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On the Changing International Political & Economic Order (Part II)

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Emergence of Rival Camps in the US-China Confrontation & the Ukraine Crisis

Today we are seeing the expanded use of high technology around the world, with China in particular emerging as a high-tech power. High-technology is the key to the struggle for hegemony in the international political economy. The United States is strengthening its capacity for innovation and trying to win the competition in the high-tech sectors against its rival China, so as to reduce its dependency on China for semiconductors and rare earth metals and eliminate China from the supply chain of high-tech goods.

The administration of President Joe Biden took over and continued the policies of his predecessor Donald Trump in building up technological sanctions against China. In February 2021, Biden issued a presidential order making a national strategy for supply chains, in particular those for semiconductors, batteries for electric vehicles, rare earths and medical products. This order emphasized that cooperation with US allies would lead to resilient supply chains: on semiconductors the US was attempting to collaborate with friends such as Taiwan, Japan and South Korea, and on rare earths it was trying to collaborate with Australia and other Asian nations and regions.

On March 12, 2021, the first summit meeting among Japan, the US, Australia and India was held online and on March 16, a meeting of the "Two Plus Two" foreign affairs ministers and defense ministers of the US and Japan was held in Japan. Then on March 22, the US achieved a consensus with the European Union and Canada on sanctions against China concerning its human rights violations, while on the same day a joint statement by the foreign affairs ministers of the "Five Eyes" (the US, the United Kingdom, Australia, Canada and New Zealand) was issued, highlighting the importance of their common values like freedom and democracy and their unity against authoritarian regimes.

The following month, on April 8, 2021, the US Senate Foreign Relations Committee published the Strategic Competition Law, assuring its allies and partners in the Indo-Pacific region and the rest of the world of the US commitment to this region in matters of security. The nations of the Western hemisphere had been trying to pressure China into modifying its aggressive and menacing foreign policy.

By such means, the US has been trying to consolidate its

leadership in the global community and secure its hegemony over China. The Biden administration strengthened its alliance with Japan and accelerated efforts to restrict China's aggressive foreign policy. On April 16, 2021, the US-Japan bilateral summit was held and the following day a joint leaders' statement titled "The US-Japan Global Partnership in the New Era" was announced. Its main points were as follows.

Based on the need for new collaboration between the two nations in the 21st century for their security and prosperity, the leaders started "a partnership for enhancing the two nations' competitiveness and resilience". This partnership is aimed at restoring the global economy sustainably and encouraging the two nations to share universal values such as democracy, human rights and the rule of law and to deal jointly with the challenges posed by China.

In the agreement, the two nations committed to spend jointly \$4.5 billion (490 billion yen) for research and development of 6G, the next generation communication standard to be put into practice in the 2030s, and they also agreed on joint collaboration for construction of semiconductor supply chains to countervail China. More specifically, the joint statement's Appendix clarified that the US would spend \$2.5 billion and Japan \$2 billion on R&D of 6G and it also noted that they would promote safe and open networks, criticizing implicitly China's policy in this domain.

The following is the background to such US-Japan consolidated cooperation. At this moment, Chinese companies like Huawei and ZTE Corporation account for 40% of 5G base stations. In patents for 5G, NTT Docomo, the top Japanese company, has a 6% share and the US company Qualcomm has a little more than 10%, just like Huawei. The US and Japan are collaborating to countervail China which has achieved remarkable progress in 5G. Huawei was targeted by US sanctions even before the Biden administration, but other Chinese companies allegedly stealing other nations' corporate information have also been targeted by sanctions. The US and Japan are thus increasingly trying to eliminate Chinese products from their shopping lists.

In response to the US and Japan summit's statement, the Chinese government immediately expressed strong dissatisfaction by saying the statement "brutally intervened in Chinese internal politics and thus significantly violated the basic principles of international relations."



Meanwhile, China immediately retaliated against EU sanctions similar to those of the US and Japan, by imposing a wide range of strict penalties, including bans on entry into China of specific EU Diet members, diplomats and specific organizations' people as well as their family members and bans on those people's transactions with China.

China had not been happy with Australia's foreign policy towards it over the past several years, including its ban on Huawei's entry into the 5G market. At this moment, China has partly suspended imports of meat from Australia, referring to violations of the rules of inspection and quarantine in an Australian factory, and has raised tariffs on Australian barley, having pointed out that this barley was imported by China at unfairly low prices. In December 2020, China added wine to the list of Australian goods to be subject to import bans and strengthened sanctions by imposing a 212.1% import tax. The Australian economy and industry were seriously damaged by the Covid pandemic, and under such circumstances these restrictive Chinese trade measures seem to be aimed at reminding Australia of China's crucial influence on the Australian market.

These attempts to counteract each other's sanctions have increased the confrontation between the US and Chinese camps to an increasingly serious level, and lie behind what is now sometimes referred to as the "New Cold War" in the multi-polarized global political economy. On Sept. 24, 2021, the US, Japan, Australia and India had their first face-to-face summit meeting after the pandemic and announced they would hold annual meetings of their leaders and foreign ministers. According to the US, this "Quad" framework would work to check China's authoritarian movements and enhance deterrence against its aggressive military moves.

