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NEW REALITY, OLD INSTITUTES

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Strengthening G20 Support for the UN's Sustainable Development Goal 13 on Climate Change¹

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Abstract

Climate change, biodiversity loss and human-generated pollution pose an urgent, existential threat to all living things. United Nations (UN) scientific reports, and several others, confirm humanity's destructive impact on the earth's atmosphere, land and water. They also confirm that climate change creates new problems and exacerbates existing social and economic problems across all the sustainable development goals (SDGs) in the UN's Agenda 2030 for Sustainable Development. Yet, in their design, the 17 SDGs and their 169 targets make very few explicit links between climate change, specifically, and the other ecological and socio-economic goals. And, on the few key indicators tracked by the Sustainable Development Index Dashboard under SDG 13 on climate change, the developed countries lag well behind developing ones, while progress on many SDGs has reversed since 2019. The Group of 20 (G20) developed and emerging economies, all systemically significant, comply with their own climate change goals at an average of just 69%. Given its membership profile and vast resources, the G20 has great potential to reinforce progress toward the SDGs. By improving its own performance on climate change, the G20 can help the UN and its members spur progress on SDG 13 on climate change, and thus on other closely related SDGs. The G20 leaders at their summits should therefore make far more ambitious commitments on climate change, explicitly link them to sustainable development, SDG 13, other socio-economic SDGs, and the UN's climate conference. They should also foster more synergies between the UN's SDG high level meetings, UN climate summits, and special climate summits and recognize in their G20 communiqués the climate-related, shock-activated vulnerabilities of, and their socio-economic impacts on, countries in and beyond the G20.

Keywords: G20, SDG 13, Climate Change, UN, SDG Targets

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Introduction

Climate change, biodiversity loss and human-generated pollution pose an urgent, ultimately existential threat to humanity and other living things. The United Nations' (UN) Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report, published on 4 April 2022 before the UN's climate conference in Sharm el-Sheikh in November 2022, emphasized that fossil fuels must be abandoned, that the livestock industry is one of the world's most polluting industries, that diets must change, and that cities must be re-organized and greened. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) 2019 Global Assessment Report on Biodiversity and Ecosystem Services emphasized the irreplaceability of key ecosystem services, the inequity and trade-offs in existing production structures, and that biodiversity is in rapid decline due to human activity. And the UN Environment Program's (UNEP) Emissions Gap Report, published on 27 October 2022, declared that "only an urgent system-wide transformation can avoid climate disaster" [UNEP, 2022].

Together, these reports codified and confirmed a scientific consensus that humanity's assault on the environment has reached a critical stage and that the efforts of the major global governance institutions to reduce or reverse that assault have failed. The UN Climate's 27th Conference of the Parties (COP 27) in Sharm El-Sheik in November 2022 created a still largely unfunded fund for the loss and damage suffered by poor countries and did virtually nothing to stop the proliferating greenhouse gas emissions and subsequent extreme weather events. UN Biodiversity's COP 15 in Montreal in December 2022 produced what was lauded by the UN as a landmark agreement to protect global biodiversity [UNEP, 2022]. The agreement included a goal to increase countries' protected land and marine areas from the current 17% to 30%, to phase out or reform subsidies that harm biodiversity by at least \$500 billion per year and to mobilize at least \$200 billion per year for biodiversity protection. Yet, this was still nowhere near enough to meet the ecological need. The Group of 20 (G20) summit in Bali, Indonesia on 15–16 November 2022 made 18 commitments on climate change and a record 24 on environmental domains beyond. But they were not sufficiently ambitious to turn the tide, even if all members fully complied with them.

This article thus addresses three critical, central questions. First, how, and how well, does the UN's sustainable development goal 13 on climate action link to the explicit component targets on climate change in all the other SDGs to enhance the ability of the 17 SDGs to meet the global need? Second, how well has the performance of G20 summits in their climate change conclusions, commitments, compliance, and synergistic links to other subjects helped advance climate action since their start in 2008 through to their Bali summit in November 2022? Third, can this G20's performance be strengthened by fostering more compliance with these voluntary, politically obligatory commitments and by more ambitious commitments themselves?

This article offers three answers. First, the UN SDGs seemed well designed, with SDG 13 dedicated to climate change and five of the other 17 SDGs explicitly devoted to other key ecological domains. But few of the other SDGs' component targets are explicitly linked to climate change. Moreover, the advances toward the climate-related goals and targets by the UN system and its members have largely been reversed or reduced since 2019 [Steiner, 2022]. G20 summits are required to remedy this situation.

Second, G20 summits have increasingly made commitments on climate change, but members' compliance with them has been poor, and G20 performance has fallen further behind the growing global need [Kirton, Kokotsis, Warren, 2022; Warren, 2022].

Third, and most importantly, solving the ecological threat of climate change requires ambitious, transformative action from the UN, the G20, and its members to rapidly reduce the

anthropogenic sources of greenhouse gas emissions into the atmosphere and expand the sinks that remove and store them. This action should start at and build on the UN's SDG summit and the G20's New Delhi summit in September 2023. To improve compliance, forthcoming G20 summits should include in their climate commitments more links to sustainable development, the 2030 Agenda, the other SDGs, the UN Framework Convention on Climate Change and its Conference of the Parties meetings. They should also foster more synergies between UN SDG summits, UN climate COP summits, and special climate summits and recognize in their G20 communiqués the climate shock-activated vulnerabilities of G20 members and others and their socio-economic impacts.

This article focuses specifically on the core concern with “climate change,” while acknowledging that almost all SDGs, targets, and indicators have substantial, if explicitly unrecognized, links to climate change in the material world. It further acknowledges that many SDGs, and the G20's performance on other subjects, also lag the politically designed and physically needed programme, while noting that comparative analysis, relevant causes such as the COVID-19 pandemic, military conflicts, and geopolitical tensions, and root causes such as capitalism and colonialism are beyond the scope of this analysis. It acknowledges, finally, that some still deny the fact, importance, and harmful impacts of climate change and its overwhelming human cause; however, this analysis relies on the best, most recent scientific evidence, codified in the consensus reports of the IPCC and others cited herein, as the scientific foundation on which to build a better political response from the global summit-level of the UN, and especially the wealthy G20, that is needed now.

The UN's Promising but Failing Sustainable Development Goals

To confront the accumulating climate change, biodiversity, and ecological crises, the UN SDGs, launched in 2015, seemed well designed. SDG 13 is dedicated to climate action and five of the other 17 goals are explicitly devoted to the other key environmental domains—those on life on land, life below water, clean water, clean energy, and sustainable cities (see Appendix A). While there are many interconnected links in the material world, few of these politically constructed goals and the other ones include “climate change” explicitly among their component targets. Moreover, since the COVID-19 outbreak in 2019, progress toward meeting the climate-related goals and targets has been reversed or reduced [Steiner, 2022]. And, on climate change, according to the four indicators monitored by the Sustainable Development Index Dashboard [n.d.], developed countries, especially those in the G20, lag the rest of the world.

The SDGs' Partially Promising Design

The SDGs, finalized and adopted at a UN summit in September 2015, contain 17 goals, with 169 targets plus indicators. In sharp contrast to the UN Millennium Development Goals launched in 2000, which had only one out of eight goals on the environment and none on climate change, the SDGs include SDG 13 on climate action, as well as SDG 6 on clean water and sanitation, SDG 7 on affordable and clean energy, SDG 11 on sustainable cities and communities, SDG 14 on life below water, and SDG 15 on life on land. Moreover, the SDGs were designed to cover all countries, developed and developing alike, and with each of the 17 mutually reinforcing goals directly supporting the achievement of all the others. They were, however, designed to support developing countries first, as seen in the funding related targets, such as those for climate finance.

Within each of the 17 SDGs, there is an average of 10 targets. But only three of the 16 goals beyond SDG 13, have a target explicitly on climate change, and these three goals have only one

climate target each (see Appendix B). SDG 1 on “end poverty” has reducing the poor’s “exposure and vulnerability to climate related extreme weather events.” SDG 2 on “end hunger” has maintaining “ecosystems in cities that strengthen capacity for adaptation to climate change.” SDG 11 on sustainable cities and communities has “adopting and implementing integrated policies and plans towards ...mitigation and adaptation to climate change.”

None of the other key environmental SDGs have an explicit climate reference. But, implicit references to directly related relationships appear. They include SDG 7 on affordable and clean energy with two targets on renewable energy; SDG 14 on life below water with a target on “ocean acidification;” and SDG 15 on life on land with several targets on forest protection and an important link between ecosystem health and poverty reduction. More broadly, SDG 12 on responsible consumption and production has a target to “rationalize inefficient fossil-fuel subsidies.”

The core SDG 13 on climate action has two targets that link climate change to other SDGs. Its SDG target 13.3 focuses on climate education and thus links to SDG 4 on quality education. SDG target 13.b aims to include women in climate-related planning and management and thus links to SDG 5 on gender equality.

Taken together, the combined portrait shows that climate change is not mainstreamed across the SDGs. This matters, given that climate change impacts all the 2030 Agenda goals and will continue to slow, stall, or reverse progress toward meeting the SDGs by their due date in 2030.

Partial and Reversing Progress on Implementing the SDGs

Progress toward meeting the SDGs’ climate-related goals and targets was partial but promising in the first five years following their launch; however, since 2019, it has reversed [Steiner, 2022].

To be sure, the SDGs’ sweeping and lofty goals are difficult to quantify, measure, and track as a whole given important data gaps [Bidarbakhtnia, 2022]. But the targets and indicators provide greater specificity and several institutions contribute to monitoring and assessing them. They include the Food and Agriculture Organization (tracking food-related targets), the UN (tracking regional progress, such as that in Asia), academic institutions (such as Cambridge University) tracking a range of targets, the European Commission (tracking the European Union’s (EU) progress), and the Sustainable Development Index Dashboard (tracking select indicators across all 17 SDGs).

The Organisation for Economic Co-operation and Development’s (OECD) recent report from April 2022 shows a mixed performance at best in advancing toward meeting the SDGs by the 2030 deadline. It shows that progress was hampered and reversed due to the proximate cause of the COVID-19 pandemic. It has been further stunted by another proximate cause—Russia’s war in Ukraine, particularly for the goals on food security, energy security, and wealth equality [Pereira et al., 2022]. War has adverse impacts on water infrastructure and quality, including in the marine environment, degrades terrestrial environments, raises emissions, and reduces the ability of the countries in conflict to prepare for climate-related disasters.

The OECD [2022] reports that no target under SDG 13 on climate change is close to being reached on time. The remaining key ecological SDGs have seen some progress but are also still far from being achieved. They include goals 6 on water, 14 on life below water, 15 on life on land, and, more broadly, 12 on sustainable consumption and production. A similar picture emerges for four other SDGs that the OECD considers environmental goals, and for all the remaining ones. All are reported to have, at best, a mixed outlook that is largely skewed toward a grand miss of the 2030 deadline to achieve them.

This conclusion is confirmed by the UN's own assessment. According to UN Stats [2022], there has been a deterioration of progress on reducing global emissions (SDG 13), on increasing fish stocks to sustainable levels, and on the protection and prevention of extinction for threatened species (SDG 15). There has been little to no progress on the sustainable use of terrestrial and mountain ecosystems (SDG 15) and, more broadly, on rationalizing inefficient fossil-fuel subsidies (SDG 12).

It is possible that countries could show and support more progress by taking a holistic approach that recognizes co-benefits, such as promoting nature, which also improves health [Robbins, 2020]. However, generally, the actual effectiveness of such global environmental regimes, to which the UN 2030 Agenda and its SDGs largely belong, is difficult to measure. Effectiveness, defined as a problem solved, runs into complications when there are varying ways of defining the problem. For example, G20 countries cannot agree what constitutes an "inefficient" fossil fuel subsidy [Young, 1999]. The voluntary nature of some global goals, and their non-legally binding nature, is a factor too, along with root causes of the problems such as linear infinite growth economic models and others. Even more difficult is estimating how much advances toward the key ecological SDGs have changed net greenhouse gas emissions and concentrations, covering both sources and sinks, in the immediate, short, and longer terms, amidst the many other causes of such changes.

An easier and adequate way to start is to measure first-order compliance, composed of governments' implementing actions [Daniels, 1993; Kokotsis, 1999]. Although this approach stops short of estimating whether a problem, defined or undefined, has been solved at all or by the actions of the actor under review, this approach provides valuable insight into the usefulness and contribution of a regime or individual institution.

The G20's Climate Change Goals

The G20 summits, started in 2008 and supplemented since 2017 by a new array of special, ecologically focused summits, have added many commitments in direct or contextual support of climate action and the SDGs [Kirton, Kokotsis, 2015; Kirton, Kokotsis, Warren, 2022; Warren 2022] (see Appendix C). But these G20 commitments often lack ambition, specificity, and multi-subject synergies for broader co-benefits. Moreover, compliance has been poor, causing G20 performance on climate change, sustainable development, and the SDGs to fall further behind in meeting the growing global need.

Conclusions

Since their 2008 start, G20 leaders at each of their regular summits have dedicated an average of 5% of their public communiqués explicitly to the subject of climate change [Warren, 2022]. This is much lower than the 32% average for the G20's all-time top-ranked subject of macro-economic policy and growth. But since the landmark United Nations Framework Convention on Climate Change's (UNFCCC) Paris Agreement was signed in 2015, G20 summits have usually performed above average on this dimension, with a rising trend from 2018 to 2021. The 2018 Buenos Aires summit devoted 5% of its public documents to climate change, which rose to 10% at the 2019 Osaka summit, 12% at the 2020 Riyadh summit, and then surged to 31% at the 2021 Rome summit. The portion stayed high at 22% at Bali in 2022.

By way of comparison, on the related subject of development, G20 summits between 2008 and 2021 dedicated an average of 25% of their public communiqué conclusions to development, or five times more than to climate change [Dobson, 2022]. The portion on development

rose in 2010 to 35% at Toronto, then peaked at 58% at Seoul. The first summit in 2008 dedicated 18% of its total words to development. The two 2009 summits in London and Pittsburgh devoted 28% and 25%, respectively. In 2011, only 18% of words were on development. This rose to 32% at the 2012 Los Cabos summit, then fell to 27% at the 2013 St Petersburg summit. In 2014, this fell again to 22%.

This decline continued to 16% at the Antalya summit in November 2015, held two months after the UN summit in September that launched the 2030 Agenda SDGs. At the 2016 Hangzhou summit, the portion of words on development jumped to 25%, but then plummeted to 17% for the next three years. The 2021 Rome summit saw another jump, to 26%. But here development was surpassed, for the first time, by climate change at 31%.

Much of the G20's development conclusions deal with sustainable development, including the MDGs and then the SDGs.

Commitments

The G20 summits' production of precise, future-oriented, politically binding commitments on climate change have mostly mirrored this trend in their conclusions. From 2008 to 2022, G20 summits made 133 climate commitments. They usually made fewer than 10 per summit, with only four exceptions. Three of these exceptions came after the Paris Agreement was signed. The 2017 Hamburg summit started this rising trend with 22 commitments (for 4% of the total). This plunged to three (3%) at Buenos Aires in 2018, rose to 13 (9%) at Osaka in 2019, plunged back to three (3%) at Riyadh in 2020, rose again to 21 (9%) at Rome in 2021, and stayed close at 18 (8%) at Bali in 2022.

Compliance

The subsequent value of these G20 climate change commitments has been small when measured by its members' compliance with them after the summit and before new commitments could be made at the subsequent summit.

Of the G20's 115 climate commitments from 2008 to 2021, 50 priority ones have been assessed for G20 members' compliance. Compliance averaged only 69%. This is below the G20's overall compliance average of 71% across all subjects. Prior to the signing of the Paris Agreement, G20 climate compliance averaged 66% and fluctuated widely, reaching as low as 42% for St Petersburg in 2013 and as high as 93% for London in 2009. Since then, compliance has averaged 72% and become more consistent. In 2015, compliance with Antalya's climate commitments reached a high of 85%, boosted by the UN climate summit at Paris at the end of that year. Compliance stayed relatively high at 79% for Hangzhou in 2016. Since then, compliance has remained in the 60–70% range. For Hamburg in 2017 it was 64%, for Buenos Aires in 2018 it was 71%, for Osaka in 2019 it was 68%, for Riyadh in 2020 it was 84%, and for Rome in 2021 it was 76%.

By member, compliance since the start is led by Germany with 94%, France and the United Kingdom with 90% each, Canada with 88%, the EU with 87%, and Australia with 84%. In the middle are Korea with 77%, China with 73%, Japan with 70%, Italy with 69%, Argentina with 65%, Brazil, India, and the United States with 64% each, and Mexico with 63%. At the bottom are Indonesia with 56%, South Africa with 52%, Russia with 39%, Turkey with 38%, and Saudi Arabia with 34%.

Contributors to G20 Climate Compliance

What factors contribute to these changes in G20 climate compliance? Among a long list of possibilities, starting with the trilogy of specificity, summits, and shocks, six leading candidates currently stand out: explicit links to sustainable development, the 2030 Agenda and specific SDGs in the G20 summit climate commitments; explicit links in those commitments to the “UNFCCC” or its COPs, including the Paris Agreement (which is legally binding in its process if not aspirational outcomes); the presence during the same year of SDG summits; UNFCCC COP climate summits or special climate-focused summits; and specific climate shock-activated vulnerabilities recognized by G20 leaders themselves in their G20 summit communiqués.

Sustainable Development References in G20 Climate Commitments

Specific references to sustainable development or to the 2030 Agenda itself in the G20 climate commitments strongly coincide with, and seem to support, stronger compliance with those commitments.

Most broadly, of the full set of 394 G20 priority commitments across all subjects that have been assessed for compliance by the G20 Research Group, only 17 (4%) include an explicit reference to sustainable development or the 2030 Agenda. These 17 commitments have higher compliance than the other assessed G20 commitments—an 80% average compared to the 71% average for all.

These 17 commitments span only three core subjects—development broadly, climate change (SDG 13), and gender (SDG 5). On the core subject of climate change, 50 commitments were assessed for compliance. The nine sustainable development/2030 Agenda-explicit ones averaged 81% compliance, while the other 41 averaged only 65%. On the core subject of development, of the 56 commitments assessed, the seven sustainable development/2030 Agenda-explicit ones had an identical average of 81% compliance and the remaining 49 again averaged only 65%. The outlier is gender. Of the 17 commitments assessed thus far, the one sustainable development/2030 Agenda-explicit one averaged 55% and the other 16 averaged 65%.

Thus, embedding the compliance catalyst of sustainable development or the 2030 Agenda into the G20’s climate change and development commitments seems to support higher compliance overall. This may be because sustainable development has a wide definition that can capture many members’ implementing policy actions that count for compliance. These broad actions could bring more positive benefits for the other SDGs, and for society beyond, by encouraging linkages between issues, such as those between climate change and socio-economic issues or between development and the environment. But they could still benefit from greater specificity, including links among specific SDGs, such as SDG 13 with SDG 5.

UNFCCC-COP and UN-SDG References

The second candidate is an explicit reference to the UNFCCC or its annual COPs in the G20 climate commitment.

The 20 climate commitments that explicitly reference the UNCCC or its COPs and its agreements almost always do so in a supportive way. Compliance with them averaged 72%, compared to 65% for the ones with no such reference [Warren, 2022]. The 54 commitments that explicitly referenced the SDGs averaged 80% compliance, versus 66% for those that did not [Dobson, 2022].

UN SDG Summits as a Contribution to G20 Climate Compliance

The third candidate comes from surrounding summit support, starting with the UN summit in September 2015 that launched the SDGs.

Overall, the G20 summits' 50 priority climate commitments assessed for compliance from 2009 to 2021 averaged only 69% compliance. However, of these, the 27 assessed from 2015 to 2021, after the UN's SDG summit had taken place and the SDGs had arrived, averaged 72% compliance. In contrast, the 23 assessed from 2009 to 2014, when the earlier Millennium Development Goals from 2000 provided the relevant regime, compliance averaged only 66%, with great variation across the range of commitments.

Thus, the arrival and presence of the SDGs coincided with, and seems to have supported, a solid increase of 6% in G20 members' compliance with their leaders' summit commitments on climate change. This inference is supported by the fact that the SDGs covered all G20 members and that all 17 SDGs were designed to support each other, including SDG 13 on climate change. Thus, the strength of the SDGs in part lies in the inbuilt design of mutually reinforcing goals. Strengthening this with direct and explicitly stated linkages within G20 commitments therefore has potential as a compliance-enhancing catalyst.

Having the G20 strengthen its support for the SDGs also has the potential to maintain momentum, even in times of crisis. The G20's compliance with its climate commitments from the June 2019 Osaka summit up to the November 2020 Riyadh summit was just 68%. This was on par with the overall average, but much lower than that for other key peak compliance years. Partway through this period, from 21–27 September 2019, the UN held the first SDG summit following the 2015 launch event [UN, 2019a]. It culminated in the release of a political declaration that reaffirmed the 2030 Agenda [UN, 2019b]. In this period, the COVID-19 virus spread rapidly, diverting attention and reversing progress on the SDGs overall and the reinforcing support of the G20 for them. Yet, pandemic and crisis response and preparedness would benefit from a holistic "One Health" approach that engages with the range of SDGs, including the amplifying and feedback loop cycles of pollution and emissions.

The UNFCCC and UN Climate Summits as Contributors to G20 Climate Compliance

The fourth candidate is the presence of the periodic summits of the UNFCCC COP, notably those in Copenhagen in 2009, Paris in 2015, and Glasgow in 2021.

As noted above, prior to the signing of the Paris Agreement the G20's climate compliance averaged only 66% and fluctuated widely for the eight summits held from 2008 to 2014. Then, from 2015 to 2021, compliance averaged 75%. In the lead up to, and following, the UN's Paris summit in December 2015, compliance rose to 72% and became more consistent, reaching a high of 85% for the G20's 2015 climate commitments. The durability of the Paris summit's impact is seen by the subsequent pattern of G20 climate compliance. It stayed relatively high at 79% for Hangzhou in 2016, fell to 64% for 2017, but rose to 71% for 2018, 68% for 2019, and 74% for 2020. Then, from the October 2021 Rome summit to the November 2022 Bali summit, compliance rose to 76%, with the UN COP Glasgow summit coming in between, in December 2021.

Special Climate Summits

The fifth candidate is the number, timing, and type of the special climate-focused summits mounted in addition to, or apart from, the UNFCCC's COPs [Kirton, Kokotsis, Warren,

2022]. These started in December 2017 with the One Planet Summit in Paris hosted by French president Emmanuel Macron and expanded in frequency, focus, and form through to April 2021 with the Leaders' Summit on Climate hosted in Washington DC by U.S. president Joe Biden [Kirton, Kokotsis, Warren, 2022] (see Appendix D). None of these special climate summits were created or hosted by the G20 as a club or by its host that year, unlike those the G20 added for health and then for Afghanistan in 2021.

There were 10 such special climate summits from December 2017 to April 2021: one each in 2017 and 2018, two in 2019, and three each in 2020 and 2021. Their performance ranged from limited for one in 2019, two in 2020, and one in 2021, to strong for the last one in April 2021. Their level of performance coincided with their host, with those hosted by G20 members (France's Emmanuel Macron and the U.S.' Joe Biden) having stronger performance and those hosted by non-G20 members (the UN's Antonio Guterres and the Netherlands' Mark Rutte) having less. The host country's power also seems to matter, with Joe Biden hosting the only strongly performing one.

The relationship between these 10 special climate summits and G20 summit climate performance in the same year suggests that the former did coincide with and supported the latter, but on a cumulative rather than annual basis. From December 2017 to April 2021, when the first 10 special summits took place, G20 climate compliance averaged 73%, well above the 69% average since the start in 2009. These five years also saw the two with the highest number of G20 commitments: 2017 with 22 and 2021 with 21. However, the overall pattern suggests that outside forces might be propelling both the advent and rise in the number of special climate summits and the rise in G20 climate compliance and commitments during this time.

Shock-Activated Vulnerability

The sixth candidate is thus the G20's communiqué-recognized, shock-activated vulnerability (SAV) on climate change. This variable combines the number of outside, exogenous physical climate shocks in a year and their recognition by G20 leaders as such through their specific reference to them in their G20 communiqué that year (which usually comes toward the end of each calendar year).

From 2015 to 2020 there were no such climate SAVs recognized in G20 summit communiqués [Kirton, Kokotsis, Warren, 2022, Appendix F]. Then, at Rome in October 2021, two vulnerabilities appeared, both among the nine vulnerabilities recognized there. In this Rome communiqué there were no climate shocks, but there were 24 on health among the 27 recognized shocks. The following year, at Bali in November 2022, the first climate shock appeared. It came among the 30 shocks that were again led by health with 22. There were no climate vulnerabilities among the five recognized ones.

This suggests that communiqué-recognized, shock-activated vulnerabilities could propel rising G20 climate compliance and commitments, but largely at higher levels than have appeared thus far. They also show the importance of diversionary shocks on subjects, above all, health, not explicitly related by G20 leaders to those on climate change.

Conclusion

Summary of Key Findings

This analysis yields three major findings. First, the UN SDGs seem well designed, with SDG 13 dedicated to climate change and five of the 17 SDGs explicitly devoted to other key environmental domains. But only three of the 16 SDGs beyond SDG 13 contain an explicit cli-

mate change target, and only one each. The core SDG 13 on climate action has only two targets that link climate change to other SDGs, those on education and gender equality. Moreover, progress toward the climate-related goals and targets, which was partial but promising at the start, stalled and then reversed after 2019 with the outbreak of the COVID-19 pandemic.

Second, the G20 summits, since their start in 2008, have increasingly added commitments on climate change, reaching a total of 133 by the Bali summit in November 2022. But members' compliance with them averaged only 69% and rose to only 76% with those from the Rome summit in October 2021. G20 performance on this key dimension has thus fallen further behind the more rapidly growing global need.

Third, G20 climate compliance coincides with, and seems supported by, six factors, most of which are low-cost measures under G20 leaders' direct control. These are explicit links within the climate commitments to sustainable development, the 2030 Agenda, and specific SDGs; similar references to the UNFCCC, its COPs and the Paris Agreement; and the presence of UN SDG summits, UNFCCC COP summits, and special summits on climate change, largely during the same year as the G20 summit. Also relevant are G20 communiqué recognized shock-activated vulnerabilities on climate change.

Suggestions for Policy Action

These findings are sufficient to support recommendations to G20 leaders on how to improve their performance on climate change and how the SDGs can be mobilized to help. These recommendations begin with the fact that solving the existential threat of climate change requires ambitious, transformative, and urgent action from UN and G20 members to rapidly reduce the anthropogenic sources of greenhouse gas emissions into the atmosphere and expand the sinks that remove and store them, while ensuring socio-economic justice. This action should be elevated at the UN's SDG summit and the G20's New Delhi summit, both being held in September 2023. At their forthcoming G20 summits, G20 leaders should thus commit to:

- improve measurement of the SDGs through better monitoring and data collection, prioritizing the planetary SDGs for which only one in three of the 169 targets have sufficient data to adequately monitor progress [OECD, 2022];
- take a holistic approach to SDG governance within the G20 and agree on actions that recognize linkages and that inform domestic policymaking, such as the climate-health link, the nature-disaster reduction link, and the environment-food-peace link;
- commission third-party, independent feasibility studies, and immediately act upon their recommendations, to phase out major fossil fuel operations, including coal, oil, and natural gas, centring justice, equity, and the related socio-economic SDGs;
- fully comply now with their long overdue, regularly repeated commitment from 2009 to phase out inefficient fossil fuel subsidies and thus cut an estimated 20% of greenhouse gas emissions, trillions of dollars in public expenditure, the disease and deaths from polluting, subsidized fuel, and the crime and corruption that such subsidies bring;
- increase investment in research and development for innovations in the frontier technologies of tidal and wave energy, green hydrogen, and critical mineral recycling. This should link to support the SDG suite, starting with SDG 13 on climate action, SDGs 14 and 15 on biodiversity and SDG 6 on clean water. It should expand linkages with SDGs 4.4 and 8 on vocational training and decent work, SDG 12 on responsible consumption and production, SDG 7 on affordable energy access, and SDGs 5 and 10 on gender and broader socio-economic inequalities. It should ensure the free, prior, and informed consent and land rights of Indigenous peoples;

- strongly support the UN in its climate change and sustainable development action, including by making explicit, supportive references in G20 commitments to both the 2030 Agenda and the UNFCCC;
- recognize much more often and broadly in their communiqués the climate-related, shock-activated vulnerabilities, including slow onset ones, that are devastating and threatening G20 members and the world beyond.

The most recent survey for the World Economic Forum found that climate change and environmental destruction now make up half of the top 10 risks to humanity over the next two years [WEF, 2023]. This rises to six of the top 10 risks over the next 10 years. Failure to mitigate climate change, failure to adapt to climate change, extreme weather and disasters, and biodiversity collapse are the top four risks over the next decade. A major outcome of this will be a steep rise in climate refugees—the 5th ranked WEF risk is “large-scale involuntary migration.”

Suggestions for Further Research

This analysis also yields several suggestions for further research, as follows:

- add more data on G20 commitments and compliance, both at the summit and the relevant ministerial meeting level, to enable increasingly confident analysis of the relative causal salience of the six candidates largely explored only individually in the analysis reported here;
- analyze how synergistic G20 commitments that combine references to both climate and health (or climate change and other related subjects or prominent shocks such as finance) do and can improve compliance;
- assess the climate commitments and compliance of the special climate summits starting in 2017 to see how much they have contributed to advancing climate action, both directly and by supporting the performance of the regular G20 and UNFCCC COP summits;
- explore key features of the summit process, such as the influence wielded by fossil fuel and plastic producers attending the UN’s annual climate and biodiversity conferences, with these results supporting action for COP 28 in late 2023 to strengthen its ability to change the systems causing climate change. From this, explore the impact of climate disinformation and create tools for the public and decision-makers to identify tactics such as greenwashing;
- assess how G20 summits, in their conclusions, commitments, and compliance, and the SDGs and their targets (starting with SDG 12 on responsible production and consumption) consider the dynamics of capitalism itself and its critical components as a root cause of climate change and what recommendations for future G20, UN, and special summit action should be based on these results.

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Appendix A: The UN's 2030 Agenda Sustainable Development Goals

SDGs in bold are identified as environmental SDGs.

1. No Poverty
2. Zero Hunger
3. Good Health and Wellbeing
4. Quality Education
5. Gender Equality
- 6. Clean Water and Sanitation**
- 7. Affordable and Clean Energy**
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequalities
- 11. Sustainable Cities and Communities**
12. Responsible Consumption and Production
- 13. Climate Action**
- 14. Life Below Water**
- 15. Life on Land**
16. Peace, Justice and Strong Institutions
17. Partnerships for the Goals

Appendix B: Links to Climate Change Beyond SDG 13

SDG	Goal		Target	Target Text
1	No poverty	End poverty in all its forms everywhere	1.5	By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters
2	Zero hunger	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	2.4	By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality
7	Affordable and clean energy	Ensure access to affordable, reliable, sustainable and modern energy for all	7.2	By 2030, increase substantially the share of renewable energy in the global energy mix
			7.a	By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology

SDG	Goal		Target	Target Text
11	Sustainable cities and communities	Make cities and human settlements inclusive, safe, resilient and sustainable	11.b	By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disaster, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015-2030, holistic disaster risk management at all levels
			11.5	By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations
12	Responsible consumption and production	Ensure sustainable consumption and production patterns	12.c	Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor the affected communities
14	Life below water	Conserve and sustainable use the oceans, seas and marine resources for sustainable development	14.3	Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels

Appendix C: G20 Performance on Climate Change

Summit	Domestic political management		Deliberation		Direction setting				Decision making		Delivery		Development of global governance			
	#	%	Words		Globalization for all	Priority placement	Democracy	Human rights	# commitments	% all commitments	Commitments		Inside		Outside	
			#	%							Score	% (#)	Official level	# references	# bodies	# references
2008 Washington	0	0%	47	1.3%	0	0	0	1	0	0%	-	0	0	0	0	0
2009 London	0	0%	45	1%	0	1	0	0	3	2%	-0.10 (45%)	0	0	0	1	1
2009 Pittsburgh	1	5%	762	8.2%	0	4	0	0	3	2%	+0.86 (93%)	0	2	2	10	6
2010 Toronto	1	5%	376	3.4%	0	0	1	0	3	5%	+0.42 (71%)	0	0	0	6	4
2010 Seoul	2	10%	351	2.2%	0	2	1	0	8	5%	+0.05 (53%)	3	10	7	16	9
2011 Cannes	2	10%	654	4.6%	0	0	1	0	8	3%	+0.38 (69%)	0	4	2	19	11
2012 Los Cabos	0	0%	410	3.2%	0	0	1	0	6	2%	+0.59 (80%)	5	8	3	12	8
2013 St Petersburg	1	5%	888	3.1%	0	1	0	0	11	4%	-0.17 (42%)	3	6	5	14	7
2014 Brisbane	0	0%	232	2.5%	0	0	0	0	7	3%	+0.51 (76%)	0	0	0	4	2
2015 Antalya	0	0%	597	4.3%	0	0	0	0	3	3%	+0.70 (85%)	1	2	2	4	3

Summit	Domestic political management		Deliberation		Direction setting				Decision making		Delivery		Development of global governance					
	#	%	Words		Financial stability	Globalization for all	Priority placement	Democracy	Human rights	# commitments	% all commitments	Commitments		Inside		Outside		
			#	%								Score	% (#) assessed	Official level body created	# references inside	#bodies	# references	#bodies
2016 Hangzhou*	0	0%	787	2.5%	0	1	0	1	0	2	1%	+0.58 (79%)	100% (2)	3	4	3	5	4
2017 Hamburg	0	0%	3,600	10.4%	0	0	1	1	1	22	4%	+0.27 (64%)	41% (9)	11	11	5	26	9
2018 Buenos Aires	0	0%	398	4.7%	0	0	0	0	0	3	3%	+0.41 (71%)	100% (3)	0	0	0	3	3
2019 Osaka	0	0%	655	9.9%	1	1	0	0	0	13	9%	+0.35 (68%)	34% (6)	1	3	3	10	9
2020 Mar. Health (Riyadh)	0	0%	0	0	0	0	0	0	0	0	0%	—	—	0	0	0	0	0
2020 Riyadh	0	0%	681	12%	2	1	0	0	0	3	3%	+0.68 (84%)	100% (3)	0	2	2	4	2
2021 Oct. Afghan. (Rome)	0	0%	0	0	0	0	0	0	0	0	0%	—	—	0	0	0	0	0
2021 GHS (Rome)	0	0%	0	0	0	0	0	0	0	0	0%	—	—	0	0	0	0	0
2021 Rome	3	5%	3,092	31%	5	6	1	5	2	21	9%	+0.52 (76%)	14% (3)		2	2	6	5
2022 Bali	0	0%	2,233	22%	5	2	0	1	3	18	8%			0	3	1	8	3
Total	10	—	15,808	—	13	11	10	12	7	134	—	6.05	—	57	37	149	86	57
Average	0.6	0.0	848.4	6.7	0.5	0.6	0.6	0.7	0.3	7.3	3.6	0.37 (69%)	44% (50)	3.4	2.3	8.8	5.2	3.4

Development of Global Governance. Inside refers to the number of references to institutions inside the G20 made in relation to climate change. Ministerial refers to ministerial groups. Official Level refers to official level groups. Outside refers to the number of external multilateral organizations related to climate change. The unit of analysis is the sentence.

