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Xi Jinping's Hidden Goals for the PRC Law on Foreign Relations

By Willy Wo-Lap Lam



(Image: The Great Hall of the People, where China's top legislative body convenes, **source:** Xinhua)

Chinese President Xi Jinping has promulgated a new law on foreign affairs to legitimize tough measures that Beijing is taking against the “bullying” of the “hegemonic West.” The statute, “The Law on Foreign Relations of the People’s Republic of China (PRC),” which takes effect on July 1, will also anchor the supreme leader’s long-standing aspiration to build a China-centric global order that will challenge the framework established by the US-led Western Alliance since the end of World War II.

The law also codifies the total control that Xi, who is Chinese Communist Party (CCP) General Secretary and Chairman of its Central Military Commission (CMC), exercises on all policies regarding diplomacy and national security ([People’s Daily](#), June 30; [Xinhua](#), June 28). The law states that the PRC “stays true to the vision of common, comprehensive, cooperative, and sustainable global security, and endeavors to strengthen international security cooperation and its participation in mechanisms of global security governance.” It stresses Beijing’s right to “take corresponding countermeasures and restrictive measures” against acts that violate international law and norms and that “endanger China’s sovereignty, security and development interests.” The official *Global Times* said the statute was a response to “new challenges in foreign relations, especially when China has been facing frequent external interference in its internal affairs under the western hegemony with

unilateral sanctions and long-arm jurisdiction” ([The Global Times](#), June 28). The legislation legalizes measures such as counter-sanctions and blacklisting of foreign nationals and institutions in retaliation against similar measures that the US and other Western countries have taken against PRC firms ([New York Times Chinese Edition](#), December 16, 2022).

Observers have noted, however, that the latest demonstration of Beijing’s alleged “wolf warrior diplomacy” could hurt China’s international image, particularly among multinationals still interested in the PRC market ([China Briefing](#), June 29). Earlier this year, the promulgation of a counter-espionage law already places businesspeople from different countries in a potentially compromising situation ([South China Morning Post](#), June 17). This is due to the fact that Beijing has its own and unique interpretations of what constitutes “spying” or “leaking of state secrets.” Public security authorities have since the spring cracked down on a number of multinational due diligence companies as well as firms that handle accounting and other sensitive financial data of Chinese concerns. The CCP administration has also restricted the activities of American IT firm Micron in an apparent tit-for-tat response to Washington’s efforts to punish Chinese IT firms with links to national security and military units ([Indopremier.com](#), July 1; [fdiintelligence.com](#), May 10).

Yet another problem raised by foreign governments and China-based chambers of commerce is that while the new law claims that Beijing abides by the charters of the United Nations as well as all international law, well-known global practices such as freedom of information, disclosure of the holdings of shareholders and open bidding for contracts are not often observed by PRC cadres. Moreover, the Xi leadership’s emphasis on respecting the territorial integrity of nations big and small seems to be at variance with its refusal to condemn Russia’s invasion of Ukraine. The People’s Liberation Army’s (PLA) no-holds-barred flexing of its muscle in the Taiwan Strait, the Sea of Japan and the South China Sea also detracts from Beijing’s commitment to upholding international laws and global norms. The PRC’s claims to owning 90 percent of the South China Sea has been repeatedly challenged by UN and authoritative international law bodies such as Court of Final Appeal in the Hague ([SCMP](#), June 17; [Center for Strategic and International Studies](#), May 11).

It is understood that the Xi administration wants to demonstrate China’s diplomatic clout at a time when it is meeting setbacks on various foreign-policy fronts. The so-called “coup attempt” by the Wagner mercenary group against the Kremlin in late June has undermined the strength of Russia in general and President Vladimir Putin in particular ([abc.net.au](#), June 27). While Beijing has continued to offer rhetorical support to Moscow, the declining power of the Russian Federation – seen as a key ally in Xi’s apparent bid to set up an “axis of autocratic states” that includes countries grouped under the Shanghai Cooperation Organization and the BRICS mechanism – has hurt Beijing’s ability to counter the challenge of the US and its allies in Europe and Asia ([Radio Free Asia](#), June 29; [Radio French International](#), June 27). The enhanced defense cooperation between the US and India which was reached during Prime Minister Narendra Modi’s visit to Washington last month (June) has also hurt Beijing’s apparent efforts to prevent India from becoming part of what it sees as a “Asia NATO” ([Zaobao.com.sg](#), June 26; [Radio French International](#), June 26; [VOAChinese](#), January 23). India is a long-standing member of the Quad Group of nations (US, India, Japan and Australia) whose aim includes

curbing Chinese expansionism in the Indo-Pacific Region. Instances of defense cooperation between India on the one hand, and Japan, Vietnam and the Philippines on the other, have also increased exponentially.

The Xi administration's tough response to the "anti-China containment policy" supposedly spearheaded by Washington seems to contradict efforts by Beijing to reassure multinationals that the PRC will continue to push forward the open-door policy begun by Great Architect of Reform Deng Xiaoping in 1978. At the opening of the "Summer Davos" global forum in Tianjin in late June, Premier Li Qiang, deemed a protégé of Xi's, appealed to particularly Western investors to come to the PRC. "The world economy is in a critical phase of upheaval," Li said. "We should not return to isolation" ([Deutsche Welle Chinese](#), June 28; [Xinhua](#), June 27). However, Li, whose portfolio is the Chinese economy, did not spell out new measures to attract foreign capital. Promises made earlier by Beijing regarding the liberalization of control of foreign-exchange movements and other measures deemed to restrict the business opportunities of multinationals have yet to be honored.

