

EAST ASIA FORUM

ECONOMICS, POLITICS AND PUBLIC POLICY IN EAST ASIA AND THE PACIFIC

Vol.13 No.2 April–June 2021 \$9.50

Quarterly



Reinventing global trade

Inu Manak Agenda to save the WTO

David Dollar Asia's new foreign investment landscape

Homi Kharas and Meagan Dooley The digital transformation

Deborah Elms Managing digital trade ... **and more**

ASIAN REVIEW: Angie Baecker and Yucong Hao on boys' love fan labour

EASTASIAFORUM

Quarterly

ISSN 1837-5081 (print)
ISSN 1837-509X (online)

From the Editor's desk

For long, trade hovered confidently over the Asia Pacific region as its vital growth engine. As average tariffs fell from 17 per cent in 1989 to 5.3 per cent in 2018, regional trade multiplied—faster than the rest of the world—along with jobs and incomes. Increasing integration even helped the region to bounce back from shocks as severe as the 2008–09 global financial crisis.

Escalation of geopolitical tensions seems to have unsettled trade from its perch. As rivalries heightened and criticism of globalisation grew in recent years, the multilateral trading system on which Asia's prosperity and security had been based was challenged and the WTO's relevance called into question.

It took a global pandemic to shift the narrative. As the articles in this issue of *East Asia Forum Quarterly* illustrate, many of the region's economies have emerged from the COVID-19 crisis bruised but not defeated. Supply chains have proven surprisingly resilient, partly because of their greater interconnectivity within Asia. Lockdowns have accelerated digital transformation to the benefit of small businesses; some countries such as Singapore, New Zealand, and Chile have finalised partnerships aimed at expanding the digital economy. Even long-brewing mega trade agreements like RCEP came to fruition in the middle of the COVID crisis, highlighting the leadership of regional groupings such as ASEAN.

To be clear, Asia's economic bruise from COVID-19 is real. Many countries are still struggling under fiscal pressures exacerbated by the pandemic. But speculation about China losing ascendancy is so far unproven. Even as investors pursue China Plus One policies, foreign direct investment in China remains robust. China is also increasing investments across Southeast Asia, while ASEAN helps to shape the region's new trade architecture.

There are many more months in 2021, however. This edition of *EAFQ* reminds us that, in anticipation of the WTO's 12th Ministerial Conference this year, Asia's eyes are on two key players whose roles are not yet clear: India and the United States. Even if the former continues to forge its own way, that will impact on the region's direction. Similarly, actions taken by the latter, particularly in response to the new WTO leadership and its neighbours across the Pacific, may reconfigure Asia's balance of power—again.

In our Asian Review section we explore the symbiosis between the tenacious popularity of boys love TV drama and its fandom in China and the power of digital media in the contest for influence that continues to surround the Thai monarchy.

Rebecca Sta Maria and Dini Djatal

CONTENTS

3 INU MANAK

Agenda to save the WTO

6 BILAHARI KAUSIKAN

Can Asia reinvent global trade?

8 MELY CABALLERO-ANTHONY

Towards a multipolar order
post-pandemic

10 CARLOS KURIYAMA

The international economics
of self-harm

12 DAVID DOLLAR

Clear skies over Asia's new foreign
investment landscape

14 HOMI KHARAS, MEAGAN DOOLEY

The digital transformation of East Asian
trade

17 ANGIE BAECKER, YUCONG HAO

ASIAN REVIEW: Fan labour and the
rise of boys' love TV drama in China

21 PENCHAN PHOBORISUT

ASIAN REVIEW: Thai Youth's struggle
for democracy may fizzle but political
contention continues

25 DEBORAH ELMS

Managing digital trade in Asia

27 KA ZENG

Chinese supply chains prove resilient to
global shocks and pressure

29 FUKUNARI KIMURA

COVID-19 won't rattle East Asian supply
chains

31 SUMAN BERY

India's search for self-reliance

33 SONG HONG

Globalisation isn't losing steam in China

Acknowledgement

EAF gratefully acknowledges the Hinrich Foundation's support for this issue of *East Asia Forum Quarterly*. The Hinrich Foundation is an Asia-based philanthropic organisation that works to advance mutually beneficial and sustainable global trade through research and educational programs. EAF wishes to thank Andrew Staples (formerly of Hinrich) and Dini Djatal for assistance editing this issue and the Hinrich Foundation for its financial assistance.



WTO Director-General Ngozi Okonjo-Iweala attends a session of the WTO General Council, Geneva, March 2021.

Agenda to save the WTO

INU MANAK

THE fate of the World Trade Organization (WTO) hangs in the balance after four years of assault by the Trump Administration and in the face of COVID-19. But things are not as dismal as they appear. Turning the corner in 2021, the WTO has an opportunity to usher in a new era of trade cooperation. The WTO's new Director-General, Dr Ngozi Okonjo-Iweala, has vowed to 'do things differently' and set a clear agenda of deliverables by year end. To ensure the WTO remains fit for purpose, members should pursue changes in three areas: dispute settlement, negotiations and the WTO's

monitoring function. I address each in turn.

Rules are only as good as they are enforceable. WTO rules have taken a hit with the continued blocking of appointments to its Appellate Body by the United States. Since the Appellate Body became defunct in late 2019, appeals to panel decisions have remained unresolved. As of March 2021, a total of 18 disputes have fallen into this crevasse. The United States argued that the Appellate Body has overreached in its interpretations of particular disputes. But despite years of discussion on Appellate Body reform, it is still not clear what reforms would fully assuage the United States.

As US Trade Representative

Katherine Tai takes over, there will be a reassessment of the previous administration's policies. While US President Joe Biden has not yet acted on lifting the impasse at the Appellate Body, there is hope that a solution can be found. The core of any compromise, however, requires a rethink of the Appellate Body.

Simon Lester has suggested that a possible compromise could involve limiting the scope of appellate review, increasing deference on 'trade remedies' and giving members more power to object to reasoning they disagree with in reports. Jennifer Hillman has put forward a number of strong suggestions such as an oversight committee, an amended set

EDITORIAL STAFF

Issue Editors

Dr Rebecca Fatima Sta Maria, Executive Director of the Asia-Pacific Economic Cooperation (APEC) Secretariat based in Singapore.

Dini Sari Djalal, Associate Director—Editorial, the Hinrich Foundation.

Series Editors

Peter Drysdale, Editor in Chief, East Asia Forum and Head, East Asian Bureau of Economic Research, Crawford School of Public Policy, ANU.

Shiro Armstrong, Director, Australia—Japan Research Centre, and Editor, East Asia Forum, Crawford School of Public Policy, ANU.

Editorial Staff

Coordination: Arius Derr

Editing: Marie Armstrong, Nicol Brodie, David Chieng, Alison Darby, Benjamin Clarke, Serena Ford, Oliver Friedmann, Annie Gao, Jade Lin, Dorothy Mason, James Naylor-Pratt, Maya Salama, Lily Shen, David Wu, ANU.

Editorial Advisers: Max Suich, Peter Fuller.

Production: Niki van den Heuvel

Email Peter.Drysdale@anu.edu.au
Shiro.Armstrong@anu.edu.au

COVER: Shipping containers at Tanjung Priok port in Jakarta. Ajeng Dinar Ulfiana / REUTERS

Views expressed are those of individual authors and do not represent the views of the Crawford School, ANU, EABER, EAF, or the institutions to which the authors are attached.



Published by ANU Press
The Australian National University
Canberra ACT 2601, Australia
Email: anupress@anu.edu.au
Web: <http://press.anu.edu.au>

of the Walker Principles, and limiting the length of service of the Appellate Body Secretariat's staff. The last point is particularly important because the Secretariat came under fire for contributing to a culture of deference to previous decisions by establishing *de facto stare decisis*.

This idea should be taken further by limiting service to the Secretariat to five years, after which individuals must leave the WTO entirely. While this may sound like a radical proposition, it solves the problem of Secretariat staff being shuffled to the Legal Affairs or Rules Divisions where they then assist panellists with the drafting of panel reports, and also would breathe new life into the organisation every few years with a new cadre of young lawyers. Providing Appellate Body members with their own law clerks could also be a supplement to this change, as it would further shift power from the Secretariat to Appellate Body members. If the culture of the Appellate Body is a problem, and the United States wants to deemphasise its role, reform will require a bold institutional change.

The next crucial area for reform is in the WTO's negotiating function. The WTO has not concluded any major negotiating 'rounds' since its founding, though it has completed other important negotiations such as the Trade Facilitation Agreement (TFA). These stalled negotiations stem, in part, from disagreements over the level of commitments that developing countries should undertake.

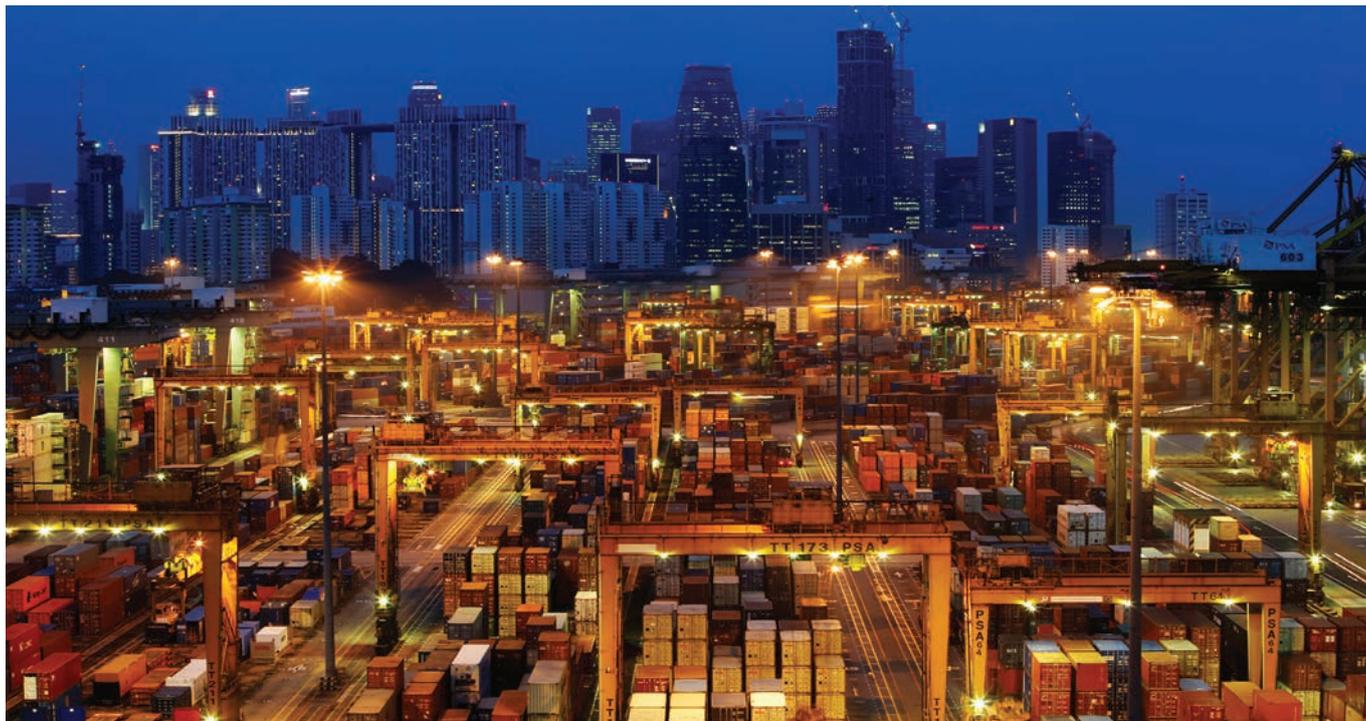
Recent negotiations to eliminate subsidies that contribute to illegal, unreported and unregulated fishing, as well as subsidies that lead to overcapacity and overfishing, are a case in point. China leads the top five providers of subsidies, followed by the European Union, the United States,

South Korea and Japan. Together they make up 58 per cent of all global fisheries subsidies. And while nine out of fifteen of the largest marine capture fish producers are developing members, many continue to request special and differential treatment (SDT).

The fisheries talks are important because the subject best illustrates modern challenges to trade. This is not just about subsidies, but environmental sustainability and development as well. How we navigate the intersection of these issues will test the WTO's ability to adapt to new circumstances. SDT will undoubtedly be a crucial part of the final compromise, though we should not expect broader issues of SDT reform to be settled in a single negotiation. Members should try to experiment with a new approach, building on the innovation of the TFA to tie certain obligations to capacity building.