*2016 Hanzghou Communiqué reference to climate change-GGA: “We are determined to foster an innovative, invigorated, interconnected and inclusive world economy to usher in a new era of global growth and sustainable development, taking into account the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Paris Agreement. The unit of analysis is the sentence.

Appendix D: Special Climate Summits

Date	Summit	Location	Host	Performance	Climate Conclusions	Climate Commitments	Climate Compliance
2017 December 12	One Planet Summit	Paris	Macron	Significant	3,600	22	67%
2018 September 26	One Planet Summit	New York	Macron	Substantial	398	3	71%
2019 March 14	One Planet Summit	Nairobi	Macron	Small	655	13	67%
2019 September 21–23	UN Climate Action Summit	New York	Guterres	Significant	655	13	67%
2020 September 24	High-Level Roundtable on Climate Action	New York (Virtual)	Guterres	Small	681	3	85%
2020 September 30	UN Biodiversity Summit	New York (Virtual)	Guterres	Small	681	3	85%
2020 December 12	Climate Ambition Summit	Paris (Virtual)	France/UK/UN	Significant	681	3	85%
2021 January 11	One Planet Summit on Biodiversity	Paris (Virtual)	Macron	Solid	3,092	21	76%
2021 January 25	Climate Adaptation Summit	Paris (Netherlands)	Rutte	Small	3,092	21	76%
2021 April 22–23	Leaders’ Summit on Climate	Washington (Virtual)	Biden	Strong	3,092	21	76%
2022 February 9–11	One Ocean Summit	Brest (France)	Macron	n/a	3,092	18	n/a
2023 March 1–2	One Forest Summit	Libreville (Gabon)	Macron and Bon-go	n/a	n/a	n/a	n/a
Average 2017–2021					1,196	6	66%

Notes: n/a = not available

Carbon Levy of the European Union: at the Intersection of Climate and Trade Policies¹

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Abstract

The European Union (EU) is getting ready for the implementation of CBAM—the world’s first carbon border adjustment mechanism. This article explores the correlation between intra-European and international facets of CBAM as two sides of the same coin: while appending the EU Emissions Trading Scheme, it is equally an instrument of foreign trade, immediately touching upon EU relations with trade partners and specialized international organizations. Once such correlation is taken into account, it becomes evident why the design of the European carbon levy remains capable of improvement as far as fighting climate change goes.

The concept of multilevel governance (MLG) assists this research as the basis for analyzing CBAM. The institutionalist approach clarifies the specifics of the European carbon border adjustment mechanism. They are important in order to scope out its true perspective. In particular, the MLG approach helps to expose the blurred lines between market regulation and tax policy in European governance practice.

The ways, if any, that CBAM differs from a carbon tax and, at the same time, is similar to a carbon tariff are considered. A reappraisal made in the article of this hybrid measure makes it possible to draw a conclusion that, as envisioned by the European Commission, it is meant to ensure more favourable conditions for investments in cost-intensive, low-carbon technologies while suppressing competition from cheaper, high-carbon imports. At the same time, so as to avoid unleashing trade wars, it is important for the Commission to assure the maximum possible conformity of CBAM to the World Trade Organization’s (WTO) legal requirements. Compatibility with WTO law would enhance the ecological legitimacy of the regulatory mechanism in question. It would make sure that international partners would not regard CBAM as a form of green protectionism.

Further, the subtle aspects of preferences in terms of CBAM design are discussed, as held by the Commission, EU member states, the European Parliament, and the representatives of European carbon-intensive industries. Particular attention is paid to the discussion in the EU on the issue of connecting export rebates for inside producers to CBAM.

Keywords: emissions trading system, carbon pricing, export rebates, Carbon Border Adjustment Mechanism, European Commission, WTO, multilevel governance, carbon leakage

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Introduction

This article exposes the importance of institutional logics in the efforts of the European Union to establish its Carbon Border Adjustment Mechanism (CBAM).² The focus is on the compound relationship between the rationale for CBAM as a measure to avoid carbon leakage, provided by the European Commission (EC), and the tasks set by the European Union (EU) as concern assurance of better conditions for European producers when competing in international markets.

Carbon taxes (or levies) are treated in the world as important tools for the acceleration of climate action. The EC proposed such a tool in the European Green Deal legislative package in 2021. In 2022, when the Russian special military operation in Ukraine began, Brussels unveiled its intention to fund the breaking of the EU's dependence on Russian fossil fuels [EC, n.d.]. Efforts were intensified to achieve European economic autonomy, not least at the cost of terminating Russian iron and steel imports to the EU.

CBAM is a multipurpose and cross-cutting measure. It touches upon climate and ecological policies, as well as international trade. CBAM also concerns customs and taxation matters and applies to European budget issues and supranational economic regulation. This article investigates the motivation of the EC when promoting this rather provocative initiative, proceeding from the assumption that the Commission is acting more or less rationally, guided by the interests of the European Union as an integration aggregate. Using the method of abduction and drawing on ample empirical data, the author develops hypotheses regarding the motives of the Commission and its preference for certain organizational decisions, which seems useful when making projections of future CBAM-related developments.

Available research on the subject is abundant and continues to grow [Bacchus, 2021; CENEFF-XXI, 2021; Magacho, Espagne, Godin, 2022]. Yet, it is mostly concentrated on the legal or economic dimensions of the new mechanism, as proposed by Brussels. Less attention is paid to the general regulatory framework of the European carbon levy.

The article begins with a discussion of the concept of multilevel governance (MLG). This has been developed within the institutionalist paradigm and treats governance processes as unfolding at the internal (in this case, intra-European) and global levels simultaneously. Subsequent discussion confirms the affiliation of CBAM to the EU Emissions Trading Scheme (EU ETS), which is being supplemented with a carbon levy, delves into the decision-making process for CBAM regulation, and considers its compatibility with basic principles of the World Trade Organization (WTO). The author concludes that the EC was being reasonably cautious in its resistance to the attachment of export rebates to the cross-border carbon regulation mechanism. These would seriously discredit CBAM's rationalization, attempted through the invocation of carbon leakage risks.

Multilevel Governance

The European Union includes 27 states. As members of the EU, they retain sovereignty, but function under the arch of a (decentralized) institutional superstructure with common European rules and institutions. Therefore, the conceptualization of the EU as a system of multilevel governance is quite influential among Europeanists [Eising, 2015; Panov, 2021]. At the same time, since the WTO was established, it has increased (upscaled) its powers with regard to national regulation,

² In the framework of organizational analysis, the idea of institutional logics infers the mixture of material practices and symbolic constructions [Shmerlina 2016]. Particular institutional logics determine organizing principles for existing or unfolding institutional regimes—in this case, for modes of carbon regulation.

and the new trade policy agenda at the global level has included environmental issues [Gavin, 2005]. Thus, the CBAM outlines are determined by supranational decisions within the EU but, to a point, they are also dependent on rules of global trade originating from the WTO. In that sense, we are witnessing a new level being added to the European MLG, where we find a legal regime of international trade regulation that can impact climate policy decisions in the EU.

The MLG was chosen as a theoretical scheme, with the European Commission in the role of a political entrepreneur [Silander, 2018] at the focus of attention. In other words, the EC is regarded as an organization, aiming toward transformation of regulatory norms (institutions). When institutionalism is applied to the study of organizational behaviour, the notion of institutional entrepreneurship involves tying together the functioning of disparate sets of institutions [Hoogstraaten, Frenken, Boon, 2020, p. 115] to provoke processes of institutional change and to subdue the almost inevitable resistance that such changes can encounter [Wijen, Ansari, 2007].

As a kind of administration for the European Union and, moreover, possessing a virtual *monopoly* on the introduction of *legislation* into the *legislative* process in the EU, the Commission is engaged both within the Union, implementing reform of the EU ETS, and at the level of the WTO, implementing European supranational foreign trade policy. The analytical approach chosen can assist in comprehending the hybrid form acquired by the European CBAM, which is continuously promoted by the EC at different levels in the interests of the EU, but not of its separate member states or industries.

Not without reason, some Russian authors emphasize the CBAM's sameness to a tax [Bazhan, Roginko, 2020]. Indeed, in CBAM we find a non-tradable emissions permit³ in the form of an import certificate and a new revenue source to the EU budget on top of that, devised to be received on products crossing the external border of the Union.⁴ Basically, cross-border carbon regulations can take the form of tariffs, taxes, or other measures applied to imported goods on the basis of the volume released of greenhouse gases from their production (and transportation) and/or allowances for the EU's own exporters to external markets in which comparable emission limits have not been introduced. Nevertheless, the EC prefers to look upon CBAM as a corrective mechanism and does not recognize it either as a customs charge or an import tax. To adopt a supranational regulation in tax matters would demand elusive unanimity in the Council of Ministers of the EU (in contrast, supranational decisions on climate matters are taken by qualified majority), while introduction of a customs duty, as clarified further below, would face difficulties in terms of achieving compatibility with WTO rules.

In essence, European institutions have no legal mandate, nor sufficient political capabilities, to conduct a course of their own in issues of taxation. At the same time, and to the contrary, the EC is endowed with wide-ranging powers in the field of regional market regulation. Unlike its member states, the European Union is incapable of imposing forced payments on individuals or corporate business. This is actually the reason for the predominantly regulatory character of European economic governance at large. However, Brussels can introduce measurable regulatory limitations in the national sphere of taxation when acting to support and promote market integration.

Taxation and regulation are usually considered to be two distinct governance tools but, in practice, the dividing line between them is not so clear. In European governance practice,

³ Emission quotas amount to a market instrument of environmental policy. Accordingly, they should not be treated as a tax. Emissions permits in the form of import certificates resemble taxes to a greater extent, although uncertainty in their classification persists due to their linkage to the ETS.

⁴ The major part of the auction revenues of the EU ETS has flowed to national budgets. The commission proposes to direct more than 75% of the income from CBAM to the European budget. Specifically, the EC anticipates the administrative burden of CBAM to be rather high.

the boundaries between market regulation and fiscal policy can become all the more blurred. Taxation, as well as regulation, is based on laws, standards, principles, and norms, and tax law is supported by the threat of sanctions. Ultimately, by discouraging taxed activities, taxes can produce regulatory impacts [Rixen, Unger, 2022, p. 622].

The EU ETS and Carbon Leakage

In December 2019, Brussels launched the European Green Deal initiative, meant to form a carbon neutral space in Europe by 2050 [Bongardt, Torres, 2022]. Since that time, there has been anxiety on the continent that higher carbon prices and tighter production standards aimed at confronting climate change would negatively affect the international competitiveness of European producers of carbon-intensive products. Lobbyists representing industries directly concerned (the European Confederation of Iron and Steel Industries, the European Chemical Industry Council, the European Cement Association, and the European Fertilizers Manufacturers' Association) make public predictions that this will lead to the transfer of relevant industries to countries with weaker regulation and to massive job losses in the EU, holding out the prospect of diminished support for the aggressive-offensive climate action of Brussels within the European Union.

Meanwhile, the European Emissions Trading Scheme (cap-and-trade system) is the main instrument of the EU's climate policy. It covers more than 40% of greenhouse gas emissions [Bayer, Aklin, 2020]. The EU ETS started working in 2005 in all the countries of the EU, as well as Iceland, Lichtenstein, and Norway. In its framework, maximum allowable emissions are determined for particular products,⁵ with the cap on emissions decreasing annually.

The effectiveness of the scheme is questionable [Barbiroglio, 2021; Varnavskii, 2023], not least because of the presence in the system of a large number of free allowances.⁶ They weaken incentives for business to increase the energy efficiency of production and result in losses of proceeds from allowance auctions as the emission price has long remained too low. For instance, in 2008–19, the steel sector received 2.3 billion free allowances [Carbon Market Watch, 2022, p. 3].

The European Commission is managing the reform of the ETS with an intention to broaden its scope and coverage in the longer term and to gradually decrease free allocation. Brussels regards the cross-border corrective mechanism as a supplement to this reform, meant in particular for overcoming shortcomings of the existing European Trade Scheme (partly in spite of resistance from the side of the Council of the EU, offered through the legislative process [Kaveshnikov, 2021]) at a time when the price of allowances on the European Union's carbon market has skyrocketed. That being the case, the Commission's CBAM narrative is focused squarely on climate change. The EC insists that it is a means to escape the so-called carbon leakage in the EU ETS.

“Carbon leakage” implies a hypothetical risk of strict climate control in some jurisdictions translating into relocation of carbon-intensive production operations to countries with weaker climate policies to result in negligible overall reduction in greenhouse gas emissions at the global level. However, the reality of the risk of leakage caused precisely by environmental and climate policy remains debatable [Pirlot, 2022].

⁵ About 10,000 installations, including power plants and energy-intensive industrial facilities, are regulated by the EU ETS. Since 2021, the scheme also regulates avia transportation within and among participating countries.

⁶ European Union Allowances (EUA) are distributed free of charge or are sold at auction to companies and enterprises participating in the ETS.

Previously, the allocation of free allowances to its own producers served as the means in the EU to avoid carbon leakage. Now, a new measure, which has never been used in international trade, has replaced it as a priority for European institutions. This measure requires importers to buy digital certificates representing the carbon dioxide emissions embedded in the goods they import to the Single Internal Market (SIM). Free allocation was levelling carbon pricing in the SIM downward for European producers, while the CBAM charge ensures their levelling upward to the European price for the imports. Free allowances for European installations, muting the carbon price signal, will thus be ended. Therefore, CBAM can bring about higher carbon prices, important for urgent stimulation of deeper greenhouse emissions reduction in line with the EU's long-term climate strategy; at the same time, it can offer protection from unfair import competition by non-European climate polluters to European producers of dirty goods.

Adoption of the CBAM Regulation

The proposal for a regulation establishing a carbon border adjustment mechanism [EC, 2021] was a key component in the European Green Deal package of policy initiatives, consisting of 13 related proposals that were presented by the European Commission in July 2021.⁷ Article 192(1) of the Treaty on the Functioning of the European Union (TFEU) was opted for as the legal basis for the CBAM proposal. This implied the application of the ordinary legislative procedure and qualified majority voting in the Council (on the grounds that the case at hand was the volume of greenhouse emissions from the production of imported goods).⁸

Co-legislators (the Council of Ministers of the EU and the European Parliament) both enthusiastically supported the initiative of the Commission, but specific disagreements persisted among European institutions after it was proposed (their respective positions differed on the products and sectors that would fall within the scope of the new rules, as well as on issues related to extending the operation of CBAM to indirect emissions, the duration of the transition period with reporting obligations only, and export rebates). Trilogue negotiations⁹ helped to resolve points of contention and to reach a provisional agreement in December 2022 (Table 1 indicates the preferences of the parties on specified outstanding questions and the essence of the compromise reached). On 10 May 2023, the co-legislators signed the CBAM regulation into law.

The European mechanism of carbon cross-border regulation is structured in a centralized manner. The European Commission is responsible to define the calculation methods for embedded emissions, to run the new mechanism, and to manage the common central platform that importers will use to declare emissions. Inter alia, this should lead to a relative strengthening in the EU of the EC, in respect to the member states' governments, as an autonomous centre of administrative power. Along the way, lobbying efforts of European producers of steel, chemicals, fertilizers, and cement, directly affected by the CBAM regulation, were aimed at maintaining free permits regardless of the forms that the CBAM could eventually take. The key issue for them was not a new mechanism by itself, but the undesirable after-effects for them

⁷ For more about the European Green Deal see the European Council [n.d.]; the ordinary legislative procedure in application to the CBAM proposal is outlined in A. Darvell [2022].

⁸ If CBAM were qualified as a fiscal measure, taking the decision would demand the application of the unanimity rule in accordance with Article 192(2)a TFEU, which would make it more difficult to pass the legislative proposal.

⁹ In EU parlance, trilogues are informal meetings on legislative proposals between representatives of the EP and the Council, with the Commission acting as a mediator. The aim is to reach a preliminary agreement that would suit both co-legislators. This provisional agreement has to be formally approved later by each of them. A trilogue is possible at any stage of the legislative process.

from its introduction. According to their own calculations, levelling the playing field with the help of CBAM would not outweigh the disadvantages of the EU ETS if it entailed the abolition of free allocation.

Already, in July 2021, the Commission had excluded the feasibility of export rebates due to their non-compliance with WTO requirements, and it continued to adhere to this position further on. The Commission clarified that export risks of carbon leakage were low, thus leaving out the opportunity of such an amendment to the CBAM regulation being passed. The Commission cares more about gaining support for energy-saving technologies and clean sectors, not dirty industries. However, the lobbying efforts mentioned above have not been completely unsuccessful. Not least, they found reflection in the amendments of the European parliament to the CBAM regulation. In 2021, the Committee on the Environment, Public Health and Food Safety of the EP had proposed to accelerate the reduction of the free allocation of emission allowances so as to eliminate free allocation by 31 December 2028 completely [European Parliament ENVI Committee, 2021¹⁰]; however, at the EP plenary meeting on 22 June 2022 this posture was noticeably softened: it was now about finishing the process later, in 2032. The EP also advocated that European manufacturers exporting products with a large carbon footprint to third countries, having no carbon pricing mechanisms of their own, similar to the EU ETS, should continue to receive free allocation later on. Members of the European Parliament (MEPs) proposed that, by 31 December 2025, the Commission should present a report to the EP and the Council providing a detailed assessment of the effects of the EU ETS and CBAM on the production in the European Union of products falling under the CBAM regulation that are allotted for export to third countries, as well as an assessment of the WTO compatibility of the continued reception by them of free allocation. Further, the Commission was expected by MEPs, where appropriate, to accompany that report with a legislative proposal amounting to the annexation to the CBAM construction of export adjustment mechanisms by 31 December 2026 [European Parliament, 2022¹¹].

CBAM will begin to operate in October 2023. Until the end of 2025, its simplified version will apply, with reporting obligations only for importers to the EU as concerns the carbon footprint of products they bring in (the first reporting period will end on 31 January 2024). After this transition period, certificates for importers to surrender on a paid basis will be introduced gradually until 2035, and the free allocation under the EU ETS will be phased-out in parallel for the same branches of European production.

Trilogue negotiations were not able to resolve the issue of measures to prevent carbon leakage in exports, and this has been postponed until 2026.

World Trade Organization

If CBAM could be convincingly classified as an indirect tax with no selective treatment of imports envisioned, its compatibility with WTO law would be fully ensured. Basically, WTO rules do not constitute an obstacle to the adoption of ambitious environmental policies, provided these do not result in discrimination between WTO members. Above all else, universally recognized compatibility of the European carbon tax with WTO law would have enhanced the legitimacy of this regulatory mechanism, facilitated the achievement of political consent to it by foreign partners of the EU, and ensured they do not view it as a form of green protectionism. This is all the more important given that transatlantic relations, as well as trade relations of the

¹⁰ See Amendment 105, Proposal for a Regulation Recital 11a (New).

¹¹ See Amendment 262.

EU with China, Turkey, and Russia, remain bogged down by mutual mistrust and long-term conflicts.

As the matter stands, though, it is impossible to comply with the provisions on non-discrimination of the General Agreement on Tariffs and Trade (GATT) if, as provided for by the CBAM regulation, the carbon footprint of imported goods is taxed, but at the same time the decarbonization efforts in the country of origin are taken into consideration (GATT requirements do not allow such differentiation). Disputes within the WTO framework about the acceptability of CBAM touch upon articles I (general most-favoured nation treatment), II (schedules of concessions), and III (national treatment on internal taxation and regulation) of GATT 1994. A unilateral measure applying to imports, the European carbon levy brings to light some problematic issues of unwarranted limitations and discrimination both between third countries and between those imported goods, which are subject to CBAM, and similar products originating from within the European Union itself.¹²

Taking this into consideration, it seems more promising for the EU, when trying to assert CBAM, to invoke general exceptions necessary for protecting human, animal, or plant life or health and those relating to the conservation of exhaustible natural resources (Article XX(b) or Article XX(g) GATT 1994) [Shpilkovskaya, 2022]. However, the European measure evokes suspicions in terms of the Art. XX chapeau as well. The chapeau says that to be justified, exceptions must not be applied in a manner that would constitute a means of arbitrary or unjustifiable discrimination between countries.

The above does not answer the question of why the European Commission strongly opposed the introduction to the CBAM regulation of export indulgence for European dirty industries. Ultimately, disputes about (non)compliance of CBAM with WTO rules could go on for a long time without final resolution. Meanwhile, the EU will have ample time to put the new mechanism into action, thus creating an important international precedent. Plus, prospects for successfully challenging the CBAM mechanism through the dispute settlement system of the WTO are generally rather vague, owing to ingeniousness of European negotiators in matters of regulation of international trade and the major crisis the Organization is experiencing.

Should payments under the ETS be classified as indirect taxes, export rebates would be acceptable under WTO norms so far as they did not lead to overcompensation for European exporters. However, by itself, the obligation on installations covered by the ETS to buy emissions allowances cannot be readily attributable to taxes (due to the fluctuating pricing for greenhouse gas emissions in the ETS) or deemed to comprise indirect taxation (in the European Union the burden of carbon payments is placed on process emission and not on goods proper). Further, overcompensation is quite likely in light of the challenge of accurately calculating carbon payments for each individual European exporter [Marcu et al., 2022, p. 13].

In this case, it is fair to inquire whether it is possible to classify export rebates as subsidies. Experts give a positive answer to this question [Leonelli, 2022]. In the WTO, the conditions prohibiting the use of subsidies by members of the Organization are determined by the 1994 Agreement on Subsidies and Countervailing Measures (the ASCM). Under this agreement, subsidies that depend on export performance of a good are under a general ban. If foreign producers are required to pay carbon payments by European standards, just as some European producers are exempt from these payments in the same jurisdiction, the ecological institutional logics on which the EU ETS and CBAM both rely would hardly be able to sustain such a combination.

¹² Carbon pricing under CBAM is linked to the floating price of EU allowances under the ETS. A tariff on such a basis can make importers pay sometimes more, sometimes less than home producers of equivalent goods do, feeding permanent grounds for accusations of unacceptable discrimination.

The institutional architecture of the EU carbon border levy in the proposed parameters is far from perfect and is not without flaws in terms of international trade law in particular. On the one hand, directly adding export subsidies to this mechanism would amplify, in the extreme, the drawback of its dubious international legitimacy. On the other hand, the European Union is bent on future change in WTO rules on export subsidies. Brussels considers the current rules obsolete, indistinct, and too rigid at one and the same time. At this rate, the Commission notes with concern that the ASCM does not single out subsidies related to green energy as a separate category, and it does not provide (desirable from the EU's point of view) exception for measures stimulating the transition to renewable resources.

Conclusion

The levy proposed by the European Commission is a crosscutting and tentative regulatory measure that was hardly imaginable a few years back. Weaknesses and strengths of the CBAM mechanism were assessed in this article taking account of the legal implications connected to key elements of its institutional design, of their anticipated economic consequences, and of their alignment with the EC's stated goal of reducing the risk of carbon leakage. The concept of multilevel governance (a proto-theory of European integration in its own right) sheds additional light on those aspects of decision-making regarding the mechanism of transboundary carbon regulation in the EU, which may remain on the periphery of attention for specialists in the field of economic or law.

The European Commission acts as a political entrepreneur, promoting a unique and novel regulative measure of considerable symbolic significance. In doing so, the EC has been prudent in its rejection of the export rebates that had been suggested for implementation within the CBAM framework by European business lobbyists. Export rebates could have seriously compromised the environmental efficiency of CBAM, already flawed.

Brussels has exempted non-EU countries that have their own cap-and-trade system linked to the EU ETS from paying the European carbon fee. Such a choice is contrary to the principle of the most-favoured nation in trade, but it is consonant with the carbon leakage narrative employed by the EC to tie CBAM to the European emissions trading system. Moreover, an objective assessment today of long-term trends in carbon leakage, consequent on aggressive reduction of carbon emissions in a separate jurisdiction, is extremely difficult due to the need to take into account many parameters, the further development of which cannot be predicted with high accuracy.

With its presently limited product scope, CBAM offers the possibility to phase-out free allowances under the EU ETS without causing too much economic damage to the key countries from which imports to the European market originate. Such countries can win back part of the losses at the expense of consumers in the form of a higher selling price for their producers' products.

The promotion of CBAM is another attempt by the European Union to extend its regulatory power beyond EU borders [Strezhneva, 2018]. The Commission is keen to reduce resistance to the introduction of CBAM both in Europe and abroad. Nonetheless, this is a risky endeavour. It could either strengthen or undermine EU leadership in global climate governance. Because of that, acceptance of CBAM at the WTO level, which would contribute to its legitimation, retains high relevance for the European Union.

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Annex

Table A1. Preferences of separate European institutions for the organisation of CBAM and its final compromise design

Points at issue	The Commission's legislative proposal (July 14, 2021)	Preferences of the Council (March 15, 2022)	Preferences of the European parliament (June 22, 2022)	Compromise result (December 13, 2022)
Product scope	Aluminium, cement, electricity, fertilisers, iron and steel	Aluminium (with the addition of aluminous cement), cement, electricity, fertilisers, iron and steel; it is desirable to extend CBAM to indirect emissions by the end of the transition period	The CBAM should cover organic chemicals, plastics, hydrogen, and ammonia. In addition to direct emissions, indirect emissions (from the production of electricity consumed in their generation) should be included as well	Aluminium, cement, fertilisers, electricity, hydrogen, iron and steel, selected precursors (such as cathode active materials) and some downstream products (such as screws and bolts)—with the ultimate goal of the widest coverage of imported products
Phasing-out the allocation of free allowances	Between 2026 and 2035	Free allowances should be phased-out in parallel with the phasing-in of CBAM	Between 2026 and 2032, when the full implementation of the CBAM should take place	Between 2026 and 2034
Introduction of export rebates	Not envisioned	The Commission should seek solutions consistent with WTO rules to limit “carbon leakage” when exporting European products	By 2025, the Commission should submit a report on the issue of compatibility with the WTO of export rebates for the European products falling within the scope of CBAM	No answer
Transition period	2023-2025	By 2025, the Commission will report of the possibility of expanding the product scope of CBAM	2023-2026	October 2023—December 2025, with the intention to expand the list of regulated imports by 2030
Concern about prospects for international cooperation	Relatively low degree of concern	Heightened concern	The EU should provide financial support for decarbonisation efforts of the least developed countries from CBAM revenues to be sent to the European budget	Concern about prospects for international cooperation is not reflected

Source: compiled by the author based on information available on the EU website (<https://european-union.europa.eu/>)

The Development of China's Carbon Emissions Regulation System¹

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Abstract

In the face of climate and environmental problems caused by carbon emissions, China is taking positive actions, such as promoting the achievement of the emission peak of traditional energy sources, accelerating the optimization of industrial and energy structures, promoting and improving the construction of the national carbon trading market, increasing investment and scientific research work to develop new energy sources, and several other actions. The administrative approach plays an important role in the development of China's low-carbon economy. The carbon trading system also greatly promotes energy conservation and emission reduction, contributes to attracting investment in low-carbon technology and transforming the energy structure, and is becoming an important policy guarantee for China's carbon emission reduction. However, at the same time, China's carbon trading market faces many practical challenges. For China, the task of reducing carbon emissions through carbon trading alone is unrealistic. China's current actions on carbon taxation are not broad enough to regulate emission reductions. With the implementation of carbon trading, there is a need to establish a carbon tax as a policy option to further strengthen the regulation of emission reduction. The introduction of a carbon tax should consider the relationship between economic and social development and carbon reduction and coordinate the relationship between the carbon tax and carbon trading system on various aspects, including the field and object of taxation, tax rates, use of tax revenue, and the relationship between the authorities regulating the two policies, to leverage their complementary roles.

Keywords: China, low-carbon policy, carbon trading system, carbon tax

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Introduction

As the climate challenge becomes more prominent, the actions of the world's countries and international organizations to adapt and respond to climate change are gradually expanding. In particular, the European Union (EU) plans to introduce a border carbon adjustment mechanism in 2023. By setting a price on the implied carbon emissions of imported products, the EU carbon trading system will influence other countries, including China, which has significant carbon emissions implied in export trade but is heavily dependent on the export markets of developed countries. Moreover, since 2007, China has become the world's largest energy consumer and emitter of carbon. Its behaviour and measures are important for globally reducing

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carbon emissions. Therefore, it is important to analyze the development of China's carbon regulation system.

Recently, researchers have focused on the problems of carbon trading. The work of H. X. Zhang, J. H. Pan, L. Xiong, H. T. Shen, and others, considers problems of the allocation of carbon credits, efficiency of carbon emission reduction, and the price of carbon units in the carbon trading market, among other issues. The work of J. Cui, Y. A. Pu, M. Sh. Duan, Y. He, G. Fang, L. B. Cui, and others, is devoted to the problems of implementation of carbon tax and its impact on economic growth in China. L. B. Wu, H. Q. Qian, M. J. Shi, and others write about the necessary implementation of a combined carbon tax and carbon trading policy for China. Studies by many researchers, such as C. F. Lee, H. Tamura, L. Wang, M. A. Joshua, and T. A. Weber, assert the effectiveness of the combined policy in contributing to carbon reduction and its stimulating effect on technological innovation in the EU.

Despite the large body of work devoted to the problems of carbon regulatory instruments, there is no research that comprehensively examines the development of carbon regulatory systems in China, which determines the significance of the chosen goal of this study, the main purpose of which is to analyze the measures of carbon regulation in China. First, the development of this system in China is reviewed and the political and institutional aspects of the low-carbon economy in China is examined. Then, the features and problems of the application of market instruments of carbon regulation are analyzed. Finally, the possibility of introducing a policy of combining carbon tax and carbon trading is considered, and a recommendation for this approach is made.

Stages of Development of the Carbon Regulation System in China

China's efforts to address climate change can be divided into four phases. Prior to 2005, China issued few policy documents on carbon emissions regulation, and restrictions for industrial enterprises were informed more by air pollution prevention and control policies. From 2006 to 2010, the Eleventh Five-Year Plan period was passed, during which energy conservation and emissions reduction was stressed. At this stage, low-carbon policies were being implemented en masse, with a notable variety of policies. The government took the lead, and the use of voluntary and hybrid tools in China during this period lagged. From 2011–20, a strategic planning period was carried out. During this period, China formulated relevant policies and programmes, resulting in further improvement of the low-carbon policy system, the launching of pilot projects on carbon trading and low-carbon cities, and continuous promotion of energy conservation and emission reduction efforts. From 2020 to the present, the policy level and implementation of strategic decisions continue to improve. In 2020, China first mentioned achieving a carbon peak by 2030 and carbon neutrality by 2060, setting the overall tone for low-carbon development after 2020.

As the world's largest consumer of fossil energy and a source of greenhouse gas emissions, China is under tremendous pressure to reduce emissions. How to use economic instruments to realize China's carbon reduction goals of reducing emissions while lowering the cost of reducing emissions has become an important issue in China's climate governance. The main ways of China's transition to a low-carbon economy to achieve peak and neutral carbon goals are low-carbon transformation of the economic structure, implementation of green finance, reliance on social capital, and acceleration of the creation of a carbon market.

Actions on China's Carbon Taxation

During the period of the Eleventh Five-Year Plan, China's taxes related to the regulation of carbon, such as resource taxes, consumption taxes, and export tax rebates, were continuously adjusted.

Beginning in 2006, the export tax rebate rates for certain goods (including steel, ceramics, glass, cement, and other high-energy-intensive products) have been amended, and a catalogue of prohibited goods for processing trade has been added.² Since 2007, the export tax exemption for high-energy-intensive goods (including cement, certain types of wooden boards, disposable wood products, and other goods) has been eliminated, and even export tax measures have been taken. In 2007, the car and boat use tax and the car and boat licence tax were combined to introduce a car and boat property tax. On this basis, the Motor Vehicle and Boat Tax Act has been in effect since 2012, which largely reflects the concept of a low-carbon economy.³ Since 2009, China has changed the road maintenance fee to a fuel consumption tax. In 2011, a 5% additional tax on oil and gas resources was introduced, which changed the previous situation where resource prices did not reflect market demand. However, the implementation of a carbon tax remains uncertain.

In 2013, the Environmental Protection Tax Law was submitted for consultation and officially enacted in 2018. The law defines the field of taxable pollutants. Only certain types of carbon emission sources are included in its category. The law is not inherently a concrete policy for taxing carbon emissions. The issue of a carbon tax is again becoming the subject of heated debate, but there is still no clear approval.

A review of China's current resource tax and consumption tax shows that while these taxes are not levied to control carbon emissions, they all overlap with carbon taxes. For example, from the perspective of the field of taxation, resource taxes are levied on minerals such as coal, crude oil, and natural gas during production, while consumption taxes are levied on gasoline, diesel, and other refined products during consumption [Cui, 2010]. From a taxation framework perspective, resource taxes and consumption taxes are levied on the amount of energy products produced and consumed, respectively, and neither takes into account the carbon content of fossil fuels. As a result, they are not sufficiently universal to regulate carbon reduction. It is possible to implement a carbon tax policy for carbon taxation in general, combining current resource, consumption, and other carbon-related taxes to establish a tiered tax system for fossil fuels and thereby achieve comprehensive carbon reduction regulation.

China's Carbon Trading System

China began experimenting with carbon trading mechanisms relatively early. In 2011, China approved seven provinces and cities—Hubei, Guangdong, Beijing, Shanghai, Shenzhen, Chongqing, and Tianjin—to begin building a carbon trading pilot project. In 2013, Shenzhen officially launched China's first carbon trading market. Fujian and Sichuan joined the pilot project in 2016. Currently, China's carbon trading pilot projects cover industries such as electric power, thermal power, cement, transportation, iron and steel, impacting more than 3,000 responsible

² In 2009, Europe, the U.S. and Mexico challenged China's export tax policy on certain commodities at the World Trade Organization (WTO), arguing that an additional export tax increase was inconsistent with relevant WTO provisions.

³ Tax rates for passenger cars were differentiated according to exhaust power, and vehicles and ships that save energy and use new types of energy were reduced or exempted from taxation.

enterprises with a combined carbon trading volume of nearly 500 million tons and a turnover of approximately 11.4 billion yuan.

Based on the experience gained from the pilot project, the National Development and Reform Commission issued the National Carbon Trading Market Construction Plan in 2017 and the Interim Carbon Trading Management Rules (Draft for Public Comment) in 2019, which initially defined the scope of the national carbon trading market with industry coverage, responsibility allocation, and operating mechanisms. In July 2021, the national carbon trading market was officially launched, and the first series includes more than 2,225 large electric power enterprises covering 4.5 billion tons of carbon emissions per year, which makes it the world's largest greenhouse gas emissions trading market.

Notably, the construction of China's carbon trading system is also inspired by international experience, especially the EU experience. In terms of trade structure, the EU Emissions Trading System (ETS) has always accounted for more than half of the global carbon market turnover, making it the largest carbon market, and its advanced trading system and institutional structure have become a model for market-based trade in the global model of total control.

