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IN THIS ISSUE

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BASC STAFF

Vinod K. Aggarwal, Director
Andrew W. Reddie, Deputy Director
Tim Marple, Associate Director

Margaret Kenney, Project Director
Yue Lin, Project Director
Ishana Ratan, Project Director
Philip Rogers, Project Director
Yuhan Zhang, Project Director

Zhijie Ding, Research Assistant
Gavin Zhao, Research Assistant
Wanjun Zhao, Research Assistant

DIRECTOR'S NOTE

Dear Colleague,

Thank you for your continued interest in the Berkeley APEC Study Center (BASC). Through your readership, we are excited to continue being part of an interdisciplinary conversation regarding the dynamics of the increasingly critical Asia-Pacific region.

The articles in this newsletter reflect the work that BASC has been doing on these fronts over the last year. To begin, we are pleased to present two adapted versions of published articles that are a part of our "Indo-Pacific Geo-Economic Competition Project." In the first, I join BASC Deputy Director Andrew Reddie in examining economic statecraft in the 21st Century and outlining the implications for the future of the global trade regime. In the second, BASC Associate Director Tim Marple discusses the international race for digital fiat currencies and steps for the United States to restore its leadership through a digital dollar.

We are also excited to present a series of research analyses that examine the range of strategic, economic, and social concerns that BASC looks to address. Project Director Ishana Ratan offers commentary on the contours of U.S.-China clean technology competition, the origins of these great powers' industrial policy strategies, and the implications for clean technology governance going forward. Our undergraduate Research Assistants have also made valuable contributions. Wanjun Zhao assesses the importance of news media in shaping public opinions and the political and economic determinants of media biases in the ongoing U.S.-China trade war. Zeroing in on state incentives, regime effectiveness, and systemic factors, Zhijie Ding analyzes the dual crises of the World Trade Organization and provides policy recommendations for institutional reform. Finally, Gavin Zhao documents the challenges that the UK's and China's accession applications pose to the scope and strength of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

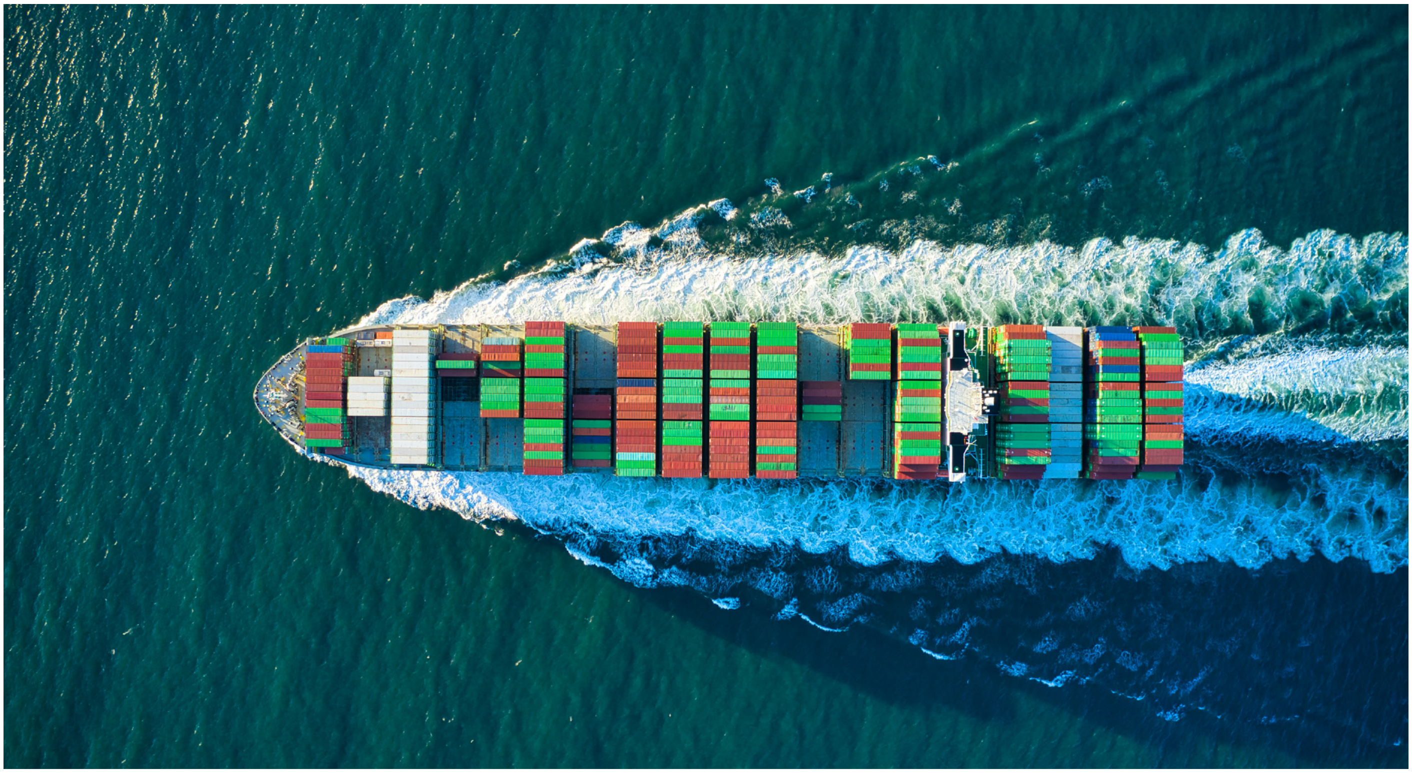
Last but not least, we are pleased to present a summary of a newly published book by T.J. Pempel, Jack M. Forcey Professor Emeritus in Political Science at UC Berkeley, where he analyzes the relationship between the political economies of ten East Asian countries over a forty-year period along with the changing regional orders that have resulted.

We hope this newsletter will help enhance your understanding of the linkages between politics, economics, and business related to the Asia-Pacific region. BASC is especially grateful for the generous support from the Institute of East Asian Studies, the Social Science Matrix, the Center for Chinese Studies, and the Center for Korean Studies for our cooperative projects. We are also deeply grateful for the UC National Laboratory Fees Research Program's sustained support in our collaboration with the UC Institute on Global Conflict and Cooperation and the Taipei Cultural and Economic Office in San Francisco. Finally, we are also deeply grateful for the sustained support of the Center for Global Partnership of the Japan Foundation, the Ron and Stacey Gutfleish Foundation, the Notre Dame Pietas Foundation, and our ever-expanding group of former BASC alums.

Through our supporters, collaborators, and colleagues like you, BASC has the privilege of advancing the discussion on a range of critical economic and security issues in increasingly unprecedented times. We wish you all the utmost safety and health in these challenging times and look forward to continuing our dialogue for years to come.

Vinod K. Aggarwal
Director, Berkeley APEC Study Center
Alann P. Bedford Professor of Asian Studies, Travers Department of Political Science

BASC Projects:
Indo-Pacific Geo-Economic Competition



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ECONOMIC STATECRAFT IN THE 21ST CENTURY: IMPLICATIONS FOR THE FUTURE OF THE GLOBAL TRADE REGIME

By Vinod K. Aggarwal, BASC Director and Andrew W. Reddie, BASC Deputy Director [1]

This article is abridged from our introduction to a special issue of *World Trade Review* (2021) that examines the effects of strategic competition on the future of the global trade regime.[2]

"Strategic competition" is once again a salient feature of the international system, with far-reaching implications for the stability of the existing security, political, and economic order. Amid this shift, the World Trade Organization (WTO) has increasingly faced pressures. The trade war between the United States and China, protectionist unilateral actions taken by the United States, and the U.S. rejection of the appointment of judges to the appellate body are representative of these challenges. Although we are guardedly optimistic that these issues can be addressed, we argue that a longer-term concern is how global economic regimes will cope with the challenges of national industrial policies in the context of this renewed strategic competition. Such policies include both traditional industrial policy as well as new forms of regulation on investment that go beyond the WTO's Agreement on Trade-Related Investment Measure's (TRIMs) mandate. In addition, they include trade measures undertaken by states based on national security considerations and the dual-use nature of new technologies.[3]

Our work examines the use of economic statecraft across the globe and suggests that the use of these tools is emblematic of strategic competition—a subject of increas-

"'Strategic competition' is once again a salient feature of the international system, with far-reaching implications for the stability of the existing security, political, and economic order... Although we are guardedly optimistic that these issues can be addressed, we argue that a longer-term concern is how global economic regimes will cope with the challenges of national industrial policies in the context of this renewed strategic competition."

ing importance following the lessons learned from the 2020 Covid-19 outbreak. The articles within the special issue outline how states are using these tools and point to the implications of this turn for state interaction in the global economy. To this end, we argue for a renewed focus on economic statecraft given the fact that contemporary industrial policy tools, trade restrictions, and new legislation designed to impact cross-border investment, mergers, and acquisitions have become increasingly salient aspects of great power competition between the United States and China. Rather than focusing on economic sanctions and foreign aid, as the existing literature has done, we investigate how changes in the distribution of power across the global and increasingly contested government-firm relations affect geostrategic competition. Together with the move away from negotiations through the WTO, we argue that understanding the impact of new trends on global economic governance requires us to focus on the rapid evolution in technology markets with dual-use potential.

Economic Statecraft in Practice: Industrial Policy, Trade Restrictions, and Investment Rules

From our perspective, economic statecraft must examine industrial policy, trade measures, and investment regulation. Although many of these instruments have been used in the past, we argue that what distinguishes their use in the contemporary environment is a more systematic focus on seeking advantage in sectors of the economy deemed to be strategically important.

Industrial Policy

Arguments about the need to promote nascent industries are often tied to the impact of this industry on a host of allied industries.[4] Recent fears surrounding the consequences of relying upon Chinese suppliers of 5G technology—and the under-supply of domestic alternatives—in Europe and the United States are emblematic of this concern.[5] This contributes to a variety of efforts both to proscribe market access to firms that compete with domestic industry as well as incentives to bolster nascent firms in the 5G marketplace.

In the cybersecurity industry, a number of states have used industrial policy to address the under-provision of cybersecurity goods and services. These efforts include providing venture capital for firms working in the cybersecurity sector, providing government markets for cyber goods, and supporting human capital development for strategic sectors of the economy—even if those trained workers supported by these programs work for private firms.[6] Governments are also increasingly using regulation (via import and export controls) to address supply chain vulnerabilities—addressing foreign components and applications on the basis of national security.

It is also worth noting that firms may also lobby the government to secure benefits that may have little to do with market failures or security considerations and avoid competition. In the cybersecurity industry along with a number of high technology industries, given the obvious concerns about export control, the temptation to engage in rent-seeking behavior is particularly high.[7] Thus, we do not claim that industrial policies guarantee any kind of an optimal outcome. The political and economic dynamics of industrial policy are complex and not our focus in this paper.[8]

Trade Measures

As well as industrial policy measures, governments also use various trade measures to manage strategic sectors of their economies. Upon coming into office, it appeared that Trump would slap an across-the-board tariff on Chinese imports as he had threatened to do so as a candidate.[9] Instead, the Trump administration began with a sector-specific approach.[10] The Trump administration then followed up with a Section 301 (1974 Trade Act) request to the U.S. Trade Representative to explore China's violation of U.S. intellectual property rights. In March 2018, following a finding an "adverse effect" on the United States, Washington implemented a series of tariff measures, and the Chinese retaliated. Eventually, the U.S. and China reached an agreement on January 15, 2020.

