



A NEW LIBERAL ORDER IN THE MAKING?



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Kajima Institute of International Peace



Institute for Security &
Development Policy

A New Liberal Order in the Making?

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2025

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2025

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First published in 2025 by
PENTAGON PRESS LLP
206, Peacock Lane, Shahpur Jat
New Delhi-110049, India
Contact: 011-26490600

Typeset in AGaramond, 11.5 Point
Printed at Aegean Offset Printers, Greater Noida

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www.pentagonpress.in

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Preface

This booklet presents the outcomes of the successor workshop to the “Workshop on the Liberal International Order,” which was jointly organized by the Institute for Security & Development Policy, the Kajima Institute of International Peace, and the Prospect Foundation. The previous workshop concluded with the publication of a booklet titled *In Defense of the Liberal International Order*, edited by Norah M. Huang, Jagannath Panda, and Tatsuo Shikata.

Building upon the findings of the previous year, this year’s workshop has further deepened and expanded its content. While I leave the final judgment to the esteemed readers, I would like to offer two observations from my position as a kind of producer.

First, this year’s study group undoubtedly reflects the insights gained from a week-long research trip in September 2024 to Vilnius, Lithuania, and Prague, Czech Republic. During this trip, we engaged in discussions with officials from the foreign ministries and security think tanks of both countries, the Lithuanian Ministry of National Defence, the Czech Ministry of the Interior (which oversees intelligence agencies), Vilnius University, and Charles University. Witnessing the Ukrainian flags flying in government districts provided us with profound and invaluable insights. It should be noted that the Prospect Foundation delegation returned to Taiwan after the Vilnius portion of the trip.

Lithuania, since the founding of the Grand Duchy of Lithuania in 1251 and the establishment of the Polish–Lithuanian Commonwealth in 1569, rose to become a major power. However, it was annexed by the Russian Empire following the three partitions of Poland between 1772 and 1795.

After declaring independence in 1918 following World War I, Lithuania was annexed by the Soviet Union in 1940, occupied by Nazi Germany from 1941 to 1944, and then reabsorbed into the Soviet Union until it regained independence in 1990 after 50 years of foreign rule. With this history of oppression by Russia and the Soviet Union, Lithuania has developed a strong awareness of the importance of freedom, democracy, and human rights. In 2020, the new government led by Prime Minister Ingrida Simonyte of the Homeland Union declared its support for global movements fighting for freedom, including Taiwan. The following year, Taiwan established the “Taiwan Representative Office in Lithuania.” China strongly opposed this move, recalling its ambassador and imposing economic sanctions such as restrictions on Lithuanian imports (lifted in 2023). Despite a change in government to the Social Democratic Party in the 2024 general election, Lithuania’s relationship with Taiwan, based on shared liberal values rather than mere economic or diplomatic strategy, remained unchanged. In response to Russia’s prolonged invasion of Ukraine, Lithuania now views the possibility of an invasion of its own territory as a realistic threat. It has announced plans to invest over •1.1 billion in border defense over the next decade, including its border with Belarus, a Russian ally. Additionally, Lithuania is working with Estonia and Latvia to promote the “Baltic Defense Line Project,” building a coordinated system as part of NATO’s eastern defense line. Since May of this year, 5,000 German troops have been stationed in Lithuania.

In the Czech Republic, Zdenek Hrib, who had studied in Taiwan, became mayor of Prague in 2018. He opposed the “One China” principle and terminated the sister city agreement with Beijing, instead signing one with Taipei. In 2020, the President of the Czech Senate visited Taiwan, and since 2023, the Czech government has been strengthening ties with Taiwan while clearly criticizing China’s human rights issues and coercive diplomacy. Going forward, the Czech Republic is expected to prioritize value-based diplomacy (democracy and human rights) over economic cooperation. Its relationship with Taiwan enjoys bipartisan domestic support and is likely to deepen further. Regarding Russia, after World War II, the Communist Party of Czechoslovakia, backed by the Soviet Union, seized power in a coup. In 1968, the democratization movement known as the “Prague Spring” was

suppressed by Soviet tanks, and sovereignty was not restored until the Velvet Revolution in 1989. Given this history, the Czech Republic views Russia as a security threat and actively supports Ukraine.

The second point is that there were changes in the teams from Japan, Sweden, and Taiwan. In Team Japan, Ambassador Masafumi Ishii (former Ambassador to Indonesia, former Ambassador to Belgium & NATO) replaced General Nagashima, who had been in charge of European affairs.

With the advent of the second Trump administration, the United States has significantly retreated from the international stage. Its mercantilist trade policies, absolutist domestic governance, anti-Enlightenment social policies, and pre-international law foreign policy represent a regression to pre-modern principles. I believe this situation will persist for about 30 years, as it reflects the political manifestation of the Fifth Great Awakening movement. Incidentally, the average duration of the First through Fourth Great Awakenings was approximately 30 years each. Amid this unprecedented collapse of the post-World War II international order, I am confident that the proposals in this booklet will serve as a starting point for many discussions to be held in democratic nations outside the United States.

Nobuyuki Hiraizumi

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July 2025

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Masafumi Ishii is Special Adjunct Professor of the Faculty of Law, Gakushuin University, where he teaches international law. Prior to that, he was Ambassador of Japan to Indonesia (until 2020) He graduated from Tokyo University and joined MOFA in 1980. His posts in Tokyo include Director

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Tatsuo Shikata is a Visiting Researcher at KIIP. He worked for Mitsui & Co., Ltd. for four decades including its overseas offices in New York, Toulon and Singapore, and he finished the Executive Course of Keio Business School. Since 2015, he has been working at Japanese think-tanks, namely Kajima Institute of International Peace, Japan Institute of International Affairs, and Japan Forum on International Relations. He is currently studying “Future of International Order based on Liberalism” and “Japan/India/EU Cooperation on Economic Security”.

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Abbreviations

ADB	Asian Development Bank
ADIZ	Air Defense Identification Zone
AI	Artificial Intelligence
AMF	Asian Monetary Fund
AP4	Asia-Pacific Four (Japan, South Korea, Australia, and New Zealand)
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AUKUS	Australia-UK-U.S. Trilateral Security Partnership
BRI	Belt and Road Initiative
BRICS	Brazil-Russia-India-China-South Africa
CCP	Chinese Communist Party
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CSDP	Common Security and Defence Policy
DPP	Democratic Progressive Party
DPRK	Democratic People's Republic of Korea
ECS	East China Sea
EU	European Union
FDI	Foreign Direct Investment
FIMI	Foreign Information Manipulation and Influence activities
FOIP	Free and Open Indo-Pacific
FONOP	Freedom of Navigation Operations
FVEY	Five Eyes
GDP	Gross Domestic Product

iCET	Initiative on Critical and Emerging Technologies
ILO	International Liberal Order
IMF	International Monetary Fund
IMO	International Maritime Organization
IPEF	Indo-Pacific Economic Framework
KMT	Kuomintang
LAC	Line of Actual Control
LIO	Liberal International Order
MAGA	Make America Great Again
NATO	North Atlantic Treaty Organization
NPT	Non-Proliferation Treaty
ODA	Official Development Assistance
PLA	People's Liberation Army
PRC	People's Republic of China
RCEP	Regional Comprehensive Economic Partnership
RFA	Radio Free Asia
ROC	Republic of China
SCO	Shanghai Cooperation Organisation
SCRI	Supply Chain Resilience Initiative
SCS	South China Sea
SDF	Self-Defense Forces
SDG	Sustainable Development Goals
SLOC	Sea Lanes of Communication
TPP	Trans-Pacific Partnership
U.S.	United States
UAE	United Arab Emirates
UAV	Unmanned Aerial Vehicles
UNCLOS	United Nations Convention on the Law of the Sea
UNSC	United Nations Security Council
USAID	United States Agency For International Development
VOA	Voice of America
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

Executive Summary and Policy Recommendations

The post-World War II liberal international order characterized by the U.S. leadership, its alliances both in Europe and Asia, free trade, democratic partnerships, rule-making, and multilateral institution-building, among other features, is facing an intense crisis of governance and faith.

China has amped up its economic, military, and technological advances with the intent to undermine the U.S.-led existing order and to create a new China-led international order. For this purpose, it is looking to rebuild partnerships across the world, particularly in the so-called Global South—covering Latin America, West Asia, Africa, and Asia, among others in the developing and emerging world. While China's influence has been on the rise among these states, its ties in Europe have been deteriorating primarily due to China's coercive economic and diplomatic policies. In this context, the growth in transatlantic ties could be crucial to rebuilding an effective, representative liberal international order that is relevant in the new era.

At the recent NATO summit in The Hague, a major shift came from U.S. President Donald Trump, who now acknowledges NATO's relevance to the U.S. This change followed a strong signal from European allies committing nearly 5 percent of GDP to defense, compelled by Trump and fears of the security threat posed by Russia.

While it is unclear if Trump's new stance will last, the summit's renewed focus on burden sharing marks a significant moment in NATO's ongoing evolution. And it again brings forth the question of how important is EU-U.S. cooperation in strengthening the liberal international order? And

concurrently, what is the significance of the Indo-Pacific region in reinvigorating the liberal international order?

This publication—a part of a joint project by The Prospect Foundation (PF), the Institute for Security and Development Policy (ISDP), and the Kajima Institute of International Peace (KIIP)—is the second in a series that attempt to provide fresh perspectives on the theme “Future of International Order based on Liberalism.”

* * *

In the 21st century, the liberal international order has come under strain. China’s meteoric rise has been accompanied by an increasingly aggressive foreign policy and a rejection of the Westphalian norm of equal sovereignty. Militarization in the South and East China Seas, economic coercion, and technological espionage have all contributed to growing tension. Simultaneously, Russia’s invasion of Ukraine has shattered the authority of the UN Security Council and revived imperialist thinking. These developments, combined with the rise of populist nationalism in the West—especially under leaders like Donald Trump—have further eroded Western unity and leadership.

As U.S. dominance wanes, cooperation among liberal democracies becomes more critical. Countries like Japan, South Korea, Australia, and the EU must take more responsibility in preserving the liberal order, promoting free trade, and resisting authoritarian encroachments. Engaging emerging powers like India and ASEAN are key to maintaining global balance, especially as China and Russia seek to leverage alliances like BRICS to challenge Western influence. Nonetheless, internal discontent and rising protectionism, particularly in the U.S., threaten to undermine this cooperative framework.

Japan’s partnership with NATO, though still in its infancy, offers potential for greater strategic coordination, especially in light of rising nuclear threats from China and North Korea. Historically constrained by its Three Non-Nuclear Principles, Japan now faces new security realities due to China’s expanding military power and its ambitions over Taiwan. To maintain credible deterrence and reassurance under the U.S. nuclear umbrella, Japan must reconsider its stance on nuclear policy and engage in serious operational

planning with the U.S., drawing lessons from NATO's decades of nuclear strategy.

Preserving the liberal international order in the face of authoritarian resurgence, U.S. retrenchment, and nuclear threats will require robust collaboration, clear strategic planning, and renewed commitment to universal values by both Western nations and emerging partners. Japan's evolving role, especially in security and nuclear policy, will be crucial in maintaining stability in the Indo-Pacific and reinforcing the broader global order.

China's economic downturn, meanwhile, is not merely cyclical but structural and long-term in nature. Key factors contributing to this stagnation include weak consumer demand, a prolonged deflationary environment, and significant policy missteps. Official GDP figures are widely suspected to be overestimated, with internal analyses suggesting consistent inflation of growth data. Despite IMF forecasts aligning with Beijing's targets, deeper structural weaknesses such as falling consumer confidence, youth unemployment, and persistent deflation underscore a broader lack of economic momentum.

At the heart of China's economic malaise are three interrelated crises: the real estate sector's collapse, unsustainable local government debt, and high urban youth unemployment. Several structural issues compound these challenges. China faces a rapidly aging population, with a declining birth rate and an increasingly unfavorable dependency ratio that threatens to erode its labor force and productivity over time. Foreign direct investment has significantly decreased, with capital increasingly flowing out of China due to rising geopolitical tensions and eroding investor confidence. Furthermore, centralized policymaking under Xi Jinping has stifled innovation, suppressed private enterprises, and failed to enact meaningful economic reform.

Although Beijing introduced a series of stimulus measures in late 2024—including rate cuts, housing incentives, and financial market interventions—these efforts merely offer short-term relief and fail to address deeper structural problems. Rather than redistributing income to boost household consumption or reforming social welfare systems, policy continues to disproportionately support state-owned enterprises and local governments. As a result, the root causes of China's economic inertia—such as income

inequality, a fragile safety net, and limited consumer trust—remain unaddressed.

Importantly, economic stagnation is also likely to influence China's foreign policy. There are two prevailing theories: diversionary war and mercantilist expansion. While diversionary war posits that troubled regimes may initiate conflicts to distract from internal issues, historical evidence suggests Chinese leaders typically prioritize domestic stability and avoid military escalation. However, under extreme internal pressure, particularly threats to CCP rule, this behavior could shift. More likely is a continuation of mercantilist strategies—aggressively exporting surplus industrial capacity, manipulating trade advantages, and deepening influence across the Global South.

While immediate collapse is unlikely, the long-term outlook for China remains bleak unless significant reforms are undertaken. The implications of this economic decline extend beyond borders, as China's internal struggles increasingly influence its global posture. Vigilance is warranted, especially regarding potential flashpoints such as Taiwan and Indo-Pacific alliances, where China's strategic calculations could shift in response to growing domestic pressure.

Taiwan's political landscape in 2025 is defined by a split government and deep polarization. President Lai Ching-te of the Democratic Progressive Party (DPP) won the 2024 election with 40% of the vote, but the DPP lost its legislative majority to a Kuomintang (KMT)-Taiwan People's Party (TPP) alliance. The opposition-controlled Legislative Yuan has since blocked most of the administration's proposals and passed sweeping budget cuts—especially to defense and foreign affairs. In response, a civil movement has initiated a mass recall effort against up to 31 KMT legislators, which could potentially shift the legislative balance in DPP's favor if successful. The outcome of these recall elections will be pivotal in determining Taiwan's legislative direction ahead of the 2026 midterms.

Meanwhile, Taiwan faces heightened external pressures from China. Beijing has escalated its military operations, with frequent air and naval incursions and four major military exercises since President Lai's election. These actions increasingly resemble rehearsals for blockades or invasion rather than political signaling. China's diplomatic isolation campaign has also

intensified, successfully pressuring countries to recognize its sovereignty claims over Taiwan and reducing Taiwan's international space. Taiwanese defense officials are now more openly warning that future blockades will be treated as acts of war, highlighting the deteriorating security environment.

Amid these geopolitical tensions, Taiwan's economic resilience stands out. Despite Chinese sanctions and diplomatic aggression, Taiwan's high-tech exports—especially semiconductors—remain crucial to global supply chains, including China's. Taiwan has also diversified its economic ties, reducing dependence on China and expanding trade with Southeast Asia and the U.S. However, the Trump 2.0 administration presents new economic uncertainties. The U.S. imposed steep tariffs on Taiwanese goods and demanded significant defense spending increases, sparking friction despite Taiwan's strategic importance to U.S. technology and defense objectives.

The U.S.-Taiwan-China trilateral relationship is now mired in ambiguity. Unlike President Biden, Trump has not explicitly committed to Taiwan's defense in the event of Chinese aggression, raising doubts in Taipei and allied capitals. While Trump's cabinet members offer verbal reassurances, Taiwan remains wary. Simultaneously, Taiwan's internal political struggle—centered on the recall effort, Ko Wen-je's legal scandal, and the upcoming KMT chairmanship election—adds layers of instability. President Lai, though popular, faces gridlock at home and heightened threats abroad, navigating what is arguably Taiwan's most precarious moment in decades.

Looking forward, four challenges dominate Taiwan's path to 2026: resolving the U.S. tariff dispute, determining the legislative balance through recall and by-elections, countering China's grey zone and diplomatic aggression, and securing necessary defense funding amidst congressional resistance. How the Lai administration manages these will not only shape Taiwan's domestic stability but also its ability to deter Beijing and maintain its democratic autonomy in an increasingly volatile region.

The U.S. and China are increasingly focused on domestic priorities—through “MAGA” (Make America Great Again) and “home first” strategies—leading to challenges in upholding the existing international order. While China aims to reshape the global system by 2049, using both military and economic leverage, the U.S. has stepped back from multilateralism, especially under the Trump administration. This shift weakens the U.S.-centered

military-security system and creates strategic openings for China. Allies like the EU, Japan, and Taiwan face the difficult task of maintaining the current security and trade frameworks, all while China supports global economic multilateralism superficially to advance its interests.

Economically, the collapse of the WTO system has emboldened China to reshape trade in its favor while the U.S. continues to pursue protectionist policies. The CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) is proposed as a key alternative for maintaining open, rule-based trade. Japan, Taiwan, and the EU are encouraged to lead efforts in expanding CPTPP membership, including cautiously negotiating with China and Taiwan. Economic integration frameworks like RCEP and trilateral Japan-China-Korea talks are also seen as useful avenues to engage China under a rules-based approach.

The Global South is becoming increasingly important in the geopolitical struggle, especially after the U.S. reduced its foreign aid programs. China is leveraging this vacuum to extend influence. Although Japan, Taiwan, and the EU cannot fully replace U.S. aid, they are encouraged to prioritize targeted development assistance, uphold basic international norms like rule of law, and promote economic security through supply chain cooperation and resource security initiatives.

As China seeks dominance in global discourse, it is capitalizing on weakened Western information channels like RFA and VOA. To combat this, Japan, Taiwan, and the EU need to strengthen their own information dissemination efforts and counter disinformation. Cybersecurity and legislative reform are essential, especially for Japan.

In an increasingly multipolar world, there is also a growing strategic interconnection between Europe and the Indo-Pacific. While Europe's traditional security focus has been on its immediate neighborhood—namely, North Africa and the Middle East—geopolitical developments, particularly China's rise and Russia's ongoing war in Ukraine, have forced European leaders to reassess their stance on Indo-Pacific security. Notably, the use of North Korean, Iranian, and Chinese-made arms in the Ukrainian conflict has highlighted how distant regional tensions are linked. European leaders such as French President Emmanuel Macron have begun to recognize the

Indo-Pacific's importance, advocating for coordinated diplomatic responses grounded in the rules-based international order.

Economic interdependence alone can no longer ensure peace, as it can be weaponized by authoritarian regimes. Russia's role as an energy supplier and China's dominance in trade have enabled these powers to exert coercive pressure on the West. Western sanctions have so far failed to effectively cut off military supplies to Russia due to limited enforcement and reluctance to confront China directly, underlining the challenges of balancing diplomacy with deterrence. This highlights the urgent need for a more resilient and secure global supply chain—especially for sensitive technologies like legacy chips, where Chinese dominance poses long-term espionage and security risks.

Amid this complex landscape, the concept of “de-risking” rather than full economic decoupling has emerged as a more viable strategy. Governments must strike a balance between maintaining global trade ties and protecting critical sectors, especially defense-related supply chains. The war in Ukraine and escalating U.S.-China tensions demonstrate the need for expanded defense industrial capacity and friend-shoring to ensure reliable access to key materials and technologies. Initiatives like the Pentagon's Blue UAS program and allied collaboration in rare earths, shipbuilding, and next-gen weapons development are cited as concrete steps toward this goal.

Trump's reluctance to involve the U.S. in global conflicts marks a shift from an era of burden sharing—where the U.S. led conflict resolution and allies helped pay the costs—to one of “challenge sharing,” where regional powers like Japan, Europe, and Taiwan must take more responsibility themselves. The U.S.'s reduced global engagement is not just a Trump phenomenon but reflects a broader trend in American foreign policy. Trump's transactional “America First” approach to alliances, and a more unilateral and aggressive diplomatic stance, risk further weakening U.S. global influence and its role in maintaining a rules-based order.

The shift is already visible in Southeast Asia, where U.S. disengagement has prompted strategic recalibrations. Countries like Malaysia, Thailand, and Indonesia are increasingly aligning with China and the BRICS bloc to hedge their interests, reflecting a shared perception that the U.S. is no longer present or reliable. Even Indonesia, once a stabilizing force within ASEAN,

joined BRICS in 2024. Meanwhile, Vietnam is delicately balancing its relations with China and strengthening ties with Russia, while countries like Cambodia and Laos are firmly within China's sphere. Singapore maintains its neutral stance but appears to be subtly leaning towards Beijing.

The practical consequences of U.S. withdrawal are evident in development aid reductions. The dismantling of USAID and NED is creating power vacuums, particularly in humanitarian support. In Bangladesh, food and medical assistance to Rohingya refugees has sharply declined, risking social instability. Across Africa and Asia, the retreat of U.S. support is being offset by increased Chinese and Russian influence, further signaling a global shift in power dynamics.

In response to these developments, Japan, Europe, and democratic Asian partners like Taiwan must take the initiative. Rather than speculating on Trump's future actions, these countries should proactively develop joint policies and regional strategies. Japan, in particular, is in a unique diplomatic position—still respected by the U.S., but increasingly expected to fill the vacuum left in Southeast Asia. This geopolitical moment could be a turning point for Japan's regional leadership and for redefining collective democratic action in a multipolar world.

European and Indo-Pacific allies now face the challenge of defining their roles in various theaters amid rising defense burdens and geopolitical uncertainty. Ultimately, there needs to be a renewed emphasis on burden-sharing and strategic coordination. It acknowledges the importance of preserving strategic autonomy while encouraging deeper cooperation to maintain a rules-based order. Whether through joint defense production, naval diplomacy, or aligning chip supply chains, like-minded countries must collectively reinforce deterrence and resilience. The shared interest among allies in upholding stability should drive the creation of flexible, inclusive frameworks that respond to evolving threats in both Europe and the Indo-Pacific.

A strengthened Europe-Asia partnership offers a viable path forward. Economically, both regions already trade extensively, with Europe's trade with Asia surpassing that with the U.S. in recent years. Potential gains from expanded trade agreements and technological cooperation are considerable, particularly in sectors like AI, semiconductors, and green tech. Joint

investment in R&D, digital infrastructure, and financial mechanisms less dependent on the U.S. dollar could reduce exposure to American policy shifts. Security-wise, while no replacement exists for U.S. military power, enhanced maritime cooperation, intelligence sharing, and coordinated defense spending increases—especially among France, the UK, Japan, and South Korea—can reinforce regional stability.

However, this interregional cooperation is not without challenges. Europe must tread carefully to avoid alienating the U.S. or weakening NATO cohesion. Internally, divergent interests among EU member-states—especially regarding China—limit coherent foreign policy. Similarly, Asia's strategic diversity complicates consensus-building, and deepening ties with Europe may invite scrutiny or backlash from both China and the U.S. The sheer geographic distance, coupled with logistical and cultural hurdles, also imposes constraints on security cooperation and diplomatic engagement.

Ultimately, while Trump's second term poses clear risks, it also creates a strong incentive for Europe and Asia to deepen their cooperation and build a more multipolar and resilient global order—one less dependent on U.S. leadership but careful not to provoke unnecessary confrontation.

India's evolving relationship with the United States, particularly under a resurgent Trump administration, adds further complexity. The India-U.S. partnership has deepened through the Quad and initiatives like iCET, boosting defense, technology, and space cooperation. Despite Trump's protectionist stance—evident in recent tariff hikes—India continues to prioritize a comprehensive trade deal. Modi's administration has taken steps to appease U.S. trade concerns while leveraging the defense and tech collaboration to counterbalance China's regional ambitions. These dual dynamics—economic caution with the U.S. and geopolitical pragmatism with China—underscore India's strategic tightrope walk.

India-China relations have shown tentative signs of improvement following the 23rd Special Representatives meeting in Beijing in December 2024. However, the progress remains fragile, overshadowed by unresolved tensions and the absence of concrete agreements from top-level meetings between leaders Narendra Modi and Xi Jinping, signaling that trust has yet to be fully rebuilt.

India's foreign policy is anchored in strategic autonomy, balancing its engagement with Western alliances like the Quad and forums like NATO with active participation in non-Western platforms like BRICS and SCO. New Delhi views itself as a bridge between the Global South and the developed world, pushing for a multipolar order based on equity and reform. This posture is in contrast to China's assertive Belt and Road-driven approach, which seeks to reshape global governance. Both countries are competing for influence in the Global South, yet their approaches diverge markedly—India focusing on sustainability and institutional reform, and China on expanding its geopolitical footprint.

Looking ahead, trade and selective economic engagement between India and China may see improvement, particularly in sectors not linked to national security. Bilateral trade already exceeds \$118 billion, and India is reportedly reconsidering restrictions on Chinese investments in electronics manufacturing. Nonetheless, India's concerns about opaque corporate structures and national security risks remain. These decisions will likely be calibrated, aiming to enhance manufacturing capacity without compromising sovereignty. India sees economic engagement with China as a potential hedge against escalating U.S. protectionism under Trump.

India is committed to managing its ties with both China and the U.S. on independent tracks. Strategic autonomy remains central to its diplomacy, allowing New Delhi to navigate complex global shifts without falling into alliance traps. While it continues to deepen its U.S. partnership—particularly in defense and technology—it also recognizes the necessity of stable ties with China for regional and global stability. This careful balancing act allows India to protect its interests, enhance global stature, and promote a multipolar world amid rising geopolitical polarization.

Growing geopolitical competition between liberal democracies and authoritarian regimes—centered primarily on China, Russia, and North Korea—has intensified over the past decade. This emerging alignment of authoritarian powers, often framed as a possible “new Cold War,” is driven not by existential military threats, but by conflicting values, ideologies, and influence in a shifting global order. The war in Ukraine has added new urgency and complexity to this dynamic, especially as Russia's relations with both China and North Korea have strengthened. The triangular relationship

is rooted in historical narratives, geopolitical pragmatism, and a shared opposition to the Western-led international order.

Historically, the China-Russia relationship has seen major shifts—from Cold War rivalry and ideological conflict to recent strategic cooperation. After decades of strained ties, normalization began in the late 1980s and deepened in the 2000s. Their shared perception of the U.S. as a strategic threat has been a consistent unifier, particularly under Xi Jinping and Vladimir Putin’s leadership. This culminated in their 2022 declaration of a “no-limits” partnership. Similarly, Russia and North Korea’s relationship has evolved from Cold War patronage to marginalization in the 1990s and then resurgence in recent years, driven by shared isolation and mutual benefit—particularly in military support and geopolitical positioning amid the Ukraine war.

China’s relationship with North Korea, while historically close, has grown more strained, particularly due to Pyongyang’s nuclear ambitions and independent foreign policy. Despite Beijing’s frustrations, China remains North Korea’s lifeline—balancing support to prevent regional instability while opposing Kim’s provocations. Shared values and resistance to Western norms bind the three regimes ideologically, but their relationships are shaped by asymmetries: China dominates economically and diplomatically, while Russia and North Korea rely heavily on Beijing, with Pyongyang trying to exploit rivalries to retain leverage.

Looking ahead, shared values, anti-Western ideology, historical narratives, and mutual threat perception will likely keep the triangle intact in the short-to-medium term. However, several external and internal factors could affect the trajectory. The war in Ukraine remains pivotal; its outcome will shape global perceptions of Western resolve and affect the internal legitimacy of leaders like Putin and Xi. A weakened or emboldened Russia could also impact China’s strategic calculus. Meanwhile, Trump’s unpredictable foreign policy could result in short-term diplomacy with North Korea, though any meaningful denuclearization appears unlikely.

Economically, growing asymmetries between China and its partners pose long-term challenges. China’s global economic integration contrasts sharply with the sanctioned, stagnating economies of Russia and North Korea. Demographic decline and economic pressures may also test regime stability,

particularly in North Korea. Security remains a key unifier, especially through nuclear capabilities and joint military activities—though formal trilateral defense cooperation remains limited. China’s leadership role in the trio is uncontested but must be managed carefully to avoid alienating Russia or provoking stronger U.S. responses in East Asia.

The China-Russia-North Korea axis has deepened in response to external pressure and internal needs, forming a strategic but asymmetric partnership grounded in shared authoritarian values and opposition to the West. While this triangular alignment is unlikely to break in the near future, potential friction points—especially involving China’s balancing act or a Korean Peninsula crisis—could alter the current trajectory. The West faces a difficult strategic question: how to manage, contain, or divide this increasingly coordinated bloc in an era of shifting alliances and uncertain U.S. leadership.