Although China promulgated the Interim Measures on Carbon Emissions Trading Management in 2014, the measures were only a transitional legislative document to establish the carbon trading market. Their legal effect has been limited. The measures cannot respond to the development of the carbon trading market. During the development of the EU ETS, legislation also became the main issue. Its legal system gradually improved along with changes in the trading mechanism. China should learn from the EU experience with the creation of high-level legislation that provides both substantive legal provisions defining the commodity nature of carbon emission rights, the subjects of trade, the total amount of carbon credits, distribution systems, supervision, and reporting and verification, as well as procedural legal provisions providing for the implementation of the above-mentioned activities. In addition, strict penalties and accountability for any violations of the law and for all actors involved in trading activities should be established.

An important feature of the development of the EU ETS is the phased pattern of its development. A dynamic and gradual process such as this corresponds to the development of the newly established carbon market, which, to some extent, ensures the effectiveness of carbon reduction and controllability of the implementation process. China has previously tried to gradually move from a regional pilot trading market to a single national market, and the carbon trading market is also implemented in a gradual and purposeful manner under the guidance of the National Carbon Trading Market Construction Plan (power generation sector), which not only defines the general requirements, market elements, participating actors, system construction, quota management in the power generation sector, and support systems but also emphasizes that China will continuously take forward the construction of the carbon market in three phases, with the distribution of priorities in each phase being similar to the distribution of priorities in the EU ETS, including a basic construction period, a modelling period and a further improvement period. In the infrastructure period, the first task is to complete the construction of a unified national data reporting system, registration system, and trading system within one year, focusing on data mapping and establishing a system for a unified national carbon trading market. The modelling period will be used to emulate quota trading in the electricity production sector, to verify the effectiveness of its different market elements and the interaction between them through the practice of each trading session, to test the operation of market risk prevention and control mechanisms and early warning, and for preliminary attempts in the market management system and support systems. The final refinement period is a period of sublimation for the entire electric power industry due to the experience gained in the first two phases of spot trading quotas and system construction and operation. The market capacity of

China's unified carbon trading market will continue to expand, and the mechanisms and institutions under the electricity carbon trading system will be improved as they are being refined.

What the lessons learned from the first two phases of the EU ETS show is that the consequences of inadequate regulation will inevitably lead to market anomalies, represented by sharp fluctuations in carbon prices. Since China is in the early stages of establishing a unified carbon trading system, it is necessary to rely on administrative guidance and intervention to a large extent while establishing a multitiered and extensive regulatory system to ensure the smooth operation of the carbon trading system. First, the National Development and Reform Commission should be designed as the central regulatory body responsible for coordinating carbon verification, establishing total emissions and allocating allowances, as well as verifying the status of trading organizations and the reliability and science of reported data; and second, it will promote regulatory diversification and actively introduce third-party verification agencies, trade agencies and individuals with extensive experience in finance, low-carbon technology, and the carbon trading market as a supplement to encourage market-based regulatory tools in the carbon trading market through a wide range of regulatory agencies.

In addition, it is necessary to create a special agency to manage the registration of carbon emissions and a strict penalty mechanism. The former is used to avoid market risks associated with differences in regulatory standards due to asymmetric market information or other artificial factors, such as local protectionism, which can lead to sharp fluctuations in carbon prices. The latter is used to promote the market in a formal and effective way by applying strict penalties, such as large fines, deduction of allocated quotas for the next year, and restriction of trading conditions for noncompliant companies or trading organizations that commit illegal actions in the carbon trading market.

The carbon trading system creates a carbon price signal for the whole society, which will greatly promote energy conservation and emission reduction, and contribute to attracting investment in low-carbon technology and transforming the energy structure, and is becoming an important political guarantee for the reduction of carbon emissions in China. However, the current state of development does not yet allow full assessment of the role of carbon trading in achieving carbon peak and carbon neutrality goals. In addition, China's carbon trading market still faces many practical problems [Pan, 2016; Xiong, Qi, Shen, 2016].

Compared with the ideal carbon price of nearly \$100 for the same period under the global goal of limiting temperature rise by 2°C, the price of carbon trading in China's pilot provinces and cities is very low, stabilizing at approximately 30 yuan per ton in recent years, and the trading price continues to decline. Since the market opened in July 2021, the trading price of the carbon emission allowance market is still only 40–60 yuan per ton [Fan, Mo, 2015]. Clearly, too low a price for carbon trading is not conducive to regional investment in low-carbon technology and transformation of energy structures and may lead to a deviation from the desired emissions pathway in the long term, which will ultimately affect the timely achievement of China's macrocarbon reduction goals.

Due to numerous constraints at both theoretical and practical levels, the industry coverage of the carbon trading market has gradually adjusted from the originally envisaged eight industries— petrochemical, chemical, building materials, iron and steel, nonferrous metals, paper, electric power, and aviation—to a single electric power industry. The sectoral coverage of the carbon trading mechanism is far from the original intention, and the process of establishing a unified carbon trading market in China has been proceeding rather slowly. Moreover, even if the remaining key energy-consuming sectors are included in the trading system at a later stage, the carbon emissions they cover would account for only more than 50% of China's total carbon emissions. As a result of the lower cost of carbon emissions for businesses not included in the

national trading market, it is likely that greater carbon emissions will be transferred to these non-key emitters, leaving the country's total carbon emissions unchanged or even increased.

As part of the carbon trading system, Chinese enterprises mainly reduce carbon emissions through short-term actions, such as reducing production, rather than implementing emission reduction technologies to achieve the emission reduction target [Shen, Huang, Liu, 2017].

Current pilot carbon trading deals lack transparency in terms of information, which may create a problem on fair allocation [Zhang, 2015].

All of this shows that a single carbon trading system cannot effectively reduce carbon emissions in the long term, and its problems and shortcomings need to be compensated for by the implementation of a carbon tax system.

The Approach of Introducing a Combined Policy of Carbon Tax and Carbon Trading

Carbon trading controls the amount of carbon reduction, and a carbon tax controls the price of carbon reduction. A common view assumes that a carbon tax and carbon trading are alternatives to each other. Carbon trading is growing rapidly because of its ability to control total carbon emissions, which in turn narrows the possibilities for a carbon tax, and many countries that have adopted a carbon trading system will be reluctant to switch to a carbon tax. In practical terms, however, both a carbon tax and carbon trading would affect a country's real economic interests, with uncertainty about the long-term benefits of reducing carbon emissions. As a result, the government's attitude toward either of the two emission reduction measures will be relatively modest, and it will not meet the need for environmental protection and energy security.

An increasing number of scientists see synergies between a carbon tax and carbon trading. Carbon trading can quickly limit total carbon emissions and achieve an immediate effect on reducing emissions. However, based on the practical experience of many countries, carbon trading is mostly applicable to large enterprises but difficult to implement for small businesses and households and cannot cover all areas of carbon reduction. Additionally, as seen from the example in the EU, the limitation of carbon trading is that the effectiveness of the implementation of carbon trading policy depends largely on the total amount of emissions set by the government, and the volatility of the price of carbon due to political factors will greatly limit the attention and investment of businesses in reducing carbon emissions, making it difficult to achieve the goal of reducing carbon emissions. A carbon tax with a clear tax rate can give a stable price signal to the market, thereby creating constant pressure to reduce emissions. However, imposing a carbon tax would increase the cost of carbon and meet greater social resistance. A more moderate carbon trading policy, such as free allowances at the outset, is more easily accepted by businesses and could help promote carbon reduction policies.

In this regard, a more rational choice would be to combine the benefits of a carbon tax and carbon trading to combine the long-term benefits of reducing emissions with achieving short-term goals. Research by many researchers also argues that an effective combination of carbon policy, being a very flexible option, can lead to greater carbon reductions through lower abatement costs and less economic loss [Cui et al., 2014; Gao et al., 2019; He, Wang, Wang, 2012; Lee et al., 2007; Liu, Sun, Zhang, 2019; Tamura, Kimura, 2008]. Research also suggests that carbon trading is more appropriate for China at this stage and, as China's efforts to reduce emissions increase in the future, the introduction of a carbon tax into China's emissions reduction system should be considered [Shi et al., 2013; Wu et al., 2014].

Moreover, the practical experience of the EU, the UK and other countries around the world shows that policies of a combined carbon tax and carbon trading have a positive impact

on regional energy efficiency and emissions reduction. Not only do they achieve the desired carbon reduction goals at the lowest cost, but they also result in less gross domestic product (GDP) loss, which is more efficient.

In fact, the two points of view are not contradictory. Carbon tax and cap-and-trade measures can be taken simultaneously to maximize their benefits and, as conditions mature, an eventual choice can be made in favour of one or the other.

Based on the above reasoning and taking into account the present problems of the carbon trading market and the situation of carbon tax policy in China, it is already necessary to introduce a carbon tax in China by implementing a combined policy to make up for the existing shortcomings in the carbon regulatory system.

It is certainly worth mentioning that when developed countries start to impose carbon tariffs, the introduction of a carbon tax in China will avoid international trade disputes, overcome trade barriers, and boost export products, and it can also provide tax subsidies to relevant export enterprises and improve their international competitiveness.

To introduce a combined policy, China should establish a full coordination mechanism for carbon tax and carbon trade in a number of ways, including the area and object of taxation, tax rates, use of tax revenue, and communication between the regulators, to leverage the complementary roles of the two policies.

In setting the areas of control of carbon tax and emissions trading, the phenomenon of double taxation should be avoided so that they control different sources of emissions. Large emission sources that are controlled by emissions trading should be excluded from the field of taxation.

Regarding the determination of the carbon tax rate, in theory, the carbon tax rate should be equal to the external value of carbon, but the external value is varied in different methods and the price of carbon in the market reflects the external value for a certain period of time, so the carbon tax rate can be based on the price of traded carbon in the market.

For the objects of the carbon tax, individual residents should be excluded for the time being. Although residents are included in the scope of the carbon tax in developed countries, the actual situation in China is that the income level of residents is relatively low and the regressive nature of the carbon tax will affect low-income groups, leading to greater social resistance to the introduction of the carbon tax. Moreover, China's carbon share of household consumption is only approximately 6%, and the annual increase is relatively small (see Table 1). In the industrial sectors, since the introduction of a carbon tax affects the competitiveness of industry, a combined policy can use tax rebates to maintain tax neutrality.

Table 1. CO₂ Emissions From Household Consumption in China, 2005–2016

Year	Total CO ₂ Emissions (million tons)	Household CO ₂ Emissions (million tons)	Share of CO ₂ Emissions From Household Consumption
2005	5,824.63	341.33	5.86%
2006	6,437.47	375.94	5.84%
2007	6,993.18	427.28	6.11%
2008	7,199.61	441.34	6.13%
2009	7,719.07	481.71	6.24%
2010	8,474.92	513.82	6.06%
2011	9,282.55	556.95	6.00%

Year	Total CO ₂ Emissions (million tons)	Household CO ₂ Emissions (million tons)	Share of CO ₂ Emissions From Household Consumption
2012	9,541.87	590.56	6.19%
2013	9,984.57	597.08	5.98%
2014	10,006.67	603.43	6.03%
2015	9,861.10	589.57	6.07%
2016	9,874.66	601.30	6.09%
2017	10,096.01	619.90	6.14%
2018	10,502.93	648.03	6.17%
2019	10,707.22	669.20	6.25%
2020	10,065.54	637.15	6.33%

Source: China Energy Statistical Yearbook [n.d.]; National Bureau of Statistics [n.d.]; The Global Economy.com [n.d.].

In addition, there should be transparency in the use of tax revenues. A special agency, which is independent of the government, can be created to manage tax revenues, oversee the flow of revenues, and disclose information about the use of revenues to increase public and business confidence in the use of revenues and facilitate the smooth implementation of policies. Tax revenues must be used wisely. Western countries, such as Denmark, include tax revenues in the general budget and return all tax revenues from industry to industry [Tang, 2011]. Other countries use them to reward businesses that use energy more efficiently or to reduce taxes on personal income. Taking into account the experience of western countries and China's national context, tax revenues should be used in three ways: to return to businesses in the form of incentives or subsidies, to stimulate renewable energy development, and to provide financial support for the carbon trading system.

The combined policy should be adapted to China's economic conditions. At present, China has not implemented a carbon tax system and, if a combined policy of carbon tax and carbon trading is to be implemented, it must take into account the economic factors in the country. First, the Central Working Conference on Economy in 2018 pointed out that China's economy is under downward pressure and needs to reduce taxes and fees more extensively, so the principle of tax neutrality is especially important in the implementation of a carbon tax [Wu, Su, Xu, 2015]. Second, in March 2016, the Chinese government announced that it would not impose a separate carbon tax, instead organizing it as a tax item under the environmental tax or resource tax. However, considering the current low-carbon economic situation and the urgency of China's carbon reduction, direct carbon taxation would better strengthen the regulation and control of carbon reduction [Pu, Yang, 2016]. In addition, the evolution of carbon tax policy in Scandinavian countries shows that it is difficult to balance the goals of fiscal taxation and carbon reduction in carbon tax policy design and it is easy to get influenced by one type of demand and become biased [Duan, Zhang, 2015]. Therefore, in the process of carbon tax policy formulation in China, it is necessary to harmonize the understanding of the role of carbon tax among various government departments so that carbon tax policy can be more targeted and effective.

Conclusion

The administrative approach to energy conservation and carbon reduction plays an important role in the development of a low-carbon economy in China. China is also gradually shifting to market-based carbon emission reduction tools—carbon trading systems, the construction of which takes into account the establishment of the legislative system, incremental development planning, and regulatory enhancement.

Despite the fact that the carbon trading market has a positive impact on reducing emissions, it faces practical problems. Due to both theoretical and practical constraints, it is unrealistic for China to reduce carbon emissions through carbon trading alone. China's existing carbon tax actions are not sufficiently universal to regulate emission reductions. In addition, China will have to face the impact of carbon tariffs and emission reduction pressure to achieve the carbon reduction target. More decisive policies and measures to reduce carbon emissions should be adopted. A combined policy of carbon trading market and carbon tax proves to be an effective approach.

A carbon tax should consider the relationship between economic and social development and carbon reduction, design the carbon tax implementation scheme according to the needs of national interests, and coordinate the relationship between the carbon tax and carbon trading.

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Quasi-Formal Entities and Dialogue Formats in International Climate Governance¹

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Abstract

In recent years, a significant number of international structures have been created as platforms for multilateral policy dialogue on climate change issues outside the United Nations Framework Convention on Climate Change (UNFCCC). Such structures include, for example, the Major Economies Forum on Energy and Climate Change (MEF), the Petersberg Climate Dialogue, the Clean Energy Ministerial (CEM), and a wide variety of partnerships. There is no common definition for such formats of cooperation, nor a shared conceptual understanding of their place in the international climate governance system. This includes both traditional interstate cooperation mechanisms embodied by the UNFCCC, as well as non-state initiatives, climate finance institutions, and formats that support a constant dialogue between states, business representatives, academia, and non-governmental organizations (NGOs) on climate policy issues. This article clarifies the nature of quasi formal climate governance, establishes a typology, and assesses the dynamics of development of quasi formal entities to better understand the processes of their formation and implementation. Three types of quasi formal entities are identified based on the new dataset of quasi formal entities created in 2001–22: intergovernmental forums, UNFCCC party groupings, and hybrid partnerships. The study reveals an increase in the number of political forums and hybrid partnerships amid stabilization or even reduction of negotiating blocs within the UNFCCC. In the complex system of international climate governance, quasi formal entities are playing an increasing role in the accumulation and exchange of knowledge and experience between states on the implementation of the Paris Agreement.

Keywords: global governance, informal governance, climate negotiations, UNFCCC, partnerships

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Introduction

The COVID-19 pandemic has focused the attention of researchers on the process of deglobalization, which affects not only international economic relations but also the functioning of all international entities, from intergovernmental organizations (IGOs) to conventions or dialogue formats. On the one hand, we are witnessing another crisis of multilateral diplomacy, which is trying to overcome the strategic mismatch between states on how fundamental problems that

¹ This article was submitted 27.02.2023.

threaten human well-being and the very existence of life on Earth could and should be resolved. Whether it concerns access to vaccines or mutual support in decarbonization of national economies, any tasks that require collective action within official multilateral formats become challenging. On the other hand, anyone who is familiar with the specifics of multilateral diplomacy understands that cooperation formats such as the United Nations Framework Convention on Climate Change (UNFCCC) were created not to achieve a common goal quickly but to achieve it together in accordance with the principles of the United Nations (UN) Charter. Clearly, we do not need to talk about the full refusal of multilateral climate cooperation. What prevents bridging the gap between already agreed goals of collective action and practical efforts for mitigation and adaptation, and can global cooperation mechanisms help close this gap in mutually acceptable ways?

In academic research we can find different answers to this question. Some authors believe that international policy needs to move from an economy-wide approach in setting greenhouse gas (GHG) emission targets to a sectoral approach because, “at the national level, climate policy is essentially part of energy policy, transport policy, agricultural policy” [Oberghassel et al., 2022, p. 1]. Others emphasize that problem with bridging gap between goals and efforts origin in the failure of states to fulfil their obligations and the weak motivation of the business community to act in accordance with the political signals sent [Kinley et al., 2021]. Among the authors who consider failure in fulfilment of obligations by UNFCCC parties, there are many who believe that the solution will be to move away from multilateralism to minilateralism in the form of creating a climate club (clubs)—associations of states with limited membership, from dialogue platforms to structures—that would coordinate implementation of climate policy of varying degrees of severity [Falkner, Nasiritousi, Reischl, 2022; Gampfer, 2016; Nordhaus, 2020].

In this context, it is correct to differentiate between effectiveness of climate governance in agreeing on common obligations in the form of international norms and in implementing and complying with agreements. After the adoption of the universal Paris Agreement, regularly updated nationally determined contributions (NDCs) and the provision of “climate finance”² came to the fore. By defining a bottom-up approach for states, the Paris Agreement also recognized the importance of the efforts of non-state actors in achieving its goals. Broad interpretations of the Paris Agreement give more freedom to states in choosing partners for collective action and pursuing a coherent climate policy. Thus, multilateralism, based on the principles of the UN Charter, and club-type minilateralism are no longer mutually exclusive concepts.

Eight years have passed since the entry into force of the agreement. The period of intensive negotiations on the development of the rules³ for its implementation has ended, another crisis linked with the U.S. withdrawal from the agreement has been overcome, the COVID-19 pandemic, which has become a serious challenge for multilateral diplomacy, is over, and another round of the hybrid cold war has begun. In that period, there have been enough events to make it possible to assess changes in the institutional framework of international climate governance and to answer the question of whether there is a trend toward greater preference for minilateral formats of cooperation by states in light of the crisis of multilateralism.

There are several prerequisites for changing the configuration of international climate governance. The climate agenda has expanded enormously and has long been separated from the overall environmental framework. An increasing number of both state and non-state actors are

² “Climate finance” is official development assistance to developing countries that meets the criteria of the UNFCCC decisions.

³ The rules of implementation of the Paris Agreement are informally referred to as a set of decisions adopted by the COP from 2018 to 2022 to clarify the meaning of the language of the Paris Agreement regarding nationally determined contributions (NDCs), transparency mechanisms, the stocktaking mechanism, the operationalization of the provisions of Article 6 regarding voluntary cooperation mechanisms.

moving from statements about, to implementation of, climate strategies. Today it is impossible to imagine an international entity that could cover all issues on the climate agenda and coordinate the actions of all significant actors. The climate agenda has long been an area of competition between states for political and technological leadership, and this has affected the institutional basis of international climate governance.

International climate governance is dynamically evolving toward greater complexity. The UNFCCC process, the mechanisms for implementing climate agreements, which include the whole variety of tools available to international development institutions, and corporate self-regulation mechanisms are becoming increasingly complex. Indeed, in the thirty years that have passed since the signing of the UNFCCC, a multilateral and multilevel system of climate cooperation has formed. It includes the traditional interstate cooperation mechanisms embodied by the UNFCCC, the Kyoto Protocol, and the Paris Agreement, tools for the implementation of these agreements, and formats that ensure a constant dialogue between states. The scientific and methodological basis of global climate policy is created and it provides information on global climate change dynamics, how it affects the economy, societies, and nature, and most importantly, science-based goals for mitigation and adaptation.

In recent years there has been an increase in the number of international structures created as platforms for multilateral dialogue on climate change issues outside the framework of the international legally binding mechanisms of the UNFCCC and the UN. Some of these platforms are of an interstate nature, while others unite, in addition to states, heterogeneous actors, from business to non-governmental organizations (NGOs). In the literature on international climate governance, this fact provides much food for thought [Michaelowa, Michaelowa, Bagchi, 2017; Michonski, Levi, 2010]. There are several papers with databases on informal structures in international governance [Roger, Rowan, 2022; Vabulas, Snidal, 2021] and on transnational climate initiatives [Fenhann, 2018]. The understanding of their role in international climate governance is hindered by different conceptualizations of informal structures. The authors use different criteria for classifying these entities and give various arguments for their difference from formal IGOs. C. Roger and S. Rowne [2022] clearly show how the understanding of quasi formal structures can change depending on research goals. Also, a general shortcoming of the theory of quasi formal structures is the lack of their classification on the basis of the actors participating in them, even though this is a very important characteristic of quasi formal governance.

Informal and/or Quasi Formal Entities?

The paradigm shift of the 1970s and 1980s in the study of international relations from interstate diplomacy toward transnational relations was quickly supplemented by numerous studies on the increasing importance of “soft law” [Abbott, Snidal, 2000; Velizhanina, 2007], “soft organizations” [Klabbers, 2001], and the emergence of “informal intergovernmental organizations” [Vabulas, Snidal, 2013] and informal governance within IGOs [Stone, 2013]. Further development of club formats of cooperation in the form of the Group of 7 (G7), the Group of 20 (G20), and the BRICS group (Brazil, Russia, India, China, and South Africa) was reflected in the appearance of literature on “informalism” in international relations [Cooper, 2017; Slaughter, 2021]. Russian authors have contributed to the recognition of the increasing importance of “informal institutions of the high political level” [Larionova, 2018] and “intergovernmental informal associations” [Karandashov, 2021]; however, there is still not enough done on the conceptualization of quasi formal entities. From the point of view of developing an understanding of the role and functions of such institutions and their impact on world politics and international law, it may be more productive to study quasi formal entities in specific areas of politics.

A consideration of context, relations with formal IGOs, and the ongoing negotiation processes can help to determine the patterns of creation and functioning of quasi formal entities.

The introduction of the term “quasi formal” is prompted by the need to use a single definition to refer to the increasingly common practice of creating international entities that are different from classical international organizations with varying degrees of institutionalization and heterogeneous, hybrid membership. In the English literature on international politics, the term “informal” is closely associated with a concept of governance. Governance refers to processes of policy formulation or implementation that involve both state and non-state actors, leading to non-binding agreements and other types of soft law sources, or those aimed at coordinating the actions of a number of different actors. Governance in this sense takes place at different levels—global, supranational, state, sub national, local—wherever heterogeneous actors interact in politics. So, governance, by definition, can be either informal (outside legally established official procedures), or grant to state authorities, the state, and interstate organizations status as a participant in governance. In some cases, participation in governance is regulated by official rules and procedures, while in other cases participation is not regulated in any way; in still others it is completely prohibited by law. All options for participation are driven either by practical necessity or political considerations.

All these cases of participation are commonly found in international climate governance. Participation in the Conference of the Parties (COP) to the UNFCCC is not limited to states and also includes non-governmental organizations, business associations, and various coalitions of non-state actors accredited as observers. They can contribute to the negotiations of the COP on an equal basis with the delegations, although they cannot participate in decision-making as would violate the fundamental doctrine of international law. The Paris Agreement recognizes the contribution of non-state actors to the achievement of its goals, but it does not regulate exactly how they can contribute. There are several critical considerations indicating that the term “informal” governance, which is widespread in the literature, is inadequate to the institutional practices it reflects.

First, “informal” in the sense of “not official” does not apply to the international entities in question. The CEM is not based on an international treaty, has no rules of procedure, and does not adopt legally binding decisions, while official representatives of states at the ministerial level participate in annual meetings, there is a membership, a secretariat, internal documentation, governing bodies, and a budget. CEM, in a bottom-up approach, operates through member initiatives and campaigns. To establish the initiative, certain criteria should be met, and at least three CEM member states must have joined. Business participation in the initiatives is actively encouraged and supported. The Climate and Clean Air Coalition (CCAC), like the CEM, does not contribute to international law, but the annual ministerial meeting of the coalition determines the strategy and monitors the implementation of initiatives and programmes to reduce emissions of short-lived pollutants into the atmosphere, and it has a governing body (for example annual meeting and the council) that includes not only representatives of states but also non-voting representatives of non-state partners. In this sense, most of the studied international entities are “formally” organized and operate in a formal way.

Second, in Russian, the concept of informal governance implies some non-public interaction between actors that takes place behind closed doors in official organizations and processes. On the contrary, the studied international entities carry out their activities publicly, have their own websites, are represented in social networks, and often organize their side-events during the COPs.

Third, in a practical sense, the formal-informal dichotomy in international politics looks false due to the high incidence of formal-informal interactions and the impossibility of adequate separation of one from the other. The activities of partnerships and networks that bring

together governments, businesses, and international organizations can complement the activities of official IGOs. The agreements of the states reached within the framework of the “informal” Major Economies Forum (MEF) or the Petersberg Climate Dialogue can be embodied in the “formal” decisions of the UNFCCC. The UN secretary-general can initiate a climate action summit with the broad participation of all interested non-state actors. Therefore, for analytical purposes, and for a better understanding of the political processes in the climate agenda, it is necessary to have an approximate set of criteria that will allow focusing on formal-informal interactions.

Given the above, it makes sense to introduce the term “quasi formal governance,” which includes all mechanisms of interaction between state and non-state actors that are not regulated by international law. International entities that provide this interaction outside the official procedures of legally binding treaties can be considered “informal.” This definition better captures the practice of ministerial meetings, forums, networks, and partnerships whose membership is well described by the concept of the “coalition of the willing.”

Method

To better understand the ongoing changes in the organizational basis for cooperation on the implementation of climate agreements, the study will carry out the following tasks. First, based on a literature review, all significant actors of international climate governance will be defined.

Next, the role of quasi formal entities in international climate governance will be demonstrated and a typologization of these entities will be elaborated based on a study of international quasi formal entities created in different periods of climate cooperation. The determination of the status of quasi formal international entities and their typology was carried out through the development of a database and consultations with experienced participants in the COPs. The change in the number of active quasi formal structures was carried out based on information included in the database.

Three types of quasi formal entities were identified: political forums, hybrid partnerships, and informal mechanisms within the UNFCCC. This typology is based on the forms of formal interaction between states outside formal organizations proposed by O. Westerwinter, K.W. Abbott, and T. Biersteker [2021] (Table 1). Such entities can be created as independent associations; some are created “within” the UNFCCC and others “around” the UNFCCC and are associated with the activities of transnational networks, epistemological communities, and transnational public-private partnerships.

To find out whether the proposed typology is accurate, a database of quasi formal entities and dialogue formats involved in international climate governance was compiled. The typology was carried out in accordance with the following criteria:

- a) they have states as members or partners;
- b) the main goal is implementation of the Paris Agreement in different fields, from decarbonization to adaptation to climate change;
- c) the entities are not based on an international treaty;
- d) they involve participation of non-state actors;
- e) they are organized groups to promote common interests in the negotiation process within official international organizations or conventions;
- f) they are public, that is, they openly communicate with stakeholders and the media and make public statements;
- g) they are multilateral structures, that is, they are created for dialogue between more than three states, more than one official intergovernmental organization, and more than one NGO or private company (alliance, etc.).

Information was collected from a content analysis of the archive of publications by the Earth Negotiations Bulletin [IISD, n.d.] Filters were applied to make it possible to find messages related to international climate events in the years of interest. The initial database consisted of a chronologically compiled list of meetings of various quasi formal entities. To find information about the negotiation blocs' activity in certain periods, a content analysis of the final reports of the Environmental Negotiations Bulletin [IISD, 2021] was used. Entities that did not meet the criteria were excluded from the list. To obtain quantitative data on changes in the number of existing entities, the dates of their establishment were considered.

In the database, political forums were coded as interstate entities (IE), informal governance within the UNFCCC as UNFCCC groupings, and hybrid partnerships (HP) remained unchanged. The research materials also included the websites of the analyzed organizations, partnerships, and initiatives.

International Climate Governance: The Main Actors

The idea of international governance as a multilateral, polycentric and multilevel process goes back to the work of Robert Keohane and Joseph Nye on transnational relations [1971]. H. van Asselt and F. Zelly [2012, pp. 141–3] identified several elements of international climate governance (IEG): international organizations (such as the World Bank and international environmental conventions), high-level political forums of clubs (such as the G7, the G20, and MEF), informal dialogue formats (such as the Cartagena Dialogue⁴), multilateral public-private partnerships (such as the Global Methane Initiative and the Carbon Sequestration Leadership Forum), regulated and voluntary markets (such as the European Emissions Trading Scheme and the Voluntary Carbon Standard (VCS) for voluntary offset markets), corporate self-regulation initiatives (such as the Carbon Disclosure Project (CDP) and the Science Based Targets initiative (SBTi)), and finally, sub national initiatives (such as C40 Cities).

M. J. Dorsch and C. Flachslund [2017, pp. 45–6], using the approach of polycentric governance, identified forms of collective action in international multilateralism including the UNFCCC, bilateral and minilateral agreements in the form of the U.S.-China climate agreements and the G7, and sub national entities self-organizing in transnational networks, for example, Local Governments for Sustainability (ICLEI). States and their governments, according to the authors, are consistently part of collective action because not only are they participants in multilateral and minilateral forums, they also support “a growing number of non-state initiatives of business, civil society groups or individuals” [Ibid., 2017, pp. 46].

This list of actors in international climate governance is found in many papers. While there are no significant discrepancies on classical intergovernmental formats, such as international organizations and conventions, there are differences with other participants. For example, the Carbon Sequestration Leadership Forum is referred to either as a public-private partnership [Betsill, 2015], or as an international informal organization [Vabulas, Snidal, 2021]. Others consider such entities to be practices [Cooper, Pouliot, 2015], clubs [Falkner, 2016], or political dialogue forums [Mourier, 2020]. Thus, the understanding of international climate governance that exists in the scientific literature, which combines the idea of it as multilevel and polycentric, is not sufficiently developed to serve as a basis for quantitative research.

Notwithstanding the ambiguity of terms, we can conclude that there is a consensus among researchers that, while international climate governance is carried out by heterogeneous actors at different levels, the UNFCCC is the main international platform, and also that states play a

⁴ The Cartagena Dialogue is an informal negotiation platform set up ahead of the UNFCCC COP in Cancun in 2010

key role in the development of climate governance. It is necessary to clarify the main actors in international climate governance to determine the place of quasi formal entities.

The first clarification concerns the traditional intergovernmental entities—organizations and conventions. Within this general category, it is necessary to highlight the UNFCCC and multilateral development banks (MDBs) represented by the World Bank Group. The UNFCCC and the World Bank Group perform critical functions in international climate governance related to climate finance. The second clarification concerns quasi formal entities, their place in the system, and their importance for climate governance. Instead of considering them as actors in climate governance, there is reason to consider them as tools that connect their heterogeneous participants. This approach involves considering all those initiatives, mechanisms, and forums that remain in the middle—between individual states, cities, companies, and communities, on the one hand, and the highest political platform, which today represents the COP to the UNFCCC, on the other.

International climate governance can be represented as a triangle, where the sides are the interstate process of the UNFCCC, non-state initiatives, and MSBs. And, just like in geometry, the sides of our triangle connect with each other, forming the inner space of international climate governance.

UNFCCC Process

The organizational structure of multilateral climate negotiations has become much more complicated over the past 30 years, and the process itself has become cumbersome. The climate conference is, in fact, not one conference but five—the COP to the UNFCCC (COP), the COP serving as the meeting of the parties to the Kyoto Protocol, and the COP serving as the meeting of the parties to the Paris Agreement. Each of the conferences is the governing body for the various bodies they have created, and as of 2022 there were about 15 of them. Two subsidiary bodies of the UNFCCC work on their own agenda—the Subsidiary Body on Scientific and Technical Advice and the Subsidiary Body on Implementation.

In addition to formal negotiations, informal consultations are organized. In part, this is the internal logic of the development of multilateral climate diplomacy, associated with the quantitative expansion of participants in UNFCCC conferences and qualitative changes in climate policy. However, “weak” agreements also complicate the structure of the negotiation process, when the parties, instead of forming specific obligations or implementing measures, create new negotiations processes.

The venue for the annual UNFCCC conference is divided into a “blue zone,” where intergovernmental negotiations take place, and a “green zone,” where UN specialized agencies, the business community, youth, civil and indigenous society, academia, artists, industry, and fashion hold their events [COP Presidency, 2022]. On the eve of the COP in Glasgow, the Race to Zero Campaign was launched—“a global campaign that is designed to ensure that enterprises, cities, regions and investors support a healthy, sustainable recovery with zero emissions” [UNFCCC, n.d.].

Non-State Initiatives

Non-profit organizations were the first founders of transnational climate initiatives aimed at disseminating information about the problem (World Wildlife Fund (WWF) and Greenpeace), monitoring the fulfilment of promises by corporations and states (Climate Group and Climate Action Tracker), and involving various groups, from youth to indigenous peoples, in climate policy (Citizens’ Climate Lobby and Fridays for Future). Initiatives of sub national

actors (regions, provinces, cities, and communities), such as C40 Cities and Climate Alliance, have an influence on updating the climate agenda at the local level, even if the national government is not committed to ambitious climate policy.

Notable examples of business initiatives include the CDP, Climate Action 100+, the SBTi, and the Institutional Investor Group on Climate Change (IIGCC). Often, they are “organizations of organizations” and today these initiatives have become networks of experience, knowledge, and practice on issues related to the implementation of the Paris Agreement. Their role in international climate governance is twofold. In addition to aggregating and lobbying the sectoral interests of business, they also contribute to the creation of self-regulation systems and support companies to fulfil their voluntary obligations under the Paris Agreement. Thus, over the past twenty years, a system of international corporate standards for non-financial reporting has been formed regarding GHG emissions management, climate risks, standards for climate projects, guidelines for the goals of corporate climate strategies, and even benchmarks for companies’ climate policy. Since states moved away from agreeing on legally binding emission reduction targets and switched to a “flexible ‘promise and control’ system combining voluntary commitments from both public and private actors, as well as reporting and transparency rules for states” [Aykut, Morena, Foyer, 2023, p. 20], such business initiatives have become an integral part of international climate governance.

Multilateral Development Banks (International Climate Finance Institutions)

The principle of “common but differentiated responsibilities” has been the foundation for international environmental cooperation since the 1992 Rio Declaration on Environment and Development. This principle is also incorporated into the UNFCCC. So, in accordance with Article 4 of the convention, parties are divided into three categories. Annex I parties—developed countries and countries with economies in transition—have an obligation to limit their anthropogenic GHG emissions. Annex II parties—developed countries only—should, in addition to efforts to limit emissions, assist developing countries in meeting their obligations under the convention, transfer technology, and financially support efforts to adapt to climate change. Non-annex parties—developing countries—have no obligations to limit GHG emissions or provide financial assistance. The Paris Agreement confirmed the financial commitments of developed countries and encouraged voluntary contributions from non-developed countries.