Finally, one of the greatest achievements of the WTO is one of its least talked about functions—to monitor whether members uphold their obligations and to engage in discussions to resolve trade frictions before they become disputes. This monitoring largely takes the form of peer-to-peer exchanges, but also includes thematic discussions on certain issues to avoid the emergence of trade barriers in the first place. A standout in this regard is the Technical Barriers to Trade (TBT) committee, where members can raise 'specific trade concerns' (STCs) against another member's measure that is thought to be in violation of the TBT agreement.

The committee provides a forum for discussion of regulatory outliers and gives members the opportunity to express why certain actions may have a negative impact on trade. Even during the pandemic, the TBT committee



Operations at the PSA International port terminal in Singapore. Connected to more than 600 ports in some 120 countries, Singapore is one of the world's busiest shipping hubs and is often called the gateway to Asia.

continued to function and even had a record number of STCs submitted through a newly established written procedure. Its success should be studied and, if possible, replicated in other committee work throughout the organisation.

One persistent issue that has plagued the monitoring function, however, is the submission of notifications. Members are obliged to notify measures that could potentially impact trade and these notifications serve as the basis for many of the discussions in committees. While this has received acute focus during the COVID-19 pandemic, as members called for greater transparency in trade actions, the notification problem touches a number of other areas. For instance, notifications on subsidies are a key issue for the largest members, especially given the growing concern over industrial subsidies. Frustration with the lack of notifications has

led some members to file 'counter-notifications' where they notify on another member's behalf. However, counter-notifications are a time and capacity intensive process, leaving less developed members at a disadvantage. The only solution is to improve the notification process across the board.

In 2017, the United States pushed for penalties on members for failure to notify, with suggestions to improve the notifications process. While the United States gets a number of things right in this proposal, members must be cautious about how to approach penalties and build consensus on defining what 'an early appropriate stage' is for notifications. This must also be matched by capacity building efforts to ensure that less developed countries are not unfairly targeted.

The WTO has had its fair share of challenges in the last few years. Instead of abandoning the institution, members have endeavoured to find

solutions, even setting up an interim dispute resolution mechanism to preserve some degree of predictability. They have also continued to engage virtually in the last year to make headway on negotiations and to maintain transparency amid rampant economic nationalism.

The WTO is a vital part of the international trading system. The problems it is currently facing may seem insurmountable, but that would be the case even if we were to try to create a new organisation from scratch. The options are clear—a return to beggar-thy-neighbour policies and a growing spaghetti bowl of rules, or a multilateral approach that makes the benefits of trade accessible to all. The choice is up to the WTO's members. [EAFQ](#)

Inu Manak is Research Fellow in the Herbert A. Stiefel Center for Trade Policy Studies, Cato Institute, Washington DC.

Can Asia reinvent global trade?

BILAHARI KAUSIKAN

LET'S not believe our own propaganda. Asia reinventing global trade is a superficially attractive but problematic proposition. It assumes that there once was a free international economy open to reinvention, and that's a stretch. It assumes that there is an 'Asia' in more than the trite geographic sense and that what defines 'Asia' is a common attitude towards trade, somehow superior to the attitudes of other regions. It also assumes that this mythical 'Asia' can rescue the international trade regime from the pressures it has been subjected to, or at least mitigate those pressures. None of these assumptions is valid.

True, Asia is home to the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership trade pacts, and most Asian countries generally have more open attitudes towards trade than some of the attitudes that have emerged in the United States and Europe. This is unsurprising since most of Asia consists of trading states. But 'most' is not all, and trading states are not always free trade states. The most important exceptions are India and China. These giants represent huge deviations which far outweigh middle-power free traders such as Japan, South Korea and Australia, let alone small economies like Singapore or Taiwan.

Indian and Chinese attitudes towards free trade are ambivalent if not downright mercantilist. These attitudes are inherent to their respective political systems. India and China are not static but

respond primarily to their own imperatives and according to their own dynamics. Neither are likely to evolve teleologically, forever up and on towards ever-freer trade.

The hope and promise of Narendra Modi's election as prime minister in 2014 were based on a faulty extrapolation from the business-friendly environment he was said to have nurtured in Gujarat. But being business friendly is not the same as being trade friendly. India's withdrawal from RCEP is proof positive that whatever else is on Modi's economic agenda, trade liberalisation is not a priority. We must all piously hope that India will one day return to RCEP. But don't hold your breath.

What matters most to Modi and the Bharatiya Janata Party (BJP) is power. The ultimate source of power is money which is the *sine qua non* of electoral success in India. To get the donations needed to lubricate the system, Modi needs to please Indian, not foreign, business. Indian businesses are not instinctively free traders, particularly the small businesses that are the backbone of the BJP's base. Many of these small businessmen are happy with India's licence raj system because their skill at navigating that labyrinth gives them an advantage over foreign competitors. That China seems to have become equally skilled at this game—witness India's trade deficit with China—is a political complication for the BJP.

Modi has not even always found it necessary to pursue economic rationality, let alone free trade orthodoxy, to hold on to power and secure Indian business support. Many of his policies such as demonetisation

have been economic failures but political successes. Against all predictions, Modi won the 2019 elections by a landslide. But what choice do Indian businesses, big or small, have? The Congress Party is in shambles. And it is not as if Congress is committed to free trade either.

INDIA is nevertheless open compared to China. The most salient fact about Chinese economic (or any other) policy is so obvious it's almost invisible: China carries the baggage of communism. Of course, no longer in its ideology, which today is based on an assertive ethnonationalism rather than class-struggle, but certainly in its political structure. China's origins were as a Leninist state led by a Leninist-style vanguard party, the Chinese Communist Party (CCP).

A Leninist party's primary value—the core interest to which all other interests are subordinate—is control. The CCP claims absolute control over all dimensions—internal and external—of state and society. President Xi Jinping has enforced this claim more thoroughly than any of his immediate predecessors. The CCP's overriding interests, coupled with assertive ethnonationalism which seems to enjoy wide popular support, are the root cause of many of China's economic and geopolitical behaviours that have aroused concerns across the region, indeed globally.

The purpose of economic reform in China is always to preserve that system. This was the primary reason for 'reform and opening up' under Deng Xiaoping. It remains the primary reason under all his

successors, including whoever will eventually succeed Xi Jinping. China is undoubtedly one of the chief beneficiaries of the open trading system, but China will uphold the values and practices of free trade only if they reinforce the Leninist system and the CCP's interests.

Insofar as China achieves greater self-sufficiency under the new approach of 'dual circulation', the mercantilist element in Chinese trade policy will be enhanced because Beijing will have even less reason to abide by international norms unless it suits the CCP's interests.

There is no practical alternative to CCP rule. Other alternatives will pose even greater challenges. Imagine, for instance, a multi-party China whose political dynamic is driven by assertive ethnonationalism. Any analysis of trade in 'Asia' therefore confronts a central and permanent paradox: China is one of the main locomotives of the region's growth, but China is also at the heart of most of the instabilities and imbalances that threaten to derail the region's growth. China will always be simultaneously the problem and part of the solution.

Nor can the rest of Asia claim superior virtue, except in relative terms. Complaints about Japanese and South Korean unfair trade practices are legion and have been for a long time. Even Australia and Singapore, who like to think of themselves as devout upholders of a free trade, can do so only by ignoring the beams in their own eyes.

Domestic politics are the primary source of pressure on the international trading system. The dynamics differ from country to country but none is particularly susceptible to external influence or example. We must each manage our own politics the best we can, and no one is handling them

Souvenir plates with images of Chairman Mao Zedong and President Xi Jinping on display in a Beijing shop window, 2017.



particularly well. It is difficult to imagine the global trading system being 'reinvented' unless the United States and the major European economies change their attitudes.

Western democratic politics are dysfunctional by design to prevent an over-concentration of power. But of late, politics in the United States and Europe have perhaps become more dysfunctional. Meaningful political reform in the West is highly improbable.

China is better placed to decide on and pursue long-term goals. But authoritarian systems have their own shortcomings. They have an advantage only if decisions are correct in the first place. Deng's decision to reform was correct; Mao Zedong's 'Great Leap Forward' and Cultural Revolution were disasters. Xi's decision to abandon Deng's sage approach of 'hiding capabilities and biding time' was a

strategic mistake. Once revealed, ambitions are not easily forgotten and inevitably provoke counter-reactions, as we are already witnessing.

Not all problems have solutions; not everything desirable is achievable. Bereft of leadership from either East or West, the international trade regime will stumble along sub-optimally for the foreseeable future. But it is unlikely to entirely collapse, provided ad hoc and flexible coalitions of the like-minded—from which China should not be a priori excluded—pragmatically calculate risk and opportunity and manage particular issues, rather than chase the chimaera of definitively 'reinventing' global trade.

EAFQ

Bilahari Kausikan is Chairman of the Middle East Institute, an autonomous institute of the National University of Singapore.

Towards a multipolar order post-pandemic

PICTURE: UESLEI MARCELINO / REUTERS



Presidents of Brazil, Jair Bolsonaro, Russia, Vladimir Putin, China, Xi Jinping, South Africa, Cyril Ramaphosa and India's Prime Minister Narendra Modi pose for the cameras as they arrive for the BRICS summit in Brasilia, November 2019.

MELY CABALLERO-ANTHONY

NOT since the end of the Cold War has the concept of multipolarity been more salient as the global community continues to grapple with COVID-19. The pandemic has become a threat multiplier, cascading from a health and socio-economic crisis to a political and security crisis as countries turn inward and adopt more populist and nationalistic policies. Since the outbreak of the pandemic a year ago, the call for global solidarity and deeper multilateral efforts to combat it has gained momentum across the globe.

Political leaders in Asia have joined the global community in stressing the importance of collective action against this shared threat, but evidence of greater multilateral cooperation has not met expectations. The absence of global leadership amid major-power rivalry has resulted in doubling down on self-interest rather than collaboration. Meanwhile, the rigidity of the world's multilateral institutions makes them no longer fit for purpose in dealing with 21st century economic and security challenges.

Despite an imperfect global system of contested hegemony, power asymmetry and competing national

interests, a reinvigorated multilateral system remains the only way for the international community to respond to transnational threats such as climate change and pandemics. Reviving multilateralism by focusing on common problems, reinforcing inclusive and non-discriminatory practices and underpinning shared norms and values is critical not only for mustering political will, but also for generating and building the resources needed to address today's global problems.

Much has changed in the multipolar order that has defined international political and economic relations

since the end of the Cold War. While international politics is still influenced by superpower rivalry—this time between the United States and China—expanded ‘poles’ of power and influence have appeared as the European Union and emerging economies like Brazil, Russia, India, China and South Africa (the BRICS) hold increased economic clout.

The extent to which these poles have the power to influence the international economic order depends on how coherent their interests are in effecting change in the global economic agenda. Developing countries for example, have pushed to reform institutions like the IMF to gain more voting rights and seek more equity but so far with only limited success.

The expansion of the G7 to the G20 is another indication of the realignment of interests among the diverse set of actors that intends to shape the contours of a new economic architecture. These changes have led to the notion of a ‘G-Zero’ world where no single country or bloc of countries has all the political and economic power to drive the international agenda.

Regions now play an increasingly important role due to the ‘spaghetti bowl’ of regional free trade agreements, including the Asian mega-FTAs like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). Though Japan and ASEAN countries are taking the lead in the CPTPP and RCEP respectively, the diverse interests of member states mean that the goals of each trade bloc are correspondingly diverse.

It’s still unclear how a big power like China might wield influence

over RCEP, not to mention through its lead in creating multilateral financial institutions like the Asian Infrastructure Investment Bank and Belt and Road Initiative. These new arrangements and organisations are seen as less ‘Western centric’ and impose fewer conditions while being more sensitive to the ideological diversity of recipients and members.

THE problems of coherence and divided interests can be mitigated if competing multilateral institutions channel efforts into common goals, particularly in addressing threats to global public goods like health, environmental and food security.

For instance, in tackling the COVID-19 pandemic, global and regional institutions are both important actors, providing assistance, resources and expertise to countries struggling to contain the virus. In Asia, the ASEAN+3 framework (ASEAN together with China, Japan and South Korea) has established a recovery fund aimed at improving aid capacity for regional health emergencies, addressing shortages of medical supplies and funding research into vaccines and therapeutic drugs.

