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PAPERS

U.S. Hegemony in the Polycrisis: Fragility, Complexity, and the Limits of Governance

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Abstract: *This article examines how the contemporary polycrisis (the entanglement of economic, geopolitical, and ecological disruptions) reshapes the structural conditions under which U.S. hegemony can be sustained. Drawing on complexity theory and second image reversed theory, it argues that the challenge confronting the U.S. is not a simple decline in power but a transformation of the environment in which leadership operates. The polycrisis generates nonlinear interactions across global systems, producing feedback effects that no single actor can control. As a result, the material and ideational foundations of hegemonic stability have become increasingly fragile. At the same time, the complexity of governing interdependent crises amplifies domestic political pressures, rendering policymaking more volatile and reactive. The article develops the concept of hegemonic complexity to capture how systemic interdependence and internal polarization combine to undermine coherent foreign and economic policy. Two empirical cases illustrate these dynamics: the prolonged 2023–24 congressional struggle over Ukraine aid, and the oscillation between the Inflation Reduction Act (IRA) of 2022 and the "Big Beautiful Bill" (BBB) introduced under the subsequent administration. Both cases show how U.S. policymakers attempt to reduce global complexity through targeted interventions that are increasingly susceptible to partisan conflict and institutional fragility. The article concludes that U.S. hegemony endures but with diminishing coherence, reflecting a broader shift from the construction of liberal order to the episodic management of disorder in an era of global complexity.*

Keywords: *Polycrisis; complexity; adaptive hegemony; U.S. foreign policy; domestic polarization; global governance.*

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Introduction

The early twenty-first century marks a critical juncture in global politics.[1] The U.S. remains the most powerful state in military, economic, and technological terms, yet its hegemonic role appears increasingly uncertain.[2] A series of over-

lapping disruptions - the COVID-19 pandemic, Russia's invasion of Ukraine, the accelerating climate crisis, and intensifying democratic backsliding - have eroded the foundations of the liberal international order that the U.S. once underpinned.[3] What distinguishes this moment from earlier crises of American leadership is not simply the magnitude of challenges but their interconnectedness. We are living in an era of polycrisis: a condition in which multiple, interdependent crises interact across domains, amplifying one another's effects and undermining the very conditions under which U.S. hegemony can be sustained.[4]

The concept of polycrisis, introduced by Edgar Morin and Anne-Brigitte Kern and revived by scholars such as Michael Lawrence, Eric Helleiner, and others describes a world in which economic, ecological, and geopolitical disruptions are entangled through dense interdependencies and feedback loops.[5] Crises in one domain (financial instability, climate disruption, or conflict) cascade across others, creating a state of continuous turbulence in which global order itself becomes adaptive but unstable.[6] Empirically, this interconnection is visible in the concurrent rise of geopolitical risk, trade uncertainty, and military confrontation since the mid-2010s. These trends point not merely to growing volatility but to a structural condition in which crises interact and accelerate one another.[7]

This article advances two arguments. First, the polycrisis has altered the conditions of U.S. hegemony. It does not simply challenge American power; it reshapes the systemic context in which it operates. The postwar liberal order's earlier stability rested on relatively separable domains of governance, economic, security, and ecological, that could be managed through institutions, norms, and alliances.[8] In contrast, the polycrisis challenges and obscures these boundaries. As global governance has become complex, crises interact through shared infrastructures, supply chains, and information networks, producing feedbacks that no single actor can control.[9] U.S. hegemony, which historically depended on providing stability and public goods within these discrete domains, becomes harder to maintain as governance demands rise and systemic uncertainty increases. In this sense, the challenge is not only geopolitical competition but the erosion of the structural conditions that once made U.S. rule-setting and order maintenance viable.