* * *

By embracing pragmatic, interest-based collaboration, Europe and Asia can build a resilient partnership that balances traditional transatlantic ties with diversified global relationships. This strategic cooperation will shape not only regional prosperity and security but also the future architecture of the international system in an era of geopolitical uncertainty.

Fostering dialogue with China—without making concessions—remains vital, alongside preparing for domestic instabilities and considering future normalization with Russia, depending on developments in Ukraine. Peace and stability in East Asia hinge on this delicate balance of deterrence, diplomacy, and multilateral cooperation.

Strengthen Europe-Asia Frameworks

- Preserving a rules-based international system remains a shared priority. Europe and Asia should lead efforts to reform multilateral institutions, enhance regional cooperation mechanisms, and maintain open, predictable frameworks for resolving disputes amid waning American engagement.
- Building on existing frameworks such as the EU-Japan Comprehensive Economic Partnership Agreement, Europe and Asia can develop broader economic partnerships that reduce trade and investment barriers while upholding high standards for labor, environment, and governance.

- To counter China's global reach through partnerships and military infrastructure, likeminded countries must reinforce frameworks like NATO, AUKUS, and the Quad, even amid U.S. ambivalence. Japan is advised to strengthen ties with Taiwan and the EU, particularly in areas like maritime security and submarine cable protection, which have seen increased Chinese interference. Diplomatic engagement with the U.S. defense and foreign policy institutions remains crucial to keep American commitment aligned with allied interests.
- Existing frameworks like the Asia-Europe Meeting (ASEM) and bilateral strategic partnerships provide a foundation, but they lack the institutional strength and resources of counterparts like NATO or APEC. To be effective, these institutions need reinforcement, not reinvention.
- Cultural, educational, and civil society exchanges are also essential for long-term trust-building and strategic alignment.

Share the Burden of Global Crisis Management

- Establish a NATO-led ceasefire monitoring mechanism in Ukraine, with contributions from European NATO members. Any Russian aggression should trigger NATO's collective defense response. Japan should take a post-conflict role—landmine clearance and infrastructure reconstruction in Ukraine.
- Japan and others should be prepared to defend the Philippines, a key U.S. treaty ally, if the U.S. looks the other way under Trump. Given its geographical location, Japan should lead regional coast guard coordination and joint maritime exercises in the South China Sea and alternative sea lanes (Celebes Sea, Lombok Strait).
- Consider initiating new legal action through an international tribunal to maintain attention on South China Sea disputes.

Pathways to Enhanced Cooperation

- Immediate steps include establishing a high-level Europe-Asia strategic dialogue, sectoral working groups on security and climate, expanded educational exchanges, and coordinated technology standard-setting.

- Long-term success depends on evolving existing institutions, fostering flexible coalitions, encouraging Track Two dialogues, and investing in leadership development to sustain cooperation.

Economic Integration and Supply Chain Resilience

- Deeper economic ties, anchored in comprehensive agreements, will enable diversification and collective resilience in supply chains, a need underscored by the COVID-19 pandemic.
- Leverage supply chain resilience through coordinated diversification, stockpiling, and manufacturing capabilities without pursuing inefficient self-sufficiency.
- Establish a regional dispute resolution mechanism akin to the WTO, given its current dysfunction.
- Joint investments in sustainable physical and digital infrastructure can leverage Europe's design expertise and Asia's manufacturing and financing strengths to improve connectivity and development across both regions.
- Europe and Asia hold complementary technological capabilities essential to competing with global powers. Coordinated research, regulatory alignment, and joint standard-setting in emerging fields like artificial intelligence, quantum computing, and biotechnology can enhance innovation and sovereignty.

Climate and Environmental Cooperation

- Recognizing the existential threat posed by climate change, Europe and Asia must collaborate on carbon pricing, climate adaptation, and broader environmental challenges such as biodiversity and pollution.
- Green technologies represent a particularly promising area, with both regions poised to accelerate clean energy deployment, supporting ambitious climate goals and unlocking substantial economic opportunities.
- Coordinate on carbon pricing, climate adaptation technologies, and public climate finance to address climate risks collectively.
- European lessons in transboundary environmental management can be applied to Asian contexts. Sharing best practices in environmental governance will strengthen regional and global resilience.

POLICY RECOMMENDATIONS

1. The Shakeup of the International Order

Establishment of the Liberal International Order

After World War II, the international order matured greatly. In 1945 the UN Charter was written, and war was banned. Illegal use of force in violation of the UN Charter was regarded as an evil against the international community as a whole and was subject to economic sanctions and armed counterattacks by the international community led the UN Security Council.

In 1947, India, led by Mahatma Gandhi, broke free of the yoke of the British monarchy under the banner of nonviolent disobedience (Satya Graha) without firing a single shot. Later, from the 1950s to the 1960s, emerging nations in Asia and Africa broke the chains of colonial rule by themselves and achieved independence one after another. The number of nations in 1945 was only around 50, but now it is around 200.

At the beginning of the Pacific War, the Empire of Japan shattered the centuries-old Western colonies in Asia with a single blow, but after Japan's defeat, except for the United States, which granted independence again to the Philippines in 1946, France returned with guns to Vietnam, Britain to Malaya, and the Netherlands to Indonesia to reconquer them. But they were all beaten out by Asians who awakened to their national consciousness and picked up guns. The same was true of the United States, which had not understood the resolve of the Vietnamese for self-determination and joined France in the Vietnam War.

At a time when opposition to the Vietnam War was gaining momentum in the U.S., an African American, Dr. Martin Luther King, Jr. as a disciple of the mind of Gandhi, through his thoroughly nonviolent campaign, eliminated the systemic racism that had persisted mainly in the southern United States after the emancipation of slaves achieved by President Lincoln. The tsunami of anti-racism immediately spread throughout the world. Europe, Australia, and NZ followed suit. And apartheid in South Africa, the last bastion of racism, crumbled before the indomitable fighting spirit of President Nelson Mandela.

Then, in 1991, the Soviet Union, which had been a communist one-party dictatorship and had competed for hegemony with the United States for half a century under a nuclear confrontation, collapsed from within. The red army, powerful KGB were intact and it had still huge reserves of oil and natural gas. Nonetheless, the dictatorship in Moscow, which had stifled the freedom of its people and the ingenuity of the market economy, collapsed, losing its vitality as a nation.

The Baltic States and Poland came out of the Cold and became truly independent. Eastern European countries like the Czech Republic, Slovakia, Slovenia, and Croatia, which had the graceful cultural traditions of the Habsburgs but were forced into crude Stalinist communist politics, jumped out to the West. Even Ukraine and Belarus broke off the Soviet bloc. The Central Asians and Caucasus nations, who were colonized under Tsarist Russia got independent.

The humanity witnessed in the last century the denial of war, the denial of colonialism, the denial of racism, and the denial of dictatorships. What emerged on a global scale as a result was the truth set forth in the American Declaration of Independence that all men are equal, free, and endowed with the natural right to self-realization based on conscience and love, and that government exists to protect that right of people. It is a universal truth.

It is by no means just a Christian or European Enlightenment idea. There is an inherent goodness in the human heart, conscience, love, or a Buddha's heart, whatever you name it. Kingship is for the happiness of the people. Such ideas are far older in Asia than in Europe. The Europeans contributed to human history by inventing a modern democratic system including parliament, independent judiciary, human rights charter and constitutionalism as well as international law. These institutions can be transplanted in Asia and Africa, if they have deep spiritual traditions. Japan proved it after one hundred- and eighty-years' experience with turmoil.

Humanity finally arrived at today's liberal international order after the enormous bloodshed and confusion of the 20th century caused by revolutions and wars.

It was the United States, which boasted overwhelming national power after the WWII, that led the way, and for that reason, the second half of the

20th century is called Pax Americana. The Western European countries were the major partners in the liberal international order across the Atlantic from the United States. The core of the liberal international order has been the Atlantic Community. Japan, South Korea, Australia and NZ have been added to it to form the “West” in the broad sense of the term.

Unrest in the Liberal International Order

The liberal international order has begun to be shaken since the beginning of the 21st century. There are several main reasons for this.

First is the rise of China. China has risen to the status of the world’s second largest economy in just a few decades since Deng Xiaoping’s reform and opening-up policy. Its massive economic size already rivals the economy of the European Union (EU) and is four times that of Japan, the world’s fourth largest economy.

China, which confronted Russia alongside the West in the latter stages of the Cold War, has grown increasingly confident in its enormous “general national power”, especially since the establishment of the Xi Jinping administration, and has begun to turn its back on the West.

China, which is on the path of becoming a powerful nation, directly links economic power to military power. China does not accept a flat Westphalian international order of equal sovereignty due to its traditional political notion. It is more familiar with the Hua Yi order, in which the Chinese emperor, who was given the right to rule the earth from heaven, is at the top. This is the similar concept as that of the Eastern Roman emperors who advocated the divine right of kingship.

Backed by its immense national power, China has declared the South China Sea its own ocean to the United Nations in 2006, and militarized the islands in it, and it has unilaterally used force against the coral reefs of the Philippines in the South China Sea, and the Senkaku Islands of Japan, in the East China Sea. Chinese bullying in these seas is blurring the distinction between peacetime and wartime.

In addition, despite benefiting greatly from free trade, China’s market-distorting measures, such as massive subsidies to state-owned enterprises and theft of intellectual property rights, have become problematic, as has its

economic coercive diplomacy that has weaponized the Western nations' dependence on China for rare earths and other material resources.

The Western nations are also becoming increasingly concerned about the outflow of advanced technologies (especially semiconductor-related technologies) that contribute to China's military superiority and the outflow of information from cyberspace through the entry of Chinese companies into the telecommunications business such as 5G and deep-sea cables. Now is the moment of emergence of economic security issues.

Second is Russia's invasion of Ukraine. The invasion of Ukraine by Russia, a permanent member of the UN Security Council, has undermined the authority and legitimacy of the Council. "This land was mine before. So, I will take it back by force. Its inhabitants belong to me" is reminiscent of 19th century imperial Russia. It is unacceptable to us of the West, who place the legitimacy of governance in the free will of the people.

U.S. President Biden has successfully rallied the West to provide intelligence, financial, and arms support. The results of the Ukrainian military in the north in the early stages of the war were spectacular. However, as the front moved to the south of Ukraine and the fighting shifted to attrition as regular forces clashed with each other, Ukraine gradually became the underdog. The United States, bowing to Vladimir Putin's nuclear threats, began to provide arms support piece by piece, forbidding any attack on Russian territory by the Ukrainian forces.

President Trump, who followed President Putin's lead, rejected the pro-Ukraine policy line of his political rival Biden, put political pressure on Ukraine, forced President Zelensky to resign and call a general election, and tried to achieve a ceasefire in the form of ingratiating himself with Putin. The goal is said to be a Sino-Russian separation, but President Trump's intentions will likely be off the table. President Putin has not agreed to a ceasefire and has intensified the fighting. His goal is to conquer Ukraine politically if not militarily.

European countries, seeing the weakening of the U.S. commitment to the war in Ukraine, have seen that the Trump administration cannot be counted on and have begun to further strengthen their own defense efforts and consider European military peace-keeping operations in Ukraine. But

European intervention should be backed up in some way by the United States to be effective.

The United States, not sending troops in Ukraine, asked instead to buy massively mining rights in Ukraine after the cease-fire. It could be a sort of assurance to Ukraine, because if President Putin invades again Ukraine after a ceasefire, he might have caused huge damage to American commercial interests in Ukraine.

Third, came the second Trump administration. President Trump has captured the hearts and minds of low-income Americans, a segment of the American population previously ignored by U.S. politics, and the sensational one-phase messages of President Trump through social networking sites have activated many of them who were previously indifferent to politics. For these people, who are strongly anti-elitist, President Trump's message of "America First" and anti-immigration with high tariffs sounds like a savior to them. There is a reason why President Trump is so popular.

And the United States is now turning inward. The U.S. economy, which once dominated the world economy, has already become only 25 percent of the global economy. Apart from information-related industries, traditional industries suffer from hollowing out and the country is now plagued by an influx of immigrants. President Obama has stated that the U.S. is no longer the world's policeman. The mainstay of the liberal international order, the United States, has become much thinner than before. And President Trump is making things worse.

The U.S. is about to confront its greatest challenger, China. As a reaction, its commitment to Europe and the Middle East is weakening. Today's problems in the U.S. are not just a matter of President Trump's personality. We are now confronted with the reality that the U.S. national power is shrinking relative to the rise of global south and global power shift caused by it. To make things worse, President Trump is alienating European allies which were the treasure of the US diplomacy. That makes Asian allies and friends very nervous.

2. Possibilities for NATO-Japan-Taiwan Cooperation

Cooperative framework to support the liberal international order

The more the U.S. power shrinks in relative terms, the more unity and cooperation among the Western nations will be necessary. Unity and coordination among the countries of North America, Europe, UK, Japan, South Korea, Australia, and NZ will be necessary.

Taiwan should be included in these efforts in a way or another. Taiwan's population is 23 million and it is as big as that of Australia. Its economy is G20 size and is bigger any of the ASEAN nations except Indonesia.

If the Trump administration goes its own way, the other Western nations and Taiwan will have to fill the power vacuum it leaves behind. If the main pillar of the US is shaky, the beams that sustain the liberal international order must become more solid and robust.

Western nations must continue to hold high the values they stand for. The idea of placing high ethical values on individual conscience and love of each person seeking self-realization as a citizen, of participating in public debate to create the general will of the people and to turn it into law, and of binding governments under the rule of law, is of universal value. These ideas have been handed down from generation to generation, not only in the West, but in almost all the great civilizations throughout the world.

Dictatorships are always defeated in the end. Any government is merely a ship in the ocean of the people. Dictatorships such as China, Russia, and North Korea have no ideas to guide humanity. The West must believe in the values it stands for and continue to appeal to the emerging nations of the Global South to support these universal values with them.

The West must also uphold the free trade regime. The Trump administration, under the slogan of "America First," has been increasingly protectionist, with unilaterally imposed high tariffs and anti-immigration measures. However, during a similar move by the first Trump administration, Japan and the European Union (EU) defied protectionism and achieved the creation of a huge free trade zone by the EU-Japan Economic Partnership Agreement.

Free trade does indeed lead to the hollowing out of industries in developed countries. Factories are increasingly moving down to emerging economies in the form of direct investment. But the result is the growth of the world economy, promoting global diffusion of wealth and equalization of prosperity. Western countries need to persuade nations of Global South of how important free trade is to the prosperity of the countries of the emerging Global South. It offers the best opportunity to develop their own economies in the form of capital and technology outflows from advanced nations to them as well as access to developed nation's vast and rich markets.

Third, the West must continue to block illegal unilateral changes in the status quo by countries that seek to challenge by force the liberal international order—especially Russia and China. To this end, it is imperative to engage India, which is a Eurasian nation and will be the last superpower of this century, and the ASEAN countries, especially Indonesia, which is the largest nation. If India and the ASEAN countries are added to the Western nations, their combined national power will remain enormous. The global balance will continue to tip in favor of the West.

The two major resistance forces, China and Russia, will seek to exploit the new group of nations centered on the BRICS (Brazil, Russia, India, China, and South Africa), but Russia has already lost its respected leadership position due to the war in Ukraine. Although China's national power has increased, its unilateral moves to change the status quo have been resented by many of its neighbors, and the BRICS countries are also diverse, making it difficult for the BRICS to replace the West as the dominant world leaders.

However, China and Russia still see a common interest in upsetting the liberal international order in which the West prevails. China, continues to support Russia in the war in Ukraine, for example, by importing Russian oil. North Korea has also deployed more than 10,000 troops to Ukraine in return for the provision of arms technology.

Japan, Taiwan and NATO countries should pay attention to the fact that the security of Asia and Europe are interlocked and move toward strategic coordination. In this regard, the fact that the Indo-Pacific Four (IP4), including Japan, South Korea, Australia, and NZ, now participate in the NATO Summit every year should be positively evaluated.

Specific Cooperation between Japan, Taiwan and NATO

(a) Selective engagement in international conflicts

The European and Asian democracies should share the common challenges.

- Countries who are both able and willing to take the challenge of conflict solving (Europe and Japan and other Asian democracies) need to engage more to solve Ukraine war, Gaza crises and Myanmar civil war.
- Establish closer coordination among those like-minded countries.
- In this context, Taiwan-NATO contact could be enhanced; intelligence exchange (regular briefing) on Taiwan-China relations, strategic communication, cyber technology, low tech weapon system development (maritime drones, MANPADs, etc.), supply chain collaboration. Such cooperation efforts could be done by NATO and IP4 plus Taiwan.

(b) To cope with “America First” principle by the United States

Alliances are no longer a privilege. The LMCs should fill in the military, political and economic vacuum left by the United States. This is not just a military issue, but the fact that USAID has suspended or frozen most of its projects is causing great difficulties for countries in the Global South, including Pacific Island nations.

- The LMCs in Europe and Asia should help peripheric allies of the US, in particular support the Philippines that is located to the south of Taiwan is necessary. The LMCs could do the following:
 - ✧ To promote cooperation among Southeast Asian coast guard (the Philippines, Indonesia, Malaysia, Singapore, Japan, Australia, European aspirants and Taiwan).
 - ✧ To launch unilaterally or collectively International Litigation against Chinese unilateral changes in East and South China Sea.
- The LMCs should uphold Free Trade system to continue to engage the newly rising countries in the Global South. To do so, they should do the following:

- ✧ To support Free-Trade by expanding CPTPP by including Taiwan, RoK, Indonesia and India.
 - ✧ To create Asian Trade Organization based upon the above expanded FTZ that could develop and eventually become the Western Pacific Community like European Union.
 - ✧ To create Wassenaar Arrangement 2.0 for export administration of sensitive dual-use technologies.
- (c) **The US's "wolf warrior diplomacy" alienates its allies and the friends in Europe, Asia and the Global South gaining again their trust in the liberal international order and repel influence operations from China and Russia.**
- The European countries and Asian democracies should make more friends among selected Global South countries. For that purpose, they should do the following:
 - ✧ To create Permanent Outreach Partners (POP) of G7 (India, Brazil, Indonesia, ASEAN Chair, South Africa, Nigeria, AU Chair, Saudi Arabia, Turkey, RoK Australia, Chair of PARM) to transform Eurocentrism of G7.
 - ✧ To establish Asian Quad (India, Indonesia, Australia + Japan) to get Indonesia closer to our side in addition to its membership in BRICS or Add Indonesia to the present Quad.
 - To counter the disruptive influence against the liberal international order, the LMCs should make every effort to divide Russia and China.
 - ✧ It would be worthwhile to ask China to join Peace Keeping Forces to maintain ceasefire in Ukraine, and India as well.
 - ✧ It would be also worth attempting to create Japan-India-Russia trilateral dialogue.
 - Japan, RoK, Taiwan, the Philippines and EU should launch joint influence operation in the US by creating joint Caucus on the Capital Hill and ask them to emphasize the importance of the alliances and Taiwan to the White House with one voice.

I. REVIEWING THE LIBERAL ORDER

1

Taiwan Navigates Choppy Waters in Domestic and Regional Environments

I-Chung Lai

Taiwan 2024 Election: Opposition Controls Congress while DPP has the Presidency

The result of Taiwan's 2024 general election is a split government: a DPP president and an opposition dominated congress. Lai Ching-Te (賴清德), the Democratic Progressive Party presidential election candidate, won the election with a vote share of 40 percent in a three-way race. In the congressional race, KMT became the biggest party with 51 seats. DPP, one seat short of KMT's, becomes the second biggest party in the Legislative Yuan. The Taiwan People's Party (TPP), chaired by former Taipei City mayor Ko Wen-Jer, is the third biggest party with eight seats in congress. The opposition alliance of the KMT-TPP had 60 seats in total, forming the majority in the Legislative Yuan.

In 2024, people witnessed a very polarizing congress with the opposition alliance blocking almost all major legislative initiatives proposed by the ruling party. In 2025, the situation became much worse when the opposition party started to enact its own legislative initiatives, including passing a huge governmental budget cut plan. There was over a 50 percent cut in the operational budget of both the Defense Ministry and Foreign Ministry, just to name a few. These actions by the opposition parties triggered general

recall election movement against KMT legislators by Taiwanese civil society. (All TPP legislators are from proportional seats, thus they cannot be recalled.) This development could change the ruling-opposition party balance in the Legislative Yuan. It remains to be seen whether this political development could lead to a DPP congressional majority, or KMT-TPP will continue to dominate the Legislative Yuan.

In addition to the legislative-recall drama dominating the political agenda in much of the 2025, the legal drama of TPP chairman Ko Wen-Jer (柯文哲) is another factor that will affect Taiwan's political developments this year. Ko was put into custody last year (2024) due to an alleged bribing scandal while he was mayor of Taipei City. Although in jail, Ko continues to wield influence in TPP, despite the TPP's support base having shrunk significantly. Whether Ko will be found guilty or not will have a significant impact on TPP's political future as well as his relationship with TPP's new chairman Huang Guo-Chang (黃國昌).

KMT also will have its chairman election in August 2025. The recalled election result could become a decisive factor in determining whether there will be a KMT leadership change. The implication for the 2028 Presidential and Congressional race will be huge.

Despite hampered by the opposition parties, President Lai still enjoys strong public support, with close to 50 percent approval rating. The DPP party in the Legislative Yuan also outperforms the KMT and TPP. As of now, the KMT's and TPP's combined support rate barely equals the DPP's support rate.

The recalled election result, the legal cases against former TPP chairman Ko Wen-Jer, and whether there will be KMT leadership changes are the three major events shaping the political dynamics of Taiwan in 2025. In the meantime, it is expected that the opposition alliance will continue to block all major policy initiatives proposed by the ruling party. The polarization will surely intensify. It seems that the progress of all major reform agenda could thus be held up. We will see whether the conclusion of the recall election could change this stalemate.

China Pressure Campaign on Taiwan Greatly Intensified; Military Exercise No Longer Serves as Political Signal

The scale and frequency of Chinese military pressure campaign against Taiwan, the so-called gray zone operation, has taken a significant uptick since President Lai won the 2024 presidential election. The number of Chinese air intrusions into Taiwan's Air Defense Identification Zone (ADIZ) reached 1,703 in 2023. It increased to 3,073 in 2024, almost double the number of the previous year. This year (2025) in April alone, Taiwan had already detected 250 PLA fighter jet intrusions into Taiwan's ADIZ and 120 PLA jets crossing the midline of the Taiwan Strait.

There were also four major military exercises surrounding Taiwan since the beginning of 2024. The "Joint Sword 2024-A (2024 聯合利劍-A)" and "Joint Sword 2024-B (2024 聯合利劍-B)" exercises were conducted to correspond to President Lai's inauguration speech and his "Double Ten Day" speech. Another unnamed major military exercise was conducted at the end of 2024. Although that exercise did not have a call name, it dispatched over 150 navy ships around Taiwan and the second island chain. The timing of this unnamed exercise also corresponded to President Lai's first overseas travel since his inauguration in May.

The PLA conducted another major military exercise against Taiwan in early April 2025, "Strait Thunder 2025-A (海峽雷霆 2025-A)". The timing of this exercise was seen as corresponding to the U.S. Defense Secretary Pete Hegseth's first major overseas visit (to the Philippines and Japan) since taking office. Since the Taiwan security issue was extensively discussed during Hegseth's visit, the PLA exercise was seen as a Chinese warning to the United States, the Philippines and Japan to stay away from the Taiwan issue.

The Chinese had undertaken two major military exercises against President Tsai since 2022, but it has already conducted four such exercises in the 16 months since Lai Ching-Te won the presidential race. Although we have not seen any major military skirmish between Taiwan and China, tensions in the Taiwan Strait nonetheless has risen to a whole new level. The United States Indo-Pacific Commander, Admiral Papro said publicly that the PLA exercises can no longer be seen as political posturing to signal their opposition to certain events. These exercises are now more and more a dress

rehearsal for military action against Taiwan, be it blockade, quarantine, or a direct military attack.

Among those four PLA military exercises against Taiwan, “Joint Sword 2024-A” included for the first time all Taiwan’s major off-shore islands as the exercise area. “Joint-Sword 2024-B” pushed the exercise area much closer to Taiwan. Some vehicles even entered Taiwan’s contiguous zone (24 nautical miles off Taiwan’s coast). China did not designated any exercise area in the unnamed exercise at the end of 2024. “Strait Thunder 2025-A” involved aircraft carrier (Shangdang) for the first time. It should also be noted that all four exercises include active participation of Chinese coastguard ships, which practiced quarantine or blockade operations.

China has also been frequently exercising its joint combat patrol operation against Taiwan without warning since 2024. Those developments lead some in Taiwan’s defense community to believe that China probably would prefer to annex Taiwan through extended quarantine and blockade campaign than a costly amphibious operation. It is believed that a direct military attack against Taiwan still could happen: if the quarantine and blockade action failed to compel Taiwan to surrender.

Thus, responding to PLA gray zone operations becomes much more pertinent to the defense of Taiwan. It can no longer be viewed as just a distraction to Taiwan’s island defense preparation. How to balance Taiwanese limited resources between the need for building asymmetrical defense for the island and the need to establish the capability to respond to Chinese gray zone action remains a very important but difficult question to ponder.

Amid Chinese Diplomatic Isolation Campaign, Taiwan’s Economy Continues to Flourish

The PRC has not only intensified its military gray zone operation against Taiwan, it has also significantly heightened its diplomatic isolation campaign to delegitimize Taiwan’s state status.

China took away Taiwan’s diplomatically in Nauru two days after Lai Chung-Te won the presidential election. Beijing also successfully demanded Malaysia, Thailand, Indonesia and East Timor to publicly recognize Taiwan as a part of China during their individual bilateral summits with China in

2024. South Africa now plans to relocate Taiwan's representative office away from the capital. China continues to assert that the 1971 UN resolution 2758 has confirmed that Taiwan is a part of the PRC, despite opposition by the United States, Japan, Australia, and European countries.

The PRC has also conducted large scale disinformation operations to weaken Taiwanese democracy. Chinese cyber-attacks against Taiwan reached 2.4 million times per day in 2024. The China-friendly KMT has led an opposition alliance to oppose every legislation aimed at strengthening Taiwan's guard against China. Many KMT legislators were also propagating "U.S. skepticism" within Taiwanese society.

However, China's most effective weapon against other countries, economic pressure, is not seen as threatening against Taiwan this time, despite there being still over a thousand items sanctioned by China. This phenomenon reflects the gradual decline of Chinese economic importance to Taiwan as well as the development of Chinese dependence on Taiwanese hi-tech products. Investment in China was once 80 percent of Taiwanese overall foreign investment (in 2012), and has now decreased to just 7.5 percent (in 2024). Taiwan's export to China used to be 40% of its overall foreign trade (in 2012). In 2024, Taiwan's export to China reduced to about 31% of Taiwan's overall export, while Taiwan's export to the United States rises to 23.4% of Taiwan's total export.

Although cross-Strait trade is still important to Taiwan, the pattern shows that ICT, machinery (including robotics) and electronics components are the top three export items from Taiwan to China. This indicates that China is still very dependent on Taiwanese products in these hi-tech sectors. All the Chinese economic sanctions are on Taiwanese garments, food products, liquor, etc., items of less significant share for Taiwan's export to China.

Trump 2.0 Presented New Uncertainties for Taiwan

One of Taiwan's major economic accomplishments in the last eight years is how it has successfully re-oriented its economic partnership toward Southeast Asia and the United States. This also reduces Taiwan's economic vulnerability to China. This is Taiwan's de-risking strategy. But this development now seems to be targeted by the Trump 2.0 administration as President Trump

asked trading partners to reduce their trade surplus against the United States. In the reciprocal tariff announced by President Trump on April 2nd, Taiwan was hit for 32 percent tariff. On August 1st, the U.S. tariff on goods originated from Taiwan's have been reduced 20%. Taiwan continues to negotiate with the U.S. to reduce the tariff further.

