not to support extractive projects in the developing world. In a world with less and less scope for fossil fuel usage, poor countries may understandably ask why they should not be allowed to have a larger slice of a shrinking pie.

## **HOW TO LOWER THE RISKS**

The clean energy transition demands a complete transformation of the global economy and will require roughly \$100 trillion in additional capital spending over the next three decades. There is little reason to expect that

such a radical overhaul can be completed in a coordinated, well-managed, and smooth way. An orderly transition would be hard enough if there were a master planner designing the highly interconnected global energy system—and, needless to say, there is not.

When the world does achieve a fully, or even mostly, decarbonized energy system, many of today's energy security risks will be significantly ameliorated (even as some new ones arise). The influence of the petrostates and Russia's leverage in Europe will be diminished, prices for renewable electricity will be less volatile, and conflicts over natural resources will wane. But if on the way to that end state, the affordability, reliability, or security of the supply of energy, or other national security imperatives, comes into conflict with ambitious responses to climate change, there is a significant risk that environmental concerns will take a back seat. International climate leadership thus requires far more than just negotiating climate agreements, making promises to decarbonize, and mitigating the national security implications of the severe impacts of climate change. It also means lowering, in a variety of ways, the economic and geopolitical risks posed by even a successful transition to clean energy.

First, policymakers need to expand their toolkits to increase energy security and reliability and prepare for inevitable volatility. For starters, it would be shortsighted to scrap an existing zero-carbon energy source that can operate consistently—namely nuclear power. And it would be foolish to get rid of existing energy security tools, such as the U.S. Strategic Petroleum Reserve; Congress has prematurely decided to put fuel from the reserve up for sale in response to near-term U.S. oil abundance and in anticipation of a post-oil world. Indeed, as the energy transition accelerates, policymakers should undertake cost-benefit analyses to assess whether additional strategic

stockpiles may be justified in order to secure supplies of natural gas, critical minerals, hydrogen, and ammonia.

Policymakers should also maintain maximum flexibility on energy sources even as they phase out “brown” energy. Arguments that the United States saw “peak gasoline” use in 2007 and that the world experienced “peak coal” use in 2014 proved to be incorrect. Given the uncertainty about future needs and demands, policymakers should be prepared to keep some legacy fossil fuel assets in reserve, in case they are needed for brief periods during the transition when there is a disconnect between supply and demand.

Regulators of utilities should adopt pricing structures that would compensate companies for providing reliability. For example, in order to prepare for peaks in demand, regulators should design markets that pay energy utilities for maintaining capacity and supplies even if they are rarely used and that incentivize utilities to offer plans that reward customers for reducing their electricity use during peak periods. More broadly, policymakers should enact measures to increase efficiency in order to reduce demand, thereby narrowing potential supply and demand imbalances.

Another way governments can boost energy security is by reducing supply chain risks—but not in a way that would encourage protectionism. Officials shouldn’t chase the chimera of independence but instead try to build flexibility in a diversified and interconnected system. In Europe, improved energy security has come not from reducing Russian gas imports—indeed, those imports have consistently risen—but rather from regulatory and infrastructure reforms that have made the European market more integrated and competitive. In contrast, during the 2021 power crisis in Texas, the parts of the state with grids connected to those of neighboring states fared better than the rest of Texas, which was served by an isolated electric grid and transmission system.

Policymakers must also address some of the ways in which the jagged energy transition will exacerbate already deep inequalities in society and potentially produce a political backlash against clean energy. Communities dependent on fossil fuel revenue and jobs will suffer in the absence of government-backed economic development and workforce training. Meanwhile, to help low-income consumers deal with price volatility, policymakers should turn to subsidies or temporary tax-rate adjustments, as many European countries have in recent months.

As much as governments need to foster new innovation and accelerate the clean energy transition to curb climate change, they also must take conscious steps to mitigate the geopolitical risks this change will create. New technologies can solve technical and logistical problems but cannot eliminate competition, power differentials, or the incentive that all countries have to protect their interests and maximize their influence. If governments do not recognize this, the world will confront some jarring discontinuities in the years ahead, including new economic and security threats that will reconfigure global politics. But perhaps the greatest risk of failing to identify and plan for these pitfalls is that if national security concerns come into conflict with climate change ambitions, a successful transition might not take place at all. And the world can ill afford more bumps on the already rough road to net zero.

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# How Do We Fight Climate Change While Global Energy Demand Soars?

*The Hill*

Robert F. Cekuta and Efgan Nifti

December 6, 2021

World leaders and the global press have rightly focused these past weeks on the imperative to fight rising world temperatures and climate change's impacts on people around the world. Yet, there is another pressing global need the world has to address simultaneously: a rapidly rising demand for energy, especially fossil fuels.

Nowhere exemplifies this contradiction more than the Caspian region. The tragedy of the Aral Sea was an early example of the disastrous consequences of environmental exploitation, losing [90 percent of its water volume](#), but this is far from the only example. At the same time, Central Asia will require over [\\$30 billion](#) of annual investment into energy infrastructure to meet its growing demand throughout the 2020s, and every country in the South Caucasus consumes more energy now than it did 20 years ago.

Climate disasters will not prevent growing energy consumption either in the Caspian region or the rest of the world. Access to energy is essential for survival, commerce and security. The UN's Sustainable Energy Goals call for ensuring access to affordable, reliable, sustainable and modern energy for all, just as they do for urgent action to combat climate change and its impacts. Energy security remains a core factor in countries' national security calculations as well as in the dynamics of international relations.

Moreover, as we see today in the United States, rising energy prices carry domestic, political, as well as economic effects. And those energy prices are determined by global markets, further underlining the international features of energy as well as climate policies.

[Over 700 million people](#) in the world today have no access to electricity; that is about twice the size of the population of the United States. Moreover, there are about 2.5 billion people without a safe way to cook their food, relying on fuels such as charcoal, wood or dung to heat their homes and make cooking fires, which are often indoors and generate long-term health dangers for the world's poorest people. The future is even more concerning: another 1.6 billion people are expected to be added to the global population by 2045, and all of those people are going to expect reliable access to electricity, including for information technology, appliances, cars and other things the growing middle class here and in the rest of the world take for granted.

There is no question about the need to confront climate change. Without a comprehensive plan, global temperatures will rise, with catastrophic consequences for our planet. Even a slight increase will lead to rising sea levels, dangerous floods, desertification and dangerous shifts in the world's water supplies. However, there is also a need to confront the realities of energy demand.

It is not an either/or situation; we must work to balance human energy needs as we fight climate change.

As government, business and world leaders address the global climate crisis, they also have to give reasoned consideration to the growing demand for energy in countries around the world. Confronting that need means a wider, more sophisticated set of actions than the past. Energy security today must focus not just on ensuring uninterrupted oil and natural gas supplies, but also on the integrity of pipelines, electrical grids and other systems. This will reduce the severity and impact of ransomware or other attacks such as we saw on [the Colonial Pipeline](#) in the United States or on [the electrical grid in Ukraine](#).

Added to all this is the fact that the drivers for global energy demand are no longer the rich, industrialized states of the OECD. Energy demand in many of those countries is declining — somewhat, but not enough to meet the levels required to fight climate change. The drivers of world energy demand are the emerging market economies, especially China and India, as well as the growing economies of Africa.

This global energy reality calls for a new energy diplomacy, for new ways of thinking among countries and engaging to meet the world's energy needs while also keeping an eye on the imperative of addressing climate change. This diplomacy demands actively incorporating the insights of innovators, including those in the private sector and in government and university labs besides the thinking of politicians and others traditionally engaged in making foreign policy.

This new energy diplomacy will require listening to the concerns and needs of developing countries, bearing in mind that different countries are facing the problem of ensuring predictable and adequate energy supplies for their populations from different starting points. Steps that sell in Germany or the United States are often non-starters elsewhere, a point that can get lost in the tenor of discussions around climate change.