Second the polycrisis destabilizes democratic governance itself by raising the complexity of policy responses. Interdependent crises require simultaneous coordination across multiple issue areas, yet domestic political systems are ill-equipped to meet these demands. Following Peter Gourevitch's "second image reversed" theory, systemic pressures reshape domestic alignments and institutions, which then constrain foreign policy.[10] Global instability reverberates back into the U.S., reshaping its internal political structures and constraining its external behavior. Economic dislocation, migration pressures, and cultural polarization feed populist mobilizations that erode elite consensus on America's global role. The result is a feedback loop between domestic fragmentation and

international disorder. In short, U.S. power persists, but with diminishing control and increasing hegemonic fragility under conditions of complexity.

The empirical illustrations explored in this article - the U.S. response to the war in Ukraine and the contrasting trajectories of the Inflation Reduction Act (IRA) and the "Big Beautiful Bill" (BBB) under the Trump administration - illuminate these dynamics in practice. Both cases reveal how a powerful hegemon struggles to formulate effective and consistent policy responses under polycrisis conditions. In the Ukraine case, U.S. leadership through NATO and sanctions demonstrates material dominance but also exposes the limits of coherence under partisan polarization and resource fatigue. In the domain of climate and industrial policy, the contrast between the IRA and the BBB highlights the volatility of U.S. governance and the difficulty of sustaining complex, long-term strategies across administrations. Across both cases, policymakers attempt to reduce global complexity (through security guarantees, sanctions, subsidies, or strategic industrial policy) but these interventions repeatedly encounter domestic contestation that undermines coherence and sustainability.

Complexity theory helps explain why these patterns emerge. It highlights that in densely interconnected systems, stability cannot be imposed hierarchically but must be continuously maintained through coordination, learning, and adaptability across networks.[11] When applied to U.S. leadership, this perspective shifts the analytical focus from debates over hegemonic "decline" versus "persistence" to the structural transformation of hegemony itself: from an order-anchoring, public-goods-providing system to one characterized by fragility, recursive feedback, and governing overload. The U.S. no longer operates as the architect of a coherent liberal order. Rather, it increasingly acts as a crisis-driven responder whose ability to govern is constrained by the very complexity it seeks to manage.

The article proceeds as follows. Section II develops the theoretical framework by linking polycrisis and complexity to changing conditions of hegemony. Section III examines how these conditions reshape U.S. hegemonic practices by interacting with domestic polarization and institutional fragmentation. Section IV provides empirical illustrations from U.S. foreign, climate, and industrial policy, showing how governing complexity manifests in practice. Section V concludes by outlining the implications of polycrisis for the future of U.S. leadership and global order.

Theoretical Framework: From Crises to Complex Systems

Understanding U.S. hegemony in the twenty-first century requires moving beyond conventional accounts of order, power, and hierarchy. The dynamics of global politics have become shaped by interaction effects between multiple crises unfolding across economic, political, and ecological systems. The result is

a system of complex interdependence, in which shocks travel rapidly between domains, amplifying one another's effects and producing outcomes that no single actor (hegemon or otherwise) can fully control.[12] Under these conditions, the core assumptions that once sustained hegemonic stability theory no longer hold.

Traditional theories of hegemonic stability assumed that a dominant power could provide public goods, maintain open markets, and enforce rules.[13] After 1945, U.S. leadership largely fit this model: economic preponderance, institutional design, and ideological legitimacy allowed the U.S. to stabilize the international order through hierarchical forms of governance. Yet the world that enabled this model has changed profoundly. Globalization, technological acceleration, and financial integration have produced a system that is densely connected, nonlinear, and difficult to steer. Order now emerges less from centralized control than from horizontal coordination across multiple actors, both public and private.[14]

Complexity theory provides a vocabulary for describing this transformation. As Bousquet and Geyer argue, complexity challenges linear causality and reductionist understandings of global politics.[15] Global systems exhibit emergent properties that arise from the interaction of many components without central direction. Winston likewise conceptualizes norms and institutions as emergent outcomes of complex adaptive systems, where stability is not fixed but constantly renegotiated through feedback, learning, and reorganization.[16] This perspective does not imply that all states are affected equally; it highlights that the terms of leadership have changed, reducing the ability of even a hegemon to impose coherent, durable solutions.