International observers have raised the question of whether the Foreign Relations Law is mainly geared toward consolidating Xi's Mao-like status as "core of the party for life." According to Sinologist Minxin Pei, while the statute "provides Beijing a legal instrument to impose sanctions on its adversaries in the future... Beijing does not need this legal instrument to punish its adversaries" (Note 1). Recent clampdowns exercised by the Xi leadership against American companies and other multinationals show the CCP administration already possesses a formidable toolbox to retaliate against sanctions that Western countries have imposed on the PRC. Coming hot upon the heels of the "insurrection" by the Wagner Group in Moscow, the added authority that the new law has given Xi seems an indication that the supreme leader wants additional guarantees against real and potential threats to his "core for life" status ([Foreign Affairs Chinese](#), September 6, 2022). Indeed, since the days of late chairman Mao Zedong and master reformer Deng Xiaoping, the tradition has been well-established that the No. 1 leader in the party has sole responsibilities in formulating foreign and national-security policies, particularly regarding major countries and regions such as the US, Russia, Japan and the EU.

In light of Xi's controversial decisions to back up his good friend Vladimir Putin and to engage in breakneck competition with the US-led "anti-China" coalition, it is possible that the top Chinese leader feels the need to take cover under a new legislation. In the past few months, Chinese social media has circulated many voices in opposition to Xi's support of the Putin war effort against Ukraine. According to the Japanese pollster Genron-ppo, "over half of Chinese people are either opposed to Russia's invasion of Ukraine or feel it is wrong." Additionally, Chinese social media has circulated a note said to be written by former vice-foreign minister Fu Ying opposing the CCP administration's vehement anti-US stance. Ambassador Fu reportedly raised the question of "which countries will stand with China once it is mired in ferocious confrontation with the Americans." ([Aljazeera](#), March 31; [VOAChinese](#), March 29; [Genron-ppo-net](#), November 30, 2022). While the most urgent problems facing young and old Chinese concern unemployment and the diminution of social-security benefits, Xi might want to divert attention from domestic economic woes to his alleged overseas achievements.

From more perspectives than one, then, the Law on Foreign Relations serves to legitimize – and reinforce – foreign policy goals set by Xi since he came to power in 2012. These have included the “Great renaissance of the Chinese nation” (which includes a much bigger say for China in setting rules of the road in areas stretching from finance to global geopolitics); the Belt and Road Initiative; and the construction of an alliance of non-Western states which find themselves constrained by the US-led world order. To the extent that Chinese ambitions to be at the front ranks of technology, including semiconductors and AI, have been frustrated by boycotts imposed by the US and its allies, Xi’s ambitious power projection has met with formidable pushback. The BRI has for the past three years performed poorly due to the failure of Chinese banks and conglomerates to adequately finance cross-continental projects whose economic viability is doubtful. The displays of assertiveness by both Moscow and Beijing has consolidated defense cooperation among NATO states – as well as efforts by NATO leaders to boost defense cooperation with American allies in Asia such as Japan and South Korea. Irrespective of the success of the Law on Foreign Relations, it has indirectly shown up the vulnerability of President Xi’s fire-spitting, highly ambitious foreign-policy goals.

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Notes

[1] Author’s telephone interview with Professor Minxin Pei, June 30, 2023

China's Collaboration with the Myanmar Junta: A Case of Strategic Hedging?

By Sudha Ramachandran



(Image: Chinese Foreign Minister Qin Gang and Burmese Senior General Min Aung Hlaing meet in Myanmar, **source:** The Economic Times)

Introduction

On June 27, in Kachin State, northern Myanmar, a convoy of vehicles carrying a Chinese delegation, including a consul, came under fire. The convoy was being guarded by Myanmar military and police personnel. While local media blamed the Lisu National Development Party, a military-aligned militia, the Myanmar junta held the Kachin Independence Army (KIA) — an ethnic armed organization (EAO) aligned with the anti-junta resistance— responsible for the attack ([The Irrawaddy](#), June 30). Attacks on Chinese targets have grown in recent months in Myanmar. On May 7, the anti-junta Natogyi Guerrilla Force (NGF) attacked an off-take station in the Mandalay Region's Natogyi Township due to its China-affiliated oil and gas pipeline. The attack came amid a surge in mass protests on the streets of Yangon, and the townships of Yinmabin, Salingyi and

Letpadaung in Sagaing Region. Angry online campaigns criticizing Beijing's support of "fascist criminals" — referring to the Myanmar generals — gained widespread public backing ([Economic Times](#), May 15).

On May 2, the surge in anti-China protests and violence came close on the heels of a meeting in Naypyidaw between Chinese Foreign Minister Qin Gang and Myanmar junta chief Senior General Min Aung Hlaing. Qin is the highest Chinese official to meet Min Aung Hlaing since the 2021 military coup, which overthrew the elected National League for Democracy (NLD) government ([Frontier Myanmar](#), May 3). Since the coup, public ire in Myanmar has been directed not only at the military regime but also at China, the junta's principal foreign backer. In the early days of the coup, crowds gathered outside the Chinese embassy in Yangon to protest against the alleged Chinese role in consolidating the military dictatorship ([Times of India](#), February 14, 2021). Chinese-owned factories in Myanmar were damaged and burned, and Chinese workers were attacked ([CGTN](#), March 14, 2021).

With visible collaboration between the PRC and the junta growing, the targeting of Chinese projects and properties in Myanmar has grown in frequency and intensity. To cite one such instance, last April resistance groups fired missiles at factories manufacturing long-range rockets and surface-to-air missiles, specifically when Chinese and Russian military officials were visiting the facilities ([Burma News International](#), April 8). As anti-China sentiment surges in Myanmar, it is likely that resistance groups will continue to deliberately target Chinese interests in the region.

History of Anti-China Sentiment

Anti-China sentiment in Myanmar is not new. This prevailing attitude has endured throughout Myanmar's recent history, spanning different eras that encompass both democratic and military rule in the country. Furthermore, it has permeated across various branches of society, including Myanmar's military and political elite, as well as the grass roots civil society level.