As the largest economy in Asia, China has filled the supply gaps caused by vaccine nationalism by distributing vaccines to developing countries, which are acutely disadvantaged by export restrictions and limited vaccine supply. Thus, the capacity of multilateral institutions and networks, particularly those in Asia, presents a potential reservoir of resources that can be deployed to tackle a range of regional and global challenges.

The dynamics of a multipolar order are not limited to coalitions of the willing and the proliferation of plurilateral trade arrangements.

The growing influence of big tech companies like Google and Facebook that have the capacity to change the rules of the game—especially given their dominance in the global markets and lack of regulatory frameworks—cannot be ignored. Private foundations like the Bill and Melinda Gates Foundation have also contributed significantly to the fight against communicable diseases like tuberculosis, malaria and HIV/AIDS while spearheading research into COVID-19 vaccines and therapeutics. Similarly, civil society organisations are working both regionally and locally to help communities cope with natural disasters, which are increasing in frequency as a result of climate change and disproportionately affect vulnerable groups.

The complexity of the transnational issues confronting the world today underscores the growing interdependence of states and societies. These challenges are reshaping a multipolar order that is more diverse yet more connected, with a growing number of actors with claims to influence the nature of global governance. In such a world, regional institutions like ASEAN are important in fostering cooperation and promoting multilateralism. Civil society organisations and private actors also play a valuable role—together offering more pathways for development, peace and security. **EAFO**

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



Vessels anchored in the Singapore Strait wait for access to one of the world's busiest ports, April 2019.

The international economics of self-harm

CARLOS KURIYAMA

IMPLEMENTING or threatening another territory with economic sanctions in order to achieve a nation's political end is an age-old tactic. In ancient and medieval Europe, trade blockades were put in place to obtain commercial privileges or to compel opponents to surrender. Today, with globalisation, territories are more connected and interdependent, and the mechanisms of economic coercion are evolving in these new circumstances.

Common coercive tools in trade include import tariffs, trade remedies

and export prohibitions or restrictions affecting specific goods from a particular source or origin. Other methods include cutting foreign aid, freezing financial assets, removing banks from the SWIFT (Society for Worldwide Interbank Financial Telecommunication) clearance system, rejecting regulatory approvals and the boycott of particular products.

The world has become more antagonistic in recent years. Governments are implementing, or threatening to implement, unilateral actions against others to achieve their own objectives. This weaponisation of economic policy tools is a challenge

to regional and global stability. It weakens diplomacy and overrides the multilateral mechanisms available to initiate consultations and resolve disputes.

Yet, in today's highly interdependent global economy, most of these coercive actions have proven ineffective. For example, in negotiating the US–China Phase One trade deal, the Trump administration failed to compel China to increase purchases of select manufacturing, agricultural, energy products and services from the United States as initially agreed. A 2021 study by Chad P. Bown shows that US exports to China of

goods included in that deal totalled US\$94 billion by the end of 2020, an increase of 13 per cent over 2019 and representing only 59 per cent of the commitment.

ECONOMIC coercion also impacts those who aim to coerce. US firms and consumers have paid for the tariff hikes on Chinese products through the increased price of imported consumer goods and the higher cost of components and equipment imported from China to produce goods and provide services in the United States. Before the COVID-19 pandemic, US exports of goods to China decreased by 11.2 per cent in 2019, due to retaliatory tariffs imposed by China after the Trump administration increased tariffs against a range of Chinese products. This retaliation affected workers in American firms that suddenly faced unfavourable terms on which to compete in the Chinese market.

The Phase One deal also impacted third parties negatively, as China began importing more from the United States at the expense of others. In 2019, for example, China increased its imports of US soybeans by 77 per cent (from US\$7.9 billion to US\$14.2 billion) but reduced soybean imports from Argentina by 38 per cent (from US\$3 billion to US\$1.8 billion).

Economic coercion complicates the restoration of relationships based on mutual trust. It intensifies nationalism and generates antipathy towards the coercing state among vast segments of the population in the state that is targeted.

In 2019, Japan implemented tighter export controls on hydrogen fluoride, fluorinated polyimide and photoresists—three key chemicals for semiconductor production—to South Korea, claiming that those chemicals

could be used for military purposes if on-sold to hostile third parties. In South Korea these measures were considered as a retaliation against a Supreme Court decision that ordered particular Japanese firms to compensate Koreans who were used as forced labour during the Second World War. Japan's export controls prompted immediate consumer boycotts in Korea against Japanese products, resulting in the withdrawal of automaker Nissan from the Korean market. South Korea retaliated with Japan's removal from a 'white list' of preferred trade partners.

The Japan–South Korea export controls have affected IT product supply chains, as firms in South Korea were largely importing those chemicals from Japan. It is unsurprising that South Korean *chaebols* have been looking for strategies to partially decouple from Japan, such as identifying other import sources and investing in the domestic production of these chemicals that are critical to semiconductor production.

None of the measures implemented during the Japan–South Korea trade row have been effective at forcing the other party to change its stance. On the contrary, the pressure to decouple frustrated established synergies based on comparative advantages and imposed higher costs of doing business.

Similarly, recent Chinese actions against Australian exports have not been effective at forcing Australia to reverse its decisions to block Chinese foreign investment deals in strategic sectors—including the ban on Huawei to provide equipment for an Australian 5G network and calls for an independent World Health Organization inquiry about the origin of COVID-19.

While some of the targeted

Australian businesses have been able to find alternative markets, Chinese tariffs and other trade restrictions have affected Australian firms by diverting purchases to other suppliers. China's imposition of anti-dumping measures and countervailing duties on Australian barley reduced Australia's barley exports to China—its main foreign market—from US\$410 million to US\$330 million between 2019 and 2020. Meanwhile, China bought more barley from other sources. China's purchases of barley from Canada increased from US\$370 million to US\$439 million.

A consequence of these trade-related actions is the rapid deterioration of China's reputation in Australia and around the world. A 2020 Pew Research Center survey shows that 81 per cent of Australian respondents had negative views of China, up from 32 per cent in 2017. This survey suggests that China's actions are counterproductive in influencing Australian groups to lobby for policy changes that meet China's political interests.

Economic coercion affects both the target and the coercer. The use of economic coercion in the Asia Pacific region has costs beyond missed economic opportunities and lost economic wellbeing in the countries affected. A survey conducted by the APEC Secretariat in December 2020 reveals an overwhelming public perception in Asia Pacific economies that multilateralism is a means for achieving future economic success. The erosion of trust that comes with economic coercion undermines efforts to reach common understanding and strengthen regional economic cooperation.

Economic coercion is a threat to regional stability because it amplifies

nationalism and populism. The immediate challenge in the region is to deflate the current tensions. The signing of the Regional Comprehensive Economic Partnership in November 2020 provides one opportunity to do so through cooperation in areas of mutual interest.

Though economic coercion rarely brings about the desired changes in the target party, it is a popular tool because it can be deployed to obtain political support from domestic stakeholders at the expense of external parties. It is sometimes used as diversionary policy tactic to steer public attention away from domestic problems.

Working together is vital in the era of globalisation, as interdependence is high and the costs of economic coercion are two-way and have complex effects on third parties. Building long-term trust-based relationships among governments is an important step toward reducing the use of economic coercion and resolving disputes in an amicable manner. For example, strengthening regional economic integration in Europe after the Second World War significantly reduced tensions and dispelled the confrontational atmosphere that pervaded the interwar period. Similarly in Southeast Asia, the expansion and consolidation of ASEAN has been extremely useful to promote a constructive engagement in this region and avoid tensions among its members. **EAFC**

Carlos Kuriyama is a Senior Analyst at the APEC Secretariat's Policy Support Unit.

The views expressed in this piece are personal and do not represent the views of APEC member economies.

Clear skies over Asia's new foreign investment landscape

DAVID DOLLAR

THE global pandemic and recession, compounded by the pre-existing US–China trade war, have caused speculation about the future of foreign investment and global value chains (GVCs). The two are closely related because it is multinational enterprises (MNEs) from advanced economies that largely organise and manage the complex supply chains that cut across countries to create an efficient division of labour and make quality products at the lowest possible cost. There is likely to be some permanent change in GVCs as a result of the pandemic and trade war, but probably not as much as politicians and some in the policy community expect.

The United States has become alarmed at China's technological advance and instituted a range of restrictions on Chinese investment in the United States and on sales of hi-tech products to China. It is also taxing about half of US imports from China at a rate of 25 per cent. These measures were introduced by the Trump administration and will be reviewed by the new Biden administration, but most of them will likely remain in place, reflecting growing bipartisan distrust of China.

China, in turn, has doubled down

on industrial policies aimed at generating domestic innovation and limiting technology imports. The pandemic has also led to temporary global shortages for medical equipment and raised concerns about dependence on imports for key products and calls for increased domestic production of these items.

Despite these disruptions, some aspects of international trade and investment held up strikingly well in 2020. US imports were down only 1 per cent despite its GDP dropping 3.4 per cent, probably as a result of the special economic stimulus measures aimed at maintaining incomes in the face of massive unemployment. US trade data shows only a small decline in imports from China (3.6 per cent), despite the 25 per cent tariffs and a sharp recession. Americans clearly still want electronic products from China that make work and leisure at home more comfortable (not to mention medical equipment and protective gear).

One flow that has been disrupted is China's outward investment into advanced economies. China had been using high-tech acquisitions in the United States and European Union to enhance the technical capabilities of its own firms. But both jurisdictions have tightened security screening and investment restrictions, reducing the

A man wearing a face mask as a preventive measure against the spread of COVID-19 walks past an electronic board showing currency exchange rates at a securities firm in Tokyo, March 2021.



inflow of Chinese direct investment by 50 per cent between 2016 and 2019. Meanwhile, Chinese direct investment into the four largest ASEAN economies increased by nearly 50 per cent over the same period, and is now on par with Chinese investment into the United States and European Union.

Some Chinese firms are circumventing US tariffs by investing in ASEAN companies, often for final assembly. They export parts and machinery to an ASEAN partner which then sends final goods to the United States, a natural evolution of GVCs in response to rising wages in China and to the US tariffs. Despite the recession, US imports from ASEAN were up 13 per cent in 2020. ASEAN has become China's largest trade partner.

Interestingly, investment into China has not decreased. In fact, 2020 saw record inflows. The US government

has urged US firms to leave China and 'reshore' to the homeland, but there is no evidence that this is happening. AmCham China's survey of 346 American firms in 2020 found that the vast majority are expanding there. Only 4 per cent plan to reshore any production to the United States, as leaving would mean foregoing business and profits from China's lucrative domestic market. While they are not moving back to the United States, about one-seventh are considering moving some production to other countries in Asia with lower wages.

The reason why GVCs have proved resilient is that they are a very efficient form of organisation. The main contribution of MNEs to the value chain consists of different types of intellectual property (IP): patents, brands, trade secrets, managerial know-how and sales networks. By one

estimate, 84 per cent of the value of the large firms in the S&P 500 index consists of IP. Operating globally enables these firms to use their assets in the largest market possible.

For developing countries, participating in GVCs speeds up the development process. It increases labour productivity and living standards and upgrades the capabilities of domestic firms. Naturally, each side grumbles about the bargain. Advanced economies worry that they are losing factory jobs, while developing countries bristle at being dependent on imported technology. In each case, there are domestic policies that could address the concerns.

While there are some worrying policy trends, especially US technology restrictions and Chinese techno-nationalism, there are also

positive developments. The Regional Comprehensive Economic Partnership among ASEAN, China, Japan, South Korea, Australia and New Zealand, is a significant trade liberalisation agreement that should cement Asia's place at the heart of many value chains and encourage direct investment in different directions. China has also signed a bilateral investment treaty with the European Union that, if ratified, would open new sectors and provide confidence in policy stability.

China will likely emerge this decade as the world's largest economy; it is already the largest trading nation, and was the largest recipient of direct foreign investment in 2020. Given Asia's dynamism and the new agreements, it is likely that both interregional and intraregional investment will expand rapidly. Developing countries that can provide complementary infrastructure, institutions and human capital will be the winners in attracting investment and benefiting from this expansion.