The concept of polycrisis extends this understanding by emphasizing how crises become causally entangled across domains. Helleiner and Lawrence et al. describe polycrisis not as the mere simultaneity of shocks but as structural coupling: economic, geopolitical, and ecological disruptions interact through shared infrastructures and institutions, creating cascading effects that overwhelm traditional modes of governance.[17] The polycrisis is therefore not simply a collection of simultaneous shocks but a condition in which crisis management becomes increasingly reactive and uncertain.[18]

Davies provides a historical reminder that periods of crisis entanglement have occurred before, but the present moment differs in both scale and tempo: crises now unfold globally and with unprecedented simultaneity.[19] This density of interconnection produces governance overload, straining institutional capacities for coordination. For the U.S., this means that hegemonic leadership becomes increasingly difficult to sustain, not because the material foundations of power have disappeared, but because the system no longer aligns with the premises of

hegemonic control.
In this sense, polycrisis is not an episodic anomaly but the structural backdrop of contemporary international politics. It creates a condition of hegemonic fragility under complexity: U.S. leadership persists, yet the coherence and stability that once underpinned it are harder to maintain. The U.S. retains unmatched capacities to mobilize coalitions, set agendas, and shape markets, but the interdependence of crises undermines its ability to provide predictable, long-term order. What declines is not U.S. power per se, but the sustainability of hegemonic stability - materially (through budgetary strain, supply chain vulnerability, and security commitments) and ideationally (through declining legitimacy and domestic contestation).

Gourevitch's second image reversed framework helps explain how systemic complexity transforms domestic politics.[20] Economic globalization has reshaped domestic coalitions, intensifying cleavages between sectors, regions, and social groups. Trade disruptions, technological displacement, and migration flows have sharpened distributive conflicts within advanced democracies. In the U.S., these pressures coincide with deep partisan polarization and declining consensus on global engagement.[21] Populist movements frame external interdependence as a threat, linking international commitments to domestic grievances.[22]

Importantly, this feedback loop is not entirely new, domestic politics have always influenced U.S. foreign policy. What is new under polycrisis is the intensity, speed, and systemic reach of feedback effects. International disruptions now reverberate domestically more quickly and more widely, while domestic political fragmentation more immediately constrains external action. This produces a heightened volatility in foreign policy decision-making, not because the U.S. has abandoned leadership, but because sustaining it has become more politically and institutionally costly.[23]

These dynamics link the systemic and domestic levels through recursive feedback: global turbulence exacerbates domestic fragmentation, which reduces governing capacity, which in turn limits the ability to manage global crises effectively. Hegemonic fragility is therefore not a sign of straightforward decline; it is a consequence of governing in a system where complexity has outpaced the organizational and political capacities required for coherent strategic action.[24]

For these reasons, the primary challenge facing U.S. hegemony in the polycrisis era is not adaptation in the sense of strategic adjustment, but the declining sustainability of hegemonic governance. As crises increasingly cross domain boundaries, policy responses become more complex, more politicized, and more prone to reversal. This transforms U.S. leadership from a project of long-

term order-building into one of short-term crisis management, an orientation that creates its own contradictions and further undermines coherence.
The following section develops these implications more explicitly by examining how polycrisis conditions reshape the substantive practice of U.S. hegemony and expose the systemic and domestic constraints that complicate its sustainability.

U.S. Hegemony under Polycrisis Conditions

The analytical framework developed above allows for a different reading of U.S. hegemony under the systemic conditions of the twenty-first century. Traditional accounts conceive hegemony as the relatively stable provision of order by a dominant state, grounded in material preponderance, institutional design, and the capacity to supply public goods. The postwar U.S. largely operated under such conditions: governance domains were sufficiently separable, crises were more contained, and global interdependence, although expanding, did not yet produce the deeply recursive dynamics observed today.[25] By contrast, the contemporary polycrisis has altered the structural environment in which U.S. leadership functions. It does not eliminate American power, but it renders hegemonic stability increasingly difficult to sustain.