It will require looking at how to finance cleaner energy sources, at facilitating the supply and utilization of transition fuels as well as looking towards a potentially significantly different energy future, such as a hydrogen-based economy. It will require accepting the idea that different countries and societies will take different approaches to achieve the same end of a lower carbon future where the energy needs of all people are met. It will need to take into account the reality that there is a tendency to use technologies that are known, that people are comfortable with and that there is a global infrastructure likely worth trillions of dollars already in place that will need to be built upon, modified and improved.

These new discussions in energy diplomacy will need to take into account situations such as in Central Asia where receding Himalayan glaciers may mean water to drive hydropower today, but electricity shortfalls and other economic problems in coming years because of reduced snowfalls in the future.

These are just a few of the urgent changes the United States and others must consider and make in their energy diplomacy. We cannot just keep our focus on the oil or natural gas supply energy issues that have long been a feature of our national security and foreign policies. Nor can we ignore the

world's continuing need for uninterrupted energy as we prescribe steps for reducing carbon emissions and fighting climate change. We have to acknowledge the conundrum and find ways to do both.

*Robert Cekuta served as U.S. Ambassador to Azerbaijan from 2015 to 2018 and was the principal deputy assistant secretary for energy resources at the Department of State.*

*Efgan Nifti is CEO of the Caspian Policy Center, an independent, nonprofit research think tank focused on economic, political, energy and security research of the Caspian region.*

# The De-Globalisation of Oil: Risks and Implications from the Politicisation of Energy Markets

by Rafael Ramírez

The EU's announced ban on Russian oil imports is a strong political measure that will heavily impact international energy markets, restricting the supply of 4.1 million barrels per day (mbd) of oil and derivatives to a market which is a net importer of 10.72 mbd.<sup>1</sup>

The EU's ban, which is due to fully come into effect between December 2022 and February 2023, combined with the US's previous ban of 600 thousand barrels a day (tbd), means that 4.7 mbd of Russian oil and derivatives are being removed from these high oil consuming markets (35.9 mbd in total). If we add the 1.3 mbd of oil that Iran has stopped producing due to US sanctions reintroduced in 2018, we reach a volume of 6 mbd of oil that is restricted or out of the market due to political decisions.

<sup>1</sup> Organization of the Petroleum Exporting Countries (OPEC), *Monthly Oil Market Report June 2022*, 14 June 2022, [https://www.opec.org/opec\\_web/en/publications/338.htm](https://www.opec.org/opec_web/en/publications/338.htm).

The Russian invasion of Ukraine and the unprecedented sanctions and oil ban imposed on Moscow, combined with the previous oil sanctions against Iran, are fast advancing a new geopolitical reality: the de-globalisation of the international oil market.

These bans on huge volumes of oil and the restrictions imposed on free trade in energy represent a new disturbing factor of instability and fragmentation in the market. As recently noted by the Nobel Prize winning economist, Joseph E. Stiglitz, in his article "Getting Deglobalisation Right", these new policy proposals imply "that longstanding rules of the international trading system will be bent or broken. Unable to reconcile friend-shoring with the principle of free and non-discriminatory trade."<sup>2</sup>

<sup>2</sup> Joseph E. Stiglitz, "Getting Deglobalization Right", in *Project Syndicate*, 31 May 2022, <https://prosyn.org/babbKda>.

*Rafael Ramírez is former Venezuelan Foreign Affairs Minister and UN Ambassador (2014–2017); Venezuelan Oil Minister and CEO of PDVSA (2002–2014).*

The process of de-globalisation of oil stands in contrast to the development and expansion of the capitalist economy, especially since the Davos Forum of 1987 and the deregulation processes that followed in its wake. Contradictorily, in the oil market, major consumers have permanently advocated free and unlimited access to oil and have insisted that the interests of producing countries cannot restrict access to oil or the volumes available in the market. This has been a historical factor of conflict with the oil-producing countries, particularly those grouped in OPEC.

Among the proposed responses to this new situation are efforts to “re-shore” or “friend-shore” the market. Yet, such efforts are impossible when it comes to fossil fuels, given that we are talking about natural resources located in a specific territory rather than commodities or industrial processes that can be re-located. In this regard, the de-globalisation of oil does not appear to be a passing phenomenon. Rather it will likely become a lasting, structural novelty in the world economy.

This new situation has led to skyrocketing oil prices (115–120 dollars per barrel for first half of June), while other energy prices, most notably gas, have also increased, mainly due to supply uncertainties. Combined with inflation, as well as ongoing Covid-19 related disruptions, such developments carry clear economic implications. In early June, the World Bank revised its global growth prospects downwards by 1.2 points, forecasting 2.9 per cent

growth in 2022.<sup>3</sup>

The effects of the oil ban are different in Russia and Europe, but both are adverse. On the one hand, Russia must now look for new, more distant markets with rising logistics costs, while offering 30 per cent discounts for its oil in an effort to attract buyers and circumvent sanctions. On the other, Europe is facing extraordinary energy costs, a key component explaining the current inflation rate of 8.1 per cent in the Euro area;<sup>4</sup> as well as the urgent need to look for new oil and gas suppliers, a complex task in a global market where extra supply is limited. From an economic perspective, both sides are losing.

In a matter of months, the existing trading network for the oil and gas market in Europe has been forced to adjust to this de-globalisation process, a direct consequence of the implosion of the geopolitical equilibrium in Europe after the Russian invasion of Ukraine.

Great powers and blocs of countries such as the EU, are now responding to this new geopolitical reality, scrambling to guarantee their energy supplies. This is restructuring the oil market in a way that will reinforce increasingly antagonistic and probably confrontational blocs: Russia–China (a Eurasian bloc) and the North Atlantic, as we already know it, but where Europe will be more dependent on the US, in both energy and security terms.

<sup>3</sup> World Bank, *Global Economic Prospects June 2022*, June 2022, <http://hdl.handle.net/10986/37224>.

<sup>4</sup> Eurostat, “Euro Area Annual Inflation Up to 8.1%”, in *Euro Indicators*, No. 61/2022 (31 May 2022), <https://europa.eu/!NcVq3v>.

This costly and dangerous competition for secure and reliable energy supplies will be particularly hard felt in disputed areas such as the South China Sea, Eastern Europe, the Baltics, the Arctic, the Middle East and North Africa (MENA) as well as the African continent, where large reservoirs of natural resources or corridors for fossil fuels supply are present and highly volatile.

At the same time, the high demand and cost of energy, as well as food inflation and supply chain disruptions, can be expected to provoke significant instability across the Global South.

### *Precarious balance in the oil market*

The oil market had stabilised in the last quarter of 2021, as the fundamentals were progressively restored after OPEC+ agreed to cut of 9.7 mbd of oil due to collapsing demand (-10 mbd) in 2020.<sup>5</sup> By 2022, global oil demand had recovered the shortfall and was projected to reach 100 mbd for the year, the first time world output would have reached that level.<sup>6</sup>

The full recovery of oil demand indicated that the world's post-pandemic growth of +6.1 per cent in 2021 was based on fossil fuels (oil, gas and even coal). The rise in oil prices above \$80 a barrel and natural gas by more than 500 per cent in Europe during 2021 are clear indicators that

<sup>5</sup> OPEC, *The 10th (Extraordinary) OPEC and non-OPEC Ministerial Meeting Concludes*, 12 April 2020, [https://www.opec.org/opec\\_web/en/press\\_room/5891.htm](https://www.opec.org/opec_web/en/press_room/5891.htm).

<sup>6</sup> OPEC, *Monthly Oil Market Report March 2022*, [https://www.opec.org/opec\\_web/en/publications/338.htm](https://www.opec.org/opec_web/en/publications/338.htm).

existing demand is unsatisfied by tight supply.

By June 2022, world oil production stood at 98.8 mbd,<sup>7</sup> with a demand still projected to rise to 100.3 mbd by the year's end. Yet, inventories in OECD countries and the US are below their average levels of the last 5 years,<sup>8</sup> all of which is keeping oil prices in tension. Since the Russian invasion, the price topped 100 dollars a barrel, with consumers paying an estimated additional 30 dollars a barrel known as a "war premium" on oil.