In addition to the economic uncertainty in the Taiwan-U.S. relationship, President Trump has also accused Taiwan of “stealing” U.S. semiconductor technology despite repeated explanations from the Taiwanese side. Not only has the Trump 2.0 administration terminated the execution of the CHIPS and Science Act, but also vowed to impose high tariff on chips coming from overseas after a Section 232 investigation. This is after TSMC promised another USD 100 billion investment on top of the USD 65 billion it has already committed. President Trump seem to view Taiwan's chip less as an important enabler for U.S. AI dominance but more as a threat to the U.S. semiconductor industry (despite the fact that U.S. no longer manufactures these advanced chips).

The Trump 2.0 administration has also demanded that Taiwan significantly increase its defense budget to 10 percent of GDP. President Lai Ching-Te already made a public pledge to increase Taiwan's defense budget from 2.5 percent this year to 3 percent next year. President Lai also pointed out that the 3 percent of GDP for defense will be the floor, meaning Taiwan's defense budget will only rise. However, due to the low percentage of Taiwan's national budget (15 percent) as part of Taiwan's national GDP, it will be impossible for Taiwan to increase its defense budget to 10 percent of GDP because that means over 2/3 of Taiwan's national budget will be allocated to the Defense. Due to the fact that not only President Trump but also the newly assumed Undersecretary of Defense Elbridge Colby pointed to the same figure repeatedly, the discussion/debate between Taiwan and the United States over the defense budget issue could become a source of friction for Taiwan-U.S. relations.

But the issue that might generate the most anxiety in Taiwanese society is whether President Trump will continue to commit to assist Taiwan's defense. President Biden said the U.S. will come to defend Taiwan if it is under unprovoked attack from China; no such clarity has been expressed by President Trump. On the contrary, President Trump said he will hit China

with economic sanctions should China decide to attack Taiwan. No words about defending Taiwan or assisting Taiwan to defend itself have ever been heard from Trump. Despite repeated pledges made by Secretary of State Marco Rubio and Defense Secretary Pete Hegseth, none of these support statements were from President Trump himself. European society specifically worries about what will happen to Taiwan after they saw how President Trump plans to scale down U.S. assistance to Ukraine and the possible drawdown plan about U.S. involvement in NATO. Can Taiwan count on the United States for assistance against a Chinese attack?

New Dynamics in U.S.-Taiwan-China Relations

There is one thing that governments on both sides of the Taiwan Strait can agree on: The Trump 2.0 administration is anything but Trump 1.0 in both economic and security realms.

Trump 1.0 initiated the trade war with China. Although President Trump's fixation about a trade deal with China then made the progression for the U.S.-Taiwan trade deal impossible despite the overwhelming support within the Trump 1.0 administration from the Vice-President downwards, it nonetheless made it conducive for Taiwan to reduce its economic footprint in China. Many of Taiwan's investments in China made its way to Southeast Asia (or back to Taiwan), contributing to the success of President Tsai's "New Southbound Policy". But the very reason for the success of the New Southbound Policy then becomes the cause of Trump 2.0's reciprocal tariff against the Southeast Asian countries now. The Southeast Asian countries were hit for above 30 percent tariff on average. Taiwan's effort to divert trade connections from China to the United States also became the cause for the 32 percent reciprocal tariff proposed by the Trump 2.0 administration.

Facing this new challenge from the Trump 2.0 administration, Lai Ching-Te government's strategy is to deepen Taiwan-U.S. economic and technology cooperation and to hope to convince President Trump that Taiwan is a necessary and a willing partner for the U.S. to maintain its AI and other critical technology leadership. Lai's government also pledged to make huge investment in a liquid gas project in Alaska as well as other hi-tech investment projects in Arizona and Texas, and to address the various sectors where the U.S. has serious tariff concern.

On the other hand, China anticipated the move by the Trump 2.0 administration to impose significant tariff. Facing Trump's 34 percent reciprocal tariff, China initially tried to hit back with its own new tariff against the United States. After a serious back and forth tariff retaliation, the United States and China reached a temporary cease-fire for three months on May 9th and continues to negotiate. The U.S.-China tariff war can still resurge if the negotiation does not go well. China basically took a more confrontational attitude in facing the tariff imposed by Trump 2.0.

The different approaches to the reciprocal tariff by Taiwan and China did not become an issue for the cross-strait relation. Both sides are busy dealing with their respective economic relations with the United States separately. Given the well-known deeply integrated U.S.-China-Taiwan economic dynamics, this decoupled economic approach between Taiwan and China reflects the reduced cross-strait economic relationship.

In the security realm, both Taiwan and China received quite confusing signals from the Trump 2.0 administration. For example, President Trump's vow to reduce U.S. support for Ukraine can be seen by China and Taiwan in both negative and positive way. For Taiwan, the reduction of U.S. support for Ukraine could embolden China to be more aggressive against Taiwan. However, a Trump 2.0 administration official also said the reason for the United States to reduce its support for Ukraine is to focus on supporting Taiwan to defend against possible Chinese aggression. This can be seen as a strong commitment of the Trump 2.0 administration for Taiwan. It is difficult to judge which explanation carries more weight.

Although President Trump himself is/was ambivalent about defending Taiwan if the latter is under unprovoked attack from China (a sharp contrast to President Biden who been spoken unambiguously about defending Taiwan four times), cabinet members and senior officials in the Trump 2.0 administration did send strong and clear signals about defending Taiwan against Chinese attack. Chinese gray zone operation tactics on Taiwan have also been called out as equivalent to war operations endangering the Taiwan Strait security.

PLA activities against Taiwan now correspond less about the U.S. stated position and are more pointed against President Lai. China conducted four

major military exercises against Taiwan since 2024, all of them targeted against President Lai's activities (electoral victory, inauguration day, double tem day, President Lai's first overseas visit and President Lai's announcement about 17 measures responding to Chinese threat). This is a clear departure from the PLA's behavior pattern in the first Trump administration.

While both Taiwan and China are busy dealing with the U.S. economic pressure, the security situation in Taiwan Strait continues to worsen. Both sides have reason to feel reassured or worried depending on how they perceive the signal from President Trump and his national security team. The U.S.-Taiwan-China trilateral relationship is in a very confused and uncertain phase now.

Four Major Challenges for Lai Administration before 2026

There are four major issues that will affect Lai administration policy trajectories from now to 2026, the year of midterm election for both Taiwan and the United States. These are: the result of the reciprocal tariff negotiation between Taiwan and the United States; the impact of "the great recall election" in the congress; Chinese gray zone aggression and its diplomatic isolation operation; and the defense budget issue.

Reciprocal tariff negotiation between Taiwan and the United States

The result of the reciprocal tariff negotiation between Taiwan and the United States will have a direct impact on Taiwan-U.S. relations in the next four years. Taiwan was surprised to know that the United States intended to impose a 32 percent tariff on Taiwan. What was encouraged in the Trump 1.0 administration (de-couple/de-risk from China, intensify Taiwan-U.S. economic and technology cooperation) has now become a liability in the Trump 2.0 administration. Ironically, Taiwan's trade surplus in the U.S.-Taiwan trade mostly comes from the semiconductor and other hi-tech IT products Taiwan sold to the United States, which in turn are crucial components for the U.S. AI industry. Taiwan believes that it is an important enabler for U.S. AI dominance and leadership in the globe. But now the Trump 2.0 administration seems to view this relationship very negatively.

Taiwan is more confused at President Trump's demand to build more wafer factories in the United States but simultaneously impose high tariff for critical components import from outside. As the hollowing out of the U.S. manufacturing capability has been going for more than three decades, the imposition of high tariff for imported components which are critical for the final products made in the U.S. will effectively kill the very industry President Trump wants to rebuild. This tariff policy hurts the Taiwan semiconductor industry too. There were reports that TSMC, the leading company for manufacturing the most advanced chips in the world, sent a letter to the Trump 2.0 administration warning against the tariff on semiconductors.

The Lai administration seems to acknowledge that the lowest tariff they can get will be the 10 percent base tariff. The era of extremely low to nothing tariff is gone. The Lai administration has also pledged to invest more in the United States including in the liquid gas project in Alaska, to purchase more from the U.S. and to cooperate more with the U.S. in the hi-tech sector. Taiwan also vows to purchase more for the defense. If none of these seemingly cooperative measures can convince the Trump 2.0 administration to reduce the tariff on Taiwan significantly, the trust between Taiwan and the United States could be severely damaged. Although Taiwan will not withdraw from the U.S. due to the need to retain Washington's support to face Chinese pressure, the desire to deepen Taiwan-U.S. economic cooperation might be gone. The result of the Taiwan-U.S. reciprocal tariff negotiation will fundamentally reframe the Taiwan-U.S. relationship in the next four years.

The recall election and its impact on Congress

A civil society initiated "great recall election" movement in Taiwan leads to "the great recall election" on July 26th and August 23rd. As many as 31 KMT legislators could face the recall election, the result of which could change the composition of the legislative Yuan.

The current balance in the legislative Yuan is that the KMT-TPP alliance and the independent legislators altogether hold a 62-51 advantage vis-à-vis DPP, the ruling party. If KMT loses more than 12 seats due to the grand recall election, DPP will have temporary advantage in the upcoming

legislative session starting this September. Since one of the main missions for the fall legislative session is to examine and approve the government budget, there might be a different outcome if the recall election results changes the balance in the Yuan.

Furthermore, a by-election for that district will be held within two months if that district has recalled its elected legislator, as required by Taiwan's election law. If DPP successfully regains the majority, the policy stalemate might be overcome. However, any outcome short of gaining six seats for DPP will lead to further marginalization of the ruling party as the political polarization surely will be doubly intensified due to the recall election drive.

The result of the first wave of great recall election on July 26th is that none of the 24 KMT legislators have been recalled. It seems that the voters in those constituencies were not supportive of the recall idea. The 2nd wave recall elections are still going, but the result of the July 26th recall election has cast a bigger question mark whether there would be anyone to be successfully recalled in the second wave recall elections on August 23rd.

The ruling party DPP and President Lai also suffered tremendous political setback for failing to recall any KMT legislators in the July 26th recall elections despite they are not the initiators. Unless some dramatic developments happen, people are expecting no changes in the party seats allocation in Legislative Yuan. The KMT-TPP alliance vows to take "scorch earth" approach against the Lai government after the recall elections. It is generally believed that the political polarization and infighting will be more intensified from now on.

Thus the recall election this year will critically shape political dynamics all the way to the midterm election in 2026. If DPP somehow successfully recalls enough KMT legislators in recall elections on August 23rd and regains the majority in the Congress in the subsequent by-elections, DPP will be in a more advantageous position. If KMT holds on as expected, KMT will head into the midterm election with a strong lead next year. This will increase KMT's odds to win the presidential election in 2028.

Chinese gray zone operation and the diplomatic isolation campaign

Chinese military harassment against Taiwan has been going on since 2016. Since 2022, PLA gray zone pressure has turned into a persistent military presence surrounding Taiwan. There are on average 10-15 jets crossing the midline of the Taiwan Strait and 7-9 navy ships stationed right outside of 24 nautical miles of Taiwan in all directions almost every single day. PLA coastguard ships intrude into restricted and prohibited zones of Taiwan's offshore island adjacent to coastal China frequently. There is also heightened cyber-attacks against Taiwan on daily basis. Responding to these activities places a heavy burden on Taiwan's short-staffed military. It is expected that these activities will only increase and intensify in the foreseeable future.

Although none of those activities can be regarded as direct military attacks, it nonetheless is very coercive in nature. Facing the increasing danger from these gray zone activities, Taiwan defense minister already publicly stated that the PLA blockade against Taiwan will be viewed as PRC is initiating a war and firing the first shot on Taiwan. Taiwan will use whatever necessary means available to defend itself, including kinetic response. However, it seems the PRC believes that their military activities can be considered non-threatening as long as they are not shooting at the Taiwan military. The PRC also seems to believe that as long as they can handle the United States, they can control the escalation ladder regardless of what they do to Taiwan. The former is a serious misunderstanding of Taiwan's response and the latter stands on the false assumption as they believe Taiwan is just a pawn to the United States in the Taiwan security issue. The PRC seems to believe that Taiwan has no agency for its own defense. Both of PRC's misunderstandings can potentially trigger the Taiwan Strait conflict before Beijing realizes it.

The PRC also intensified its diplomatic isolation campaign against Taiwan. Not only does it continue to falsely assert that UN Resolution 2758 (in 1971) endorses Beijing's claim that China owns Taiwan, it also pushes some other countries to either officially endorse the "One China Principle" or to degrade Taiwan representative office in countries that have already established diplomatic relation with the PRC. China has been very successful in persuading Malaysia, Thailand, Indonesia, Cambodia and East Timor to publicly recognize PRC's position that Taiwan is an inalienable

part of China through summit meeting statements. South Africa has unilaterally demanded Taiwan relocate its representative office out of the capital, etc. The Somalia government has made a new rule that people travelling with Taiwan passport cannot pass through Somalia's territory and its air space. It is believed that the Somalia government created this new rule at China's behest. The PRC's goal is to degrade Taiwan-Somaliland relationship.

Since the PRC will host the APEC meeting in 2026 and it has written into law to criminalize every single Taiwanese for not supporting unification with PRC and those working to improve Taiwan's external engagement independent of China, there is a real danger that Taiwanese officials could be arrested once they stepped onto Chinese territory should they participate in the APEC meeting.

PLA gray zone operations and the PRC diplomatic isolation campaign against Taiwan have the potential to seriously worsen the Taiwan Strait situation in the next two years. More attention needs to be paid to the current development than simply focusing on the possible PLA attack scenario in or after 2027. What we do now can also influence the event trajectory and reduce the likelihood of the happening of the worst scenario.

Taiwan's defense budget and its fate in the Congress

According to press reports, the Trump administration made the stopping Chinese invasion of Taiwan a defense priority for the United States. Trump 2.0 administration is also demanding that Taiwan significantly increase its defense budget. The President Lai administration has already pledged to increase its defense budget to 3 percent of GDP in 2026, up from the current 2.54 percent. Taiwan already allocates 17 percent of its national budget for defense. In comparison, the United States allocates 13.3 percent of its national budget to defense.

However, the Trump 2.0 administration is not satisfied with this figure. President Trump and Undersecretary of Defense Elbridge Colby are demanding that Taiwan reach the level of 10 percent GDP for defense, an impossible figure as it would mean Taiwan needs to allocate almost 70 percent of its national budget to defense. However, the Trump administration

seems to be very fixated on this figure. This could be the first source of friction between Taiwan and the United States.

Second, depending on the outcome of the second wave recall election on August 23rd and the possible by-elections two months after the recall, the congressional attitude for austerity in the defense budget might change. Thus President Lai's pledge to increase defense budget might pass through the Legislative Yuan in the post-recall period although people do not have much faith in it. However, if the opposition party continues to hold majority after the recall election and the by-elections, it will be basically impossible for any increase in the defense budget to get approval in the congress. This development would definitely worsen Taiwan-U.S. relations.

Third, the backlog of U.S. weapons delivery to Taiwan as they were purchased by Taipei much earlier—delayed due to reprioritization to other countries—needs to be addressed head-on. First, undelivered weapons are recorded as unspent funds in Taiwan's defense budget, which artificially lowers the reported defense budget figures. Second, the timing of these weapons deliveries to Taiwan directly impacts deployment scheduling and military preparedness. Timely delivery is critical as Taiwan is in a race against China to strengthen its defenses against the PLA.

Fourth, there remains an unresolved debate between Taiwan and the United States over how best to address Chinese gray zone pressure on Taiwan. The asymmetrical defense strategy advocated by the United States focuses primarily on island defense. However, the likelihood of China imposing a quarantine or blockade operation against Taiwan is increasing by the day. To prepare for such a scenario, Taiwan must address Chinese gray zone operations early on.

Additionally, Taiwan needs to know whether there are asymmetrical means to counter gray zone pressure. If not, then relying on asymmetrical defense to solely address the D-day scenario could be unwise. Taiwan would still require some traditional platform to respond to the PLA's daily intrusion. The tension between preparing for a potential invasion (D-day) vs. lower-level military coercion (the everyday scenario) is a dilemma for defense planning of Taiwan's national security establishment. Yet, this issue has not received sufficient attention in recent years. Taiwan and the U.S. need to seriously tackle this problem.

Choppy Waters Ahead, All Hands on Deck

The Trump 2.0 administration has brought very unique challenges to Taiwan, Japan and Sweden (Europe). The PRC has also intensified its pressure campaign against Taiwan in military, diplomatic, information, and cyber realms. President Lai needs to work with a very uncompromising opposition-dominated congress while dealing with Chinese assertion in all domains. Taiwan is entering very choppy waters and is in an all-hands on deck mode.

2

The Shaken International Order and Japan-NATO Cooperation

Nobukatsu Kanehara

The Shakeup of the International Order

History of Establishment of the Liberal International Order

After World War II, the international order matured greatly. In 1945 the UN Charter was written, and war was banned. Illegal use of force in violation of the UN Charter was regarded as an evil against the international community as a whole and was subject to economic sanctions and armed counterattacks by the international community under the UN Security Council.

In 1947, India, led by Mahatma Gandhi, broke free of the yoke of the British monarchy under the banner of nonviolent disobedience without firing a single shot. Later, from the 1950s to the 1960s, emerging nations in Asia and Africa broke the chains of colonial rule by themselves and achieved independence one after another.

At the beginning of the Pacific War, the Empire of Japan shattered the centuries-old Western colonies in Asia with a single blow, but after Japan's defeat, except for the United States, which granted independence again to the Philippines in 1946, France returned to Vietnam, Britain to Malaya, and the Netherlands to Indonesia to reconquer them. But they were all

beaten out by Asians who awakened to their national consciousness and picked up guns. The same was true of the United States, which had joined France in the Vietnam War.

At a time when opposition to the Vietnam War was gaining momentum in the U.S., an African American, Dr. Martin Luther King, Jr. as a disciple of the mind of Gandhi, through his thoroughly nonviolent campaign, highlighted the systemic racism that had persisted mainly in the southern United States after the emancipation of slaves achieved by President Lincoln. A tsunami of anti-racism immediately spread throughout the world. Europe, Australia, and New Zealand followed suit. And apartheid in South Africa, the last bastion of racism, crumbled before the indomitable fighting spirit of President Nelson Mandela.

Then, in 1991, the Soviet Union, which had been a one-party communist dictatorship and had competed for hegemony with the United States for half a century under a nuclear confrontation, collapsed from within. The dictatorship, which had stifled the freedom of its people and the ingenuity of the market economy, buckled, losing its vitality.

The Baltic States and Poland came out of the Cold and became truly independent. Eastern European countries like the Czech Republic, Slovakia, Slovenia, and Croatia, which had the graceful cultural traditions of the Habsburgs but were forced into crude Stalinist communist politics, jumped out to the West. Even Ukraine and Belarus broke off from the Soviet bloc.

Humanity has witnessed in the last century the denial of war, the denial of colonialism, the denial of racism, and the denial of dictatorships. What emerged on a global scale as a result was the truth set forth in the American Declaration of Independence that all men are equal, free, and endowed with the inherent right to self-realization based on conscience and love, and that government exists to protect that right of people. It is a universal truth. It is by no means just a Christian or European Enlightenment idea. There is an inherent goodness in the human heart, a conscience, love, or a Buddha's compassion, whatever you name it. Kingship is for the happiness of the people. Such ideas are far older in Asia.

Humanity has finally arrived at today's liberal international order after the enormous bloodshed during the 20th century from revolutions and

wars. It was the United States roaring with overwhelming national power after the war that led the way; the second half of the 20th century is called Pax Americana for the reason. The Western European countries were partners in the liberal international order across the Atlantic. The core region of the liberal international order has been the Atlantic Community. Japan, South Korea, Australia, and New Zealand have been added to it to form the “West” in the broad civil sense of the term.

Unrest in the Liberal International Order

The liberal international order has begun to shake since the beginning of the 21st century. There are several main reasons for this.

First is the rise of China. China has risen to the status of the world’s second largest economy in just a few decades since Deng Xiaoping’s reform and opening-up movement of the country. Its massive economic size already rivals the economy of the European Union (EU) and is four times that of Japan, the world’s fourth largest economy. China, which confronted Russia alongside the West in the latter stages of the Cold War, has grown increasingly confident in its enormous national power, especially since the establishment of the Xi Jinping administration, and has begun to turn its back on the West.

China, which is on the path of becoming a tremendously powerful nation, directly links economic power to military power. China does not accept a flat Westphalian international order of equal sovereignty due to its long political tradition. It is more familiar with the vertical Hua Yi order, in which the Chinese emperor, who was given the right to rule the earth from heaven, is at the top. This is the same concept as that of the Eastern Roman emperors who advocated the divine right of kingship.

Backed by its immense national power, China has declared the South China Sea its own ocean and militarized it by building 3000 meters runways on artificial islands, and in the East China Sea it has unilaterally used force against the coral reefs of the Philippines and the Senkaku Islands of Japan.

In addition, despite benefiting greatly from free trade, China’s market-distorting measures, such as massive subsidies to state-owned enterprises and theft of intellectual property rights, have become problematic, as has its economic coercive diplomacy that has weaponized other countries’

dependence on China for rare earths and other resources. Western countries are also becoming increasingly concerned about the outflow of advanced technologies (especially semiconductor-related technologies) that contribute to China's military superiority and the outflow of information from cyberspace through the entry of Chinese companies into the telecommunications business such as 5G and deep-sea cables. This is the moment of emergence of an economic security issue.

Second is Russia's invasion of Ukraine. The invasion of Ukraine by Russia, a permanent member of the UN Security Council, has undermined the authority and legitimacy of the Council. "This land was mine before. So, I will take it back by force. Its inhabitants belong to me" is reminiscent of 19th century imperial Russia. It is unacceptable to us of the West, who place the legitimacy of governance in the free will of the people.

U.S. President Biden has successfully rallied the West to provide intelligence, financial, and arms support. The victories of the Ukrainian military in the north in the early stages of the war were spectacular. However, as the front moved to the south of Ukraine and the fighting shifted to attrition as regular forces clashed with each other, Ukraine gradually became the underdog. The United States, bowing to Vladimir Putin's nuclear threats, began to provide arms support piece by piece in small amounts, forbidding any attack on Russian territory.

President Trump, who followed President Putin's lead, rejected the policy line of his political rival Biden, put pressure on Ukraine, forced Zelensky to resign and call a general election, and tried to achieve a ceasefire in the form of ingratiating himself with Putin. The goal is said to be a Sino-Russian separation, but President Trump's intentions will likely be off the table. President Putin has not agreed to a ceasefire and has intensified the fighting.

European countries, seeing the weakening of the U.S. commitment to the war in Ukraine, have recognized that the Trump administration cannot be counted on and have begun to further strengthen their own defense efforts and consider European military intervention in Ukraine. But European intervention has to be backed up in some way by the United States to be effective. The United States asks for mining rights instead of sending its troops. It could be a sort of assurance to Ukraine, because if

President Putin invades Ukraine again after a ceasefire, he might cause huge damage to American commercial interests in Ukraine.

Third, came the second Trump administration. President Trump has captured the hearts and minds of low-income Americans, a segment of the American population previously ignored by U.S. politics, and the sensational one-phrase messages of President Trump through social networking sites have activated many who were previously indifferent to politics. For these people, who are strongly anti-elitist, President Trump with his message of “America First” and anti-immigration and high tariffs policies sounds like a savior to them. There is a reason why President Trump is so popular.

And he is now turning inward. The U.S. economy, which once dominated the world economy, is already only 25 percent of the global economy. Apart from information-related industries, traditional industries suffer from hollowing out and the country is now plagued by an influx of immigrants. President Obama had already stated that the U.S. is no longer the world’s policeman. The mainstay of the liberal international order, the United States, has become much thinner than before.

The U.S. is about to confront its greatest challenger, China. As a reaction, its commitment to Europe and the Middle East is weakening. Today’s problems in the U.S. are not just a matter of President Trump’s personality. We are now confronted with the reality that the U.S. national power is shrinking relative to the rise of the Global South and global power shift caused by it.

Possibilities for NATO-Japan Cooperation

Cooperative framework to support the liberal international order

The more the U.S. power shrinks in relative terms, the more unity and cooperation among the Western nations will be necessary. Unity and coordination among the countries of North America, Europe, UK, Japan, South Korea, Australia, and New Zealand will be necessary. If the Trump administration goes its own way, the other Western nations will have to fill the power vacuum it leaves behind. If the main pillar of the U.S. is shaky, the European and Indo-Pacific beams that reinforce it must become more solid and robust.

Western nations must continue to hold high the values they stand for. The idea of holding high ethical beliefs in individual conscience and love, of each person seeking self-realization as a citizen, of participating in public debate to create the general will of the people and to turn it into law, and of binding governments under the rule of law, is of universal value. It is a concept that has been handed down from generation to generation, not only in the West, but in almost all the great civilizations throughout history.

Dictatorships are always defeated in the end. Any government is merely a ship floating on the ocean of the people. Dictatorships such as China, Russia, and North Korea have no idea on how to guide humanity. The West must believe in the values it stands for and continue to appeal to the emerging nations of the Global South to support these universal values with them, sometimes with patience.

The West must also uphold the free trade regime. The Trump administration, under the slogan of “America First,” has been increasingly protectionist, with high tariffs and anti-immigration measures. However, during a similar move by the first Trump administration, Japan and the European Union (EU) defied protectionism and achieved the creation of a huge free trade zone through the EU-Japan Economic Partnership Agreement. Japan also realized TPP without the U.S.

Free trade does indeed lead to the hollowing out of industries in developed countries. Factories are increasingly moving down to emerging economies in the form of direct investment. But the result is the overall growth of the world economy, promoting global diffusion of wealth and equalization of prosperity. Western countries need to persuade nations of Global South of how important free trade is to the prosperity of the emerging countries of the Global South. It offers the best opportunity to develop their own economies in the form of capital and technology outflows from advanced nations to them as well as access to developed nations’ vast and rich markets.

Further, the West must continue to block illegal unilateral changes in the status quo by countries that seek to challenge the liberal international order by force—especially Russia and China. To this end, it is imperative to engage India, which is a Eurasian nation and will be the last superpower of

this century, and the ASEAN countries, especially Indonesia, which is the largest nation. If India and the ASEAN countries are added to the Western nations, their combined national power will remain enormous. The global balance will continue to tip in favor of the West.

The two major resistance forces, China and Russia, will seek to exploit the new group of nations centered on the BRICS (Brazil, Russia, India, China, and South Africa), but Russia has already lost its respected leadership position due to the war in Ukraine. Although China's national power has increased, its unilateral moves to change the status quo have been resented by many of its neighbors, making it difficult for the BRICS to replace the West as the dominant world grouping.

However, China and Russia still see a common interest in upsetting the liberal international order in which the West prevails. China, which makes huge profits from trade with Western countries, continues to support Russia in the war in Ukraine, for example, by importing Russian oil. North Korea has also deployed more than 10,000 troops to Ukraine in return for the provision of arms technology.

Japan and NATO countries should pay attention to the fact that the security of Asia and Europe are interlocked and move toward strategic coordination. In this regard, the fact that the Indo-Pacific Four (IP4), comprising Japan, South Korea, Australia, and New Zealand, now participate in the NATO Summit every year should be positively evaluated.

Specific Cooperation between Japan and NATO: The “Nuclear Umbrella” Issue

Cooperation between Japan and NATO is young: Prime Minister Shinzo Abe visited NATO for the first time in history in 2006. In addition, during the second Abe administration, the Japanese government established a NATO representative office in Brussels. Also, for the first time, a Japanese Ground Self-Defense Force (GSDF) colonel Kurita was dispatched to NATO as a liaison officer. However, there are not many concrete cooperation projects between the Japanese government and NATO, which has a clear geographical area of responsibility in the North Atlantic.

Today, I would like to consider what Japan can learn from NATO, which has been working for 80 years since the end of World War II to make the nuclear umbrella of the U.S. effective. Japan did not tackle the nuclear umbrella issue, because of Hiroshima, Nagasaki lobby and the Fifth Happy Dragon incident near the hydrogen bomb experiment in Bikini.

Japan signed the Nuclear Nonproliferation Treaty in 1970 and ratified it in 1976. At that time, the U.S. promised to provide Japan with a nuclear umbrella. The U.S. had considered deploying nuclear weapons in Japan, just as it had deployed nuclear weapons in Germany (there were nuclear weapons in Okinawa under U.S. military rule up to 1970s).