The defining change is not simply the proliferation of crises but their interdependence. Globalization, technological acceleration, and financial integration have produced a system in which shocks propagate rapidly across economic, political, and ecological domains. The resulting environment is one of coordination overload: the demands for strategic consistency are increasing, while the capacity to maintain coherence is diminishing. In this context, hegemony no longer rests on directive leadership but on the far more fragile ability to prevent systemic breakdown. Authority remains asymmetrical, yet its exercise becomes more contested, reactive, and vulnerable to contradiction.

Two transformations illustrate this shift. First, the temporal logic of leadership has changed. During the mid-twentieth century, the U.S. exercised influence through long-term institutional projects (Bretton Woods, NATO, global trade regimes) that presumed a certain stability in the geopolitical environment. Today's crises, however, emerge unpredictably and interact nonlinearly. Policy responses must therefore be formulated rapidly and under uncertainty. The cumulative effect is a narrowing of strategic horizons: crisis response crowds out long-term governance, undermining the consistency on which hegemonic authority depends.

Second, the spatial logic of governance has changed. Authority is increasingly distributed across networks of states, firms, and technological infrastructures. The U.S. still occupies a central position in these networks, but it no longer controls them. Efforts to stabilize one domain—for instance, through sanctions,

export controls, or industrial subsidies, generate destabilizing consequences elsewhere. This recursive dynamic exemplifies the unsustainability of hegemonic leadership under polycrisis conditions: intervention becomes necessary but systematically produces new strains.[26]

These pressures translate into the domestic arena through mechanisms identified by Gourevitch's second image reversed. Global turbulence generates domestic distributional conflict, ideological polarization, and institutional blockage, factors that in turn weaken the state's ability to respond coherently to external shocks. Three processes are particularly consequential. First, economic interdependence intensifies domestic conflict over trade, industrial restructuring, and redistribution. The uneven effects of globalization have generated new cleavages between sectors and regions, fostering polarization and eroding the broad coalitions that once supported liberal internationalism.

Second, the digitalization of politics amplifies ideological conflict. International crises (wars, pandemics, climate shocks) become domestically salient within hours, mobilizing partisan identities and narrowing the space for bipartisan decision-making. Foreign policy issues that once commanded cross-party support, such as support for NATO or climate cooperation, now map onto polarized domestic identities.

Third, institutional fragmentation magnifies these pressures. The U.S. political system contains numerous veto points, and the intensification of partisanship has made procedural tools such as filibusters, holds, and motions to vacate instruments of ideological confrontation. As a result, external shocks increasingly produce domestic paralysis rather than coordinated response.

These feedback effects undermine the material and ideational foundations of U.S. hegemony. Materially, sustained leadership requires the ability to mobilize resources, coordinate allies, and implement long-term strategies (capacities that become strained when domestic politics is volatile). Ideationally, hegemony depends on credibility, predictability, and the perception of strategic competence. Polycrisis erodes all three. The U.S. remains central to global governance because of its economic weight, technological capacity, and alliance networks. Yet its ability to organize international responses has become less reliable, more contested, and more episodic.

Under polycrisis conditions, therefore, U.S. hegemony persists but becomes increasingly difficult to sustain. Leadership no longer resembles a stable architecture of order but instead approximates a pattern of governance instability, in which the system relies on the U.S. but cannot rely on its consistency. Allies adjust to American unpredictability; rivals exploit domestic fragmentation; and global challenges accumulate faster than coherent responses can be formulated.

The empirical cases examined below illustrate these dynamics. They show how

the U.S. attempts to manage global interdependence through targeted interventions, yet how these interventions are repeatedly disrupted, politicized, or reversed due to domestic contestation. As such, they illuminate the central argument of this article: polycrisis makes hegemonic stability less sustainable and governing increasingly unstable.