Investment Regulation

From Washington to Berlin and Brussels to Beijing, governments are increasingly turning to new and enhanced regulations in the name of national security to review and block cross-border mergers and acquisitions (M&A). These new review procedures are likely to change global patterns of FDI.

In 2018, the U.S. passed legislation known as the Foreign Investment Risk Review Modernization Act (FIRRMA) to expand the oversight procedures of the existing Committee on Foreign Investment in the United States (CFIUS). The change means that even minority stakes in American companies—including those from venture capital and private equity firms will be subject to scrutiny. Specifically, FIRRMA lowers the threshold for investigating foreign investment to include any foreign "non-passive" investment in companies involved in critical technology.

Although China passed a new law to address concerns about forced technology transfer in 2019, it still has significant oversight of foreign investment through its 2015 National Security Act, focusing on cybersecurity and critical technology.

In continental Europe, France has regulated and blocked FDI since 1966. Its 2019 PACTE Law expands its sectoral overview to AI, data, space, cybersecurity, dual-use goods, robotics, and the like. The bill gives the government the right to suspend voting rights and dividend distributions, appoint a trustee in the company to oversee French interests, and sell French assets. In Germany, previously very open to FDI, the government in 2017 expanded the purview of a 2004 law in the aftermath of concerns about a 2016 acquisition effort by a Chinese company of a German industrial robotics company and a proposed chip company acquisition. Now the scope of review has been expanded to include critical infrastructure, cloud computing, telematics, and some key software. The 25 percent threshold was lowered to 10 percent for sector-specific acquisitions that might impinge on national security, and the scope was expanded to include the media in December 2018.

The UK has also moved forward to strengthen national security reviews of investment, rather than only relying on the existing Competition and Markets Authority (CMA), which is based on a 2002 law that allowed the government to examine mergers based on national security considerations. The new approach, proposed in a July 2018 White Paper, specifies triggering events based on varying levels of shares and assets.[11]

Prospects for Multilateral Management of Economic Statecraft

Can the WTO or other international institutions play a role in managing this relatively new trend? Given the serious problems that the WTO faces with the failure of the Doha Round and rise of unilateralism, bilateralism, and minilateralism, as well as the crisis of the WTO appellate body, seeking a path for the WTO to deal with strategic and political competition may seem naïve at best. Yet, there well may be an opening for the creation of international arrangements to play a role in managing the negotiation of bilateral agreements and unilateral controls that create negative externalities. And if created, how these might fit with existing international institutions is also an interesting question.

Graphics Credit: Peace Palace Library

Managing Economic Statecraft: Unilateral/Bilateral or Multilateral Cooperation?

The first scenario is fairly simple. Economic statecraft can be handled as it is currently being addressed with unilateral industrial policy, trade restrictions, and the creation of domestic regulations on foreign investment—all in the name of national security. It could also be dealt with on a strictly bilateral basis in which agreements like the U.S.-China Phase One agreements are *sui generis*—mirroring the strategic arms control agreements between the United States and the Soviet Union in the Cold War in which additional parties were viewed as unnecessary. This story reflects both a lack of demand for the creation of a regime to address economic statecraft, and a lack of a hegemonic supplier interested in addressing industrial policy, trade restrictions, and discriminatory investment rules.

The second scenario reflects the potential for the development of one or more international regimes to address economic statecraft. On the demand side, existing bilateral and minilateral commitments to address issues of economic statecraft represent transaction costs—in terms of investor-state dispute settlement, for example—that a global regime might address. The impetus to address these costs may increase if aspects of economic statecraft are to be included in the mooted agreement between China and the European Union in which protections for foreign investment and market access represent two key areas of negotiations.

With respect to control, a multilateral accord could offer mechanisms for states party to the regime to control the behavior of international actors to their benefit. Washington, for example, might address forced technology transfer while Beijing could safeguard a market for Huawei and ZTE. A regime may also better regulate the behavior of domestic firms that currently engage in technology transfer that governments often see as detrimental to their interests in return for market access.

On the supply side, the situation looks more difficult. Unlike the post-WWII liberal economic order that was led primarily by the U.S. but with some support from the U.K., the story of regime creation with two superpower rivals looks more likely to devolve into two spheres of influence with their own institutions as we saw with U.S.-Soviet rivalry. But for now, the current context remains different in that the U.S. and China and highly economically interdependent—a marked difference from the Cold War. Whether Chinese and American firms benefitting from their cross-border economic exchange will be enough of a driving force to promote U.S.-Chinese cooperation in regime creation remains unclear.

Continuing in a scenario vein, what does the integration of economic statecraft into these regimes mean for the broader global economic regime? The institutional design of regimes can vary in terms of a variety of parameters including membership, strength, scope, flexibility.[12] What are the alternatives for a "fit" with existing international regimes?[13] Here, we can consider three potential regime types that might address issues of economic statecraft.

The first potential outcome is the modification of the existing WTO to incorporate new issues relating to economic statecraft. How might this be done? One approach would be an expansion of the issue scope of the GATT as was done with services as part of the Uruguay Round negotiations that created the WTO. Indeed, we have already seen the introduction of investment and intellectual property issues into the WTO. Of these, the TRIMs agreement has been less impressive than the TRIPs agreement, with the latter having a very significant impact on issues such as the regulation of access to pharmaceutical drugs. Yet, at present, with the end of Doha Round negotiations, this seems to be an unlikely path for the moment.

Second, one could envisage the creation of sector-specific agreements in investment and intellectual property that would be broken out of the WTO, with a separate modified meta-regime of principles and norms and a different set of rules and procedures. Optimism on this score might come from the successful negotiation of three open sectoral agreements of the Information Technology Agreement, the Financial Services Agreement, and the Basic Telecommunications Agreement.[14] As in the case of the textiles Long Term Arrangement (LTA) and its successor, the Multi-Fiber Arrangement (MFA), this would be an example of nested multilayered regimes. It might also be possible to have the creation of regional approaches as was underway with the TPP and TTIP, and the conclusion of the RCEP agreement. Here, the fit with the WTO might be looser.

The final candidate is the creation of an international set of regimes to address economic statecraft on a sectoral basis, which would provide a division of labor or horizontal regimes. In this case, we would see concerns over the need to globally manage of "strategic industries" and "frontier technologies," but each with its individual characteristics. As a result, it is possible that regimes addressing digital technologies, telecommunications, and biotechnology, for example, might be created that are separated from oversight by the WTO. As an example, the ITA 2 and BTA, among others, could exist—independent of the procedures of the WTO rather than being embedded in them.

For a non-abridged version and full reference list, see World Trade Review *special issue "Economic Statecraft and Global Trade in the 21st Century":*
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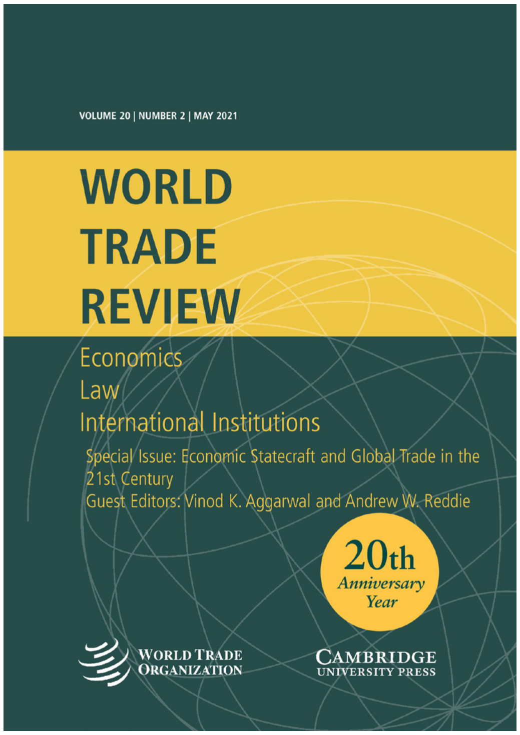

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UPDATING DOLLAR DIPLOMACY:
RESTORING U.S. LEADERSHIP WITH DIGITAL CURRENCY STANDARDS

By Tim Marple, BASC Associate Director

Imagine a world where governments disagree about what fiat money should be and what it should be able to do. While today we enjoy the privilege of a global economy in which the design and use of government money are largely uncontested, this status quo is not guaranteed. In fact, the stability of this consensus is in jeopardy during today's transition to an increasingly digital economy – a pattern that has not left currencies behind. Indeed, governments across the world are currently building their own digital fiat currencies, some of which look radically different from today's status quo fiat money. Notably, a long-time skeptic of the race for government digital currencies, the United States, has recently entered the fray with promises to deliver a prototype design by July through its research with MIT. While governments are moving quickly with their projects, little action yet exists at the most important frontier of this issue: coordinating standards and designs.

Central bank digital currencies (CBDCs) are not like Bitcoin or other cryptocurrencies, which substitute sovereign backing for encrypted ledger systems. CBDCs are also unlike other, more recent kinds of digital money like stablecoins, which replicate the stability of government money without an actual government behind them. Rather, CBDCs constitute an evolution in the technology of money, the fundamental economic technology that makes government promises credible. In this respect, digital fiat money stands as both the most radical and likely the most disruptive technological change in the design of public or private money today. As a result, it also stands as the forefront monetary policy issue facing countries today, not only with respect to how a digital currency should be designed, but especially in terms of making binding global standards on how digital currencies are used by states in global economic and political relations.

As governments build digital money for either domestic reasons, like financial inclusion, or in response to digital money projects in counterpart governments, they face a wide array of critical questions which will shape the future global monetary order. Issues of timing, technical design, and cooperation all raise classic collective action problems, which are typically resolved through robust global leadership. Unfortunately, the race for government digital money comes at a time when leadership is lacking, and challengers to the global order are more active than ever. For this reason, although governments are estimating years-long timelines for their various projects, what happens in the coming months and years will play a critical role in shaping the future of digital money. More simply stated, actions countries take today around digital money will likely create both the opportunities and constraints they face as digital currencies begin to be used at scale.

At this juncture, the United States faces twin crises of political and economic power stemming from abdicated leadership on critical issues facing the world today. On the one hand, American leadership through diplomacy has been faltering – and in the last four years, actively imploding – as the country retreats further and further from its central role on the world stage.[1] On the other hand, the role of the dollar is in active peril, due to a combination of large-scale domestic spending programs and iterative application of sanctions on countries that buck global norms.[2] In both cases, the United States is witnessing corrosion of its instruments for setting and enforcing norms through non-military means across the world. The Biden administration faces a unique opportunity to begin solving both problems with a single move: leading on standards with the digital dollar.