The Japanese government also believed that anyway it would be politically impossible to deploy nuclear weapons in Japan. Furthermore, during the Eisaku Sato administration, the Japanese government formulated the “Three Non-Nuclear Principles,” of “do not possess (nuclear weapons), do not produce (nuclear weapons), and do not allow (the U.S.) to bring (nuclear weapons) into Japan”.

The third point hurts Japan’s national security interests and deterrence. The Three Non-Nuclear Principle should have been ‘Do not possess (nuclear weapons), do not produce (nuclear weapons), and do not allow (Russia, China and North Korea) to launch (nuclear weapons) against Japan’.

Subsequently, the Japanese government adopted the extreme position of not allowing nuclear-carrying vessels to make port calls or even to pass through its territorial waters. Until the beginning of the 21st century, there have been almost no discussions between the Japanese and U.S. governments regarding nuclear weapons.

Today, the security environment of Japan has changed dramatically. China’s economy began to grow at a rapid pace and finally became four times the size of Japan’s. China began to allocate its national power to military affairs and publicly announced its intention to annex Taiwan. In the event of a Taiwan contingency, Japan would become a frontline state. China’s nuclear arsenal is growing rapidly. For the first time in history, the United States is now facing two major nuclear powers, China and Russia.

To deter China from going ahead with the Taiwan contingency, both Japan and the U.S. have begun coordinating their conventional arms

escalation ladders, but there are yet no fixed schedules for Japan and the U.S. to create a joint operational plan involving tactical nuclear weapons. However, if the U.S. and China enter a mutually assured destruction relationship in the future, and if China proceed to increase its production of low yield nuclear weapons, the possibility of use of nuclear weapons in a Taiwan contingency will increase. Since, any Taiwan contingency will mainly involve naval battles, the threshold for the use of nuclear weapons will be lowered, as collateral humanitarian damage would be minimal at sea.

Japan needs to change its conventional three non-nuclear principles, which are detrimental to its national security interests, and enter into discussions with the United States regarding the operational plan involving nuclear weapons. In doing so, Japan must answer the following questions: 1) how to deter China in Taiwan contingency from using nuclear weapons (deterrence), 2) how to show or tell China of the U.S. intention and capability to use nuclear weapons (declaration), and 3) how to make the Japanese people trust or feel secure in the U.S. nuclear umbrella (reassurance); that is how can the Japanese people be reassured and trust the U.S. nuclear umbrella.

Sooner or later, in addition to the B61, the U.S. will begin to introduce into its weapons system intermediate-range cruise missiles, intermediate-range ballistic missiles, and supersonic glide bombs that can be launched from land, sea, and air platforms with either nuclear or non-nuclear warheads. At that time, we believe the United States and Japan have much to learn from NATO in terms of what their strategies and operational plans regarding nuclear weapons should be.

3

Europe's Role in the Indo-Pacific and Burden-Sharing under Trump 2.0 for a Rules-Based International Order

Norah Huang

Undeniable Interconnection between Europe and the Indo-Pacific

The reality defined by geography remains that the European continent and its vicinity landmass, North Africa and Middle East, constitute the security priority in the minds of top European leaders. Yet geopolitics have made it much more complicated as world politics morphs from a unipolar system after the end of the Cold War into a multipolar one. China's rise sets the fundamental tone for this multipolar system and makes it unaffordable for European leaders to be indifferent to the evolution of the security environment in the Indo-Pacific region.

In contrast to the warning of Japanese Prime Minister Kishida Fumio at the Shangri-la Dialogue in 2022 that "Ukraine today maybe East Asia tomorrow," which sees the interconnection of security concerns, Europeans have long seen the evolution of security situations in East Asia as distant and preferred to view the emergence of China through rose-tinted lens eyeing the country's 1.4 billion population market. Now we are well into the fourth year of the Russian war in Ukraine, North Korean soldiers have been sent to the battle field against Ukrainians, mortars, shells made in North Korea

and drones made by Iran and China have been used to continue Russia's prolonged war fighting on the European continent. Top European leaders like French President Emmanuel Macron eventually has seen the interconnection. Macron acknowledged the interconnection between Europe and the Indo-Pacific in his keynote speech delivered at the Shangri-la Dialogue this June in Singapore shortly before the first French Indo-Pacific Strategy is expected to come out.

Fumio's warning was repeated by the incumbent Prime Minister Ishiba Shigeru in his first policy speech soon after taking office in October 2024, emphasizing the importance of upholding the principles used to build a stable world order since the end of the two Great Wars and written in the Charter of the United Nations. These are non-violence, territorial integrity, and self-determination. Selective application of these principles risks destabilizing the rules-based order and unfortunately endangers security interests for countries inconveniently situated near powerful aggressors. This inconvenient geographic reality is one of the things Europe and Indo-Pacific countries have in common. As a footnote for what President Macron described as European's interests in the Indo-Pacific, he questioned how the world would conceive aggression against Taiwan and the Philippines if Russia is allowed to walk away unpunished from the brutal invasion on Ukraine. In other words, values and rules should provide the compass for our diplomatically coordinated objections and responses to aggression.

Interdependence and Blackmail

Conventional wisdom posits that economic interdependence creates incentives and urges trade partners to avoid conflict. This thought prevailed and benefitted the post-Cold War international community until Russia's invasion of Ukraine in 2022. Europe were finally forced to reflect on its neo-liberal approach toward national security. However, it has always been about risk management when crafting approaches for national security. The fatal vulnerabilities in neo-liberal approaches include lack of sense of risk and neglected acknowledgement of the nature of the two edges of a sword.

The emergence of an axis of authoritative regimes among Russia, China, North Korea and Iran has largely toppled the mechanism of peace and stabilization stemmed from interdependent trade networks. Or worse, the

interdependence has been leveraged by the aggressor and its enabler as tool for blackmailing, especially as Russia long serves as a big energy supplier for European countries and China sits on the top as many countries' largest trade partner.

To this day, the western sanctions on Russia does not affect countries buying oil from Russia, such as India and China, and has merely generated a sparse sanction list of Chinese companies providing dual-use parts, equipment and banks providing financial services to Russia. The sanctions on Chinese companies has become an exercise of whack-a-mole and has failed to tighten the flow of war fighting resources to the aggressor.

The holding back of a blanket secondary sanctions on China represents an attempt to leave room for diplomacy so that China may play a mediator's role and help end the war. In reality, the cost of sanctioning a trade partner as big as China is considered unthinkable and undesirable. This edge of the sword unfortunately diminished the effects of deterrence against Ukraine's partners and emboldened Russia's.

New Cold War versus De-Risk

One of the lessons we learnt from the war in Ukraine is we need to de-risk. The New Cold War is not a popular concept as our era is at the peak of the highest level of economic integration worldwide. Completely cutting off the world economics into two camps is not realistic, the disruptions and its cost will be unbearable. This sets us now facing an even more difficult situation than in the Cold War era—instead of implementing a New Cold War well before the beginning of large-scale economic integration, we are tasked to de-risk in a thickly woven and highly specialized trade network. Governments need to explain to the public and the business community the necessity to de-risk and how it could be done.

On the one hand, three years of the COVID pandemic largely explains the need to build a resilient supply chain in order to mitigate disruptions caused by natural disasters like pandemics or earthquakes. On the other, with the three plus years of Russian aggression and now the U.S.-China 2.0 trade war, the urgent requirement is that the U.S., allies and partners need much bigger defense industry capacity to be able to prevail in a prolonged

attrition war, one that builds on a reliable and trustworthy supply chain to fend off rivalry export control and potential security sabotage.

“De-Risk” of a China Dominated Legacy Chip Supply

In our highly specialized trade network, Chinese chip makers are expected to dominate the market of legacy chips, which is produced using older technology nodes. Legacy chips are used in almost all products in our modern daily life, including products ranging from smart TVs, CCTVs, ICE autos, EVs, and smart phones to military parts and equipment such as missiles, unmanned systems and the most advanced fighter jets. In the case of legacy chips, the issue is not of a technology choke that leads to drying-up of supply but rather an eco-system that allows China to flood its products and drive out non-Chinese producers from the market in the coming years. Then Chinese-made chips will be in almost all products and carries potential risk of espionage.

In order to “de-risk” a China dominated legacy chip supply, the U.S., allies and partners should nurture and support a legacy chip eco-system that provides alternative sources for products requiring higher security standards. Two important elements for preserving non-red supply chain of legacy chips include consumer awareness of espionage risk and friend-shoring. They represent demand and supply of legacy chips made outside China and by non-Chinese producers. There have been some efforts put in practice, such as the Blue UAS certificate adopted by the Pentagon’s Defense Innovation Unit which requires all parts used in unmanned aerial systems to be made by non-red supply chains—restrictions on using components from restricted countries. The Taiwan government should also adopt the Blue UAS standard on its governmental procurement contracts and not just on unmanned system. Allies should do the same.

Espionage risk has been an implicit cost paid not in monetary form. Consumers, military or non-military users, must take that into calculation and see the value of paying the premium for higher security standards.

Trump 2.0

Trump's return to the White House in January 2025 is reshaping not only how the U.S. manages its relations with NATO allies, but also what role it expects its European allies to play in the Indo-Pacific. During the Biden administration, the U.S. encouraged its allies, including its Atlantic allies, to conduct FONOPs through the Taiwan Strait. In the past four years, UK, Canada, Germany, France, Netherlands, Australia and even New Zealand all sent their navy ships through the Taiwan Strait, demonstrating the international waters status of the Strait by practicing rightful transition through the waters. However, judging from the latest speech given by American Defense Secretary Pete Hegseth in Singapore in June, the U.S. understands its allies have concerns for the Indo-Pacific but would prefer its European allies to put focus of their assets on the Atlantic theater. We do not know whether this means the Trump administration would like its European allies to cut back the FONOPs transitions through the Taiwan Strait.

Nevertheless, it is unrealistic to think the European allies could send frigates and make a difference to the Indo-Pacific theater if a Chinese invasion on Taiwan were to happen. But their presence during peace time does make a difference. There is no doubt that integrated deterrence comprises not just military strength but also economic clout and political will to take actions. Allies continuing to send frigates through the Taiwan Strait is a diplomatic signaling of their stance as a concerned stakeholder and the likelihood of taking commensurate measures in response to aggressive disruptions that harm their interests. Most importantly, it defies China's narrative of branding the U.S. FONOPs through the Taiwan Strait as part of its attempt to contain China in their great power competition and that other countries should not take sides. The downside of allowing the narrative of U.S.-China rivalry to dominate the discourse regarding countries' agency in defending their interests undermines integrated deterrence against disruptors.

Advantage of Scale and Burden-Sharing

Kurt Campbell, the former deputy secretary of state in the Biden administration, wrote in *Foreign Affairs* after leaving office about the importance of leveraging scale in competition with China. The U.S. enjoyed

dominating advantage of scale during and after the Second World War. Scale is one important reason the U.S. and a stable international order backed by the U.S. alliances system prevailed. However, we are now at a point where the U.S. itself could lose the advantage of scale to a powerful rival. Yet the consequences do not fall solely on the U.S. This explains how countries exercising strategic autonomy have an interest in working with the U.S. to uphold a rules-based international order. And the U.S. should not abandon the power of unity that the banner of a rules-based world order generates among allies, partners and beyond. In contrast, they must figure out a framework of burden-sharing that suits their respective strategic autonomy while contributing to achieve the common goal of preserving the order.

Burden-sharing today is a much more complex task than it was before the end of the Cold War in the 1990s with unprecedented new challenges and insufficient commitments or investments being made. The ‘Pivot to Asia’ policy, launched during President Obama’s second term, is an official recognition of challenges posed by a rising China and the urgent need to reallocate resources after more than a decade of the war on terrorism in the Middle East. But distractions soon followed this recalibration. The most significant was Russian invasion of Ukraine in February 2022. This was compounded by Israel’s retaliatory actions following the October 2023 Hamas attack, and subsequent escalations arising Hezbollah and Houthis attacks on shipping lanes in the Red Sea. These events have collectively contributed to an unprecedented depletion of U.S. and NATO allies’ military arsenal, the most severe since the Second World War. Amid this backdrop, Trump returned to the White House, while senior officials in his new administration face mounting pressure to enforce the Indo-Pacific pivot. This urgency is further driven by China’s aggressive actions towards its neighbors in the South China Sea, East China Sea, across the Taiwan Strait and even into Tasmanian waters.

Due to under-appreciation of the efficiency of diplomacy vis-a-vis allies and partners, Trump officials are pushing in forceful and blatant ways for allies and partners to invest more on defense. This often performs like an uncalibrated loose cannon, sending messages with mixed strategic impacts. Sometimes, Trump himself showed better appreciation about the deployment

of strategic ambiguity than his senior officials. In essence, Trump is all for deterring war from happening under his watch, yet arguments by his senior officials on how preserving the status quo over the Taiwan Strait against Chinese take-over does not constitute American existential interests, harms the deterrent effect of the long leveraged strategic ambiguity on Taiwan Strait issue. The Trump administration needs better coordinated diplomatic and strategic messaging to avoid self-distraction and contradiction.

It needs to emphasize again and again that the task is about burden-sharing. The point is how do we arrive at a framework that is agreeable to all parties. Clearly, the U.S.' Atlantic allies and Indo-Pacific allies and partners acknowledge the necessity to increase defense investment. Poland and Germany have pledged to raise defense expenditure to 5 percent of their GDP. Japan is heading to double its defense spending. Australia's Albanese government with a renewed mandate also talks about an increase as did the newly elected South Korean president Lee during his campaign. Taiwan's president Lai Ching-te twice publicly stated the commitment to raise defense budget to over 3 percent of GDP even though the majority opposition coalition in the legislature that has just cut and frozen government budget, including defense spending, on unprecedented scale in February 2025. Although every country has their own domestic politics to deal with on their path to increasing defense investment, we could still consider everyone has reached consensus on moving toward that direction. What is unclear largely regards the roles allies and partners play in different theaters and with what capability.

Strategic Autonomy and Europe's Role in the Indo Pacific

'Sovereign autonomy' or 'strategic autonomy' are phrases often used by U.S. allies and partners to emphasize the importance of independent decision-making, and, at times, to signal differences from U.S. policy on specific issues. China has sought to exploit this tendency as part of its broader strategy to divide the U.S. from its allies and partners; sometimes by praising the references to strategic autonomy by allies and partners' leaders, and other times by criticizing countries for surrendering their sovereignty to the U.S. Nevertheless, the exercise of sovereign or strategic autonomy does not necessarily imply that a country's interests are misaligned with those of the

U.S., especially when allies and partners share the common goal of maintaining a rules-based order in a multipolar world. French President Macron has used the phrase ‘strategic autonomy’ more often in recent years than any other leader. Similarly, the Australian security community vibrantly debated the AUKUS agreement and the acquisition of nuclear-powered submarines. Yet, neither France nor Australia has rejected or guaranteed a non-combatant or combatant role in an Indo-Pacific contingency. There is space between full alignment and complete autonomy, and many countries would like to preserve their options while building the capacity to shape their security environment.

One of key lessons from the attritional and increasingly novel war in Ukraine is the urgent need to expand defense industrial capacity and to build a network for innovation and production of dual-use unmanned systems among the U.S., allies and partners. Europe, as a whole, can have a sizable role in building this network given its considerable strength on both the demand and supply sides of the defense sector. The Indo-Pacific region can serve a similar purpose for the Europeans.

The defense industry in the West has shrunk significantly compared to its scale during the Cold War and the two World Wars. In recent years, Poland has opted to buy battle tanks and self-propelled howitzers from South Korea, with the aim of replenishing its arsenal in a shorter timeline. As many countries pledge to increased defense investment, the problem is not political will but rather the availability of materials and human resources needed to rebuild production capacity. This can be better dealt with through cross-border collaboration—by establishing a coalition for collaborative production. Examples of such collaborations include the Japan-Australia partnership on rare earth investment, U.S.-South Korea cooperation in shipbuilding, the UK-Italy-Japan joint effort to develop next-generation fighter jets, and potential licensing of mature weapons system for production among allies and partners. Such arrangements could help meet the growing need to stockpile military equipment and munitions.

Conclusion

To sum up, the commitment to upholding a rules-based international order should remain the cornerstone of our foreign and security policy. Maintaining a relatively stable and orderly security environment in a multipolar world suits the interests of countries like Taiwan and many others across the Indo-Pacific and Europe. Countries that are medium and small-sized would like to leverage strength and resources beyond their borders to mitigate attempts and actions by revisionists aimed at upending the existing order.

The new Trump administration, which many in the foreign policy community see as prone to adopt a more transactional approach to foreign affairs, has so far sent mixed strategic signaling. Whether this shift is something partners can accommodate is up for debate. However, such ambiguity should be a source of concern for allies and partners and points to the need for stronger coordination to build a better burden-sharing framework. Ultimately, the goal in discussion is widely shared among like-minded nations: the task is to craft a burden-sharing network that is acceptable to all.

This chapter identifies several key areas for joint action. One is the development of an eco-system to support a non-red supply chain of legacy chips, essential for fending off espionage risks. Another is the expansion of our collective defense industrial base to meet the demands of a potential war of attrition and modern warfare. Moreover, while European countries sending frigates through the Taiwan Strait and South China Sea may not signal a commitment to military involvement in a future Indo-Pacific contingency, it serves as important diplomatic gestures reinforcing integrated deterrence against disrupters in the region.

4

The Triangular Relationship between China, Russia, and North Korea

Mats Engman

Introduction

During the past 5-10 years, we have witnessed an increasing geopolitical competition between liberal democracies and authoritarian regimes, centered on China and Russia. The war in Ukraine has added fuel and new dynamics to this toxic competition. Is this the beginning of a period of a new global “Cold War,” this time fought over values, ideologies, and influence rather than direct existential military threats? At the core of the authoritarian bloc is the triangular relationship between China, Russia, and North Korea and its future trajectory, as its cooperation will have a significant impact on global stability. This chapter is structured into three parts: a historic overview, an analysis of significant historic factors and, finally, a discussion over potential future-shaping factors.

Historic Relationships

Historic narratives play an important role in both domestic and international affairs in China, Russia, and North Korea. A description of formative events and periods in the three relations, China-Russia, DPRK-China and Russia-DPRK, may thus help us to better understand current relations and even give us clues to their future direction.

Sino-Soviet and Sino-Russian relations

At the end of WWII, the Soviet Union was a victorious power, while the PRC emerged from war with a devastated economy. The Sino-Soviet alliance was dubbed by Mao Zedong as “leaning to one side,” and was primarily motivated by complementary strategic considerations from both sides.¹ The USSR heavily invested in China, boosting bilateral trade and academic exchanges.² The PRC imported military equipment and heavy machinery, while the USSR received raw materials and agricultural products. With Soviet technical assistance, China would go on to start developing its nuclear capability.³

The first strain in the relations came after Stalin’s death in 1953, with Khrushchev’s “de-Stalinization” policy and rebuke of Stalin’s personality cult.⁴ Khrushchev further embraced the notion of “peaceful coexistence” with the West,⁵ and when he visited the U.S. he promised Eisenhower to stop helping China develop nuclear weapons.⁶ This infuriated Mao, who became increasingly worried about Khrushchev’s revisionist policies. Following the deteriorating relations, Sino-Soviet economic cooperation and trade almost came to a halt, contributing to the Great Chinese Famine between 1959 and 1961. Amid escalating tension between China and the Soviet Union, both countries began to reassess their respective geostrategic positions, with China and the Soviet Union seeking rapprochement with the United States. The Nixon administration began to pursue its *Triangular diplomacy*, eventually laying the groundwork for Nixon’s historical visit to Beijing.⁷ When Mikhail Gorbachev (a reformist) assumed power in Soviet Union in 1985, he found a like-minded political partner in the Chinese leader Deng Xiaoping (also a reformist).

The reconciliation process was slow, involving considerable commitments from both sides, as they gradually re-established networks of political, economic, and cultural exchanges. When Gorbachev and Deng met in Beijing in May 1989, it marked the end of 30 years of Sino-Soviet animosity.⁸

The end of the Cold War signaled the beginning of a new era for Beijing and its relationship with the newly independent Russian Federation. By the late 1990s, the Sino-Russian relationship was characterized by cooperation, with notable developments in diplomatic engagement and increased bilateral trade of military equipment. The United States—the sole superpower in

the post-Cold War period—inherited the mantle as the main long-term threat to China as well as Russia.⁹ Contentious territorial disputes along the common Sino-Russian border were resolved and Russia endorsed the “One China” policy, providing political support to China’s claim over Taiwan.

Internationally, Beijing and Moscow displayed increased cooperation in multilateral forums such as the UN, regularly expressing similar opinions on significant security-related events.¹⁰ Recognizing the growing threat posed by U.S. unilateralism, both China and Russia strengthened their diplomatic coordination. The improving Sino-Russian relations led to the creation of the Shanghai Cooperation Organisation (SCO) in 2001. Bilateral trade between China and Russia grew, developing into a relationship characterized by economic complementarities. China and Russia also worked together on the multilateral front, spearheading the development of the BRICS grouping as well as issuing joint vetoes within the UNSC.¹¹

While trade between the two countries increased, the relationship became increasingly asymmetric. But, following Xi Jinping’s emergence as president in 2012 and the re-election of Vladimir Putin in 2013, the evolving personal relationship between the two leaders signaled a new era of cooperation. The Russian annexation of Crimea, in 2014, triggered a barrage of economic sanctions, forcing Moscow to mitigate the effects of the sanctions and, therefore, pursue a policy change of “pivoting to the East”. Putin’s use of history to legitimize the annexation of Crimea (and later the war in Ukraine) is very similar to Xi’s rhetoric regarding Taiwan.¹² Russia also became an important partner for China’s ambition to expand its Belt and Road Initiative (BRI) into the Arctic region. The Sino-Russian relationship continued to strengthen from 2017, and the election of Donald Trump in 2016 proved to be an important driver for closer China-Russian relations. A culmination of the relationship came when Xi and Putin met ahead of the opening ceremony of the Beijing Winter Olympics 2022, and the now famous announcement of a partnership with “no limits, and forbidden areas of cooperation”.

Despite past volatility, the last 30 years of Sino-Russian relations have trended positively—characterized as “not always in agreement, but never against” combined with a high degree of mutual respect.

Russia and North Korea

The current warming of relations between Russia and North Korea is not just a recent development caused by the Russian invasion of Ukraine. Russia's ability to use North Korean weaponry, already compatible with its own weapons systems, is a testament to a long history of exchange.

Moscow supported Pyongyang after the Korean War and into the 1960s and the Soviet Union emerged as one of North Korea's main trading partners. Aid expanded especially after Sino-North Korean relations soured due to the Chinese Cultural Revolution. In 1988, at the peak of the bilateral relationship, about 60 percent of North Korea's trade was with the Soviet Union.¹³ As rivalry between the Soviet Union and China intensified in the 1970s, North Korea pursued an "equidistance" policy that allowed it to play the giants against each other—as Pyongyang also attempted to reduce its dependency on either Moscow or Beijing.¹⁴

The relationship between Russia and North Korea was undermined during Gorbachev's rule, with diverging ideologies and economic decline. Gorbachev began reducing aid to North Korea after 1985 in favor of reconciliation with South Korea, and Kim Il Sung felt betrayed. The end of Soviet aid and a series of long-standing failed agricultural and economic policies, led to a historic famine in North Korea.¹⁵ By 1993 Russia-North Korean relations had assumed an almost hostile character.

The sharpest controversy grew up around the question of Pyongyang's compliance with the nuclear Non-proliferation Treaty (NPT) and Moscow's threats to support international sanctions. In 1994, Yeltsin further infuriated Kim Il Sung by threatening to support international sanctions against North Korea. Putin's election as president in 2000 had critical significance to Pyongyang, which attributed its grievances to Yeltsin's government. After his first election, Putin sought to restore Russia's ties with North Korea, met with Kim Jong Il, and signed a friendship treaty but refused to condone North Korea's nuclear weapons tests. In 2006, Russia supported Resolution 1695 condemning the 2006 North Korean missile test and voted to impose an embargo on goods that supported North Korea's missile and WMD programs. The most obvious reason for North Korea to reach out to Russia is to move away from overdependence on China, which is often accused of "semi-colonizing" Pyongyang's economy.¹⁶ In 2012, Russia agreed to write

off 90 percent of North Korea's estimated \$11 billion debt as a sign of closer engagement with North Korea's new leader, Kim Jong Un.¹⁷

The more recent developments between North Korea and Russia have shown notable improvements in a very short time. On July 27, 2023, Kim Jong Un met with Russian Defense Minister Sergei Shoigu in Pyongyang. In September, Kim met Putin at the Vostochnyy Cosmodrome in Amur. Talks at the meeting, centered on extending Russian assistance in critical areas such as energy, food supplies, and North Korea's satellite program. An outcome of the enhanced engagement was Russia's veto, in March 2024, at the United Nations' vote to renew the Panel of Experts, tasked with monitoring North Korea's compliance with international sanctions. North Korea has supplied Russia with large quantities of military equipment, like ammunition and missiles, and deployment of North Korean soldiers in Ukraine at the end of 2024.

China and North Korea

As the North Korean government's most important international supporter, China has long played an outsized role in mediating and managing inter-Korean affairs and tensions. However, the relationship between Xi Jinping and Kim Jong Un has been rocky in recent years, in part due to the latter's continued effort to acquire more sophisticated missiles and nuclear capability.

In October 1950, one year after the People's Republic of China (PRC) was established, Mao sent Chinese People's Volunteers to the Korean Peninsula to fight United Nations forces. China's intervention saved Kim Il Sung's North Korean Communist regime from imminent collapse but failed to overwhelm the UN forces.¹⁸ Mao justified the move by framing Korea as a Cold War battleground between socialism and imperialism, emphasizing its strategic importance to China and China's superiority over the U.S.¹⁹

At the end of 1955, Kim Il Sung utilized the concept of "Juche," a term typically translated as "self-reliance," to minimize foreign influence in North Korea. In August 1956, he purged pro-Chinese and pro-Soviet party officials for challenging his economic strategies and personality cult, straining relations with both. Relations between Pyongyang and Beijing briefly improved in the early 1960s and China and North Korea signed a mutual defense treaty

in 1961. Kim Il Sung increasingly stressed Korean independence, as embodied in the concept of *Juche*.²⁰

When Kim Jong Il was declared successor in 1980, China openly denounced hereditary succession. North Koreans were appalled, believing it revealed a belief that China still had the authority to voice an opinion on leadership succession.²¹ From the 1980s, China and North Korea grew further apart when Deng Xiaoping pursued economic modernization, with North Korea calling Deng Xiaoping a traitor to socialism. When North Korea conducted its first nuclear weapon test in 2006, Beijing responded by backing UN sanctions. China further condemned North Korea's nuclear tests in 2013, 2016, and 2017. In response, the Korean Central News Agency published an unprecedented criticism of China, accusing it of "big-power chauvinism."²² With Pyongyang's growing confrontation with the United States, the Beijing-Pyongyang relationship took a decidedly negative turn in 2017.

In recent years, China's perception of North Korea as a source of vulnerability has increasingly driven its thinking. In 2017, China voted in favor of four UNSC resolutions, each intensifying economic pressure on North Korea. However, through its support, China also watered down some of the more aggressive sanctions by the United States—in keeping with its long-standing fear that excessive pressure on North Korea could lead to regional instability.²³

Driving Factors, Common and Diverging Interests

From this brief historic outlook, we can identify driving factors and common interests but also diverging interests.

First, Sino-Russian relations closely follow external events, particularly their shared perception of the U.S. as a threat. For these reasons, during periods of heightened competition and tension with the U.S., the relationship between Moscow and Beijing generally grows closer, a trend evident today.

Second, the personalities and political ambitions of leaders do matter. When leaders' ambitions and personal styles coincide, as evident with President Gorbachev and Deng Xiaoping, as well as with Putin and Xi, stronger relations develop. The close personal bonds between Xi and Putin,

could have significant domestic negative implication for President Xi's leadership, if Putin loses the war—and Putin's victory could strengthen Xi's leadership.

Third, history indicates that the relationship has strengthened over time, especially between Russia and China, but several asymmetries exist. Diverging factors in economic and trade relations, dependencies, technological modernization, as well as some political issues are likely to increase.