Multilateral channels of climate finance are funds created under the UNFCCC, the Global Environment Facility, the United Nations Development Programme (UNDP), and other agencies of the UN system implementing country projects. However, climate finance is different. Assistance from the UNFCCC or UNDP funds is in the form of a grant, while climate finance from the World Bank is a loan. Climate finance in FY 2022 accounted for 36% of total World Bank Group funding for developing countries, amounting to almost \$32 billion [World Bank Group, 2022]. For comparison, the Green Climate Fund has mobilized \$11 billion since 2013 [GCF, n.d.].

Climate finance provided by MDBs is a very important part of any intergovernmental agreement—in some cases, a defining one. In addition, MDBs have a huge influence on the policies of states, promoting priorities and approaches to decarbonization at the national level.

Science-Policy Interface Platforms

The UNFCCC process is scientifically and methodologically based on the work of the IPCC. The assessment reports on global climate change that the IPCC prepares every five or

six years have a significant impact on the progress of the negotiation process. Thus, the IPCC's methodological guidelines for accounting for emissions and removals of GHGs, intended for the state inventories, in terms of GHG emission factors from different types of fuel are also used to calculate the carbon footprint of companies and their products. Functions similar to those of the IPCC are performed by the UNFCCC Subsidiary Body on Scientific and Technological Advice. Looking at the science-policy interaction more broadly, this category of participants includes the International Energy Agency (IEA) and the International Renewable Energy Agency (IRENA).

In total, these actors form international legal norms for climate cooperation between states and maintain a dialogue between states and key non-state actors (the UNFCCC process). They also disseminate information about the problem, monitor the implementation of the public statements of large corporations and states, involve various social groups in climate policy, aggregate and lobby industry-specific business interests, and contribute to the creation of corporate self-regulation systems (non-state initiatives). Additionally, they provide funding for activities on mitigation and adaptation and develop a methodological basis for climate strategies (international development institutions, science-policy interface platforms). This list of activities is far from complete; however, it shows that to achieve the goals of collective action, a high level of trust between different actors is required, as are, consequently, many mechanisms to create and support it.

Quasi Formal International Entities in the International Climate Governance Triangle

Quasi formal entities differ in their degree of formalization; usually, they are not based on an international treaty and have no system of official documentation. At the same time, they regularly organize meetings at which their participants discuss different issues of the climate agenda (Table 1).

Table 1. Quasi Formal Entities

Quasi Formal International Entities	Type	Year of Foundation
Climate and Clean Air Coalition (CCAC)	HP	2012
Major Economies Forum on Energy and Climate (MEF)	QFE	2009
Clean Energy Ministerial (CEM)	HP	2009
The Global Methane Initiative (GMI)	QFE	2004
The Petersberg Climate Dialogue	QFE	2010
Vienna Energy Forum (VEF)	QFE	2008
Mission Innovation (MI)	QFE	2015
UN Climate Summit	QFE	2014
Adaptation Action Coalition	QFE	2021
Global Methane Pledge	QFE	2021
Ministerial on climate action (MOCA)	QFE	2017
Agriculture Innovation Mission for Climate	QFE	2021

Quasi Formal International Entities	Type	Year of Foundation
European Union (EU)	UNFCCC	2014–15
Group 77+ China	UNFCCC	2014–15
Like-Minded Group of Developing Countries (LMDCs)	UNFCCC	2014–15
Alliance of Small Island States (AOSIS)	UNFCCC	2014–15
Association of Latin America and the Caribbean (AILAC)	UNFCCC	2014–15
Arab Group	UNFCCC	2014–15
Least developed countries (LDCs)	UNFCCC	2014–15
Environmental Integrity Group (EIG)	UNFCCC	2014–15
Bolivarian Alliance for the Peoples of our America (ALBA)	UNFCCC	2014–15
Brazil, South Africa, India, China (BASIC)	UNFCCC	2014–15
African Group	UNFCCC	2014–15
Caribbean Community (CARICOM)	UNFCCC	2014–15
Pre-COPs (2009)	UNFCCC	2014–15
Cartagena Dialogue	UNFCCC	2014–15
Sustainable Energy for All	HP	2011
We Mean Business Coalition	HP	2014
The Science Based Targets initiative (SBTi)	HP	2015
Global Alliance for Climate-Smart Agriculture	HP	2014
The Partnership for Action on Green Economy	HP	2013
The Carbon Pricing Leadership Coalition	HP	2015
Carbon Sequestration Leadership Forum	HP	2003
C40 Cities	HP	2005
Institutional Investors Group for Climate Change	HP	2012
The Gold Standard	HP without states	2003
Climate Action 100+	HP without states	2017
One Planet Summit	HP	2017
The Glasgow Financial Alliance for Net Zero	HP	2021
P4G	HP	2017
The Net Zero Asset Managers initiative	HP without states	2020
The Energy Storage Partnership	HP	2019
G7 Climate Club	IIE	2022
Inclusive Forum on Carbon Mitigation Approaches	QFE	2022
The Transport Decarbonisation Alliance (TDA)	HP	2017

Source: Compiled by the author.

Quasi formal political forums include entities made up by states and discuss political issues of climate cooperation. Hybrid partnerships include many quasi formal entities and are aimed at solving specific problems, uniting states with non-state actors (Table 2).

Table 2. Two Types of Quasi Formal Entities and Their Characteristic Features

	Quasi Formal Political Forums	UNFCCC Groupings	Hybrid Partnerships
<i>Examples</i>	Major Economies Forum, Petersberg Climate Dialogue, G7 Climate Club	Group of 77, Small Island Developing States (SIDS,) Pre-COP	Carbon Pricing Leaders Coalition (CPLC), Climate and Clean Air Coalition (CCAC), CEM
<i>Specific Features</i>	30–40 state-participants, with one state as initiator of the forum. Organized as a club for discussion of the political issues of the climate agenda. Around some forums (MEF, One Planet Summit) an ecosystem of hybrid partnerships and new non-governmental initiatives is being built	Exclusively interstate entities. They allow aggregating the interests of different groups of states, thereby increasing their political weight in negotiations	Include several non-state actors taking voluntary action, and may also include states and jurisdictions. As usual they facilitate dialogue and exchange of experience on the technical aspects of the climate agenda, as well as the implementation of the Paris Agreement

Source: Compiled by the author.

The analysis of quasi formal institutions makes it possible to draw several conclusions about their role in international climate governance. Quasi formal political forums are usually created by powerful states that “choose informality when their preferences diverge” [Roger, 2022, p.13]. In this way, they support a multilateral approach to addressing climate change. Thus, after the U.S. refused to ratify the Kyoto Protocol, President George W. Bush initiated, together with Australia, the Asia Pacific Partnership on Clean Development and Climate in 2005. During the period of active negotiations on a future agreement that would later replace the Kyoto Protocol at the initiative of the United States, the MEF began to be convened, bringing together 17 major state emitters of GHGs. The forum met regularly until the adoption of the Paris Agreement and resumed its work under the Biden administration. After Trump’s decision to withdraw from the Paris Agreement, the EU and China initiated the Ministerial on Climate Action, an annual event that brought together ministers and senior officials from more than 30 states, including G20 ministers and negotiating group chairs.

Regular high-level meetings between politicians ensure communication, broaden the range of negotiations, and create the basis for compromise precisely because they are not bound by overly formal procedures or protocols [Vabulas, Snidal, 2013, p. 199]. In fulfilling this role, quasi formal policy forums complement, but do not duplicate, the UNFCCC process, as they always take place in the run-up to the COPs. Thus, decisions are not made at MEF meetings, and therefore no consensus is required, but the very fact of the exchange of views serves as a building block, including for building consensus within the framework of the UNFCCC. The work of political forums intensified during periods of extensive negotiation within the framework of the UNFCCC due to the need to adopt, for example, the Paris Agreement or the rules for Article 6. During one of these periods, in 2010, Angela Merkel initiated the first Petersburg

Climate Dialogue, and since then it has been held annually, facilitating open discussion in small groups on key issues of international climate policy.

Often, at the meetings of political forums, the creation of another type of informal institution—hybrid partnerships—is announced. For example, the establishment of the CEM and the Global Methane Commitment was first announced by the United States at MEF. Similarly, CEM and the World Bank together established the Energy Storage Partnership, bringing together the World Bank Group and 29 organizations that jointly develop energy storage solutions to meet the needs of developing countries, including financial support for such projects.

Partnerships are not always created by powerful states. The Climate and Clean Air Coalition (CCAC) was created following a ministerial meeting in Stockholm in 2012 by the governments of Sweden, the United States, Canada, Bangladesh, Ghana, Mexico, and the United Nations Energy Programme (UNEP). Today CCAC is a partnership of 73 states, 19 IGOs, 59 civil society organizations, and 181 other participants to reduce the impact of short-lived factors (methane, hydrofluorocarbons) on climate and air quality. The UN Environment Office in Paris serves as the secretariat of the CCAC.

In an increasingly complex system of managing anthropogenic pressures on climate, hybrid partnerships are “soft-coordinating” to guide voluntary national targets for GHG emissions, technology development through sectoral public-private partnerships, and technology diffusion through trade” [McGee, Taplin, 2009, p. 213]. The Carbon Pricing Leaders Coalition (CPLC) was established on the opening day of the 21st COP to the UNFCCC in 2015. The CPLC brings together governments, businesses, civil society organizations, and academia to support carbon pricing, share experiences, and improve global, regional, national and sub national understandings of carbon pricing mechanisms. The CPLC Secretariat is administered by the World Bank Group. As of early 2023, the coalition includes 28 national and sub national governments, 176 private sector organizations from various regions and sectors, and 102 partners representing NGOs, business organizations, and universities.

Hybrid partnerships facilitate dialogue and exchange of experience between governments, business representatives, and think tanks on any specific issues on the climate agenda, such as the promotion of low-carbon technologies, the application of incentive measures, or the development of benchmarks for corporate climate strategies, through the collection and analysis of data and the development of recommendations. Participation in some hybrid partnerships involves making voluntary commitments—a kind of evidence of commitment to action (“commitment to commit”). It can be assumed that there is a dense network of links between policy forums, partnerships, non-state initiatives, and international climate finance institutions.

Quasi formal policy forums and hybrid partnerships encourage the exchange of knowledge and experience on the regulatory and technical aspects of decarbonization among all participants. Whereas formal intergovernmental institutions tend to separate the political and technical aspects of dialogue, quasi formal forums and partnerships often provide mechanisms to encourage spillover effects. For example, under CEM campaigns, critical technical issues can be raised to the political level of discussion. Without being associated with the need to find consensus and ratify agreements, forums and partnerships ensure the *depoliticization* of climate action, which ultimately stimulates the involvement of significant actors in these formats.

Finally, the third type is informal management mechanisms within the UNFCCC. These include negotiating blocs of states (such as the Group of 77+China and the Arab Group) and informal negotiating meetings leading up to the COPs (the “Pre-COP” and the Cartagena Dialogue). Negotiating blocs are relatively stable groups that bring together states with common goals and interests in the context of climate negotiations. The negotiating blocs vary in size and formality. Some of them are active outside the UNFCCC (such as the Group of 77+China, the EU, and SIDS), and some were created and operate exclusively within the framework of

the UNFCCC (such as the Environmental Integrity Group and the Umbrella Group). An interesting observation is that the Organisation for Economic Co-operation and Development (OECD) countries have never created a single negotiating bloc in the UNFCCC. Informal meetings (Pre-COP) are similar in terms of functionality and composition of participants to political forums in the proposed typology, while still part of the official negotiations of the UNFCCC. The series of such meetings is usually initiated by the presidency of the forthcoming COP. Unlike policy forums or partnerships, UNFCCC informal mechanisms are purely interstate, so they can be used as a reference group to understand the dynamics of quasi formal entities in international climate governance.

Pilot Study of the Development Dynamics of Quasi Formal Entities in International Climate Governance

To understand the dynamics of development, three stages were chosen that were especially important for climate cooperation: 2008–11 (development of a new agreement after the Kyoto Protocol), 2014–15 (completion of negotiations on the Paris Agreement) and 2020–21 (finalization of negotiations on the rules for the implementation of the Paris Agreement). A total of 46 quasi formal entities were studied.

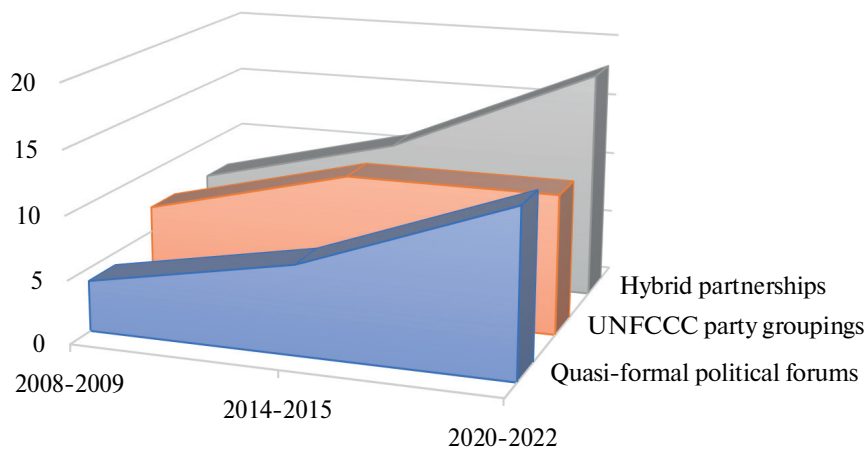


Fig. 1. Dynamics of Changes in the Number of Quasi Formal Entities in International Climate Governance

Source: Compiled by the author based on the database.

Figure 1 shows that in the last five years there has been a significant increase in hybrid partnerships that bring together governments and businesses, development institutions, and the expert community. The desire of states to use quasi formal models of international climate governance, such as MEF in general, is increasing. Thus, if informal meetings of the UNFCCC negotiating blocs are a common diplomatic practice and do not attract the attention of the public, the results of the meetings of the Petersberg Climate Dialogue or ministerial meetings are covered like any other high level political event.

The increase in the number of political forums and hybrid partnerships is taking place against the backdrop of a stabilization or even a decrease in the number of informal governance formats within the UNFCCC. That is, states seem to have stopped establishing new negotiating blocs and have switched to interaction within the framework of quasi formal entities outside the UNFCCC.

In 2022, the list of quasi formal entities was supplemented by two organizations that are still difficult to classify. The G7's statement on the creation of the Climate Club after the G7 summit stated that the priority of the club would be to strengthen actions to reduce GHG emissions, and to decarbonize industry and energy. At first glance, the Climate Club is intended to be an intergovernmental political forum; the statement says a lot about the exchange of information on international conditions for the decarbonization of industry, in order to accelerate work on joint standards, methodologies, and strategies for major industrial sectors, which implies close work with business alliances. In addition, it is still unclear whether the new intergovernmental forum will become another platform for discussing technical issues of cooperation in the field of decarbonization or whether it will be an association promoting a climate policy option based on the political ideas of western states.

Another interesting case is the establishment within the OECD of the Inclusive Forum on Approaches to Reduce Greenhouse Gas Emissions (IFCMA), which was announced at the G20 in Indonesia [OECD, 2022]. This forum is intended to bring together non-OECD countries to evaluate the climate policy of IFCMA member countries and make recommendations to improve its effectiveness. The uncertainty with the typology of this new forum is due to the fact that it is being created within the structure of the OECD and, on this basis, can be attributed to the informal methods of management within the OECD (like the negotiating blocks of the UNFCCC); however, the intention to involve states that are not members of the OECD turns it into political forum. Although the report of the OECD's secretary-general states that the IFCMA is intended to complement the multistakeholder process of the UNFCCC, it is not yet very clear how it will differ from the Paris Agreement's global stocktaking process. Interestingly, the OECD will serve as the interim secretariat for both the G7 Climate Club and the IFCMA.

Research Perspectives for the Study of Quasi Formal Entities

The typology proposed in the article is limited by the small sample of entities studied. For example, further clarification of the differences between political forums and informal governance within the UNFCCC is needed. Better coverage of quasi formal meetings initiated by states after or leading up to the UNFCCC COPs will help achieve this goal. Hybrid partnerships and business initiatives are becoming increasingly important in the implementation of the Paris Agreement, and it is necessary not only to replenish the database but also to conduct a specific study.

The database used can include a set of data on membership and financial assistance to create graphs, for example, to find out which countries most often become members of partnerships, what share they have in the capital of the World Bank, or how much assistance they receive. Visualization of such complex relations will shed light on the motives of states for joining quasi formal entities.

The change in the balance of active quasi formal entities in favour of hybrid partnerships indicates a trend to use platforms outside the UNFCCC to build coalitions on politically controversial issues such as pricing carbon through carbon taxes or emissions trading systems or agreeing on protectionist measures for the goods of those countries that do not pursue an "ambitious" climate policy.

Conclusion

The Paris Agreement realized a bottom-up approach to climate cooperation, and the achievement of agreed goals must be supported by a set of self-determined efforts by states, considering “common but differentiated responsibilities and respective capacities.” In addition, at the interstate level of governance (UNFCCC regime), only general principles of interaction between the parties are outlined. This study shows that quasi formal entities are connecting points in the triangle of international climate governance, representing politically flexible mechanisms for coordinating the actions of states and other key actors in climate policy.

Although this study did not aim to identify the specific functions of quasi formal entities or compare them with traditional IGOs, the results make it possible to distinguish between what is known about them and what is still in question. An important function of traditional IGOs is the development of international norms and their enforcement. With regard to quasi formal entities, it cannot be said that they create legally binding norms. Political forums contribute to building consensus on complex negotiation issues on the official agenda of the UNFCCC, but it is difficult to say how important the agreements reached.

It is well known that quasi formal entities support and develop a multilateral approach to solving the problem of climate change, albeit not on a universal, inclusive basis. Traditional IGOs contribute to the implementation of agreements, decisions, and strategies and, based on this study, this is also one of the key functions of hybrid partnerships, albeit with two differences—partnerships strive to implement already adopted international climate agreements or fill the gaps in international legal regulation in the field of climate mitigation (as does the CCAC or CPLC). Some quasi formal entities monitor the fulfilment by states and non-state actors of their obligations under the Paris Agreement (for example, Climate Action 100+) but it is unknown if this affects the behaviour of the state or company.

This research shows that quasi formal entities aggregate knowledge and exchange experience, but in order to understand what the specific results of these activities are, another study is needed. The participation of states in hybrid partnerships and policy forums such as traditional IGOs is voluntary. They are useful for states as networks for the exchange of views, knowledge, and experience in the field of low-carbon development. In a world where no one country has reached zero GHG emissions, such entities are a valuable home of international expertise on climate policy.

The increase in the number of quasi formal interactions between representatives of states outside the formal intergovernmental process empirically confirms that states prefer to use quasi formal and informal formats for cooperation on climate policy issues. It is unlikely that a single, satisfying approach to their typology will ever be developed in academic research. Despite the differences in terminology, many authors have concluded that quasi formal entities have not yet replaced the traditional structures of collective action embodied by the UNFCCC; however, further development of climate policy in the context of current geopolitical tensions is likely to strengthen the observed trend, and quasi formal entities will play an increasing role in international climate governance.

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NEW INSTITUTES AND ENTRENCHED COOPERATION PROBLEMS

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Open Balkan: A New International Organization or an Unsustainable Initiative?¹

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Abstract

With the Western Balkans' European integration completely stalled and its future uncertain, a new regional initiative was launched by Albania, Serbia and North Macedonia. Initially called Mini Schengen, it grew into the Open Balkan with an ambitious goal to form a single market with unhindered movement of people, goods, services, and capital. Despite active involvement of state leaders, the initiative lacks transparency, legal frameworks, and concrete plans to fulfill the strategic vision. It is also difficult to expect it to grow into a classic international organization given the failure to form an implementation body. In addition, the U.S. only conditionally supports the Open Balkan by demanding the inclusion of all six Western Balkan actors (which in practice proves to be impossible), while the European Union (EU) only cautiously welcomes activities leading to further regional integration, given that it initiated the competing Berlin process in 2014.

This article examines the internal and external sustainability of the Open Balkan initiative, its prerequisites, and its projects. It also argues that without support from the U.S. and the EU, an authentic regional integration in the Western Balkans is hardly feasible. Inter alia, the three countries have modest institutional capacities and incomparably small power potential.

Keywords: Western Balkans, Open Balkan, Berlin process, regional integration, EU

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Introduction

Launched in 2019, the Open Balkan initiative (OB) has already attracted attention of a few, primarily Balkan, researchers. Most of them point to the potential benefits of the OB for political stabilization, transit, tourism, small and medium-sized enterprises (SMEs), and agriculture [Rapaić, Matijević, 2022, p. 77; Rikalović, Molnar, Josipović, 2022; Zekić, Matkovski, Đokić, 2022, pp. 31–40]. Nonetheless, certain doubts are also voiced. The initiative does not enjoy undivided support from either external and societal actors [Kalemaj, 2023, p. 37; Karakoç, Botić, 2022, pp. 287–307; Semenov, 2022, pp. 24–34; Surlić, Lazarević, Kolarsko, 2022, pp. 57–78]. Albanian and Montenegrin analysts voice fears of “over-strengthening of Serbs.” The abolition of barriers on the border may also give impetus to intensification of cross-border crimes. Additionally, the correlation between the OB and the Berlin Process launched by the European Union (EU) in 2014 remains unclear, which informs the EU’s more reserved attitude toward the OB [Kamberi, 2021, pp. 60–71; Stanojević, 2022, pp. 117–46].

This article contributes to the debate by addressing the following research question: how sustainable is the Open Balkan initiative? Sustainability may be considered from two perspectives. The first examines its functionality, that is, its internal structure and the real and expected economic and political effects. The second concerns the environment in which this integration functions, including the attitude of internal and external actors toward this project. Employing a case study methodology, authors build conclusions on an analysis of primary policy documents (memoranda, agreements, decisions of international institutions, and other documents), as well as secondary sources and media materials (interviews, statements, and evaluations of relevant interlocutors).

Why Was the Open Balkan Created?

In October 2019, the first trilateral meeting of the prime ministers of Albania and North Macedonia (Edi Rama and Zoran Zaev) and the president of Serbia (Aleksandar Vučić) adopted a declaration of intent to establish the four freedoms between the three countries. The necessity of establishing the Mini Schengen Zone was dictated by France’s blocking of further EU integration for Albania and North Macedonia. At the same time, Aleksandar Vučić was facing fierce resistance from the domestic public, as well as criticism from the EU due to the vague and undeveloped idea of “demarcation” with the Albanians in Kosovo, which could have triggered a political crisis. Thus, for Rama and Zaev, the initiative was a way to put pressure on the anemic EU, while for Vučić, it was an option to get out of a predicament. Practically, the initiative was the result of the need to do something at a time when the EU was lacking ideas and had offered nothing but vague promises of membership in the long run and continuous conditioning of Belgrade by concessions regarding Kosovo [Proroković, 2022, p. 55–74]. The very name “Mini Schengen,” which would turn out to be temporary and of a working nature, indicated the essence of the signed declaration. It is possible that the process would have gone faster had it not been for the pandemic and its consequences during 2020 and the first part of 2021.

Since its launch, the initiative has been accompanied by fierce controversy about its possible limits and risks. Vangeli [2022, p. 62] showed that there are four general positions around which actors are clustered: enthusiastic early adopters, cautious followers, vocal opponents, and silent observers. The lack of sufficient data to link these positions to particular agendas or ideologies indicates that the initiative “is, in fact, potentially a disruptive development that may shuffle networks and allegiances in the region” [ibid.].

Advocates of the initiative regard it as a harmless and practical continuation of similar activities in previous decades, such as the Central European Free Trade Agreement (CEFTA). The value-added benefit of the OB is the abolition of non-trade barriers in commercial relations between Serbia and Albania [Miteva-Kacarski et al., 2022, p. 46]. As for North Macedonia's economy, CEFTA membership is regarded as even more important than the agreements with the EU and other free trade agreement partners given the intensifying trade relations in the region [Toshevska-Trpchevska et al., 2022, pp. 23–36].

The opponents of the OB see it as another form of being in the EU's "waiting room for membership" and as "a new buffer zone" [Karakoç, Botic, 2022, p. 287]. Moreover, the initiators of the project did not explain why and how this decision was taken. Another anomaly here is that Serbia was represented not by the prime minister, but by the president of the republic who does not hold any executive powers.

At the end of July 2021, the formation of the Open Balkan was formally promoted at the Economic Forum for Regional Integration in Skopje. On that occasion, three trilateral memoranda were signed (see Table 1).

Table 1. Memoranda Signed Within the Open Balkan (2021)

Memoranda of Understanding on Trade Facilitation	Defines areas of cooperation that would lead to trade facilitation
Memoranda of Understanding on Working Permits	Is a framework for further work on enabling free access to the labour market for all citizens of Albania, North Macedonia, and Serbia under the same conditions as citizens in that country
Memoranda of Understanding on Cooperation in Catastrophic Situations	Is a framework for faster and smoother cooperation between Albania, North Macedonia, and Serbia in cases of disasters

Source: [Chamber of Commerce and Industry of Serbia, n/d].

In the post-pandemic period, after the July forum in Skopje, an additional trilateral meeting in Belgrade followed in November 2021; it was of a preparatory nature, to agree on the details related to the big and solemn summit in Tirana a month later. Due to massive and partly violent demonstrations in Tirana against the OB led by the former Albanian president Sali Berisha, the opening and ceremonial part of the summit was organized in Elbasan. On the second day of the summit, a joint article by Rama, Vučić, and Zaev [2021] was published in the German daily newspaper *Frankfurter Allgemeine Zeitung* to explain the significance of the initiative. Two agreements were signed in Tirana providing access to the labour market of the three countries. Zaev had to resign the premiership on 22 December 2021, just one day after the summit, due to the defeat of his party in the previously held local elections. Nonetheless, in June and September 2022, the signing of new agreed documents continued (see Table 2).

The June summit in Ohrid (North Macedonia) is also significant in that the prime minister of Montenegro, Dritan Abazović, and the president of the Council of Ministers of Bosnia and Herzegovina, Zoran Tegeltija, attended as guests. Both leaders pointed out that there is an interest among businesspeople in Montenegro and Bosnia and Herzegovina to participate in the project, given that the "abolition of borders" would be an accelerator of economic growth. While the new prime minister of North Macedonia, Dimitar Kovačevski, invited the prime minister of Kosovo, Aljbin Kurti, to the meeting, he refused to participate, explaining that he "remains engaged in the Berlin process."

Table 2. The Scope of Agreements Signed Within the Open Balkan (2022)

Agreement on Mutual Recognition of Academic Qualifications	Enables easier access to the labour market through a faster and more efficient procedure of mutual recognition of academic qualifications
Agreement of Understanding on Cooperation in the Field of Tourism in the Western Balkans	Defines cooperation in the field of tourism through possible forms of cooperation in the field of harmonization of the regulatory framework (recognition of travel agencies, operators, the promotion of a unique tourist product, new tourist routes, joint performances at fairs, and conferences). For the purposes of further coordination, a joint working group will be formed that will adopt two-year work plans
Agreement of Understanding on Cooperation in the Field of Culture	Regulates possible forms of cooperation in the field of culture through joint calls for funding projects and regulates the easier mobility of artists within the OB and the issue of residence
Agreement of Understanding on Cooperation in the Field of Tax Administrations in the Western Balkans	Provides a framework for the cooperation of tax administrations in the domain of sharing experiences and best practices, promoting tax collection, and joint work on combating tax evasion
Agreement on Mechanisms for Ensuring Uninterrupted Supply of Basic Foodstuffs in OB	Ensures food safety and uninterrupted supply of basic foodstuffs within the OB
Agreement on Cooperation in the Field of Cinematography and Audio-visual Activities	Defines the exchange of best practices and experiences in the field of audio-visual policies with the aim of developing film culture in the Western Balkans. The establishment of a joint co-production fund of the Open Balkan for film professionals is also planned
Operational Plan in the Field of Civil Protection between MK, SRB, and ALB	Foresees the establishment of permanent channels of communication in civil protection through the operational centres, then the organization of joint seminars, conferences, exercises, round tables, training, and exchange of good practices and experiences

Source: [Chamber of Commerce and Industry of Serbia, n/d].

The September summit in Belgrade was even more salient due to attendance by the foreign ministers of Turkey and Hungary. Nonetheless, the Italian and Greek heads of diplomacy did not show political willingness to participate despite invitations. During the meeting, a bilateral memorandum on cooperation between Serbia and Albania in the field of energy was signed, which concerns the coordination of activities in the event of energy shortages.

Therefore, the EU's anemic policy in the Western Balkans inclined the leaders of three countries toward a more assertive sub regional integration. However, it turned out that their optimism was not shared by other stakeholders.

The EU, the U.S., and the Open Balkan

Generally, from the second half of 1990 until the present it has been widely considered that the EU and the U.S. have the same goals in the region—stabilization and modernization under the

Euro-Atlantic integration and its values. Although this general disposition is right, America's and Europe's critical interests in the region are different.

The EU's policy toward the Western Balkans can be explained in terms of the EU seeing this region as its own periphery. The presence of the EU has gradually expanded over the years, for instance through the CEFTA, the Regional Council for Cooperation (RCC), and the Berlin Process, though not without mistakes that fuelled the decline in support for integration, most noticeably in Serbia. But at the same time, through designed and organized functional binding, the EU increased the dependence of the Balkans on the EU and weakened their resilience. This was primarily facilitated by political elites, controlling economic flows and abusing the media space through which "politically correct" narratives were promoted. While the CEFTA served to break down barriers in the economy and promote free trade, the RCC contributed to the construction of the *acquis*. More than just a legal heritage, these assets are of a political and even ideological character. In this regard, it is worth comparing the OB with the Berlin Process (see Table 3).

Table 3. Open Balkan and Berlin Process: Similarities and Differences

	Berlin Process	Mini Schengen/Open Balkan
Startup Context	Initiated in Berlin in 2014, on the initiative of then Chancellor A. Merkel as a contribution to EU enlargement	Initiated in Novi Sad in 2019 by the leaders of Albania, North Macedonia, and Serbia in the context of a standstill in EU enlargement
Composition	Not a single country in the Western Balkans has reservations regarding the Berlin Process, nor is it considered unequal. All the summits were attended by the highest officials of the six countries of the region	There are reservations regarding this project in Bosnia and Herzegovina, Montenegro, and the entity of Kosovo. Kosovo rejects unequal status in OB, because Serbia and Bosnia and Herzegovina did not recognize it
Market Size	18 million people (WB6)	12 million people (only three countries)
Ratification Progress	All WB6 actors signed identical agreements and committed to their ratification	So far, bilateral and trilateral agreements have been signed. Serbia ratified five, and Albania and North Macedonia none
Scope of the Signed Agreements	Transport, energy, ecology, digitalization, roaming, mutual recognition of identity cards, university diplomas, and professional qualifications	Energy, agriculture, labour market, electronic services, veterinary and phytosanitary inspections, culture, education, and civil protections
Summitry	A summit is held once a year. Nine have been held so far	Several high-level meetings have been held since 2019. Two summits were held in 2022
Support From External Actors	Sponsored by the EU. The UK is also a participant	The OB enjoys the conditional support of the U.S. The conditions are as follows: a) it should not conflict with European obligations; b) all WB6 actors should become full members in future. The EU welcomes the OB cautiously as far as it is in line with the <i>acquis</i>
Attitude to Reconciliation Issues	One of the goals of the Berlin Process is reconciliation and the establishment of facts about the victims, as well as the processing of war crimes	The OB does not deal with the topics of reconciliation or establishing facts about victims and war crimes

Source: Compiled by authors.

The Berlin process was designed to bridge the problems and doubts around EU enlargement, as well as to amortize the negative effects of growing impatience and nervousness in Western Balkan societies and among elites. Realistically assessing that the accession of the WB6 to the EU would drag on indefinitely, and perhaps never end, Angela Merkel inaugurated this format to keep the “periphery” in the geopolitical orbit of the EU and continue the functional connection between the EU and the Western Balkans through the continuation of institutional cooperation. Through the Berlin Process, the “no-alternative path” to the EU is essentially determined and extended, although there is no guarantee that its ultimate outcome will be membership of the Western Balkan actors in the EU.

One of the most important achievements of the Berlin Process occurred in 2020, with the setting the goal to establish a common regional market. In parallel with that, the Economic and Investment Plan of the European Commission envisages the use of up to 9 billion euros from the Instrument for Pre-Accession Assistance (IPA III), while up to 20 billion euros of investments will be mobilized from the private sector and international financial institutions, thanks to guarantees. Provision of guarantees for investments in the areas of sustainable transport, clean energy (implementation of the Green Agenda), digital future, human capital, and environmental protection is also foreseen.

At first glance, the plan may seem impressive, grandiose. However, experiences in cooperation with the EU and the operationalization of imagined strategies are somewhat different. A huge percentage of these funds goes to consulting services, audits, and various types of guarantees, which must be performed by institutions or private companies from the EU; moreover, when purchasing goods or services, end users from the Western Balkans practically have to opt for providers from the EU, which are usually more expensive than those from China, Turkey, or Russia providers. In short, only a part of the approved funds will eventually reach the Western Balkans, and even that part, larger or smaller, will have to be spent to some extent on structural adjustments, institutional reforms, and harmonization of national strategies with EU regulations.

This may also account for Rama’s, Vučić’s, and Zaev’s motivations to initiate the OB. Their desire to speed up integrations by first establishing Mini Schengen and then the OB is probably also due to the slowness of the EU and the fact that Brussels institutions start with the interests of the EU and then fit candidate projects from the Western Balkans into them—projects are approved in areas that are strategic priorities of the EU even though the Western Balkan actors have completely different strategic priorities [Stanojević, 2022, pp. 117–46]. Thus, from this perspective it can be argued that the implementation of the Berlin Process is accelerated through the OB, and the EU cautiously welcomes the OB as far as it is in line with that process. For instance, the recommendations of the European Parliament [2022] adopted in November 2022 express “strong reservations regarding any regional cooperation initiative that does not include all six countries of the Western Balkans and is not based on EU rules, such as the Open Balkan initiative.” In her speeches, the president of the European Commission also avoids overt support of the OB, emphasizing the importance of the Berlin Process.

The OB is clearly not the same as the Common Regional Market. Therefore, for the EU it can be tolerated if it is based on EU *acquis*, which implies all the achievements that were articulated in the Berlin Process anyway. It means that, for the EU, the OB has a future only as part of the Berlin Process.

Considering U.S. interests, the necessity for, and tasks of, the OB has other accents. Prior to the current phase of the Ukrainian crisis, there were many contradictions between the U.S. and its North Atlantic Treaty Organization (NATO) partners from so-called “old Europe.” This led to greater attention being paid to “young” allies from Central and Southeastern Europe and the elevation of their position in common NATO strategy. In this sense, the OB plays a sup-

plementary role to the common place of Southeastern Europe in the southern wing of NATO. Military cooperation and the forming of common logistics and infrastructure are crucial points of NATO strategy in the Balkans. Thus, the main task of the U.S. is to increase connectivity in the region, especially in the political and military spheres. The OB is suited to this task: it establishes borderless space necessary for further movement in operational compatibility. This is one of the reasons Washington welcomes the participation of all WB6 countries in the OB project. In addition, it supports the Washington Treaty signed by Pristina and Belgrade in September 2020: one of the points was the promise for \$13 billion in investments in joint projects in transport and infrastructure construction.