One cloud on the horizon is the absence of the United States from any Asia Pacific agreements, and the risk of growing US protectionism. The United States remains the largest global economy, and joining the Asia Pacific trade and investment liberalisation would benefit both it and its partners. Furthermore, while China's Asian partners are happy to share the economic benefits of its rise, they are also nervous about China's military advance and increasingly confrontational foreign policy. A United States that remains economically engaged in the Asia Pacific would be good for both the region's prosperity and security. **EAFQ**

David Dollar is a Senior Fellow in the John L. Thornton China Center at the Brookings Institution.

The digital transformation of East Asian trade

HOMI KHARAS
MEAGAN DOOLEY

EAST Asian economies are famous for delivering growth with equity and for their export orientation, as reflected today in their participation in global and regional value chains. In a world with COVID-19 these traits will likely be accentuated.

East Asian trade will rise in importance because the scale of the region's economic recovery is larger and faster than anywhere else. Asia was already the second most integrated regional trade network after the European Union in 2019, with regional trade at 58 per cent of total trade. East Asia's trading system is likely to become more inclusive and sustainable as it shifts to using digital platforms. Although there is still a digital divide in the region, with less access for women, minorities and rural residents, new digital platforms are encouraging the participation of small farmers and small firms in international trade, including those owned by women, and opening opportunities for many near-poor people.

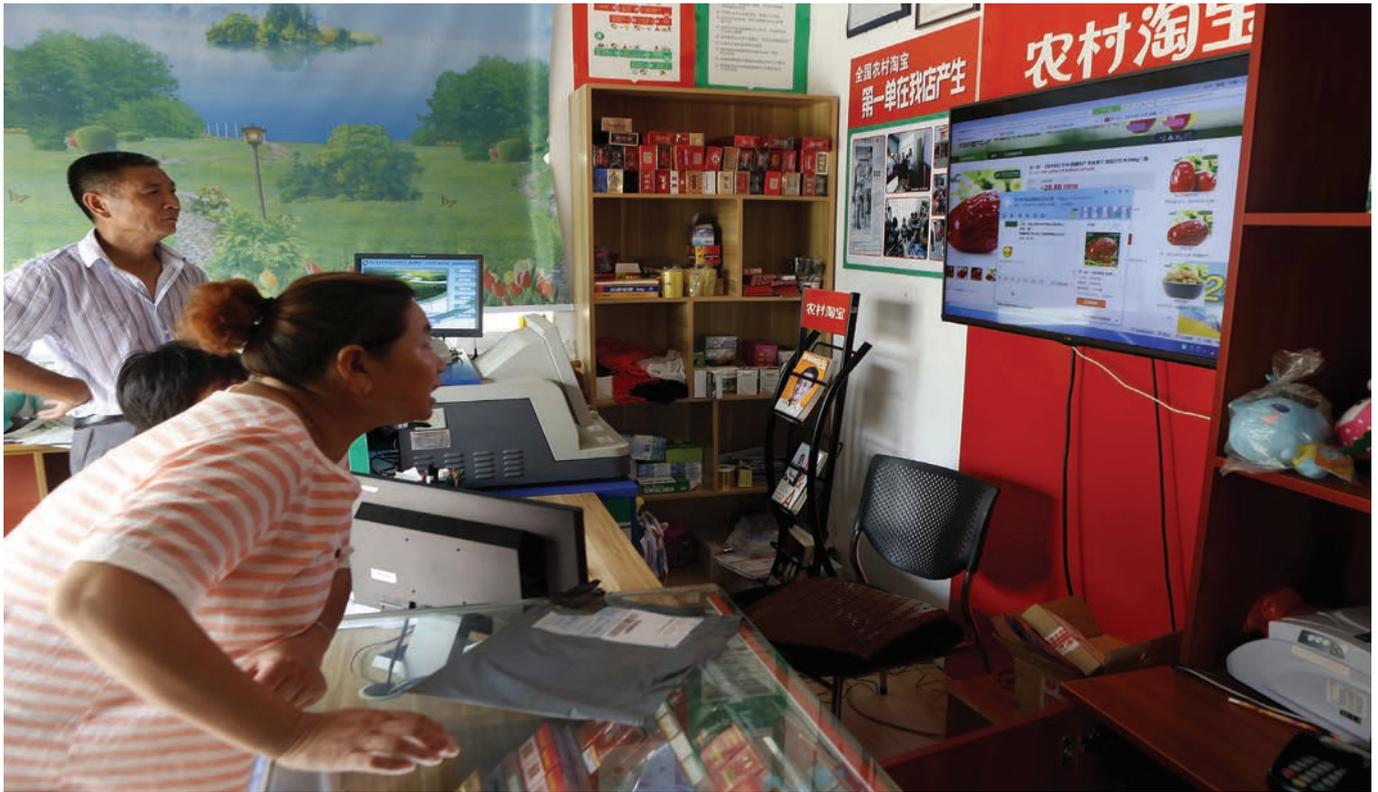
East Asia now accounts for 40 per cent of the global middle class, measured as those living on \$11 to \$110 per person per day in 2011 purchasing power parity (PPP) terms. Despite the setbacks caused by the COVID-19 induced global recession, China alone could have 1 billion

people in the middle class in 2021, or 25 per cent of the world's population, using forecasts prepared by the IMF and the methodology described in Kharas (2010). Since the Chinese middle class took off around 2006, China has been adding an average of 60 million people to its middle class every year. Elsewhere in the region, Indonesia, Japan, the Philippines, Thailand and South Korea all rank among the 20 countries with the largest middle classes.

The global middle-class market is massive—over \$43 trillion in 2021, measured in 2011 PPP terms. East Asia is already the largest regional middle-class market, accounting for 35 per cent of the global total. It is estimated that expenditures made by East Asian middle-class households will grow by almost 6 per cent per year over the coming decade. By 2030, the East Asian middle-class market could exceed that of Europe, North America and Latin America together.

Increasing competition to serve this new consumer market is now driving East Asian innovation. Companies are quickly adopting new digital tools that expand consumer choice and shrink the distance between the producer and consumer.

East Asia is leading the global e-commerce revolution, with Chinese tech giants like Alibaba and Tencent driving growth. Although estimates vary widely, an Asian Development Bank study looking specifically at



A customer shops at an Alibaba rural service centre in Jinjia Village, Zhejiang province, China, 2015.

digital platforms found that business to consumer (B2C) digital platforms (including e-commerce, online travel, advertising technology, transportation, e-services and digital media) generated US\$3.8 trillion in revenue in 2019, with US\$1.8 trillion of it in Asia. E-commerce alone accounted for US\$1.9 trillion in revenue globally and US\$1.1 trillion in the region. China has become a leader in this area, now accounting for 45 per cent of e-commerce transactions. Online sales already represent 12 per cent of total retail sales in Asia, compared with 8 per cent in Europe and North America. The digital economy is expected to add US\$1 trillion to Asia's GDP in the next 10 years.

The e-commerce movement started with domestic sales but is rapidly evolving to include cross-border transactions. Cross-border B2C e-commerce generated an estimated

US\$404 billion in sales in 2018, up 7 per cent from the year before. Business to business (B2B) sales account for 80 per cent of cross-border e-commerce, but B2C represents the fastest growing segment. China is the global leader here, with ownership of most of the largest online retail and auction sites. Cross-border transactions now account for 10 per cent of all e-commerce sales in China. COVID-19 has likely driven these figures even higher, as consumers have increasingly turned to online purchases with in-person retailers closed.

Despite these seemingly large numbers, there is considerable room for growth. E-shopper penetration, measured as the share of the online population that make purchases online, is below 50 per cent in Asia, much lower than other regions. The digital divide still hampers progress,

as only 56 per cent of the region has access to the internet. But the region has seen dramatic growth since 2010 in this area, with notable progress in Thailand (up 44 percentage points), Brunei Darussalam (up 42 percentage points), Cambodia (up 39 percentage points) and Vietnam (up 38 percentage points). ASEAN countries are now the fastest growing internet market in the world, with 125,000 new users added every day. 94 per cent of the region is covered by a 4G network, ranging from 89 per cent coverage in rural areas to nearly 100 per cent in the cities. Thus, access is a bigger barrier to expanded digital readiness than coverage.

Digital consumers represent a new market. According to McKinsey, 40 per cent of internet spending in China and 30 per cent in Indonesia represents new consumption, rather than substitutes for in-

person purchases. Thus, these new e-commerce platforms are tapping into previously unmet consumer needs.

Digital platforms are fostering inclusion in two complementary ways. For consumers, they are driving down prices, adding variety of choice, and reducing the transaction costs of making purchases. At the same time, digital platforms are vastly expanding the reach and marketing prospects for micro, small and medium enterprises (MSMEs). While these benefits were previously restricted to people and firms in large metropolises, digital platforms are opening up similar opportunities for those living in lower tier cities and rural areas. This is where the majority of East Asians still live, so there is a strong likelihood that digital growth will translate into inclusive growth in the region.

There is already a trend of e-commerce platforms connecting younger and peri-urban consumers with international brands. Tmall, one of Alibaba's cross-border e-commerce platforms, is providing preferential rates to international companies and allowing firms to sell on their platform without a license to operate in China. It reports that 29,000 brands came onto the platform in 2020, 80 per cent of which were entering the Chinese market for the first time. 45 per cent of Tmall users are from lower tier cities in China, many of them younger, tech savvy consumers. These digital platforms are connecting consumers outside of the major metropolitan areas with the rest of the region, and offering younger consumers, whose preferences are likely to dominate the market for years to come, choices from countries throughout the region.

One feature that makes cross-border purchases on digital platforms so easy is the presence of digital wallets that can be used for any

East Asian growth, powered by digital platforms, will be strong and inclusive if countries in the region invest in digital infrastructure and human capital

product on the platform. As payment modalities become integrated, markets too can become integrated. Consider the example of AliPay. AliPay is acquiring local mobile-money startups across the region, expanding into India, Thailand, South Korea, the Philippines, Hong Kong, Malaysia, Indonesia, Pakistan and Bangladesh through its regional partners.

In addition to reducing the transaction costs for small cross-border purchases, this expansion of FinTech is dramatically expanding financial inclusion. More individuals have access to a range of financial services without the need for an account at a formal financial institution. That, in turn, connects them more tightly to the regional economy.

Inclusive economies tend to have many dynamic MSMEs. Digital platforms serve MSMEs in a number of different ways. First, they reduce financial costs. Credit card processing fees cost US small businesses an average of 2 per cent of gross sales. Alipay and WeChat Pay, on the other hand, have no transaction fees on purchases made within their digital commerce platform, and a 0.1 per cent fee on outside transfers.

Second, e-commerce and FinTech

players are using real time transaction and social media data to improve risk assessments and to offer loans to MSMEs. The most famous example may be Ant Financial's '3-1-0' program. Ant's online lending model is designed to take three minutes to apply, one second for the money to be disbursed into the merchant's account, with zero manual operations. Ant's SME-dedicated service, MYbank, had reached 25 million enterprises by the time of its fifth anniversary in June 2020. Mybank has a particular focus on filling the financing gap for women-owned MSMEs, adding to its contribution to inclusion.

Third, digital platforms provide MSMEs with a range of technical assistance and market information services that increase productivity and export revenue.

East Asian growth, powered by digital platforms, will be strong and inclusive if countries in the region invest in digital infrastructure and human capital. Governments in the region will also need to coordinate on a number of oversight and regulatory mechanisms to ensure that these new platforms are accessible and inclusive and not exploitative. ASEAN countries have formed an e-payments coalition to support the development of a regional digital payment framework. E-payment and consumer protection policies seem adequate for now, but more will need to be done to protect data privacy and strengthen cybersecurity. [EAFQ](#)

Homi Kharas is a Senior Fellow in the Center for Sustainable Development program at the Brookings Institution.

Meagan Dooley is a Senior Research Analyst in the Center for Sustainable Development program at the Brookings Institution.

Fan labour and the rise of boys' love TV drama in China



PICTURE: / REUTERS

Wang Yibo, Chinese idol and star of the boys' love drama *The Untamed*, poses in front of adoring fans in Shanghai, September 2020.

ANGIE BAECKER
YUCONG HAO

DO YOU remember that summer? Search this hashtag on Weibo and you will find that for a substantial number of people in China, it was the summer of 2019 and their memories of it are dominated by nostalgia for one experience: watching Tencent's web drama *The Untamed* (*Chenqing ling*).