Fourth, Russia's war in Ukraine will continue to have a profound impact on Sino-Russian relations and Russia-DPRK relations. It has been demonstrated that the three have at least several similar strategic objectives. Until now, China does not seem willing to use its influence to deter Russia. For the DPRK, the continuation of the war is most beneficial. The war has not only strengthened China's position vis-à-vis Russia but has also strengthened China's and DPRK's military position in East Asia.

Fifth, the three are united by a shared ideology centered on opposition to the Western-dominated world order with its focus on human rights, democracy, rule of law and freedom of speech.

Sixth, all three emphasize the importance of culture and history as decisive factors in their pursuit of both domestic and foreign policies. This is combined with massive social control, information campaigns and the restriction of free speech to justify policies and boost domestic support.

Seventh, Russia has shifted from senior to junior partner in its relationship with China, a trend likely to continue given China's economic, technological superiority and overall political clout.

Eighth, all three employ hybrid tactics, including disinformation, economic coercion, "weaponized" energy, food and migration, and support for violent non-state actors to destabilize Western political systems—the strategy of "securitization of everything".

The Future Directions

The historic overview and eight highlighted factors all inform future triangular relations, but key drivers likely include shared values, ideology and historic factors, external influences, economic conditions, and security concerns. These will shape the trajectory over the next four to five years.

Shared values, ideology and historic narratives

All three nations emphasize shared values, ideology, and historical narratives to sustain their political systems, often opposing Western democratic principles like human rights, free speech and an independent judiciary. This alignment strengthens their anti-Western stance, fuelling global tensions over the “rules-based international order.” Even if the historic socialist values are less important today, the dominant trend is a continuation of shared values among the three, but centered on anti-western sentiments. Trump’s willingness to challenge certain Western values (e.g., woke-related issues, diversity, etc.) may improve U.S. engagement with these nations, creating difficulties for the European Union, which is unlikely to follow suit.

As with a value-based common understanding, all three share the importance of historic narratives to rationalize both domestic and foreign policies. Putin often uses historic narratives to support his actions in Ukraine, China uses similar arguments over Taiwan and North Korea still aspires to, at least part of the territory of South Korea. Simplified, one could argue these three nations are all missing one important geographic part and to a varying degree, the blame is on the Western world.

Despite potential shifts in U.S. foreign policy, less dominated by the “common values arguments and established international norms,” I do not assess any major changes or diverging interests in values, ideology and strong emphasis on historic narratives, between the three nations. This factor will continue to be a factor binding the nations together.

External factors

External factors have played a significant role in shaping the triangular relations. Two external factors are likely to dominate over the next four to five years, the outcome of the war in Ukraine and the new U.S. administration’s foreign policy.

The Ukraine war remains a stalemate, with both Russia and Ukraine struggling to sustain military efforts amid waning external support. External support is critical, but Ukraine’s backing, in particular from Washington, appears to be waning, and Russia’s economy and military-industrial output face severe strain—finding it difficult to keep up with battlefield losses and the effects of sanctions.

Both nations are heavily dependent on their major international backers, Washington and Europe, respectively Beijing and to a lesser degree India. China is unlikely to make any major shift in their current policies. Judging by Trump's recent policy statements, Washington seems ready to support Russia as much as Ukraine. The main question related to Ukraine is if the new administration is willing to expend political capital over the long term to achieve a sustainable peace for Ukraine, or whether Trump will prioritize achieving cease fire in Ukraine in the short term to gain economic favors. Currently the objectives of Russia and Ukraine are incompatible, as Russia aims to keep occupied territories without any NATO membership for Ukraine, while Ukraine aims to restore territorial integrity and aspire for NATO membership.

However, the outcome of any ceasefire or subsequent peace negotiations will have major implications for the future. If a negotiated peace agreement does not re-establish U.S. credibility and demonstrate U.S. power, while ensuring that Russia will not be able to attack Ukraine, the U.S. will find it increasingly difficult to deter China, North Korea, and Iran. A peace settlement that fails to reassert U.S. credibility could weaken global alliances. With the current rhetoric from Trump, short-term (economic) successes rather than long-term strategic thinking and stability, seems to be the prevailing formula.

China seeks to end the war without alienating Russia, potentially leveraging reconstruction efforts in Ukraine and Russia to strengthen ties with Europe. China with its impressive infrastructure capability would be well placed to have a strong role in re-building damaged infrastructure in Ukraine and in Russia, and to support Russia in rebuilding its military-industrial complex.

Ms. Rachel Minyoung Lee, from the Wilson Center noticed, that for all its destabilizing ramifications, Pyongyang's deep involvement in the war alongside Moscow ironically has scored one achievement: forcing the North Korea problem toward the top of the global security agenda. It is no longer just an Asia security problem, it is now part of European security problems, and it extends far beyond the immediacy of the country's weapons supplies and troop dispatch to Russia.

The Trump foreign policy agenda, meanwhile, is both erratic and unpredictable. But it is likely he will reach out to North Korea to re-start engagement. His references to the DPRK “as a nuclear state” and Kim Jong Un “as a smart guy” are likely meant to prepare for engagement. Some information points to preparatory meetings already having taken place. The outcome of such engagement is however still in the dark, but it is unlikely Kim will agree to de-nuclearization. For him, this is an existential issue and a clear red line. Ongoing talks in Seoul on national nuclear weapons capability is making DPRK de-nuclearization even more un-realistic. The merits of engagement are still many, not least in lowering the risks of miscalculation and improving communication, something U.S Secretary of State Marco Rubio has expressed support for. For North Korea, any future engagement and possible agreements, will come at a “higher price”. The personal humiliation Kim suffered in Hanoi is something he cannot risk repeating and any meeting needs to be both substantial and clearly defined. South Korea’s political uncertainty may also influence the region, with a potential shift toward engagement with North Korea and a softer stance on China under a liberal president.

Economic factors

Despite appearing solid, the Russia-China partnership faces economic asymmetries. China, the world’s largest exporter, is more integrated and dependent on international economic development, a phenomenon described as the “Second China Shock”. However, the Chinese economy is under pressure from housing sector issues, lingering COVID effects, and global resistance to its business practices. The asymmetries between the growing Chinese economy and the stagnant economies of Russia and the DPRK will increase.

While China expands its reach in Africa, South America, and Asia—especially in green technology—its reliance on international trade makes it more vulnerable to U.S. and European tariffs and restrictions. China is a leading producer of solar panels, windmills, electric cars, EV batteries and controls much of the rare earth metals used in these products. Trump has already announced that the U.S. will leave the Paris Agreement, increase production in oil and gas and reduce government support for green transition,

inadvertently handing China a “free-kick”. Climate related challenges will not go away because of Trump and his supporters, with many nations turning to China to face climate-related challenges. Even changes in U.S. trade policy, with the introduction of tariffs, will make China a more attractive partner for many nations, not least in Europe.

Some of the hardest critique and most severe restrictions discussed against China have yet to happen. Maybe Trump’s indecisiveness around Tik-Tok is indicative of a less strict U.S. economic policy towards China, as China can cause major challenges for the U.S. economy. Perhaps we are seeing an expression of “waging conflicts (wars) without inconveniencing yourself,” is much more difficult in practice than just talking.

Russia’s economy has been hard hit by the war and several years of mismanagement, suffering from a process of “de-industrialization”. Even if the economy has been more resilient than predicted, it is very energy dependent. Russia is far behind China and the Western world in technical modernization, is losing human capital and its growth predictions are below the world average. Sustained difficult relations with the West will continue to make Russia more dependent on China for its economic development and to smaller degree even on the DPRK.

North Korea is an extremely limited economic actor. Recently, the DPRK has benefitted from its support from Russia, with imports of oil, agriculture products, infrastructure projects, technical support and military cooperation. But overall, the economy is not performing well. Miscalculated reforms, COVID-restrictions and sanctions have combined to result in an economic situation that could lead to internal critique and unrest. Kim’s initiative 20+10 to vitalize the rural economy is one example of a growing concern, a dissatisfied rural population and increased internal division. Both Russia and China hold important roles in supporting the North Korean economy, to the extent that it does not risk internal unrest, something China is very sensitive about. We are likely to witness continued struggle by the North Korean economy, but with Chinese and Russian support, it will “muddle through”.

A common challenge for all three, is a rapid demographic change. Low birth rates, an aging population and young men killed in the war, will lead to a shrinking working age population. This is a ticking bomb for China

and Russia, less for the DPRK. On the economic front the asymmetries will increase. As China is more integrated and dependent on the outside world, it may be more inclined to distance itself from Russia and the DPRK, to reduce some of the negative economic consequences and seeking compromises with the “west”.

Security related factors

For all three nations, security, sovereignty, regime stability, and non-interference in domestic politics, are of utmost importance and nuclear weapons are the most important capability to guarantee these objectives.

Russia holds the world's largest arsenal of nuclear weapons, China is rapidly expanding its stockpile and the DPRK continues to modernize and upgrade its program. Reliable information about any bilateral or multilateral cooperation on nuclear weapons is limited, but North Korea has likely received limited technical support from Russia to develop its missile systems. Even if the cooperation is limited in scope, potential exists for increased cooperation if the threat perception changes. The underwater domain is one area where increases in nuclear cooperation, Russia sharing its extensive knowledge, would have a drastic effect on nuclear deterrence in East Asia.

Even if North Korea's nuclear program causes concerns in Beijing and Moscow (safety and proliferation concerns), neither is likely to dissuade the DPRK from expanding its arsenal. China, wary of negative spill-over effects from heightened tensions on the Korean Peninsula (c.f. the THAAD deployment) will continue to de-escalate, contain or limit any escalation it believes threaten its national security.

The war in Ukraine has strengthened the trilateral bond, as long as China maintains control over the partnership. Joint military exercises between Russia and China have expanded over the last few years. Since 2017, more than 100 joint exercises have been conducted—likely to be an important aspect of their bilateral cooperation. Several joint exercises have taken part in remote areas like the Mediterranean, the Arctic and in South Africa, demonstrating a growing joint out-of-area capability. While not a formal alliance, cooperation within the SCO and BRICS may lead to more coordinated military efforts, though joint military missions remain unlikely.

For the DPRK, its military support to Russia marks its first major military overseas deployment, offering valuable experience, though formal trilateral military cooperation is unlikely in the short term. There are already reports of improvements in KPA soldiers' performance and their weapons systems.

Evident from the historic overview, threat perception is one factor that normally drives the three nations closer together. Heightened military cooperation between East Asian democracies, NATO, and the EU reinforces the shared threat perception among Beijing, Moscow, and Pyongyang, ensuring their continued alignment.

Conclusion and Recommendation

Over the last 10-15 years, the triangular relationship has seen steady positive development, with concerns on DPRK's nuclear program being a key exception. However, recent high-level engagements between the three indicate that China and Russia are less worried about DPRK actions triggering a regional conflict.

China is by far the most important actor in the triangular relationship. For decades, China has been the most important international partner for North Korea, especially in economic and political aspects. For Russia, the country has shifted from being the "big brother" to China to being the "little brother". For North Korea, with few international partners, the newfound relation with Russia, is a major improvement. It gives the DPRK access to resources, economic and technical support and increased political leverage, to serve Kim Jong Un's ultimate goal of regime survival. Pyongyang has traditionally benefited from being able to balance the influence of Beijing and Moscow, which Pyongyang continues to exercise.²⁴ For Moscow, military cooperation with the DPRK expands its foothold in East Asia and somewhat mitigates its asymmetric relationship with China. But, for both Putin and Kim, an exclusive relationship risks alienating them further from both China and the outside world and is probably not in the long-term interest of either Moscow or Pyongyang.

China is closely monitoring Russia-North Korea relations but has been reluctant to take any firm actions. China aims to maintain its "leadership role" in the trilateral relationship while avoiding U.S. or European

countermeasures and to use its influence in diplomatic engagement with Trump. Increased DPRK-Russian military cooperation could provoke a stronger U.S. military presence in East Asia—an outcome China wants to avoid. The recent development of a more coordinated three-way relationship (Beijing-Moscow-Pyongyang) not only offsets the U.S. allies' efforts in the region but also allows China to maintain its dominating position.

Friction points exist but are unlikely to disrupt the current trajectory in the next 4-5 years. The two most likely friction points that could change the current positive trajectory would be China distancing itself from Russia and the DPRK due to economic or political reasons or a real crisis on the Korean Peninsula. In his confirmation hearing the new U.S. Secretary of Defence Pete Hegseth stated, "It is a foundational principle of strategy that one's adversaries should be divided". But the main question then is how do we try to limit, divide or sow a split in this triangular relationship in a situation when Washington seems ready to cooperate rather than to divide?

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II. REGIONAL IMPERATIVES

5

Toward Strategic Cooperation between Japan, the EU and Taiwan—Under the ‘MAGA’ Policy of the U.S. and Chinese ‘dream’

Shin Kawashima

The U.S. and China’s ‘MAGA/home first’ and the International Order

Since the 2010s, China has clearly stated that it will catch up with the U.S. by 2049 and become the creator of a new international order, while the U.S. has also abandoned its role as the “world’s police” and has advocated a policy of prioritizing its own interest. At the same time, the second Trump administration has clearly shown its opposition to a multilateral free trade system, and it is difficult to say to what extent the U.S.-centered military-security system will be maintained in the future.

Under these circumstances, U.S. allies and likeminded countries must continue to coordinate with the U.S. to maintain the existing order in terms of security, economy and trade, and to make efforts to check China’s intentions and its activities to create its own world order. However, this will not be an easy task. First, on the security front, China is clearly opposed to the U.S. and its allies and comrades, while on the economic front, China is in favor of and supports a multilateral free trade framework. Of course,

China itself is not aiming to maintain the existing international order, but rather to create favorable conditions for its own economy and to strengthen its economic ties with the rest of the world, using this as leverage against the U.S. However, since China's economy is dependent on the global economy, it superficially takes the direction of supporting the existing order. Second, there are aspects of the various policies adopted by the U.S., whether in the Biden or Trump administrations, that work to China's advantage. In the case of the Biden administration, its advocacy of policies emphasizing democratic values worked to China's advantage. In other words, when the U.S. held "democracy summits" and other such events, many developing countries opposed them, while China's advocacy of "Chinese-style socialist democracy," in which "democracy is diverse and there is no specific style," gained support from the Global South countries. On the other hand, when the Trump administration drastically reduced budget allocations to USAID, VOA, RFA (Radio Free Asia), and other organizations, a situation that was extremely favorable to China emerged. The Global South is now looking to China for assistance. In addition, the termination of support for VOA and RFA has facilitated a situation for China to gain the "power of discourse" (discourse initiative) that it is seeking. In addition, the de facto cessation of activities of RFA (Radio Free Asia), which had been conducting human rights investigations in the Xinjiang Uyghur Autonomous Region, has reduced the amount of discourse that is unfavorable to China. In addition, the elimination of the budget for checking disinformation and other speech, which had flowed from USAID to various NPOs and other organizations in the world, has led to the emergence of a situation in which information is mixed up in various parts of the country and social divisions have become apparent, which is favorable to China. Under these circumstances, what can the EU, Taiwan, and Japan, as allies and likeminded countries of the United States, do to maintain the U.S. global security network and deterrence against China in terms of security, and to maintain the existing multilateral free trade framework in terms of economy? The following is a discussion and proposal of what the EU, Taiwan, and Japan can do to achieve these goals.

Strengthening Multilateral Security Relations

The U.S.-centered security net is the greatest deterrent to China. China is trying to counter the U.S. by increasing its military power, while establishing its own international public goods related to military affairs and providing them to the world. However, China has an independent and self-reliant foreign policy from 1980s and does not have allies like the United States. China is currently cooperating with Russia, Pakistan, and other countries in the area of military security, selling arms to developing countries, supporting the training of military human resources, and cooperating in the construction of military-related infrastructure to form a global military network. In addition, as seen in China's construction of a base in Djibouti, China is deploying its military around the world with the support of international organizations such as the United Nations and the approval of partner countries. If China were to deploy troops in the peace process in Ukraine, it would not be possible without a decision by the UN or other international organizations, the consent of Ukraine, and especially the consent of Russia, but conversely, if these conditions were met, China could deploy its troops.

How to deter such a China in terms of military security? The major issue is how to maintain deterrence against China, especially as President Trump himself has not shown any framework interest in relations with allies, NATO, AUKUS, Quad, etc. In addition, the U.S. is also responsible for the defense of countries in the Pacific that do not have their own militaries. If the Trump administration pursues MAGA policies in the future, U.S. military cooperation with Pacific countries and others will be reduced, which may in turn give China an excellent opportunity to "change the status quo".

What measures, then, can be taken? First, NATO members, Japan, and others should emphasize to President Trump how this U.S.-centered security framework does not benefit the United States. Of course, it is unclear whether this will work or not. That is why it is essential to reach out to the State Department, the Pentagon, or the diplomatic and security brains of the Trump administration. Second, the importance of the situation in Ukraine and the Indo-Pacific should be confirmed with the Pentagon and the Indo-Pacific Command in Hawaii, and specific activities should be continued. Third, it will be necessary to establish as many opportunities for summit meetings as possible through a series of ministerial meetings in the NATO,

AUKUS, Quad, and other frameworks. Fourth, it is necessary to strengthen the cooperative framework with NATO countries excluding the U.S., Japan, and others. Japan should also expand the 2+2 framework with other countries especially in the Indo-Pacific region and engage in technical cooperation in a variety of areas, including economic security and information management. Fifth, Japan should expand cooperation with Taiwan in the areas of information management, maritime security capabilities, and military security. China's pressure on Taiwan continues to intensify. Japan will need to cooperate as much as possible for the sake of regional peace and stability in East Asia. In particular, cooperation with the EU is needed on the issue of damage and severance of submarine cables by "civilian" ships. There has been an increase in "accidents" involving damage and severance of submarine cables around Taiwan, and "accidents" have also been reported in the Baltic Sea in Europe. From the perspective of defending remote islands, submarine cable defense is also an urgent issue for Japan. At the very least, joint research and information exchange should be promoted among the EU, Japan, Taiwan, and other like-minded countries.

Leveraging the CPTPP: Holding CPTPP Summits and Expanding Membership

The fact that the WTO system has effectively lost its function is one of the reasons why the U.S. has adopted an economic policy that prioritizes its own country, and why China is able to leverage its economy to create an economic zone favorable to itself, while at the same time creating an extremely large number of non-tariff barriers domestically. Rebuilding the WTO is currently extremely difficult. At least since the formation of the Bretton Woods system after World War II, the direction of lowering tariffs and forming free trade zones has been adopted for a long time, but this historical trend is likely going in the opposite direction at present. Japan and Taiwan do not have abundant domestic resources, and their people depend on foreign trade for their livelihoods, while the EU is certainly also dependent on the rest of the world for energy and other resources. In this sense, a major challenge is how to maintain the existing free, open, and multilateral free trade order. To this end, the EU, Taiwan, and Japan can cooperate on measures to counter the tariff problem in the United States, as well as in terms of economic security targeting China. But it is not enough.

The important thing would be to build a new framework to replace the WTO. The CPTPP is extremely important in this regard, and Japan in particular will have a responsibility and role to play as the main creator of this framework. In particular, Japan will have a responsibility and role as the creator of this framework, and the CPTPP will serve as an important forum for the post-WTO era. First, a meeting of economic ministers from the CPTPP member-countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United Kingdom) should be held to discuss measures to maintain the existing free, open, and multilateral free trade order as CPTPP. Then, a summit meeting of the CPTPP member-countries should be held to express this intention to the rest of the world. Second, we should accelerate negotiations with countries that have formally applied for membership, such as China, Taiwan, Ecuador, Costa Rica, Uruguay, and Indonesia. The decision on Ukraine's application for membership will be based on the peace negotiations. On the other hand, negotiations with China and Taiwan should be conducted with simultaneous membership in mind. EU will also be required to seek linkages with the CPTPP and jointly demonstrate its willingness to maintain the existing free, open, and multilateral free trade order.

In negotiations with China, it is necessary to address the issue of non-tariff barriers in China and to encourage China to conduct economic trade based on the rules. However, we must strictly refrain from setting special rules to provide incentives to new member-countries as well as China. Additionally, efforts to integrate China into an economic and trade framework while sharing rules could include utilizing the RCEP or the Japan-China-South Korea FTA. While these frameworks are less liberalized than the CPTPP, they offer valuable opportunities to understand China's perspective. The EU has conducted numerous trade negotiations with China, and it is conceivable that Japan and the EU could exchange information or align their principles and policies. Taiwan, despite the gradual erosion of its ECFA with China, still maintains deep economic ties with China, making information exchange with Japan and the EU meaningful.

Strengthening Relations with the Global South: Response to the USAID Withdrawal

The U.S. imposition of high tariffs on many countries, including developing countries, and the drastic reduction of USAID's budget have been a major shock to the Global South. China has been encouraging Global South countries to fight alongside China on the tariff issue. In addition, USAID's suspension of an extremely large number of projects has conversely clarified the assistance to developing countries in the Americas that had not necessarily been visible in the past. The extremely generous and diverse U.S. assistance to developing countries in diverse areas such as economics, education, and health care has been cut off.

Needless to say, this situation is extremely favorable to China. China's financial situation is also difficult, and large amounts of aid that are not understood by the public have not been seen since the late 2010s. But even so, it is also clear that China will adopt a strategy to fill the "vacuum" after the U.S. withdrawal in order to strengthen relations with developing country regimes and so on.

On the other hand, the EU, Japan, Taiwan, and other countries cannot easily fill the U.S. "vacuum", and what is required of the EU, Japan, Taiwan, and other countries is to sort out what USAID has withdrawn from, where the needs of global countries lie, and what the most pressing issues are, prioritize them, and provide assistance as much as possible. Of course, it is also necessary to cooperate with like-minded countries such as Australia and South Korea. In doing so, it is likely to become competitive with China, but even there, it is essential to maintain the perspective of an advanced country, that is, to maintain the existing order. However, if this stance is overly emphasized, it may be avoided by countries in the Global South, so it will be necessary to present only the minimum norms, such as the "rule of law." We should be cautious about overstating values.

On the other hand, it is also necessary to cooperate with developing countries in terms of economic security given China's outreach. However, there are certain difficulties in sharing the idea of "economic security" itself with developing countries, particular in checking China with regard to advanced technology. Many developing countries welcome Chinese investment, and there is not a strong sense of technological control there,

but they are conscious of the importance of food and energy security and resilient supply-chains. The EU, Japan, Taiwan, and other developed countries should persistently promote dialogue and cooperation with developing countries in areas of economic security, be willing to cooperate on human resource development if necessary, and use the RCEP, CPTPP, and other frameworks to promote the rule of advanced technology management. In addition, it will be necessary to establish rules for such management using the RCEP, CPTPP, and other frameworks.

In response to USAID's withdrawal, it would be advisable to promote joint assistance and support from the EU, Japan, Taiwan, or other like-minded countries. Efforts to share responsibilities for the same projects may also be necessary. In particular, in the Pacific region, some countries have diplomatic relations with Taiwan, so cooperation between Japan and Taiwan, or including Australia, is required. In Africa, cooperation between EU countries and Japan is also anticipated. It will be necessary to build cooperation not only in terms of principles but also through specific projects and the results achieved there.

Preventing Disruption of Global Discourse: Information Dissemination and Countermeasures against Infiltration Operations

China aims to take the initiative in world discourse in cooperation with Russia and some other countries. However, the "wall" of discourse in the U.S. and other Western countries is large, with the Western media controlling the world's mainstream discourse, and there is negative discourse about China spreading around the world through RFA and other media outlets. China's goal is to spread its own discourse to the world and to reduce the negative discourse. On the other hand, even in places such as Taiwan, which has been the target of infiltration efforts by China, there has been a struggle with the Western discourse, which has never yielded positive results. Of course, the Western discourse is not the only reason for this, but it is also a function of the disinformation checks being conducted by the targets of infiltration operations themselves. For example, when Japan provided Taiwan with the AstraZeneca vaccine during the spread of the COVID-19, China tried to disseminate information that the Japanese were providing Taiwan

with an ineffective vaccine that the Japanese themselves would not use. The information spread within China, but not to Taiwan. This is because Taiwanese society recognized that the information was actually disinformation from China.

However, since the Trump administration has cut off support not only to VOA but also to RFA and other organizations, and since support from USAID to NPOs and other organizations that had been monitoring internet or SNS information has been cut off, a situation extremely favorable to China is emerging. The number of cases being uncovered in the Xinjiang Uyghur Autonomous Region and other areas has decreased, and the power of speech monitoring in Taiwan and other areas that have been the target of internal infiltration operations has weakened. What can the EU, Japan, and Taiwan do in response to this situation? It will be necessary to enhance their ability to disseminate information to the outside world and, while protecting freedom of speech, promote the sharing of information on intentional disinformation and malinformation emanating from China and Russia.

Furthermore, Japan remains inadequately prepared to counter infiltration efforts and cyberattacks from China and Russia. Although legislation related to the introduction of “proactive cyber defense” to prevent cyberattacks before they occur has finally passed the Diet, there are still many institutional problems, such as the lack of obligation for Tokyo Stock Market-listed companies to disclose cyberattacks. In Japan, there are noticeable institutional and societal delays not only in responding to gray-zone infiltration but also in preparing for “emergencies” and other societal responses. In this regard, joint research and information exchange with EU countries and Taiwan will be necessary.

For Peace and Stability in East Asia

Just as the Ukraine issue is an urgent security concern for EU countries, peace and stability in East Asia are of critical importance to Japan and Taiwan. To achieve this, it is necessary to enhance deterrence in the area of military security, as mentioned above. However, it is also necessary (if possible) to promote dialogue with China, Russia, and North Korea. Such dialogue should not involve compromise or concessions, but rather convey the views of Japan, its allies, and like-minded countries to China and other

parties. At present, it is difficult for Taiwan to advance dialogue with China. Given the current situation in Ukraine, it is also difficult for Japan and European countries to advance dialogue with Russia and North Korea. However, it is possible for Japan and EU countries to engage in dialogue with China. In addition to discussing the issues related to the economic and trade framework mentioned above, it is important to communicate Japan's intentions regarding its security policy and its understanding of China, as well as to establish a mechanism for communicating information on maritime incidents, in order to prepare for unforeseen circumstances to the greatest extent possible.

On the other hand, in East Asian region, the domestic situation is not stable in both South Korea and Taiwan and social divisions are becoming more pronounced. Japan, in particular, is facing an aging population that is leading to a decline in national strength. Cooperation to address these factors hindering domestic social stability should not be neglected.

In the event of changes in the situation surrounding the war in Ukraine in the future, Japan and the EU may also consider “normalizing” their relations with Russia. This would not only involve lifting sanctions against Russia but also the resumption of economic activities and people-to-people exchanges. For Japan, this could include the Sakhalin development project, exchanges related to the Northern Territories, and even negotiations for a peace treaty with Russia. Such measures toward Russia would also become an important area of cooperation between Japan and the EU, and information on Russia would be necessary for Taiwan, which is facing off against China, which maintains close ties with Russia.

6

Chinese Economy: Outlook and Impacts on its External Behaviors

Raymond C-E SUNG

Introduction

This chapter is based on a presentation made in December 2024 in the trilateral online meeting. Developments since then will be taken into account when necessary.

The central arguments of this report are:

- China's economic downturn is a long-term one
- There are structural causes of the economic downturn that are not easily fixed
- Chinese economic difficulties are due to policy failures to a large extent
- China is prone to more aggressive economic / mercantilist behaviors
- The possibility of diversionary warfare cannot be ruled out

The Current State of the Chinese Economy: An Assessment

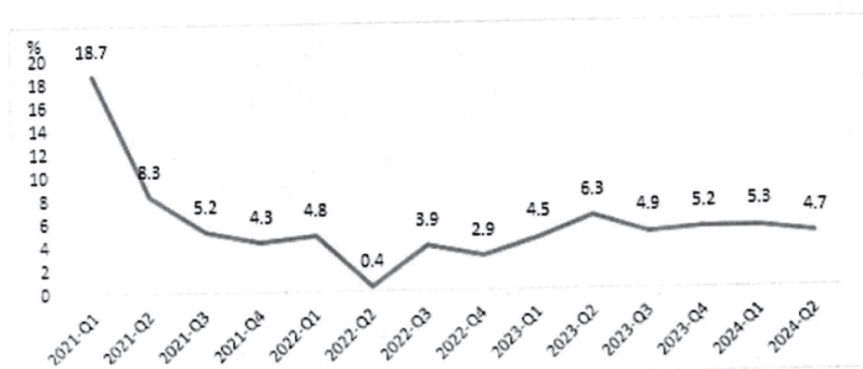
An obvious starting point for assessing the Chinese economy is the GDP growth. It is well known that the CCP has taken the GDP growth to symbolize the health of the Chinese economy, and the maintenance of the

annual GDP growth at a figure not lower than 5 percent has been an obsession of recent administrations.