The Race for Digital Fiat Currencies

The United States must make assertive decisions on its central bank digital currency with a clear timetable for progress and a clear template for technical standards. Some may dismiss this call for action as another argument in the already-lengthy list of what a digital dollar can deliver: more efficient direct payments to Americans,[3] more effective cross-border payments for firms and banks,[4] and a better ability to limit money laundering and criminal financing,[5] to name a few. The domestic benefits of a digital dollar are certainly promising and bode well for the vast numbers of unbanked and underbanked Americans who struggle to access traditional consumer finance options.[6] The promise of more efficient taxation and transparent direct payments to Americans may serve as a rare point of unity for conservatives and liberals in Washington at a time of gridlocked partisan policy-making. The improvement in monitoring how money is used within and across our borders almost certainly guarantees the support of America's geopolitical security personnel, who can be reticent to support risky new ideas that interface with their turf.[7]

While these are surely good reasons to pursue a digital dollar, there is a second central drumbeat in this conversation: China's unchecked pilot of its own digital currency, the Digital Currency Electronic Payment (DCEP). Many commentators with an eye toward global monetary affairs have rightly suggested that, absent U.S. leadership, China's digital currency stands to challenge the dollar as a global reserve currency.[8] The DCEP has already been piloted in several major Chinese cities and is slated for widespread use in time for the 2022 Winter Olympics.[9] While denying allegations publicly, the Chinese leadership has been transparent about its goals of regionally – and eventually globally – unseating the dollar as an all-powerful currency for economic relations among countries. A number of observers have detailed the ways in which this directly threatens America's economic standing in the world. The DCEP challenges the power of the dollar, and by extension, U.S. alliances in Asia.[10] It also stands as an instrument for subverting U.S. sanctions,[11] and serves as a force multiplier for Chinese influence through the Belt and Road Initiative.[12]

Yet it is not only economic competitors to the United States who are pursuing digital currencies. Recent reports suggest that more and more central banks are getting in on the action.[13] Notably, this includes a significant number of U.S. allies whose projects are described as 'just-in-case' measures for when *other* countries (read: China) launch their digital currencies. Some clean-cut U.S. allies fit this bill, such as Canada and Japan, whose projects are described as precautionary pilots in case other countries' pilots bear fruit.[14] Other countries fall more ambiguously on this line, like Singapore, whose strategic positioning between Washington and Beijing has been both a political opportunity and, at times, an economic cost for the financial hub.[15] Yet other countries more closely aligned with China, like Malaysia, are also building digital currencies and are actively working with China in order to ensure the technical consistency critical to these projects.[16]

Importantly, these different rates of progress and coordination are complemented by meaningful differences in digital currency designs across these projects; some of these are simple digital reflections of existing money, whereas others propose substantial changes to what government money is and what it can do in both domestic and international economic relations. Importantly, while more radical digital currency designs might seem to be idiosyncrasies of countries' various preferences, they pose real long-term issues for both private and public actors, namely in challenging how digital government currencies will work together in global trade and investment. Here, we face meaningful options which previously were either untenable or infeasible, ranging from a transition toward direct banking with central banks, to the possibility of government surveillance of all consumer transactions on a sovereign blockchain. Most importantly, many of these design features are simply not compatible in ways that are needed for cross-border exchange.

As such, an important thread in this recent trend has been the dire need for consensual standards in digital currency designs. These are not simply technical quibbles over what ledger system to use; rather, they include fundamental questions about the role of central banks, the private banking sector, and how companies and consumers navigate domestic and global financial systems with fiat money. Standards for digital currencies mean the difference between a smooth transition to a yet-more-digital economic world, and a global economy in which revisionist states can use digital currencies to achieve economic, political, and even military objectives. A simple example comes from the popular discussion on several fast-moving digital currency projects, from Venezuela's past (and failed) attempt to China's ongoing pilot. Many countries have an incentive to build digital currencies as a means of subverting sanctions.[17] This has obvious negative consequences for the ability of the United States ability to employ soft power as a way of unwinding tensions in lieu of non-violent actions. Undermining one non-violent mechanism for settling disputes or incentivizing state behavior leaves fewer viable, peaceful options available to decision-makers.

While this issue makes clear the security implications of design standards, others are more nuanced. For example, a number of developed and developing economies are also moving forward on their own pilot projects as a response to chronic underbanking in their economies. Some of their pilots, as a result, lean on a design feature of digital currencies that is relatively rare among current pilots: direct accounts held by consumers with the central bank.[18] This system circumvents what is known as the 'two-tiered banking system', wherein individuals have accounts with (and claims on) private banks, who have accounts with (and claims on) the central bank. While this may irritate private banks in those countries, it raises serious questions about how multinational banks navigate a world of conflicting digital currency designs and standards. Such choices may disrupt one of the key ingredients to economic growth: efficient banking. While this tension may not be as immediately apparent as subverting sanctions, it may be a greater disruption to the global economy if consensual standards are not created and enforced for digital currencies.

Steps for Restoring Leadership Through a Digital Dollar

The United States is uniquely well-positioned to provide leadership and to enforce norms around digital currencies; failing to do so may mean this ability will disappear as other countries take the lead. In this respect, the Biden administration faces a low-cost win, but with an enormous downside of inaction. Should the administration choose not to lead on standard-setting, it is clear that other countries – notably China and Russia – are able and willing to fill that void. It is not a difficult mental exercise to understand the significance of losing the race for standards in digital money, especially given countries' explicit proposals to undermine U.S. sanctions enforcement and dollar hegemony with alternate currency designs and standards as the norm. If the administration does choose to meet this responsibility, there are four obvious and simple next steps for the United States to provide leadership through standards on digital currencies.

First, the United States must engage a whole-of-government approach to develop and launch the digital dollar

"The United States is uniquely well-positioned to provide leadership and to enforce norms around digital currencies; failing to do so may mean this ability will disappear as other countries take the lead. In this respect, the Biden administration faces a low-cost win, but with an enormous downside of inaction. Should the administration choose not to lead on standard-setting, it is clear that other countries – notably China and Russia – are able and willing to fill that void."

by a specified date, and specifically one which matches the aggressive timeline of first-movers in this space. While there is a first step of collaboration between the Boston Federal Reserve and the Digital Currency Initiative at MIT,[19] a meaningful digital dollar prototype requires buy-in from a wide variety of government agencies ranging from the Treasury and SEC to the State Department and intelligence agencies. As with a wide variety of other regulatory issues in the past which touch on highly diverse sectors of political and economic relations, digital currency leadership cannot be meaningfully undertaken without buy-in from all actors in the U.S. government whose roles will be affected by these new instruments. Without active coordination across these arms of the U.S. government, the constitutionally slow pace of delegated government activity will prevent meaningful leadership on digital currencies internationally. In this respect, establishing a digital dollar czar to coordinate cross-government actions in digital currencies, or widening existing interdepartmental collaboration efforts, represent a critical first step.

Second, the United States must cooperate with its partners and allies through existing multilateral institutions to craft easy-to-reach rules on central bank digital currencies. On this issue, the high-level principles from the G7 joint report serve as simple starting points for bringing in allies who want to collaborate on standards but are unsure how exactly to do so. Critically, the United States and its close allies must move quickly from abstract principles of what a CBDC *should* do toward specific and actionable principles on what a CBDC *can* and *will* do. This more detailed cooperation will undoubtedly raise more issues than the abstract principles which initiated the talks, as discussion proceeds into the gritty details of winners and losers from different digital currency design standards, but establishing a foundation and rationale for shared standards is a necessary step to developing them through leadership. As with many of the challenges facing countries during the 121st century, U.S. unilateralism will be at best a haphazard solution, and at worst will deepen divisions among countries whose respective opportunities and costs associated with different digital currency standards vary significantly.

Third, the United States and its allies must work to bring non-allies to the table by collaborating on issues that all countries will need to resolve around digital currencies. A bloc-level approach to setting standards will at best produce a bipolar world of competing for digital money standards; at worst, it will encourage the weaponization of money to achieve unilateral political goals.[20] History shows us that differences in countries' preferences can be overcome by targeting higher-level goals, with rich examples from longer-standing sustainable development goals,[21] and more recent initiatives on climate change.[22] In this case, the United States can avoid a bipolar monetary order by setting clear lines in the sand before the conflict is even likely. This takes the form of not only carrots, such as crafting and clarifying incentives around shared digital money standards, but also sticks, like clear lines in the sand around whether banks or other financial institutions may engage in business with countries whose rules are too different from U.S. standards. With the weight of the world's largest economy, the United States still has the power to bring non-allies to the table, and must do so in order to truly lead on digital currencies through standard-setting.

Fourth and finally, the United States must extend its leadership in digital currency standards to restore its leadership in other related issue areas. As a natural extension of the third step – bringing non-allies to the table on digital money standards – this final step involves pursuing new avenues of leadership by building on success in this domain. Luckily, there are few domains that are not related to money and standards around money. Successfully leading in digital currency standards opens a Pandora's Box of options to the Biden administration for restoring American leadership, ranging from strengthening cooperation in anti-money laundering efforts,[23] to establishing the much-needed regulatory link between banking and private financial activities and climate change.[24] Indeed, a long line of international relations scholarship suggests strongly that international coordination on hard issues becomes much simpler when it builds on the success of easy wins.[25] In short, there are very few chronic issues that would not be easier to solve with robust U.S. leadership in the digital currency domain. Yet these cumulative gains are only possible if the United States begins leadership on an issue more foundational to the global economy: money.

Fiat money is the fundamental economic technology that makes government promises credible. As the Biden administration inherits not only the aftermath of his immediate predecessor, but also the consequences of years of abdicated U.S. leadership, credibility will be a precious asset. Today, as countries across the world actively reconsider what government money is and what it can do in international relations, traditional leaders like the United States face a unique opportunity to offer leadership where it is sorely needed. While the downside risks of inaction in this issue may be high, the upsides of re-establishing U.S. leadership through digital currency standards are yet higher. America has the ability to lead on digital money, and standards on technical design and cross-border compatibility of these instruments are a low-cost way to achieve this. What remains to be seen is whether the United States is willing to take these simple steps toward restoring American leadership by starting with its digital dollar.

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Research Analyses:
Great-Power Competition and Global Trade

Graphics Credit: Reuters

CHASING THE SUN: U.S.-CHINA GREEN TECHNOLOGY COMPETITION

By Ishana Ratan, BASC Project Director

Competition over clean technologies including solar panels, smart grid components, and battery storage has escalated as states seek to avoid the worst effects of climate change and profit from new industries in the transition away from fossil fuels. Establishing a comparative advantage in renewable energy technology affords strategic benefits to great powers, similar to competition in other sectors with economies of scale like semiconductors, information technology, and telecommunications.[1] However, as renewable energy is currently more expensive than fossil fuels, attracting investment in green technology requires state intervention in the energy market. In recent years, industrial policies like local content requirements and industrial tax credits have gained popularity as a growth strategy for large economies seeking to develop competitive export industries in emerging green technologies, including China, Brazil, and South Africa.[2] At the forefront of green technology innovation, the United States and China provide contrasting models of policymaking and competition in the international market.