The PRC's strong support for armed organizations fighting the Myanmar state has been met with defiance from the military, which has fought the Beijing-backed insurgencies for decades. As such, Myanmar's military has long-harbored resentment against China. The PRC, in addition to supporting the Burmese Communist Party's insurgency that raged in Myanmar between 1948-1989, has also provided weapons, training, and sanctuary to several EAOs, using them to pressure the Myanmar government. The Myanmar military, which sees itself as the guardian of the country's territorial integrity and sovereignty, has therefore viewed the PRC with deep suspicion. Despite this undercurrent of distrust, compulsions of regime survival have prompted successive military regimes to set aside these suspicions to engage in a "marriage of convenience" with China ([China Brief](#), March 25, 2021)

Anti-China feelings run deep and wide among the people of Myanmar. The massive influx of Chinese people into their country, especially in towns like Mandalay, has evoked severe interethnic tensions. Ethnic Chinese

comprise an estimated 50% of the population of Mandalay and control 60 percent of the city's business. Over the course of several decades, the affluence of Chinese businessmen and the Sinicization of the local culture has fueled resentment among Burmese natives ([South China Morning Post](#), May 1, 2018).

Additionally, many in Myanmar perceive Chinese investments and projects as lacking transparency, disproportionately favoring Chinese interests, excluding local populations from reaping tangible benefits, and contributing to environmental degradation. This was the case, for example, with the Chinese-backed \$3.6 billion Myitsone hydropower project in Kachin State. The initial proposal planned to divert 90 percent of the electricity generated by the project to China. In addition to depriving the Myanmar locals of energy resources, the dam was expected to disrupt river flow, impact fish migration, and flood rainforests. Ultimately, opposition from local residents and activists compelled then-Myanmar President Gen Thein Sein to suspend the project in September 2011. Serving as a testament to the immense grassroots resistance, the suspension of the Myitsone Dam remains in effect despite enormous pressure from the Chinese to revive the project ([China Brief](#), August 24, 2019).

However, the primary reason for Myanmar's widespread anti-China sentiment can be attributed to Beijing's overt and covert support for the country's military rulers ([The Irrawaddy](#), June 12). In 1988, Burmese military generals were isolated from the international community due to their brutal crackdowns on civil society, yet they still received significant backing from the PRC. To protect the regime from international condemnation and humanitarian intervention, China made a concerted effort to block United Nations (UN) resolutions that expressed concern over Myanmar's military junta. Additionally, the PRC provided the pariah state with provisions of loans, investments and trade to keep the crisis-ridden economy afloat. Chinese military equipment has also enabled the generals to quell anti-junta protests and fight insurgencies. From the perspective of many Burmese, the robust and multifaceted Chinese support to the military is perceived as a crucial factor for the longevity of the junta's rule. In short, Myanmar's current uptick in anti-China violence and protests should be contextualized within a broader framework of mounting collaboration between China and the country's military junta.

Chinese Foreign Minister's Meeting with Junta Chief

Qin is not the first Chinese foreign minister to visit Myanmar; in July of last year, Wang Yi attended a regional conference in the country. However, Qin's trip to Myanmar was nonetheless noteworthy because it was the first bilateral visit which saw a high-ranking Chinese official shake hands with Min Aung Hlaing, representing the highest endorsement Beijing has accorded the junta regime thus far.

Ahead of Qin's trip to Naypyidaw, China's Ministry of Foreign Affairs (MFA) said that the visit aimed "to further follow through on the outcomes of President Xi Jinping's historic visit to Myanmar in January 2020" ([PRC Ministry of Foreign Affairs](#), May 2). An MFA statement issued after Qi's meeting with Min Aung Hlaing affirmed

progress in this regard, declaring that “China would work with Myanmar to follow through on the outcomes” of Xi’s visit ([PRC Ministry of Foreign Affairs](#), May 3).

Incidentally, Xi’s 2020 visit to Myanmar— the first by a Chinese president to the country in 19 years — happened when the NLD was in power. The two sides signed 33 agreements and Memorandums of Understanding (MoUs), most of which reaffirmed Myanmar’s commitment to expediting projects under the China Myanmar Economic Corridor (CMEC). Under this proposal, the two countries collaborated on various initiatives, including the Kyaukphyu Special Economic Zone (SEZ), which encompasses a deep-sea port and an industrial park; the China-Myanmar Border Economic Cooperation Zone; and an urban development plan for Yangon among other projects ([The Irrawaddy](#), January 18, 2020).

Although the talks were largely behind closed doors, Qin likely raised concerns over delays in the implementation of CMEC projects, as well as the security of Chinese laborers. Min Aung Hlaing, in turn, ostensibly affirmed his commitment to protecting China’s economic and strategic interests in Myanmar. In the coming months, the junta can be expected to step up operations in areas where Chinese projects are located. In return, the Chinese foreign minister assured the junta chief support against the West and backing in international forums. According to the junta’s information team, Qin reportedly said that China “stands with Myanmar on the international stage” ([Mizzima](#), May 3). According to the MFA statement following Qin’s visit, “China advocates that the international community should respect Myanmar’s sovereignty and play a constructive role in helping it achieving peace and reconciliation” ([PRC Ministry of Foreign Affairs](#), May 3). While nothing was announced regarding weapons sales to the junta during Qin’s visit, China’s already substantial supply of arms to the junta are likely to expand. [1]

China’s Initial Apprehensions over the Coup

Initially, China’s response to Myanmar’s 2021 coup was by and large muted. The state-run Xinhua news agency downplayed the crisis, describing it merely as “a major cabinet reshuffle” ([Xinhua](#), February 2). The Chinese government neither condemned nor expressed concern over the power grab and only called on all parties to “properly handle their differences” and “maintain political and social stability” ([PRC Ministry of Foreign Affairs](#), February 3). It defended the generals from international censure by blocking a UN Security Council resolution expressing “concern” over the military’s action and distanced itself from a UN Human Rights Council resolution on the situation in Myanmar, claiming it was the latter’s “internal affair” ([The Irrawaddy](#), February 13, 2021).