Chinese GDP growth figures vary depending on different economic forecasts and analyses. Aggregate data published by National Bureau of Statistics China (Figure 6.1) shows it bounced from the lowest point at 0.4 percent in early 2022 to over 6 percent early 2023, leveling around the 5 percent mark across 2023 and 2024.

Figure 6.1: Chinese GDP Growth

圖 1 中國大陸 GDP 各季成長率

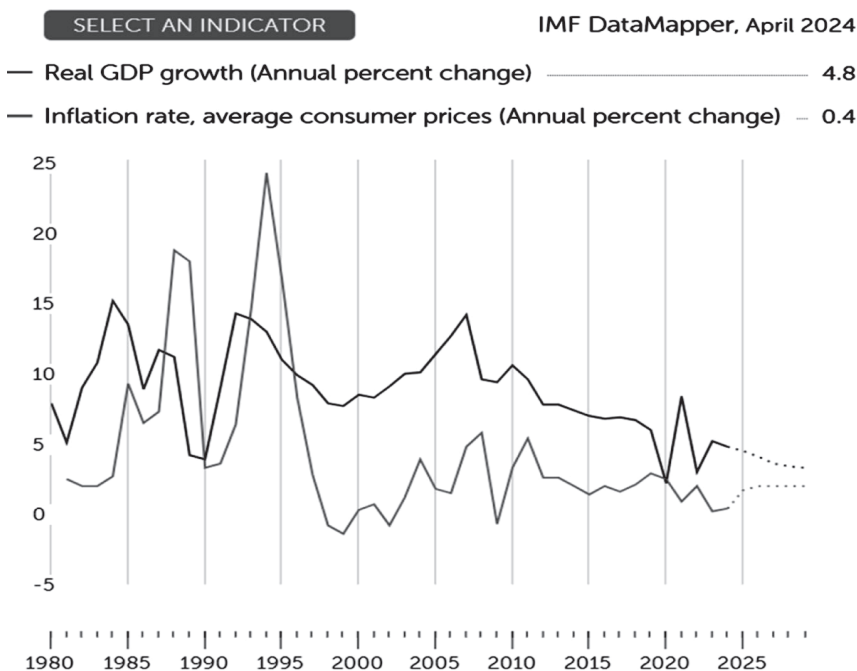


資料來源：中共國家統計局（資料查閱：2024/07/17），本研究整理繪製。

In July 2024, the IMF revised its estimate of China's growth up to 5 percent, reflecting stronger-than-expected private consumption in the first quarter. However, after disappointing domestic demand in the second quarter, it later forecast a figure of 4.8 percent, which is still broadly in line with the authorities' growth target. The IMF noted that consumer demand has remained subdued, while exports have performed well. Stronger-than-anticipated policy support expected later in 2024 could provide upside risks to the forecast. Further, it noted opposing forces will be at work for 2025: the property market is expected to bottom out, which should support domestic demand but potential growth would retreat in view of population aging and slowing productivity growth. Overall, the 2025 forecast by the IMF has been marked up by 0.4 percent to 4.5 percent relative to April.

However, even the IMF predicted a downward trend for Chinese GDP further after 2025 (Figure 6.2).

Figure 6.2: IMF Prediction of China's GDP Trend



It has been widely assumed that official figures from the Chinese are not reliable. As early as 2007, Li Keqiang, then Vice Premier of the State Council of the Communist Party of China, said that the GDP data released by the National Bureau of Statistics of China was “artificial” and could not be trusted.

Since the latter part of 2024, two observations have been circulated on the internet, in which leading economists of Chinese securities firms offered a diagnosis of the Chinese economy. Gao Shanwen, the Chief Economist of SDIC Securities Co., Ltd., after analyzing data from over 30 provincial-level administrative regions in China, pointed out that consumption has been weak since the pandemic for reasons of a lack of confidence in generating revenue among the public. Further, the weak consumption seemed to be correlated with the proportion of young people, indicating that the decline in income expectations among young people has significantly suppressed

their consumption confidence and willingness to buy homes. Gao's analysis led him to estimate that Chinese authorities overestimated GDP growth between 2020 and 2023 each year by 3 percent, accumulating an overestimation of 10 percent.

In a speech to his clientele, Fu Peng, the Chief Economist of Northeast Securities Co. Ltd., observed that China's economic problems were far more serious than what was seen on the surface. The core problem was insufficient effective consumption. This decline in consumption capacity is not a short-term phenomenon, but a structural change. To solve this problem, it is necessary to redistribute benefits.

Reports on both Gao and Fu's speeches were later banned on the Chinese internet after their release outside China. What is particularly of note is that both economists had been leading figures within the Chinese institutions, and that the spreading of their messages suggested their views are widely shared among the Chinese.

Symptoms of Deflation

Since the end of the pandemic, the Chinese economy has been in deep deflation, signifying an economic condition where the general price level of goods and services in an economy decreases over a period of time. Deflation can be caused by a decrease in the money supply or a decrease in demand for goods and services. This has reflected in the consistent downturn of the Consumer Confidence Index (CCI), indicating the prevalent pessimistic consumption outlook. The Consumer Price Index (CPI) has been approaching zero growth, and the Producer Price Index (PPI) has been consecutively negative ever since 2022. In general, these point to the lack of momentum in the economy, reflected in low consumer demand, and a lack of incentives for borrowing on the part of households and businesses alike. China has been deeply trapped in prolonged deflation, negatively impacting businesses and the overall economy.

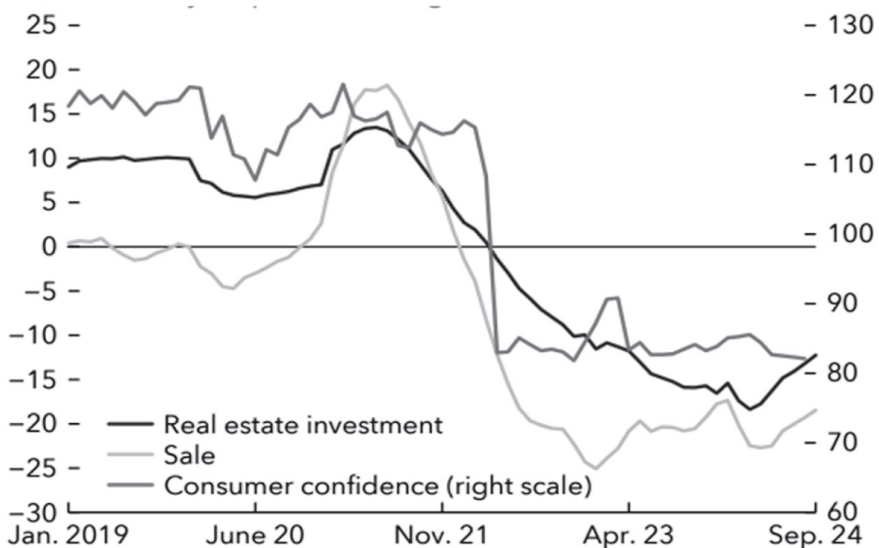
Low consumer spending has plagued the Chinese economy for decades, with the contributing reasons cutting deep into its systemic factors. Those include financial repression—paying low interest on savings and making cheap loans to favored borrowers—that holds down household income and

diverts it to government-controlled investment, a weak social safety net that causes families to accumulate savings to deal with possible emergencies, etc.

Further, the symptoms reflect in the following three aspects: real estate crisis, debt levels of the local governments, and high unemployment rate.

Figure 6.3 shows the magnitude of the Chinese real estate crisis, in which the prices and investment levels of the real estate plummeted after the end of 2021, plunging consumer confidence to its all-time low. The ensuing regulatory or boosting measures seem to have done little to solve the problems, other than preventing the all-out burst of the bubble from happening. With the real estate occupying around 25 percent of the GDP, and the plunging market prices holding up large portions of household wealth, the real estate crisis carries huge potential to further develop into a financial crisis, while contributing to the persistent low consumer spending.

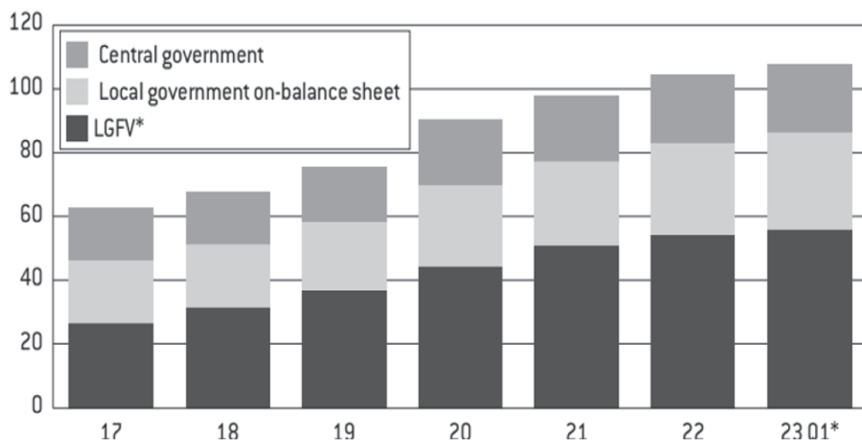
Figure 6.3: China Real Estate Sector and Consumer Confidence



The Rhodium Group estimated Chinese debts of local government financing vehicles (LGFVs) amounted to over 59 trillion yuan (\$8.16 trillion) in interest-paying debt and payables, around 50 percent of China's GDP. Those LGFVs also faced a significant cash crunch—only around a fifth of

them had enough cash on hand to pay their short-term obligations. The percentage of government debts in relation to China's GDP is shown in Figure 6.4.

Figure 6.4: Chinese Government Debt in Relation to GDP (%)



Source: Bruegel based on Natixis, China Ministry of Finance, China National Bureau of Statistics, CEIC, Wind. Note: 2023 Q1 central government outstanding debt is estimated. * LGFV = local government financing vehicle.

Figure 6.5 shows that COVID and other geo-economic situations hit the job market hard, driving unemployment rates across major cities to above the 20 percent mark. However, the ensuing effects hit the age group between 16 and 24 particularly hard, the unemployment of which peaked in the middle of 2023, when the Chinese government notoriously suspended the release of statistics. The resumption half a year later of new data calculated by a revised statistical method showed that the urban youth unemployment rate was 14.9 percent in December 2023, significantly lower than the figure of over 20 percent in June that year. Economic experts are “puzzled” by the new figures, observing that the revised figure may not be enough to make the public believe that the job market has improved, and it is probably not helpful to bolster the outside world’s long-standing doubts about the accuracy of China’s official statistical data.

Figure 6.5: Surveyed Urban Unemployment Rate in China

Structural Factors that Impact the Chinese Economy

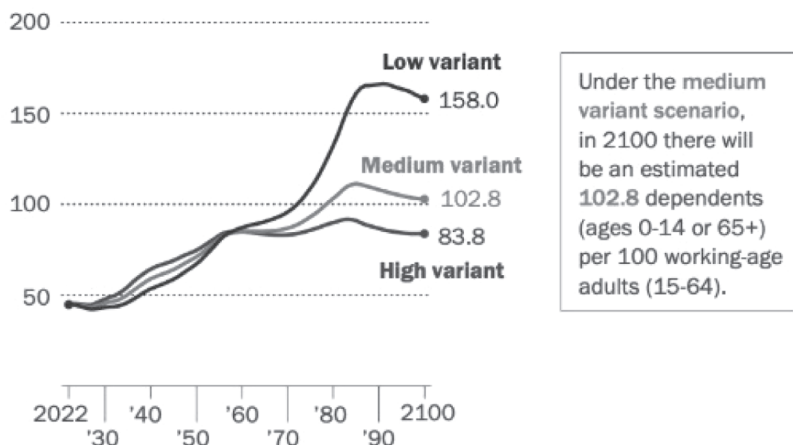
In addition to the recent performance and lack of momentum, the Chinese economy is plagued with structural factors that are not easily fixed, which leads one to conclude that China's economic downturn is a long-term one.

The first structural cause is an *aging population*. The UN forecasts that China's population will decline from the current 1.426 billion to 1.313 billion by 2050 and below 800 million by 2100. Despite the loosening of the one-child policy, fertility continued its decrease rate, estimated to be 1.18 children per woman and significantly below the "replacement rate" of 2.1 children per woman. China is already approaching a "moderately aging" scenario, in which 20 percent of its population is ages 60 and older. By 2035, that percentage is expected to rise to 30 percent, or more than 400 million people. The "dependency ratio"—the proportion of its population that is outside working age (either ages 0 to 14 or ages 65 and older), compared with the proportion that is working age (15 to 64)—is estimated to be above the 100 percent mark, even by UN's "low variant" projection, meaning there will be more Chinese people outside the working-age population than in it (see Figure 6.6).

Figure 6.6: China Dependency Ratio

By 2100, China may have more people outside the working-age population than inside it

The dependency ratio, or the ratio of those outside the working age population (ages 0 to 14 and 65+) for every 100 people in the working-age population (ages 15 to 64)



Note: The medium variant is the middle-of-the-road estimate provided by the UN; high and low variant scenarios involve total fertility being 0.5 births above or below the medium scenario, respectively.

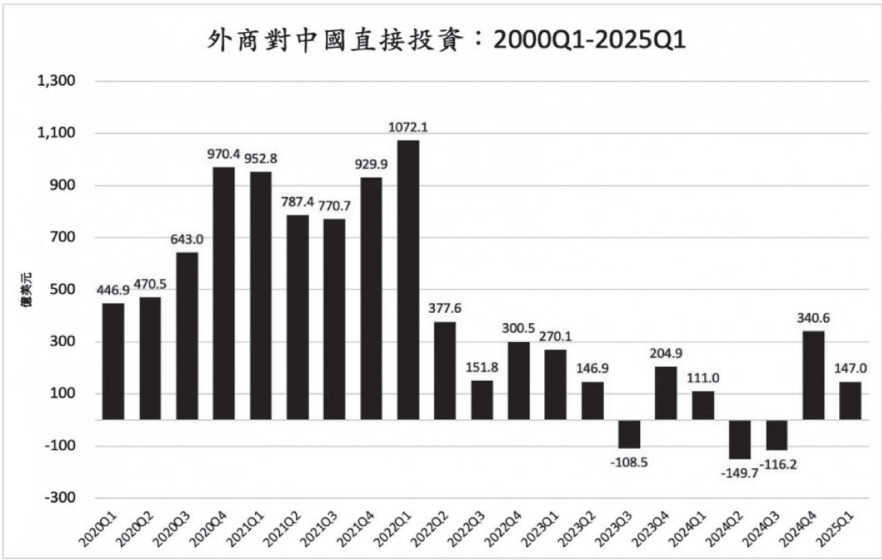
Source: UN Population Division's World Population Prospects: The 2022 Revision.

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Second, the *withdrawal of foreign investment*. Much of past growth in the Chinese economy was driven by investment. However, there has been a marked dwindling in foreign direct investment to China in recent years. According to the latest official statistics released by the State Administration of Foreign Exchange, the net foreign direct investment (FDI) in China in the first quarter of 2025 was only US\$14.7 billion, a sharp drop of more than 50 percent from US\$34.06 billion in the fourth quarter of 2024. The shrinkage of US\$19.4 billion in a single quarter indicates that foreign capital remains cautious and wait-and-see about investment in China. A quarterly analysis shows that the downward trend started from the second quarter of 2022, with FDI of US\$37.76 billion, a sharp drop of more than 60 percent from the previous quarter. Since then, foreign investment has continued to shrink, and between 2023 and 2024, there have been several abnormal

quarterly net capital outflows: negative \$10.85 billion in the third quarter of 2023, and negative \$14.97 billion and negative \$11.62 billion in the second and third quarters of 2024. This negative growth phenomenon is extremely rare in the history of China’s FDI, indicating that foreign investment has not only reduced new investment, but also accelerated capital withdrawal.

Figure 6.7: Net Foreign Direct Investment in China (\$ bn)



Third, *policy failures* in the midst of geopolitical tensions. What the Chinese have has never been a market economy. Instead, the Chinese economy has been heavily influenced by government policies. However, in recent years we have not seen wise policy guidance in handling the difficulties. Moreover, existing failures have not been dealt with but left to continue exerting their drag. The ruthless Zero-COVID policy has left its scarring effects on the economy. The systemic favoring of SOEs over private enterprises casts its long-term distorting effects, making the SOEs heavily reliant on state subsidies, and suppressing private sector innovation and entrepreneurship. The concentration of political power and one-party / one-man authoritarian rule deprives the system of political accountability. Even

the hope of making a change is abandoned. The term ‘lying flat’ signifies the futility of making an effort on the part of individuals or entrepreneurs. The implications of these policies have their spill-over effect in the international arena, as we witness in respect of concerns of Chinese overcapacities and “dumping” of goods to other markets, allegations of distortions to free market competition, and the trade imbalance with the United States. The export of its overcapacity to emerging markets through projects such as the Belt and Road Initiative also causes concerns about Chinese sharp influences.

Stimulus Measures in 2024: Not Really Fixing the Problems

Starting from September 2024 the Chinese government implemented a series of stimulus measures to boost the economy, which included cutting interest rate and allocating 500 billion renminbi (\$71.30 billion) to fund stock purchases by brokers, funds, and insurers, cutting interest rate and mortgage rates for existing loans, reduction in the down payment ratio for second homes from 25 percent to 15 percent, increasing the number of housing projects eligible for financing, and raising bank lending for those developments to 4 trillion renminbi (\$562 billion).

Some economists saw these measures as an instrument to halt the deterioration in economic conditions, with limited aims of reversing the decline in housing sales, and providing local governments with relief from interest payments so they can pay back wages to their employees and overdue bills to the companies that supply them with goods and services. More are of the view that these were simply the wrong redress, diverging the attention away from what is really needed, i.e. to modify domestic income distribution so that a larger share goes to households and a smaller share goes to businesses and government, to boost domestic demand, and to address the underlying issues in China’s economy and confront the inadequacy and regional disparities in public services like education, healthcare, and social welfare. No doubt those structural reforms are desperately needed. But the above-mentioned power structure and policy inhibition continue to prevent those from happening.

Impacts on Chinese External Behaviors

How might a long-term economic downturn impact the external behaviors of China? The existing discussions are two-prong: the theory of diversionary wars, and the theory of mercantilist expansion. Both continue to be theoretical discussions, in the sense that they attempt to provide the best projection of future developments by careful analysis of past patterns and events.

The discussion of “diversionary wars” centers on the theory that leaders under pressure domestically may initiate conflicts to unify the public and boost their popularity. The focal piece is an article by M. Taylor Fravel published in *Foreign Affairs*, September 15, 2023, entitled “The Myth of Chinese Diversionary War”.

The article delves deeper into the relationship between domestic challenges in China and the country’s foreign policy behavior. As the Chinese economy faces slow growth, there are fears that the government may react aggressively to external threats as a way to consolidate internal power and distract the populace from economic woes. Politicians and analysts in the West worry that such a strategy could manifest through increased nationalism or military actions, especially regarding Taiwan or territorial disputes in the South China Sea.

In general, Fravel argued against the application of the theory of diversionary wars on China, based on the following reasons: First, it goes against the historical pattern of China’s behavior. Leaders like Mao and Deng faced severe internal crises, such as famines or protests, but instead of launching external conflicts, they often chose to stabilize relations with neighboring countries or sought internal solutions. For instance, during the Great Leap Forward, despite economic catastrophe and unrest, Mao did not escalate military conflicts but rather pursued non-aggression agreements with neighboring countries. Similarly, during the Tiananmen protests in 1989, when the Chinese economy was slowing, the government responded with violent suppression of domestic dissent rather than engaging in foreign aggression.

Second, the Chinese government maintains significant control over public opinion through censorship and propaganda, making it less susceptible

to domestic unrest compared to other authoritarian regimes. This control allows the government to manage dissent effectively, reducing the incentive to engage in diversionary military actions.

Third, in facing “internal troubles, external aggression,” Chinese leaders are motivated to display strength to deter perceived foreign threats, especially when domestic stability is at risk. Historical instances, such as the 1962 Sino-Indian War and subsequent tensions with Japan over territorial disputes, illustrate how China has reacted to external challenges not as a diversionary tactic but as a response to perceived threats to its sovereignty and national integrity.

In conclusion, while the West may fear that China’s economic difficulties could lead to aggressive foreign policy moves as a distraction, the article argues that the more likely scenario is that domestic troubles will make Chinese leaders more sensitive to external pressures, prompting them to assert strength rather than divert attention. This highlights a complex interplay between domestic stability and foreign policy, suggesting that any aggressive actions China might take would stem from a desire to maintain deterrence rather than to distract from internal issues.

The theory of mercantilist expansion is based on an article entitled “The Peril of Peaking Powers” by Michael Beckley published in *International Security* in Summer 2023. The article starts from the premise that “peaking powers may not strike out on all fronts in a mad frenzy, but they are likely to expand abroad in calculated ways that maximize benefits and minimize costs. In doing so, they have a spectrum of options from which to choose.” They can choose liberal expansion, or a path of mercantilist expansion by conquest, colonialism, imperialism, forms of state capitalism or strategic trade.

Beckley argues that autocratic peaking powers are especially prone to mercantilism, because they tend to have higher levels of state-ownership in their economies and cater to narrower and more economically nationalist political coalitions than do democracies. Autocrats must control “commanding heights” of the economy, meaning the vital industries—such as agriculture, energy, transportation, construction, mining, heavy manufacturing, and banking.

Further, “without regular elections to hold them accountable, autocrats can concentrate the benefits of mercantilist expansion among a tight circle of elites while offloading many of the costs onto the powerless masses. In contrast, it is dangerous for autocrats to support free trade and private enterprise, especially during an economic downturn. Liberalization would require them to reduce privileges for state-favored companies, which could disrupt the regime’s patronage networks by triggering surges in bankruptcies and unemployment.”

Discussion

In terms of real-world developments, we do see a tendency toward mercantilist expansion by China. Recently China has been making effort to enhance its internal circulation, while exploiting its edges in external trade in sectors such as solar panels, EV, and batteries. It also utilizes strategic chokepoints and materials under its control such as rare earth export and key straits and canals. It also spares no effort to deepen its influences in the Global South.

However, the possibility of China waging a diversionary war cannot be ruled out. First, the fact that historic examples do not show a similar pattern of behaviors is not really a reason adequate enough to rule out such a possibility. After all, international situations today are very different and fast-developing from those in the past. Second, the paramount concern of the Chinese Communist Party is the maintenance of Xi/CCP rule, hence the stability first policy of the regime. What the CCP worries most about is a peaceful evolution or “colored revolution” that presents the potential to collapse the socialist/communist regime. In an extreme scenario, in which the CCP rule is at stake, it might take a risk to ease the domestic tension, even if only temporarily.

The key aspect is that we should keep a list of factors that might lead to an aggressive external behavior out of unease the CCP regime feels about the maintenance of its rule in China. Those factors should include the following aspects:

- Long-term strategy: whether the high military / law-enforcement spending continues; whether China keeps building its military capabilities

- Being opportunistic: whether the possible targets of Chinese aggression show cracks or vulnerabilities, in a sense presents an opportunity for China to act recklessly:
 - Taiwan: domestic situation, political opposition, China-sympathizers
 - Indo-Pacific: weakening governance
 - Cracks in alliance, including Ukraine
- Domestic front: factors within China that might cause the regime to feel extreme pressures:
 - Purges: loyalty within the military / political stability
 - Finally, Xi's intention: that is beyond rational calculation.

The above factors should be considered together and watched closely.

7

The Trump Fallout and How to Deal With It

Masafumi Ishii

In this chapter, I intend to describe first conceptual impact of Trump Administration and then list the actual damages already done by taking the Southeast Asian countries as an example. In the end, I would discuss specific policy initiatives Europe, Japan and other Asian democracies, such as Taiwan should jointly launch.

Conceptual Impact of Trump 2.0

My basic assessment is that the impact of the Trump administration 2.0, if present trends persist, should be considered substantial and long-lasting. What is important now is not to guess what Trump may do, which is still unclear, but work out what Japan, Europe, and Taiwan can do and make proposals such as those described ahead.

(1) Selective involvement in international conflicts = advent of a challenge-sharing era

The U.S. is capable but increasingly unwilling to engage in dispute resolution. This is a problem not just of Trump but of the entire United States.

Although Trump appears to be an unpredictable person, he is not actually a “military hawk”.

He hates to see the blood of U.S. soldiers spilled over issues that do not have direct relevance for the national interests of the United States and thus, he has inherently little sympathy for alliances.

This means that the world will irreversibly change from an era of burden sharing, in which the United States resolved disputes and the costs were shared among allies and like-minded countries, to an era of challenge sharing, in which allies and like-minded countries, like Europe and Japan as well as other democracies in Asia like Taiwan, must be involved in the conflict resolution itself or else disputes will continue.

This also means that we will move from an era in which solutions were achieved through “rule by force” (fear of the U.S.) to an era of “rule by majority” in which solutions are justified by the support of majority of the international community. This will make it essential to engage and gain support from influential Global South countries.

(2) *“America First” principle = alliances are not a privilege*

U.S. Secretary of State Marco Rubio said at the recent Senate hearing for his confirmation that the State Department’s actions will be judged on whether they make the United States “stronger, safer, or more prosperous.” Countries will no longer be given a pass “because they are allies”, and the criterion for evaluating relations will be whether they contribute to the “America First” policy through concrete actions.

Countries that do not meet this criterion, whether they are allies or not, are not of interest to the Trump administration and could be abandoned. Ishiba’s visit showed Japan to be fine in this regard, but I have rarely heard Trump officials talk about the U.S. ally, the Philippines, or other countries in Southeast Asia. These countries will therefore need to be protected by neighboring Japan.

In any case, Japan must have the resolve and readiness to act as if “Japan were to take care of the stability in Southeast Asia.” The actions listed above will make the United States stronger, safer, and more prosperous and will therefore also help strengthen the U.S.-Japan alliance.

This is why organizations like USAID and NED (National Endowment for Democracy) have been dissolved, which I'm afraid will substantially weaken the U.S. power of persuasion.

(3) The U.S.'s "wolf warrior diplomacy" = loss of trust and friends

Trump seeks U.S. control of Greenland and the Panama Canal and does not even rule out the use of military force to achieve this. The United States today differs from Russia in only one respect—that it has not actually used force—though is very unlikely to do so in this instance.

Behind this is the "exceptionalism" which holds that a major power is allowed to create a desirable order for itself. Trump himself thinks he survived assassination attempts because he was exceptional and chosen by God.

The reason why the world has been basically stable since World War II is that the lessons of the two world wars have led to a consensus on such basic principles as a rules-based order, the equality of sovereign states, the maintenance of territorial integrity, and the prohibition of unilateral changes of status quo by force, as embodied in the UN Charter, and the United States has been ready to maintain this order by force if necessary.

The impact of the U.S. not only stopping its efforts to maintain the order but also being less hesitant to destroy it could be very significant. The post-war order could fundamentally collapse, and the United States could irreversibly lose the good will and trust it has accumulated since the end of WWII. This could have very serious repercussions for U.S. allies such as Japan, making it an urgent task to engage influential countries of the Global South to manage an era of rule by majority.

All in all, Japan is in a unique position, remaining an important ally of the United States without becoming a primary target of Trump 2.0. This should be a time for Japan's diplomacy to flourish as described ahead.

Damage is Done: Case Study of Southeast Asia

The conceptual damage of Trump 2.0 as mentioned above is already having a tangible impact on the international community. Let me explain the damages done by taking following Southeast Asian countries as an example.