There are two existing factors that explain the current tight supply: first, many oil-producing countries and companies have faced a drop in production levels,<sup>9</sup> mostly due to the economic downturn of 2020–2021 (mainly impacting African producers); the lack of economic incentives due to low oil prices; as well as ongoing political instability in countries such as Libya and Venezuela.

Secondly, oil-producing countries and companies are comfortable with current prices, using this income to stabilise their economies, recover losses and pay debts. In the first quarter of 2022, major oil companies made 99.3 billion US dollars in profits<sup>10</sup> while

<sup>7</sup> OPEC, *Monthly Oil Market Report June 2022*, cit.

<sup>8</sup> US Energy Information Administration (EIA), *Short-Term Energy Outlook Data Browser: OECD Petroleum Production*, <https://www.eia.gov/outlooks/steo/data/browser/#/?v=6&f=A&s=0&maptype=0&ctype=linechart>.

<sup>9</sup> Rafael Ramírez, *Boletín Petrolero*, No. 55 (4 June 2022), <https://www.rafaelramirez.net/?p=8333>.

<sup>10</sup> Oliver Milman, "Largest Oil and Gas

oil exporters in the Persian Gulf are forecast to grow by 5.9 per cent in 2022.<sup>11</sup> For these reasons there are few incentives to increase production and deflate prices.

From the end of the 2021, OPEC+ has consistently refused calls by the US, EU and other consumers to increase production. Meanwhile, US producers also witnessed a slowdown in production and investments, while re-paying debts and dividends, despite the incentives and direct calls from President Biden to increase production and cut prices. This is the main reason why the US and other states, including China, introduced a massive release of strategic oil reserves of at least 273 mbd in 2022.<sup>12</sup>

### *Risks and costs of the de-globalisation of oil*

After the economic and oil market collapse of 2020–2021 and the current energy crisis caused by the Russian invasion, two elements require careful consideration by decision makers.

The first revolves around an acknowledgement that hydrocarbons

are still irreplaceable to drive global economic growth in the short and medium term. The green energy transition still has a long way to go. This implies that while efforts should seek to increase renewable energy capacity, a parallel effort needs to be directed at the optimisation of oil consumption and an accelerated transition from coal to gas, as coal still represents 26 per cent of world energy consumption.<sup>13</sup>

The second consideration implies an acknowledgement that, in the short term, there are no readily available surplus volumes of oil to replace Russia's total production of 10 mbd, nor is there enough gas to substitute Russian supplies to Europe (153 billion cubic metres a year in 2021). Simply put, there is not enough spare capacity in the market.

For the last 9 months, OPEC+ countries have been below their production quotas by 1 mbd,<sup>14</sup> and for the first time since the war, according to OPEC data, Russia's oil production fell by 800 tbd by May 2022.

Few producing countries have increased their oil production this year. The United States has increased production by 600 tbd in 2022,<sup>15</sup> but

Producers Made Close to \$100bn in First Quarter of 2022", in *The Guardian*, 13 May 2022, <https://www.theguardian.com/p/ydpmh>.

<sup>11</sup> World Bank, "Middle East and North Africa Regional Highlights", in *Global Economic Prospects June 2022*, <https://thedocs.worldbank.org/en/doc/18ad707266f7740bce d755498ae0307a-0350012022/related/Global-Economic-Prospects-June-2022-Regional-Highlights-MENA.pdf>.

<sup>12</sup> US Department of Energy (DOE), *DOE Announces Second Emergency Notice of Sale of Crude Oil From The Strategic Petroleum Reserve to Address Putin's Energy Price Hike*, 1 April 2022, <https://www.energy.gov/node/4818652>.

<sup>13</sup> International Energy Agency (IEA), *World Energy Outlook 2021*, October 2021, <https://www.iea.org/reports/world-energy-outlook-2021>.

<sup>14</sup> Rafael Ramirez, *Boletín Petrolero*, No. 55 (4 June 2022), cit.

<sup>15</sup> EIA, "EIA Forecasts non-OPEC Countries Other than the United States and Russia to Add 0.9 Million b/d of Liquid Fuels Supply in 2022 and 0.8 Million b/d in 2023", in *This Week in Petroleum*, 8 June 2022, [https://www.eia.gov/petroleum/weekly/archive/2022/220608/includes/analysis\\_print.php](https://www.eia.gov/petroleum/weekly/archive/2022/220608/includes/analysis_print.php).

this is still 900 tbd below its 12.8 mbd production in 2020. Saudi Arabia has increased production by 370 tbd while the United Arab Emirates has increased by 120 tbd. Added together, these producers have increased by just 1.09 mbd this year, obviously insufficient to replace the volume of Russian oil production.

Much of the same applies to gas. Qatar's Minister of Energy Saad Sherida Al-Kaabi, confirmed there are not enough LNG volumes available to replace Russian gas supplies to Europe.<sup>16</sup> At the same time, European countries like Spain and Italy are both looking to obtain more volumes of gas via pipeline from Algeria. Others, like Germany and Italy, must increase their capacity and infrastructure to receive LNG cargos, but that will require time and investments.

Meanwhile, the US–EU energy agreement of mid-March promises to increase LNG supply to Europe from the US up to 98 bcm per year, an extraordinary increase of 104 per cent from the 48 bcm forecast for the whole of 2022.<sup>17</sup> The announcement comes with a lot of uncertainties. Even in the event of this goal being achieved, it would equal only 65 per cent of the 153 bcm of gas per year that Russia supplies to Europe.

<sup>16</sup> "Qatar: No One Can Replace Russia Gas Supply to Europe Quickly", in *Middle East Monitor*, 23 February 2022, <https://www.middleeastmonitor.com/?p=537906>.

<sup>17</sup> European Commission and US, *Joint Statement between the European Commission and the United States on European Energy Security*, 25 March 2022, [https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT\\_22\\_2041](https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_22_2041).

The Russian government is exploiting these developments, utilising the energy crisis to undermine European political cohesion. As Europe scrambles to diversify its energy supply, policymakers need to reflect on the meaning and scope of "European energy independence". In this respect, an oil and gas embargo on Russia would not change Europe's dependency on fossil fuels. In the short and medium term there is simply not enough renewable energy capacity to substitute hydrocarbons and support the European economy.

The EU is now racing against time to find new energy sources capable of replacing Russian supplies. These new suppliers: the US, MENA or African countries, are not only insufficient but more expensive, both because of high market prices, as well as transportation costs and – in the case of LNG – the development of new infrastructure.

Another by-product of the de-globalisation of oil, is that large consumers who are not self-sufficient in energy, such as Europe, China, the rest of Asia and India are now locked in a frantic and costly competition to guarantee oil and natural gas supplies. This competition over limited supply, while paying more for energy and displacing resources destined to other countries, is already creating geopolitical tensions between blocs and within more struggling countries.

This new situation is a dangerous one because no country or bloc can remain without sources of energy. Without supply, the loss of competitiveness or collapse of the industrialised



economies will be a matter of time. The dispute over energy is therefore a matter of survival.

Policymakers, especially across Europe, should approach energy security as a matter of collective security. The EU still faces a high dependency on fossil fuels, a different situation compared to the US, the UK and Canada. If geopolitical tensions continue to deteriorate and energy markets become a key arena of competition, the European economy will suffer more compared to its oil producing allies.

No country or group of countries in Europe will remain immune from the implications of this de-globalisation of oil. In this regard, policymakers must prepare to handle the repercussions, including possible political destabilisation driven by inflation, rising energy costs and the more general slowdown of the economy.

Some public policies should be designed to provide relief, including the possible rationing of energy for industry and the need for public subsidies to shield the economy and populations from the rising cost of energy. They moreover should redouble efforts to maximise available energy resources, speed up the diversification of supply, limit waste and continue to promote the energy transition.

The politicisation of energy and the tensions resulting from the war will produce an escalation of measures and countermeasures between blocs. Such a spiral of escalation has already undermined the precarious equilibrium in the energy market, with

unpredictable results and permanent changes in the geopolitics of oil and gas.