However, China was reportedly apprehensive towards the military’s power grab as it had previously established strong ties with the NLD government. Between 2015 and 2020, the NLD government dispatched the Myanmar State Councilor Aung San Suu Kyi to visit China five times, in addition to joining the Belt and Road Initiative in 2017 and signing a series of agreements that furthered Beijing’s economic and strategic interests in the region.

Given China's diplomatic and economic ties to the NLD, Beijing was concerned that the coup would plunge Myanmar into unrest and instability, hindering the implementation of its projects and jeopardizing the security of its sizeable investments. China was therefore incentivized to see the crisis defused quickly, preferably through dialogue. Consequently, in the initial months following the coup, Beijing refrained from official contact with junta officials, pledged support for ASEAN's Five-Point Consensus on ending the crisis in Myanmar, encouraged "all parties in Myanmar to engage in political dialogue... and restart the process of democratic transformation," and even opposed the junta's plans in 2021 to dissolve the NLD ([The Irrawaddy](#), August 11, 2021).

Growing Collaboration with the Generals

However, within a few months of the coup, it was clear that the generals had no intention of reversing their power grab. Moreover, an armed anti-junta resistance group emerged, which saw militias under the NLD-led National Unity Government join hands with the EAOs. It was evident that stability would not come soon to Myanmar and that the battle between the junta and the resistance would be a long-drawn affair. In light of this development, the PRC concluded that it had no choice but to engage with the junta in order to safeguard its robust economic and strategic interests in the country.

On June 6, 2021, the Chinese Ambassador to Myanmar Chen Hai met Min Aung Hlain in Naypyitaw. Two days later, Wang met his junta counterpart Wunna Maung Lwin on the sidelines of a regional meeting in Chongqing, China, and assured him that China's policy toward Myanmar is "not affected by changes to Myanmar's domestic and external situation" ([The Irrawaddy](#), June 10, 2021). More meetings between Chinese national and provincial officials with the junta followed as collaboration on commercial opportunities expanded. Chinese expressions of solidarity with the junta grew. "No matter how the situation changes, China will support Myanmar in safeguarding its sovereignty, independence, and territorial integrity, and in exploring a development path suited to its national conditions," Wang said in April 2022 ([PRC Ministry of Foreign Affairs](#), April 1, 2022).

An important impetus for China's mounting collaboration with the junta is the US enactment of the Burma Act, which opens the door for American assistance to the Myanmar resistance. The law envisages the provision of "technical and non-lethal support" for the EAOs, PDFs, and "pro-democracy movement organizations." While it precludes the supply of weaponry to anti-junta forces, many political analysts contend that the financial support garnered by the law will nonetheless prove "beneficial" for the military capabilities of resistance groups ([Burma News International](#), December 13, 2022). In theory, resistance groups could still use the financial assistance to purchase arms and significantly enhance the firepower of anti-junta forces.

The Burma Act also states that Russia and China must be held accountable for providing support to the military regime ([Burma News International](#), December 13, 2022). Even prior to the aforementioned legislation, it was always assumed that the US and other Western powers were implicitly competing with China and Russia, representing the opposite side of Myanmar's civil war. The passage of the Burma Act has further highlighted

the already apparent fault lines of the conflict. Going forward, Washington's involvement in the civil war is expected to strengthen China's collaboration with the junta, especially if the flow of arms to resistance groups increases.

Conclusion

Overall, China's decision to back the military regime was no doubt based on pragmatic calculations pertaining to the PRC's financial investments and political interests in Myanmar. However, a strategy of supporting the junta is fraught with risk. Chinese-backed projects and nationals are already in the crosshairs of resistance groups, as evident from the fact that of the roughly 7,800 clashes recorded countrywide over two years since the coup, 300 occurred in areas where major Chinese projects are located, with 100 of them happening in 19 townships where China's oil and natural gas pipelines run ([Mizzima](#), January 26). As animosity against China's ties to the junta grow, violent attacks on Chinese projects are likely to magnify in intensity and scope. Furthermore, the junta may not be the formidable force it once was. Recent analyses indicate that the Myanmar military is "significantly smaller than earlier thought" ([Mizzima](#), May 7). Pumping the junta with additional weapons may only make the regime more brutal, exacerbating anger among the masses and leaving Chinese projects vulnerable to attack. Moreover, the junta currently maintains tenuous control over the country. While the civil war may be in a stalemate at present, the junta's grip over territory is expected to weaken. Importantly, the resistance forces are determined to fight to oust the military from power.

Considering the junta's precarious position, it is possible that China's leadership is currently engaging in strategic hedging. China may have calculated that in the event of the junta's defeat and the rise of resistance forces, the new leadership, despite their current opposition to Beijing, would not adopt a hostile stance given the PRC's substantial role in the country's economy. Indeed, this aligns with China's previous experience when the NLD came to power in 2015. Ultimately, only the future can ascertain whether the PRC's strategic calculations — and consequent risks — serve to effectively safeguard Beijing's interests in the region.

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Notes

[1] Sudha Ramachandran, "Sino-Myanmar Relationship: Past Imperfect, Future Tense," in China-South Asia Strategic Engagements, Institute of South Asian Studies (ISAS) Working Paper, August 23, 2012, https://www.isas.nus.edu.sg/wp-content/uploads/media/isas_papers/ISAS%20Working%20Paper%20158%20-%20Sino%20Myanmar.pdf.

Cash-for-Metaverse: How China’s Digital RMB and Metaverse Strategy Could Circumvent Sanctions

By Joseph Dai



(Image: A showcase of VR games at the exhibition center of HTC Corps during the 2022 World 5G Convention in Harbin, Heilongjiang province, **source:** China Daily)

Introduction

On February 27, the State Council of the People’s Republic of China released its Digital China Plan (数字中国建设整体布局规划), outlining China’s latest strategy for its “digital economy” ([The State Council of the People’s Republic of China](#), February 27). The Plan highlights the PRC’s ambitions for advanced innovation in the digital sphere, its intention to continue to build cloud and supercomputing centers, and, notably, its aim to create an “integrated international system for digital platforms.”