(1) Average mindset of SEA countries

Friedrich Merz, who has become the new German chancellor, attracted attention when he said, “Europe must be independent from the United States.”

An equally shocking statement by an Asian leader came from Malaysia’s Prime Minister Anwar Ibrahim. Asked why he applied to join the BRICS, which is regarded as an anti-American organization, he said, “We are no longer afraid of the United States.” Asked what this meant, he replied, “In the past, the U.S. got angry if we didn’t belong to the West (recalling the EAEC or the East Asia Economic Caucus, a grouping of Asian countries to discuss economic issues in Asia without the U.S. and the AMF or the Asian Monetary Fund, the Asian regional version of the IMF, proposed by the then Prime Minister Mahathir after the Asian Financial crisis in late 1990s), but the U.S. is no longer in the region, has no interest, and is not coming back.” This sentiment may be shared by Thailand which has applied to join the BRICS like Malaysia and is known to try to strike a balance between the United States and China from the beginning as well as reflect the mindset of many Southeast Asian countries. Indonesia, a leading ASEAN member expected to act to protect the unity of ASEAN, having declined the invitation to BRICS in 2022, instead of scorning Malaysia and Thailand joined BRICS herself in November 2024.

(2) Hedging efforts vary from one country to another

The absence of the U.S. essentially means that China is going to dominate most countries because of its influence through trade and investment. Therefore, it would be better for Indonesia to join BRICS, which has not only China but also both Russia and India as members, so that they can hedge their relations. In addition, Malaysia and Indonesia, which have a high Moslem population are strengthening their ties with Middle Eastern countries, in the area of fund raising.

In addition, Vietnam, which has also engaged in so-called “bamboo diplomacy” between the United States and China, cannot afford to be too reliant on China because China is the No. 1 security threat. Neither can it be too confrontational with China because Vietnam is after all ruled by a communist party like in China. There is no other option for Vietnam except

for getting closer to Russia in the near future. In this connection, it is interesting to see the frequent contacts between Belarus and Vietnam since the second half of 2024. In October, the Chairman of the National Assembly of Vietnam visited Belarus, the Vietnamese-Belarus summit meeting took place in Kazan, in December, the Minister of Defense of Belarus visited Vietnam, Russia, Kazakhstan, and Belarus FTAs are being negotiated since April 2013.

Lao Republic, Cambodia and Brunei Darussalam have been in China's camp for some time, and China's influence in Myanmar has increased during the civil war through its influence over minority groups along the border, though China and Myanmar have not been on good terms historically.

I expect that Singapore's position on U.S.-China equidistant diplomacy remains unchanged though it is increasingly leaning towards China, for example, by reducing the amount of its military exercises in Taiwan in response to the protest by mainland China.

Furthermore, in bridging the vacuum of the United States presence and balancing it with China, expectation of enhanced presence and role of Japan is heightened and we should be fully aware of the expectation. There is now an opportunity for Japan to show its willingness to actively and concretely engage in the region. There is no option to rely on China, so if the United States does not defend Southeast Asian countries, Japan needs to fill the gap.

As for Taiwan, the common view among experts is that the possibility of a Taiwan contingency is not that high for the time being, taking into consideration the serious domestic economic situation in China and the possibility of a failure in the reunification of Taiwan, which may trigger a collapse of the CCP, becomes higher now that the level of preparedness of the US and Japan has improved a lot in recent years. But recently, we hear more from China that the situation is changing. The reason for this seems to be that the Chinese leadership, which sees that Russia's invasion of Ukraine is accepted by the United States and that the United States itself is conducting "diplomacy by force," is beginning to think that it is possible (permissible) to respond by force to Taiwan. Indeed, today's Ukraine is tomorrow's Taiwan.

The impact of the abolition of USAID and the freeze on U.S. foreign aid is already being felt on the ground. In Bangladesh, a neighboring country where many camps of Rohingya refugee from Myanmar are located, it seems that half of the food aid to refugees was provided by USAID, and the amount of food aid has already been halved. In addition, about 50 medical clinics have already closed. There are also fears that the outpouring of refugee discontent could lead to destabilization of Bangladesh.

USAID's support is not limited to Southeast Asia, but is also global, with a number of African countries being covered. The impact will gradually become more serious in the future, when the vacuum is beginning to be filled by Russia and China.

Way Forward

What should Europe, Japan and other democracies in Asia, including Taiwan, do to mitigate the damage being caused by Trump 2.0 to the liberal democratic order.

➤ *Basket 1: How and who can fill the U.S. absence in a challenge-sharing era*

- There are not so many countries who are both able and willing to take on the challenge of conflict solving. They are some in Europe, Japan and other Asian democracies. They need to engage more to solve the Ukraine war, Gaza crises and other crises like the Myanmar civil war.
- The key to a ceasefire in Ukraine is to prevent a re-invasion by Russia, but the U.S. does not seem willing at the moment to make efforts to this end, so a mechanism is needed by which NATO members in Europe, among others, send troops to Ukraine to monitor the ceasefire, with any attack by Russia triggering NATO's joint defense. Whether this can be achieved or not will be the first test for the challenge-sharing system.
- Japan has some role to play as well. Clearing land mines after the ceasefire and starting reconstruction of infrastructure devastated by the war are the areas in which Japan's Self Defense Force has capabilities and experience.

➤ *Basket 2: Establish closer cooperation among LMCs*

- Now that NATO's strategic concept acknowledges that China is the systemic challenge to NATO and the situation in Indo-Pacific has inevitable impact on NATO's security, it makes sense for NATO European members to send assets occasionally to the seas around Taiwan for joint exercises and training. Though it is understood that it is not likely that European countries will send troops at the time of real crises in Indo-Pacific, occasional presence is enough to force China to take into consideration a possibility of Europe's physical involvement.
- For that purpose as well, it is very useful if Taiwan provides regular intelligence briefings to NATO possibly with representatives of IP4 in Brussels to keep NATO partners informed about the situation on the ground.
- Other areas of potential cooperation between NATO and Taiwan are in strategic communication, by coordinating and sharing narratives at the time of Taiwan contingencies, technologies and know-how of cyber defense, which have no regional limitation.
- At present, NATO and IP4 are looking into the possibility of cooperation on high-end technologies such as quantum but the experience of the Ukraine war makes us all realize the importance of low technologies and abundance of them, such as drones, especially maritime drones that should be very useful in relation to the defense of an island such as Taiwan, and MANPADs. Not only joint technological development but also joint production can be discussed between NATO and IP4, and indirectly with Taiwan.

➤ *Basket 3: Help marginal allies of the U.S.; Support the Philippines and Southeast Asian countries*

- The Philippines is a treaty ally of the U.S. and it should play a very important role at the time of a Taiwan contingency as a place for positioning troops and equipment as well as a base for evacuation of foreign nationals.
- However, nothing is for sure under Trump 2.0 when it comes to an ally's defense unless it is crystal clear that it makes the U.S. stronger,

safer and more prosperous. In this regard, it is understandable that the Philippines would feel not so secured.

- Just to be ready in case of U.S. inaction to defend the Philippines, Japan should do more for the defense of the country because destabilization of it will have major impact on SLOCs crucial for Japan.
 - ✧ The Philippines, in close cooperation with the U.S. has been promoting cooperation among Southeast Asian countries coast guards and that of other stakeholders (the Philippines, Indonesia, Malaysia, Singapore, Japan, Australia, and European aspirants). If and when the U.S. loses interest, Japan should take over the role of coordinator and set up regular joint exercises around the South China Sea as well as along the alternative SLOCs going through Celebes Sea down to Macassar and Lombok straits.
 - ✧ In order to have the international community maintain interest in the South China Sea situation, launching another round in the International Tribunal makes sense. How to do so requires a lot of diplomatic consideration, though.
 - ✧ The most important player in Southeast Asia is Indonesia. Its GDP is expected to overtake Japan's sometime in the 2040s and its position, together with India's may decide the global majority in 2040s. It has joined BRICS, so rather than leaving the present situation as it is, something has to be done to "regain" Indonesia to our camp. One idea is to create an "Asian Quad" consisting of India, Indonesia, Japan, and Australia, and systematically draw Indonesia to our side. Since Australia, India, and Indonesia have started trilateral meetings already, it should not be too difficult to create this Quad if all of them accept Japan as the additional member. If they are open to other members, we may try to include RoK and the Philippines.

➤ *Basket 4: Uphold non-security value of Liberal Democratic Order = Free Trade*

- Though the U.S. no longer supports free trade, it is a good system for Japan and the access to our markets is the best leverage we have for attracting attention of the influential Global South countries.
- ✧ To establish a wide free trade zone, we may as well try to expand the CPTPP by including Taiwan, RoK, Indonesia (and if possible, India). Connecting the CPTPP FTZ with such other FTZs like Mercosur and European Union will make it more useful and influential.
- ✧ The WTO used to be important to stop trade disputes from becoming diplomatic crises. Though WTO is not functioning at present and reforming it is not likely because of the strong opposition by the U.S., its conflict solution mechanism should be useful. Therefore, it makes sense to create regional WTO-like organization based upon the above expanded FTZ
- ✧ Having said the above, it is not realistic to assume the trade is completely free and there is a need to control transaction of sensitive dual-use technology. For that purpose, we should try to create a Wassenaar Arrangement 2.0. The present Wassenaar Arrangement is not working because of the vetoes by Russia to whatever reform is proposed, so once again, we need to create something new.

➤ *Basket 5: Make more friends among selected Global South countries to survive in the era of rule by majority*

- The G7 is still reasonably influential because high-level like-mindedness makes the grouping work very effectively in addressing new and challenging issues, though its economic weight has dropped dramatically since its establishment 50 years ago. Meanwhile, organizations as the G20 fall short of expectation and cannot make any meaningful decision because members are so diverse that it is hard to reach consensus. The G7 Summit meeting always invite outreach partners selection of which is up to the Presidency of the year. What if the G7 invites the same outreach partner every year

by creating a new category of membership called Permanent Outreach Partners (POP)? Though this is different from G7 expansion, which should be avoided because it will make G7 less efficient like G20, POP will have opportunity to pass on their perspective to some of the agendas with international implication. POP should include such countries as India, Brazil, Indonesia, ASEAN Chair, South Africa, Nigeria, AU Chair, Saudi Arabia, Turkey, RoK Australia and PARM Chair.

- 2025 is the 50th anniversary of the G7 Summit meetings and in 2026, France who started G7, will start a new round of chair country, that may give as a good opportunity to reform G7 to make it more fit in the new international environment, while the weight of G7 GDPs has significantly declined since its foundation in 1975.

➤ *Basket 6: Make every effort to divide Russia from China*

- Experts used to think that there would be an inherent limitation as to the closeness between Russia and China, facing over long border and competing with each other over many strategic interests. But, the war in Ukraine seems to have changed this assumption. Now, Russia needs China as a life support with not much other alternatives, except for the DPRK. Therefore, we need to be more serious about not missing the chance to separate them.
- ✧ One way to do it which serves many players interests is to ask China to join the PKF to maintain ceasefire in Ukraine. In other words, to force China to make a decision. The U.S. is happy because of the separation of China from Russia and because it becomes easier for Russia to accept the PKF not purely with European NATO members. (India, which has a lot of PKO experiences may be asked to join for that purpose as well.) Russia will be happy as mentioned. And China will be happy because this can be used as a leverage to negotiate with the U.S. in the new tariff war and it may regain friends among European countries which it lost by wolf warier diplomacy.
- ✧ Another big idea is to create a Japan-India-Russia trilateral dialogue to promote normalization of Japan-Russia relations.

India should be happy to broker normalization of Japan-Russia relations and now that the U.S. has got very close to Russia, Japan should make use of the window of opportunity of a weakened Russia by using India's influence. Russia will be happy, though they would not say so in public, because the only meaningful alternative to China is Japan. Close consultation with and explanation to Europe is essential, of course.

➤ *Basket 7: Try to let Trump administration understand the importance of the alliance relations for making the US stronger, safer and more prosperous.*

- One way to do it is to launch joint influence operation in the U.S. by Japan, RoK, Taiwan, the Philippines, and EU, who are all seriously affected by the lack of understanding by the Trump administration. How about creating a joint caucus of congressmen and senators on Capitol Hill and ask them to emphasize the importance of the alliances and Taiwan to the White House with the same talking points. Each country should have a few supports who also have influence on the Trump administrations. We should pool our resources together for the same objective: get the U.S. back to our camp.

8

Trump 2.0: The Need for Stronger Europe-Asia Relations

Niklas Swanström¹

With Donald Trump's return to the White House in January 2025, Europe and Asia face a critical juncture in international relations. The second Trump presidency raises important considerations for strengthening transcontinental partnerships between European and Asian nations. Trump's first term was characterized by an "America First" approach to international relations, including trade tensions with China, pressure on NATO allies over defense spending, and a general shift toward bilateral rather than multilateral engagement. Early signals suggest similar policies have reemerged in this second administration, with greater intensity, radicalization, and commitment as Trump entered office with a more experienced team aligned with his worldview.

For European and Asian powers, this presents both challenges and opportunities that will require thoughtful recalibration of diplomatic, economic, and security strategies. The historical context of transatlantic and transpacific relations has been defined by the centrality of American leadership since the end of World War II. As this paradigm faces potential disruption, stakeholders across Europe and Asia must consider new frameworks for cooperation that can safeguard their interests in an evolving global order. This chapter explores the imperative for stronger Europe-Asia

relations in the context of Trump's second term, examining the multifaceted dimensions of this relationship, the risks involved, and potential pathways forward.

The New Geopolitical Reality: Trump's Foreign Policy Approach

Trump's first presidency represented a significant departure from post-Cold War American foreign policy orthodoxy. His administration continues to question the value of longstanding alliances, and has withdrawn from international agreements like the Paris Climate Accord and the Iran nuclear deal, engaged in tariff wars with both allies and adversaries, and demonstrated skepticism toward multilateral institutions including NATO, the WTO, and the UN. While some of these positions were moderated by institutional constraints and advisors advocating more traditional approaches, the underlying philosophy of "America First" remained consistent at the expense of traditional allies and U.S. international engagement and influence.

Trump 2.0 is likely to pursue these tendencies with greater resolve and fewer institutional constraints. With a more ideologically aligned cabinet and greater experience in navigating Washington's bureaucracy, the administration hopes to more effectively implement its vision of American foreign policy. This could include substantial reductions in American military commitments abroad, more aggressive trade policies aimed at addressing perceived imbalances, and further disengagement from multilateral frameworks viewed as constraining American sovereignty or economic interests.

The economic and political implications for both Europe and Asia will be profound. European nations have relied on American security guarantees through NATO for decades, while also maintaining close economic and diplomatic ties despite occasional tensions. Many Asian nations similarly depend on American security commitments, with Japan, South Korea, the Philippines, and others hosting significant U.S. military installations as part of formal alliance structures. Both regions have benefited from an American-led international economic order that, despite its imperfections, has provided stability and predictability.

Europe's Strategic Position and Asia's Complex Landscape

Europe faces particular challenges in adapting to this new reality. The European Union, despite its economic heft, has struggled to develop coherent foreign and security policies that can project power beyond its immediate neighborhood. Individual European nations, even those with significant military capabilities like France and the United Kingdom, cannot individually match the security guarantees historically provided by the United States. Russia's onslaught along Europe's eastern flank, full-scale invasion of Ukraine, ongoing instability in the Middle East and North Africa, and the persistent threat of terrorism all require coordinated responses that have typically involved American leadership.

Moreover, Europe's economic relationship with the U.S. remains crucial, with transatlantic trade and investment supporting millions of jobs on both sides of the Atlantic. Any disruption to this relationship through tariffs, regulatory divergence, or political tensions carries significant economic risks. European, and American, industries from automobiles to digital services could face substantial challenges if the new Trump administration pursues aggressive trade policies or withdraws from cooperative regulatory frameworks.

Asia's strategic environment is equally complex but characterized by different dynamics. China's rise as an economic and military power has fundamentally altered regional power balances, creating both opportunities and tensions. Japan, South Korea, and other traditional U.S. allies have built their security strategies around American commitments that may now appear less reliable. Southeast Asian nations have carefully balanced relations between major powers, but may find this increasingly difficult if forced to make more definitive choices.

Economic interdependence across Asia has grown dramatically, with complex supply chains linking economies throughout the region and beyond. Any disruption to this economic ecosystem, whether through trade conflicts or security tensions, could have cascading effects on growth and prosperity. The region's extraordinary diversity in political systems, economic models, and cultural traditions presents both threats and opportunities for developing coherent approaches to shared challenges.

The Imperative for Europe-Asia Cooperation

Trade and economic cooperation between Europe and Asia represent natural focal points for enhanced relations in the Trump 2.0 era. The statistical reality is compelling. Together, the EU and major Asian economies account for approximately 60 percent of global GDP and over 50 percent of global trade.² As of 2024, the EU's trade with Asia reached €1.5 trillion annually, surpassing its trade with the United States (€1.1 trillion) and demonstrating the already substantial economic interdependence between the regions.³ The potential for growth remains significant. Economic modeling suggests that fully realized trade agreements between the EU and all major Asian economies could boost combined GDP by an estimated €250-300 billion annually by 2030.⁴ Currently, only about 40 percent of this potential is being captured through existing arrangements like the EU-Japan Economic Partnership Agreement (which alone is projected to increase EU exports to Japan by €13 billion annually) and the EU-Singapore Free Trade Agreement.⁵

These relationships could take on greater significance if American trade policy becomes more unpredictable or protectionist. During Trump's first term, tariffs affecting over \$300 billion of Chinese exports and significant tariffs on European steel (25 percent) and aluminum (10 percent) demonstrated the potential volatility of U.S. trade policy.⁶ Diversifying trade relationships would provide both European and Asian economies with buffers against potential disruptions in American markets, which is particularly significant given that 19.7 percent of EU exports and approximately 17 percent of Asian exports are currently directed to the US market.⁷ Reduced dependency could also create opportunities for developing alternative payment systems and financial infrastructure less vulnerable to American sanctions or political pressures, which is especially relevant considering that U.S. dollar-denominated transactions still account for approximately 88 percent of international settlements between these regions.⁸ It should be noted that Trump has already threatened states seeking to reduce dependency on the U.S. dollar.

Beyond traditional trade, cooperation in emerging technological domains presents particularly promising avenues with substantial economic potential. The combined R&D expenditure of the EU and major Asian economies reached approximately €780 billion in 2024, surpassing the U.S. figure of

€650 billion. Europe's regulatory capacity combined with Asia's manufacturing prowess and innovation ecosystems could create powerful synergies in areas ranging from artificial intelligence to green technology, but both regions stand well behind the U.S. separately. In semiconductor manufacturing, for instance, Europe's 10 percent global market share and Asia's 75 percent share (with particular strengths in Taiwan, South Korea, and Japan) offer complementary capabilities that could reduce dependency on any single source. Alignment on standards for data privacy, cybersecurity, and digital services could help shape global norms in ways that reflect shared values and interests, which is particularly significant given that the digital economy now represents over 22 percent of combined GDP across these regions and is growing at approximately 8 percent annually—significantly faster than traditional economic sectors.⁹

While no combination of European and Asian security arrangements can fully replace American security guarantees, enhanced cooperation could help mitigate vulnerabilities. The scale of this challenge is significant: the U.S. currently maintains approximately 65,000 troops in Europe and 80,000 in Asia, with defense spending (\$877 billion in 2024) that exceeds the combined military expenditures of the next nine countries with the highest defense spending. However, European NATO members have increased defense spending by an average of 27 percent since 2020, reaching a combined €380 billion annually, while major Asian democracies (Japan, South Korea, Australia, and India) collectively spend approximately €320 billion on defense. A similar trend of increased defense spending can be seen in Asia—Japan alone will have invested a record €53.6 billion (8.7 trillion JPY) in 2025 with planned annual budget increases of €6.15 billion (1 trillion JPY).¹⁰ The increased commitment from the European states will further increase their ability as a U.S. partner but also enhance their capability to operate independently.

Europe and Asia both face complex security challenges that could benefit from closer coordination, information sharing, and capacity building. Maritime security in particular offers natural opportunities for collaboration, given Europe's interests in freedom of navigation and Asia's critical dependence on maritime trade routes. Approximately 70 percent of all global trade by value transits through Indo-Pacific sea lanes, including 60 percent

of Europe's maritime commerce.¹¹ The security of these routes represents a shared interest of immense economic significance for both Asia and Europe.

France and the United Kingdom maintain significant naval capabilities with global reach, while Japan and South Korea possess sophisticated maritime forces. Coordinated deployments, joint exercises, and shared intelligence could enhance collective security without necessarily creating formal alliance structures that might provoke counterproductive reactions from other powers. Cooperation on counterterrorism, cybersecurity, and non-traditional security threats also presents opportunities for meaningful collaboration that addresses shared vulnerabilities. European expertise in areas like counter-radicalization could complement Asian approaches, while Asian experiences in disaster management and pandemic response offer valuable lessons for European partners. States such as Japan, South Korea, and Indonesia are regional leaders in these areas.

Existing institutional frameworks for Europe-Asia cooperation, while underdeveloped compared to transatlantic or transpacific arrangements, provide foundations that can be built upon. The Asia-Europe Meeting (ASEM), established in 1996, brings together 53 partners from both regions, representing around 60 percent of global population, 65 percent of global GDP, 75 percent of global tourism, and 68 percent of global trade.¹² Despite this impressive coverage, ASEM's annual budget remains under €2 million, and its secretariat staff numbers fewer than 25 people—this is in stark contrast with NATO's €3.3 billion civil and military budgets or APEC's more substantial institutional infrastructure. This forum, though primarily focused on dialogue rather than concrete policy coordination, could be elevated to play a more substantial role in addressing shared challenges if properly resourced.

More specialized mechanisms like the EU-ASEAN Strategic Partnership, bilateral strategic partnerships between individual European and Asian nations, and issue-specific cooperative frameworks offer additional platforms that could be enhanced. The challenge lies not in creating new institutions but in making existing ones more effective and responsive to contemporary challenges.

Cultural and educational exchanges represent softer but nonetheless crucial dimensions of Europe-Asia relations. Building mutual understanding through academic partnerships, cultural programs, and people-to-people connections creates the social infrastructure necessary for sustained cooperation in more sensitive domains. European and Asian universities, think tanks, and civil society organizations can play vital roles in fostering these connections.

Critical Risks and Challenges

Europe's pursuit of stronger Asian partnerships carries significant risks that must be carefully managed. Most fundamentally, Europe must avoid creating the impression that it is abandoning the transatlantic relationship, which remains vital despite tensions. The security guarantees provided by NATO and American nuclear deterrence cannot be replaced in the short to medium term, making a balanced approach essential. This dependency is quantifiable: American forces still account for approximately 70 percent of NATO's military capabilities, and the U.S. provides roughly 70 percent of NATO's nuclear deterrence capacity. Similarly, transatlantic trade (€1.6 trillion annually) supports an estimated 16 million jobs across the EU and United States.¹³

Internally, Europe faces challenges in developing coherent approaches towards Asia given divergent interests among member-states. Countries with strong economic ties to China, for instance, may be reluctant to adopt positions that could jeopardize their relationship, while those more concerned about security threats may prioritize strategic considerations. The EU's consensus-based foreign policy mechanisms often struggle to reconcile these differences, resulting in lowest-common-denominator positions that lack strategic clarity.

Europe also faces capacity constraints in projecting power into Asian theaters. With limited military capabilities designed primarily for operations in and around Europe, expanding security engagement in distant regions would require significant investments in naval and air assets, logistics capabilities, and intelligence resources. At a time of economic constraints and competing priorities, securing political support for such investments presents substantial challenges.

Perhaps most critically, Europe risks misreading Asian dynamics and inadvertently exacerbating tensions through well-intentioned but potentially destabilizing interventions. The complex historical relationships, territorial disputes, and security dilemmas that characterize Asian geopolitics require nuanced understanding that European policymakers, traditionally focused on other regions, may lack. Building this expertise and ensuring policies are informed by sophisticated regional analysis represents a crucial prerequisite for effective engagement.

For Asian nations, closer ties with Europe present their own set of challenges. Most fundamentally, no Asian country can afford to prioritize European relationships at the expense of its American ties, given the United States' continued role as the predominant military power in the region. Navigating these relationships without creating the impression of playing powers against each other requires diplomatic finesse and strategic clarity.

The diversity of Asian interests and perspectives also complicates efforts to develop coherent approaches to Europe. Japan's priorities differ substantially from Indonesia's, while India's strategic calculus bears little resemblance to South Korea's. This diversity, while potentially a source of resilience, makes coordinated responses difficult to achieve without significant investment in consensus-building mechanisms that respect these differences.

China's role presents perhaps the most significant challenge for Europe-Asia relations. European nations have adopted varying approaches to China, with some prioritizing economic opportunities while others emphasize human rights concerns or security considerations. Asian nations likewise maintain complex relationships with China, balancing economic interdependence with sovereignty concerns and historical tensions. Developing approaches that accommodate these varying perspectives without fracturing into competing blocs represents a formidable challenge.

Both Europe and Asia face the risk that closer interregional ties might be interpreted by Washington as a challenge to American interests, potentially triggering punitive economic measures. Trade relationships developed to offset American protectionism could become targets themselves, regardless of the irony. The intricate global supply chains that have developed over decades cannot be easily restructured without significant economic disruption.

The geographic distance between the regions creates practical limitations on cooperation, particularly in security domains where proximity enables rapid response capabilities. While digital technologies have reduced communication barriers, the tyranny of distance remains a reality for military operations, crisis response, and even regular diplomatic engagement. Cultural and linguistic differences, while not insurmountable, create additional friction in building the deep understanding necessary for strategic cooperation. Misinterpretations and miscommunications can undermine even well-intentioned initiatives if not addressed through sustained investment in cultural competence and communication frameworks such as the EU-focused FRIEND framework launched in 2001 by the Japanese MOFA.¹⁴

Finally, domestic political constraints in both regions can complicate strategic engagement. Economic nationalism, isolationist tendencies, and resource constraints all limit the political space for ambitious international initiatives, particularly those that may not deliver immediate and visible benefits to domestic constituencies.

Strategic Areas for Enhanced Cooperation

Building on existing agreements, Europe and Asia can develop more comprehensive economic frameworks that reduce barriers to trade and investment while addressing legitimate concerns about standards, labor practices, and environmental impacts. The Comprehensive Economic Partnership Agreement between the EU and Japan provides a template that could be adapted for other relationships, potentially leading toward an eventual Europe-Asia economic framework that preserves the benefits of global economic integration even in the face of American disengagement.

Supply chain resilience represents a particularly promising area for cooperation, with the COVID-19 pandemic highlighting vulnerabilities in existing arrangements. Coordinated approaches to diversification, stockpiling of critical supplies, and development of additional manufacturing capabilities could enhance collective resilience without resorting to inefficient self-sufficiency models.

Investment in connectivity infrastructure, both physical and digital, could further strengthen economic ties while addressing development needs.

Europe's expertise in sustainable infrastructure design combined with Asian manufacturing capabilities and financing capacity could create powerful synergies in developing transportation networks, energy systems, and digital infrastructure that connect regions while meeting high standards for sustainability and governance.

Technology and Innovation

Emerging technologies ranging from artificial intelligence to biotechnology will shape economic competitiveness and national security in the coming decades. Europe and Asia both possess significant capabilities in these domains but face the challenge of competing with American technological dominance and Chinese state-backed innovation models. The statistics reveal both the challenges and opportunities: while the U.S. accounts for 6,300 of global Generative AI patent filings¹⁵ and 65 percent of market capitalization among the world's top 100 technology companies,¹⁶ China stands for approximately 38,000 patents, and since 2022 publishes more quantum computing research than any other country in the world, assuming a leading position in the quantum communications field.¹⁷ Moreover, Asia as a region dominates the semiconductor manufacturing sector accounting for 75 percent of global production with the Taiwanese chipmaker TSMC producing 90 percent of the world's most advanced microchips.¹⁸

Collaborative research initiatives, joint standard-setting efforts, and coordinated approaches to regulation could help both regions maintain technological sovereignty while benefiting from each other's comparative advantages. Europe's strengths in regulatory frameworks and institutional arrangements complement Asia's dynamic innovation ecosystems and manufacturing capabilities. Strategic cooperation could significantly accelerate innovation: joint European-Asian research initiatives already demonstrate 23 percent higher citation impacts than single-region research, according to bibliometric analyses. In quantum computing, a field where European research excellence meets Asian manufacturing capabilities, coordinated investment could accelerate commercialization timelines.