For the U.S., in contrast to the EU, the priority of integration is not institutional modernization or regional economic cooperation with the further aim to integrate the European market more deeply, but rather the formation of single political and military space from the Baltics to the Balkans. The fact that they are ready to make economic investments in the region without predictable economic conversion (which is not typical of American investment programmes globally) is just another proof.

Criticism of the Open Balkan

There are criticisms of the OB in addition to those already noted. The Balkan Forum published a study funded by the Rockefeller Brothers that predicts that the OB will have negative implications, both on a symbolic level and on real regional cooperation, in that it is an idea of a single market not relying on “European heritage” [Taylor, 2022b]. This is true to a certain extent, regardless of the assurances of compatibility with the Berlin Process. Unlike the Berlin Process, which is based on the principle of “first the *acquis* and standards, then the single market,” the Open Balkan is based on the principle “first the single market, then we’ll see what happens with the *acquis* and standards.” The OB bears the imprint of real cooperation that may go beyond western control and be exploited by non-western actors.

The most promising non-western actor in this regard is China, whose investments are increasingly significant and extensive. For opponents of the OB, especially those sharing anti-Chinese narratives, this is one more matter of concern, which is especially heightened considering the degradation of European security since 2022. One of the expected consequences of the EU’s focus on Eastern Europe in the context of the Ukrainian crisis is a decrease in attention paid to the Balkans.

Edward P. Joseph, senior fellow at Johns Hopkins University, warned about the possibility of an unfavourable development of the situation in the light of the imbalance in the economic power of the actors. Given that the Serbian economy is twice as large as Albania’s and North Macedonia’s combined, he argued that Serbia will benefit more than its neighbours and translate economic power into political power [Elezi, 2022].

The EU’s political achievements in the Balkans rest on the narrative of Serbia as the source of problems, Serbian crimes, and the necessity of sanctioning and punishing the Serbs, which Joseph actually repeated by comparing the situation with the position of Germany in the decades after the Second World War (a parallel between “Milošević’s Serbia” and “Nazi Germany” was, in its turn, quite widespread during the 1990s in western political and intellectual circles). Proposals that were taken very seriously are that “the basic role of the OB in Serbia’s foreign policy is to create a positive image of Serbia as an initiator of cooperation and reconciliation in the Western Balkans, but also a guarantor of stability in a politically unstable area” [Rapaić, Matijević, 2022, p. 77]. Hence the warning that emerged based on Albanian public opinion: “From the Albanian side, the government in Tirana should do more to convince the

general public and the political opposition that this is an initiative that does not come at expense of the Republic of Kosovo and that it does not come with the incurring of additional economic costs due to trade asymmetries with Serbia that has the comparative advantage among the WB6 due to its quasi-hegemon status in the region. Also, it should be made clear that this project does not complement or contradict other agendas and trade relations that each country has with third countries” [Kalemaj, 2023, p. 37].

Therefore, according to this school of thought, anything beyond the “EU umbrella” should not be supported. This narrative was accepted, for example, by Kosovo prime minister Albin Kurti (and Salji Berisha in Tirana, who organized demonstrations in December 2021), who “resolutely rejected the initiative as harmful and said that the countries of the region should work to prevent Serbia from promoting Russian and Chinese interests.” [Sot, 2021b] The same narrative was accepted by the Bosniak politicians in Sarajevo and also by that part of the Montenegrin political elite that built its discourse on extreme anti-Serb attitudes [Starinac, 2022].

When the discourse is constructed in this way, it is not surprising that a short statement by Sergey Lavrov about the OB was given a negative connotation [Taylor, 2022a]. Because, although it cannot be ruled out that the project is “only political theater, it is also suggested that the fatigue of ‘running to Europe’, accompanied by internal problems, could put pressure on the three leaders to explore innovative approaches” [Semenov, 2022, p. 24].

Discussions within the Montenegrin public were stimulated by the Analysis of the Advantages and Disadvantages of Montenegro’s Participation in the OB Initiative, prepared by the Ministry of European Affairs with the help of the German Organization for International Cooperation (GIZ). Despite the position of Prime Minister Abazović, the document lists numerous objections to the project (lack of legal framework, absence of mechanisms for monitoring and evaluation of the implementation of agreements reached, and the non-transparency of the entire process) and does not recommend joining this initiative [Popović, 2022].

Sentiments against the OB were also detected in Serbia. It was not adequately explained by Aleksandar Vučić (in the National Assembly, for example) why integration with Albania and North Macedonia started so early, nor was an answer given as to how the issue of Kosovo’s status is viewed in the context of the OB. Thus, the initiative is seen as inconsistent with preserving the territorial integrity of Serbia.

The absence of a high level of support for the OB among the publics of the Western Balkan countries reflects political discourses in the region. “The political discourses toward regional integration are, on the one hand, a product of the internal unfinished process of state and nation-building, while on the other hand, they are a direct consequence of open bilateral issues and the absence of a clear perspective of membership in the European Union. The dominant negative discourse on the Open Balkan initiative equates regional integration with the fear of losing sovereignty both over internal political processes and on the path of European integration” [Surlić, Lazarević, Kolarski, 2022, p. 57].

Doubts and criticism are also expressed regarding the role of George and Alexander Soros in the initiative. It is symptomatic that even the name of the regional initiative coincides with Soros’ Open Society concept. “The Open Balkan project was promoted by George Soros, it is a completely American idea. The name also shows what Soros represents—an open society” [Tevel, 2022]. It is also significant that the principles of cooperation coincide with the numerous ideas of George Soros about the future of the Balkans published in the last quarter of a century. In the summer of 1999, immediately after the end of NATO aggression against Yugoslavia, he proposed: “The Balkans cannot be reconstructed on the basis of nation states. In the first instance, [it is necessary to] create a free trade area similar to Benelux. As soon as the EU is satisfied with its control over customs, it would admit the area to the European Common Market” [Soros, 1999]. Alexander Soros attended the founding summit in Tirana (Edi Rama said that

he attended it as a representative of the Atlantic Council and the Open Society Foundations NGOs), but it is noticeable that he met with representatives of three counties even in the years and months before this gathering [Sot, 2021a]. In 2018, Soros argued in favour of a common Western Balkans market which will let the region to modernize its financial markets without solutions being dictated from Brussels or Washington, while the consequences of inaction would lead to one more “Balkanization” [Soros, Soros, 2018].

Conclusion

In contrast to the initiatives of western actors, which are proceeding slowly, the implementation of the Mini Schengen and OB projects unfolded quickly. The set of agreements signed should contribute to the creation of a single market and promote sub regional integration, regardless of acute political issues among the participants—the status of Kosovo being the most sensitive among them, in that Albania not only recognized the unilaterally declared independence of its compatriots from the Serbian province, but actively facilitated the process. Undoubtedly, political leaders of Albania, Serbia, and North Macedonia have shown that, with political will, it is possible to quickly and efficiently articulate common interests to overcome a crisis such as when the EU blocked further integration of two states and conditioned the third. The support of George Soros (through Alexander Soros) was also important for the realization of these initiatives because this enabled even “conditional support” from the U.S., which was also important in order to prevent greater protests or obstructions from the EU.

Guided by the principles of liberal institutionalism, Rama, Vučić, and Zaev (that is, his successor, Kovačovski) made a positive breakthrough in the field of regional relations and contributed to the improvement of cooperation. But for these principles to produce results, institutions must first emerge. The absence of institutions (legal frameworks, bodies for implementation, or even accompanying acts that operationalize the signed memoranda and agreements), their slow formation or non-transparency, and the absence of concrete plans on the fulfilment of the strategic vision, as well as major political disagreements, exacerbated controversy around the OB. As time passes, these deficiencies may become more noticeable. It is quite appropriate to raise the question here: how much administrative capacity do the three states have to independently implement the regional integration project? The answer to this question is more negative than positive given the international political circumstances. Balkan politics is about both “intellectual mutterings about the exotic and violent Balkans” and “nonsense that reflects the unbearable ease of labelling,” which stays true when it comes to the Open Balkan. The OB is also referred to as a “Greater Serbian project” that will destroy everything that was achieved in the establishment of a regional hierarchy by the U.S. and the EU in previous decades (although Serbia is struggling to prevent the legitimization of secession on part of its territory), but also as a possible platform for strengthening non-western influences in the Balkans—Chinese, Russian, and Turkish (despite the fact that Albania and North Macedonia are members of NATO).

Such theses also create a political environment that favours the EU’s position that the Open Balkan is not only an unnecessary, but somewhat dangerous integration. The EU perceives this initiative as competing with the Berlin Process and it can only support it in such a context. But, if this happens, then the Open Balkan will essentially be absorbed into the Berlin Process, and the success of the founders will be used to strengthen the influence of the EU in the region (completely returning regional integration to the supervision and control of the EU), which seems to have been reduced in previous years (otherwise, there could be no Open Balkan). In this escalation, from the point of view of structural realism, the three Balkan states simply do not have sufficient capacities of economic and political power to oppose the EU, and

it is to be expected that sooner or later they will succumb to pressure and be forced to submit to the Berlin Process, unless there is even more dramatic and unpredictable turbulence international relations that, hypothetically, could cause the disintegration of the EU or the blocking of EU institutions, leading to the neglect or disappearance of the Berlin Process. In accordance with this analysis, considering the reasons for, and way of starting, the initiative, the international environment, results, and shortcomings, it can be concluded that the Open Balkan will be as sustainable as the U.S. and the EU allow. Accordingly, regarding how the U.S. and the EU anticipate this project, as part of the solution or as part of the problem, such will be its fate.

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Mega FTAs and the Indo-Pacific Economic Framework (IPEF) in the Asia Pacific Region: Will It Be Cooperation or Competition?^{1, 2}

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Abstract

The Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are two mega free trade agreements (FTAs) in the Asia and Pacific region. However, their economic interests are rather deeply divided and related to political and security issues. Trade conflicts between the U.S. and China have continued since 2018. To tackle Chinese expansion, the Biden administration initiated the Indo-Pacific Economic Framework (IPEF) in 2021 instead of returning to the CPTPP. This article reviews the two mega FTAs and IPEF, as well as East Asian collaboration and competition in the region. It examines the East Asian countries' economic interests in participating in the mega FTAs and IPEF and considers how to overcome the protectionism caused by the trade conflicts between the G2. Finally, it analyzes the roles and strategies of major economies overcoming protectionism as the new global supply and value chains are reshaping in the region.

Keywords: Mega FTAs, protectionism, FTA strategy, new global supply and value chains, IPEF

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Introduction

Global trade has contributed to a rapid economic growth since the Second World War. However, the growth of trade volume started to slow particularly after the global financial crisis (GFC) in 2008. It started to recover shortly after 2015 but declined again due to the global trade conflicts between the Group of 2 (G2) countries (the U.S. and China) under the Trump administration in 2018 and the COVID-19 pandemic in 2020. In particular, the pandemic represented an unprecedented disruption to the global economy and world trade, as production and consumption were scaled back across the globe. Additionally, the prospects for the global economy have darkened since the outbreak of war between Russia and Ukraine on 24 February 2022 (declared to be a special military operation in Russia) that puts fragile global trade recovery at risk. As a result, the world trade volume in goods bottomed in the second quarter of

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2020 and is estimated to grow to 3% in 2022, which is down from its previous forecast of 4.7% and 3.4% in 2023. Global gross domestic product (GDP) is expected to increase by 2.8% and 3.2% in 2022 and 2023, respectively, after rising 5.7% in 2021. This estimation is assumed by persistent geopolitical and economic conditions. The large annual growth rate for merchandise trade volume in 2021 was regarded mostly as a reflection of the previous year's slump. Additionally, global trade in services is still expected to lag global trade in goods, particularly in sectors related to travel and leisure, due to a continuing pandemic based on dangerous variants of COVID-19 (although most advanced nations have removed most of the restrictions). Therefore, world trade in goods could grow between 0.5% and 5.5% in 2022 according to the World Trade Organization's (WTO) forecasts (Fig. 1) [WTO, 2021a; 2022].

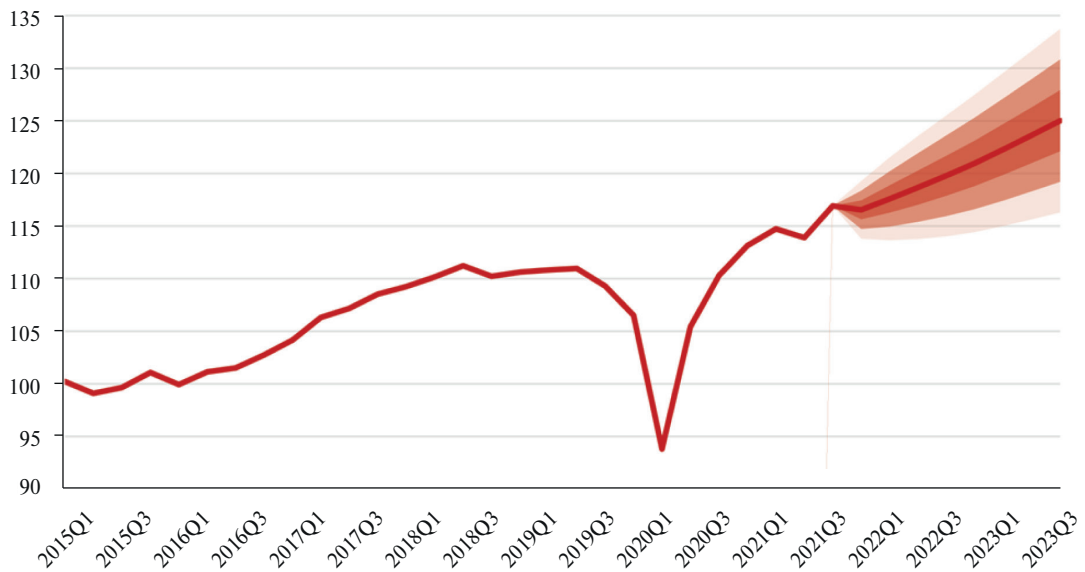


Fig. 1. Estimated Trend of World Merchandise Trade Volume (2015–2023)

Source: [WTO, 2022].

Note: Seasonally adjusted volume index, 2015 = 100.

The world trade volume in merchandise has tended to grow by an average of close to 1.5 times higher than global GDP growth from 1981 to 2020. During the 1990s, particularly, it grew more than twice than GDP growth. However, the ratio of trade growth to GDP growth has become more or less equal since the GFC, apart from growth in 2010, 2011, and 2017. Therefore, many countries, aiming to boost their trade volumes and economic growth, opted to create bilateral, regional, and mega free trade agreements (FTAs) since the 2000s instead of following the WTO's multilateral principles. This new approach worked properly before the GFC but started to show its limitation after the crisis, and it has faced difficulties due to the protectionism and the sudden global trade downturn caused by the trade conflict between the G2 nations, the COVID-19 pandemic, and the outbreak of war in Ukraine. These have seriously hindered the global supply chains (GSCs). The pressure on GSCs started to decline at the end of 2021 but remained high in 2022. Additionally, it is possible that the current war in Ukraine might lead to

increased supply chain pressures due to the energy and food crises [Benigno et al., 2022; WTO, 2017; 2021b] (Fig. 2).

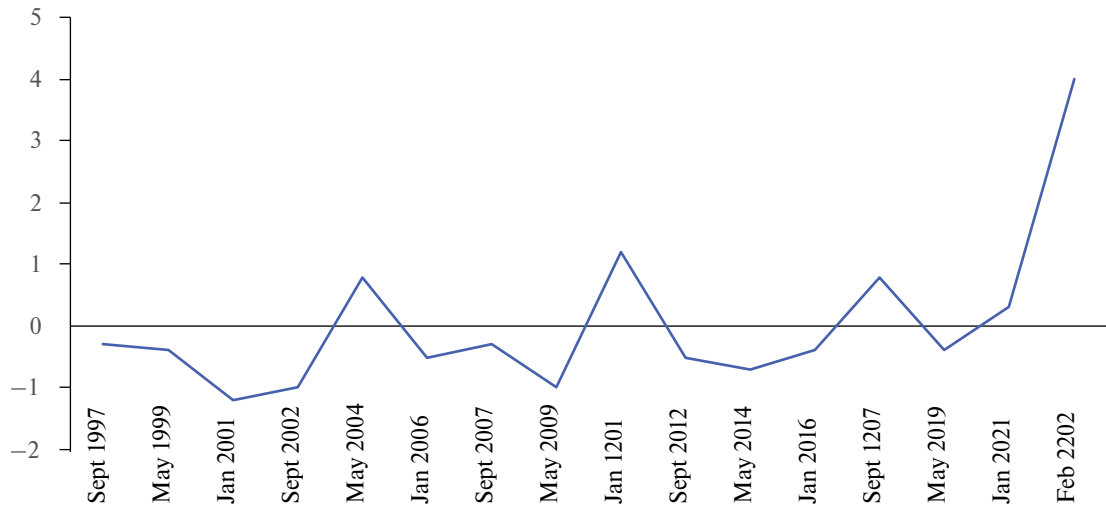


Fig. 2. Trend of Global Supply Chain Pressure Index (1997–2021)

Source: [Benigno et al., 2022].

In January 2022, there were 350 FTAs in force and, among them, 174 were signed and in effect in the Asia and Pacific region. Seventy-seven FTAs are still in negotiation and 15 are signed but not yet in effect. All FTAs are either bilateral or plurilateral. Singapore is the leading country with 37 FTAs and China and Korea follow with 32, respectively. Other Asian countries, including India with 30 and Japan with 27, also play significant roles in terms of FTAs due to the size of their economies in the region [ARIC, n.d.].

In addition to bilateral and plurilateral FTAs, the Asia Pacific region has become a common ground for mega FTAs after the completion of the Regional Comprehensive Economic Partnership (RCEP), led officially by the Association of Southeast Asian Nations (ASEAN) but practically by China, in November 2020 and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), led by Japan, in December 2018. China negotiated RCEP with the 10 ASEAN states and with six additional states with which ASEAN had existing trade agreements. The ambition of RCEP is to promote regional economic integration in East Asia and to expand it to the Asia-Pacific region, despite the Indian withdrawal from it in the final stage. Among the 15 states in RCEP, seven participate in the CPTPP as well. The CPTPP aims to rebalance Japanese political and economic interests against Chinese influence in the region as a part of global strategies given the U.S. withdrawal from the Trans-Pacific Partnership (TPP) in 2017.

Among the three major economies, only Japan has participated in the two mega FTAs at the same time, while China and Korea have participated only in RCEP. Due to the rapidly changing global trade environment related to security issues and the U.S.-led rebuilding of GSCs, China, Korea, and Taiwan strongly expressed their intentions to join the CPTPP at the end of 2021. Without any participation in the mega FTAs in the Asia-Pacific region, the U.S. initiated the Indo-Pacific Strategy (IPS) in 2022 to engage in the region practically and systematically. It mainly aims to prevent China's further expansion and to reshape the new U.S.-led

GSCs in the global economy. The IPS consists of 10 action plans, and the Indo-Pacific Economic Framework (IPEF) is represented by the core action plan of building new GSCs [Elms, 2018; Graceffo, 2017; Park, Petri, Plummer, 2021; The White House, 2022].

This article focuses on the approaches of the major economies to mega FTAs such as RCEP and the CPTPP and on their development and impact in the near future. Additionally, it deals with possible impacts of the trade conflicts within the G2 on the three major economies and analyzes their implications for East Asian economic collaboration and competition. Finally, it touches upon reasons why the reshaping of the new GSCs in the region through IPEF is necessary. Various research methods are used, including critical analysis of literature, an inference method, and a method of quantitative and qualitative statistical analysis.

Mega FTAs for East Asian Economic Integration and IPEF for Indo-Pacific Strategy

ASEAN-Centric Regional Comprehensive Economic Partnership (RCEP) Led by China

The path to RCEP was long and difficult. After two decades of preliminary discussions on the desirability and feasibility of Asian economic cooperation, East Asian countries, led by ASEAN, decided to establish a regional economic framework, comprehensively known as RCEP. The states participating in RCEP negotiations were the ten ASEAN members and six other states in the region—Korea, China, Japan, India, Australia, and New Zealand. They began the negotiations in November 2012. RCEP negotiations spanned some of the world's most developed and least developed countries, which constrained the ambition of the agreement. However, diversity among the 16 participating countries enabled a more efficient division of labour and enhanced the potential for deepening existing supply chains [Park, 2016; Park, Petri, Plummer, 2021].

It was a long process to agree to RCEP. Regional economic cooperation in East Asia began to intensify in response to the Asian financial crisis in 1997, and the first ASEAN+3 (Korea, China, and Japan) summit meeting was held in 1998. At the summit, Korea suggested the establishment of the East Asia Vision Group to collectively overcome economic and financial problems and difficulties in the region. The expert group focused on examining the goals for long term economic cooperation and further developed the idea of the East Asia Free Trade Area (EAFTA) in 2002. ASEAN+3 economic ministers proposed that the EAFTA would need to be negotiated among ASEAN countries first and that membership could then be opened to other East Asian economies [ASEAN Secretariat, 2009; Joint Expert Group, 2009; Kawai, Wignaraja, 2011; Urata, 2013; 2021].

Parallel to the Korean approach, at the ASEAN+6 economic ministers' meeting in 2006, Japan proposed the Comprehensive Economic Partnership in East Asia (CEPEA), which would be an agreement on a region-wide FTA covering ASEAN+6 states. Japan's economic rationale to set up the CEPEA was that the economic advantage of the CEPEA could be larger than that of the EAFTA because the incorporation of resource-rich Australia and rapidly growing India could generate economic growth for East Asia as a whole. Japan also strongly intended to play a leadership role in setting up a regional institution because China had taken the initiative in the EAFTA discussions. The competition between China and Japan to take a leadership role in the establishment of a region-wide FTA under the EAFTA and the CEPEA encouraged China to speed up the process of regional economic integration in East Asia when Japan decided to participate in the TPP, led by the U.S., in 2011 [Kawai, Wignaraja, 2008; Xiao, 2015].

Under these circumstances, ASEAN proposed RCEP involving ASEAN and its FTA partners in 2011 because it did not want to lose its centrality in East Asian regional integration. ASEAN understood that it could lose its leadership position if China, the U.S., other large economies, and half of ASEAN's members participated in the negotiation of the TPP. After signing multiple bilateral FTAs between ASEAN and other East Asian economies, ASEAN and its regional partners had become concerned about Asian "noodle bowl" effects that emerged as obstacles to establishing new regional production networks based on free markets in East Asia. RCEP thus emerged as a tool to integrate ASEAN and East Asian economies in support of their common aspirations in the region [Yi, 2014].

Furthermore, ASEAN announced that the guiding principles for the negotiations of RCEP would include WTO principles such as consistency, transparency, open accession to ASEAN's FTA partners, and others. Based on such principles, Brunei, Malaysia, Singapore, and Vietnam participated in RCEP and the CPTPP at the same time. As a result, ASEAN+6 leaders agreed to launch the negotiation of RCEP in November 2012 and concluded its agreement in November 2019, without Indian participation. [Hearn, Myers, 2015; Johnston, 2017; Park, 2021].

The population of states within RCEP is more than 2.3 billion people, and the output was over \$26 trillion in 2020. Its GDP accounted for 30.7%, and the total trade volume was \$10.4 trillion in the same year, that is, 29.5% of the world trade volume in merchandise. There is no doubt that RCEP could create the world's largest trading bloc, until the U.S.-led IPEF is established, even though India withdrew at the last moment. It could have major implications for the global economy, including the spread of global production networks and the reduction of inefficiencies for multiple Asian FTAs [Goodman, Arasaingham, 2022; Park, 2021; Suh, 2014; World Bank, n.d.a] (Fig. 3).

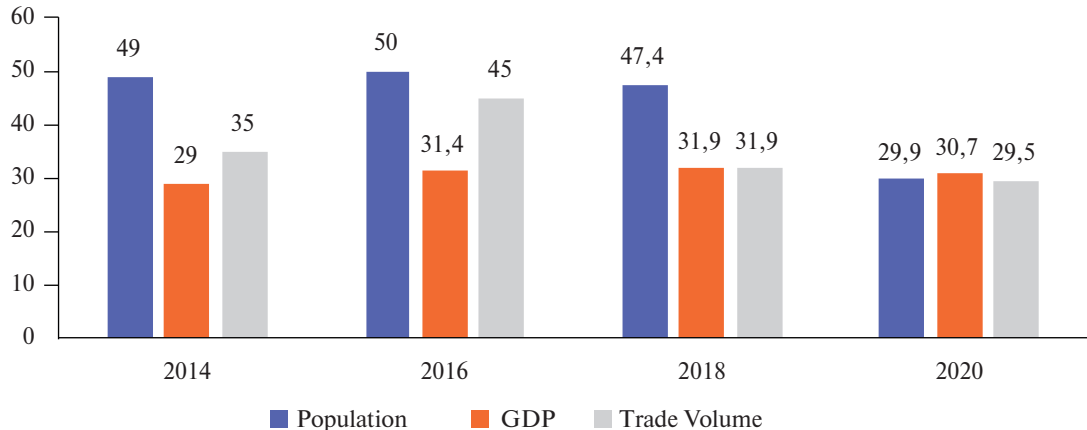


Fig. 3. RCEP's Share of World in Population, GDP, and Trade in Merchandise (%)

Source: [WTO, 2021a; 2021b; World Bank, n.d.a; n.d.b].

Note: Statistics in 2020 are without India.

RCEP needs strong leadership, but it must be based on ASEAN's centrality because its role is regarded as impartial. In addition, China and Japan might not trust each other due to their rivalry in the region. However, RCEP is a tool for rising China in the region and ASEAN, Korea, and Japan are concerned that China could eventually dominate East Asia through a

China-led East Asia Economic Community. Due to the possibility of Chinese economic dominance, countries such as Japan, Korea, the Philippines, and Vietnam have actively tried to balance between China and the U.S. to hedge against China's possible threat. However, in the near future, it will not be possible for China to dominate in East Asia, as Japan did during the 1980s with over 75% of the regional GDP, because the economies of Korea and ASEAN are still vigorous and generate high economic growth. Therefore, the share of China's regional GDP could be around 55–60% to a peak in the future that depends on Indian participation. Later, it will slow as the Chinese economy matures and China faces domestic challenges such as a rapidly aging society and declining fertility [Chen et al., 2022; Park, Pasierbiak, 2018; Suh, 2014; Wang, Zhao, Meng, 2022] (Fig. 4).

The collapse of the TPP leaves China as the de facto leader of large scale regional economic integration, with RCEP as the main pillar. Moreover, RCEP will probably be more open to new members in the Asia-Pacific region. China foresees Chile's and Peru's participation in RCEP and emphasizes its intention to keep its scheme open to any possible members. As a result, RCEP may enhance the regional and global roles of China, which could potentially contribute to creating bilateral rivalry with the United States. Among the major members of RCEP, their priorities are very diverse. China maintains its intention to make RCEP the basis of trade rules in the Asia-Pacific region, while Japan focuses on providing a high level of liberalization, comparable to that of the TPP. Korea stands for high levels of liberalization in trade and investment. In November 2019, 15 RCEP members, without India's participation, finally agreed on all 20 chapters and essentially all their market access issues and decided to proceed with legal processes. RCEP was signed in November 2020 and was expected to be in force by January 2022. China can now use it as a tool to set up trade rules in the region [Basu Das, 2017; Chaisse, 2020; Kumar, Charlton, 2017].

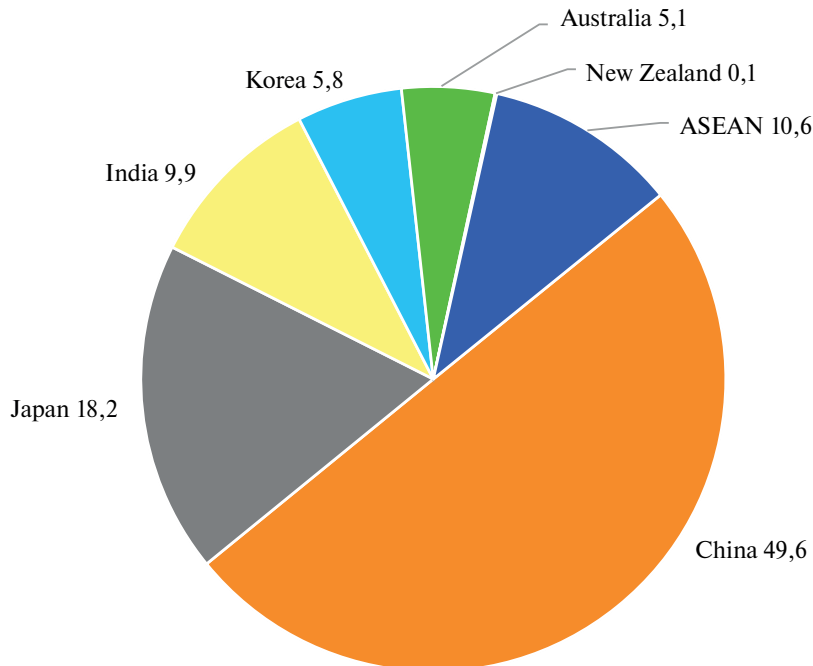


Fig. 4. Share of GDP of RCEP Members (2018, %)

Source: [The World Bank, n.d.b].

International investment agreements have played a positive role in generating economic growth and strengthening regional economic integration, along with trade. RCEP members have been very active in concluding bilateral investment treaties (BITs) and treaties with investment provisions (TIPs) that have intensified regional economic integration and the building of regional supply chains (RSCs). China has led this trend, concluding 125 BITs (106 of which were in force in 2022), while Korea, Malaysia, and Vietnam follow with 93, 66, and 62, respectively. In TIPs, Singapore is the front runner with 38 TIPs, while Korea, Malaysia, and Vietnam follow with 26 in the same year [Bobowski, Drelich-Skulska, 2022; UNCTAD, 2022] (Table 1).

Table 1. Trend of Bilateral Investment Treaties and Treaties With Investment Provisions by RCEP Members (2022)

Members	BITs (in force)	TIPs (in force)
Australia	15 (15)	23 (21)
China	125 (106)	25 (22)
Japan	36 (32)	22 (20)
New Zealand	4 (2)	18 (16)
Korea	93 (87)	26 (21)
Brunei	7 (5)	22 (19)
Cambodia	26 (16)	18 (16)
Indonesia	43 (27)	22 (17)
Laos	23 (21)	17 (15)
Malaysia	66 (55)	26 (23)
Myanmar	10 (8)	16 (14)
Philippines	39 (31)	17 (16)
Singapore	48 (38)	38 (33)
Thailand	39 (36)	24 (22)
Vietnam	62 (49)	26 (20)

Source: [UNCTAD, 2022].

Japan-Led Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) Without U.S. Participation

The U.S. took over its leadership after participating in the TPP negotiations in 2010 and aimed to create U.S.-led trade rules in the Asia-Pacific region in keeping with the “pivot to Asia” policy under the Obama administration. The U.S. government realized that global trade and investment are critical to the U.S.’ economic performance and national security. In fact, more than 95% of the world’s population and 80% of its purchasing power exist outside the United States. Moreover, the Asia-Pacific region is regarded as the most rapid economic growth hub in the world, one which will create the greatest consumption growth over the next several decades. Therefore, it is critical for the U.S. to complete region-wide trade agreements, such as the TPP, with allies and other states in the region to strengthen its influence in the regional economies and politics [Task Force on U.S.-China Policy, 2017].

In fact, the U.S. intended to use the TPP as a mechanism for isolating China in East Asia. The TPP, with the high standard of agreement, is still a high barrier for China to overcome in the near future, although China has announced that it is ready to participate in the CPTPP. The CPTPP, without the participation of the U.S., does not intend to exclude China in East Asia. However, it is practically difficult for China to agree to all the terms of the CPTPP because it is inevitable that China will change its policies to sustain economic growth through state subsidies to state-owned corporations and will ensure social stability via strong state control instead of the free market mechanism. Chinese leadership understands that rapid market reform is not a feasible pathway and that, therefore, China cannot participate in the CPTPP negotiations, at least in the short term. The recent announcement of Chinese participation in the CPTPP is thus purely political, intended to gain a major symbolic and strategic victory as it seeks to replace the U.S. as the economic hub of the agreement in the region. Along with this Chinese attempt, Korea and Taiwan also expressed their intentions to join the CPTPP in September 2021 [Hopewell, 2021; Suh, 2014].

The TPP's position in the world economy and trade is very significant as well. The output of its 12 members accounted for \$28.9 trillion in 2016, which was about 37.1% of the world's GDP. Its population share was slightly higher than 11% in the same year. The TPP's GDP share in the world economy increased from 38% in 2014 to 38.2% in 2015 and declined slightly to 37.1% in 2016. Total world trade volume in 2014 accounted for \$23.4 trillion and declined to \$20.9 trillion in 2015—an 11.2% decline. However, total trade share of the TPP in world trade increased from 32% in 2014 to 41.5% in 2015, clearly showing the TPP's weight in the world economy and trade. The TPP had become the second largest mega FTA in terms of its GDP and trade volume. However, its economic size declined rapidly after the U.S.' withdrawal in 2017. The CPTPP's position in the world population, GDP, and trade volume accounted for 6.7%, 12.8%, and 14.9%, respectively, in 2020 [Francois, Elsig, 2021; WITS, n.d.; World Bank, n.d.c] (Fig. 5).

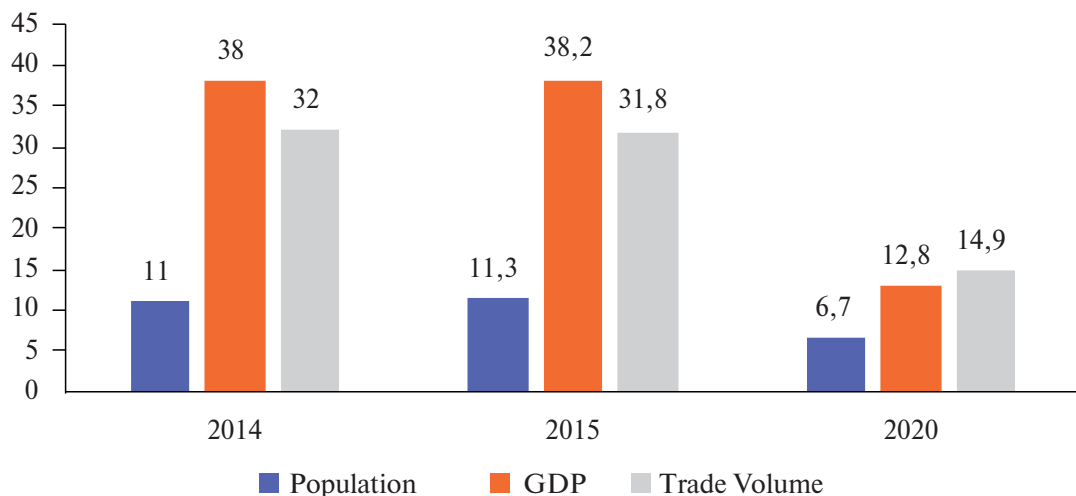


Fig. 5. TPP and CPTPP's Share of World in Population, GDP, and Trade in Merchandise (%)

Source: [WTO, 2021a; 2021b; World Bank, n.d.c; Francois, Elsig, 2021].

Note: Statistics in 2020 are without the United States.