This struggle for hegemony between the US and China has thus had a serious effect on the global political economy. Not only the enormous cost of military expenditures but also sanctions and retaliations involving trade seem to have started to seriously damage not only China and the US but also other nations involved in trade and employment. In particular, with recent US-China trade friction, innumerable foreign affiliates including Japanese ones in China have moved from China to ASEAN nations like Vietnam or to Taiwan or back to their own nations. This has disrupted some global supply chains, tightened supply of semiconductors, and enormously increased the costs of reconstruction, as well as threatening regional stability. In addition, China's concerns about US foreign policy through the strengthened Quad framework and the military alliance among the US, UK and Australia (AUKUS), have been increasing, and China has been trying to countervail the West by utilizing the "Shanghai Cooperation Organization", an international collaboration

framework of which China and Russia are the main members.

In addition to all the developments, Russia's invasion of Ukraine on Feb. 24, 2022 triggered a serious confrontation between the camp of authoritarian regimes consisting of nations such as Russia, China, and some developing nations and the camp of democratic developed nations like Japan. The international order was transformed and the gap in values, both economic and political, between the two camps has grown wider.

Globalization in the 1990s benefitted not only developed nations but also developing nations, with progress in FDI and international trade as well as the international division of labor. But globalization is now facing a big challenge due to the US-China confrontation and the Ukraine crisis, which have weakened global supply chains and made it difficult to pursue optimal production bases or horizontal divisions of labor through FDI and international trade. With the international community divided into blocs and supply chains not working well, 5% of global production corresponding to \$4 trillion dollars was lost. While global economic activity has been stagnant, energy and food prices have continued to rise, thereby causing stagflation in the global economy.

Japan, the US and European nations have been strengthening efforts to separate China from the global economy, but how to prevent subsequent price rises has become a big question. So the global economy is now facing this New Cold War and the risk of declining under de-globalization in a changed international political and economic order.

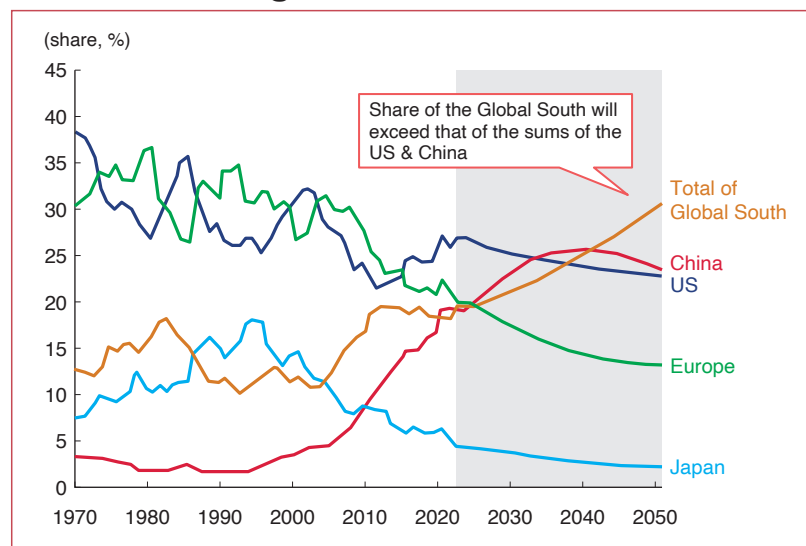
Divided G20 & Emergence of the Global South

The G20, one of the typical global governance frameworks, was shaken by the Russian invasion of Ukraine. It put out a joint statement in November 2022 which said that while "most nations strongly condemn" Russia for its actions, there were some objections to imposing economic sanctions against it. Furthermore, the G20 meeting of finance ministers and heads of central banks in India on Feb. 25, 2023 closed without having agreed on a joint statement. Not only Russia but also China objected to wording condemning the invasion of Ukraine, and most of the G20 meetings since 2022 have failed to reach a consensus on dealing with international crises or challenges due to this division between the camps.

In 2018, disagreements among members at the G20 Summit on the economy was revealed by the fact that their joint declaration was only narrowly adopted after the deletion of the wording "fighting against protectionism", and there is now concern that this division

CHART 1

Forecast of nominal GDP share by major countries or regions



Sources: IMF, World Bank, Mitsubishi Research Institute

among the G20 nations will remain unresolved and even intensify the confrontation between the two camps.

In January 2023, India hosted an online international conference titled “Voice of the Global South Summit” as chair nation of the G20, having invited 125 emerging and developing nations to participate. It was aimed at discussing cooperation on politics, the economy, and food, and issuing a message to the world. Indian Prime Minister Narendra Modi said that the majority of global challenges like food and energy crises, inflation, and even climate change had not been created by developing nations, but that they were being seriously affected by them. In trying to consolidate India’s status as leader of the Global South, he advocated for the need to expand the voice of the developing nations that make up this loose grouping.