Empirical Illustrations: Adaptive Hegemony in Practice

The effects of the polycrisis on U.S. leadership become clearest where external shocks intersect with domestic fragmentation. In such settings, even a materially preponderant state struggles to sustain coherent policy because the complexity of global crises magnifies the demands on governance while internal polarization constrains the capacity to respond. Two cases illustrate these dynamics. The first concerns the protracted congressional struggle over Ukraine aid between 2023 and 2024, which exposed how institutional volatility and partisan conflict weaken strategic coherence. The second examines the contrasting trajectories of U.S. climate and industrial policy under the IRA of 2022 and the subsequent BBB, demonstrating how long-term governance becomes increasingly unstable under polycrisis conditions. Both cases show how U.S. policymakers attempt to reduce global complexity through targeted interventions, yet these efforts remain deeply vulnerable to domestic contestation and cycles of partisan reversal.

Congressional Turmoil and the Limits of Coherence: U.S. Aid to Ukraine (2023–2024)

The U.S. response to Russia's invasion of Ukraine initially appeared to reaffirm the structural endurance of American leadership. Washington coordinated sanctions, mobilized NATO, and provided substantial military and financial assistance. Yet as the war continued, the sustainability of this leadership became a function not of material capability but of domestic political cohesion.

When Republicans assumed control of the House of Representatives in January 2023, their narrow majority heightened procedural fragility. Speaker Kevin McCarthy secured his position only after agreeing to rules that allowed a single member to trigger a motion to vacate the chair, effectively enabling internal dissidents to depose him. This concession institutionalized instability and ensured that any major vote (on spending, border policy, or Ukraine) could ignite a leadership crisis.

By late 2023, a government shutdown loomed. Hard-right legislators demanded deep spending cuts and stringent border provisions as conditions for passing appropriations bills. They also opposed further aid to Ukraine, reframing foreign assistance as a diversion of resources from domestic priorities. To avert a shutdown, McCarthy passed a short-term continuing resolution with Democratic support. He excluded Ukraine aid to secure the votes necessary for passage. The

move avoided immediate fiscal disruption but triggered his removal, making him the first Speaker in U.S. history to be ousted through an intra-party revolt.[27]

The weeks of paralysis that followed brought foreign-policy decision-making to a standstill.[28] Only at the end of October 2023 did Republicans rally behind a new Speaker, Mike Johnson, who inherited the same structural dilemma: foreign-policy commitments had become embedded within domestic ideological disputes.[29] The Republican leadership insisted that Ukraine assistance be tied to U.S. border policy, making international commitments contingent on unrelated domestic issues. Under pressure from former President Trump, House and Senate Republicans rejected a bipartisan Senate compromise that paired Ukraine aid with asylum reforms in February 2024.

It was not until April 2024 (after months of legislative deadlock, allied concern, and reputational damage) that Congress passed a new "national security package" providing $61 billion in aid to Ukraine, alongside support for Israel, Taiwan, and Indo-Pacific partners. While Johnson's decision ultimately secured the passage of the package, it provoked another internal revolt, triggering a second motion to vacate from the party's right flank. This time, Democrats voted to protect Johnson, signaling that bipartisan coalitions had become necessary to maintain basic functionality in the House.[30]

This episode illustrates the growing difficulty of sustaining hegemonic commitments under polycrisis conditions. The problem was not the U.S. capacity to support Ukraine (resources, military capabilities, and coalition structures were readily available) but the inability to translate that capacity into timely and predictable policy. The crisis revealed three structural constraints. First, domestic polarization transformed a core geopolitical issue into a partisan symbol. Rather than treating Ukraine as a strategic question linked to European security, legislators increasingly debated it through the lens of domestic ideological conflict, immigration politics, and presidential campaigning. Second, institutional fragility allowed small factions to wield outsized influence. The procedural tools available to individual members or small groups, motions to vacate, procedural blockades, and threats of shutdown, turned foreign policy into a hostage of internal party bargaining. Third, the temporal logic of crisis governance produced short-termism. Decisions were reactive, shaped by immediate political incentives rather than long-term strategic planning. The polycrisis environment amplified this dynamic: global shocks fed into domestic polarization, which then fed back into policy instability.