Due to the firm U.S. focus on bilateral FTAs instead of multilateral ones and the U.S.' withdrawal from the TPP, Japan, under Abe's leadership, tried to move the TPP forward without the U.S.' participation. Despite the strong resistance of Malaysia and Vietnam, Japan, and other members, including Australia and New Zealand, were able to create the CPTPP in May 2017. The CPTPP incorporates most of the TPP provisions by reference but suspended 22 provisions that the U.S. had preferred, but which other members had opposed [Government of New Zealand, n.d.].

Eleven states reached an agreement in January 2018 to conclude the CPTPP and it was formally signed on 8 March 2018 in Santiago, Chile. The agreement specified that its provisions would enter into force 60 days after ratification by at least 50% of the signatories, that is, six of eleven states. The sixth to ratify the CPTPP was Australia on 31 October 2018. As a result, the CPTPP came into force for the initial six ratifying countries on 30 December 2018. The CPTPP represented around 13% of global GDP in 2020 and accounted for approximately \$11 trillion, making it the third largest FTA in the world by GDP after RCEP and the USMC. Its share of global GDP declined heavily to 12.8% due to the COVID-19 pandemic in 2020. The Japanese share of GDP was overwhelming at 46.7% (as was the Chinese share in RCEP). However, the share of the CPTPP in global GDP shrank dramatically due to the U.S.' withdrawal [Francois, Elsig, 2021; Torrey, 2018; World Bank, n.d.a, 2022] (Fig. 5 and 6).

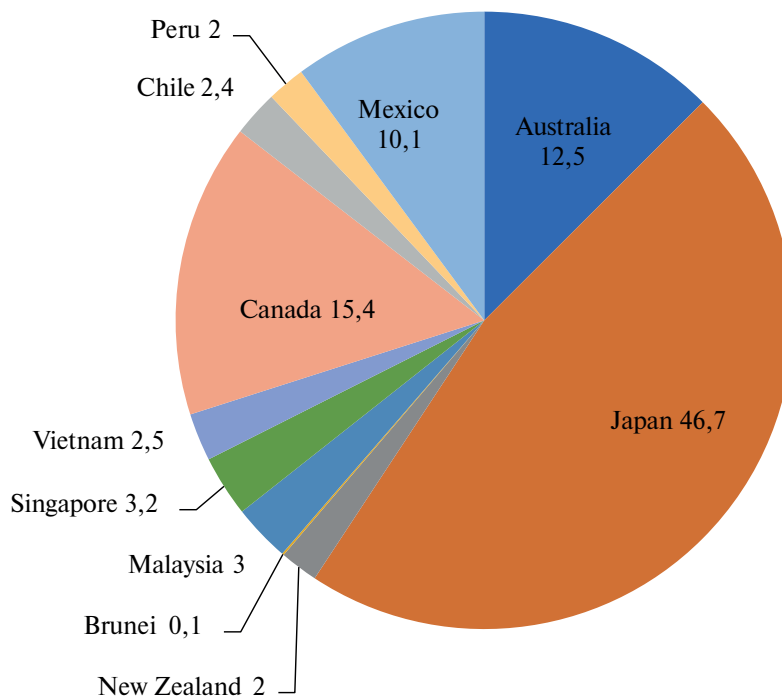


Fig. 6. GDP Share of CPTPP Members (2020, %)

Source: [World Bank, n.d.a].

The U.S.-Led IPEF for Indo-Pacific Strategy (IPS)

The U.S. has recognized the Indo-Pacific region as vital to its security and prosperity since its arrival in the region in 1850. In particular, U.S. governments have solidified their ties with the region in the post-war era through treaty alliances with Australia, Japan, Korea, the Philippines, and Thailand. This foundation of regional security allowed the alliances' emerging democracies to generate high economic growth and social stability. This expanded further to the region's premier organization, ASEAN, which developed close trade and investment relationships as well as international law and norms such as human rights, rule of law, democracy, and freedom of navigation. Owing to the growing strategic value of the Asia-Pacific region, U.S. administrations from George W. Bush to Donald Trump accelerated their prioritization of Asia and invested new diplomatic, economic, and military resources. Particularly, the Trump administration recognized the Indo-Pacific as the world's centre of gravity, although his policy priority was represented as "America first." Under the Biden administration, the U.S. will strengthen its long-term position and commitment to the Indo-Pacific region in order to check and control the Chinese economic, diplomatic, military, and technological influences in the region [The White House, 2022a].

In 2022, the Indo-Pacific region had over half of the world's population, including 58% of youth, and accounts for approximately 60% of the global GDP and generates two thirds of global economic growth. Additionally, it covers 65% of the world's oceans and 25% of its land. It is no wonder why the U.S., even under the Trump administration, has recognized its strategic interests there. The U.S. focus has intensified due to the mounting challenges by China as it pursues influence in the region, in particular, and seeks to become the world's most influential power in general. With Chinese expansion in the region, Korea and Australia have experienced economic coercion, and Taiwan is threatened by Chinese aggression. Additionally, ASEAN members in the East and South China Seas are still confronting for their sovereignty guaranteed by the international laws. Overall, these issues have caused regional instability and threatened the prosperity of the Indo-Pacific region.

The U.S. government has also recognized that the region faces other major challenges such as climate change, the COVID-19 pandemic, and North Korea's illicit nuclear weapons and missile programme. To tackle these comprehensive challenges, the Biden administration decided to strengthen the collective capacity of its allies and partners and thus empower the Indo-Pacific to adapt to the 21st century's challenges and seize its opportunities. The U.S. is committed to building a free and open Indo-Pacific that is more connected, prosperous, secure, and resilient. The U.S. vision for launching the IPS recognizes the strategic value of an increasing regional role for the European Union (EU), and the EU has announced its cooperation in the IPS in line with the U.S. strategy of supporting democratic resilience. The IPS has five objectives: a free and open Indo-Pacific, connections within and beyond the region, regional prosperity, Indo-Pacific security, and regional resilience against transnational threats [The White House, 2022a].

To implement this strategy, the Biden administration will pursue ten core action plans until late 2023. IPEF is included as one of these plans, which was proposed in October 2021 at the annual East Asia summit and which is regarded as the centrepiece of the administration's economic strategy in the region. IPEF consists of four pillars: fair and resilient trade; supply chain resilience; infrastructure, clean energy, and decarbonization; and tax and anti-corruption. The U.S. Trade Representative (USTR) deals with the first pillar, while the Department of

Commerce (DOC) is in charge of the other three [Goodman, Arasaingham, 2022; Natalegawa, Poling, 2022] (Table 2).

This economic strategy is absolutely needed and urgent for the U.S. because it has deep and abiding interests in the region, and because a fierce competition is unfolding over whose economic rules and norms will prevail. Since the U.S. withdrew from the TPP in 2017, it is largely sitting on the sidelines while other countries are actively negotiating trade agreements to establish regional rules and preferential access that raise concerns for the U.S.' allies and partners, despite the U.S.' military and diplomatic presence in the region. Therefore, countries in the region, except China, welcome IPEF, which could make the U.S. an active, reliable, and durable partner in the regional economic engagement. The U.S.' allies and partners characterized IPEF as the second-best option to the U.S. joining the CPTPP [Goodman, Arasaingham, 2022; Goodman, Reinsch, 2022].

Despite the warm welcome of its allies and partners, the Biden administration will face challenges and trade-offs across each pillar due to the diversity of economies and political constraints throughout the region. The USTR announced that the trade pillar focuses on fair and resilient trade with high ambitions, including binding commitments. However, it may be complicated because IPEF will be an executive action rather than a traditional trade deal requiring congressional approval. This means that the U.S. administration cannot offer increased market access or any other concessions that would require amendments to U.S. laws. This has led to concerns among allies and partners that IPEF could be vulnerable to U.S. domestic politics or future administrations because it could be abandoned if it does not contribute to strengthening U.S. national interests. Therefore, several partners may hesitate to sign on high standard provisions, particularly on digital trade, labour, and environmental standards, that do not provide allies and partners with low and medium levels of GDP per capita any short term economic and political benefits.

Table 2. Content and Administration Structure of IPEF

Pillars	Major Work	Content	Administration in Charge
1st Pillar	Fair and resilient trade	Labour, environment, and digital standards	USTR
2nd Pillar	Supply chain resilience	Five strategic industrial sectors such as semiconductors, large-sized batteries, critical minerals and materials, and pharmaceutical products	DOC
3rd Pillar	Infrastructure, clean energy, and decarbonization	Cheaper renewable energy rather than fossil energy, financial support, Build Back Better World (B3W)	DOC
4th Pillar	Tax and anti-corruption	Least Clear and Least Attractive to Regional Partners: Global Minimum Corporate Tax Agreement	DOC

Source: Author's own adaptation based on Goodman and Arasaingham [2022] and The White House [2022b].

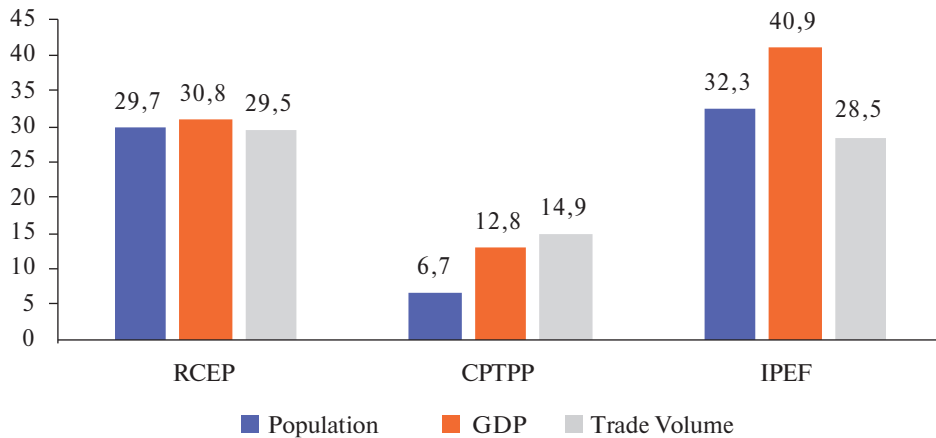


Fig. 7. Comparison of RCEP, CPTPP, and IPEF in Population, GDP, and Trade Volume (2020, %)

Source: [World Bank, n.d.c].

Accordingly, the U.S. administration expects that the most developed economies in the region such as Australia, Japan, Korea, New Zealand, and Singapore will join IPEF, while other allies and partners will talk with DOC on the other three pillars. Surprisingly, however, President Biden announced, a day before the Quadrilateral Security Dialogue (QUAD) summit in Tokyo on 23 May 2022, that six developed economies, India, and seven ASEAN states (excluding Cambodia, Myanmar, and Laos) would join IPEF as an open platform. A couple of days later, the Pacific Island country, Fiji, announced that it would join IPEF as well. This brought the membership of IPEF to 14, and its population, GDP, and trade volume in merchandise in 2020 accounted for over 32%, 40%, and 28%, respectively [Goodman, Arasaingham, 2022; Reuters, 2022; The White House, 2022b; World Bank, n.d.c] (Fig. 7).

Possible Political and Economic Effects of the Mega FTAs and IPEF on Major Economies by Reshaping GSCs

Political Effects

Two mega FTAs have been competing to set the trade rules in the Asia-Pacific region. Additionally, the newly launched IPEF could play a significant role in challenging RCEP and cooperating with the CPTPP. These two mega FTAs were completed in 2018 and 2020, respectively, without the participation of the U.S. or India. At the same time, the U.S. and India participated in IPEF when it was launched in May 2022. These FTAs are dominated by East Asian countries and were the only major multilateral FTAs signed in the Trump era. After the U.S. withdrawal from the TPP, the two mega FTAs have forcefully stimulated intra East Asian integration around China and Japan. In such a circumstance, the U.S. needed to rebalance its economic and security strategies to strengthen not only its economic interests, but also its political interests and security goals by initiating the IPS in 2021 [Petri, Plummer, 2020a; The White House, 2022a; 2022b].

RCEP and the CPTPP are expected to make the economies of East Asia more efficient and to strengthen their linkages in technology, manufacturing, agriculture, and natural resources.

They also create not only incentives in supply chains across the region, but also political sensitivities. In particular, China will gain economic and political influence in RCEP because the agreement is not restricted to intellectual property rules (IPRs), labour, environment, and state-owned enterprises, which are included in all key chapters of the CPTPP. Additionally, RCEP could improve access to Chinese Belt and Road Initiative funds that enhance market access by strengthening transport, energy, and communication links. The two mega FTAs are powerful countermeasures to the global decline in rules-based trade due to the protectionism caused by the trade conflicts with the G2. If RCEP motivates mutually beneficial growth, China and other members will gain influence across the world.

The trade conflicts have added high-tech development and hegemony to the security agenda. The U.S. has used protectionist measures to ban high-tech exports to China to maintain the U.S.' high-tech hegemony and to suppress the Chinese aspiration to become an economic and political superpower. To control and check China's bid, the U.S. has tried to build new strategic supply chains with its allies in the Asia-Pacific region. It also advised its companies operating in China, and those of its allies, to move to other Southeast Asian countries, their own states, or the U.S. so that they can participate in the new GSCs led by the U.S. in line with IPEF. Additionally, the U.S. strongly aims to rebuild its strategic high-tech sector, including semiconductors, large-capacity batteries, critical minerals and materials, and pharmaceutical products for the primary ingredients of generic drugs, to secure the domestic supply and value chains with core allies such as Japan and Korea in the Indo-Pacific region. These are regarded as strategic key industrial sectors for U.S. national security. The U.S. has strongly recommended that its allies producing semiconductors and large capacity batteries should build manufacturing facilities and expand their production capacities in the U.S., in line with reshaping the GSCs and global value chains (GVCs). It regards these high-tech sectors as strategic infrastructures for its national security [Pederson, 2021; The White House, 2021, 2022a; 2022b; Wolf, 2020].

In this new environment, the China-led RCEP could be a double-edged sword to other members. In particular, Korea, Singapore, and Japan are strongly linked to China in terms of regional value chains (RVCs) compared to other RCEP members. Additionally, Korea and Japan are actively participating in reshaping GSCs, particularly in semiconductors and large-capacity batteries, that could create new trade conflicts between China, Japan, and Korea based on trade nationalism, even though the trade and economies of three Northeast Asian countries are deeply linked and integrated. This means that Korea and Japan, in RCEP and the CPTPP, face risks from China based on the interruption of the GSCs due to sudden lockdowns in several production facilities (as during the pandemic) and artificial production control on key resources such as rare earth products, lithium, magnesium, and tungsten, due to the China-U.S. rivalry for high-tech hegemony and GSCs in the Asia-Pacific region. In that case, Korea may be more exposed than Japan because Korea's economic and trade dependency on China is higher than Japan's [Francois, Elsig, 2021; Lee, 2020] (Fig. 8).

The Korean industry in terms of intermediate products is more dependent on Chinese industry than Japanese and U.S. industries. Given the analysis of the Korea Institute for Industrial Economics and Trade (KIET), the dependent ratios of Korean intermediate products on China in two categories of over 50% and over 70% accounted for 25.1% and 17.5% in 2020, respectively, while the Japanese ratios were 34.5% and 13.8%, respectively, in the same year. In contrast, the U.S. dependent ratios on China were rather moderate, at 16.8% and 10.3%, respectively. Thus, Japan is more exposed, to over 50% dependent on Chinese intermediate products, than Korea, while Korea takes a higher risk than Japan, being over 70% dependent on Chinese intermediate products if China-based supply chains are restricted. Therefore, Korea and Japan could face difficulties whenever China interrupts the supply chains artificially or owing to its domestic reasons [Kim, 2021] (Fig. 9).

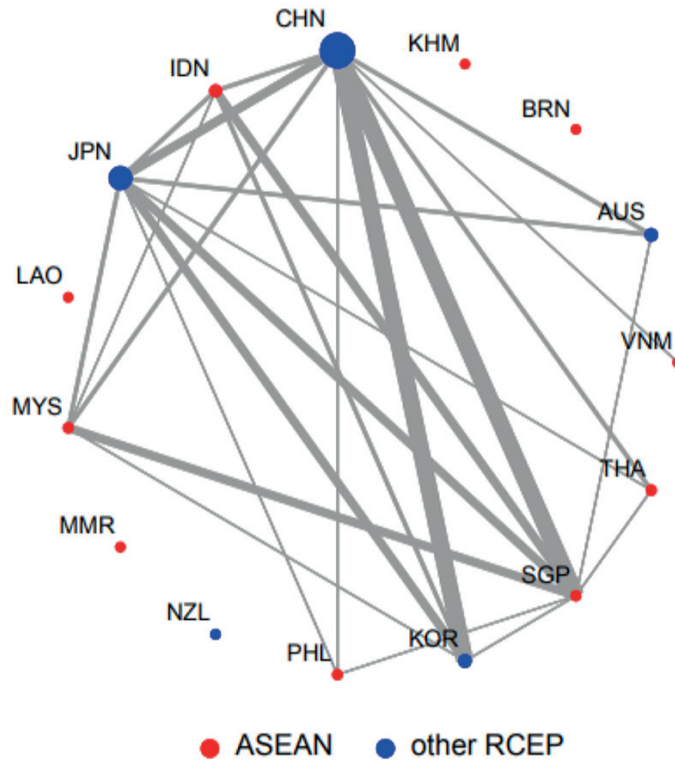


Fig. 8. Regional Value Chain Connections Within RCEP (2018)

Source: Adapted from Francois and Elsig [2021].

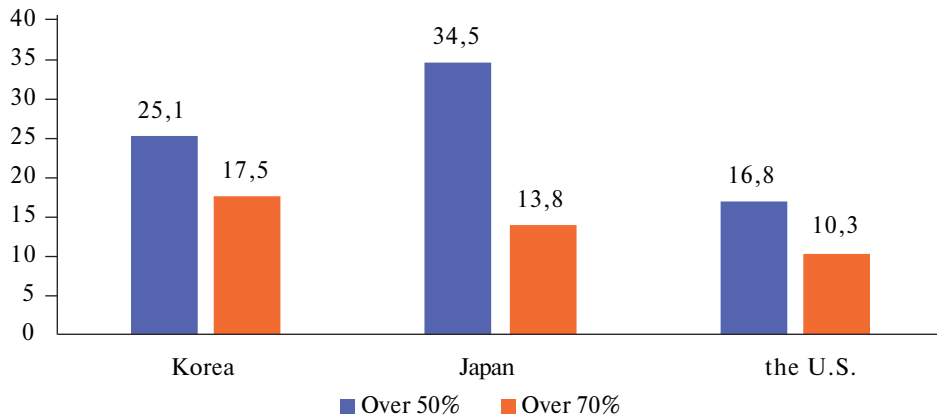


Fig. 9. Dependent Ratios of Korea, Japan, and the U.S. Industries on Chinese Intermediate Products (2020, %)

Source: Adapted from Kim [2021].

The Biden administration launched IPEF with 14 members in May 2022, at the Tokyo summit. The U.S. was keen to create an open forum such as IPEF in the Indo-Pacific region to tackle China’s expanding economic and political influences not only in the region, but also in

the world. However, participating in mega FTAs based on the free trade principle could cause or deepen the deindustrialization and rising unemployment rate in traditional industrial areas that already happened in the rust belt area. Therefore, former Democrat presidential candidate, Hilary Clinton, also refused the TPP officially during the election campaign. At the same time, Republican presidential candidate Donald Trump also criticized multilateral FTAs, preferring bilateral FTAs for his America First policy, and won the presidential election. Due to the internal political environment, the Biden administration pursued fair and resilient trade as the first pillar instead of free trade in IPEF. Additionally, it set the reshaping of GSCs in strategic industrial areas as the second among four pillars to revitalize and restructure domestic manufacturing sectors thereby creating new employments and mitigating critics of deindustrialization [Goodman, Arasaingham, 2022; Goodman, Reinsch, 2022; Natalegawa, Poling, 2022].

Economic Effects

In the global economy, 2015 was the first year to see negative growth in global GDP and trade compared to the previous year since the GFC in 2008. Therefore, its economic impact on the Asia and Pacific region was significant. In a negative economic environment, RCEP was able to increase its global GDP share from 29% in 2014 to 31.9% in 2018 (before it declined slightly to 30.7% in 2020) despite the Indian withdrawal, while the global GDP share of the CPTPP shrank radically from 38% in 2014 to 15% in 2020 due to the U.S. withdrawal [Francois, Elsig, 2021; World Bank, n.d.c].

Additionally, the global share of RCEP in trade declined moderately, from 35% in 2014 to 29.5% in 2020, while the CPTPP saw its share fall dramatically from 32% in 2014 to 14.9% in 2020. This may indicate that RCEP has a higher growth potential than the CPTPP in the future because most of its members, particularly China and the ASEAN countries, can create high economic growth based on their trade volume increase and have high potential for inward FDI. Although four ASEAN states—Brunei, Malaysia, Singapore, and Vietnam—are members of both RCEP and the CPTPP, their potential to contribute to a massive expansion of trade growth in the CPTPP is limited. However, their roles can be intensified in RCEP, along with those of other rapidly developing states such as China, Indonesia, the Philippines, and Thailand, rather than in the CPTPP with Chile, Mexico, and Peru. Their potential in the CPTPP is even worse without U.S. participation because the total economic size of the CPTPP has shrunk to only one third of the TPP. This is why Malaysia and Vietnam were strongly against participation in the CPTPP despite Abe's appeal in 2017. That said, they agreed to participate in the CPTPP in March 2018, after the Abe administration eased restrictions on imports for agricultural products in advanced members, and on forced labor as well as free data flow, which were set by the U.S. government to exclude Chinese participation in the TPP [Hoang, Hoan, 2019; Tiezzi, 2021].

Due to the visible imbalance between RCEP and the CPTPP in the region, the Biden administration has been keen to engage in the Indo-Pacific region to balance between the two mega FTAs and check Chinese economic expansion and influence in the region. It launched IPEF, which included India, seven ASEAN members, and Fiji. IPEF's 2020 output and trade volume in the world accounted for 40.9% and 28.5%, respectively, and IPEF could outproduce RCEP in the near future, given the participation of vigorous economies such as India, Indonesia, Malaysia, the Philippines, and Thailand [The White House, 2022a, 2022b].

The economic impacts of the two mega FTAs on the East Asian countries in general, and the three major economies in Northeast Asia in particular, vary from income increases to trade for exports. To estimate the economic effects of RCEP and the CPTPP, the Computable General Equilibrium (CGE) model was adopted, which remains the workhorse of ex ante

trade policy modelling and provides quantitative insight into economy-wide results for multiple regions and projects for production and trade in various economic sectors. It covers 29 regions and 19 economic sectors and projects annual results from 2015 as the base year to 2030. In this analysis, the projection of East Asia in 2030 among 29 regions was used [Park, Petri, Plummer, 2021; Petri, Plummer, 2020b].

RCEP reflects data and judgments based on the published agreement, and average tariff reductions comply with the 90% average tariff elimination announced at the conclusion of RCEP. It is regarded as a medium level FTA in terms of market openness. By contrast, the CPTPP aimed to meet the tariff schedules and nontariff barriers that had been achieved under the high-quality trade agreements in the Korea-U.S. Free Trade Agreement (KORUS FTA) and the U.S.-Mexico-Canada (USMCA) agreements.

With respect to income effects of RCEP in the East Asian countries, Korea and Japan will gain the most benefits, while China and ASEAN states will add moderate gains. In the CPTPP, some ASEAN members—Brunei, Singapore, and Vietnam—as well as Japan can expect to generate high income increases, while China and Korea are at a disadvantage. Given the estimation of the trade effects in RCEP, Japan, Korea, and China will see expansion, while Japan and some ASEAN members—Malaysia, Singapore, and Vietnam—will gain their export growth primarily in the CPTPP. To the contrary, Thailand, Korea, and China will lose trade expansion in the CPTPP [Park, Petri, Plummer, 2021] (see Tables 3 and 4).

Table 3. Income Effects of RCEP and the CPTPP in China, Japan, Korea, and ASEAN

	Incremental Income (\$ Billion)			Income Change (%)	
	2030 Income	RCEP	CPTPP	RCEP	CPTPP
Brunei	31	0	1	0.53	3.01
China	27,839	127	-14	0.46	-0.05
India	5,487	-7	-5	-0.13	-0.09
Indonesia	2,192	4	-2	0.18	-0.09
Japan	4,924	60	57	1.22	1.17
Korea	2,243	28	-4	1.27	-0.16
Malaysia	675	7	29	1.03	4.36
Philippines	680	3	0	0.39	-0.05
Singapore	485	0	15	0.05	3.14
Thailand	812	7	-5	0.88	-0.67
Vietnam	497	5	17	0.97	3.38
Other ASEAN	283	2	0	0.56	-0.06
Total	46,148	236	89	7.41	13.98

Source: Adapted from Park, Petri, and Plummer [2021].

Table 4. Export Effects of RCEP and the CPTPP in China, Japan, Korea, and ASEAN

	Incremental Exports (\$ Billion)			Export Change (%)	
	2030 Income	RCEP	CPTPP	RCEP	CPTPP
Brunei	16	0	1	0.6	3.6
China	4,976	234	-6	4.7	-0.1
India	1,360	-5	-3	-0.4	-0.2
Indonesia	446	13	-3	2.8	-0.6
Japan	1,190	133	100	11.2	8.4
Korea	1,089	65	-6	6.0	-0.5
Malaysia	491	12	45	2.5	9.3
Philippines	184	7	0	3.7	-0.1
Singapore	470	-2	30	-0.5	6.4
Thailand	561	28	-7	4.9	-1.2
Vietnam	357	16	35	4.4	9.7
Other ASEAN	93	4	0	4.5	-0.5
Total	11,233	505	186	44.4	34.2

Source: Adapted from Park, Petri, and Plummer [2021].

The same CGE modelling carried out for the economic impacts of the TPP in 2015 shows that the TPP will increase annual real incomes in the U.S. by \$131 billion, or 0.5% of GDP, and annual exports by \$357 billion, or 9.1% of exports, over baseline projections by 2030 when the agreement is fully implemented. U.S. investments are also predicted to raise U.S. real incomes by 1%, resulting in mutual benefits for capital and labour. However, in each year during implementation of the TPP, the churn rate will increase, although the transition effects of the TPP are likely to represent less than a 0.1% increase in labour market churn. As a result, most workers losing jobs could find alternative employment, but workers in specific locations and industries, or with low skill jobs, may experience serious transition costs such as long wage cuts and unemployment. It is estimated that the total costs of displaced workers could be a fraction of overall U.S. gains from the TPP [Lawrence, 2014; Petri, Plummer, 2016].

This was the core reason the Trump administration withdrew from the TPP in 2017, and many observers have asserted that the U.S. lacked an economic and trade strategy sufficient to counter China's increasing economic influence in the region and thus had limited ability to influence the direction of trade policy or to keep pace with technological developments in the region. Therefore, the Biden administration initiated IPEF, requiring a broader base of domestic economic and political support than the TPP had enjoyed. It focused largely on the security of the GSCs, including five strategic industrial areas, previously noted, that could minimize the loss caused by an increasing churn rate and rising unemployment. It is still too early to analyze or estimate the economic effects of IPEF in the region. However, it is certain that GSCs based on economic efficiency will be replaced by those supporting economic security in the region [CRS, 2021].

Conclusion

Trade and investment have substantially contributed to global economic growth in the last five decades. During that period, the growth rate of trade has been double that of economic growth. However, the GFC in 2008 caused a severe decline in trade and marked negative economic growth afterwards. The global economy further slowed, and trade volume declined radically due to the COVID-19 pandemic in 2020, although it started to recover moderately after 2021. The military conflict between Russia and Ukraine began in February 2022, and since then the global political economy has experienced turmoil due to increasing energy and food prices overall. In these circumstances, two mega FTAs in the Asia-Pacific were completed in 2018 and 2020 and ratified in 2019 and 2021, without the participation of the U.S. and India respectively.

Mega FTAs are not only for economic cooperation, but also for political and security cooperation in the region. Therefore, RCEP and the CPTPP compete by setting trade rules and reshaping the new GSC, and membership in both is declared to be open to states in the region. Accordingly, participating states are keen to calculate which mega FTA will allow them to maximize their national interests in politics, economy, social welfare, technology development, and infrastructure. In this sense, RCEP focuses mainly on East Asian economic interests while the CPTPP seeks to advance the economic interests in the Asia-Pacific region, even for those states that are not members. At the same time, the two mega FTAs were formed and are led by China and Japan. As a result, acceleration of East Asian and Asian Pacific economic integration is centred on those economies.

Although the U.S. withdrew from the TPP in 2017, it continues to be involved in reshaping the GSCs through the newly launched IPEF, not only in the Indo-Pacific region but also at home, to tackle China's competing economic and political influence in the region. The U.S. has already begun to rebuild the core supply chains at home, focusing on key five industrial sectors to secure domestic supply and value chains and to maintain its high-tech hegemony and gain domestic economic and political support. IPEF attracts domestic support because the TPP could generate economic loss due to the increasing cost of unemployment.

By rebuilding GSCs and GVCs through IPEF, trade conflicts within the G2 and with members of RCEP, the CPTPP, and IPEF become inevitable due to the confrontation of their national interests, although they can generate economic and political interests in economic growth and influential power in the global economy for most. Therefore, members such as Japan, Korea, and Singapore must be well prepared to minimize the risk posed by China as a double-edged sword after participating in IPEF because their economic and trade dependencies on China are higher than those of other members.

Overall, RCEP, the CPTPP, and IPEF can contribute to intensified regional economic integration in East Asia and the Indo-Pacific region. At the same time, however, the risk posed by China will remain while trade conflicts between the G2 states based on trade nationalism and reshaping the GSCs and GVCs to exclude China exist. As pointed out, Japan and Korea will be most exposed to this risk with respect to basic materials and resources because they are key states and allies of the U.S., with strong capabilities in strategic high technologies such as semiconductors and large-capacity batteries and are participating in the new GSCs and GVCs on U.S. soil and in other regions. At the same time, as major economies in the region, they are also exposed to high risk because their industries in intermediate products are more dependent on China than the U.S. or other members of RCEP, the CPTPP, or IPEF. This means that the Asia-Pacific or Indo-Pacific region has become the core area in the global economic and political arena for setting a new global trade order in the 21st century. Unfortunately, the role of global trade has shifted from economic growth based on economic efficiency toward economic

security based on political allies and friends. This is the core problem and the limitation of the current global trade system.

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Regional Features of Compliance With FATF Requirements¹

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Abstract

Increasingly expanding international requirements in the field of combating money laundering and terrorist financing (AML/CFT) force the public and financial sector to seek a balance between the rising costs of their implementation and sanctions threats for non-compliance. A number of scientific publications describe regional AML/CFT cooperation in the European Union (EU) as an example of such a balance. Some EU countries coordinate their actions within the framework of the Financial Action Task Force on Money Laundering (FATF), which is the methodological centre of the global anti-money laundering movement. Russia is a member of the FATF and its two regional groups: the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), organized by the Council of Europe, and the Eurasian Group (EAG) initiated by Russia itself, which unites Russia's neighbouring, mainly Asian, countries. This study covers the results of assessments of compliance by EU and EAG countries with FATF requirements in order to study approaches to AML/CFT regional cooperation and to identify problems arising in this process and prospects for international cooperation. The methods of comparative and graphical analysis were used. The authors show that deep regional integration of lawmaking is not in itself a fundamental factor in achieving equally high rates of compliance with FATF requirements. Indifference to matters of monitoring compliance with approved regional anti-money laundering standards allows particular EU countries to act in the national interest, contrary to the 40 FATF Recommendations and the goals of the global AML/CFT regime. On the contrary, the EAG countries demonstrate steady progress in the introduction of legislation and practical implementation of FATF requirements, which indicates their collective awareness of the benefits from financial information transparency and the possibility of exchanging this information at the international level.

Keywords: AML/CFT, 40 FATF Recommendations, Eurasian Group, EAG, European Union, MONEYVAL

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Introduction

In 1989, by the decision of the Group of 7 (G7) countries, the Financial Action Task Force on Money Laundering (FATF) was founded—an intergovernmental organization that became a body for the methodological development of global anti-money laundering standards and a control body for their implementation. Thus, the international regime to combat money laundering and terrorist financing (AML/CFT) was launched. Over three decades, the movement has become a supranational financial regulatory body that has an important impact on the development of the financial sector. This “global regime has been shaped and prodded to a considerable extent by US developments and initiatives... The principal initial motivation for the establishment of the FATF was to combat drug abuse and the financial power of drug traffickers and other organized crime groups whose activities are facilitated by money laundering. Public concern about illegal drugs in the United States had reached extraordinary levels in 1989” [Reuter, Truman, 2004, pp. 79, 81], especially in education, healthcare, and the burden on law enforcement agencies [U.S. Department of Justice, 1990]. The rest of the G7 members were guided by other incentives in their decision to establish the FATF. Tax evasion has become an urgent problem for Australia, drugs and terrorism for the UK, and “concerns that money launderers or criminals would take advantage of the increasingly free flow of capital and financial services throughout the European Union” for Germany, France, and Italy [Ibid., 2004, p. 81]. The collective principle of forming the foundations of European Union (EU) legal norms was determined by the fact that all the countries of the union were involved in the AML/CFT.

The FATF was created at the Organisation for Economic Co-operation and Development (OECD) with a qualified opinion about its independence, but the OECD has retained control over the FATF to this day. For example, a FATF employee can only be a citizen of a country that is both a member of the OECD and the FATF. In 1990, the first edition of the international anti-money laundering standards—the 40 FATF Recommendations—was published. The opportunity to participate in the FATF was provided to 15 countries that had voluntarily joined it (Australia, Austria, Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the U.S.). The principles, methods, and tools of the global AML/CFT system were transferred from U.S. legislation against money laundering [Bank Secrecy Act, 1970], racketeering [Racketeer Influenced and Corrupt Organizations Act, 1970], foreign corruption [Foreign Corrupt Practices Act, 1977], and drug trafficking abroad [Anti-Drug Abuse Act, 1988], and from UK legislation on countering illegal drugs [Drug Trafficking Offences Act, 1986]. The basic elements of international AML/CFT cooperation are the requirements for the implementation of certain norms in national legal systems with their subsequent effective realization, including the formation of financial intelligence units, as well as mandatory mutual assistance, regardless of bank secrecy. These elements have already been recognized by global institutions, for example, the decision of the United Nations (UN) Vienna Convention against illicit traffic in narcotic drugs and psychotropic substances [UN, 1988], the statement of the Basel Committee [BIS, 1988], and the Council of Europe [Council of Europe, 1980; 1990]. After the publication of the 40 FATF Recommendations, most countries took a wait-and-see attitude; the practical implementation was begun mainly by the initiators of the regime, as well as the European Commission, which published the AML Directive [EU, 1990], approved in 1991 [EC, 1991]. In essence, the directive has primacy in European law—the national legislations of the EU members establish mechanisms for the implementation of the directive in practice and responsibility for violations. The AML/CFT directives have been repeatedly re-approved. Since 2021, the 5th Directive [EU, 2015] has been in effect and the sixth edition has been prepared.