In recent years it has become noticeable that these nations tend to maintain neutrality in the conflict between the democratic and authoritarian camps. In terms of economic power, as seen in [Chart 1](#), the total nominal GDP of the Global South is predicted to greatly exceed that of the US or China in the middle of 2040s. Their population is predicted to be more than 6 billion, corresponding to two-thirds of the global population in 2050 ([Chart 2](#)). According to a UN Population Fund report published on July 11, 2023, the population of India has already reached 1.4 billion, having exceeded the Chinese population, and is estimated to reach about 1.67 billion

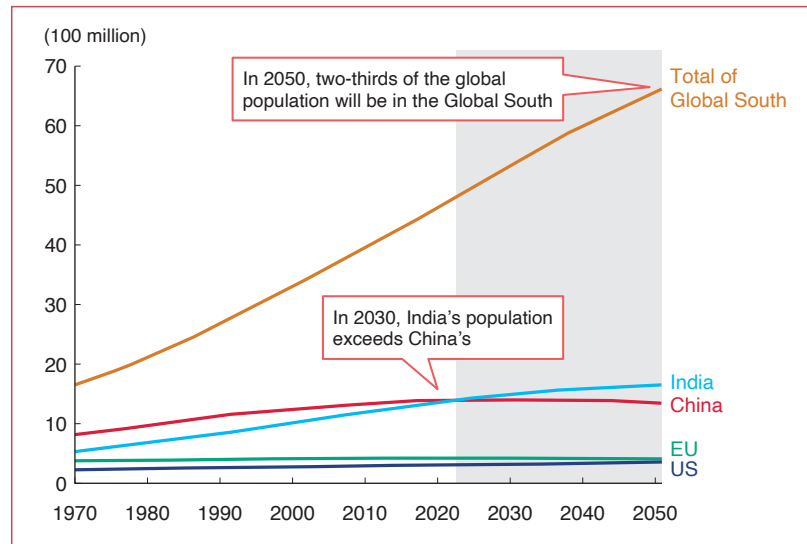
in 2050. With such enormous population, expanding markets and rich energy and mineral resources, the Global South has been achieving high economic growth. In 2022, India’s GDP surpassed that of the UK to become the fifth largest in the world.

Against this background, the US and China have been actively trying to attract other nations to their own side in their struggle for hegemony. It was notable that in spring 2023 China mediated between Saudi Arabia and Iran for the normalization of their diplomatic relations since their disruption seven years ago. The Middle East is an area under strong US influence, so this could suggest a rise in China’s influence there. China also joined the summit meeting of the “G77 plus China” in Cuba on Sept. 15 and 16 and expressed in a joint statement with the nations of the Global South their discontent with developed nations’ policies, saying they have “deep concerns” about challenges brought about by an “unfair international economic order for the emerging nations”. In addition, taking advantage of its “One Belt, One Road” initiative, China is trying to deepen relations with the Global South by expanding trade and investment in infrastructure and manufacturing industries in nations and regions spreading across Central Asia, Southeast Asia, the Middle East and Africa.

Meanwhile, the US is trying to strengthen relations with India. Biden invited Modi to the US at the end of June 2024 to deepen their

CHART 2

Forecast of population in major countries



Source: Mitsubishi Research Institute

friendship, and they stressed that their relations were the closest they have ever been. Previously, on Sept. 9, 2023, Biden attended the G20 summit and announced an MOU on cooperation in a new infrastructure building plan with India, Saudi Arabia, the United Arab Emirates and the EU. This is aimed at creating an “economic corridor” connecting India, the Middle East and Europe by railways and maritime routes – a further step in the intensification of the rivalry between China and the US in attracting nations of the Global South to their own camp.

Conclusion – Japan’s Foreign Economic Policy Strategy in Question

There is today a significant change in the power balance in the international political and economic structure. The US still maintains its hegemony and its status is unlikely to change before 2050. But with the emergence of China, the struggle for hegemony will intensify and the division between democratic nations and authoritarian nations will widen. I think that against this background, the international political and economic structure will be shaken and destabilized and a New Cold War will predominate for at least another 25 years.

During this long period, Japan will be in a difficult position –

depending on the US for security as its ally and depending on China for its economy as its most important economic partner. Japan’s long-term national strategy hereafter is in question. Japan will need to pursue a foreign policy strategy on the basis of its technological advantages or soft power. This strategy must be more diversified and more flexible, not only bilaterally with the US or China; it should be multi-polarized without sticking to preoccupations such as the US being regarded as its only partner in pursuing economic and military stability. What will be most important is that this strategy should benefit all nations’ interests.

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Dr. Guo Sizhi is specially appointed professor at Teikyo University Okinaga Research Institute, and consulting fellow at the Japan Economic Foundation (JFE). He specializes in the international economy, the energy economy, and the Chinese economy. His current research focuses on the transformation of the international political and economic order, new energy, and economic security toward carbon neutrality, and decarbonization technology innovation. He is the author of numerous books, including *A History of the Industrial Revolution: The Transition of the International Order as Seen Through Innovation* and *The Decarbonizing Industrial Revolution*.