In systemic terms, the Ukraine episode demonstrates that even where the U.S. possesses the material means and international legitimacy to act, the ability to sustain leadership depends increasingly on domestic political stability. The fragility of congressional governance, the partisan reframing of external threats, and the cyclical nature of internal conflict all undermine strategic reliability.

For allies and adversaries alike, U.S. hegemony thus remains indispensable but increasingly unpredictable.

Climate Policy, Industrial Strategy, and the Politics of Volatility

A similar dynamic is visible in the field of climate and industrial policy, where the U.S. faces the simultaneous pressures of decarbonization, technological competition, energy security, and domestic economic restructuring. These challenges exemplify how the polycrisis forces policymakers to confront interacting risks across ecological, economic, and geopolitical domains, and how attempts to govern this complexity become unstable under polarized political conditions.[31]

The IRA of 2022 represented the most comprehensive effort in decades to respond to these intertwined pressures. Rather than treating climate, industrial, and social policy as separate issues, the IRA deliberately bundled them into a single framework. Its design responded to the systemic nature of contemporary crises: tax incentives for renewables were linked to supply-chain resilience, subsidies for clean technologies were tied to domestic manufacturing provisions, and climate goals were embedded within broader concerns about U.S.–China technological rivalry. This integration reflected a governing logic attuned to polycrisis conditions. The IRA acknowledged that energy transition, economic competitiveness, and security vulnerabilities cannot be separated without generating new risks elsewhere. It attempted to reduce global complexity not by narrowing the scope of policy, but by aligning multiple objectives within one legislative architecture.

Yet precisely because the IRA sought to manage interconnected crises through an expansive and multi-pronged approach, it became acutely exposed to domestic politicization. Its passage through budget reconciliation meant that it rested on a narrow partisan majority and lacked institutional insulation. The same features that made the IRA an attempt to govern complexity made it a focal point of ideological conflict. For conservatives, the IRA symbolized fiscal excess and government intervention; for some progressives, it was insufficiently transformative. The result was a policy innovation structurally vulnerable to reversal.

This vulnerability materialized rapidly with the introduction of the BBB under the subsequent administration.[32] The BBB reversed core elements of the IRA and recast U.S. climate and industrial strategy around fossil fuel expansion, deregulation, and narrowly defined energy security. Whereas the IRA embraced systemic interdependence (treating climate, industry, and geopolitics as mutually reinforcing) the BBB reverted to siloed, short-term policymaking. It decoupled energy policy from industrial transformation, sidelined climate objectives, and returned to an extractive model framed through the rhetoric of "energy dominance." Global interdependence was no longer interpreted as a structural condition requiring coordination, but as a vulnerability best addressed by insulating

the U.S. from external pressures.

This shift was not merely a partisan disagreement but a reflection of the governing instability produced by the polycrisis. The complexity of climate and industrial transformation requires long-term planning, cross-sectoral coordination, and stable expectations for industries and international partners. Yet such strategies are difficult to sustain in a polarized political environment where each electoral cycle triggers sharp reversals. The oscillation from IRA to BBB makes clear that U.S. climate and industrial strategy does not evolve along a coherent trajectory; instead, it swings between attempts to confront systemic complexity and attempts to simplify it through retrenchment.[33]

Viewed through the lens of polycrisis, this oscillation reveals deeper constraints on U.S. hegemonic stability. The ecological transition is not simply a domestic policy area, it has become a central dimension of geopolitical competition, global economic governance, and technological leadership. In this context, volatility in U.S. climate policy undermines its capacity to shape global rules and expectations. Allies must hedge against abrupt shifts, while rivals exploit policy incoherence. The IRA briefly positioned the U.S. as a potential leader in coordinating the global green transition, but the BBB quickly signaled that such leadership is contingent and reversible.