The Untamed is nominally a fantasy costume television series that follows two young lords as they investigate dark happenings in the world of

Taoist cultivation. But the narrative at the heart of the show is the tender romance that unfolds between the two men.

By any metric, *The Untamed* was a smashing success, but especially by those measuring the show's ability to drive data and engagement. During its final month of broadcast, it racked up 200 million views per day and over 70 million yuan in viewing fees on its streaming platform, Tencent. The show's leads, Xiao Zhan and Wang Yibo, catapulted from mid-tier celebrity to the zenith of the idol entertainment industry, where they

continue to dominate the top two spots in celebrity popularity, influence and endorsement indexes.

With over 1.56 million reviews, *The Untamed* is the most reviewed television series on the interest-based social media platform Douban. On the international, open-source fanfiction repository, Archive of Our Own, the show's main characters are the most popular romantic pairing among the fandoms represented on the website.

To the entertainment industry, *The Untamed*'s success is irrefutable proof of concept for the viability of adapting intellectual property from boys' love

web novels to the small screen. Boys' love, also called *danmei* or BL, is a subculture genre of fictional media defined by the presence of romantic male–male relationships. Borrowed from the Japanese *tanbi*—an addiction to beauty, often used in reference to two handsome men in a romantic relationship—*danmei* discourse in China first developed closely around Japanese subculture from the 1990s. More recently it has bifurcated with drama adaptations of *danmei* literature acquiring unprecedented visibility and even attracting mainstream audiences.

Live-action adaptations of *danmei* literature (*dangaiju*) usually begin as an original work of online fiction hosted on the online literature website Jinjiang Literature City. Authors of popular works are approached to sell adaptation licenses, with first adaptations usually released as radio dramas, mobile games or *donghua* (animated comics). Based on the success of these multimedia adaptations, one of China's leading streaming platforms—the most prominent are Tencent, Youku and

Boys' love drama adaptations must navigate both the platform's commercial interests and the political demands of the National Radio and Television Administration

iQiyi—will consider purchasing the rights to adapt the story into a platform exclusive television drama.

Boys' love drama adaptations must navigate both the platform's commercial interests and the political demands of the National Radio and Television Administration's (NRTA) regulatory processes—a system that media scholar Ruoyun Bai compares to the Chinese Communist Party's rhetoric of 'material civilisation and spiritual civilisation'. During this process of adaptation and negotiation, explicit sexual or romantic elements are modified or eliminated, transforming depictions of homosexual desire into 'bromantic' homosociality.

Attempts at adapting boys' love web novels into live action dramas had mixed success until the 2016 web series *Addicted* (*Shangyin*). The drama based on Chai Jidan's web novel *Are you addicted?* (*Ni ya shangyin le?*), was the first to achieve broad popularity. But it was pulled from air with four episodes remaining when the romantic and sexual relationship between the two male leads became obvious. *Addicted* left frustrated fans and confused production studios in its wake, with studios unsure if future boys' love content could pass the NRTA's review process. The NRTA upholds a ban on content depicting 'abnormal sexual relations or sexual behaviour', or activities it defines as perversion.

Two years later, an adaptation of the Chinese web novelist Priest's *Guardian* (*Zhenhun*) broke through. After successfully passing the censors and obtaining its license, the series aired to completion in the summer of 2018. But while *Addicted* contained scenes with its male leads touching and discussing sexual contact in unambiguous terms, *Guardian* submerged the romantic

relationship between its leads so deeply that it is possible to watch all 40 episodes believing the main characters were simply close colleagues—the star-crossed sort, who find each other repeatedly across the reaches of time and space.

Still, the production had its issues. Financing problems caused filming to stop mid-production, and the show remains notorious for its low-budget special effects. Although the show managed to air in its entirety, it was pulled from the streaming service Youku a month after the series concluded and later uploaded with scenes either edited or deleted.

It was a revelation, then, when *The Untamed* not only made it to air, but was praised during its run by the state-owned newspaper People's Daily. In a review for the newspaper, broadcaster Hu Xin lauded the show's 'confident' depiction of traditional Chinese culture. The review dwelt on the chivalry and selflessness of the moral universe depicted in *The Untamed*, but without mentioning that the main characters express their sense of justice and chivalry primarily through their devotion to one another.

The dissonance involved in praising the 'traditional cultural values' portrayed in *The Untamed* without mentioning the show's central male–male romance marks the conflict at the heart of the *danmei* novel's increasing prominence in mainland China's pop culture. There is a paradoxical acknowledgment of the power of the boys' love genre and its derivative products on the one hand, and the maintenance of plausible deniability about the genre's non-heteronormative origins on the other.

Yet boys' love narratives will likely become more prominent over the next few years. In 2020, over 60 *danmei* novels from Jinjiang Literature

City were purchased for live action adaptation. There are at least a dozen high profile boys' love dramas in various stages of production, and one show, *Word of Honor (Shanhe ling)*, based on Priest's novella *Faraway Wanderers (Tianyake)*, quietly went to air this February. Budgets and production values have increased commensurate to the growing visibility of boys' love dramas, and shows are staffed with talented cast and crew. Before 2021 is over, there will likely be an abundance of boys' love dramas on air. While some of these shows will encounter difficulties in production and in final review, it seems we are on the cusp of a popular subculture securing a position of mainstream hypervisibility.

The boys' love genre is an inherently contested space, where even conventional markers of genre are a shifting target. Boys' love drama adaptations freely appropriate elements from other genres, including ahistorical time travel, supernatural phenomena, alternative universes and mythical fantasy, to create fictionalised time and space so to avoid direct references to the history or the contemporary society of China. Despite these preemptive strategies, boys' love and its adaptations are under constant risk of removal and even criminal prosecution, as the genre's frequent allusion to homosexuality puts it at odds with the central government's conservative standards for film and television.

Still, TV dramas adapted from the boys' love genre should not be understood through the binary of political control and the desire for dissent. Rather, the creation and dissemination of boys' love drama adaptations is a complex process that triangulates boys' love fans, social networking platforms and



The Untamed's Xiao Zhan speaks at the 2019 Jinri Toutiao Fashion Gala in Beijing, January 2020.

mainstream production studios in overlapping economies of labour. Boys' love drama adaptations might be best understood as a convergence culture—to borrow Henry Jenkins's term for when differing forms of media merge and the consumer becomes a driving force in its development. Boys' love fans are not passive recipients of cultural products, but 'prosumers' who collapse the boundary between the consumer and the producer through the datafication of their fandom. Boys' love fan communities manufacture extraordinary visibility of boys' love

narratives on China's leading social media platforms, especially Weibo. This fan labour is, in turn, built into the production of value in the economy of popular entertainment culture in China.

Indeed, communication studies scholar, Yiyi Yin, argues that fans participate in highly organised forms of data labour, driving traffic toward their favourite fan-objects, in what she calls a new algorithmic culture. Fan labour can be organised through official and unofficial fan communities and includes a diverse

range of behaviours, some of which involve financial transactions and some of which do not. Examples include repeat viewings of a boys' love drama to boost the show's total view count; purchasing multiple streaming platform subscription accounts; participating in hashtagged conversations on social media platforms like Weibo to increase visibility of a drama, actor or couple; creating derivative fan works, such as fan art, fan videos, and fan fiction; and generating traffic by re-posting and liking content from official cast or crew social media accounts. Production studios recognise the capacity of fan labour in manufacturing the visibility of the dramas, and intentionally mobilise the fan community in their marketing strategies. For instance, by providing materials for fan consumption or encouraging fan art, a two-way communication between industry and fan communities is established.

Like any other type of labour, fan labour carries certain class and gender markers. Fans are often assumed to be young urban women (even adolescents) and their labour is dismissed as mindless spamming

and irrational applications of time and financial resources. However, when fans are given the opportunity to speak for themselves, they can possess a sophisticated understanding of how to manipulate social media algorithms to increase the visibility of their favourite actors and dramas. They realise their capacity to participate in the economies of the entertainment industry. Significantly, the affective labour that female fans perform to promote their favourite shows makes the intellectual property visible and legible across linguistic and geographic boundaries, transforming the boys' love fandom into a transnational phenomenon.

IRONICALLY or inevitably, the process of censorship itself has emerged as another site of data labour, hypervisibility and contest. In January, rumours spread that the NRTA was on the verge of tightening restrictions on boys' love content and that *The Untamed* would soon be removed from streaming platforms. *The Untamed* once again became a trending topic on Weibo as fans scrambled to warn one another and download the show. But the rumours

were never substantiated, and the show remains available in China.

Will *The Untamed* be taken offline and censored, as *Guardian* was in 2018? Will the NRTA enforce even more restrictions around depiction of male–male relationships in response to the raft of boys' love drama adaptation currently in production? In the absence of any transparency around the NRTA's review process, it is hard to say.

Meanwhile, fans have been known to spread negative rumours in anticipation of a new boys' love drama adaptation's release as a pre-emptive attempt to prevent new shows from poaching supporters from existing fanbases. Whether the rumours are manufactured by calculating fans or insiders with dark tidings, we will have to watch and wait to find out. **EARQ**

Angie Baecker is a Lecturer in the Department of Art History at the University of Hong Kong.

Yucong Hao is a PhD candidate in the Department of Asian Languages and Cultures at the University of Michigan.



EASTASIAFORUM

Quarterly

Where international specialists analyse the forces that shape the world's most dynamic region.

Join the conversation.

eastasiaforum.org





A man pushes against police officers during an anti-government protest in Bangkok, October 2020.

Thai youth's struggle for democracy may fizzle but political contention continues

PENCHAN PHOBORISUT

THAI protests continued through to 2021, with student-led protesters trying to maintain momentum despite the surging number of arbitrary arrests. In March, protesters endured a harsh crackdown as they faced water cannons, rubber bullets and physical assault. A fresh round of force and the mass arrest of 70 protestors in one day aimed to quash ongoing protests.

Students and activists who have been arrested for organising protests

in 2020 and this year have been denied bail and visitation from their families. The prominent student activist, Parit 'Penguin' Chiwarak, who has been imprisoned without bail, announced a hunger strike over court bail. Another student activist, Panusaya 'Rung' Sithijirawattanakul, also began a hunger strike while in detention. The court's denial of bail illustrates state machinations that deny fundamental rights to protesters while their cases are still being prosecuted. Scholar Prajak Kongkirati argued that the condition of no bail

without conviction implied prolonged detention of students under arrest. Meanwhile, rumours circulated on social media about attempts on the life of protest leader and founder of the We Volunteer network of protest guards, Piyarat 'Toto' Chongthep, while in prison. He was later released on bail before being rearrested on a royal defamation charge.

While the state's stepped-up measures to detain political activists may have stymied protests, youth pro-democracy networks—facilitated by modern communication technology—

continue to fight the state's top-down suppression.

Of particular interest here are the decentralised, networked communication tactics that activists' have used to mobilise against the Thai establishment and its adherence to hierarchical communication strategies of the past.

The concerns of Thailand's youth protest movement exploded into mass demonstrations in August 2020—the largest since the country's 2014 coup. The rallies unveiled political grievances on the failure to return to democracy after the 2019 general elections, a court verdict that disbanded the Future Forward Party, the abduction of a political activist in June and the diminishing popularity of the monarchy.

Young activists demanded the resignation of junta leader-turned-Prime Minister, Prayut Chan-o-cha, a new constitution, and monarchical reform. They broke through the glass ceiling protecting the monarchy from criticism—the lese majeste law prohibiting criticism against the King, the Queen and the Heir Apparent, which is punishable with three to fifteen years imprisonment. Since last year, the student protesters succeeded in unearthing the current reign's irregularities, raising questions about the King's residence in Germany, the violation of human rights in silencing exiled political activists, the Crown Property Bureau's huge assets and the King's personal regiment. The protesters' public criticism of the monarchy and the Thai establishment revealed how people had become less fearful and more disposed to speak out.

The audacity and political determination of youth activists is partly explained by changes in the information economy. Yochai Benkler

With the politicisation of nationwide student networks, fandoms, YouTube and internet idols, LGBTQI+ communities, and netizens on emerging social media platforms, the pro-democracy movement has expanded considerably

argues that the economy today, unlike the industrial economy, no longer privileges hierarchical relations in production. The information society has forged new types of relationships in the market in which consumers can become producers. Individuals become engaged consumers, confident in their ability to effect change and accomplish their goals in the digitally networked environment. New ways have emerged for individuals to see themselves as productive human beings, forming new connections and becoming politically engaged.