This newsletter article analyzes the contours of U.S.-China clean technology competition and green industrial policy, as each superpower strives to cultivate a competitive renewable energy market. While the U.S. originally led in green technology innovations like solar panel manufacturing and electric vehicles development, China has successfully leapfrogged past U.S. firms and come to dominate the global market, particularly in easily scalable products.[3] This article traces the origins of these great powers' industrial policy strategies to their domestic energy market structure and analyzes implications for clean energy technology governance going forward. I first briefly discuss how green technology poses strategic benefits to these superpowers. Then, I outline the U.S. and China's divergent strategies in clean energy technology competition, based on energy sector institutions, renewable energy business coalitions, and domestic legacies of industrial policy. Finally, I conclude with a discussion of the implications of these superpowers' strategies for global green technology governance, particularly in emerging economies reliant on international technology.

Why Green Technology Competition?

Leadership in renewable energy technology provides strategic political and economic benefits to states. First, investment in clean energy infrastructure increases domestic energy security. Investment in both grid infrastructure and renewable energy technology can mitigate disasters like the 2021 Texas power crisis, through creating a sustainable and resilient energy grid capable of re-calibrating to shocks and local energy generation.[4] Energy infrastructure is a strategic asset; in 2020, a foreign drone even targeted an electrical substation in Pennsylvania.[5] Regardless of whether interruptions to power supply are from natural disasters or foreign intervention, domestic clean energy generation and investment in grid infrastructure both increase energy security. Second, leading renewable energy technologies are subject to economies of scale, with manufacturing leaders developing robust export industries that cultivate downstream spillovers in other segments of the renewable energy supply chain like installation and engineering.[6] Leadership in renewable energy technology, particularly manufacturing, provides strategic political benefits, while laggards like the United States have turned to protectionist retaliation after losing market share.[7] Overall, renewable energy investment provides both strategic benefits to energy security and economic opportunities for growth, particularly with export-oriented technologies.

The United States: Fragmented Competition

The U.S. is currently underachieving in its green technology ambitions due to a legacy of fragmented market-based domestic energy policy, with individual states selecting into a patchwork of renewable energy incentives. Due to lack of national oversight over the domestic energy grid, fragmentation with the clean energy coalition, and focus on market-based incentives, the United States lacks a coordinated policy approach to green technology governance.[8] First, the utilities managing domestic energy consumption are strongly opposed to renewables and currently outside the scope of national regulation. From a regulatory perspective, domestic energy generation is highly federalized, with regional utility monopolies subject to regulation based on often opaque local politics.[9] These utility monopolies have successfully, repeatedly, opposed national climate policies like the Clean Power Plan. For example, a large coalition of utility providers filed a lawsuit against the Environmental Protection Agency in West Virginia vs. EPA, expressing grievances related to timelines for compliance and cost of renewable energy integration.[10] At the state level, these utilities have even paid hired actors to speak at court hearings over solar subsidies like the Feed-in Tariff, impeding green industrial policymaking across multiple levels of government.[11]

Second, firms within the domestic renewables industry hold different policy preferences, and intra-industry conflict has inhibited renewable energy leadership. The renewable energy coalition within the United States is fragmented, with firms operating in low-skilled sectors like solar panel manufacturing at odds with those in services like installation and engineering. As discussed below, the Chinese green industrial policy in 2009 rapidly decreased the global price of solar photovoltaic (P.V.) panels, resulting in a surge of panels imports to the United States.[12] The influx of Chinese P.V. and rise in domestic installation created new downstream markets for renewable firms in project development, engineering, and procurement, which now dwarf the manufacturing industry in terms of employment and value added.[13] Despite growth in solar jobs and domestic installation, the influx of Chinese imports prompted backlash from the U.S. solar manufacturing industry, which could not compete with the cheaper panels produced at scale.[14] These manufacturing firms, despite opposition from other thriving firms benefitting from the low cost of renewable energy, chose not to invest in R&D and instead successfully took the antidumping case to the Interna-

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tional Trade Commission. These tariffs fragmented the renewable energy coalition, increasing the uphill battle for overall renewable energy deployment.

Finally, the United States has a history of market-led economic development and broader aversion to state intervention in commercial technologies. From the fragmentation of the telecommunications industry to the lack of federal guidance over digital technology privacy standards, the United States government maintains a laissez-faire capitalist approach to the regulation of commercial, albeit strategic, sectors.[15] The U.S. has typically pursued the development of clean energy technology from a security-oriented perspective, turning control of innovation to the private sector at commercial stages of deployment. For example, solar panels were originally a Department of Defense project, but later turned to private control. In 2009, the Obama administration allocated 2.3 billion in tax credits for solar firms under the American Recovery and Reinvestment Act, with high publicization of the administration's commitment to renewable energy.[16]

The U.S. firm Solyndra received $535 million in loan guarantees through this program to produce high-efficiency alternatives to existing polysilicon modules. However, concurrent Chinese industrial policy ultimately flooded the global market with cheap P.V. panels. Prices in the U.S. crashed, and Solyndra spiraled into bankruptcy after abandonment from the venture capital funding sources necessary for the firm to scale up operations, effectively tanking the high-efficiency market.[17] This infamous example is often used to highlight the costs of picking winners, rather than placing emphasis on the successes of state-led innovation that originally brought solar technology to fruition. Perhaps most importantly, work has recently highlighted that China holds specific advantages in low complexity technologies deployed at scale, rather than niche products with monopolistic firms producing differentiated goods like electric vehicles.[18] In selecting choice of industrial policy, policymakers may do well to consider domestic comparative advantage in the context of global supply chains.

China's Energy Market: Centralized Coordination

Chinese green technology governance sharply contrasts with the United States' fragmented approach. China's domestic structure emphasizes strong government involvement in energy planning, with state-owned enterprises taking the lead in coordinating green industrial policy. The 2005 Renewable Energy Law set national policy targets that only exist on a subnational level in the United States, including renewables subsidies and investment tax credits.[19] This allows the Chinese government to exert significant influence on energy sector development, empowering national champions to experiment and adopt newly emerging technologies. This applies to both energy generation and also grid infrastructure, with two national companies pursuing coordinated grid modernization to accommodate renewables: State Grid Corporation of China (SGCC) and China Southern Power Grid (CGC).[20] While grid operators typically only operate at the domestic level, State Grid defies conventional wisdom and has expanded to invest in Southern Europe, Northern Africa, and significant portions of Southeast Asia, as part of a global electricity grid network through the United Nations Global Grid Interconnection Organization.[21] Broadly, these centralized energy planning institutions have facilitated a coordinated push for renewable energy.

Second, in contrast to the U.S., China's domestic renewable energy coalition is not fragmented along supply chain lines. Where the United States has struggled to maintain competitive viability in renewable component manufacturing, Chinese industrial policy capitalizing on technology transfer and indigenous innovation has challenged Western firms in export markets while expanding a domestic consumer base for renewable energy technology.[22] China's advances in cheap solar panel manufacturing have benefitted domestic consumers in emerging economies, expanding access to clean energy due to cost declines.[23] Through state subsidization of national champions and coordination across the energy system through centralized planning institutions, China has excelled in low-complexity technologies where economies of scale dominate.[24]

Even after the U.S. solar tariffs, Chinese manufacturing firms relocated production to Thailand, Malaysia, Indonesia, and Vietnam, maneuvering around protectionist barriers. This technology shock provided capital and investment for small states to enter the global solar market and offered China both low-cost production and potential new export markets.[25] In sectors with higher product differentiation like electric vehicles, the U.S. and European model of market-based competition, rather than state-subsidized national champions and focus on scale, remains viable.[26] Yet as China continues upgrading the quality of manufactured goods and invests in basic infrastructure necessary to deploy RE in emerging markets, Western states may face greater competition over design rather than scale.[27] And in energy, the real strategic advantages lie in the network effects of grid integration and cross-border energy flows in the developing world.[28] China's strategy places emphasis on establishing and locking in these networks of power.

Finally, China's green industrial policy strategy reflects broader patterns of state subsidization, provincial competition, and scalability for international export markets. Where the United States relies on state subsidization of early-stage technology development, but primarily private sector focus on commercialization and deployment at scale, the Chinese government is highly involved in clean technology governance beyond early stages of development and deployment, focusing on scale-up to export markets.[29] China's "cadre management" system attaches political benefits for party members to industrial performance in critical industries including solar energy.[30] This facilitates competition amongst provinces to attract investment and develop export-oriented renewable energy firms. China's green technology strategy echoes traditional industrial policy focused on reciprocal control mechanisms, tying state support to fledgling industries with performance measures.[31] This model allows the state to encourage competition in critical industries, ostensibly avoiding the "picking winners" dilemmas, without ceding influence over technological development, as in the Solyndra case and decline of the competitive U.S. solar industry.

Conclusion: Implications for Global Green Technology Governance

The dynamics of U.S.-China clean technology competition have important implications for both the renewable energy industry and climate governance more broadly. Historically, Western firms and institutions were the

"Through developing a low-cost solar manufacturing complex and funding the expansion of grid technology overseas, China is coupling investment in clean energy generation with critical infrastructure upgrading, particularly in strategic export markets... Renewable energy technology and grid infrastructure are costly and path-dependent components of energy transition, and Chinese green technology success today may entrench its status as a leader in renewable technology in years to come."

driving force behind green technology innovation and diffusion at the global level. More recently, China has concentrated its investment on countries overlooked by Western firms, particularly in Africa, Southern Europe, and Southeast Asia.[32] Fueled by the trade war, China has brought solar panel manufacturing and later grid investment to emerging markets, establishing new networks of power in countries like Kenya, Laos, and Cambodia, that are beginning to industrialize and meet rising energy demand using Chinese technology.[33] Whereas Western climate funds have supported one-off projects and typically benefit the largest developing economies, China's international institutional investment in both renewable energy like solar and wind, and supporting infrastructure like ultra-high voltage transmission cables, has focused on building coalitions of small states through regional energy networks.[34] As the U.S. focuses on revitalizing its domestic renewables industry, working through political polarization around environmental policy in the aftermath of the Trump presidency, China is increasingly focused on scaling up renewables at the global level.[35]

China's green industrial policy strategy targets synergies between different renewable energy technologies and provides an example of the extent to which state coordination can carve a pathway for large-scale renewable energy deployment.[36] Through developing a low-cost solar manufacturing complex and funding the expansion of grid technology overseas, China is coupling investment in clean energy generation with critical infrastructure upgrading, particularly in strategic export markets.[37] Rather than invest in innovation, the U.S. has pursued a protectionist strategy focused on safeguarding legacy industries in manufacturing, while struggling to achieve high domestic renewables penetration at home. Renewable energy technology and grid infrastructure are costly and path-dependent components of energy transition, and Chinese green technology success today may entrench its status as a leader in renewable technology in years to come.

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MEDIA BIAS IN THE CHINA-U.S. TRADE WAR

By Wanjun Zhao, BASC Research Assistant

In January 2018, U.S. President Donald Trump began imposing tariffs and other trade barriers on China, initiating the China-U.S. trade war. Data shows that the U.S. has imposed tariffs on more than $360 billion of Chinese goods and services, and China has retaliated with tariffs on over $110 billion of U.S. products.[1] Interestingly, media from both states report differently on events during the trade war, including the origins of the trade war, the various types of tariffs imposed, and the implementation of technology sanctions.