Implications will be far reaching, but ultimately the permanence of this de-globalisation process in energy markets will depend exclusively on political, not economic factors. For this reason, carefully considering the short, medium and long-term implications stemming from a more fragmented and confrontational international energy market should top the agendas of decision makers across the world, beginning from Europe which has returned to become the eye of the storm in terms of overlapping political, socio-economic and security challenges that are not set to be resolved anytime soon.

*13 July 2022*

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Via dei Montecatini, 17

I-00186 Rome, Italy

Tel. +39 066976831

[iai@iai.it](mailto:iai@iai.it)

[www.iai.it](http://www.iai.it)

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# Opportunities for Green Growth: In Search of Multilateral Coordination



by Luca Franza and Nicola Bilotta



Ministry of Foreign Affairs  
and International Cooperation

## ABSTRACT

The opportunity for a green recovery in the post covid-19 crisis requires long-term commitments and policies. The G20 is in an ideal position to facilitate constructive dialogue among advanced and emerging economies about re-orienting investment and fiscal action towards a new development paradigm. The Italian Presidency of the G20 can advance the agenda in two interlinked macro-priorities that are fundamental to boost a green recovery and have been at centre of the G20 Summits in recent years: green finance and sustainable infrastructure.

*G20 | Climate change | Sustainable development | Finance | Infrastructures*

**keywords**

# Opportunities for Green Growth: In Search of Multilateral Coordination

by Luca Franza and Nicola Bilotta\*

## 1. Setting the scene

The economic response to the covid-19 pandemic is unprecedented in terms of size of the stimulus packages put up by governments and the speed with which they are being rolled out. Spending in the ongoing phase of reconstruction will have a major impact on, amongst other things, the global greenhouse gas emission trajectory of the next decade. Allocating such spending both wisely and quickly is one of the biggest challenges that policy-makers face. The present time is indeed being experienced as a “make-or-break” moment for the ambitious objective of restructuring the world’s economic development model to make it sustainable from a climate perspective. COP26, the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change scheduled for November 2021, is an important occasion to assess actions taken in support of green growth to date and raise the level of ambition.

This feeling of being close to a decisive moment stems from the awareness that there will not be many other occasions (as countries will have to go back to keep public debt under control) and that the injection of huge amounts of cash may have negative effects (such as potentially high inflation), making it crucial that spending is both wise and impactful. If spending goes to carbon-intensive sectors, the phenomenon of “carbon lock-in” (i.e., being stuck with polluting productive assets) is almost unavoidable.

Of the many worrisome predictions that have circulated in the last few months, perhaps the most striking is that we would need emission reductions on at least the same scale as those observed in 2020 every year from now until 2030 to bring the

\* Luca Franza is Scientific Advisor in the Energy, Climate and Resources Programme of the Istituto Affari Internazionali (IAI). Nicola Bilotta is a Researcher in International Political Economy at IAI.

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world onto a Paris-compatible emission trajectory (i.e., limiting global warming to 1.5°C by 2100).<sup>1</sup> This basically means that the huge sacrifices made in 2020 due to covid-19, when economic activity and international mobility were subjected to extensive limitations, have “only” reduced greenhouse gas emissions by what was needed (-7 per cent), and not more.

Clearly, we do not want to achieve the climate targets by having to sacrifice our way of life as much as in the year of the pandemic. Instead the time is propitious for building back better and decoupling economic growth from fossil fuel demand and carbon emissions. Such decoupling is the only way to achieve climate targets without facing perhaps unbearable economic costs.

The good news is that this is possible. The conventional notion that decarbonisation is an economic burden and that there is trade-off between economic growth and the preservation of the environment is giving way to a new realisation that climate change entails high costs, that the energy transition offers lucrative economic opportunities and that long-term “green growth” is achievable. A number of studies point to the fact that low-carbon sectors might offer better returns than carbon-intensive ones (see below). In the year of the pandemic, renewable energy consumption continued to grow in spite of falling energy demand while the consumption of fossil fuels shrank.<sup>2</sup> Renewables have been experienced as a safe haven by the financial sector in the face of extreme volatility in the commodity market.

The bad news is that much of the stimulus that has been so far allocated in response to covid-19 around the world has gone to traditional, polluting sectors. For the moment, studies and indexes show that “brown” stimulus is either surpassing<sup>3</sup> or essentially equalling green stimulus in terms of allocated money.<sup>4</sup> If this trend is not reversed, we risk a carbon lock-in process, as trillions of US dollars are being spent on boosting economic activity and building or reviving carbon-intensive assets (including infrastructure), extending their lifetime and thus prolonging the carbon era.

An emission rebound is already visible in the first half of 2021,<sup>5</sup> just like there was a rebound after the 2008–9 global financial crisis. One main reason is larger coal use, particularly in China (which emerged from the crisis earlier than other countries).

<sup>1</sup> UN Environment Programme (UNEP), *Cut Global Emissions by 7.6 Percent Every Year for Next Decade to Meet 1.5°C Paris Target: UN Report*, 26 November 2019, <https://www.unep.org/node/26811>.

<sup>2</sup> International Energy Agency (IEA), *World Energy Outlook 2020*, Paris, OECD Publishing, October 2020, <https://www.iea.org/reports/world-energy-outlook-2020>.

<sup>3</sup> Vivid Economics, *Greenness of Stimulus Index*, February 2021, <https://www.vivideconomics.com/?p=10020>.

<sup>4</sup> Organisation for Economic Co-operation and Development (OECD) website: *Green Recovery Database*, <https://www.oecd.org/coronavirus/en/themes/green-recovery#Green-recovery-database>.

<sup>5</sup> Fiona Harvey, “Carbon Emissions to Soar in 2021 by Second Highest Rate in History”, in *The Guardian*, 20 April 2021, <https://www.theguardian.com/p/h5kdh>.

This is yet another example of why we should distinguish announcements (China has pledged to reach carbon neutrality by 2060) from reality. The rebound is not so surprising as history often repeats itself: past crises have indeed all provoked a temporary emissions decline, followed by a strong recovery that has more than compensated for the previous reductions.

### 2. The rationale for green growth

Fighting global warming has a solid economic rationale. This is the first important realisation to keep in mind when comparing green growth with unsustainable economic growth models. The costs of climate inaction are estimated to be extremely high. A report by Morgan Stanley has shown that the cost of natural disasters provoked by climate change amounted to 650 billion US dollars between 2016 and 2018.<sup>6</sup> An observable phenomenon is that increased weather variability has already affected food production and is making crops more difficult to grow.<sup>7</sup> Global warming has the potential to reduce agricultural yields by 30 per cent between now and 2050, affecting up to 500 million farms.<sup>8</sup> Urban settlements located in coastal regions and in river deltas will be increasingly subjected to floods. This will require substantial amounts of money for clean-up and in some cases resettlement.<sup>9</sup>

Climate change has an economic dimension because it creates costs for the system. More funds are needed for adaptation because climate change is to some extent unavoidable and -indeed it is already happening. An estimate by the UN Environmental Programme has found that the cost of adapting to the consequences of climate change will grow to 140–300 billion US dollars per year by 2030 and 280–500 billion per year by 2050 globally.<sup>10</sup>

The negative economic consequences of climate change are not equally distributed across the world. Some countries and regions are much more exposed than others, adding a geopolitical and geo-economic layer to the discussion. Unsurprisingly, today's most fragile economies already are and are going to be ever more the most vulnerable to climate change.

<sup>6</sup> Tom DiChristopher, "Climate Disasters Cost the World \$650 Billion over 3 Years — Americans Are Bearing the Brunt: Morgan Stanley", in *CNBC*, 14 February 2019, <https://www.cnbc.com/2019/02/14/climate-disasters-cost-650-billion-over-3-years-morgan-stanley.html>.

<sup>7</sup> Deepak K. Ray et al., "Climate Change Has Likely Already Affected Global Food Production", in *PLoS ONE*, Vol. 14, No. 5 (2019), Article e0217148, <https://doi.org/10.1371/journal.pone.0217148>.