The implementation and development of AML/CFT in the EU countries is determined not only by the impact of coercive FATF measures, but also by the specific EU methods. Col-

lectivity often appears to be a quality that positively affects the effectiveness of AML/CFT measures in the EU. “The eurozone countries are superior to all other groups,” argued M. Arnone and P. C. Padoan [2008, p. 361]. The Italian economists arrived at their conclusion in 2008, but with many reservations: the study was fragmentary, it included reports on the state of national AML/CFT systems of only 20 countries, the reports themselves were made before 2006 by various international organizations (the International Monetary Fund (IMF), the World Bank, and the FATF), and each organization was guided by its own assessment methodology. In the course of a more detailed study of a selection of the same reports, which collected only European countries, the highest ratings for compliance with AML/CFT standards were found in countries from the euro area followed by EU members outside the eurozone; the worst ratings were found in European countries that were not members of the European Union at that time [Borlini, 2012]. However, even within the EU, which is bound by close comprehensive ties in the economic, financial, and legal systems, significant differences remain. For example, the “inconsistent behaviour of the Italian authorities” caused weak regulation and control, which is why Italian financial institutions “do not report their own clients; by doing so, they create fertile grounds for opaque situations where tracing of ML [money laundering] operations and related mechanisms are lost” [Borlini, 2012, p. 24].

In 2011, the IMF published some results of its analysis of FATF reports on the assessment of the state of AML/CFT systems in 161 countries for 2004–11 [IMF, 2011]. These reports were examined in more detail by a group of Austrian economists who compared the levels of compliance with the 40 FATF Recommendations by EU countries and offshore jurisdictions. The researchers explained the higher rates in the EU by the fact that anti-money laundering “incentives for offshore countries are weak” [Haigner et al., 2012, p. 76].

In 2019, the fourth round of mutual FATF verification was held in Russia. The country has a gradually developing AML/CFT system. In 2001 the Federal Law “On Countering the Legalization (Laundering) of Proceeds From Crime” was adopted. Since 2003, Russia has been a member of the FATF and in 2004 it initiated the establishment of the Eurasian Group (EAG), which included Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan. The audit took place during the period of anti-Russian sanctions due to the entry of Crimea into the Russian Federation, which also affected the financial sector. However, this did not affect the final positive assessment. Often, annual progress reports are required from countries after verification, since the identified shortcomings, according to the FATF, pose a threat to the global AML/CFT system. Russia has been fulfilling the requirement for annual follow-up actions after the 2008 audit for more than five years, but in 2019 there was no need for additional monitoring of the Russian AML/CFT system. The development of international standards continues. Russia is developing AML/CFT measures both at the legislative level and on the part of the main financial regulator—the Bank of Russia. Given the seriousness of the threats from the FATF to violators, as well as the high cost of AML/CFT measures for all business entities—the state, the financial sector, the public, and private businesses consuming financial services—one could assume an active interest on the part of Russian scientists in finding the most effective ways to advance the AML/CFT. However, in reality, few scientific papers on this topic have been published and most of them are based not on empirical data, but on an analysis of international and European AML/CFT standards. Further, there is no unanimity among them. K. G. Sorokin and co-authors considered the AML/CFT in the EU to be exemplary on the grounds that the union is a “highly organized integration entity” [2014, p. 235]. However, according to S. A. Kuznetsova, integration for high efficiency in the fight against ML/FT is not enough: “In order to expose the entire European Union to the threat of money laundering and terrorist financing, it is not necessary that all member states be weak links. As long as there is at least one weak point, the entire AML/CFT system is under threat. It follows that even if some EU member states have highly ef-

fective AML mechanisms, this does not negate the assessment of the AML problem as a systemic and a matter of EU supervisory policy” [2021, p. 64]. The researcher confirms his conclusion with Europol statistics, according to which only 1.1% of illegal income is withdrawn from illegal turnover in the EU, while “98.9% of the alleged criminal profit is not confiscated and remains at the disposal of criminals” [Europol, 2016].

The authors of a few studies that touch upon the topic of international regional cooperation in the AML/CFT regime with the participation of Russia look at such interaction from different points of view. K. G. Sorokin et al. [2014] and R. E. Mirzoyan [2015] did not consider Russian membership in the FATF, the EAG, or MONEYVAL and insisted on expanding the functionality of the Eurasian Economic Union (EAEU) provided it copies the AML/CFT mechanisms and measures from the European Union. On the other hand, K. S. Melkumyan, having studied various aspects of cooperation between the EAG countries, pointed to the positive role of the organization in “the diffusion of FATF norms beyond its borders, reducing information asymmetry, increasing trust between EAG members and improving AML/CFT systems of strategically important jurisdictions” [2017].

To date, economists have no reasonable idea about the effectiveness of regional cooperation for AML/CFT purposes. Considering the positive EU reputation for regional cooperation in AML/CFT, attention is directed to the results of the assessment of the national AML/CFT systems of the EU countries and the EAG members in order to establish how international regional ties affect the ratings of the AML/CFT systems of the participants of regional AML/CFT organizations.

Method

Monitoring and evaluation of compliance with international AML/CFT requirements is provided by the FATF through periodic mutual inspections of national AML/CFT systems. Since 1990, the 40 FATF Recommendations have undergone a number of changes. The most significant were in 2001, when, after the terrorist attack in New York, anti-money laundering methods were extended to certain areas of the non-financial sector and to combat the financing of terrorism (the document was named 40+9 FATF Recommendations), and in 2012, when the anti-money laundering approach itself was revised. At the formative stage of the AML/CFT regime, when the main task was the global expansion of basic norms and the formation of the reputation of the FATF as an institution of universal supranational financial regulation with long-term prospects, there was a formalized approach aimed at creating an institutional foundation. In 2012, the AML/CFT proclaimed a risk-oriented approach, based on executive discipline, to the practical implementation of the goals of the regime. In addition, the 2012 edition (which marked a return to the original title, 40 FATF Recommendations) introduced tools to counter the financing of the proliferation of weapons of mass destruction. Following the approach, the methodology of mutual assessments also changed. The formalized approach allowed for a one-component assessment of the national AML/CFT system, focused mainly on identifying which recommendations have not been implemented in national legislation. The state of national AML/CFT systems was assessed by the completeness of the implementation of 40 basic and nine special recommendations. The risk-oriented approach was closer to a two-component assessment [FATF, 2021], where the first component—“technical compliance”—as in the previous methodology, shows how fully each recommendation is implemented, taking into account periodic updates. The second component—“effectiveness”—reflects the opinion of the experts conducting the audit on the level of implementation in practice of the AML/CFT standards.

The study used two groups of reports on the latest mutual evaluations, as well as reports on progress in eliminating deficiencies identified during mutual evaluations. The first group

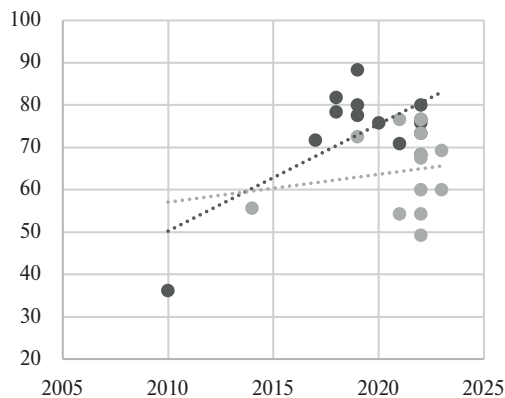
includes 27 reports from EU countries, among which 14 are direct FATF members and the rest are part of MONEYVAL. The FATF has given MONEYVAL, like the rest of its regional organizations, the authority to conduct inspections of the compliance of its participants' AML/CFT systems with the requirements of international standards in accordance with FATF methodology. The second group includes nine reports of the latest inspections of the EAG countries, among which three countries—India, China and Russia—are members of the FATF and the rest are undergoing mutual inspections by the EAG. In a number of countries the latest inspections were carried out using a single-component methodology; their results were analyzed separately from countries with two-component assessments. Compliance ratings are summarized in Tables 1–8.

To compare the estimates obtained within the different methodologies, the level of compliance with the 40 FATF Recommendations as a percentage of the maximum possible is calculated. The percentages were calculated as follows: first, the ratings “compliant” (C), “largely compliant” (LC), “partially compliant” (PC), and “not compliant” were replaced by numbers 3, 2, 1, and 0 respectively. Then, for each country, the rating figures of each recommendation were summed up and are divided into 120 (Tables 3 and 5) or 147 (Tables 4 and 6). The result is given as a percentage. The assessment “not applicable” (due to the structural, legal, or institutional features of the country) (N/A) is excluded from the calculation, reducing the aggregate indicator when determining the percentage of compliance.

Similarly, the effectiveness ratings are calculated based on assessments within the framework of a two-component methodology. The ratings “high” (H), “substantial” (S), “moderate” (M), and “low” (L) are replaced by numbers 4, 3, 2, and 1, respectively.

Results and Discussions

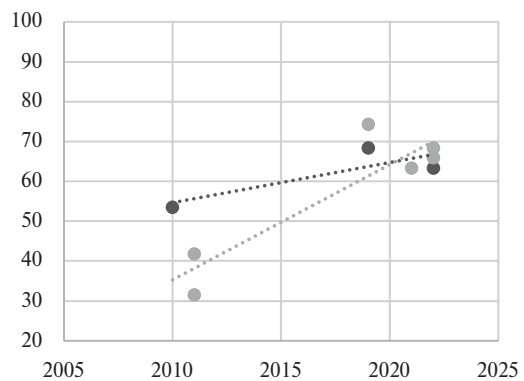
The aggregated results of the evaluation of the national AML/CFT systems of EU and EAG members are shown in Figures 1–6.



- EU countries – FATF members
- EU countries – Moneyval members

Fig. 1. Percentage Ratings of the Technical Compliance of EU Countries

Source: Tables 3–6 of the Appendix.



- EAG countries – FATF members
- EAG countries – non members of the FATF

Fig. 2. Percentage Ratings of Technical Compliance of the EAG Countries

Figures 1–6 do not give an idea of the current state of the countries' AML/CFT systems but characterize the results of recent FATF assessments and some aspects of the regional impact on these assessments.

Dynamics in Time

The FATF itself, the IMF, and AML/CFT researchers are aware that the implementation of AML/CFT standards requires time and resources. “Compliance is expensive,” the IMF has noted. “To achieve relatively high levels of compliance, countries must invest in building institutions and promote active interagency coordination and international cooperation” [IMF, 2011, p. 8].

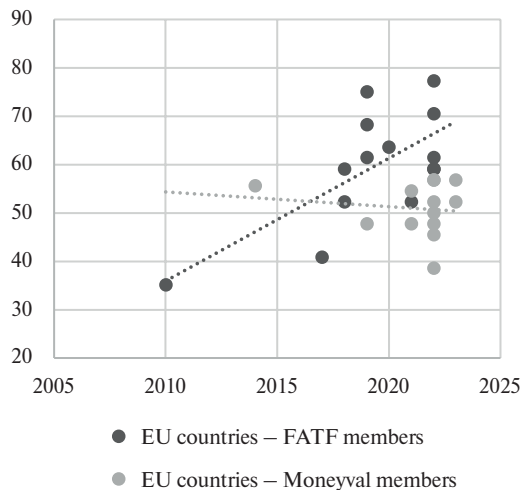


Fig. 3. Percentage Ratings of Effectiveness of EU Countries

Source: Tables 5–8 of the Appendix.

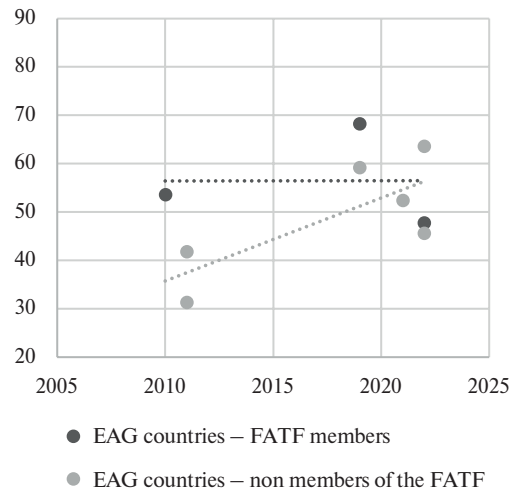


Fig. 4. Percentage Ratings of Effectiveness of EAG Countries

The percentage rating of technical compliance indicates the level of efforts of the authorities to implement AML/CFT standards in the country's mechanisms of lawmaking, the distribution of powers and responsibilities, and the ratification of decisions of international organizations. In Figures 1 and 2, not all trend lines show growth. The percentage ratings of technical compliance based on the results of later inspections in EU countries that are not members of the FATF is significantly lower than that of members. This applies, as a rule, to later EU members, who lag behind the leaders in terms of economic development indicators and lack their own resources to comply with the growing FATF requirements and EU directives, while the mechanisms of European coordination for AML/CFT do not show proper effectiveness.

On the contrary, in the EAG countries, the percentage ratings of technical compliance have been getting closer in recent years (2019–22), confirming the opinion of researchers that the EAG “consolidated the status of a fundamental organization within the AML/CFT regime ... The measures taken by the EAG in relation to the member countries allowed Kyrgyzstan, China, Uzbekistan and Turkmenistan to be removed from the special monitoring regime and excluded from the “black” lists ... Uzbekistan, ... Turkmenistan ..., Tajikistan ... and Kyrgyzstan” [Melkumyan, 2017, p. 355]. Despite the fact that “compliance by many emerging

market and low-income countries is impeded by a relatively poor understanding of AML/CFT best practices, inadequate budgets for training staff, and the absence of important preconditions (e.g., rule of law, transparency, and good governance) for the effective implementation of AML/CFT measures” [IMF, 2011, p. 8], the EAG managed to involve countries of different political structures, with significant differences in economic development, in active AML/CFT cooperation.

In many ways, a similar situation exists in the ratings of the effectiveness. These ratings reflect the level of costs of the private financial sector for AML/CFT, as well as losses of non-financial businesses and the population due to rising the cost of financial services and the increase in time to receive them. Comparison of the data presented in Figures 3 and 4 indicates a general trend toward increasing the gap in the backlog of EU countries that are not members of the FATF with the countries that are members of the FATF in the practical implementation of international AML/CFT standards. The researchers see the reason in the “weakness of AML/CFT supervision by national regulatory authorities and law enforcement agencies in the EU countries. Some EU members are becoming weak links through which criminals can carry out their illegal activities” [Kuznetsova, 2021, p. 64]. Latvia has been such a weak link for a long time, through whose banks criminal proceeds from Europe and the U.S. were transferred to offshore financial organizations. Only after the intervention of U.S. supervisory authorities and the closure of the dollar correspondent accounts of Latvian banks, the country began to implement the EU anti-money laundering regulations into the national legislation and practice of the financial sector [Bowen, Galeotti, 2014]. The EU’s indifference to the implementation of its norms by the members was clearly manifested here. On the contrary, the EAG countries that forcibly started implementing anti-money laundering measures have learned to use them for improving their financial systems and to counter the shadow economy and terrorism financing. Their interaction is not limited to making AML/CFT laws and regulations in the participating countries, but extends to the practical implementation, including consultations with the private sector of the region on minimizing the risks of their use for criminal purposes. As a result, “the partnership of the private sector with government agencies plays an important role in the development of an effective national AML/CFT system, bringing real benefits to the national economy and the banking sector. The business community of the region is interested in meeting international standards, which leads to strengthening the reputation of individual companies and, as a result, increasing the investment attractiveness of national economies” [Melkumyan, 2017, p. 354].

FATF Membership

“FATF has a limited membership,” wrote P. Reuter and E. M. Truman, “... and operates by consensus—potential constraints that it has addressed by maintaining high standards for its members, and by directly or indirectly sponsoring a number of regional clones, a move that reflects its recognition of the economic and political implications of globalization” [2004, p. 84]. There are two aspects to this statement: the first is that FATF members maintain high AML/CFT standards. And the second: involvement of all other countries in the AML/CFT is carried out through regional groups dependent on FATF. In accordance with Figures 1 and 3, in the FATF’s EU members, AML/CFT ratings are indeed higher than in other jurisdictions. Luxembourg, one of the first FATF members, stands apart. This is another example of the indifference of the supervision and control financial authorities of the EU to countries that do not comply, not only with international, but also with EU requirements. However, in relation to Luxembourg, the purpose of its entry into the FATF is of interest. The interests of a jurisdiction that is completely dependent on foreign financial flows passing through its banking system

conflict with the goals of an organization that insists on transparency of financial transactions and information exchange with foreign financial intelligence agencies. AML researchers point to several motives for countries joining the FATF. For the G7 participants, “the principal initial motivation for the establishment of the FATF was to combat drug abuse and the financial power of drug traffickers and other organized crime groups whose activities are facilitated by money laundering” [Reuter, Truman, 2004, p. 81]. This motive is stated on the official FATF website; it was guided primarily by the United States and Great Britain, and by Germany and France in the EU. The second motive is the possession of leverage on the global financial system through participation in the formation of anti–money laundering standards, the development of a methodology for mutual inspections, and making decisions on the application of sanctions to non-compliant countries. Among the EU countries, this motive is clearly traced in Luxembourg, where “as in the past, the role of external and internal audit in the detection of fraud, remains very low and significantly below international results” [PwC, 2020, p. 13]. Whereas membership in the FATF allows countries to influence the decisions made by the organization. The EU’s indifference allows Luxembourg to remain a “financial black box” that helps people launder illicit money and avoid tax” [Jones, 2021].

As for the EAG members, it is difficult to make conclusions about how India, China, and Russia’s membership in the FATF influences their AML/CFT ratings. Despite the significant difference in the scale and level of development of their financial systems, none of them is a major international financial centre. In each, the financial sector is neither the main source of government revenue nor the most important employment sector for the population. At the same time, involvement in deep international economic links forces the EAG countries to develop financial mechanisms in the direction of the main global priorities. An important obstacle is the lack of resources. Collegiality helps the EAG countries to solve these issues. The points of interaction within the EAG allow all countries in the group, both members and non-members of the FATF, to gradually move toward progress in compliance with international AML/CFT requirements. Suspension of Russia’s membership in the FATF in February 2023, in connection with the special military operation in Ukraine, “does not entail any obligations and restrictions for financial institutions in Russia and abroad ... The Russian Federation, as a responsible party, will apply measures to counter ML/FT/FRM and other serious crimes, by intensifying international cooperation with countries concerned,” according to a statement by Rosfinmonitoring [2023].

The Relationship Between Technical Compliance and the Effectiveness of Compliance With FATF Requirements

At the stage of information gathering, it seemed logical that the more fully the requirements of the 40 FATF Recommendations are implemented into the country’s legal system, that is, the higher the rating of its technical compliance, the more effectively these requirements are implemented by the financial sector in practice, respectively, the higher the rating of effectiveness.

Figures 5 and 6 show the technical compliance ratings and the ratings of effectiveness presented in chronological order. In EU countries, the logic of the relationship between the level of implementation of AML/CFT requirements in the national legislation generally corresponds to the degree of implementation of these requirements in practice. The highest levels of technical compliance in Spain, Italy, the Netherlands, and France correspond to the maximum effectiveness of compliance by national financial systems with international AML/CFT standards. Conversely, the low level of compliance by Bulgaria corresponds to the minimum values of efficiency. At the same time, a number of contradictions can be noted. The level of

technical compliance by Portugal is higher than that of Hungary, Slovakia, Poland, Croatia, and the Czech Republic, but their ratings of effectiveness are much lower. Germany, which was involved from the outset in the FATF and the entire AML/CFT regime and most fully reflected international and regional AML/CFT requirements in national legislation, has a lower level of compliance with these requirements than Spain and the Netherlands. This is seen as another confirmation of the EU's indifference to monitoring the implementation of AML/CFT requirements by participating countries.

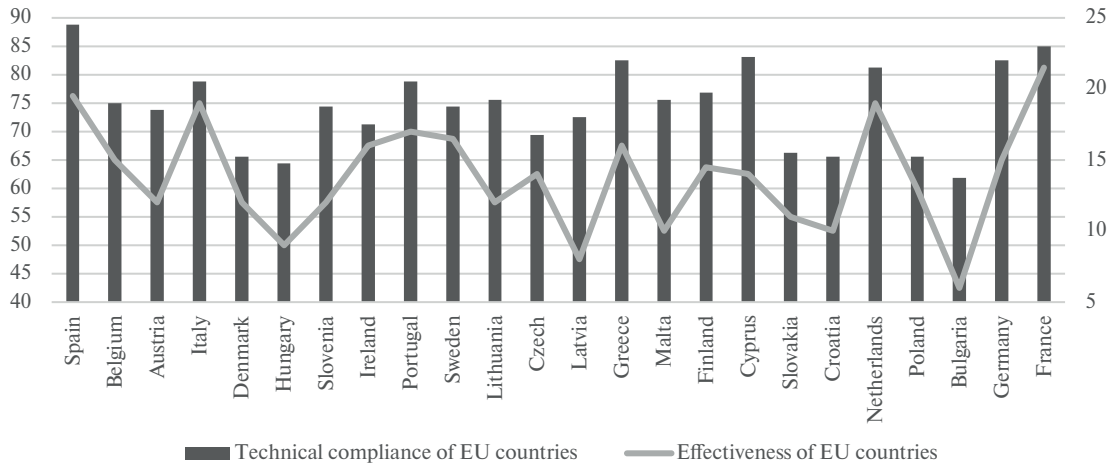


Fig. 5. Technical Compliance Ratings and Ratings of Effectiveness of EU Countries

Source: Tables 3, 4 and 7 of the Appendix.

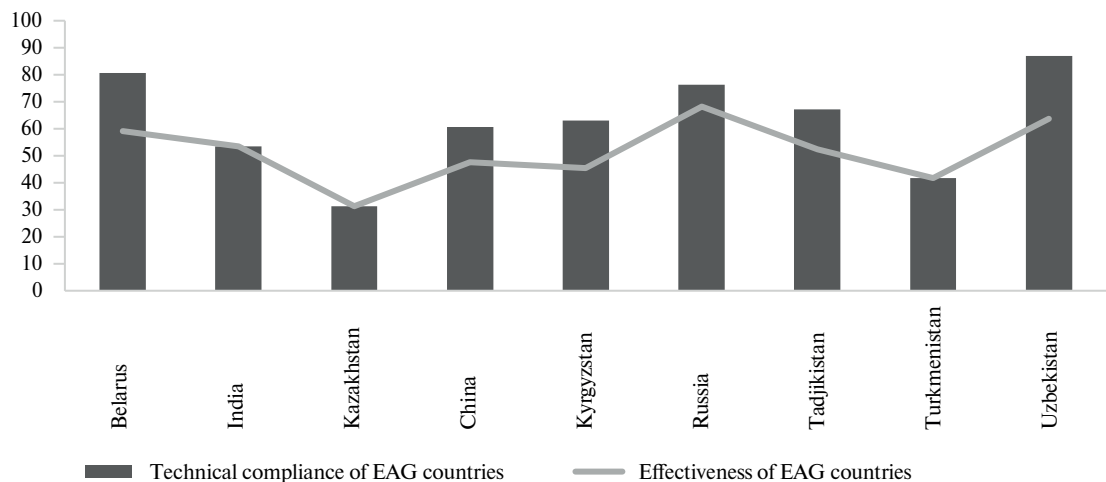


Fig. 6. Technical Compliance Ratings and Ratings of Effectiveness of EAG Members

Source: Tables 5, 6 and 8 of the Appendix.

According to Figure 6, as for the EAG countries, there is an obvious direct correlation between technical compliance and the effectiveness of compliance with FATF requirements.

The members of the group systematically consolidate the AML/CFT obligations adopted at the legislative level and create mechanisms for regulating and monitoring the implementation of the adopted norms. Russia, as the initiator of the formation of the EAG and a country with a developed financial sector, acts as the locomotive of progress in AML/CFT among the countries of the group, implementing a wide range of measures in practice. This was reflected in the rating of effectiveness based on the results of the last mutual inspection.

Conclusions

The following conclusions can be drawn based on the preceding analysis. First, the adoption of uniform regional AML/CFT norms does not condition their voluntary implementation by the countries of the region into national legislation and practice of the financial sector. The myth of the EU's exemplary model for the implementation of international AML/CFT standards does not correspond to the results of FATF inspections in USs countries. In some cases, the motive for the progress of AML/CFT measures in a particular EU country is based on extra-EU coercion.

Second, the duration of implementation of the 40 FATF Recommendations into the national AML/CFT system, membership in the FATF, or the level of implementation of international and regional requirements in national legislation (technical compliance rating) do not have a decisive impact on the practical effectiveness of AML/CFT measures in the EU. The motivation to comply with international and regional AML/CFT requirements is determined in different EU countries by different motives, which do not always coincide with the goals of the anti-money laundering regime.

Finally, much more effective regional cooperation is demonstrated by the EAG countries implementing coordinating measures that make it possible, taking into account resource capabilities, to ensure real progress in the AML/CFT in their territories.

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Appendix

Table 1. Symbols of Technical Compliance Ratings of National Anti-Washing Systems in the FATF Methodology

	Name of Components The 40 FATF Recommendations	Name of Components The 40+9 FATF Recommendations
R1	Assessing risk and applying risk-based approach	Money laundering offence
R2	National cooperation and coordination	Money laundering crime/subjective attitude and responsibility of legal entities
R3	Money laundering offence	Confiscation and provisional measures
R4	Confiscation and provisional measures	Compliance of bank secrecy legislation with recommendations
R5	Terrorist financing offence	Customer due diligence
R6	Targeted financial sanctions related to terrorism and terrorist financing	Politically exposed persons
R7	Targeted financial sanctions related to proliferation	Correspondent banking
R8	Non-profit organizations	New technologies and remote business
R9	Financial institution secrecy laws	Third parties and intermediaries
R10	Customer due diligence	Data storage
R11	Record keeping	Unusual transactions
R12	Politically exposed persons	DNFBP – R.5, 6, 8-11
R13	Correspondent banking	Reporting suspicious transactions
R14	Money or value transfer services	Protection and non-notification
R15	New technology	Internal control, compliance, and audit
R16	Wire transfers	UNFPP – R.13-15 and 21
R17	Reliance on third parties	Sanctions
R18	Internal controls and foreign branches and subsidiaries	Shell banks
R19	Higher-risk countries	Other forms of information

	Name of Components The 40 FATF Recommendations	Name of Components The 40+9 FATF Recommendations
R20	Reporting of suspicious transactions	Other DNFBP and safe operating methods
R21	Tipping-off and confidentiality	Special attention to high-risk countries
R22	DNFBPs: Customer due diligence	Foreign branches and subsidiaries
R23	DNFBPs: Other measures	Regulation, supervision, and monitoring
R24	Transparency and beneficial ownership of legal person	DNFBPs: Regulation, supervision and monitoring
R25	Transparency and beneficial ownership of legal arrangements	Management information and feedback
R26	Regulation and supervision of financial institutions	Financial intelligence unit
R27	Powers of supervisors	Law enforcement authorities
R28	Regulation and supervision of DNFBPs	Powers of competent authorities
R29	Financial intelligence units	Supervisory authorities
R30	Responsibilities of law enforcement and investigative authorities	Resources, integrity, and training
R31	Powers of law enforcement and investigative authorities	National cooperation
R32	Cash couriers	Statistics
R33	Statistics	Legal persons – beneficial owners
R34	Guidance and feedback	Legal arrangements – beneficial owners
R35	Sanctions	Conventions
R36	International instruments	Mutual legal assistance
R37	Mutual legal assistance	Double criminal liability
R38	Mutual legal assistance on freezing and confiscation	Mutual legal assistance on confiscation and freezing
R39	Extradition	Extradition
R40	Other forms of international cooperation	Other forms of cooperation
SRI		Implementation of UN instruments
SRII		Criminalization of terrorist financing
SRIII		Freezing and confiscation of terrorist assets
SRIV		Reporting suspicious transactions
SRV		International cooperation
SRVI		AML requirements for money/value transfer services

	Name of Components The 40 FATF Recommendations	Name of Components The 40+9 FATF Recommendations
SRVII		Rules for money transfers
SRVIII		Non-profit organizations
SRIX	SRIX	Cross-border declaration and information

Source: [FATF, 2004; 2013].

Table 2. Symbols of the Ratings of the Effectiveness of National Anti-Washing Systems in the FATF Methodology

	Name of the Effectiveness Indicator
IO.1	Policy and coordination
IO.2	International cooperation
IO.3	Supervision
IO.4	Preventive measures
IO.5	Legal persons and arrangements
IO.6	Financial intelligence
IO.7	ML investigation and prosecution
IO.8	Confiscation
IO.9	TF investigation and prosecution
IO.10	TF preventive measures a financial sanctions
IO.11	Financial sanctions

Source: [FATF, 2013].

Table 3. Rating of Technical Compliance of National Anti-Washing Systems of the European Union Countries With the Requirements of 40 FATF Recommendations (Based on the Results of Recent Mutual Inspections or a Progress Report on Correcting Comments Based on the Results of the Last Inspection)

Countries	Year ²	Indicators																				
		R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15	R16	R17	R18	R19	R20	R21
EU and FATF members																						
Austria	2018	LC	LC	LC	C	C	PC	PC	PC	C	C	C	C	LC	C	C	C	LC	C	C	C	C
Belugia	2018	C	C	C	C	C	PC	PC	C	C	C	C	C	PC	LC	LC	C	LC	LC	C	C	C
Germany	2022	LC	LC	C	C	LC	PC	PC	LC	C	LC	C	LC	PC	LC	LC	C	LC	LC	C	C	C
Greece	2019	LC	LC	C	LC	LC	LC	LC	PC	C	C	C	C	PC	C	LC	LC	LC	C	LC	C	C
Denmark	2021	LC	LC	LC	LC	C	LC	LC	LC	LC	LC	LC	C	PC	LC	PC	LC	LC	LC	LC	C	C
Ireland	2022	LC	C	C	C	LC	PC	PC	PC	C	LC	LC	C	PC	LC	LC	C	LC	LC	LC	C	C
Spain	2019	C	LC	LC	C	C	PC	PC	LC	C	LC	C	C	C	C	C	C	LC	C	C	C	C
Italy	2019	C	LC	LC	C	C	LC	PC	LC	C	LC	C	LC	PC	C	LC	C	LC	LC	C	C	LC
Nether-lands	2022	LC	C	LC	C	LC	LC	LC	LC	C	LC	C	LC	PC	C	PC	LC	LC	LC	LC	C	LC
Portugal	2017	LC	LC	LC	C	LC	C	C	PC	LC	LC	C	LC	PC	C	LC	PC	LC	LC	LC	LC	C
Finland	2022	LC	LC	LC	LC	LC	LC	LC	PC	C	LC	C	LC	PC	C	PC	C	LC	LC	PC	C	C
France	2022	LC	C	C	C	C	LC	C	PC	C	LC	C	PC	PC	C	LC	LC	C	LC	LC	LC	C
Sweden	2020	LC	C	LC	LC	LC	PC	PC	LC	C	LC	C	C	LC	C	LC	C	LC	LC	C	C	C
EU and MONEYVAL countries that are not FATF members																						
Bulgaria	2022	LC	PC	LC	PC	PC	PC	PC	PC	LC	PC	LC	PC	PC	PC	PC	LC	C	PC	LC	LC	LC
Hungary	2022	LC	LC	LC	C	LC	LC	LC	PC	C	LC	LC	LC	LC	LC	PC	LC	LC	LC	LC	C	LC
Cyprus	2022	LC	LC	C	C	LC	LC	LC	PC	C	LC	C	LC	PC	C	PC	LC	C	LC	LC	C	C
Latvia	2019	C	C	LC	C	LC	LC	LC	LC	C	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC	C
Lithuania	2023	LC	PC	LC	LC	LC	PC	PC	LC	C	LC	C	C	LC	LC	PC	LC	C	LC	LC	LC	C
Malta	2021	LC	C	C	C	LC	LC	C	LC	C	LC	C	LC	LC	LC	LC	LC	LC	LC	C	C	C
Poland	2021	PC	LC	LC	LC	PC	LC	PC	PC	C	LC	LC	LC	PC	LC	PC	LC	PC	PC	PC	PC	LC
Slovakia	2022	LC	C	LC	LC	LC	LC	LC	PC	LC	PC	LC	PC	PC	LC	PC	LC	LC	PC	PC	C	LC
Slovenia	2022	LC	LC	LC	LC	PC	LC	LC	LC	LC	LC	C	C	LC	C	PC	C	LC	LC	LC	C	C
Croatia	2022	PC	PC	LC	LC	LC	PC	PC	PC	C	PC	LC	LC	PC	LC	PC	LC	PC	PC	LC	LC	LC
Czech	2022	LC	LC	LC	C	LC	PC	PC	LC	C	LC	LC	LC	C	C	PC	LC	LC	LC	LC	LC	C
Estonia	2023	PC	C	LC	C	LC	PC	PC	PC	C	LC	C	LC	PC	LC	PC	C	LC	LC	PC	PC	PC

² The year of the last round of mutual inspections or the adoption of a progress report in strengthening measures to tackle money laundering and terrorist financing in the country.

Continuation of Table 3

Countries	Indicators																				Σ	%	
	R22	R23	R24	R25	R26	R27	R28	R29	R30	R31	R32	R33	R34	R35	R36	R37	R38	R39	R40				
EU and FATF members																							
Austria	LC	LC	LC	LC	C	C	LC	LC	C	LC	LC	PC	LC	C	LC	LC	C	LC	LC	94	78,3		
Belugia	LC	LC	LC	LC	C	C	LC	C	C	C	C	LC	LC	C	C	LC	LC	LC	LC	98	81,7		
Germany	LC	C	PC	LC	LC	C	LC	C	C	C	C	PC	LC	LC	LC	C	C	C	LC	92	76,6		
Greece	LC	LC	LC	LC	LC	C	LC	C	C	C	PC	LC	LC	LC	LC	C	C	C	LC	93	77,5		
Denmark	LC	LC	LC	LC	LC	LC	LC	LC	C	LC	LC	LC	C	LC	LC	LC	LC	LC	LC	84	70,8		
Ireland	LC	LC	LC	LC	C	C	LC	C	C	C	PC	PC	C	LC	C	C	LC	C	LC	91	75,8		
Spain	LC	C	LC	LC	LC	C	LC	C	C	C	C	C	C	C	C	C	C	C	C	106	88,3		
Italy	LC	LC	LC	LC	C	C	LC	C	C	C	LC	LC	LC	C	C	LC	LC	C	C	96	80,0		
Nether-lands	LC	LC	LC	LC	LC	C	LC	C	C	LC	LC	LC	LC	LC	C	LC	LC	LC	LC	88	73,3		
Portugal	PC	LC	PC	PC	LC	C	LC	LC	C	C	LC	LC	LC	LC	C	LC	C	C	LC	86	71,7		
Finland	LC	LC	LC	LC	LC	C	LC	LC	C	C	LC	LC	C	C	C	C	C	C	LC	96	80,0		
France	LC	LC	PC	LC	LC	PC	PC	C	C	LC	LC	LC	C	PC	LC	LC	LC	LC	LC	82	68,3		
Sweden	LC	LC	LC	LC	LC	LC	LC	C	C	LC	PC	LC	LC	LC	C	LC	LC	C	C	91	75,8		
EU and MONEYVAL countries that are not FATF members																							
Bulgaria	PC	LC	PC	PC	PC	PC	PC	LC	LC	C	PC	PC	PC	PC	LC	LC	PC	LC	LC	59	49,2		
Hungary	LC	LC	LC	LC	LC	LC	LC	C	C	LC	PC	LC	LC	LC	LC	LC	LC	LC	LC	82	68,3		
Cyprus	LC	LC	LC	LC	LC	C	LC	C	LC	PC	LC	C	LC	C	C	LC	C	C	C	92	76,6		
Latvia	LC	LC	LC	LC	LC	C	LC	LC	LC	LC	LC	LC	C	LC	LC	LC	LC	LC	LC	87	72,5		
Lithuania	LC	LC	LC	LC	LC	C	PC	LC	C	LC	LC	LC	LC	LC	C	LC	LC	LC	LC	83	69,2		
Malta	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC	C	LC	LC	C	LC	LC	C	LC	92	76,6		
Poland	PC	LC	LC	LC	PC	LC	PC	C	LC	LC	PC	PC	PC	PC	LC	LC	LC	LC	LC	65	54,2		
Slovakia	LC	PC	LC	LC	PC	LC	PC	PC	C	LC	PC	C	LC	PC	LC	C	LC	LC	LC	72	60,0		
Slovenia	LC	LC	LC	LC	LC	C	LC	C	C	LC	PC	LC	C	C	LC	LC	LC	LC	LC	88	73,3		
Croatia	PC	PC	PC	LC	LC	LC	LC	C	C	LC	PC	PC	C	PC	PC	LC	PC	LC	PC	65	54,2		
Czech	LC	LC	LC	LC	LC	LC	LC	LC	LC	C	PC	PC	LC	LC	LC	LC	LC	LC	LC	81	67,5		
Estonia	LC	PC	PC	PC	LC	LC	PC	LC	C	C	LC	PC	LC	PC	LC	LC	LC	LC	LC	72	60,0		

Source: [FATF, 2023].