For example, U.S. media generally claims that the domestic motivation for starting the trade war is to prevent China's previously unfair trading practices and intellectual property theft from affecting other trading partners.[2] In contrast, Chinese media states that President Trump is trying to curb its rise as a global economic power.[3] The two presses also vary in reporting the U.S. technology sanctions on ZTE, a partially Chinese state-owned telecommunications company. The U.S. argues that ZTE has failed to comply with relevant laws and regulations.[4] On the other side, Chinese media believes that the Trump administration ban has hegemonic considerations, intending to limit China's development in the high-tech field.[5] In this case, Chinese media persists in defending the interests of Chinese companies.

This article examines the source of media bias in China and U.S. coverage of the trade war. The two states have media bias in reporting the 2018 China-U.S. trade war for political and economic reasons, and I argue that variation in bias comes from differences in state control over the media, with government-owned Chinese media and privately-owned U.S. media. In the following article, I first outline the importance of news media in shaping public opinion, then analyze the political and economic determinants of media bias in the China-U.S. trade war, and finally conclude with a discussion of future implications.

The Importance of News Media

News media is the main channel through which most Chinese and Americans understand the outside world.[6] News keeps people informed of the changing events, issues, and characters in a society.[7] Its convenience, timeliness, and comprehensiveness enable people to learn about another country's social, economic, and political development, and compare it with their own states' socio-economic structure. Hence, the media is significant as it can form and shape people's ideas and attitudes towards foreign policies and countries.[8] For example, one recent work studies the effects of the media on public opinion and finds that the *New York Times* coverage on China in one year explains 54 percent of the variance in American public opinion on China in the next year.[9] This result confirms the hypothesized link between media and public attitude and helps shed light on how mass media can influence the public opinion of foreign countries.[10] To this end, the media can affect politics through advocating for specific political norms on behalf of the state governments.[11] In other words, governments can use the media to form, disseminate, and control public opinion. Therefore, it is necessary to reveal bias in Chinese and American media to help the public make clear judgments while reading about the 2018 China-U.S. trade war in the news.

Background: Media Bias in the China-U.S. Trade War

Research has shown that both China and the U.S. report negatively towards each other in the trade war in terms of political decisions and policy. However, they differ in that Chinese media is supportive towards its own government's foreign policy whereas U.S. media is neutral in reviewing Trump administration regulation.

A recent study by Junming Huang compares and contrasts media bias between China and the United States. She analyzes two central media outlets: the *New York Times* of the U.S. and the *People's Daily* of China. Huang hypothesizes that in reporting the China-U.S. Trade War, the *New York Times* and the *People's Daily* are likely to describe the respective foreign government negatively.[12] She searches online databases from the *New York Times* and the *People's Daily* for terms indicating bias, including "unfair trade practice," "economic loss in China," and "the threat of the U.S." to track the frequency of terms appearing in the news.[13] Huang assumes that those terms reflect the general attitude of the two media outlets. Other studies also make similar predictions; for example, Louisa Ha and other co-authors hypothesize that U.S. news media are more likely to use war journalism than peace journalism in covering the trade conflict.[14] Similarly, Carpenter also notes the increasing hostility in the journalist community, with polarized accounts of the trade war between American and Chinese media outlets.[15]

Unsurprisingly, Huang's result shows that in reporting the trade war, the *New York Times* and the *People's Daily* promote a negative attitude when writing about the other.[16] For example, most U.S. media regard China's tariff increase as a protection of national interests, rather than a commitment to free trade.[17] They also focus on economic losses caused by China in the tariff dispute, identifying China as a threat.[18] On the other hand, China accuses the U.S. of unilateral, protectionist trade measures and promoting the "America First" principle. Outlets also report that the U.S. actions violate WTO principles such that accusations against China lack basis.[19]

Besides this major finding, Huang finds that the *New York Times* remains neutral and critical towards its own government, whereas the *People's Daily* generally promotes a more positive frame of China.[20] For example, while arguing against China's actions, U.S. media highlights concerns about the Trump administration's decision to levy tariffs. As reported by the CNN, most presses praise Trump for investigating China's advantage in trade, but note that the government has adopted unconventional methods, blindly raising tariffs and distancing the United States from its allies.[21] The U.S. media thus regards China's action as aggressive while simultaneously critiquing its domestic government. Chinese media does not follow a similar pattern, only focusing on the positive actions of the Chinese government. When discussing U.S. tariffs, Chinese media claims that China dares to defend its own dignity and should attack and resist to the end, arguing in clear support of the domestic government.[22] Media also highlights the tariff dispute as an opportunity for Chinese companies like ZTE, and claims that China should take this lesson further to promote domestic technological innovation and economic structural reform.[23] Examining the above statements, it is clear that Chinese media is critical of the U.S. government for imposing tariffs. However, rather than being critical of its own regime like the U.S., Chinese presses provide a promising future development plan for domestic technology companies and organizations.

Accordingly, in the China-U.S. trade war, Chinese and American media report news from different angles. In general, they are both biased against one another. The U.S. media remains neutral on its own government, even criticizing policies on imposing tariffs and sanctions. In contrast, the Chinese media only reports their domestic government's actions in an optimistic way. The following section outlines explanations for both differences and similarities in media bias during the China-U.S. trade war.

Explanations for Media Bias in the Trade War

Media bias in the China-U.S. trade war can be explained from both a political and economic perspective. Difference in state versus private sector ownership provides different incentives for Chinese and American media outlets when reporting on the trade war. Both states' media outlets share profit-oriented goals, leading to dramatization in order to attract a larger audience. However, the state-owned Chinese media must consistently support the domestic government position on foreign affairs, while the privately-owned U.S. media expresses both critical and supportive statements on domestic trade policy.

Political Perspective: State vs. Private Ownership. Chinese media is largely controlled by the state and used for political purposes. According to Qin, Strömberg, and Wu, all Chinese newspapers are required to be entirely or primarily owned by the state.[24] Media organizations must be affiliated with a government supervisor responsible for "licensing, appointing top personnel, and monitoring important editorial matters."[25] In the study, Huang discovers that the reporting by the *People's Daily* is highly consistent over the period. Many similar themes and narratives appear in different reports, such as the rhetoric of the U.S. attitude, or the expression of attitudes in China.[26] Chinese media rigidly follows the government's regulations, and stories are similar across different sources. Under the control of the Chinese government, the media thus serves as a tool to achieve political goals. Qin states that the foremost political goal is to implement the China Communist Party (CCP) Party Line, a media policy that aims to mobilize political actions and regime stability.[27] To this end, newspapers must carry out the tasks of propagating the CCP's ideology and leadership, "informing cadres and the public of Party decisions and government policies, and suppressing news that may negatively affect regime stability."[28] Hence, in the China-U.S. trade war, Chinese media criticizes the U.S. decision to add tariffs and other measures as a way to protect domestic politics.

The story is different on the U.S. side, and research has shown that although some U.S. news media relies on officials and government as sources, private media ownership allows for greater freedom and diversity in reporting. Dickson's study shows that mainstream presses like the *New York Times* depend on the U.S. foreign policy for information and "serve to sustain" the dominant position of the U.S. government in foreign policy crises.[29] In the China-U.S. trade war case, American media reports negatively about China, largely in line with the U.S. government's policy and regulation. However, as U.S. media outlets are privately-owned, they generally have more freedom than those in China.[30] Ha and other co-authors note that the U.S. media has considerable independent judgment on the trade war.[31] The pluralism in the U.S. news media allows for the existence of diverse opinions, both criticizing and supporting the government. In other words, U.S. news media has mixed support for domestic trade tariff policy, instead of overwhelmingly supporting it as Chinese media do.[32] Accordingly, as the U.S. media is owned by private companies, it is more liberal and critical when reporting news to international audiences. This political difference echoes Huang's finding that the *New York Times* criticizes China's violation of the rights and rules, but also expresses concerns regarding future trade war escalation against China.

Economic Perspective: Dramatized Style of Reporting. Both Chinese and American newspapers also have the economic goal of earning profits. As early as 1979, the state granted permission to the *People's Daily* and several provincial newspapers to earn advertising revenues and seek profits.[33] Since then, general-interest newspapers have been regarded as quasi-SOEs and have operated under the slogan "supervised by politicians and managed by entrepreneurs."[34] At the end of the 1990s, advertising revenues accounted for at least 70 percent of the

"Media bias in the trade war can be explained both politically and economically. Differences in media ownership—Chinese state-owned and American private-owned media—bring different levels of regulations and freedom to media companies. The economic incentive further increases the likelihood of creating conflict towards each other in reporting."

overall income of the mainstream newspapers in China.[35] Similarly, in the United States, the media has historically been motivated by profits. News in the U.S. generates roughly $63 billion to $65 billion in annual revenue.[36] And with the current digitized world, technology has helped the media industry gain more profits and success.[37]

Media dramatization, often in a negative way, through titles and visualizations is a strategy to attract attention and increase profits. News articles' titles like "How Trump Could Stumble From a Trade War Into a Real War with China," and phrases like "China and the United States are right on script sleepwalking towards what could be the grandest collision in history" and "I see the current 'phony war' as the proverbial calm before the storm" enlarge the conflict between the U.S. and China, attracting audiences' attention.[38] Ultimately, these dramatized words enhance the negativity in news reports from both countries.[39]

Consequently, media bias in the trade war can be explained both politically and economically. Differences in media ownership—Chinese state-owned and American private-owned media—bring different levels of regulations and freedom to media companies. The economic incentive further increases the likelihood of creating conflict towards each other in reporting.

Conclusion

This paper describes media bias in the 2018 China-U.S. trade war. Specifically, Chinese media tends to negatively discuss the U.S. while remaining optimistic about its own foreign policy and regulations. On the other hand, American media not only criticizes China's behavior, but also expresses concerns towards the Trump administration's decision to impose tariffs and ban Chinese high-tech companies. These characteristics can be mostly explained through a political perspective as state-owned Chinese media follow governmental goals of promoting domestic values and policies whereas private-owned U.S. media has more freedom to remain critical and report from different angles.

Media is one of the most efficient and convenient ways of understanding the outside world for many people. However, it is highly likely that the information acquired from those media sources is biased. How and what to report are thus two complicated but critical questions for countries and policymakers to consider. Media can be a tool for politics, and bias can shape peoples' opinions on important issues like the China-U.S. trade war. This article highlights how media is typically biased to sensationalize headlines for profits, but that state control of media can result in a favorable bias towards the domestic political regime. This is important due to the broader implications of the China-U.S. trade war; when reporting about this conflict, the media can affect the future of international trade.