<sup>8</sup> Global Commission on Adaptation, *Adapt Now: A Global Call for Leadership on Climate Resilience*, September 2019, <https://gca.org/?p=333>.

<sup>9</sup> Energy and Climate Intelligence Unit (ECIU), "Climate Economics: Costs and Benefits", in *ECIU Briefings*, 2014, <https://eciu.net/analysis/briefings/climate-impacts/climate-economics-costs-and-benefits>.

<sup>10</sup> UNEP, *The Adaptation Finance Gap Report*, Nairobi, UNEP, 2016, <https://unepdtu.org/publications/the-adaptation-finance-gap-report>.

A report by the Economist Intelligence Unit has found that climate change could directly cost the world economy 7.9 trillion US dollars by mid-century due to increased drought, flooding and crop failures bringing food scarcity and destroying essential infrastructure.<sup>11</sup> This figure translates into a 3 per cent reduction of global GDP by mid-century. Africa was identified as the region most severely hit, as it is estimated to lose 4.7 per cent of its GDP, followed by Latin America with a loss of 3.8 per cent. The most exposed countries are Angola, Nigeria, Egypt, Bangladesh and Venezuela (all developing countries). In comparison, North American and Western European GDPs would only shrink by 1.1 and 1.7 per cent respectively.<sup>12</sup>

The lack of high-quality infrastructure and stronger economic dependence on ecosystems (as the share of subsistence farming in GDP is higher) aggravate the economic damage of climate change in less developed countries. Some latitudes are also more exposed to extreme weather and to the risk of crop failures because the rise in temperature and changing weather patterns are not uniform across the world. Besides, rich nations are much more resilient with respect to the impact of climate change as they have more diversified economies and depend less on natural ecosystems. This cleavage is a political issue and will certainly colour COP26 discussions and negotiations.

The fact that climate change is to some extent unavoidable, as mentioned, should not lead to resignation. To the contrary, limiting global warming sooner rather than later is a sensible course of action also from an economic perspective. Seemingly small variations in the global average temperature can have important economic repercussions. The Intergovernmental Panel on Climate Change estimates that the risks to economic growth due to climate change by 2100 will be significantly lower if global warming is limited to 1.5°C than it would be if it goes up by 2°C.<sup>13</sup> Relative to the period 1961–1990, the projected additional cost of damages provoked by global warming in 2100 for 1.5°C and 2°C is 54 trillion and 69 trillion US dollars, respectively.<sup>14</sup>

A recent study on the costs of historical inaction on climate change estimates that there will be an increase in costs from climate damage if mitigation is postponed, with a median increase of 600 billion US dollars in discounted future damage per year of delayed mitigation (taking 2020 as point of departure). Mitigation costs have increased as a result of the delay accumulated so far and of the fact that decarbonisation now has to happen very rapidly rather than gradually. The

<sup>11</sup> Economist Intelligence Unit (EIU), "Global Economy Will Be 3 Percent Smaller by 2050 Due to Lack of Climate Resilience", in *The EIU Update*, 20 November 2019, <https://www.eiu.com/n/global-economy-will-be-3-percent-smaller-by-2050-due-to-lack-of-climate-resilience>.

<sup>12</sup> Ibid.

<sup>13</sup> Ove Hoegh-Guldberg et al., "Impacts of 1.5°C Global Warming on Natural and Human Systems", in Intergovernmental Panel on Climate Change (IPCC), *Global Warming of 1.5°C. An IPCC Special Report...*, 2018, p. 175-311 at p. 178, <https://www.ipcc.ch/sr15/?p=541>.

<sup>14</sup> Ibid., p. 264.

late start in mitigation requires high costs in the short term (up to 3–5 per cent of global GDP) and further delays would make costs rise rapidly.<sup>15</sup>

A number of studies show the economic benefits of investing in low-carbon technologies and infrastructure, both in absolute terms and relative to non-green spending (see below). A huge caveat is that these studies rest on more or less bold assumptions and they make general conclusions from a partial coverage of the economy (in terms of sectors and especially of indirect costs and benefits that are being considered).

For these reasons, a consensus has not been reached, although institutions like the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund seem increasingly supportive of green growth.<sup>16</sup> A paper by prominent economists published shortly after the outbreak of covid-19 contained a global survey of senior officials from finance ministries and central banks. It showed that green projects are widely perceived as capable to generate more jobs, offer higher short-term returns per money spent, and guarantee higher long-term cost savings compared with non-green fiscal stimulus.<sup>17</sup>

Before covid-19, a report by the Global Commission on the Economy and Climate showed that moving from business-as-usual economic growth to green growth models would generate direct economic gains of 26 trillion US dollars and create over 65 million new jobs by 2030.<sup>18</sup> Also, renewables are now widely recognised to be more labour-intensive than fossil fuels, as labour requirements are high in the construction phase but low in the maintenance phase. A paper by Heidi Garrett-Palmer shows that every 1 million US dollars invested in renewable energy infrastructure or energy efficiency generates more than 7.5 full-time jobs compared with only 2.7 in fossil-fuel infrastructure.<sup>19</sup>

In light of this, the International Energy Agency has advised governments to favour shovel-ready projects in the wake of the pandemic to restart the economy while building future-proof infrastructure that would limit mitigation costs to

<sup>15</sup> Benjamin M. Sanderson and Brian C. O'Neill, "Assessing the Costs of Historical Inaction on Climate Change", in *Scientific Reports*, Vol. 10 (June 2020), Article 9173, <https://doi.org/10.1038/s41598-020-66275-4>.

<sup>16</sup> OECD website: Green Recovery Database, cit.; Nicoletta Batini et al., "Building Back Better: How Big Are Green Spending Multipliers?", in *IMF Working Papers*, No. 21/87 (March 2021), <https://doi.org/10.5089/9781513574462.001>.

<sup>17</sup> Cameron Hepburn et al., "Will COVID-19 Fiscal Recovery Packages Accelerate or Retard Progress on Climate Change?", in *Oxford Review of Economic Policy*, Vol. 36, Supplement 1 (8 May 2020), p. 359-381, <https://doi.org/10.1093/oxrep/graa015>.

<sup>18</sup> Global Commission on the Economy and Climate, *Unlocking the Inclusive Growth Story of the 21st Century: Accelerating Climate Action in Urgent Times*, Washington, New Climate Economy, 2018, <https://newclimateeconomy.report/2018>.

<sup>19</sup> Heidi Garrett-Peltier, "Green Versus Brown: Comparing the Employment Impacts of Energy Efficiency, Renewable Energy, and Fossil Fuels Using an Input-Output Model", in *Economic Modelling*, Vol. 61 (February 2017), p. 439-447.

be incurred later. Projects of this kind notably include building retrofitting but also the installation of new renewable energy capacity. These activities have the advantages of creating jobs during the most critical years.<sup>20</sup>

Green construction projects are also less susceptible to offshoring,<sup>21</sup> which plays well with governments given the increasingly pervasive objective of gaining “strategic autonomy”. The EU for instance is using both an ethical and a realist narrative when supporting green growth, saying that saving the planet is not only a moral imperative but also an instrument to gain geo-economic competitiveness relative to fast-growing countries like China. From this perspective, it is certainly desirable to focus public support on projects that have a local multiplier effect rather than on sectors that require imports from competitors.

An objective of governments engaging in green spending should be that of “kick starting the green innovation machine”,<sup>22</sup> and making sure that investing in innovative sectors has spill overs that benefit the wider economy.<sup>23</sup> To maximise the geo-economic effect of green spending, a certain degree of specialisation is needed. Countries should focus on areas where they see a strong potential to gain comparative advantage. Europe for instance should not balk at the idea of losing labour-intensive low-carbon productive activities to countries where labour is cheap. Instead, it should focus spending on high added-value productions and niche technologies.