Although not explicitly mentioned in the Plan, China's broader digital ambitions encompass two noteworthy components that deserve attention in their own right: the PRC's ongoing rollout of its digital currency and the formulation of its metaverse strategy. Both of these technologies, whether they are to be used solo or in concert, could provide hard currency under conditions where China's access to other sources of funds are limited through sanctions. China has been active in developing legal and whole-of-nation responses to US and other sanctions in laws such as the Anti-Foreign Sanction Law (中华人民共和国反外国制裁法), and the Law on Relations with Other Nations (中华人民共和国对外关系法), which took effect on July 1st (npc.gov, June 2021; gov.cn, June 29). Through the implementation of a two-pronged digital currency and a metaverse strategy, China may be exploring novel approaches to enhancing the resilience of its economy in the face of Western-led sanctions regimes.

Digital RMB

China's digital currency, the Digital RMB (数字人民币) has entered a heavy pilot phase, now involving seventeen provinces, as well as multiple international use cases. As of late August 2022, Digital RMB transactions totaled more than 360 million, with a volume of around 100 billion RMB (cnr.cn, October 2022; [China Daily](http://china-daily.com), April 2022; [Ledger Insights](http://ledgerinsights.com), November 2022). For China's central government, a core objective is to introduce a digital currency that offers the same level of convenience as other forms of digital RMB payment such as Alipay and WeChat Pay, while ensuring transactions are easily trackable in digital ledgers kept by the People's Bank of China (PBoC) and participating financial institutions.

If the Digital RMB were to be adopted as a method of payment in real or virtual economies, only the PBoC and participating financial institutions would keep a copy of the ensuing transactions ([PBoC Digital RMB Research Working Group](http://pbocresearch.com), July 2021). The Digital RMB is a Central Bank Digital Currency (CBDC) that utilizes a private blockchain network, also known as a permissioned blockchain ([101 Blockchains](http://101blockchains.com), December 2022). In other words, the usage of this currency would not entail the transparency that decentralized blockchain technology affords, whereby a digital ledger could allow transactions to be traced directly by anyone who could access the relevant blockchain.

This protection may be important in order to safeguard user data and financial privacy, but in theory and practice the Digital RMB does not require the use of SWIFT or CHIPS financial routing systems in order to function. The effective enforcement of sanctions regimes often relies on detecting transactional information relayed in the SWIFT system to discern sanctions violations or violators. Such information includes the names of sanctioned individuals or entities appearing in transaction headers, or as part of the names of the transacting parties. The Digital RMB scenario entails financial and transactional data being solely accessible to the PBoC and participating financial institutions—and the possibility that sanctions violations could go unreported.

If the Digital RMB were to be adopted internationally, the PRC could gain an avenue for currency that would effectively circumvent traditional sanctions regimes. The Digital RMB ecosystem's unique advantage is that it does not rely on the SWIFT network as its primary transaction channel. Consequently, the PRC's digital currency would be largely unaffected by potential removal of Chinese financial institutions from the SWIFT system, as was done in the case of Western sanctions against Russia. Whether or not "participating financial institutions" would be responsive to requests by a government to disclose CBDC ledger data from the Digital RMB remains to be seen.

Metaverse Ambitions

The term Virtual Reality (虚拟现实) entered China's 14th Five-Year Plan of 2021, ensuring a substantial response from local and municipal government in that year and ensuing years ([The State Council of the People's Republic of China](#), December 2021). Virtual Reality constitutes a substantial part of China's overall strategy of developing its digital economy, ostensibly by drawing upon the robust 4G and 5G infrastructure that the country has created for itself during the first phase of its digitization strategy ([The State Council of the People's Republic of China](#), December 2021; [People.cn](#), April 2022). Used interchangeably with the word metaverse (元宇宙), China's virtual reality push is primarily being spearheaded by municipal governments, along with a selection of government ministries and the PBoC ([Lingyi Knowledge Vault](#), November 2022).

China's overall strategy established 2023 as a year to create metaverse champions and use-cases, which appears to remain a work in progress ([36kr](#), April 26). While still in its initial stages of development, progress on China's metaverse strategy were blindsided by US chip sanctions, a policy which may have limited the advanced computing equipment needed to render, host or design realistic virtual worlds. Local governments could be finding it difficult to procure the necessary funds due to China's current lackluster economic situation. Local actors could also be in the process of reformulating their strategies for developing digital economies according to sudden sea changes in artificial generative intelligence (AGI) technologies, which may result in a pivot of resources and policy to focus on these applications instead of metaverse.

However, China has continued to invest heavily in the metaverse, with one account highlighting 850 billion RMB being invested or pledged by at least 15 municipalities in 28 separate policy programs up until 2025 ([36kr](#), April 26). "Industrial-use" metaverse applications have received significant definition in policy, including applications which would allow VR/AR to augment manufacturing on a factory floor or assist with the repair of complex machinery ([gov.cn](#), November 2022). Additionally, "consumer," cultural, and entertainment metaverses are also part of the virtual reality policy equation as proposed by the Ministry of Industry and Information Technology, the Ministry of Education, the Ministry of Culture and Tourism, the National Radio Television Administration and the General Administration of Sport in China in late 2022.

Early domestic metaverses in China have not had an easy going. Some have been banned due to the prevalence of fraudulent activity and transactions on their platforms, while others have been affected by regulations against aforementioned “fake” metaverse activity ([VRAR Planet](#), May 4). Furthermore, other platforms such as the foreign-facing Party Island metaverse, have not generated enough interest to be worthwhile private sector endeavors, possibly due to China’s current regulatory environment ([Pingwest](#), October 2022). Party Island was a “virtual social app” developed by TikTok owner ByteDance and was just one of a series of early metaverses developed by tech giants such as Tencent and Baidu. It allowed users to interact in an “online virtual community,” but never grew out of its beta, invitation-only phase.