Graphics Credit: Reuters

REVITALIZING THE GLOBAL TRADING SYSTEM: MEMBER STATES, THE WTO, AND THE WORLD ECONOMY

By Zhijie Ding, BASC Research Assistant

Since 2008, member states of the World Trade Organization (WTO) have failed to make meaningful progress toward concluding the Doha Development Round (DDR).[1] In the meantime, with the U.S. blocking the appointment of new Appellate Body (AB) members, the AB has ceased to function as of December 2019.[2] The WTO is suffering from a dual crisis—a deadlocked legislative body and a dysfunctional judicial body. Although the challenges facing the WTO have received considerable attention, individual analyses tend to be narrow in scope and scrutinize either the deadlocked DDR or the dysfunctional AB, but not both. This article develops an integrated and systematic approach for understanding the challenges facing the WTO.

The survival of cooperation at the international level depends on three factors—the states that participate in the international regime, the regime itself, and the international system in which the regime operates. Leveraging these three layers of analysis—states, regime, and system—I argue that the WTO's dual crisis can be attributed to institutional features that disincentivize cooperative efforts by member states, the WTO's ineffectiveness as a facilitator of cooperation, and its inability to correct systemic imbalances. In the following sections, I discuss each layer in turn and illustrate how specific institutional features drive the WTO's dual crisis. Subsequently, I leverage my findings and propose a three-part institutional reform package.

State Incentives

The effective functioning of the WTO predicates on member states' willingness to engage in constructive dialogue. However, the WTO's institutional design creates and sustains systematic biases against less wealthy and less powerful member states. This decreases developing countries' expected benefits from WTO agreements, disincentivizes them from engaging in and concluding multilateral trade negotiations, and leads to negotiation deadlocks. Concretely, developing countries are excluded from "Green Room" meetings, where powerful players find a common position before pressuring selected developing countries to break ranks with their peers.[3] Moreover, the agenda-setting power of the Chair of the General Council is unspecified in WTO agreements and lacks checks and balances, leaving room for power-based improvisation.[4] Similarly, no institutionalized rules govern the selection of negotiation "facilitators" who exercised considerable influence over negotiations.[5] The Green Room and the lack of rules governing negotiations allow developed countries to exert disproportionate influence, to the detriment of developing countries. For a case in point, during the Ministerial Conference in Cancún, facilitators were reported to have replaced multilateral meetings with bilateral consultations, which prevented developing countries from operating in coalitions and reduced their bargaining power vis-à-vis the more powerful players.[6] This rendered developing countries unable to meaningfully influence negotiated outcomes, thus reducing their expected gains and leading to the breakdown of negotiations.

Developing countries face similar disadvantages in the WTO's judicial bodies. While developing countries make up more than two-thirds of the WTO membership, over 60% of all complaints were filed by developed countries.[7] For one thing, high costs and complex legal procedures often inhibited developing countries from taking full advantage of the dispute settlement system.[8] For another, since the enforcement of WTO rulings involves countermeasures by the winning complainant, and developing countries are less able to impose costly sanctions, they have less incentive to use the WTO's dispute settlement system.[9] Arguably, the procedural reforms introduced by the Dispute Settlement Understanding (DSU), such as stricter timelines and the automatic adoption of panel reports, would benefit less powerful countries;[10] however, the increased complexity of legal procedures may offset these benefits for developing countries without enough administrative and bureaucratic capacity to utilize the more complex legal procedures.[11] As a result, benefits associated with the DSU have accrued disproportionately to developed countries.[12] Facing a dispute settlement system where powerful players prevail, developing countries expect lower gains from WTO agreements and are disincentivized from engaging meaningfully in multilateral trade negotiations. This dynamic leads to the persistence of the DDR deadlock.

Developing countries are not alone in facing an adverse incentive structure; the U.S. complaint about the AB is a case in point. The Obama and Trump administrations blocked the reappointment of Jennifer Hillman, Seung Wha Chung, Shri Baboo Chekitan Servasing in 2011, 2016, and 2018, respectively,[13] claiming that the AB had overstepped the institutional role assigned to it in the Uruguay Round and had committed judicial activism through expansive interpretations of WTO provisions.[14] To be sure, "judge-made law" is inevitable given the ambiguities in WTO provisions, and such ambiguities themselves can be diplomatic necessities. However, judicial activism becomes problematic in the WTO for two reasons. First, there are no effective institutional checks on the WTO's dispute settlement bodies. Although member states can amend and interpret WTO rules, should they decide the judicial bodies have gone too far, such processes are extremely cumbersome.[15] For example, interpretations are adopted only with the support of three-quarters of the WTO membership.[16] To date, no attempt at reinterpreting WTO provisions has been successful. Second, WTO panels tend to base their decisions on the past panel and AB reports, despite *stare decisis* not being a source of international law listed under the Statute of the International Court of Justice.[17] This further expands the legal effect of judicial activism and heightens concerns regarding sovereignty. Democratic accountability and sovereignty concerns associated with judicial activism disincentivize member states from concluding legally binding agreements through the WTO and restoring the AB, thereby reinforcing the DDR deadlock and the AB crisis.

Regime Effectiveness

Apart from member states' willingness to engage in cooperation, sustaining cooperation requires an international regime that functions as an effective facilitator. In this respect, the WTO suffers from two primary setbacks. First, it is not an effective provider of information. International regimes facilitate cooperation through, inter alia, reducing information costs and alleviating information asymmetries.[18] As a member-driven organization, the WTO assigns a minor role to its information-provision body—the Secretariat. While the WTO has 625 regular staff,[19] the International Monetary Fund (IMF) has roughly 2,700,[20] and the World Bank has 15,907.[21] The relatively small size of the WTO Secretariat undermines its capacity to provide information and assistance during multilateral negotiations, which is necessary for productive discussion, as many delegations find the number of meetings unmanageable.[22] In addition, it prevents the WTO Secretariat from providing sufficient analytical support, which facilitates informed policy deliberation.[23] Due to the dearth of information regarding negotiations and policies, member states often struggle to identify mutually acceptable arrangements and conclude multilateral negotiations. Second, the WTO lacks a strong meta-regime, defined as the principles and norms underpinning the regime,[24] as major players disagree on the principles and norms according to which trade liberalization ought to take place. This misalignment of values hampers the WTO's ability to generate solutions attractive to all member states and resolve distributive tensions.[25] Concretely, developing member states assign greater importance to the norm of economic development than their developed counterparts.[26] This ideological division is evident in the DDR agenda: While developing countries advocated prioritizing "development issues"—implementation of Uruguay Round agreements and special and differentiated treatment—they were accorded low priority by the agenda setters, who heavily reflected the interest of developed countries.[27] This undermined the WTO's ability to resolve development-related issues, which are at the heart of the DDR deadlock.[28]

Systemic Factors

Even assuming state incentives and regime effectiveness are fully rectified, the success of the WTO depends on characteristics of the international economic system, which dictate the nature of the issues the WTO is confronted with. From this systemic perspective, the failures of the WTO can be attributed to its inability to address the structural imbalances in the international economic system. One of the key justifications behind former President Donald Trump's move away from complying with WTO rules toward a trade war with China was the U.S. trade deficit vis-à-vis China, which stood at $419 billion in 2018.[29] However, fixing the current account deficit is no simple task, as it is partially driven by the capital account surplus,[30] and the effects of trade policy are likely overshadowed by the fundamental determinants of saving and investment.[31] Behaviors of international actors matter, too. For example, the buildup of foreign-exchange reserves by East Asian countries since the 1990s fueled a global saving glut, and the attractiveness of the U.S. as an investment destination, as well as the reserve-currency status of the U.S. dollar, meant capital flowed disproportionately into dollar-denominated assets.[32] This capital inflow then shaped household saving and investment behavior, leading to a current account deficit in the U.S.[33] As the trade deficit is partially rooted in patterns of saving and investment, not trade policy, it is unsurprising that diplomatic exchanges in the WTO, which mostly focus on trade policy, have struggled to prevent the trade war. In a nutshell, systemic factors altered the nature of the issues confronted by the WTO. With an institutional design from an earlier era, the WTO is no longer an effective forum for addressing contemporary challenges in the world economy. This encourages member states to substitute toward alternative solutions, such as a tit-for-tat tariff war.

Policy Implications

The preceding analysis suggests that institutional reforms to the WTO ought to incentivize cooperation by its member states, improve its capacity to facilitate cooperation, and empower it to address systemic drivers of trade conflicts. This can be achieved through a three-part reform package, covering the WTO's Secretariat and its legislative and judicial processes.

First, the WTO should expand the budget and the mandate of its Secretariat.[34] In particular, the Secretariat ought to play a greater role in conducting trade policy analysis, assisting national delegations during multilateral negotiations, and facilitating informed policy deliberations. In the meantime, the Secretariat should actively engage governments, non-governmental organizations, and multinational corporations in regular discussions on the overarching principles and norms of the global trading system. This would strengthen the WTO's meta-regime. In addition, the Secretariat has a role to play in leveling the playing field. For example,

"The WTO's dual crisis—legislative and judicial—can be attributed to how it shapes state incentives, its ineffectiveness as a facilitator of cooperation, and its inability to address systemic drivers of trade conflicts. These challenges can be addressed by reforming the WTO's Secretariat, as well as its legislative and judicial processes."

it could extend extra analytical and logistical support to delegations from developing countries, whose lack of expertise often compounded the institutional flaws that disadvantage developing countries during multilateral negotiations.[35] Similarly, it could provide legal advice and technical support for developing countries, should they decide to file disputes. Finally, the Secretariat should extend its research efforts toward systemic factors, such as patterns of saving and investment, potentially via partnerships with the IMF, whose research focuses more heavily on the international monetary system.

Second, the WTO should ensure the clarity and equity of rules governing multilateral negotiations. For one thing, clarity is urgently needed in the agenda-setting procedure and the selection of negotiation facilitators, since a lack of institutionalized rules leaves room for power politics. For example, the agendas of multilateral negotiations could be set by a permanent body consisting of an equal number of representatives from developed and developing countries. Similarly, negotiation facilitators should be elected from a permanent board of trade experts, whose appointment requires approval by both developed and developing countries. For another, more equity is needed in the structure of multilateral negotiations. Power imbalances of the Green Room can be mitigated by, for example, mandating that initial drafts of multilateral agreements be written by a group in which developed and developing countries enjoy equal representation.

Third, the WTO should reform the operation and oversight of its judicial bodies, with the goal of leveling the playing field and addressing accountability and sovereignty concerns. For instance, the WTO could extend financial assistance to least developed countries, for which filing a dispute can be prohibitively costly. In fact, one-time financial assistance may be sufficient, as prior experience in fighting disputes has been shown to increase the likelihood for a developing country to initiate disputes.[36] In addition, the WTO needs a mechanism to periodically evaluate, or even overturn, panel and AB rulings.[37] These reforms would bolster member states' confidence in the WTO and incentivize cooperation by both developed and developing countries.