Table 4. Rating of Technical Compliance of the National Anti-Washing Systems of Romania and Luxembourg With the Requirements of 40+9 FATF Recommendations (Based on the Results of Recent Mutual Inspections)

Countries	Year ³	Indicators																				
		R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15	R16	R17	R18	R19	R20	R21
EU and FATF members																						
Luxembourg	2010	PC	PC	PC	PC	PC	PC	NC	PC	PC	LC	PC	NC	PC	PC	PC	NC	NC	LC	PC	PC	NC
EU and MONEYVAL countries that are not FATF members																						
Romania	2014	LC	LC	LC	C	PC	PC	LC	C	PC	LC	LC	PC	PC	PC	PC	PC	C	C	LC	PC	

Continuation of Table 4

Countries	Indicators																				
	R22	R23	R24	R25	R26	R27	R28	R29	R30	R31	R32	R33	R34	R35	R36	R37	R38	R39	R40	SRI	SRII
EU and FATF members																					
Luxembourg	PC	PC	NC	PC	LC	PC	LC	LC	PC	PC	PC	PC	NC	PC	LC	C	LC	LC	LC	PC	PC
EU and MONEYVAL countries that are not FATF members																					
Romania	PC	PC	PC	LC	PC	LC	C	LC	PC	LC	PC	LC	N/A	LC	LC	C	LC	C	LC	PC	PC

Continuation of Table 4

Countries	Indicators									
	SRIII	SRIV	SRV	SRVI	SRVII	SRVIII	SRIX	Σ	%	
EU and FATF members										
Luxembourg	PC	PC	NC	PC	PC	PC	PC	53	31.6	
EU and MONEYVAL countries that are not FATF members										
Romania	PC	PC	LC	PC	LC	PC	PC	80	55,6	

Source: [Council of Europe, 2014; Mutual Evaluation Report, 2021].

Table 5. Rating of Technical Compliance of National AML/CFT Systems of the EAG Countries (Based on the Results of Recent Mutual Inspections or a Progress Report on Correcting Comments Based on the Results of the Last Inspection)

Countries	Year ⁴	Indicators																			
		R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15	R16	R17	R18	R19	R20
FATF and EAG countries																					
China	2022	LC	C	LC	C	LC	PC	PC	LC	C	LC	C	PC	LC	LC	LC	LC	C	C	LC	LC
Russia	2019	LC	C	LC	LC	PC	PC	LC	C	LC	LC	PC	LC	LC	C	PC	LC	LC	LC	C	LC

³ The year of the last round of mutual inspections in the country.

⁴ The year of the last round of mutual inspections or the adoption of a progress report in strengthening measures to tackle money laundering and terrorist financing in the country.

Countries	Year ⁴	Indicators																				
		R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15	R16	R17	R18	R19	R20	R21
EAG countries that are not FATF members																						
Belarus	2019	LC	LC	C	C	C	LC	LC	PC	C	LC	LC	LC	LC	C	PC	LC	LC	LC	LC	C	C
Kyrgyzstan	2022	LC	LC	C	LC	LC	C	C	PC	LC	LC	LC	LC	LC	PC	LC	LC	LC	LC	LC	LC	LC
Tadjikistan	2021	LC	C	LC	LC	LC	PC	PC	PC	C	LC	LC	PC	LC	PC	LC	NA	LC	LC	C	C	
Uzbekistan	2022	LC	C	LC	LC	LC	PC	PC	PC	LC	LC	LC	PC	LC	LC	LC	LC	PC	LC	C	LC	

Continuation of Table 5

Countries	Indicators																				Σ	%	
	R22	R23	R24	R25	R26	R27	R28	R29	R30	R31	R32	R33	R34	R35	R36	R37	R38	R39	R40				
FATF and EAG countries																							
China	NC	NC	PC	NC	LC	LC	NC	LC	C	C	LC	LC	LC	PC	LC	LC	C	LC	LC	76	63,3		
Russia	LC	LC	LC	PC	LC	LC	LC	C	LC	C	LC	C	LC	LC	LC	LC	LC	LC	LC	82	68,3		
EAG countries that are not FATF members																							
Belarus	LC	LC	LC	LC	LC	LC	PC	C	C	C	LC	LC	C	LC	C	LC	LC	LC	LC	89	74,2		
Kyrgyzstan	LC	LC	LC	LC	LC	LC	LC	LC	C	LC	LC	LC	LC	LC	LC	LC	LC	LC	LC	82	68,3		
Tadjikistan	PC	LC	LC	PC	PC	LC	PC	C	LC	C	LC	LC	PC	C	LC	PC	LC	LC	LC	74	63,2		
Uzbekistan	PC	LC	LC	PC	PC	LC	LC	C	C	C	C	LC	LC	PC	LC	C	LC	C	LC	79	65,8		

Source: [FATF, 2023].

Table 6. Rating of Technical Compliance of National AML/CFT Systems of India, Kazakhstan, and Turkmenistan With the Requirements of 40+9 FATF Recommendations (Based on the Results of Recent Mutual Inspections)

Countries	Year ⁵	Indicators																				
		R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15	R16	R17	R18	R19	R20	R21
FATF and EAG countries																						
India	2010	PC	LC	PC	C	PC	PC	LC	LC	N/A	LC	LC	NC	PC	LC	LC	NC	PC	LC	C	LC	PC
EAG countries that are not FATF members																						
Kazakhstan	2011	PC	PC	LC	LC	NC	PC	PC	NC	N/A	LC	NC	NC	NC	LC	PC	NC	NC	PC	C	LC	NC
Turkmenistan	2011	LC	LC	LC	LC	PC	NC	PC	PC	N/A	LC	PC	NC	LC	PC	PC	NC	NC	C	C	C	LC

⁵ The year of the last round of mutual inspections in the country.

Continuation of Table 6

Countries	Indicators																				
	R22	R23	R24	R25	R26	R27	R28	R29	R30	R31	R32	R33	R34	R35	R36	R37	R38	R39	R40	SRI	SRII
FATF and EAG countries																					
India	C	PC	NC	LC	LC	LC	C	LC	LC	LC	LC	PC	PC	PC	LC	LC	LC	LC	LC	PC	PC
EAG countries that are not FATF members																					
Kazakhstan	NC	PC	NC	NC	LC	LC	LC	NC	PC	PC	NC	NC	N/A	PC	LC	LC	PC	PC	LC	PC	PC
Turkmenistan	NC	PC	PC	NC	PC	PC	C	PC	NC	NC	NC	PC	N/A	LC	LC	C	PC	LC	PC	PC	LC

Continuation of Table 6

Countries	Indicators								
	SRIII	SRIV	SRV	SRVI	SRVII	SRVIII	SRIX	Σ	%
FATF and EAG countries									
India	LC	PC	LC	LC	LC	NC	PC	77	53.5
EAG countries that are not FATF members									
Kazakhstan	PC	PC	LC	NC	PC	NC	PC	45	31.3
Turkmenistan	PC	LC	PC	PC	PC	PC	PC	60	41.7

Sources: [EAG, 2011a; 2011b; Mutual Evaluation Report, 2021].

Table 7. Rating of the Effectiveness of National AML/CFT Systems of the EU Countries
(Based on the Results of Recent Mutual Inspections or a Report on Progress in Correcting
Comments Based on the Results of the Last Inspection)

Countries	Year	Efficiency Indicators												Σ	%
		IO.1	IO.2	IO.3	IO.4	IO.5	IO.6	IO.7	IO.8	IO.9	IO.10	IO.11			
EU and FATF members															
Austria	2018	M	S	M	M	M	L	L	M	S	M	S	23	52.3	
Belugia	2018	S	S	M	M	M	S	M	M	S	M	M	26	59.1	
Germany	2022	S	S	M	M	M	M	M	S	S	M	M	26	59.1	
Greece	2019	S	S	M	M	M	S	M	M	S	M	S	27	61.4	
Denmark	2021	M	S	L	L	M	M	M	M	S	M	S	23	52.3	
Ireland	2022	S	S	S	M	M	S	M	M	M	M	S	27	61.4	
Spain	2019	S	S	S	M	S	H	S	S	S	M	M	33	75.0	
Italy	2019	S	S	M	M	S	S	S	S	S	M	S	30	68.2	
Netherlands	2022	S	H	M	M	M	H	S	S	S	S	M	31	70.4	
Portugal	2017	S	S	M	M	M	M	S	M	S	S	S	28	63.6	
Finland	2022	S	H	L	M	M	S	S	M	M	M	M	26	59.1	
France	2022	S	H	M	M	S	S	S	H	H	S	S	34	77.5	
Sweden	2020	M	H	M	M	M	M	S	S	S	M	S	28	63.6	
EU and MONEYVAL countries that are not FATF members															
Bulgaria	2022	M	M	M	M	L	L	L	L	M	M	L	17	38.6	
Hungary	2022	L	S	M	M	L	S	L	L	M	M	M	20	45.5	

Countries	Year	Efficiency Indicators											Σ	%
		IO.1	IO.2	IO.3	IO.4	IO.5	IO.6	IO.7	IO.8	IO.9	IO.10	IO.11		
Cyprus	2022	S	S	M	M	M	M	M	M	S	M	M	25	56.8
Latvia	2019	M	L	M	M	L	M	M	M	M	M	L	21	47.7
Lithuania	2023	M	S	M	M	M	M	M	M	M	M	M	23	52.3
Malta	2021	M	S	L	M	M	M	L	L	M	M	S	21	47.7
Poland	2021	M	S	M	S	S	M	M	L	M	M	M	24	54.5
Slovakia	2022	M	S	M	M	M	M	M	L	M	M	M	22	50.0
Slovenia	2022	M	S	M	M	M	M	M	M	M	M	M	23	52.3
Croatia	2022	M	S	M	M	M	M	L	M	M	L	M	21	47.7
Czech	2018	M	S	M	M	M	M	M	S	S	M	M	25	56.8

Source: [FATF, 2023].

Table 8. Rating of the Effectiveness of National AML/CFT Systems of the EAG Countries (Based on the Results of Recent Mutual Inspections or a Report on Progress in Correcting Comments Based on the Results of the Last Inspection)

Countries	Year	Efficiency Indicators											Σ	%
		IO.1	IO.2	IO.3	IO.4	IO.5	IO.6	IO.7	IO.8	IO.9	IO.10	IO.11		
FATF and EAG countries														
China	2022	S	M	M	L	L	M	M	S	S	L	L	21	47.7
Russia	2019	S	S	M	M	S	H	M	S	H	M	M	30	68.2
EAG countries that are not FATF members														
Belarus	2019	S	S	M	M	L	S	M	M	S	M	S	26	59.1
Kyrgyzstan	2022	L	M	M	M	M	M	M	L	M	M	M	20	45.5
Tadjikistan	2021	S	S	M	M	M	M	L	M	S	M	L	23	52.3
Uzbekistan	2022	S	S	M	M	M	S	M	M	S	S	S	28	63.6

Source: [FATF, 2023].

STRATEGIC NARRATIVES AND NEW REALITY

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Strategic Narratives in China's Bid for Discursive Hegemony¹

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Abstract

Power in international relations implies not only the possession of outstanding material resources, but also the ability to propose and popularize attractive ideas, values, and norms and thus control discourse. Scholars note that during the presidency of Xi Jinping, the People's Republic of China (PRC) has joined the struggle for discursive hegemony. This change in China's foreign policy requires systematic study, for which the concept of a strategic narrative has analytical value. As defined by A. Miskimmon, B. O'Loughlin and L. Roselle, strategic narratives "are a means for political actors to construct a shared meaning of the past, present, and future of international politics to shape the behavior of domestic and international actors." This article provides an overview of strategic narratives as a conceptual lens to study international relations, summarizes the existing research of strategic narratives in general and regarding the Chinese case in particular, and suggests directions for future studies. The core idea of Chinese strategic narratives is that the PRC is a new type of great power that is capable of changing the existing unjust and conflict-prone world order. At the same time, China does not propose to radically revise the international system—it portrays the world as divided into great powers and the rest. Overall, China's strategic narratives are characterized by a duality that reflects the complexity of China's foreign policy interests and its attempt to expand the field of opportunity. Aimed to support different agendas, narratives include references both to the "century of humiliation" and the more recent successful experience of China's modernization. The content of the narratives suggests that China is mainly trying to attract the developing countries of the Global South and thus form its own group of followers. However, there is significant variation in communication processes, namely the formation, projection, and reception of China's strategic narratives. The study of this variation, as well as the analysis of the effectiveness of Chinese narratives, is a promising direction for future research.

Keywords: strategic narratives, discourse power, discursive hegemony, China's foreign policy, Belt and Road Initiative, discourse

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Introduction

Power in international relations implies not only the possession of outstanding material resources but also the ability to propose and popularize attractive ideas, values, and norms and thus control discourse [Ikenberry, Kupchan, 1990; Risse, 2011]. In pursuit of discursive hegemony, actors use so-called strategic narratives, defined as “the set of interrelated stories forming certain images of past, present and future, designed to manage the perception of a key audience and aimed at achieving strategic goals” [Bogdanov, 2019, p. 148]. In the long term, strategic narratives are expected to influence an audience, its interests, identity, and understanding of how international relations function and thus shape its behaviour.

Scholars note that under Xi Jinping’s rule, the People’s Republic of China (PRC) has joined the battle for discursive hegemony [Denisov, 2020]. In his speeches, Xi stresses that it is necessary “to tell China’s story well” (*jianghao zhongguo gushi*) and to develop and spread Chinese narratives and concepts to promote better understanding of the PRC and its outlook on international relations [Qiushi, 2021]. The soft power strategy, which previously was mostly aimed at creating an attractive image of the PRC, has been supplemented by attempts to increase so-called discourse power (*huayu quan*) [Yang, 2020]. The PRC not only tries to transform or alter liberal norms but also aims to develop and popularize its own ideas, norms, and standards [Denisov, 2020; Denisov, Zuenko, 2022].

This article reviews existing scholarship on China’s strategic narratives, which contributes both to the research of China’s discourse power and the role of narratives in international relations. Such an analytical lens is valuable because it shifts attention from research on the PRC’s international image or particular Chinese ideas to the identification of broader narratives that offer new interpretations of the international system, international norms, and China’s place in global politics. Moreover, apart from examining contents of the discourse, such a conceptual approach implies studying other aspects of strategic communication, for example, how the PRC constructs narratives, how and where they are projected, and how other actors of international relations react to them.

The Rise of the PRC and Discursive Hegemony

The rise of the PRC and its influence on the future of the liberal order has attracted a lot of scholarly attention [Makaricheva et al., 2019]. Research about the role of ideas and discourse in these processes can be grouped as follows. First, many researchers focus on the PRC’s discursive engagement with existing international norms and institutions [Grachikov, Xu, 2022], as they are considered a cornerstone of the modern international system. For example, China’s approach to global governance institutions and norms regulating the world economy and human rights, which were created by western countries after World War II, has been thoroughly studied [Kinzelbach, 2012; Yang, 2020].

Second, the PRC’s soft power strategy and public diplomacy are two other widely studied topics. Research in this field discusses various aspects of China’s policy; it evaluates its public diplomacy resources and tools (such as Confucius Institutes or “wolf warriors” diplomacy on Twitter), assesses the effectiveness of China’s soft power strategy, and considers the obstacles that Beijing has to overcome [Lee, 2016]. Although research in this group touches upon China’s actions to shape its discursive representation in foreign countries, narratives do not get much attention.

Third, the study of China’s discourse power is another relatively new direction of research. Scholars debate the reasons for the PRC’s growing interest in discourse power, outline major

elements of this Chinese concept [Denisov, Zuenko, 2022; Zhao, 2016], and compare China's discourse power to the discourse or normative power of other actors, such as the European Union (EU) [Alekseenkova, 2020].

Finally, in another related group of studies, authors use the concept of strategic narratives to analyze the role of discourse and communication in various spheres of China's foreign policy, from bilateral relations to its involvement in global governance. When applied to the analysis of China's rise, such an approach not only shifts the focus from China's material power to the narratives it promotes, but also examines how these narratives are used to affect a target audience's behaviour and make it possible for China to reach its strategic goals [Miskimmon, O'Loughlin, Roselle, 2013].

Strategic Narratives: A Conceptual Framework

During the last 15 years, international relations scholars have focused on narratives that actors construct and promote on the world stage. Geoffrey Roberts [2006] called this process the "narrative turn in international relations." Within this approach, international relations are viewed as a battle of narratives in which each actor tries to promote its preferred version of reality.

Alister Miskimmon, Ben O'Loughlin, and Laura Roselle have made a major contribution to the study of strategic narratives and their role in shaping world order. As they put it, political actors use strategic narratives "to construct a shared meaning of the past, present and future of international politics to shape the behavior of domestic and international actors" [2013, p. 3]. What makes strategic narratives different from discourse is that the former has a particular strategic goal, that is, it is aimed at managing other actors' expectations and actions. According to the classification suggested by Miskimmon, O'Loughlin, and Roselle, there are three types of strategic narrative. First, there are system narratives, which are about the nature, structure, and transformations of the international system that define relations between the actors in this system. A classic example of a system narrative is the Cold War narrative. Second, there are identity narratives, which are about particular actors, their interests, reputation, reliability, role, and place in the system. Finally, there are issue narratives, which focus on particular policies and norms in international relations, such as human rights or nonproliferation of nuclear weapons [Ibid., pp. 10–1].

Miskimmon, O'Loughlin and Roselle [Ibid., p. 11] introduced the following stages in the communication process associated with strategic narratives: formation, projection, reception, and feedback. When studying the formation of strategic narratives, scholars often examine the role of various actors in this process, which mainly includes governing elites, mass media, and epistemic communities [Zhang, Orbie, 2019]. In the studies of the projection of strategic narratives, attention is paid to the infrastructure employed to spread the needed information. The battle for discursive hegemony includes attempts both to control already existing infrastructure and to create a new one. Finally, the question of the audience's reception of strategic narratives is another important research topic. A narrative is considered effective if it changes an audience's behaviour, for example, if it alters another country's policy [van Noort, Colley, 2020]. However, it is often very difficult to prove a causal link or isolate a narrative's influence from other possible explanatory factors.

Nevertheless, scholars suggest that the following factors make strategic narratives effective. First, a strategic narrative has to be coherent. Second, it needs to address "rational" material interests of the audience as well as reflect myths that are important for their collective identity [van Noort, Colley, 2020]. For example, Xu Jinming and Cao Dejun stated that the conflicting sides involved in territorial disputes in the South China Sea, the PRC among them, draw upon

historical memory in their strategic narratives [2022]. Moreover, it should be noted that the strategic narratives of some actors are often contested or challenged by other actors to generate a particular short-term behavioural response or “a long-term discursive shift” [Miskimmon, O’Loughlin, Roselle, 2013, p. 251–2].

System Narratives of the PRC

According to Edward Yi Yang [2020], the PRC’s system narrative justifies building a “community of common destiny for mankind,” a concept that was first mentioned in Hu Jintao’s report in 2012 but became associated with China’s new foreign policy approach under Xi. China’s system narrative portrays the existing international system as unfair, in which some actors can break established rules and norms without being punished and can exploit other actors [Lams et al., 2022]. Turning to history, the PRC condemns western colonial practices of the past and hints at ongoing exploitation that has to be stopped. On the one hand, China’s system narrative stresses the need to establish a new system of international relations and give an opportunity to all actors to participate in developing and benefiting from a new set of rules. On the other hand, China’s position in this system is unique. It is China that plays the role of the leader and coordinates common efforts in building such a community.

Zhang Feng demonstrated that China’s system narrative relies on the idea that great powers define the nature of the entire international system. China is not just another great power, but a Chinese great power. Its difference from the great powers of the past is that the latter gained their status in the context of a zero-sum game. As China is another type of great power, the system formed under its influence will also be different. For example, according to Zhang, one distinctive feature of China that will have an impact on the entire system is its “benevolent pacifism.” The concept of “peaceful development” introduced by Hu is also based on this idea. China’s system narrative also encompasses the principle of “harmonious inclusionism,” which resonates with the idea of the multipolar world [Zhang, 2011].

Shane Fairlie [2020], who studied narratives in China’s state-owned media and speeches made by Chinese Communist Party (CCP) leaders, came to a similar conclusion about the way China portrays its role in the international system. He argued that, apart from stressing the role of the CCP, the grand narrative is represented by the slogan “without China, there is no global prosperity.” In addition to this, Fairlie distinguished three sub-narratives: it is China that can establish a more equitable world; China is a “win-win partner;” and China is a “peace-loving nation” [Ibid., p. 230].

China’s Identity Narratives

An identity narrative is essential for any international actor, as it shapes expectations of other actors and influences behaviour of the actor itself by structuring “the range of the possible” [Miskimmon, O’Loughlin, Roselle, 2013, p. 77]. Liao Ning [2017] suggested that nationalist discourse is an important communicative device used both for domestic and international audiences to construct the identity of modern China. It includes the ideas of China’s victimhood and the historic role of the CCP in leading the country to prosperity after the “century of humiliation.” According to Liao [Ibid., p. 129], promoting these ideas, on the one hand, helps achieve social cohesion and maintain the CCP’s legitimacy, but, on the other hand, creates certain expectations about China’s international behaviour and thus undermines pragmatic foreign policy. Moreover, the victimhood discourse implicitly contradicts the idea of peaceful development, as assuming the role of a victim means juxtaposing oneself to “the other” (the

aggressor), and implicitly points to the necessity for retribution, which is at odds with the idea of peaceful and harmonious coexistence.

Lutgard Lams [2018] has also explored nationalist references in China's strategic narratives. She defined two dimensions of how the nationalistic discourse is used to construct China's identity. First, the identity narrative includes the ideas of western imperialist containment of China's development and anti-Americanism. It talks about China's moral superiority and juxtaposes the PRC with western countries that break international law and norms in pursuit of hegemony [Lams et al., 2022]. Second, the identity narrative includes the more positive idea of a nationalist revival (the Chinese dream, cultural confidence) that urges Chinese people to unite on the basis of common cultural values. Lams [2018] noted the duality in China's identity narrative, which, on the one hand, has hostile anti-western rhetoric, but, on the other hand, presents China as a benevolent and peaceful power. Moreover, China often stresses that it is the second economy in the world but simultaneously positions itself as a developing country. However, it should be noted that in the PRC, "developing country" denotes a country with particular historical, political, and cultural background that is not related to the level of its economic development [Luo, 2018].

Tabitha Rosendal's study demonstrated how China's identity narratives adjust to different international audiences. She explored China's strategic narratives in Sri Lanka and showed how Buddhism is used in China's communication. In its identity narrative, the PRC positions itself as part of Buddhist world, pointing to the fact that China and Sri Lanka have a common "Buddhist past" and a common "Buddhist destiny." Buddhism in this context is utilized as a means to juxtapose China and its "Buddhist partners" with the west, which does not share values with the Global South [Rosendal, 2022].

Issue Narratives of the PRC

As for the issue narrative of the PRC, Edward Yi Yang [2020] has compared China's strategic narratives in three global governance areas: climate change, human rights, and Internet governance. In the case of climate change, China supports existing norms and does not attempt to alter the narrative; rather, it uses its own terminology to speak about this topic. As for human rights, China challenges some existing norms, attempts to form its own narrative, and promotes ideas of particularism. In the sphere of Internet governance, norms are still being developed and China has the opportunity to take part in this process. Yang noted that, at the moment, China successfully opposes the idea of the free and open Internet and promotes the narrative of Internet sovereignty.

Pascal Abb [2021] has studied China's issue narrative about peacekeeping operations. He demonstrated that, since 2003, the concept of "developmental peace" has been the central element of China's narrative about peacekeeping. Unlike the western approach of liberal state-building as a means to stop and prevent conflicts, China's narrative suggests that socio-economic development tends to be more effective in conflict prevention. To support this idea, China points at its own recent history, emphasizing stability and success in socio-economic development, which started with the beginning of the reform and opening-up policy and was not preceded by democratization. Interestingly, such a connection between peace and development corresponds with China's narrative about human rights, that is, the idea that "the right for peace" is a "basic human right" which precedes all other rights.

The strategic narrative that accompanies China's Belt and Road Initiative (BRI) has also attracted a lot of scholarly attention [Zeng, 2019]. For instance, Ray Silvius [2021] demonstrated that this narrative relies on two ambivalent ideas. The first idea holds that only China pos-

sesses unique necessary features, including material power and political will, which are required to lead cooperation within the BRI. Its approach, based on principles of win-win cooperation and mutual respect, allows everyone to be part of the BRI on beneficial terms. According to the second idea, the BRI is not China's own foreign policy project—it does not serve Chinese interests exclusively, but belongs to all the countries that join the BRI. Thus, this issue narrative is linked to China's system narrative that promotes the idea of mutually beneficial cooperation under China's leadership.

Caroline van Noort has also contributed to the studies of China's strategic narratives about the BRI. For instance, she has explored the way China rewrites the history of the Silk Road to create a more appealing context for the BRI. In her view, Beijing promotes the Silk Road legacy to present China's increasing engagement in Eurasia as an attempt to develop a flourishing region as described in Marco Polo's *Travels* and thus avoid other historical parallels, such as comparison to the Great Game for Eurasia as depicted in Rudyard Kipling's novel *Kim* [van Noort, 2020b]. In another study, van Noort [2020a] focused on the visual representation of the BRI by analyzing its official website. She demonstrated how verbal narratives are backed up by images, such as a train of camels roaming a desert used as a symbol of interconnectedness, or photos of businesspeople of different nationalities to illustrate mutual benefits and inclusiveness.

Summarizing the research focused on the contents of China's strategic narratives, we can make some conclusions about their goals. First, China seeks international and domestic recognition of its political model as successful and legitimate. This is important not only for the domestic approval of the CCP, but also for stimulating international cooperation. Second, it is strategically vital that other countries accept the idea that China's rise and development poses no threat and is beneficial for other countries. Attempts to resist China's leadership will slow not only China's development, but also development of the whole world, including developing countries. Moreover, for the PRC, it is crucial to maintain a favourable international environment and gain international support for its foreign economic projects. Finally, Beijing is searching for followers who will endorse its attempts to reform the current international order, in particular by supporting changes in those elements that China sees as unfair or inconvenient (such as U.S. hegemony and the human rights regime).

Formation, Projection and Reception of China's Strategic Narratives

In comparison to studies focused on the contents of China's strategic narratives, much less attention is paid to their formation, projection, and reception by the audience. Nevertheless, based on existing research we can come to a number of preliminary conclusions.

Different actors take part in the formation of China's strategic narratives: ruling elites, mass media, and the academic community. Unlike many other countries, there is not much opportunity to contest the strategic narratives of the ruling party—the CCP—as there is no political opposition and most popular mass media are owned by the party. However, it is inaccurate to say that the formation of strategic narratives in China goes smoothly and that all narratives are always clear and unambiguous. First, using the discourse about the BRI as an example, Zeng Jinghan [2019] demonstrated that the decentralization of power in China also affects discourse: the provincial governments take part in the formation of the strategic narratives and promote ideas that are sometimes different from the ones put forward by the central government. Second, the concept of “empty signifiers” is essential for understanding the process of narrative formation in China. Empty signifiers are terms or slogans introduced by China's leaders that at first do not have a clear meaning. Their contents develop with time and can evolve depending on changes in domestic and foreign policy [Noesselt, Eckstein, Priupolina, 2021].

Third, when there are no strict guidelines from the CCP on how to cover a particular topic, the same events can have different interpretations in Chinese media.

As for the projection of China's strategic narratives, this process very much depends on the target audience. Channels that are used to spread strategic narratives to China's domestic audience (mass media, social media, and non-profit organizations) are controlled by the CCP, and this significantly simplifies the process of communicating important ideas [Zhuravliova, 2022]. Overall, there is very little opportunity to spread alternative discourses and narratives in the PRC. However, some scholars note that due to commercialization of China's mass media, it not only caters to the interests of the CCP but also has to take into consideration and adapt to public opinion [Wang, Wang, 2014]. In addition, social media provides an opportunity to express alternative opinions on some issues related to international relations.

The infrastructure that is used to spread narratives to foreign audiences is usually also located abroad. Therefore, its rules and functioning principles and overall informational environment differ significantly from those in China, which makes projection of China's narratives abroad much more complicated. For instance, dozens of Confucius Institutes, key instruments of China's public diplomacy, have been recently closed in western countries. These institutes not only popularize traditional Chinese culture, but also serve as channels used to spread strategic narratives about China and its place in the world [Hartig, 2015]. Moreover, social media platforms, video hosting services (such as Youtube) and other websites that are employed to project Chinese strategic narratives online to international audiences [Hagström, Gustafsson 2021] belong to foreign companies that often refuse to comply with the CCP's censorship requirements.

To spread its narratives about the international system and its elements among political elites of other countries, China uses various international and regional organizations and forums. The Chinese government not only exploits these platforms to promote its position to foreign officials, but also seeks to control the very infrastructure by promoting Chinese citizens to key positions [Zhao, 2021, p. 44]. Among various international venues are those that have been established by China in which Beijing has more opportunities to spread its strategic narratives in comparison to its competitors, for example, the Boao Forum for Asia.

The reception of China's strategic narratives is different among different international audiences. For example, Chinese scholar Cao Dejung concluded that the China-U.S. trade war and the coronavirus pandemic exacerbated the competition and tensions between the strategic narratives of the U.S. and China [Cao, 2021]. Cooperation within the BRI, which China presents as mutually beneficial, is often described by other actors as a zero-sum game [Zeng, 2019]. Caroline van Noort and Thomas Cooley [2020] noted that some Chinese ideas resonate more with international audiences than others. For example, countries that have joined the BRI accept Chinese narratives concerning the importance of connectivity, trade, and prosperity, but question the selflessness of Chinese projects, pointing at human rights violations, debt traps, and assertive foreign policy.

Conclusion

Under Xi's leadership, the PRC has joined the battle for discursive hegemony. The conceptual lens of strategic narratives used in this paper presents a systematic framework to analyze China's discourse power and offers tools to study not only the contents of the discourse, its key elements, types, and connection to strategic goals, but also the related communication processes such as the formation, projection, and reception of these narratives.

Having reviewed scholarship on three types of China's narratives (system, identity, and issue), we can make a number of conclusions. Beijing exploits historical memory about the cen-

ture of humiliation not only to maintain the CCP's legitimacy and national unification in the face of hostile external forces, but also to construct its strategic narrative about the international system and influence foreign audiences. When addressing developing countries, China condemns western colonial practices of the past and hints at the ongoing exploitation that has to be resisted. Appeals to transform the existing system are embedded in the community of common destiny concept which became an important element of China's foreign policy under Xi. China promotes the idea that only a new type of power can create a new, fairer world order. It comes as no surprise that China is presented as such a power because other great powers are content with current state of events and reproduce the existing order with such narratives as "the Cold War," "threat to the free world," and "zero-sum game." These narratives are used to explain why it is important to control rising powers. Second, mutual benefit and prosperity are presented as key features of the new fair international system. Although China stresses the need to transform some elements of the system, its narrative does not suggest any revolutionary change; it is still about dividing the world into great powers and the rest.

China's identity narrative is closely linked to the above-described system narrative. Beijing promotes the idea of Chinese great power as a unique great power. For instance, an important distinguishing feature of the PRC is its moral superiority and commitment to international rules and law. At the same time, scholars point to the duality of China's identity narrative. On the one hand, China portrays itself as a country that has gone through the century of humiliation and engages in a battle against an unfair international system. On the other hand, Beijing seeks to form an image of a constructive player that will encourage peace and development through global initiatives. Such duality (victim vs. leader) and, consequently, contradiction in China's identity narrative is directly linked to the complexity of its strategic goals. Beijing seeks to transform only certain principles of the international system but to keep the others. For example, a fairer international system does not imply that China will give up its United Nations Security Council permanent membership or support permanent membership enlargement. In the short term, the duality of identities allows China to reach particular strategic goals, as that victim narrative and the leader narrative justify two totally different types of possible behaviour. In the long term, inconsistent behaviour may create a credibility gap in relations with other actors and have a negative impact on the image of China and on the effectiveness of its strategic narratives.

Summarizing China's issue narratives, we can see that the main ideas they have in common are particularism and an opportunity for actors of international relations to choose suitable international norms. Moreover, in China's issue narratives, development and infrastructure are presented as key elements for prosperity and peace. All these ideas are primarily aimed at developing countries, many of which are dissatisfied with their position in the international system, tired of criticism, and in need of external financing.

Chinese ideas seem significantly less appealing to western countries, as they challenge liberal norms. Moreover, the criticism of injustice and exploitation and accusations of amorality require western countries to change and abandon familiar and convenient rules. This leads us to a conclusion that China targets developing non-western countries and thus tries to form its own group of followers. However, scholars are yet to find out if China adapts the contents of narratives to different audiences, that is, if there are differences between the ideas that are projected to developed and developing countries, western and non-western countries, and China's Asian neighbours and overseas partners.

Formation, projection, and reception of China's strategic narratives vary significantly depending on the audience and the topic. China's case is of interest for further theoretical investigation of strategic narratives because it offers abundant empirical material and opportunities to test different hypotheses. Even the formation of narratives in China is not a centralized process, as various actors with different interests take part in it. Infrastructure used to spread China's

strategic narratives varies significantly depending on the intended recipient, that is, domestic or foreign audiences, elites, or average citizens. Despite globalization, media spheres and their regulation differ significantly in different countries, which has an impact on China's opportunities to spread its narratives. The effectiveness of narratives also exhibits a lot of variability. Existing scholarship demonstrates that some countries tend to willingly adopt certain Chinese strategic narratives while others contest them. At the same time, some Chinese ideas are more popular than others. However, it is worth mentioning that audiences' reactions to Chinese narratives are significantly less examined in comparison to studies of narratives' contents. This demonstrates an important gap in the literature, which presents opportunities for further research.

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