A clear strategy on energy transition is needed when investing in low-carbon technologies because many energy transition-related investments are interdependent (today’s investment in A only leads to the desired outcome if also B and C receive investments in X and Y years from now). On the one hand, it is sensible to adopt a technology-neutral approach that does not pick winners and that stays open to a number of solutions, because energy transition scenarios operate with moving targets and there is significant uncertainty with regard to what pathway to net-zero will eventually materialise. However, this should be reconciled with the need to avoid dispersion. If a bit of money is invested in dozens of (often mutually incompatible) energy transition solutions, the potential benefits of public spending will be greatly diluted. Finally, while strategic considerations might help energy transition because they incentivise countries to invest in low-carbon technologies, there is also a risk that strategic autonomy turns into protectionism (which can in turn create costly trade barriers and increase the overall cost of the

<sup>20</sup> IEA and International Monetary Fund (IMF), *Sustainable Recovery*, Paris, IEA, 2020, <https://www.iea.org/reports/sustainable-recovery>.

<sup>21</sup> Michael Jacobs, “Green Growth: Economic Theory and Political Discourse”, in *Grantham Research Institute Working Papers*, No. 92 (October 2012), <https://www.lse.ac.uk/granthaminstitute/?p=4062>.

<sup>22</sup> Daron Acemoglu et al., “The Environment and Directed Technical Change”, in *The American Economic Review*, Vol. 102, No. 1 (February 2012), p. 131-166, <https://economics.mit.edu/files/8076>.

<sup>23</sup> Philippe Aghion et al., “Path Dependence, Innovation and the Economics of Climate Change”, in *Grantham Research Institute Policy Papers*, November 2014, <https://www.lse.ac.uk/granthaminstitute/?p=11064>.

energy transition).

An important task of policy-makers when implementing green growth strategies is to reduce uncertainty for investors. Public money alone is not enough and private players need to be brought on board. Ideally, the primary role of public support would be that of mobilising substantial private investment that would have not been mobilised otherwise. Reducing uncertainty for private investors is done for instance by avoiding undoing climate policies and regulations (the so-called “do-no-harm” principle, which is indeed embedded in Next Generation EU) and by providing long-term carbon price signals. Provided that they are designed to stand the test of time, taxonomies are a potentially important instrument to measure the embedded carbon footprint of goods (an important basis for carbon pricing) and drive investors’ choices in the long term. Ultimately, however, many low-carbon technologies and sectors can contribute to long-term green growth but there is no one-size-fits-all recipe as the preferred option depends on a country’s socio-economic structure, current energy mix, skills and resource endowment.

### 3. Towards a green growth: The role of the G20

A green growth paradigm cannot only envision short-term fiscal stimulus, it requires instead long-term commitments and policies. Mobilising private capital and redirecting public finance are key challenges in the definition of a new sustainable development model. A green recovery can only be fully addressed in its complexity at a multilateral level and cannot be appropriately framed by a group of advanced countries or individual nations alone. This is first and foremost due to the irreducible interrelationship between the necessary economic, environmental and social developments that underpin green growth models, and which must be pursued simultaneously.

International cooperation and coordination are then essential to sustain such a shift. The G20 forum is in an ideal position to facilitate constructive dialogue among advanced and emerging economies about re-orienting investment and fiscal action along this pattern. The green growth debate within the G20 has fortunately deep roots. Coordination among G20 countries will be vital for sending market signals to the private sector and ensuring that the most vulnerable receive adequate support.<sup>24</sup> Yet, despite its potential, the G20 forum has so far failed to reach consensus on effective common green growth policies, as divergent views on priorities and policy actions among G20 countries persist. The covid-19 pandemic can however provide a unique opportunity to set new collective actions and multilateral coordination towards an innovative paradigm of development.

<sup>24</sup> Tanzeed Alam et al., “Covid-19 Recovery: How the G20 Can Accelerate Sustainable Energy Transitions in the Power Sector by Supporting the Private Sector”, in *T20 Saudi Arabia 2020 Policy Briefs*, 2020, <https://www.g20-insights.org/?p=15663>.

### *How has the G20 position on green growth evolved over the years?*

Since the 2009 Summit, the G20 has been discussing global issues related to climate change. Gradually, the G20 leaders have fostered a more comprehensive discussion on how international coordination could promote and support green growth through the sharing of good practises and approaches. At the 2010 Seoul Summit, G20 nations committed to supporting country-led green growth policies that pursue environmentally sustainable growth along with job creation, while ensuring energy access for the poorest. To achieve this goal, G20 member countries started to discuss setting up consistent environmental standards, mobilising funds and supporting education, enterprise and research & development. During the 2011 Cannes Summit, G20 leaders committed to raising 100 billion US dollars every year until 2020 to help developing countries mitigate and adapt to climate change, thus acknowledging the link between green growth and climate change. Yet this goal is far from being achieved.<sup>25</sup> Under Mexico's presidency in 2012, the priority of green growth was finally addressed through a cross-cutting approach, resulting in the proposal to establish a Green Climate Fund.<sup>26</sup> Moreover, G20 leaders welcomed international efforts to introduce a Green Growth Knowledge Platform and requested an effective mechanism to mobilise public and private funds to boost inclusive green growth investments in developing countries.

During the 2013 Saint-Petersburg G20 Summit, G20 countries decided to promote further green development, dissemination and implementation of the non-prescriptive, voluntary toolkit of policy options for inclusive green growth in the context of sustainable development, including a workshop with developing countries and the initiation of the G20 Dialogue Platform on Inclusive Green Investments for sustainable development and poverty eradication. The 2014 Brisbane G20 Summit final communiqué contained a hotly debated passage on climate change, which expressed support for strong action and "mobilising finance for adaptation and mitigation, such as the Green Climate Fund" – to which the US pledged 3 billion US dollars and Japan 1.5 billion. In 2016, under the Chinese Presidency, building on the work of the G20 Green Finance Study Group, for the first time the global leaders presented green finance as an effective means to support global sustainable growth also in the final declaration.

It was in 2017, during the Hamburg Summit, that G20 leaders finally came out with a specific Climate and Energy Action Plan for Growth. G20 leaders also committed to working jointly to transform their energy systems into affordable, reliable, sustainable and low greenhouse gas emission energy systems as soon as feasible and consistent with the Paris Agreement. The Riyadh G20 Summit in 2020, finally,

<sup>25</sup> Independent Expert Group on Climate Finance, *Delivering on the \$100 Billion Climate Finance Commitment and Transforming Climate Finance*, December 2020, <http://bit.ly/ClimateFinanceReport>.

<sup>26</sup> Sung Jin Kang, "Green Growth and Sustainable Development in G20: Performance and Prospects", in Sung Jin Kang and Yung Chul Park (eds), *The International Monetary System, Energy and Sustainable Development*, London/New York, Routledge, 2015, p. 273-293.

developed the G20 Action Plan, which set out key principles and commitments to drive forward international economic cooperation during the pandemic crisis, and took steps to support the recovery and achieve strong, sustainable, balanced and inclusive growth.

What stands out from the past summits is that the G20 has gradually evolved its approach from a focus on fossil fuel subsidies to a cross-cutting perspective aimed at linking climate change and green growth. However, the challenge is to transform words into policy actions. Of course, the spectrum of measures and policies needed to lay the foundations for a sustainable recovery from the pandemic crisis is extremely broad, from financing for clean energy infrastructure to providing credit guarantees, to adopting measures to attract more private-sector financing.<sup>27</sup> The Italian 2021 presidency of the G20 can advance the agenda in two interlinked macro-priorities that are fundamental to boost a green recovery and have been at centre of the G20 Summits in recent years: (i) green finance, which is a key subset of sustainable finance, and (ii) sustainable infrastructure.

Green financing can be broadly defined as “financing of investments that provide environmental benefits in the context of environmentally sustainable development”.<sup>28</sup> This year the G20 Finance Ministers and Central Bank Governors elevated the Sustainable Finance Study Group to the status of Working Group,<sup>29</sup> acknowledging the centrality of this priority. The appointment of the US and China as co-chairs of this Working Group can help advance the agenda on these issues. Financial markets will have to play a fundamental role in enabling the shift towards sustainable development. The challenge is to devise new ways to reorient financial flows from brown investments into green ones. Although several new forms for financing green projects have been developed recently – such as green bonds – much more needs to be done.