More broadly, the rapid policy turn illustrates how the complexity of modern governance exposes the fragility of U.S. institutional capacity. Efforts to manage interconnected risks require durable coalitions and cross-institutional alignment, yet polarization erodes both. Long-term strategies are continually disrupted by short-term electoral incentives, preventing the accumulation of institutional learning and undermining predictability. In this sense, the IRA–BBB sequence exemplifies how polycrisis conditions interact with domestic fragmentation to produce volatility that weakens the sustainability of U.S. leadership.

Comparison

The Ukraine and IRA–BBB cases differ in policy domain but converge analytically. Each demonstrates how the U.S. remains structurally central to global crisis responses, yet both reveal the growing fragility of the domestic political foundations on which such leadership rests. In Ukraine, the issue at stake concerned the credibility of U.S. security commitments; in climate and industrial policy, it concerned the capacity to sustain long-term strategic investment. In each case, efforts to govern interdependence were filtered through the constraints of polarization, procedural fragmentation, and partisan volatility.

The Ukraine aid struggle shows how external crises are refracted through domestic ideological conflict. What began as a broadly supported response to an act of interstate aggression quickly became entangled with internal battles over immigration, fiscal priorities, and party leadership. The resulting delays

and leadership crises did not reflect a material inability to support Ukraine but a diminishing capacity to translate systemic imperatives into coherent policy. Allies witnessed that U.S. commitments had become contingent on unstable congressional dynamics and narrower partisan battles.

The IRA–BBB oscillation underscores a similar dynamic in a different domain. The IRA attempted to integrate climate action, industrial strategy, and geopolitical risk management into a single framework, an effort to govern complexity by building institutional linkages across policy fields. Its rapid reversal under the BBB revealed how vulnerable such integrated approaches are to shifts in partisan control. Whereas the Ukraine case illustrated how polarization delays crisis response, the IRA–BBB cycle illustrated how polarization fragments long-term strategy. In both instances, the central problem was not a lack of resources or international leverage but the erosion of continuity and the deepening politicization of global policy domains.

Taken together, these cases show that U.S. hegemony persists in terms of material capability, alliance networks, and agenda-setting power. Yet they also reveal a narrowing capacity to sustain coherent leadership under polycrisis conditions. The U.S. remains indispensable to global governance, but increasingly struggles to provide stability in a sustained or predictable manner. What emerges is not a hegemon in decline so much as a hegemon operating under conditions that systematically undermine the coherence of its leadership: a world in which interdependence magnifies domestic conflicts, and domestic conflicts erode the reliability of international commitments. The dual nature of contemporary U.S. power (enduring centrality coupled with diminishing coherence) captures the core tension of hegemonic complexity under polycrisis conditions.

Conclusion: Hegemony in an Age of Complexity

The contemporary global order is defined less by the decline of American power than by the transformation of the environment in which that power is exercised. The convergence of economic, geopolitical, and ecological disruptions has produced a persistent polycrisis that alters the structural conditions of international politics. In this environment, U.S. hegemony continues to matter, but the foundations that once sustained it (clear domains of governance, predictable institutional settings, and broad domestic consensus) have eroded.

This article has advanced two central claims. First, polycrisis makes hegemonic stability materially and ideationally more difficult to sustain. The interconnection of crises across economic, ecological, and security domains creates nonlinear, recursive challenges that no single actor can control. The U.S. still possesses unmatched military, financial, and technological capacities, but it must now

operate within a system in which crises interact and cascade faster than policy instruments can respond. Leadership persists, yet the ability to transform capabilities into stable order is diminished.

Second, polycrisis makes governing increasingly unstable because the complexity of policy responses intensifies precisely as domestic political coherence deteriorates. Gourevitch's second image reversed dynamic is more pronounced under today's conditions: global turbulence shapes domestic alignments, while domestic polarization constrains international action. The feedback loop between systemic interdependence and domestic fragmentation produces institutional strain, short-term policymaking, and inconsistency in foreign and economic policy.