In Thailand, for example, the young invented their own unique ways to engage political candidates in the 2019 Thai general election. Netizens crafted the hashtag FahRakPho (Fah Loves Father), inspired by a Thai soap opera, to express support for the former Future Forward Party leader Thanathorn Juangroongruangkit. Although puzzled at first, netizens

eagerly embraced the trend to support Thanathorn and retweeted the hashtag to top Twitter's Trending List. Elections that had formerly relied on local political canvassers shifted to online and offline social influencers. As Pitch Pongsawat explains, these public endorsements of Thanathorn contributed to his immense popularity.

Similarly, the student-led movement's network has been mobilised and endorsed by various influencers from diverse groups. It started with students from different schools and colleges voicing their support for democracy by crafting creative and funny hashtags with the names of their campuses and identities.

Fandom—a group's intense engagement with fan objects like comics, television shows, or celebrities—has been a driving force for political activism. As fans in Thailand created online communities to share news and photos of their pop idols, they also connected with their members for a cause, including supporting students' rallies. At the height of the demonstrations in October 2020, K-Pop fandoms publicly supported the student movement, claiming that, with better politics, they might have more money to support their K-Pop idols. Fan Twitter feeds featuring daily news and photos of their favourite K-Pop stars were punctuated by updates on rallies, safety and fundraising.

The latest online influencer recruit to the student movement is the transgender YouTuber and Comedian, Mae Ying Lee, also known as Mahathewi Chao Haeng Muang Thip, who rose to superstardom overnight. She is known for flashing a three-fingered salute in support of the movement. With the politicisation of nationwide student networks,



A protester shows the three-finger salute while taking part in a protest against the government and to reform the Thai monarchy, Bangkok, October 2020.

fandoms, YouTube and internet idols, LGBTQI+ communities, and netizens on emerging social media platforms, the pro-democracy movement has expanded considerably.

With this decentralised structure, the network enables the fluidity for individuals of influence to lead, connect and amplify their political movements, and to reconfigure tactics when traversing state suppression. The network has adapted to efforts at state control by changing protest locations or calling off rallies at short notice to avoid arrest. The loosely connected network is organic—operating in the manner of plant rhizomes that spring up from the points where they are

severed to form new lines.

A MIDST the ongoing anti-monarchy sentiments, the Palace has not issued any statements or response to the demands of student protesters. This is a stark departure from practice in the reign of the late King Bhumibol who was lauded for his charisma and extraordinary capacity for communicating with the public as a mediator during political conflicts in 1973, 1976 and 1992. He was a figure who defused political tension and united the country. As Pavin Chachavalpongpun has observed, King Bhumibol was ‘very engaging and realised the importance of winning the popular mandate in his own way’.

The Cold War was the context in which the international community engaged King Bhumibol in the fight against communism. The US government carefully crafted print and film media to portray the Thai monarchy as being threatened by communism. Now, with the Cold War era over, King Vajiralongkorn is less well strategically positioned internationally and rarely gives public speeches or interviews about current events. This may explain his lifestyle choices and residence in Germany.

As anti-monarchy sentiments grow, the Palace has felt the need to stabilise the King’s position. Since October 2020, the King has remained

in Thailand, postponing his return to Germany, where he used to spend much of his time. He has attended royal functions and visited different parts of the country, replicating Cold War royalist strategies to enhance the monarchy's popularity.

The backdrop of yellow-clad supporters sitting and waiting for the royals has been a staple at the King's official functions, though it has been argued that many are mobilised by the authorities themselves. The Palace has also tried to tap into less formal communication by replicating the distribution of hand-drawn new year cards that were used during King Bhumibol's reign. But popularity and charisma are not easily inherited.

The Palace has also tried to harness the power of social media. An attempt to make a video go viral on social media shows the King complimenting a man in a yellow shirt (a colour identified with the King) who had earlier raised photos of late King Bhumibol challenging protesters at a student rally. The King is seen greeting his elated follower, remarking '*Kla mak, kla mak, keng mak, Khopjai!*' (Very brave, very brave, very good, thank you!). The clip indeed went viral, perpetuating the myth of an 'auspicious encounter' with the royals.

But when the King's daughter, Princess Sirivannavari, tweeted photos of her vacation in the islands of Southern Thailand in 2019, she was trolled by netizens criticising her privilege as security guards had closed the island to ensure her safety. Meanwhile, Facebook fan pages of Queen Suthida and Princess Consort Sineenat 'Koi' Wongvajirapakdi constantly contribute content to their audiences. The Queen's Facebook fan page features 300–500 posts per day, mostly responding to photos of the Queen with the King or other royal

family members.

These strategies depict the monarchy's sacrosanct position while reasserting the hierarchical structure that demarcates the monarchy's divine position from his earthly subjects. These are anachronistic in the modern world.

THE military-backed government has at the same time deployed top-down measures to censor political dissenters' expression and promote pro-establishment content on social media. Leaked documents from the military's Information Operation and its instructions to post and comment in favour of the government have surfaced over the years. The opposition party disclosed these documents in the censure debate in February 2020. Army-sanctioned operations and pro-establishment groups threaten the government's critics, employing witch hunts, hate speech and diatribes that deepen existing political divisions. In October 2020, Thailand made news headlines when Stanford University identified 926 Twitter accounts linked to the Thai Army which were later suspended.

The state also hires professionals to propagate pro-government messages on social media. One case is that of Sarinee Achavanuntakul, a pro-democracy blogger-turned-social media influencer, who was approached by a public relations agency to create pro-government content—an offer she refused. Pro-government social media accounts propagate content generated by paid bloggers, social media influencers and pro-military media, including the recently founded outlet, Top News, which features hyper royalist anchors formerly employed by Nation TV. Top News is dedicated to generating digital content to discredit the student-led movements,

Pro-government
social media accounts
propagate content
generated by paid
bloggers, social media
influencers and pro-
military media

dehumanise student activists and promote antagonism towards them and their cause.

With their use of arbitrary arrest and detention, the authorities aim to evoke fear. As many predicted, the current pro-democracy movement appears to be fizzling out. But the past year has revealed Thailand's youth as outspoken, creative and determined to resolve the country's political dysfunction. Their decentralised networks have so far withstood demolition efforts by the authoritarian government. Individuals continue to step up to lead the movement, ceaselessly reinventing their tactics to fight for their political causes while evading arrest. While the young might temporarily abandon the street, their discontent still simmers. With the deterioration in Thai economic conditions and a raft of other government failures, Thai youth see little choice but to continue to push for change—even if it achieves only a small crack that might eventually fracture the system. **EAFO**

Penchan Phoborisut is an Assistant Professor at California State University, Fullerton.



Digital payment technologies such as QR codes have enabled contactless trade during the COVID-19 pandemic, Shanghai 2020.

Managing digital trade in Asia

DEBORAH ELMS

FOR years, digitally enabled trade has grown without significant regulatory oversight. Firms started by delivering goods ordered online and then figured out ways to provide a wide range of services over the internet. Electronic payment methods and new logistics and shipping options evolved to support growing digital trade demands. Eventually, whole new categories of digital commerce sprang up, such as the sharing economy and the Internet of Things (IoT).

Officials have either taken a hands-off approach or struggled to fit offline rules to the online environment.

As the online world continues to grow rapidly, these approaches are becoming increasingly untenable. Offline shops were concerned that they were losing competition to less regulated online firms, and that consumers had limited protections. Even firms that were benefiting from the unregulated or lightly regulated environment could see the advantage of having rules in place to ensure that trade lanes remained open. Commerce does not prosper if the environment is risky or uncertain.

While the digital world has many characteristics in common with physical commerce, one key difference is that the internet does not readily

recognise national borders. Indeed, one of the great promises of the digital revolution was that firms could become ‘multinational’ regardless of their size. Anyone could launch a global business from their own home.

The global nature of digital trade required officials to grapple with appropriate regulatory oversight in a collective way. But officials were uncertain about the nature of the digital environment and the best ways to manage a growing set of complex challenges. Uneven distribution of digital growth meant that not all governments were looking at the same set of issues at the same time.

The result has been a proliferation

of policies and a growing patchwork of regulations, laws and requirements in different markets. This explosion of regulatory interest is set to continue. But policymakers are still struggling to find the right forum to discuss how to harness the best of digital trade while protecting consumers and avoiding unfair market dominance and illicit commercial activity. COVID-19 has accelerated the urgency of finding collective solutions, as firms have rapidly shifted online in order to navigate lockdowns and severe disruptions to local markets. Digital trade works best when the largest number of governments have similar regulatory policies in place.

Despite the growing importance of digital trade, the ability of governments to effectively manage the online environment still lags behind the pace of business innovation. Domestic-level regulatory and legal adjustments to better accommodate digital trade can be complicated. Negotiations between governments to ensure greater consistency of policy frameworks are often time-consuming. By the time policy settings adjust, the commercial environment could appear quite different.

At the start of this decade, key issues for digital trade include managing a sharp rise in the kinds and types of digital services available

including new service activities not yet imagined, applying taxes to cross-border deliveries of digital goods and services, effectively tackling concerns over cybersecurity and data protection, and managing digital or data sovereignty. Other considerations include a renewed emphasis on competition and anti-trust policies, managing cross-border payments, the growth of new technologies, and how the spread of digital trade will affect the growth of the smallest firms.

Digital trade is the future of trade. It serves as the connective tissue running between and across sectors of all kinds. It binds countries together. Done well, it allows the smallest firm the opportunity to become a micro-multinational with customers and suppliers around the globe. Done poorly, digital policies can trap firms and customers into substandard outcomes.

Asian governments have been at the forefront of trying to address many of these challenges. At the World Trade Organization (WTO) 86 members are engaged in negotiations on the Joint Statement Initiative for e-commerce. Convened by Australia, Japan and Singapore, this initiative is working across several cross-cutting issues to enable e-commerce openness, trust, market access, updated telecommunications and trade rules to better fit today's digital economy. Some elements of this agreement may be ready by the next WTO ministerial meeting in Geneva at the end of 2021.

Several Asian economies, including Australia, Japan, New Zealand and Singapore, have also been designing and signing 'digital only' trade agreements that include a range of rules and cooperation commitments. These digital arrangements are likely to continue to multiply rapidly.

Asian trade agreements—such

Digital trade is the future of trade. It serves as the connective tissue running between and across sectors of all kinds

as the Regional Comprehensive Economic Partnership, the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CTPPP)—all include digital trade provisions. ASEAN is working to implement its own Agreement on Electronic Commerce in 2021.

Some of the 'digital only' trade arrangements are attached to larger trade agreements, such as Australia and Singapore's Digital Economy Agreement, or are being added to ongoing upgrading exercises for existing free trade agreements. This includes the possible inclusion of modules drawn from the Digital Economy Partnership Agreement into the upgrade for AANZFTA.

Efforts to manage digital trade more effectively should be welcomed. Getting cooperation and harmonisation across the broadest range of governments is critically important in allowing the smallest firms, located anywhere, to engage globally and to continue to become 'multinationals'. [EAFQ](#)

Deborah Elms is Executive Director of the Asian Trade Centre, Singapore.