Conclusion

To sum up, this article argues that the WTO's dual crisis—legislative and judicial—can be attributed to how it shapes state incentives, its ineffectiveness as a facilitator of cooperation, and its inability to address systemic drivers of trade conflicts. These challenges can be addressed by reforming the WTO's Secretariat, as well as its legislative and judicial processes. Notice that the bulk of the policies recommended here are motivated by the state-incentive and regime-effectiveness layers of analysis and aimed at reducing tensions between developed and developing countries, whereas considerably less attention is paid to addressing the systemic factors underpinning the U.S.-China trade conflict. Since more powerful players, such as the U.S. and China, have greater incentives to deviate from WTO rules, resolving their tensions is arguably more difficult. Therefore, this article simply recommends that the WTO Secretariat dedicate more research efforts to systemic factors, a move that would create the condition for the eventual resolution of the U.S.-China trade conflict. Given political constraints, the WTO likely has the most feasible path forward by pursuing a multi-phased reform strategy—adopting an initial emphasis on North-South tensions and laying the foundation for the later resolution of West-East tensions.

Graphics Credit: *The Korea Times*

ACCESSION CHALLENGES TO THE CPTPP:

ANALYZING THE IMPACTS OF THE UK AND CHINA'S APPLICATIONS ON THE SIZE AND SCOPE OF THE CPTPP

By Gavin Zhao, BASC Research Assistant

After nearly two decades of lengthy negotiations between open market countries situated in the Asia-Pacific region, the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP) was finally signed in 2018, aiming to increase liberalization in the trade of goods and services among its eleven member states – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. Touted as a "21st Century" trade agreement,[1] the CPTPP targets not only tariff reductions, but also the reduction of other non-tariff barriers and 'behind the border' barriers to encourage deeper market integration among member states. The expansive agreement includes chapters on investment, labor, environmental protection, rules of origin, investment, and digital trade.[2] Its digital trade chapter includes a commitment to open cross-border data flows and a prohibition on the practice of data localization. At the time of its creation, analysts at the Peterson Institute for International Economics predicted that the eleven-member CPTPP would increase global income by $147 billion, with even more gains possible if its membership expanded to include other candidates in the region.[3] Since then, formal applications for CPTPP membership have been submitted by the United Kingdom, China, and Taiwan, while other states like the Philippines, South Korea, Thailand, and the United States have indicated interests in joining.

This article attempts to document the challenges that the UK's and China's accession applications pose to the scope and strength of the CPTPP. The UK's application, while meeting many of the CPTPP's standards, highlights the issue of geographic dispersion within a regional trade agreement. On the other hand, China's application will test the strength of the CPTPP's standards themselves. The acceptance of each applicant country by current CPTPP members will have long-lasting implications on the legitimacy of the agreement. This article proceeds with an analysis of each challenge presented by the UK and China and concludes with implications for both the CPTPP as a whole and for the U.S. as an interconnected third-party and potential applicant.

UK Accession Bid: A Geographic Challenge

For some, the UK's application to the CPTPP in February 2021 may seem like an unlikely pairing, especially because of the country's location halfway around the world in the Atlantic Ocean. But it is not entirely unwarranted. After finalizing its lengthy departure from the European Union, the UK has been desperate to forge its own trade deals and rebuild the relationships it previously held as an EU member state. Since its departure, the UK has negotiated rollover trade agreements with 63 of its previous EU partners and three novel deals with Australia, Japan, and New Zealand.[4] At the same time, recent trade data indicates a stunted recovery for the post-Brexit UK economy compared to the rest of the EU and the United States.[5] In this context, CPTPP membership and the promise of a new market in the Asia-Pacific may be an ostensibly logical, albeit lofty, next step for the UK's fledgling trade policy. CPTPP membership is projected to bring the UK significant benefits through increased trade and market opportunities in the Asia-Pacific region. A report by the UK's Department for International Trade highlighted some of the potential membership benefits, including tariff-free trade for 99.9 percent of UK exports, to its services, agriculture, and automotive industries.[6] The report also noted the strong standards on labor, environment, digital trade, and rules of origin in which deeper integration might be facilitated by the CPTPP compared to the UK's existing bilateral trade deals with CPTPP member states. While the economic gains from the CPTPP are not projected to recoup all of the UK's post-Brexit losses,[7] the benefits of membership and access to a rapidly growing international market are still tempting prospects for the country.

The prospect of membership in the CPTPP also highlights a secondary significance to the UK's aggressive trade diplomacy in the region. Because the application process requires unanimous consent from each of the group's eleven members,[8] the recent UK-Japan Comprehensive Economic Partnership Agreement and other bilateral agreements can be seen as baby steps towards full-fledged membership in the CPTPP. And the results seem to be in the UK's favor. All eleven current members under Japan's chairmanship welcomed the UK to begin the negotiation process in early June, just five months after the UK submitted its initial application.[9]

Furthermore, the United Kingdom may already meet most of the open market practices and standards required by the agreement. Although some significant negotiations may be required to harmonize the different regulatory approaches to data protection and agriculture,[10] its low tariff schedule and strong labor, environmental, and intellectual property protections already meet and exceed the CPTPP's criteria. UK trade negotiators believe that an agreement may be reached sometime in 2022.[11] Additionally, as a free enterprise economy, it may feel at home in a liberal trading bloc consisting of similarly positioned economies in the Asia-Pacific. After submitting its initial application, Japan welcomed the UK's membership in the CPTPP as an extension of its view of a "free and open Indo-Pacific" and said it would "spare no effort to support the UK" and its accession bid.[12]

Still, there remains one glaring disparity between the UK and its potential CPTPP members – geography. While the full text of the CPTPP provides no specific regional or geographic membership requirement, the CPTPP is still, by design and by name, a regional trade agreement. As such, the question of geography should remain salient throughout the UK's accession process. Each of the CPTPP member states and the UK are members of the overarching World Trade Organization (WTO) and thus subject to the WTO regulations on regional trade agreements (RTAs). Article 24 of the WTO's General Agreement on Tariffs and Trade (GATT) permits the formation of a free trade area or customs union with preferential intra-bloc tariff treatment as long as each members' external tariffs do not exceed their MFN rates.[13] However, the GATT provides a very loose definition of what constitutes a member state with no regional or geographic requirement, likely because it was not written with the possibility of a future transregional trade area in mind. The UK's CPTPP application is perhaps the first and most prominent instance of a geographically distinct country attempting to join an explicitly regional trade agreement. Most existing RTAs, including NAFTA (now

USMCA) and MERCOSUR in South America, are built around states with existing geographic arrangements, often directly connected by physical land borders. Although it encompasses seemingly disparate countries from the Asian continent to others located in North and South America, all members of the Comprehensive and Progressive Agreement on Trans-Pacific Partnership are still physically connected by their Pacific Ocean coastlines. The United Kingdom, on the other hand, does not have any geographic claim to the Asia-Pacific region, except for a few small island territories. Acknowledging this challenge, analysts at the Peterson Institute for International Economics proposed a rebranding of the CPTPP's title to remove its ties to the Pacific region and open the door for membership from applicants around the world.[14] In doing so, this act would fundamentally change the regional trade organization of the CPTPP and place it at odds with the pre-existing multilateral governance maintained by the WTO. As a result, the CPTPP's decision to admit the UK may have long-lasting implications on the future of multilateral trade liberalization.

China Accession Bid: A Rules-Based Challenge

Compared to the UK, China's formal application to join the high-standard CPTPP may seem more like a routine accession process. On many separate occasions, Chinese President Xi Jinping and other senior officials praised the CPTPP's progress and signaled interest in joining their neighboring countries in the agreement.[15] However, China's application may face significantly more scrutiny by CPTPP members due to the large gap between the country's current practices and the high standards imposed by the CPTPP. With the accession process beginning soon, China must receive a unanimous consensus from all existing members before an accession working group may even be formed.

To its credit, China has been slowly liberalizing its own policies on foreign investment, intellectual property, and state-owned enterprises, although it still has a long way to go until it meets the criteria required by the CPTPP. On e-commerce and the handling of cross-border data flows, China's 2021 Data Security Law further entrenches its controversial practice of data localization and requires operators, including foreign multinationals operating in China, to store their data created in servers located physically within China's borders.[16] This practice is explicitly prohibited under Chapter 14 of the CPTPP.[17] On state-owned enterprises, while China has made some indications towards reforming its system of heavy subsidies and government involvement, such a regulatory environment may be difficult to change. Even if an agreement is reached on this front, other states may question China's commitment to SOE reform. Most notably, China made similar promises in 2001 before its U.S.-supported accession to the WTO without much compliance afterward.[18] At that time, a much less developed China pledged to reduce its influence over domestic producers and phase out its industrial subsidies in accordance with the WTO's rules. Yet, the U.S. Trade Representative has repeatedly found that China's compliance with these rules was poor, especially in light of its massive *Made in China 2025* industrial policy program.[19] Finally, China has also had a rocky history with labor, intellectual property, and environmental protections, none of which match the standards codified by the CPTPP. For example, China's alleged human rights abuses in the Xinjiang region have spurred widespread condemnation, including from CPTPP member states Canada, Australia, and New Zealand.[20]

Given this list of regulatory challenges, the question remains about China's reasoning for submitting its application in the first place. First and foremost, the timing of China's application should be noted, announced just one day after the signing of the Australia-UK-U.S. defense alliance on September 16, 2021.[21] While Chinese media denied this had any effect on its decision, the timing invites questions about China's concerns about rising U.S. security and economic influence in the region. Thus, China's application should be understood not only in light of its economic aims but also its strategic goals in the Asia-Pacific. With the continuation of the U.S.-China trade war and growing technological rivalry, China's application may be an attempt to deepen its ties within the region in the absence of U.S. participation in the agreement. *The Global Times*, a Chinese state-owned tabloid, called the move a show of China's "leadership in global trade" amidst an "increasingly isolated" U.S.[22] Additionally, China's application was submitted a week before Taiwan submitted its own CPTPP application, although the island had been in talks with Japan prior to its application.[23] While CPTPP rules allow for the admission of separate customs territories, China's early

Graphics Credit: *The Economist*

application may force members to consider its membership before addressing that of Taiwan. Still, it remains to be seen how receptive the CPTPP may be towards China's application as negotiations commence in the near future.

Implications

Even before the present membership applications, the CPTPP was already poised to be one of the world's most important free trade agreements. The size and scope of the agreement were groundbreaking at its time, spanning a wide range of regulatory issues from investment, intellectual property, digital trade, and environmental protection. The high standards established by the agreement were considered the gold standard amidst increasing trade protection around the world.[24] The accession challenges posed in 2021 by the UK and China underscore this fact. However, the accession applications also present with them two novel concerns to the CPTPP and carry with them long-lasting implications for both the structure of the international trading order and the actors within it.

The UK's application calls into question the geography of the agreement and has implications for the future of multilateral trade negotiations. If successful, the CPTPP would become the world's most prominent transregional trade agreement and may open the door to future applicants from geographically dispersed regions around the world. If other RTAs embrace a similar transregional approach to membership, potential member states may then be able to shop around between different RTAs based on their possible economic benefit and the strength of their regulatory standards. Thus, transregional membership would allow for the easier creation of RTAs with differing levels of commitment and a complicated web of RTA memberships around the world. Trade scholars often argue that the development of multiple RTAs negatively correlates with the WTO's goal of global trade liberalization because the division of the world's economy into multiple disparate regional trading blocs removes the incentive toward multilateral trade liberalization and inter-bloc cooperation.[25] The end result could produce RTAs comprised only of "coalitions of the willing," member states with already similar market practices, and the potential for significant inter-bloc conflict between RTAs of different strengths.