To scale up finance for green projects, there is the need to mobilise banks and non-banking financial institutions. However, there are factors that tend to undermine private investments in green projects. Banks might be discouraged from investing in projects that are considered too risky due to the tight Basel capital requirements<sup>30</sup> under which they operate. Moreover, the business model of banks is mainly based on deposits as source of funding. Deposits are however short-medium liabilities whereas most green investment requires long-term finance. An effort should be made to attract non-bank financial institutions – such as pension funds and insurance companies.<sup>31</sup> These economic players hold long-term liabilities, being

<sup>27</sup> Ibid.

<sup>28</sup> Green Finance Platform website: *Green Finance Measures Database Technical Note*, <https://www.greenfinanceplatform.org/financial-measures/browse>.

<sup>29</sup> See G20, *G20 Sustainable Finance Working Group*, 16 April 2021, <https://www.g20.org/g20-sustainable-finance-working-group.html>.

<sup>30</sup> Basel III requirements refer to a set of international regulations which require banks to maintain certain level of reserve capital to mitigate risks of insolvency.

<sup>31</sup> Gianfranco Gianfrate and Gianni Lorenzato, “Stimulating Non-Bank Financial Institutions’

thus suitable to finance long-term projects. Another driver will be central banks, which can help smooth the transition toward green financing. Through their oversight and regulatory policy, central banks can enforce new green finance models and adequate pricing of environmental and carbon risk by financial institutions.<sup>32</sup> Central banks could ease the commitment of private financial institutions to transit lending and investment portfolios to net zero.<sup>33</sup>

Both objectives – further mobilisation of banks and non-bank financial institutions, and deeper central bank policy actions – would require improvement of the quality of standardised climate disclosure as well as harmonisation of global green finance standards. Countries should increasingly share best practices to accelerate this transition and coordinate to policy actions and regulations.

Interlinked with green financing is the issue of investment in sustainable infrastructure. The G20 countries produce around 79 per cent of global CO<sub>2</sub> emissions, of which 70 per cent comes from the energy, construction and transport sectors. Thus, the G20 can play a key role in accelerating a shift from primary energy sources to low-carbon and energy efficiency infrastructure. Even before the pandemic, there was already a large gap in sustainable infrastructure in terms of existing infrastructure that is incompatible with sustainability goals or requires significant upgrades to incorporate new green technologies, and in terms of new infrastructures.

Global annual investment into core infrastructure<sup>34</sup> is estimated at 6–6.8 trillion US dollars.<sup>35</sup> The investment need is mainly concentrated in energy and transport infrastructure, which accounts for 3.9 trillion and 2 trillion US dollars, respectively.<sup>36</sup> However, in aligning investments with the Paris goals additional costs would pile up, adding financing needs for about 6 trillion US dollars. The gap of sustainable infrastructure investments is estimated to be around 3.2 trillion US dollars per year – 2.1 per cent of global GDP.<sup>37</sup> The World Bank calculates that in emerging economies, this gap is between 1.5 and 2.7 trillion US dollars on an annual basis.<sup>38</sup>

Participation in Green Investments”, in *ADBI Working Papers*, No. 860 (August 2018), <https://www.adb.org/node/445026>.

<sup>32</sup> Jeffrey D. Sachs et al., “Why Is Green Finance Important?”, in *ADBI Working Papers*, No. 917 (January 2019), <https://www.adb.org/node/481936>.

<sup>33</sup> Alexander Lehmann, “Banks in a Net Zero Europe”, in *Bruegel Blog*, 1 June 2021, <https://www.bruegel.org/?p=42932>.

<sup>34</sup> Core infrastructure includes power generation and distribution, transport, water and sanitation systems and telecommunications.

<sup>35</sup> Amar Bhattacharya et al., *Aligning G20 Infrastructure Investment with Climate Goals & the 2030 Agenda*, Foundations Platform F20: A Report to the G20, June 2019, p. 39, [https://www.foundations-20.org/wp-content/uploads/2019/06/F20-report-to-the-G20-2019\\_Infrastrucutre-Investment.pdf](https://www.foundations-20.org/wp-content/uploads/2019/06/F20-report-to-the-G20-2019_Infrastrucutre-Investment.pdf).

<sup>36</sup> *Ibid.*, p. 29.

<sup>37</sup> *Ibid.*, p. 4.

<sup>38</sup> Dana Vorisek and Shu Yu, “Understanding the Cost of Achieving the Sustainable Development Goal”, in *World Bank Policy Research Working Papers*, No. 9146 (February 2020), <http://hdl.handle.net/10986/33407>.

#### 4. Setting the path towards sustainable finance and infrastructure

To promote a green recovery, the Italian Presidency of the G20 should<sup>39</sup>:

- *Advance the multilateral agenda in support of net-zero investments.* A practical step is to support a “common ground” taxonomy process within the International Platform on Sustainable Finance. This multilateral effort could help enable and scale up private capital participation in sustainable investments. The Green Bond Principles from the International Capital Markets Association or the Climate Bonds Standard set positive examples on which the G20 could build its effort. These initiatives aim at creating standardised guidelines and requirements when issuing green bonds.
- *Promote a standardisation of green finance mechanisms and practises through shared reporting procedures and indicators for all asset classes.* The G20 leaders should advance international regulatory standards – such as those enforced by Basel III and Solvency II<sup>40</sup> – to incorporate environment risks in financial institutions’ balance sheet as well as to ease regulatory requirements for sustainable investments to enhance the provision of credit to environmentally sustainable projects.
- *Promote the standardisation of the socioenvironmental metrics and evaluation processes that are being used by different financial institutions* to create a unified environmental, social and governance (ESG) risk matrix for infrastructure projects. The G20 could foster a review of the environmental impact reports of major infrastructure investments and categorise these impacts to create a socioenvironmental risk taxonomy for each type of infrastructure asset. Once these risks are listed, an objective scoring method should be employed to classify them based on the magnitude, duration and reversibility of their potential socioenvironmental impact.
- *Promote innovative financing mechanisms for sustainable infrastructure.* For example, the development of Sustainable Development Bond (SDB) markets could help in providing new funds to finance sustainable projects. SDBs differ from a traditional bond in establishing explicit commitments by the issuers with projects that generate a positive, measurable and auditable sustainability impact. Because of the value-added related to the final use of the resources, SDBs are better suited for impact investors and funds that need to meet ESG-related investment targets, and are associated with better financial conditions to the issuer.

<sup>39</sup> Dennis Görlich, Juliane Stein-Zalai and Katharina Lima de Miranda, *Infrastructure Investment and Financing. T20 Recommendations Report*, 16 January 2020, <https://www.g20-insights.org/wp-content/uploads/2020/04/T20-Recommendations-Report-Infrastructure-Investment-and-Financing.pdf>.

<sup>40</sup> Basel III and Solvency II are the regulatory framework which ensure the quality and level of capital held by banks and insurers.

- *Support a shared framework to establish Green Banks*, defined by the OECD as public-private entities that promote investments in sustainable and climate-resilient infrastructure. These banks could be fundamental in enhancing credit supply in the first phases of a green project, facilitating investments from traditional financial institutions once the project has started.
- *Advance the standardisation and transparency of data associated to an infrastructure project*. G20 countries should leverage technological solutions to improve the quality and quantity of data related to infrastructure. The exploitation of more precise and standardised data could reduce information asymmetry and, ultimately, attract private investors.