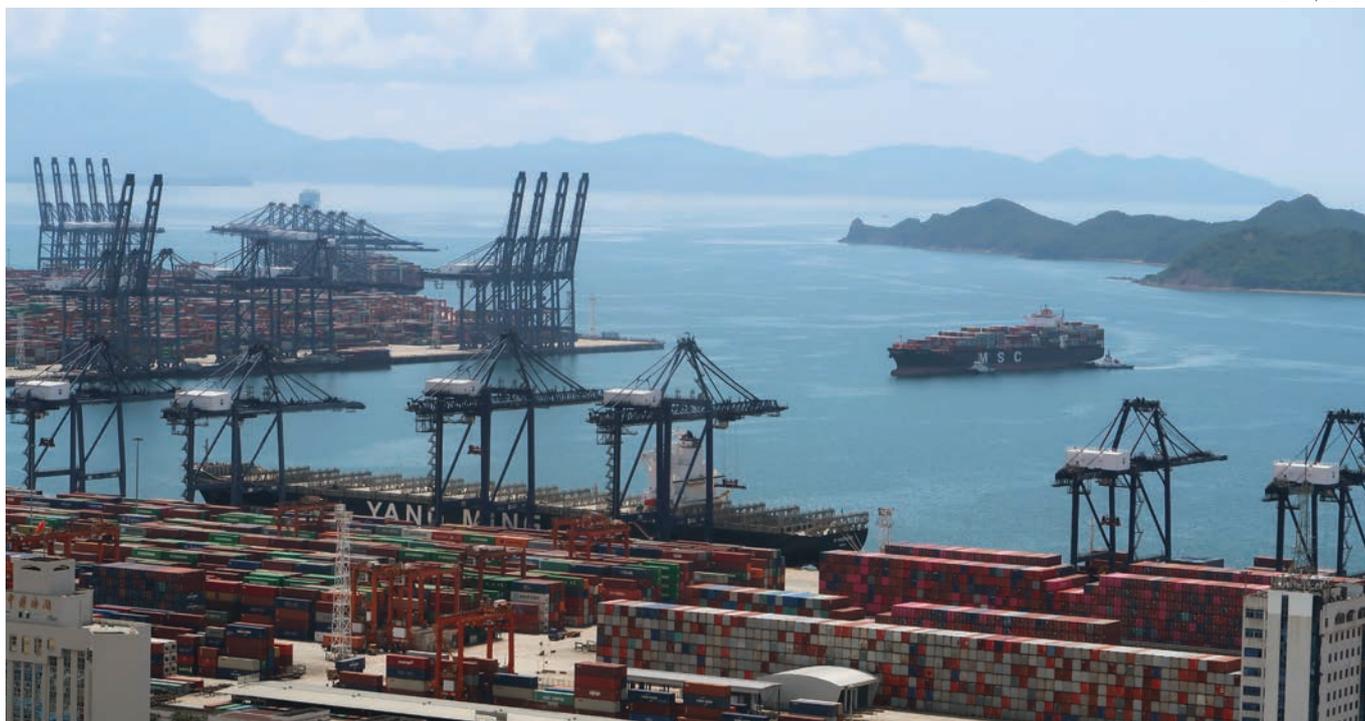
EASTASIAFORUM
Quarterly

OUR NEXT ISSUE . . .

Reimagining
Japan, again

Chinese supply chains prove resilient to global shocks

PICTURE: MARTIN POLLARD / REUTERS



A cargo ship carries containers near the Yantian container terminal in Shenzhen, Guangdong province, May 2020.

KA ZENG

IN the past couple of decades multinational corporations have invested heavily in China in order to cut production costs and capitalise on the rapidly growing Chinese domestic market. In the process, they have turned the country into the factory of the world and a global supply chain hub.

However, the ongoing trade war between the United States and China and the COVID-19 pandemic have highlighted the vulnerability of complex global supply chains to ongoing structural changes in the global economy resulting from rising labour costs, automation, protectionism and geopolitical

tensions. These developments have prompted a critical re-evaluation of existing approaches to global sourcing and manufacturing activities to increase supply chain resilience and reduce external risks.

The extensive supply chain linkages China has developed with partner countries can be seen in both its backward and forward global value chain (GVC) linkages: the former defined as the share of foreign value added in China's gross exports and the latter as the share of domestic value added in the gross exports of the foreign exporting country. China's backward GVC linkages with most regions experienced a gradual decline between 2005 and 2015, while its forward GVC linkages rose during

the same period. This reflects a shift in China's trade patterns away from processing trade and towards higher value-added activities that enhance its ability to engage in industrial upgrading and climb the value chain.

It is not yet clear how the trade war and pandemic have affected China-centred supply chains, but there is some preliminary evidence that the impact has not been uniform across industries. Instead, the coping strategies of firms and industries may be heavily dependent on their relative ease of adjusting to external changes.

New research on the political activities of US corporations with regard to US–China trade relations shows that US companies that have verticalised their production by

moving operations to China are more likely to engage in China-related trade-lobbying activities as they tend to have unrecoverable assets dedicated to the Chinese market. In contrast, firms primarily engaged in input sourcing tend to be less politically active because they are more likely to be involved in arms-length transactions that may increase the ease with which they can adjust to changing market conditions.

For similar reasons, the US–China trade war has resulted in more significant declines in trade volumes for industries highly dependent on sourcing from China, than for those heavily integrated with the Chinese market through vertical foreign direct investment.

The computer, electronics and textile industries provide good illustrations of these dynamics. In the computer and electronics industry, the substantial capital costs of building and maintaining local plants coupled with the need for highly skilled workers may have limited the ease of relocating production outside of China. For example, between 2017 and 2019, Apple not only had more suppliers in China, but even increased its presence in the East Asian supply chain.

In contrast, more apparel manufacturing and sourcing activities have shifted from China to other neighbouring countries in Southeast Asia due to the existence of a larger number of alternative suppliers, the higher dependence on exports, and the less complicated nature of the supply chain. Other factors such as the strategic importance of a sector, government restrictions and regulatory policies may have further complicated the picture, accentuating the diversity of industry responses to external shocks.

To be sure, the pressures on supply chain adjustments, especially those generated by the Fourth Industrial Revolution, predate the trade war and the pandemic. The scale and velocity of the recent global shocks have accelerated existing trends, forcing firms to react more swiftly and efficiently to abrupt changes in the global political and economic climate in order to weather the storm. While it is nearly impossible to identify the most proximate source of change, recent events provide opportunity to observe firm behaviour under crisis conditions.

CHINA'S response to the pandemic also points to the importance of the regionalisation of supply chains for its domestic industry. Data on trade flows and manufacturing output for the period following the outbreak of COVID-19 suggests that disruptions to China-centred supply chains may have been transient. The Container Throughput Index published by the Leibniz Institute for Economic Research and the Institute of Shipping Economics and Logistics, for example, shows that the container throughput of Chinese ports generally recovered to pre-pandemic levels by March 2020 and suffered only a modest decline for the year as a whole.

An important factor for China's swift recovery from the pandemic is its growing integration in value chains in the Asia Pacific. Compared to other regions, the Asia Pacific has retained its importance for China's global supply chains, with China's backward and forward GVC linkages with Asia-Pacific Economic Cooperation countries reaching over 11 per cent by 2015.

China has also become more closely integrated with ASEAN through the signing of the ASEAN–China Free

Trade Area in 2001. Its aggressive pursuit of regional trade initiatives such as the Belt and Road Initiative may have further increased its appeal as a trade and investment partner for regional economies. Deepening regional supply chain integration may therefore have cushioned the impact of a major global crisis, even if it impedes allocative efficiency and limits the ability of firms to adjust to shocks originating from a specific country or region.

In view of the uncertainties generated by recent developments, what can be done to ensure the smooth functioning of supply chains and increase their ability to withstand the impact of future global crises? Indeed, companies have already started searching for strategies that will allow them to balance the priority of improving operational efficiency against the need for contingency planning. In addition to accelerating the pace of new technology adoption, many companies have more actively sought to cultivate alternate sourcing, manufacturing, and transportation options and to prioritise the localisation and regionalisation of supply chain relationships. Some have resorted to reshoring, near-shoring or the China Plus One strategy in order to diversify sourcing alternatives and mitigate the risks of supply chain disruptions. The China Plus One strategy, in particular, has emerged as an attractive option for multinationals based in China as it allows them to maintain their existing business ties with China while at the same time hedging against pressures to decouple from the centre of the world's manufacturing activities.

But government policy also has an important role to play in ensuring supply chain resilience. With global shocks and rising

COVID-19 won't rattle East Asian supply chains

PICTURE: ALY SONG/REUTERS

protectionist pressures in major economies threatening to destabilise global supply chains, it is important that governments are sensitive to diversified firm characteristics, preferences and demands, and that they adopt complementary policies to harness market forces.

It is thus more critical than ever that national governments refrain from pursuing protectionist or mercantilist policies and instead strengthen regional economic cooperation to provide the institutional framework necessary for expanding global supply chain networks. The negotiation of new regional trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership are positive steps in this direction. Both agreements address barriers to the movement of goods and services. The CPTPP further sets high standards in areas such as intellectual property rights, investment, and subsidies, which may help to increase the transparency and predictability of doing business in member countries.

While the rise of regional trade agreements is partly a response to firms' desire for a more stable business environment, it also risks creating an unwieldy set of international trade rules that undercut rather than facilitate the ease of doing business transnationally. Stepping up international coordination is therefore needed to revitalise the rules-based multilateral trading system, reintegrate and harmonise disparate national and regional standards and regulations, and prevent the balkanisation of regional economies. [EAFQ](#)

Ka Zeng is Professor of Political Science and Director of Asian Studies at the University of Arkansas.



Workers sew clothing at a Vietnamese garment factory in Hung Yen, December 2020.

FUKUNARI KIMURA

IN THE early stage of the COVID-19 pandemic, there was a series of overreactions about the viability of global value chains (GVCs), with some mixed feeling about China. Many claimed that the pandemic would mark the end of GVCs and that there'd be a massive 'reshoring,' with production pulled back from developing to developed countries. Others claimed that GVCs needed broadening to boost resilience and that companies should avoid concentrating their operations in one location such as China.

But GVCs have mostly remained intact over the past year, with more intensive use of communications technology.

The initial reactions were partially

due to an insufficient understanding of the multiple shocks generated by COVID-19. Health policies—including lockdowns and other social distancing measures—created three kinds of shocks to GVCs: negative supply shocks, positive demand shocks and negative demand shocks. These shocks have emerged in different places at different times and have confused observers.

For countries other than China, the first impact of COVID-19 was negative supply shocks. In February 2020, imports from China—both parts and components, and final products—suddenly stopped. But as China successfully contained the virus, import supply was quickly restored in a month. As COVID-19 spread to other countries, lockdowns and other measures caused negative supply

shocks, though the effects were minor and temporary in East Asia.

In many countries, there were initial positive demand shocks for personal protective equipment (PPE), and countries importing such goods experienced panic around sudden spikes in demand. Some countries introduced export restrictions on PPE and other 'essential' goods to prioritise domestic demand, without regard to the credibility of the rules-based trade regime. But after the initial shock, things calmed down and the market ensured stable supplies of most goods—except vaccines.

COVID-19 also generated positive demand shocks for telework and stay-at-home related goods. Sales of laptops, communication-related equipment, dishwashing machines and water purifiers boomed. East Asian exports to North America and Europe recovered primarily due to these positive demand shocks.

A third impact of COVID-19 was negative demand shocks. Lockdowns and social distancing, businesses closing and income losses reduced the demand for a wide range of goods and services. The slump in GDP was felt all over the world. But unlike the global financial crisis in 2008–09, many countries implemented mitigation policies on an unprecedented scale. So, there was no collapse of the financial sector and asset markets, and consumer purchasing power held up.

The trough of international trade was much shallower than that of GDP, both of which largely bottomed out across the world in May 2020. While particular sectors—such as the garment industry, transportation, tourism and on-site services—have suffered serious damage, major reshuffling of GVCs seems unlikely.

Initial concern about GVC viability was fuelled by over reaction to the

initial negative supply shocks and positive demand shocks, and anxiety about China. But private companies remained calm. They had already optimised the balance between efficiency and risk management before COVID-19. They knew that negative supply shocks would be temporary, positive demand shocks might create business chances and negative demand shocks needed to be watched carefully to gauge their depth and length.

THE world has not observed any massive reshoring or relocation of production operations. Machinery international production networks—characterised as a task-by-task international division of labour—have been more robust and resilient than other types of transactions as they proved to be in past crises including the GFC and the East Japan Earthquake.

To what extent did US–China decoupling already under way affect decision making for GVCs during COVID-19?

For Japanese companies, to take one example, China is attractive for production sites and markets. But China is also prone to sudden politically driven policy changes. So, Japan's China Plus One strategy to extend its GVCs has been in place since 2010 when disputes over the Senkaku (Diaoyu) Islands began to escalate. Labour-intensive operations started moving earlier in response to labour cost pressures and some quiet reallocation of production occurred in response to the US–China tariff war. COVID-19 aggravated the conflict and accelerated decoupling. That trend continued. However, most operations in China remain as they were.

The limited exceptions are companies with sensitive technologies that require semiconductors or

sensitive materials such as rare metals, as well as companies producing PPE. Some of these reshored and others moved part of their production from China to other countries.