"The successful accession of either candidate may create a CPTPP that is unrecognizable. From this perspective, the U.S.' future trade policy should reaffirm to its allies its commitment to free trade in the face of rising protectionist sentiment at home and abroad, but such action can be taken at both the unilateral, bilateral, and multilateral levels."

On the other hand, the negotiation terms in China's application will test the strength of the CPTPP's standards. Any agreement reached without certain protections or necessary oversight mechanisms would be seen as weakening the mutual strength of the agreement and its principles. For potentially interested members, the results of these negotiations may have a heavy impact on the desirability of CPTPP membership and the gains from liberalization they may receive.

Given the two pending challenges to the CPTPP's composition, the best course of action for the United States and its involvement in the CPTPP may simply be to wait. The decision on whether or not to return to the CPTPP is an incredibly intricate one for the U.S., balancing its international interests with other domestic political concerns.[26] Whatever the outcome, its potential action on the CPTPP should be divorced from any comparative statics to the proceedings of the UK's or China's accession processes. In fact, the successful accession of either candidate may create a CPTPP that is unrecognizable. From this perspective, the U.S.' future trade policy should reaffirm to its allies its commitment to free trade in the face of rising protectionist sentiment at home and abroad, but such action can be taken at both the unilateral, bilateral, and multilateral levels. In response to China's application, the U.S. should support its CPTPP allies like Canada, Australia, and Japan in maintaining the strength of the liberalization standards rather than hastily placing its own accession application into the mix. At the same time, the U.S., along with its fellow free-market economies around the world, should continue pushing for higher standards and deeper liberalization on the multilateral level, especially with respect to the issues of digital trade and electronic commerce.

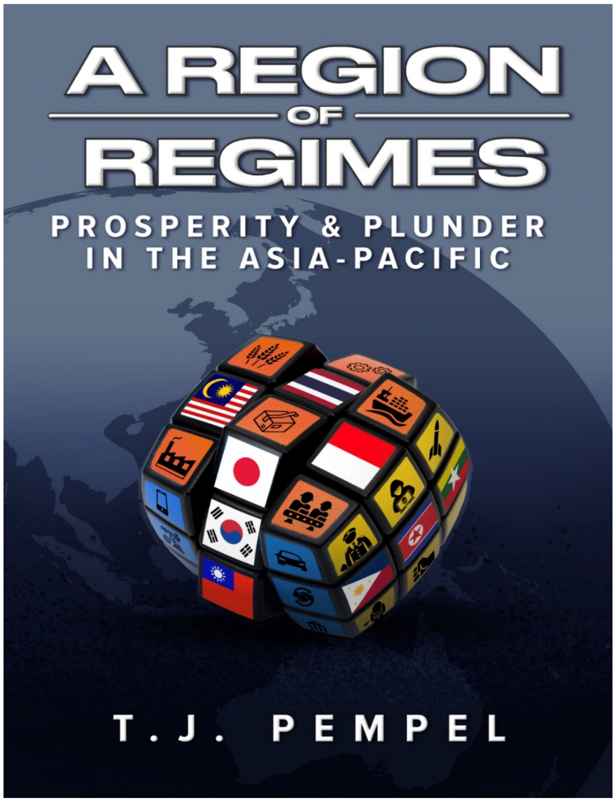
Bilateral and regional agreements like the CPTPP and the U.S.' recent Digital Trade Agreement with Japan represent significant advances towards removing restrictions on this emerging dimension of international trade, especially in light of the COVID-19 pandemic.[27] The next step for the U.S. and its allies should be to multilateralize these advancements on the international stage.

Graphics Credit: *The New York Times*

T.J. PEMPEL'S NEW BOOK: A REGION OF REGIMES

By T.J. Pempel, Jack M. Forcey Professor Emeritus of Political Science

Jack M. Forcey Professor Emeritus in Political Science at UC Berkeley, T.J. Pempel, has published a new book in the Comparative Political Economy series at Cornell University Press. *A Region of Regimes: Prosperity and Plunder in the Asia-Pacific*[1] analyzes the relationship between the political economies of ten East Asian countries over a forty-year period along with the changing regional orders that have resulted. The book is driven by three core problems: 1) analyzing the nuances behind the "East Asian economic miracle;" 2) linking East Asian experiences to broader characterizations of different forms of political economy; and 3) bridging the debates between domestic and international forces in the shaping of national patterns of development.



Graphics Credit: Sean McDowell Pempel

Decades of rapid economic growth in numerous East Asian countries mask the diverse national approaches to growth that many have taken. This includes the multiple cases of conspicuous economic failure by many East Asian countries. The book takes a two-part approach in addressing these issues. Part One uses ideal types to categorize nine countries over forty years. It identifies three major patterns or regime types. Each type manifests a distinct combination of political institutions, socio-economic forces, and international influences. These regime types are labeled "developmental," "ersatz developmental," and "rapacious." Each regime type, in turn, pursues a discrete economic paradigm, some conspicuously more conducive to long-term growth than others. Part Two takes a more dynamic approach in three ways. First, it analyzes regime reorientations among the developmental regimes as core elements of the original regime come unglued. Second, it demonstrates how the Chinese regime and its economic paradigm present a hybrid of all three regime types examined in Part One. Finally, the book examines the linkages between shifting balances of regime types and changes in the Asia-Pacific order.

The prototypical developmental regimes are Japan, South Korea, and Taiwan, the first East Asian economies to achieve rapid and sustained economic growth. Their economic achievements were linked to the specific regime type long dominant in each. Key traits included strong and cohesive political institutions, a dominant pro-growth socio-economic coalition, and unparalleled assistance from the United States. Land reform in all three, combined with the virtual absence of exportable raw materials, impelled the regime's components to bond over shared fears of communism and the pursuit of an economic paradigm of embedded mercantilism that favored and unified key regime elements. Embedded mercantilism pivoted on rapid growth linked to continual industrial upgrading; steady enhancement of worker skills; a domestic market closed to most foreign direct investment and imports of competitive manufactured goods; targeted allocation of predominantly domestic capital; and the capture of the gains of growth by indigenous actors. As their national economies took flight, economic success provided a positive feedback loop that reinforced cohesion among regime components and marginalized potential regime opponents. As a result, the regimes and their economic policies remained coherent and dominant for decades.

Malaysia, Indonesia, and Thailand are prototypes of what the book calls ersatz developmental regimes. Like the developmental regimes, all three enjoyed high GDP growth and expanding global exports; however, their regimes and economic paradigms differed in key ways. Political institutions and socio-economic forces were more fragmented while the major international influences, i.e., multinational corporations, favored a particular model of industrial engagement, These combined with pervasive agricultural and raw materials reduced the impetus favoring continual industrial upgrading and the development of technically skilled workforces. As such, foreign investors, rather than domestic businesspersons, gleaned the lion's share of the benefits from expanding manufacturing exports and jumps in GDP. That economic paradigm threatens to lock all three countries into a "middle-income trap."

Despite natural resources giving them vast economic advantages over less well-endowed neighbors, North Korea, Myanmar, and the Philippines (particularly under Marcos) were marked by rapacious regimes in which state institutions, socio-economic forces, and external linkages joined forces that fostered economic paradigms predicated on citizen repression and rejection, rather than pursuit, of national industrial deepening. All sustained regimes that plundered for the few at the expense of prosperity for the many. While each regime plundered in its own way, these three regimes resemble one another in their resistance to participation in the surrounding East Asian economic transformation. Investments in human skills remained minimal; inequality and poverty were pervasive. If the developmental and ersatz developmental regimes demonstrate that there is more than one path to economic advancement, these three rapacious regimes show there are numerous routes to immiseration.

Part Two of the book begins by examining how once highly stable regimes change. By the late 1980s, the developmental regimes in Japan, Korea, and Taiwan faced an escalating crescendo of international and domestic challenges to their prior cohesion and to policies of embedded mercantilism. Less welcoming international

Graphics Credit: Shivendu Shukla on Unsplash conditions and the destabilizing socio-economic forces generated by sustained economic improvement altered the resources and incentives of key domestic and international actors. The result was a weakening of previous regime unity and the prevailing policy paradigm that, in turn, spawned myriad modifications in all three cases. Adjustments involved complex dramas pitting entrenched regime beneficiaries against contenders now brandishing new resources in their challenge to the status quo. However, even though the bonds fusing regime components loosened, they did not dissolve completely. Deeply institutionalized relationships, entrenched advantages, and institutional stickiness proved highly effective at preventing total regime breakdown. So did elements of longstanding economic policies. The result was enhanced powers to opposition forces, greater political and policy pluralism, and an expansion of neo-liberalism. Each of the three regimes adjusted at differing tempos and strong elements of the earlier regime remain. Yet, all three have undergone substantial reconstruction of their prior developmental regimes.

The book moves on to examine how, since 1979-80, the Chinese regime has been a composite of elements from the developmental, ersatz developmental, and rapacious regimes. Like the developmental regimes, China has strong state institutions with skillful and empowered officials, enabling the marginalization of potential regime opponents and challenges to the party-state policy paradigm based on deep industrialization, capital targeting, undervalued currencies, human skill enhancement, and export of manufactured products. Yet, it was more like the ersatz regimes in its reliance on foreign investment, overseas technologies, and low-cost domestic labor. Finally, like the rapacious regimes, a powerful and cohesive communist party controlled the most influential levers of state power with strong citizen supervision and little worry about being checked by cohesive and independent socio-economic forces. The regime sustained widespread senior-level corruption. Unlike the rapacious regimes, however, the Chinese party-state did not hoard economic gains for the ruling few, instead overseeing a diffusion of benefits to vast numbers of the broader citizenry, including a rising cadre of private sector billionaires.

The book concludes by turning the regime mirror around to analyze how varying combinations of regimes over time structured shifts in the regional order. Three discrete, albeit overlapping, phases of regional order stand out. The first was the order prevailing during Cold War bipolarity and marked by security tensions and economic blocs. Economic and political successes by the developmental and ersatz developmental regimes eventually spurred widespread emulation (most notably by China and Vietnam) and helped to usher in an end to the Cold War in the Asia-Pacific and spawn a new regional order characterized by enhanced economic interdependence, deepening regional institutionalization, and region-wide peace and prosperity. This order prevailed from roughly 1980 until the global financial crisis (2008-09) by which time the seeds of a third regional order had begun to sprout. That current order is marked by a resurgence of geopolitics, nationalism, and heightened state-to-state tensions. It is driven most conspicuously, but not exclusively, by acrimonious relations between the U.S. and China and moves toward economic decoupling across the region. Such trends cast a dangerous shadow over the still powerful order of peace and prosperity. Yet, numerous regimes continue to push back against such binary developments leaving the evolving regional order open to shaping by the powers of political agency from the region's key regimes.

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552 Social Sciences Building
University of California, Berkeley
Berkeley, CA 94720-1970

http://basc.berkeley.edu

basc@berkeley.edu

ENDNOTES

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