A “Finished” Metaverse Project

Despite the aforementioned challenges, Chinese companies know how to make economically lucrative virtual worlds and content for a global audience, so creating such a metaverse for international rather than domestic consumption may not be far off given present levels of investment. Immersive Chinese-origin mobile games such as Genshin Impact generate billions of dollars in global revenue annually, and some game designers, animators and other members of China’s substantive video game industry could be recruited to work on a new version of Party Island—this time, with substantial local government backing ([For the Win](#), September 2022).

A finished metaverse project could provide revenue to an underlying SOE using China’s Digital RMB or obtain hard currency in exchange for a virtual currency designed to be utilized within the metaverse system. Such a metaverse could be accessible from all over the world, but hosted in China, utilizing a digital ledger system that is solely accountable to Chinese financial institutions or companies. Metaverse participants would pay for virtual items, upgrades, virtual “real estate,” access to new regions of the metaverse, power-ups and more using cash in their home currency, all of which could also be converted to in-metaverse digital currency. As is often the case with existing video game currencies, it will likely prove challenging to convert metaverse digital currency back into cash.

Upgrading Sanctions?

As speculative as obtaining hard currency from a metaverse to avoid sanctions may seem right now, China does seem to have some of the necessary requirements: A functional, partially globally available digital currency, a well-primed and well-supported metaverse sector that is slated to produce results this year, and a globally competitive video game industry that could provide support to either of the two. A metaverse created for the international market could be less affected by domestic regulations surrounding the creation of metaverse and video gaming content, and it is straightforward to see how such a metaverse “champion” could emerge under conditions of increased foreign sanctions against the PRC.

What recourse could foreign governments have against such a metaverse champion? It would be difficult to argue for the metaverse app to be removed from the relevant app stores (Google Play, Apple App Store) if the

company maintaining the metaverse app is not itself sanctioned or involved in sanctions violations. The logical step, then, is to sanction the company, but this may become a slippery slope and lack a legal foundation, since it would be impossible or at least difficult to determine where the metaverse's revenue was going under the ledger system previously described, much less that it was being used to circumvent sanctions.

Thus, regulation of metaverse app platforms will come into focus as the technology proliferates and more companies besides Apple and Meta become involved in developing their own platforms. Some will be more easily persuaded to remove content from their platforms than others, and foreign governments may not have any expectation of jurisdiction over a Chinese app store. Financial institutions will remain a key focal point for the detection and prevention of sanctions violations, encompassing both traditional and blockchain or CBDC transactions.

Conclusion

Although China has made substantial progress in the rollout of its digital currency thus far, it remains unclear how the Digital RMB will become more open for transactions in foreign markets, including retail users. A complete opening to the world would require stronger controls over Digital RMB pricing than seem possible at present, in order to prevent fluctuations in the domestic price of the currency due to "foreign intervention." Smaller exchanges could be created, raising the question of what holders of the currency could actually buy in these smaller markets, if the purpose of the currency is more than speculation and trading. In this vein, it is conceivable that the Digital RMB could be used to purchase virtual assets in a limited metaverse environment.

If such a Digital RMB exchange is not created for the metaverse champion, that would leave them the option of creating their own digital or in-metaverse currency, which would itself draw the attention of the authorities and financial regulators. In sum, China's metaverse and Digital RMB challenges are as political as they are technical. As is often the case in China, political challenges have no guarantee of resolution.

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The 20th Shangri-La Dialogue: US-China Great Power Rivalry Takes Center Stage

By Amrita Jash



(Image: Chinese Defense Minister General LI Shangfu at the Shangri-La Dialogue, source: AFP)

Introduction

The 20th Shangri-La Dialogue (SLD), organized by the International Institute for Strategic Studies (IISS), was held in Singapore from June 2 to 4. Having earned its reputation as one of Asia's premier defense summits since it was founded in 2002, the forum serves as a platform to discuss and debate regional security issues in the Indo-Pacific. In addition to the Shangri-La's main summit, another important role of the dialogue is for countries to engage in bilateral security talks on the sidelines. The gathering of multiple high-ranking military officials in one location presents governments with the rare opportunity to engage in bilateral security exchanges with numerous countries of interest.

Against the backdrop of escalating tensions and growing mistrust between the US and China, one of the SLD's most highly anticipated bilateral talks were supposed to feature US Secretary of Defense Llyod J. Austin and China's State Councilor and Defense Minister General Li Shangfu. Expectations regarding a possible meeting were especially high, given the US and Chinese presidents' agreement in their November 2022 Bali meeting to "maintain strategic communication and conduct regular consultations" ([Ministry of Foreign Affairs of the People's Republic of China \[PRC\]](#), November 14, 2022).

As Australian Prime Minister Anthony Albanese emphasized during his keynote address at the 2023 Dialogue, closed diplomatic and military lines of communication between Washington and Beijing, the world's two foremost great powers, poses serious concerns for the international community. Albanese reasoned that "big powers have a heavy responsibility to maintain stable and workable relations with one another. Because the alternative, the silence of the diplomatic deep freeze, only breeds suspicion, only makes it easier for nations to attribute motive to misunderstanding, to assume the worst of one another" ([IISS](#), June 2).

With US-China relations deteriorating to their lowest point in decades, the SLD's plenary addresses by the American and Chinese defense chiefs garnered significant international attention. Notably, it marked Austin's second address at the SLD, while for Li, it was his inaugural international address since his appointment as China's defense minister in March 2023. As such, analysts were closely monitoring Li's remarks to see if they would reflect a tonal shift in Chinese foreign policy that could recalibrate the acrimonious state of US-Sino relations. However, after the SLD convened, the prevailing consensus was that no such reset took place. Not only did Li decline to meet with Austin, but he also expressed several thinly veiled criticisms towards Washington during his address, alluding to what Beijing perceived as a "Cold War mentality" and accusing the US of actively seeking alliances and blocs with the intention of encircling China. While ardent rebuttals between both countries' defense ministers were present, the highly anticipated dialogue between the US and China was altogether absent from the SLD. Instead, what transpired at the SLD was a clear manifestation of strained US-China ties and great power rivalry.