Japan's Ministry of Economy, Trade and Industry provided two subsidy programs in 2020–21 for supply chains targeting these products. One was for reshoring and the other for diversification, mainly to ASEAN countries. Whether a policy tool such as a subsidy is optimal or not can be arguable, but the two programs were well accepted among Japanese companies.

The US–China confrontation has morphed from trade issues into super-power competition. Countries such as Japan and South Korea heavily depend on a national security system underpinned by the United States and have an incentive to behave as good allies. Careful assessment of the extent of decoupling in terms of the types of technologies, products, and firm nationalities will be crucial in the coming years.

Further extension and deepening of international production networks are desirable for enhancing resilience. India's participation in these would have helped do that so its decision to walk out of Regional Comprehensive Economic Partnership negotiations was unfortunate. By improving the investment climate and enhancing connectivity, South Asia could also participate in tightly connected East Asian production networks and thereby achieve more rapid economic growth and poverty alleviation. **EAFQ**

Fukunari Kimura is Professor, Faculty of Economics, Keio University and Chief Economist, Economic Research Institute for ASEAN and East Asia (ERIA).



A 2019 decision by Indian Prime Minister Narendra Modi (pictured in 2018) to withdraw from the Regional Comprehensive Partnership demonstrates India's longstanding stance to preserve its strategic autonomy while restoring its standing as a major economic power.

SUMAN BERY

INDIA as a modern state has pursued two interconnected objectives since independence from Britain in 1947. These goals, still relevant, are to restore the country's standing as one of the world's major economies, and to preserve geopolitical freedom of action, or 'strategic autonomy'. Economic strength is both an end in itself (to lift millions out of deep distress and poverty) and indispensable for maintaining autonomy.

Over this long period, India's engagement with the outside world has periodically changed to reflect domestic imperatives, global experience and changes in the external

environment. India seems engaged in such a reset at this time. What are the forces shaping India's present external posture, and what might they mean for India as an Asian player?

India is often regarded as innately protectionist, but as the economist Pravin Krishna has observed, at its independence India inherited a relatively open trade regime and in 1948 was one of the 23 original 'contracting parties' to the GATT. India's turn inward was facilitated a decade later when the GATT permitted 'special and differential treatment' for its poorer members. Policy was reinforced by geopolitics: Indira Gandhi of the Congress party who became prime minister in 1966 increasingly sided with the USSR in

the Cold War, reacting to US support of Pakistan and China under President Nixon. The economic outcome was dismal stagnation but 'strategic autonomy' was preserved.

India's return to openness in 1991 also occurred on the watch of a Congress-led coalition government. Parliamentary elections in 1989 led to the rejection of the ruling Congress party led by Indira Gandhi's son, Rajiv Gandhi. The inexperienced coalition government that took office was not in a position to handle a fiscal and balance of payments crisis. The crisis was exacerbated by external events: the collapse of the Soviet Union, an important trade and defence partner, and the first Gulf War. In the 1991 parliamentary election campaign

that followed, Rajiv Gandhi was assassinated, as his mother had been seven years earlier.

The electoral outcome was a Congress-led minority government headed by P. V. Narasimha Rao, the first Congress prime minister drawn from outside the Nehru-Gandhi family. Rao's technocratic finance minister, Manmohan Singh, advised the prime minister to seek support from the IMF. The program submitted to the IMF included a comprehensive set of reforms covering trade, public finance, the exchange rate regime and the reform of capital markets. While Prime Minister Rao provided valuable political cover he was not inclined to mount a frontal challenge to the party's centre-left orthodoxy associated with the iconic Indira Gandhi. External integration remained a largely technocratic project: 'reform by stealth' as it came to be known.

Though weak, this impetus to liberalisation lasted till the global financial crisis 20 years later. There was substantial reduction in average applied industrial tariffs over this period, though agriculture remained very highly protected. Liberalisation was largely unilateral, driven by a desire to emulate the export-led manufacturing success of the economies of East and Southeast Asia and thereafter China.

India was an active but unconvinced participant in the WTO's Doha Development Round launched under the WTO in 2001. India argued—with some justification—that a new round was premature as there was unfinished business from the earlier Uruguay Round to be dealt with, particularly where agricultural trade was concerned. Washington's retreat from committed multilateralism toward preferential agreements first with Canada and then

Mexico with NAFTA, as well as its support for China's WTO accession, together with the steady expansion of the European Community undermined India's faith in the multilateral order in the 1990s and early 2000s.

India remains by instinct a multilateral trading power, preferring to trade under the GATT's most favoured nation rules, and actively uses the protectionist flexibility afforded by the distinction between applied and bound tariffs, as well as the trade remedies (anti-dumping, safeguards) that are available. In the first decade of the new century it began to flirt with relatively shallow bilateral preferential trade agreements with a range of partners. It also agreed to participate in negotiations on the Regional Comprehensive Partnership (RCEP) in 2012 but in the end withdrew in 2019.

The patterns of comparative advantage that emerged under liberalisation were different from those anticipated and desired. The 20 years of liberalisation were by and large good for growth: by size of economy India is now a consequential, though still poor, middle-rank power. However, India did not succeed in boosting the share of manufacturing in domestic output; as agriculture declined the services sector boomed. This composition of output was also reflected in India's trade. While the overall balance of payments in general remained comfortable, its structure was closer to that of an advanced country, with a large deficit in industry balanced by surpluses in agriculture and services. The concentration of the manufacturing deficit in India's trade with China has been a problem given political and diplomatic tensions

As in the 1960s and again in the 1990s, a combination of external

and domestic forces has prompted a reevaluation of India's external engagement. While there is no crisis and the government is strong and popular, three contemporary developments are particularly significant. The economic, medical and political dimensions of the COVID-19 scourge have exposed and reinforced weaknesses in India's development trajectory. China's long-term economic success and its current political assertiveness are now shaping both the regional and global economic order as well as its bilateral relations with India. These developments have occurred at a time of declining support for multilateral co-operation following the global financial crisis and on into the pandemic. Taken together, these developments have prompted India to reconsider its external posture. Much remains obscure and seemingly inconsistent, but it does appear that India is reducing its bets on integration with its East Asian neighbours and investing greater energy in links with Europe and the United States.

The deeper message is that in its post-COVID recovery, India's pursuit of strategic trade and industrial policy means it prefers the flexibility offered by bilateral trade agreements over more ambitious regional structures. Its aim will be to make access to the Indian market most attractive for those willing to bring the latest technology, following the playbook of China and before it, Japan and South Korea. It will also seek to consolidate market access for its export of services in rich countries. [EAFQ](#)

Suman Bery is a Global Fellow at the Woodrow Wilson International Center for Scholars, Washington DC.



Tesla Model 3 vehicles roll off the line at the company's gigafactory in Shanghai, January 2020.

Globalisation isn't losing steam in China

SONG HONG

WHY has China continued to liberalise trade and investment as doubts about, and opposition to, globalisation elsewhere rise? While the opposite is claimed to be true in some developed countries, globalisation optimises China's economic structure and improves efficiency. China's opening-up and development has contributed significantly to ongoing processes of Asian regional integration, placing Asia in the lead as the fastest growing and most dynamic region in the world.

China has sought further liberalisation in investment and trade over the past few years, even during

the COVID-19 pandemic and through the US–China trade war. During the Trump administration, China removed ownership, regional and minimum benchmark restrictions on foreign direct investment (FDI) in the financial sector, leading to a boom in foreign investment. China continued to reduce the length of its negative investment list—which designates sectors where foreign investment is prohibited or restricted—from over 100 items to 33 items. It also unilaterally reduced its tariff rate from 9.8 per cent to 7.5 per cent.

In 2020, China signed the Regional Comprehensive Economic Partnership (RCEP) trade agreement with 15 countries and the Comprehensive

Agreement on Investment with the European Union. More free trade agreements are on the horizon. According to Beijing's latest Five-Year Plan and its Long-Range Objectives Through the Year 2035 proposal, China will actively pursue the trilateral free trade area negotiation with South Korea and Japan; apply to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); and continue to vigorously promote Belt and Road Initiative (BRI) construction projects. So far, China has signed 205 cooperation agreements with 171 countries and international organisations through the BRI.

Globalisation in some developed

countries, especially the United States and the United Kingdom, is said to have gone too far and led to losses of efficiency. If only trade is liberalised efficiency will improve, and benefits flow to all. If investment liberalisation is carried out at the same time, however, certain industries with comparative advantages in some developed countries will move out, and that can lead to a loss of high value-added products and services and high-income jobs. These and other consequences, if not attended to, include uneven income distribution and losses of welfare in these countries. This may be called a globalisation trap that needs national policy attention.

On the other hand, if a developing country actively attracts foreign investment, it may create a 'super mix', that is, a mix of foreign factors such as advanced foreign technology, capital and open international markets, together with domestic factors such as cheap labour, facilities and networks. This 'super mix' creates new comparative advantages and can also set up a globally competitive industry in a very short period of time. It can reshape international competition patterns in almost every sector and every market.

This is exactly what has happened in China over the past 40 years. The country's first superstar exporters were engaged in labour-intensive goods manufacturing. Most of them were in the processing trade, importing components and parts, with foreign-invested firms most active in the 1980s and 1990s. Domestic private firms then grew quickly and became the major players in Chinese exporting. In 2020, these firms accounted for just over 54 per cent of China's exports, about 36 per cent from foreign-

invested firms.

Absorption of foreign technology and management, combined with a skilled domestic labour force and other extensive supporting facilities and networks, made Chinese private firms more competitive than those of other countries. Take Vietnam as an example. Its combination of foreign technology, capital and domestic advantages was also highly competitive and its exports enjoyed rising market share, though Chinese private firms maintained their global market position successfully

RECENTLY, 'superstar' exporters have targeted intermediate and high-tech goods. Although a lot of these export products are designed by foreign firms, the manufacturing or assembly lines are in China. This provides Chinese enterprises with a chance to catch up and potentially replace foreign firms.

In recent years, some industries in China have been moved out to nearby countries like Vietnam, Bangladesh and Cambodia. These moves represent efficiency-enhancing upgrades, providing opportunities for China to enter more efficient industries, as inefficient industries and lower-level jobs move out.

This phenomenon has been a source of Chinese export competitiveness. It could be argued that the stellar performance of Chinese exports is not the result of unfair practices or theft of intellectual property rights. Rather, in addition to the mix of factors mentioned above, China also has other advantages such as a huge domestic market, high-quality labour, extensive production-supply networks and substantial research and development investment.

China's continued opening-up

will reshape worldwide trade and economic patterns in three ways. First, China will transfer more labour-intensive industries to neighbouring and nearby countries, driving regional economic development and promoting the expansion of regional integration in Asia. Investment in manufacturing will also deepen BRI cooperation with many of these countries.

Second, China is trying to attract more foreign investment in high-tech industries, which will deepen and expand Asian regional production networks. In 2020, China became the largest FDI destination in the world, with most new investment going into services.

Third, China provides a huge market for development and integration in other Asian countries. In decades past, East Asian economies such as Japan, South Korea, Taiwan, Singapore and Hong Kong, adopted export-oriented strategies and were highly dependent on the US market. Trade volumes from East Asian economies account for about one-third of the US market, which makes East Asian integration vulnerable with limited intraregional trade flows.

With China's economic rise, other markets in Asia will expand and the proportion of intraregional trade will increase. Meanwhile, dependence on external markets will decline. These factors will enable Asia to become an even larger production and consumption centre and further accelerate the eastward shift of the world's economy. **EAFO**

Song Hong is a Professor, Senior Fellow and Deputy Director-General at the Institute of American Studies, Chinese Academy of Social Sciences (CASS).



Australian
National
University

ANU COLLEGE OF
ASIA & THE PACIFIC

There has never been a more urgent time to use research to shape public debate, policy decisions and the well-being of our society.

Connect with us
asiapacific.anu.edu.au



hinrich foundation

advancing sustainable global trade

Sustainable global trade for a better future

The Hinrich Foundation is a unique Asia-based philanthropic organization that works to advance mutually beneficial and sustainable global trade.

Through our research and education programs, we are building a diverse network of trade leaders, business thinkers, policy innovators and media influencers who can help advance sustainable global trade.

We hope that this informed and engaged community of change makers will have a meaningful impact in advancing sustainable global trade. Together we explore how to make trade more beneficial to all.

Get our latest research and articles by subscribing to our newsletter:

www.hinrichfoundation.com