A particularly promising area involves green technology development and deployment. Both Europe and Asia face significant climate challenges and have made substantial commitments to carbon reduction. The potential

economic gain is substantial: the global clean energy market is projected to reach \$2.2 trillion by 2030, with Europe currently holding approximately 25 percent market share in renewable technologies, and Asian manufacturers producing over 80 percent of the world's solar panels and 75 percent of EV batteries. Combined investment in clean energy across these regions exceeded \$580 billion in 2023, representing over 70 percent of global investment in this sector.¹⁹ Coordinated approaches to renewable energy, energy efficiency, sustainable transportation, and industrial decarbonization could accelerate progress while creating economic gain opportunities estimated at \$4.3 trillion by 2035, according to International Energy Agency projections.²⁰ These initiatives could, moreover, build on existing infrastructure and sustainability partnerships such as the EU-Japan Partnership on Sustainable Connectivity and Quality Infrastructure or the EU-ASEAN Green Team Europe Initiative signed in 2019 and 2023, respectively.²¹

Climate Change and Environmental Security

Climate change represents an existential challenge requiring coordinated global responses. Europe has positioned itself as a leader in climate policy, with the EU reducing greenhouse gas emissions by 32 percent between 1990 and 2023,²² while Asian nations are increasingly recognizing the risks posed by environmental degradation to their development models. The economic stakes are enormous: by 2100, climate change impacts could reduce global GDP by 30-50 percent under current policies, with Asian economies potentially facing GDP losses twice as high as European economies, according to Network for Greening the Financial System estimates.²³

Joint initiatives in areas ranging from carbon pricing to climate adaptation technology could advance shared interests while demonstrating the benefits of multilateral cooperation. The EU's carbon border adjustment mechanism, which generated €2.1 billion in its first year of implementation,²⁴ offers a potential model for broader cooperation, while Europe and China together account for 67 percent of global public climate finance—a figure that could increase substantially through coordinated approaches.²⁵

Beyond climate, cooperation on broader environmental challenges from ocean plastic pollution to biodiversity preservation presents opportunities to address collective vulnerabilities while building institutional relationships that could extend to other domains. Europe's experience with transboundary environmental management through mechanisms such as the Rhine Action Programme offers lessons that could be applied to Asian contexts like the Mekong River Basin.

Health Security

The COVID-19 pandemic exposed weaknesses in global health systems and international coordination mechanisms, with global economic losses estimated at \$12.5 trillion through 2024.²⁶ Europe and Asia, both severely affected by the pandemic but with varying experiences and approaches, could develop more robust collaborative frameworks for detection, monitoring, and response to future health threats. Analysis by the World Bank suggests that investing \$5 billion annually in pandemic preparedness globally could generate expected costs ranging between \$18 billion and \$27 billion per year over 10 years. According to the Bank's January economic forecast, the global economy contracted by 4.3 percent in 2020 due to COVID-19. That amounts to about \$3.6 trillion worth of goods, services and other output lost.²⁷

Joint initiatives in vaccine development and production, medical supply chain resilience, and pandemic early warning systems could enhance collective security while creating models for broader international cooperation. Europe and Asia together account for 68 percent of global pharmaceutical production capacity and 72 percent of medical supplies manufacturing.²⁸ However, supply chain vulnerabilities became apparent during COVID-19, with 73 percent of critical medical components sourced from single countries at the pandemic's outbreak. The European Centre for Disease Prevention and Control (ECDC) and various Asian equivalents could establish more systematic information-sharing and coordination mechanisms that maintain functionality even during periods of global tension, potentially reducing detection and response times by 40-60 percent according to theoretical models.

Rules-Based Order and Multilateralism

Perhaps most fundamentally, Europe and Asia share an interest in preserving a rules-based international order that constrains unilateral action and provides predictable frameworks for addressing disputes. While both regions contain powers that may occasionally chafe against specific aspects of this order, the alternatives—a return to raw power politics or fragmentation into competing blocs—would likely prove far more damaging to collective interests.

Coordinated approaches to reforming existing multilateral institutions to make them more representative and effective could help preserve their legitimacy even as American support wavers. Simultaneously, development of complementary regional and interregional mechanisms can provide additional layers of cooperation that might prove more resilient to political headwinds.

Several practical steps could advance Europe-Asia cooperation in the immediate future without requiring fundamental institutional restructuring or politically contentious commitments:

- (i) Establishing a high-level Europe-Asia strategic dialogue bringing together foreign and defense ministers from key nations on both continents to develop shared assessments of strategic challenges and identify concrete areas for cooperation.
- (ii) Creating sectoral working groups focused on specific domains like maritime security, cybersecurity, pandemic preparedness, and climate adaptation, with mandates to develop actionable proposals for enhanced cooperation.
- (iii) Expanding educational exchanges, research partnerships, and professional development programs to build the human capital necessary for sustained cooperation, with particular emphasis on areas relevant to shared challenges.
- (iv) Developing coordinated approaches to standard-setting in emerging technological domains, leveraging Europe's regulatory capacity and Asia's innovation ecosystems to shape global norms in ways that reflect shared values.

- (v) Establishing crisis consultation mechanisms that can be rapidly activated during international emergencies, ensuring perspectives from both regions are incorporated into response frameworks.

Looking beyond immediate initiatives, several strategic approaches could guide the development of Europe-Asia relations over the coming years:

- (a) *Institutional Adaptation:* Existing frameworks like ASEM, the EU-ASEAN Strategic Partnership, and bilateral arrangements between key powers can be strengthened and made more action-oriented through enhanced mandates, dedicated secretariats, and more systematic follow-through mechanisms. While creating entirely new institutions may prove politically challenging, evolutionary approaches that build on existing foundations may prove more feasible.
- (b) *Flexible Geometries:* Given the diversity of interests and capabilities across both regions, frameworks that allow for variable participation based on specific issues may prove more effective than attempting to create comprehensive structures encompassing all nations on both continents. Coalitions of the willing around specific challenges—maritime security, technological standards, climate initiatives—could make progress even where consensus among all potential participants proves elusive.
- (c) *Track Two Processes:* Semi-official dialogues bringing together experts, former officials, and civil society representatives can explore sensitive issues and develop proposals that might prove politically difficult to address through formal governmental channels. These processes can prepare the ground for more formal engagement once concepts have been tested and refined.
- (d) *Leadership Development:* Building the next generation of leaders with deep understanding of both regions represents a crucial long-term investment in sustainable cooperation. Exchange programs, joint educational initiatives, and collaborative research can create networks of professionals with the knowledge and relationships necessary to navigate complex interregional issues.

Final Thoughts

As Trump 2.0 reshapes America's global role, Europe and Asia face a critical juncture that presents both risks and opportunities. The challenges are formidable: geographic distance, institutional limitations, diverse interests, and complex relationships with the United States all complicate efforts to develop more robust interregional cooperation. Yet the potential benefits are quantifiably significant: economic modeling suggests that enhanced Europe-Asia cooperation could enhance economic growth. Europe present a \$660 billion potential for Asian exporters, while China, India and ASEAN present a \$482 billion trade potential for European exporters in Asian markets. The Regional Comprehensive Economic Partnership, the world's largest free trade agreement between Asia-Pacific and ASEAN states, accounts for around 30 percent of global GDP with immense potential for European businesses.²⁹

The path forward requires neither abandonment of traditional relationships with the United States nor naive optimism about the ease of building alternative arrangements. Instead, it demands clear-eyed assessment of shared interests, pragmatic approaches to institutional development, and strategic patience in building the foundations for sustained cooperation.

Europe and Asia collectively represent a significant portion of global population, economic output, and diplomatic influence. Their ability to work together more effectively will shape not just their own security and prosperity but the broader contours of the international system in an era of geopolitical flux. The choices made by leaders across both regions in the coming years will reverberate far beyond immediate policy outcomes, potentially reshaping global patterns of cooperation and conflict for decades to come.

In navigating these choices, policymakers would do well to balance ambition with pragmatism, recognizing that meaningful cooperation begins not with grand designs but with practical steps in areas of clear mutual benefit. Building on these foundations, Europe and Asia can develop more robust frameworks for addressing shared challenges even as the international environment grows more uncertain.

The imperative for stronger Europe-Asia relations stems not from antipathy toward the United States but from recognition that diversified relationships enhance resilience in an unpredictable world. By developing these relationships thoughtfully, both regions can better navigate the challenges of Trump 2.0 while laying the groundwork for more balanced and sustainable international arrangements in the decades ahead.

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9

The Importance of India-China Ties in a Trump-centered World Order

Jagannath Panda

With Trump 2.0 shaking up the status quo through unilateral and unexpected decisions, the future of the existing or the so-called international liberal order (ILO) is increasingly uncertain. The ongoing tariff war is certain to cripple a global economy already grappling with persistent issues like high inflation, rising interest rates, and mounting geopolitical tensions—all of which threaten greater economic instability. The aggressive actions of Russia and China, coupled with a declining U.S. commitment to upholding the ILO, raise serious concerns about global stability. How do India-China ties fit in this new Trump-dictated world order?

The recent thaw in bilateral relations is a positive step even if there is still a long way to go in establishing genuine cooperation and any kind of trust. The timing of the thaw is also particularly noteworthy, coinciding with the growing U.S.-India engagement and Donald Trump's return as U.S. president. Trump has signaled a tough stance toward Beijing, with China hawks appointed to key national security positions. His unpredictability could also pose challenges for India, despite New Delhi's initially straightforward and optimistic response to his victory,¹ followed by the Modi-Trump meeting. The evolving dynamics of the China-India-U.S. triangular relationship in the coming months and years will be one of the

most compelling narratives to follow on both the regional and global stage. Importantly, what does a renewed India-China relationship mean for the future of the liberal international order?

To answer these questions, this chapter² first analyzes the recent developments in India-China bilateral relations. It next assesses India's multipolar foreign policy and its relationships with the U.S., EU, and European nations. The implications of the India-China thaw are then examined in this context. The chapter concludes with how India's adherence to strategic autonomy only serves to enhance its global standing and emphasizes its role as a stabilizing force in the evolving geopolitical situation.

India-China: Repairing a Relationship

The future of India-China bilateral relations was closely linked to the outcome of the 23rd meeting of Special Representatives for the China-India Boundary Question held in December 2024 in Beijing.³ China's Foreign Minister Wang Yi and India's National Security Advisor Ajit Doval focused on the importance of "effective border management" to maintain "peace and tranquility on the border." This was the first meeting of the Special Representatives since the Galwan clashes in 2020. Just a few months earlier, in October, the two countries had reached a significant disengagement agreement concerning patrolling of border areas in Depsang and Demchok along the Line of Actual Control (LAC).⁴ Troops have now begun stepping back from the final two positions of what was essentially a four-year-long military standoff. Indian External Affairs Minister S. Jaishankar said that both countries would consider "other aspects" of bilateral ties in a calibrated manner, given the conclusion of the disengagement phase. China has agreed to allow for the restart of the Kailash Mansarovar Yatra this year, while India has in principle agreed to resume direct flights between the two countries, subject to approval of the necessary technicalities.

Despite the recent positive shift, China's inconsistent relationship with India under Xi Jinping's leadership calls for a measured interpretation of current developments. At first glance, it appears to align with the wave of national and international headlines heralding a new chapter for India and China in resolving their disputes. However, a closer look reveals that the apparent warmth is weighed down by several factors, with leadership

dynamics standing out as the most significant. On November 15, 2022, Prime Minister Narendra Modi and President Xi Jinping had a brief encounter at the G20 Summit in Bali—their first meeting since the standoff that began in April–May 2020.⁵ Both leaders are said to have emphasized the importance of stabilizing bilateral relations,⁶ but nothing really came out of it.

It is clear that China-India relations are heavily reliant on the top leadership. The fact that both current leaders are strongmen, with policies shaped largely by their personal styles and approaches, is a telling sign. Thus, it's not just the bilateral interactions between Modi and Xi that matter, but also their individual political will. For instance, the recent thaw in relations gained significant momentum following the meeting between Indian Prime Minister Narendra Modi and Chinese President Xi Jinping on the sidelines of the BRICS summit in Russia in late October.⁷

At the same time, the October bilateral meeting yielded no new agreements, consensus, or tangible outcomes beyond the disengagements already in place at specific locations.⁸ Given that this was their first formal bilateral meeting in five years—and the 2019 “informal summit” was also seen as lacking substance⁹—it reinforces the impression that the current easing of tensions is nothing more than a temporary step without deeper significance.

The mutual distrust is evident not only in the absence of joint statements but also in the inconsistencies between the December declarations from both sides. India's statement remains deliberately vague, largely echoing the October disengagement agreement without offering much beyond that.¹⁰ It includes broad references to progress in cross-border cooperation—such as on minor issues like the religious pilgrimage to Mount Kailash-Mansarovar Lake through contested Tibet and trade—without any concrete details.

The Chinese side, on its part, has framed the meeting's outcomes as a “six-point consensus,” emphasizing a mutually acceptable “package settlement” to the boundary dispute in line with a 2005 bilateral agreement.¹¹ India, however, has distanced itself from the specifics of China's readout, merely referencing the 2005 agreement in the context of exploring a “settlement framework” in the future—this too only in a press conference.¹² The official meeting statement, meanwhile, avoids any concrete geopolitical

or linguistic commitments, refraining from mentioning adherence to any pact or consensus.

And in the latest episode of the continuing see-sawing relationship, China recently created two new counties in Hotan Prefecture—an area in Aksai Chin that India claims as part of its Union Territory of Ladakh.¹³ China expects the administrative move to increase its de facto control of the region. India protested strongly, with the Ministry of External Affairs spokesperson criticizing “China’s illegal and forcible occupation” of Indian territory.¹⁴

Whatever the latest episode may be, it is important to remember that the boundary tensions are not completely resolved—the details are also rather sketchy on what withdrawing troops entails.¹⁵

India has not deviated from its continued stance that the border needs to be addressed before moving forward with the bilateral relationship.¹⁶ Nonetheless, any measure of disengagement is welcome. Further, communication has improved between official military and diplomatic channels, which is a major achievement in itself—congratulatory letters on 75 years of bilateral ties were also exchanged between President Xi Jinping and President Droupadi Murmu.

India and the West: Friends In All Seasons?

China has served as a key catalyst for convergence between India and the U.S. in recent years. The India-U.S. partnership has been pivotal in strengthening not just their bilateral ties but also in shaping regional security architecture through initiatives like the Quad and the Indo-Pacific Economic Framework for Prosperity (IPEF). The Quad, revived during Trump 1.0, has grown increasingly influential, while IPEF’s new supply chain agreement holds promise for reinforcing Indo-Pacific solidarity against China’s rising influence and technological advances.¹⁷ However, it’s the Quad that appears poised to maintain its prominence, as concerns grow that the IPEF may struggle to retain its relevance amid the resurgence of Trump-led, transactional diplomacy.¹⁸

India’s partnership with the Quad countries (Australia, Japan, and the U.S.) has significantly strengthened across economic, security, and defense

sectors. In the context of the Indo-Pacific, all four nations are increasingly aligned in promoting a “free, open, and rules-based” maritime order, with a shared focus on countering, or at least balancing, China’s growing assertiveness in the region.

Despite Trump’s strong approach to imposing tariffs, the Indian political leaders are undoubtedly optimistic about Trump, given the strong rapport between Modi and Trump.¹⁹ They anticipate it could bolster India’s regional and border security objectives, particularly concerning China, and help ease tensions over democracy and minority rights—issues that became more prominent during Biden’s later tenure, with U.S. experts describing the U.S.-India relationship as “fundamentally fragile.”²⁰

One of the reasons for this is India’s stance on multipolarity, which many may view as anti-Western. India continues to uphold a strong strategic partnership with Russia. Russian President Vladimir Putin has expressed gratitude, referring to India as a “true friend.”²¹ Following Moscow’s invasion of Ukraine, New Delhi has increasingly acquired discounted Russian oil, bypassing U.S.-led sanctions, making India Russia’s top export destination. So far, Washington has refrained from enforcing the Countering America’s Adversaries Through Sanctions Act (CAATSA), which targets countries purchasing weapons from sanctioned Russian defense suppliers, in relation to India’s acquisition of Moscow’s S-400 surface-to-air missile system. This suggests that Washington views India as too important to the United States’ Indo-Pacific strategy to risk angering it with sanctions.

It does appear that India is being “courted” by both the East and the West, largely due to the events unleashed by the Ukraine war and India’s deft handling of its pointed, multi-alignment foreign policy geared to greater strategic autonomy goals.²² India’s participation in the Group of Seven (G7) as a partner state, as well as its involvement in BRICS and unique relationship with Russia exemplifies India’s distinctive status in today’s world. Europe and India seem to have overcome their differences on the polarizing issue of Ukraine and have prioritized dialogue and mutual outreach. The perseverance is a testament to the importance of their strategic partnership for both Europe and India. New Delhi believes Europe will be a strong player in a truly multipolar world and wants it as a key partner. For the EU, India provides

an ideal “entry point” for its ambitions in the Indo-Pacific to execute and strengthen its position further in the region.²³

In the realm of trade, Trump’s “America First” policy is likely to affect all emerging economies, including India. Both India and the U.S. are expected to adopt protectionist measures, with their differences continuing to hinder comprehensive strategic growth. Reflecting on Trump’s first term, trade was a notable point of contention—he harshly criticized India’s tariff system, dubbing it the “king” of tariffs, and the India-U.S. trade deal ultimately collapsed. Not much has changed on this front.²⁴

This time around, on ‘Liberation Day,’ Trump announced a 26 percent reciprocal tariff on India even though he called Prime Minister Narendra Modi a “great friend”.²⁵ India’s exports to the U.S. could fall 6.4 percent, according to New Delhi-based think tank, Global Trade Research Initiative (GTRI), but at the same time, there could be ‘modest gains’ in sectors where the U.S. has raised tariffs on competing countries.²⁶ So far, New Delhi seems to be avoiding retaliation on U.S. tariffs and will instead focus on finalizing a trade deal. India and the U.S. had agreed in February to clinch an early trade deal by autumn 2025 to resolve their standoff on tariffs. Modi’s administration has also already taken a number of steps to win over Trump, including lowering tariffs on high-end bikes and bourbon, and dropping a tax on digital services that affected U.S. tech giants.²⁷

While there is concern about managing the fallout of higher U.S. tariffs, the Modi government has taken a conciliatory tone, keeping in view the bigger picture of a trade deal in the making. However, it is the push on bilateral defense ties with India and the U.S. that will be accelerated, and India would be looking to benefit from greater technological and defense cooperation that has already been jump-started (e.g., the Initiative on Critical and Emerging Technologies [iCET] looks to facilitate joint production of jet engines, among other important projects).²⁸ On February 25, Modi and Trump reaffirmed the India-US Comprehensive Global Strategic Partnership during their high-profile meeting in Washington.²⁹

Both sides also reaffirmed their commitment to a strong defense partnership. Later this year, a new ten-year framework for the U.S.-India Major Defense Partnership will be signed, with the U.S. promising increased

defense sales and co-production efforts. Key acquisitions include Javelin Anti-Tank Guided Missiles, Stryker Infantry Combat Vehicles, and six additional P-8I Maritime Patrol Aircraft to enhance India's surveillance capabilities. It was also agreed to accelerate cooperation in space, air defense, missile systems, maritime, and undersea operations.

The launch of the US-India TRUST initiative will enhance collaboration across defense, AI, semiconductors, quantum computing, biotechnology, energy, and space. A key focus is the upcoming US-India Roadmap on Accelerating AI Infrastructure, which aims to address financing challenges and promote data center investments and industry partnerships. In addition, there are new initiatives to expand space collaboration, including the launch of INDUS Innovation, inspired by the INDUS-X platform, which will foster academic and industrial partnerships in space and emerging technologies. Both nations have also committed to accelerating research and investment in critical minerals through the Mineral Security Partnership and the Strategic Mineral Recovery initiative. 2025 is set to be a landmark year for U.S.-India space relations, as NASA and ISRO team up via AXIOM to send the first Indian astronaut to the ISS and fast-track the NISAR dual-radar satellite launch. Both countries reaffirmed their commitment to advancing space exploration, human spaceflight, and safety cooperation.³⁰

The bonhomie between Modi and Trump notwithstanding, the U.S. and India clearly have shared interests in promoting global security, stability, and economic prosperity through trade, investment, and connectivity. Further, the strong people-to-people ties between the countries are a tremendous source of strength for the strategic partnership. The two sides have clearly established a firm upward trajectory to boost collaboration and cooperation, and India's reaction to the new U.S. tariffs should be seen in that context. During a high-profile visit to New Delhi recently, U.S. intelligence chief Tulsi Gabbard said India and the U.S. will deepen strategic cooperation, emphasizing that "America first" does not mean "America alone."³¹

Implications of India-China Thaw

Ultimately, there are complex equations among China, India, and the U.S., especially bilaterally, that will shape the friendship and rivalry between them. In particular, it stands to reason that the India-U.S. ties under a bullish Trump will have implications for China, as for some years the U.S. has certainly played its support for India as a vital counter to hamper China's regional designs and goals. This aspect is bound to grow, with enhanced defense and technological cooperation.

For India, incorporating China into its foreign policy and managing its relationship with Beijing is not merely a strategic choice, but a strategic necessity. The complexity of bilateral and regional dynamics, competing foreign policy interests, and China's emergence as a key global economic and political player make these strategic considerations essential for India. However, the aforementioned trade issues between India and the U.S. might bring India and China closer. Against such a background, India and China must remain wary not to let hostilities govern overall economic prospects. They will likely reconfigure their mutual approach, keeping American protectionist trends into account.

Notwithstanding such issues, the emerging security landscape defined by the U.S.-led Indo-Pacific strategy will be strengthened, which means the Quad grouping comprising close partners Australia, India, Japan, and the US will get top billing. This also implies that China's opposition to the Quad as a U.S. instrument for promoting NATO-style expansionism in the Asia-Pacific, regardless of Trump's own discontent with NATO, will continue to fuel its distrust of India, which has fully committed to the Quad. Trump has also already indicated his intent with regard to the Quad. A day after his inauguration, the bloc's foreign ministers met in Washington, D.C., and reaffirmed their shared commitment to strengthening a free and open Indo-Pacific.³²

On the other hand, the China-U.S. ties will either propel or slow down India's march to regional prominence, both economically and diplomatically. Thus far, there are no indications that the U.S.-China trade rivalry will in any shape or form decelerate. Hence, it would be safe to assume that India's fortunes as a bridge between the West and the Indo-Pacific will continue to gain traction.

India's efforts to play a larger role in China-dominated, non-Western forums like the Shanghai Cooperation Organisation (SCO) and BRICS are also significant. In particular, BRICS' expansion has provided India an opportunity to showcase its vision of a multipolar world and its pursuit of strategic autonomy,³³ whereby it seeks to balance relations with a wide range of geopolitical players without formal alliances. India believes that its participation in both Western and China-led forums will enhance its outreach to the Global South. The South is resistant to binary ideological divisions, which are intensifying challenges like food security and climate change for economically struggling developing nations. India's position as a bridge or a voice for these concerns is therefore highly appealing.

It's important to acknowledge that China also has a significant and growing presence in the Global South—spanning Southeast Asia, Central Asia, West Asia, and South America—largely driven by its Belt and Road Initiative (BRI), which funds major financial and infrastructure projects.³⁴ The Global South is already a competitive arena, with both India and China seeking to strengthen their positions. The approaches of India and China toward the Global South could not be more different. India's objectives focus on fostering an equitable, sustainable, and representative multipolar world order, primarily through reforms in global governance institutions and advocating for greater accountability. In contrast, China's new approach is driven by a desire to reshape the world order, aiming to upend the liberal system and pursue a “post-Western” agenda, reflecting its revolutionary ambitions. Beyond this competition, BRICS Plus engagement offers both nations alternative pathways to challenge Trump's “America First” approach. However, for this ambitious goal to succeed, a strong India-China rapport would be essential, though achieving that is no easy feat.

The current thaw should, nevertheless, lead to better trade and economic contact in select areas that are not susceptible to security concerns. China became India's top trading partner in 2023-2024, with bilateral trade reaching US\$118.4 billion.³⁵ India's trade deficit with China has continued to balloon, and was over \$83 billion in 2023.³⁶ Notably, India may also ease curbs on Chinese investments.³⁷ Already, there have been reports about India looking to give a go-ahead to Chinese investment proposals in the electronics manufacturing sector.³⁸ The Economic Survey 2023-24 had strongly

advocated for attracting Chinese investment to enhance domestic manufacturing and access export markets. It argued that an increase in FDI inflows from China could improve India's integration into global supply chains and support export growth. The government remains cautious, with officials expressing concerns over the opaque ownership structures of Chinese companies and their ties to the Communist party. There is also a perception that Chinese authorities are dismissive of India's manufacturing ambitions.

The bilateral relationship, however, holds immense importance not just bilaterally, but also on regional and global scales. The two major developing nations with a combined population exceeding 2.8 billion are key drivers of global economic growth. And in an era of global economic insecurity, propelled by Trump's tariff policies, India and China together could have a significant stabilizing role. Strengthening economic ties with Beijing could likely serve as a hedge against Washington's trade demands.

India to Maintain Strategic Autonomy

For lasting stability, both India and China must acknowledge each other's power, status, and role in the Indo-Pacific, fostering a new political understanding and *modus vivendi* based on these realities. India recognizes China's significance in the region through its commitment to a free, open, and inclusive Indo-Pacific. In turn, China's acceptance of India's role, autonomy, and strategic agency will be key to promoting peace and tranquility in the region.

Since China often views India through the lens of its relationship with the United States, it's important for India to counter this perception by clearly asserting its independent foreign policy, driven by its own national interests. In his meeting with Foreign Minister Wang Yi on the sidelines of the G20 summit on November 18, 2024, Jaishankar made it a point to emphasize that India's "foreign policy has been principled and consistent, marked by independent thought and action.... India does not view its relationships through the prism of other nations."³⁹ Clearly, the effort to reinforce strategic autonomy is already underway. It was also a dig at China's continued assessment of Indian actions being influenced and manipulated by the U.S. desire to contain China.

India sees its relations with China and the U.S. as being on two different tracks, and independent of each other. Any forward movement in India-China ties is unlikely to affect India's robust relationship with the U.S. Jaishankar recently asserted that a trade agreement between India and the US has "sound business" sense, while good ties with China are in our "mutual interest".⁴⁰

A similar rationale can be applied to India's relationship with NATO. India's decision not to join NATO is a reflection of its historical commitment to non-alignment, its emphasis on strategic autonomy, and its unique geopolitical circumstances. India has repeatedly asserted that it will never be part of an alliance system like NATO,⁴¹ but it chooses to engage with NATO member countries individually for economic benefits, such as trade agreements or defense partnerships, while maintaining its non-aligned status and respecting the interests of their citizens. NATO and India are united by shared values of freedom and democracy, along with a mutual interest in ensuring a stable and secure Indo-Pacific. Despite not having a formal partnership with India, NATO has continued to engage in strategic dialogue with India, despite China's objections to an 'Asian NATO'. In 2021, NATO Secretary General Jens Stoltenberg even addressed the Raisina Dialogue.⁴² India's military strength, dedication to peacekeeping missions, and expanding defense partnerships with various NATO countries only enhance its global influence, showing that its non-membership in NATO does not hinder its active role in promoting regional and global stability.

While India's foreign policy has increasingly been supportive of a multipolar world, it underscores the importance of working closely with the U.S., given its key role in the international order. India will continue to uphold values dear to it, and these include a commitment to the ILO, the rule of law and democratic values. Meanwhile, Trump is likely to continue viewing China as the primary geopolitical challenge (and the tariff war continues to escalate at the time of writing). This will solidify India's long-term value as an unwavering strategic partner for the United States. Improvement in India-China relations is therefore unlikely to damage either the India-U.S. friendship or the wavering international liberal order; if anything, it may stabilize the threats to the ILO.

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