No Talks, Only a Handshake

Going into the SLD, Washington aimed to conduct bilateral talks with Beijing to serve two key objectives. First, the US wished to set a floor to the rapid decline of US-China relations. Second, Washington expressed interest in restoring a direct line of communication with Beijing's military to reduce the risk of conflict escalation. China, identifying Pelosi's visit to Taiwan as the primary impetus, suspended military-to-military talks with the US as of August 2022 ([Ministry of Foreign Affairs of the People's Republic of China \[PRC\]](#), August 5, 2022). [1] More recently, the "Chinese Spy Balloon" incident culminated in US-China ties spiraling to a new low. Referring to the incident as "an irresponsible act and a clear violation of US sovereignty and international law that undermined the purpose of the trip", US Secretary of State Antony Blinken postponed his visit to China, a trip that was originally planned for February but was not rescheduled until June 18 ([U. S. Department of State](#), February 3). [2]

In an effort to resume communication prior to the SLD, Washington proposed a meeting between the two defense chiefs in Singapore, which Beijing declined. Foreign Ministry Spokesperson Mao Ning stated that China would not resume talks until the US satisfied the following conditions: “[1] earnestly respect China’s sovereignty, security and interest concerns, [2] immediately correct wrong practice, [3] show sincerity and create necessary atmosphere and conditions for dialogue and communication between Chinese and US militaries” ([Ministry of Foreign Affairs of the PRC](#), May 30). Beijing further justified their decision to decline the meeting by citing the ongoing sanctions imposed on Li in 2018. At the time, Li was the director of the Chinese military’s Equipment Development Department (EDD) and consequently was targeted under section 231 of the Countering America’s Adversaries Through Sanctions Act (CAATSA) ([U. S. Department of State](#), September 20, 2018).

On balance, Beijing’s rejection can be viewed from two distinct perspectives. First, the PRC’s refusal to hold a meeting with Austin signifies a continuation of Beijing’s recent practice of rejecting talks with the American defense minister, to punish Washington for its alleged “wrongdoings”. During February’s spy balloon incident, China refused the US’ proposal for a call between the two defense chiefs, citing that “Washington’s irresponsible wrongdoings failed to create an atmosphere for communication between the militaries of the two countries” ([Global Times](#), February 9).

Second, Beijing’s refusal can be seen as a nationalistic appeal to stand up to the US and the hegemonic West. According to the view widely espoused by Chinese state media, Beijing’s rejection of US-proposed meetings are reasonable and justified, as agreeing to a meeting equates to acknowledging accountability for previous transgressions. For instance, during the spy balloon incident, Li Haidong posited that the US is “not sincere in hoping for ‘communication’ but instead... [is displaying] a disguised form of ‘coercion’” intended to portray China as an aggressor ([Global Times](#), February 9). While at the SLD meeting, Song Zhongping argued that China’s decline of the US invitation is justified as “the ultimate goal [of the US] is not about the meeting itself, but making a hypocritical show for audiences both at home and abroad” ([Global Times](#), May 30).

Ultimately, with no formal talks being held, only a brief handshake between Austin and Li was exhibited. In response to Beijing’s rejection, Austin, in his plenary address, criticized China by stating that “dialogue is not a reward. It is a necessity. A cordial handshake over dinner is no substitute for a substantive engagement.” Moreover, he argued “the more that we [the US and China] talk, the more that we can avoid the misunderstanding” ([IISS](#), June 3). Meanwhile, General Li asserted that the US “needs to act with sincerity, match its words with deeds and take concrete actions together with China to stabilize the relations and prevent further deterioration” ([China Daily](#), June 5).

With the US-China antagonism taking center stage, the SLD showcased the two countries’ ongoing great power rivalry, exhibited through the lens of two competing narratives to a broader international community. When directly juxtaposed, the plenary addresses of both Austin and Li represent an expression of their respective

country’s grievances, positions, and warnings to the other party (see Table 1). Their speeches highlight the growing polarization between the two countries as it pertains to Indo-Pacific security, Taiwan, and the Russia-Ukraine War among other issues.

Table 1: Juxtaposing US and China’s Positions at SLD

Issue	US	China
Perception of the ‘Other’	<ul style="list-style-type: none"> • [N]o one country can assert control over shared waterways 	<ul style="list-style-type: none"> • Some country takes a selective approach to rules and international laws
Respective stands on US-China tensions	<ul style="list-style-type: none"> • Conflict is neither imminent or inevitable • China unwilling to engage • Great powers must be beacons of transparency and responsibility 	<ul style="list-style-type: none"> • US-China conflict and confrontation “an unbearable disaster for the world” • A big power should behave like one instead of provoking bloc confrontation for self-interest
Position on ‘Taiwan’	<ul style="list-style-type: none"> • Deeply committed to preserving the status quo in the Taiwan Strait • Will continue to categorically oppose unilateral changes to the status quo from either side 	<ul style="list-style-type: none"> • The core of China’s core interests • An internal affair of China, which is a primary and indisputable fact
Views on ‘Indo-Pacific’	<ul style="list-style-type: none"> • Free, open, and secure Indo-Pacific within a framework of predictable rules and rights 	<ul style="list-style-type: none"> • Refers to “Asia-Pacific” • Accuses the US of “Cold War mentality”, Bloc confrontation, and encirclement
Russia-Ukraine War	<ul style="list-style-type: none"> • Russia’s unprovoked invasion of Ukraine 	<ul style="list-style-type: none"> • No mention of Russia • Calls it as ‘Ukraine issue’

Source: Author

Crossfire between US and China

Speaking at the first plenary session of the SLD on June 3, U. S. Defense Secretary Lloyd Austin categorically outlined America’s vision of a free and open Indo-Pacific “without coercion, intimidation, or bullying” ([IISS](#), June 3). While countries such as Australia, India, Indonesia, Japan, Republic of Korea, Singapore, Thailand, the Philippines, and Vietnam were mentioned as America’s allies and partners, China was accused of conducting “an alarming number of risky intercepts of US and allied aircraft flying lawfully in international airspace”, as well as engaging in “coercion and bullying” ([IISS](#), June 3).