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Via dei Montecatini, 17 - I-00186 Rome, Italy

T +39 06 6976831

[iai@iai.it](mailto:iai@iai.it)

[www.iai.it](http://www.iai.it)

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# Critical Minerals: Responsible Supply Chains for a Sustainable Future

*Wind turbines, solar panels, electric vehicle batteries: all examples of technology where demand is growing—and that require large quantities of critical minerals. Fatih Birol, Executive Director of the International Energy Agency, takes stock of this critical sector for the clean energy transition.*

The OECD Forum Network

Fatih Birol

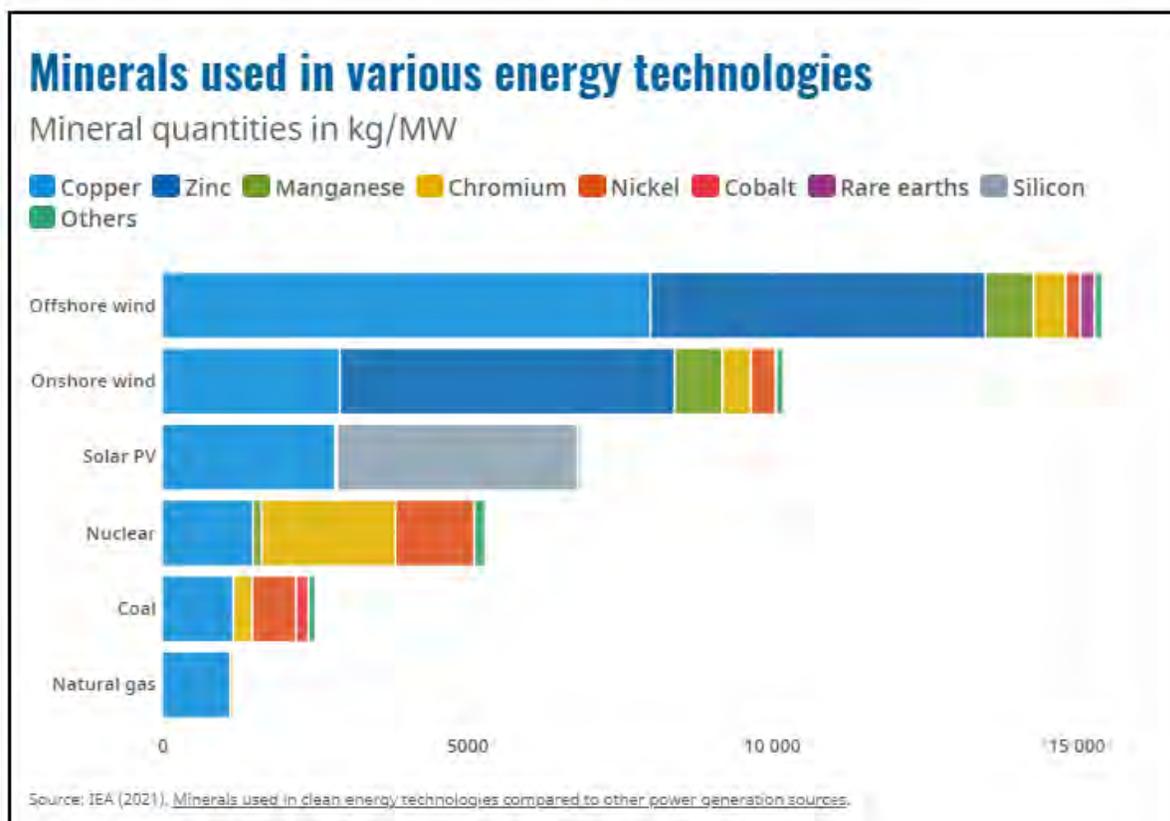
September 19, 2022

The International Energy Agency's (IEA) work on critical minerals for the clean energy transition has been deepening and expanding in recent years, reflecting the central role of these materials for achieving the world's energy security and climate goals.

Last year, we published [a special report](#) that explored the complex links between clean energy technologies and minerals. The report is the most comprehensive global study of this subject to date, underscoring the IEA's commitment to ensuring energy systems remain as resilient, secure and sustainable as possible.

We are in the midst of a complex transition to a clean energy future. Renewable electricity defied the COVID-19 pandemic with record growth, and capacity additions in 2022 are on course to reach new heights. Global electric car sales also charged ahead, with 2 million cars sold in the first quarter of 2022, up 75% from the same period in 2021. The efforts of an ever-increasing number of countries and companies to reduce their greenhouse gas emissions call for the massive deployment of a wide range of clean energy technologies, [many of which rely on critical minerals](#) such as copper, lithium, nickel, cobalt and rare earth elements. The IEA's data and analysis show that a concerted effort to reach the climate goals of the Paris Agreement would raise mineral demand for clean energy technologies by at least four times through to 2040.

We all know that when oil demand increases by just a few percent, it can lead to significant imbalances in oil markets, with implications for prices. We have now seen similar behaviour in markets for cobalt, lithium and other critical minerals, with soaring demand in recent times pushing prices sharply higher. This has highlighted that the world is not yet prepared for this kind of volatility and disruption. If policy makers do not address resilience in these supply chains, it will make it much more difficult to meet global climate goals and to maintain energy security.



## Learning from the oil crises

One of the IEA's core activities is ensuring the security of oil supplies by setting oil stockholding requirements for member countries. In the case of a major oil supply disruption, the IEA co-ordinates collective action by its members to release oil stocks to mitigate the negative economic effects of a sudden oil supply crisis by providing additional oil to the global market. We saw the value of this recently, following the oil market disruptions in the wake of Russia's invasion of Ukraine. In response to the market turmoil, IEA member countries carried out two collective oil stock releases—the largest in our Agency's nearly 50-year history—which contributed to alleviating market strains.

At the [IEA Ministerial Meeting](#) in March 2022, our member governments called on the Agency to strengthen and broaden our work on critical mineral security, leveraging our long-standing experience in safeguarding oil market security.

To achieve this, we are going to put in place a new work stream at the IEA specifically focused on critical minerals. This will cover a wide range of aspects to ensure reliable and sustainable mineral supplies, including strengthened activities on market monitoring, technology innovation, supply chain resilience, recycling, environmental and social standards and international and regional collaboration. The aim is to create a safety net so that critical minerals enable the world to speed up progress on secure and affordable clean energy transitions—and also to bring greater prosperity to the countries that produce critical minerals in a sustainable and environmentally viable way.

## **The paramount importance of environmental, social and governance issues**

While the availability and prices of critical mineral matter a great deal, energy transitions must also be sustainable and people-centred. Solutions to climate change cannot come at the expense of the environment, the workers or the communities that produce the key materials. That is why a key pillar of the IEA's comprehensive plan of action on critical minerals involves addressing environmental, social and governance (ESG) risks.

Tackling the environmental and social impacts of mineral development will be essential. These include emissions associated with mining and processing; risks arising from inadequate waste and water management; and impacts from inadequate worker safety, human rights abuses such as child labour and corruption. Ensuring that mineral wealth brings real gains to local communities is a broad and multifaceted challenge, particularly in countries where artisanal and small-scale mines are common.

In this context, [the OECD's Due Diligence Guidance](#), with effective regulatory enforcement, can be a crucial tool for improving ESG performance. Purchasers and suppliers can make a difference if they can identify, assess and mitigate supply chain risks. In parallel, action by governments at the local level can help address environmental, social and governance concerns. Improving mining codes can help ensure compliance with environmental norms, enhance protections for workers and reinforce transparency norms.

### **Strong case for international collaboration**

Lastly, I would like to highlight the importance of enhancing international co-operation to provide companies and governments with the support they need. It will be important for companies from all across the supply chain to work together to develop new strategies to mitigate the different risks. Co-operation between organisations like the IEA and the OECD can bring different strengths to addressing common problems and ensure that ESG elements are properly considered within the international energy security framework. And most importantly, we will need stronger co-operation between governments, particularly on developing responsible and resilient supply chains.

Discussions at the [15th OECD Forum on Responsible Mineral Supply Chains](#) in May highlighted that the turmoil caused by Russia's invasion of Ukraine has made it clearer than ever how vulnerable global supply chains are to potential disruptions. It is a wake-up call for us all to do more to make those supply chains both resilient and sustainable. There is a natural tendency to worry less about human rights and environmental impacts in the supply chain than about the currently overriding issue of security of supply. But we should not forget the long-term perspective. Efforts to ensure secure and responsible mineral supply chain need to go hand in hand.

The message is clear: responsible and resilient supply chains will be essential to avoid governments having to choose between security and sustainability.