However, the Chinese regarded these incursions as “a must to safeguard China’s national interests and security” ([Global Times](#), June 3), stating that the US portrayal of China as a “bully” and “coercer” aims to enable and justify American interventionism. The Chinese side argued that the US seeks to promote an agenda of interference in China’s internal affairs by meddling in “domestic” issues such as the “Taiwan question” ([Global Times](#), June 6). According to Senior Colonel Tan Kefei of the People’s Liberation Army (PLA), the US should

be regarded as “solely responsible” for the “difficulty of communication”, arguing that “dialogue cannot be done without principles” ([The South China Morning Post](#), June 1).

Taiwan was a reoccurring topic during the US-China crossfire. Austin’s address conveyed a clear message to Beijing, suggesting that while the American government “[does not] seek conflict or confrontation... [the US] will not flinch in the face of bullying or coercion.” He reaffirmed this principle as “especially important in the Taiwan Strait,” maintaining that a cross-Strait “conflict...would be devastating” ([IISS](#), June 3). China refuted Austin’s statements by accusing the American side of “ignoring facts and distorting the truth” on Taiwan. Lieutenant General Jing Jianfeng of the PLA stated that “the US has continuously weakened and hollowed out the one-China principle, strengthened the so-called official exchanges with Taiwan, and condoned ‘Taiwan independence.’” Jing underscored that due the US’ allegedly revisionist behavior and intent to contain China, the PRC’s military operations around the Taiwan Strait are especially justified ([Xinhua](#), June 4).

On June 4, General Li Shangfu’s SLD address should be contextualized as Beijing’s justification for refusing Washington’s invitation, as well as Li’s response to Austin’s speech. Refuting Austin’s allegations of “coercion and bullying”, Li indirectly criticized the US by posing three questions. First, “who is disrupting peace in the Asia-Pacific?” Second, “what are the root causes of chaos and instability?” Third, “what should we stay vigilant and guard against?” ([Ministry of National Defense of the PRC](#), June 4). Here, a link can be drawn between the “who” and “what” in Li’s reference to China’s position paper on “US Hegemony and Its Perils,” which accused the US of acting boldly to “pursue, maintain and abuse hegemony” ([Ministry of Foreign Affairs of the PRC](#), February 2023).

In opposition to the purported US-led hegemonic order, Li promoted Xi Jinping’s proposed “Global Security Initiative” (GSI) as a “new path to security, featuring dialogue over confrontation, partnership over alliances, and win-win [cooperation] over zero-sum [logic]” ([Xinhua](#), June 5). The GSI represents the CCP’s latest endeavor to promote a constructive image of China, serving a similar role to China’s previously employed “peaceful rise” narrative, albeit with a broader scope and greater ambition. [3] Through the GSI, Beijing seeks to frame a Sinocentric world order as a viable alternative to the international security framework established by the US ([China Brief](#), March 3). Under this initiative, China brokered the Saudi-Iran peace deal ([Ministry of Foreign Affairs of the PRC](#), March 10), comparable to the US-led Abraham Accords to uphold peace in the Middle East. In addition, the PRC is the only country to have issued a position paper on advocating for the “[Political Settlement of the Ukraine Crisis](#)” ([Ministry of Foreign Affairs of the PRC](#), February 24). Both these cases exemplify China’s interest in challenging what it sees as the US-led international order.

Conclusion

Overall, China’s rejection of Austin’s proposed meeting and Li’s subsequent plenary address underscore Beijing’s non-conciliatory stance towards the US, and its overarching suspicion of a US-led order. Chinese state media has claimed that the SLD has been hijacked as an international forum for US-led diplomatic and

military containment of China, arguing that the dialogue has become “a platform for the US defense secretary to expound on the US’ regional security strategy” ([Global Times](#), June 1). Furthermore, during his address, Li repeatedly accused the US of a “Cold War mentality” and rebuked the American-led Indo-Pacific Strategy for “provoking bloc confrontation” and promoting “self-interest” ([IISS](#), June 4). Much of these statements reflect a prominent and longstanding theme in CCP discourse, namely an underlying assumption that the US and its allies seek to “encircle” China under the auspice of an international liberal order ([Global Times](#), 2022).

According to the view consistently espoused by Li and Chinese state media, the responsibility for repairing bilateral mistrust lies squarely with the US. However, despite Washington’s repeated proposals to initiate bilateral talks, Beijing readily dismissed these dialogues under the pretense of American coercion, bullying and containment. It appears that, at least at present, the PRC has minimal interest in restoring US-Sino relations to a semblance of normalcy.

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Notes

[1] Cancelled the China-US: Theater Commanders Talk, Defense Policy Coordination Talks (DPCT), and Military Maritime Consultative Agreement (MMCA) meetings.

[2] To note, from June 18-19, Anthony Blinken visited China. For details, see US Department of State, ‘Secretary Blinken’s Visit to the People’s Republic of China (PRC)’, June 19, 2023. <https://www.state.gov/secretary-blinkens-visit-to-the-peoples-republic-of-china-prc/>

[3] On February 21, China issued a position paper on GSI. For details see, Ministry of Foreign Affairs of the PRC, ‘The Global Security Initiative Concept Paper’, February 21, 2023. https://www.fmprc.gov.cn/mfa_eng/wjbxw/202302/t20230221_11028348.html