The empirical cases illustrate these dynamics. The congressional struggle over Ukraine aid revealed how institutional fragility and partisan competition undermine the reliability of U.S. commitments, even when strategic interests are widely acknowledged. The oscillation between the IRA and the subsequent BBB demonstrated how efforts to govern complex global challenges are exposed to abrupt reversal. In both cases, U.S. policymakers attempted to reduce or manage global complexity, but these interventions became entangled in polarized domestic politics. The result was not an absence of capacity but a persistent deficit in coherence.

The picture that emerges is one of hegemonic complexity: a form of leadership that endures, but under conditions that render its expression more fragmented, reactive, and politically contested. The U.S. remains indispensable to global governance, no other actor can orchestrate large coalitions, mobilize financial power, or set regulatory standards to the same degree. Yet its ability to provide stable expectations to partners and rivals is increasingly compromised by domestic volatility and the density of global interdependence.

The implications extend beyond the U.S. experience. As global systems become more tightly coupled and prone to cascading crises, all major powers confront the limits of linear planning and centralized control. Purposeful action requires navigating complex feedback loops rather than imposing order upon them. For allies, this means relying on a hegemon that is powerful but unpredictable; for scholars, it means rethinking analytical categories that assume stability, hierarchy, or clear separation between domestic and international politics.

Ultimately, the U.S. is not experiencing hegemonic decline in the conventional sense but a shift toward a more uncertain and fragile mode of leadership. The ability to mobilize resources and shape global agendas persists, yet the coherence required to sustain long-term strategies often falters. Hegemony today is exercised less through the construction of durable order and more through the management of disorder, an expression of power conditioned by the complexity

of the polycrisis itself.

Endnotes

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French Military Power Management in the 21st Century: Indo-Pacific Strategy, Strategic Autonomy, and Global Ambitions

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Abstract: *France's post-AUKUS Indo-Pacific posture seeks to translate 'strategic autonomy' into practice through diversified partnerships, EU instruments, and a limited forward presence. Using a capability–commitment framework, the article shows that while the 2024–30 LPM expands munitions depth, maritime lift, and C4ISR, France still relies on allied enablers for sustained Pacific operations. Case studies of India, Japan, South Korea, and Southeast Asia reveal where autonomy is substantive (industrial cooperation, MDA, legal frameworks) and where it remains declaratory. This article argues that France's pursuit of 'strategic autonomy' in the Indo-Pacific is a paradoxical endeavor, fundamentally constrained by its inescapable dependence on U.S. security guarantees and finite resources. This forces Paris into a distinctive form of 'privileged-partner hedging,' leveraging EU leadership and sovereign territories to exert influence it cannot sustain unilaterally. The 2024–30 LPM modernizes capabilities but cannot resolve this core dependency, limiting France to a role of selective contributor, not independent balancer.*

Keywords: France, Indo-Pacific, autonomy, power, strategic.

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Introduction[1]

The Indo-Pacific has become the principal testing ground for France's strategic autonomy. Since the 2021 AUKUS crisis – when Australia abruptly cancelled its submarine deal with Paris in favor of a U.S.–U.K. partnership – France has sought to reassert its geopolitical relevance and defend its credibility as a "resident power" in the region.[2] The diplomatic rupture revealed not only the fragility of France's defense-industrial relationships, but also the broader challenge facing Paris: how to remain an influential actor between two great powers whose rivalry increasingly defines global order.

This renewed Indo-Pacific activism has become the cornerstone of President Emmanuel Macron's foreign policy. Paris presents itself as a promoter of a

"third way," one that avoids binary alignments and emphasizes a rules-based, multilateral approach anchored in sovereignty and partnership.[3] Through updated defense strategies (*the Revue nationale stratégique* 2022) and the 2024–2030 Military Programming Law (*Loi de programmation militaire*, LPM), France has multiplied diplomatic missions, joint exercises, and arms exports in the region, from the Scorpène submarine program with India to naval drills with Japan and Indonesia. At the same time, it has sought to embed its strategy within a European framework through the EU's Indo-Pacific Strategy and the Strategic Compass. Yet, beneath this activism lies a critical question: do France's resources and instruments actually match the scope of its ambition?

Existing literature and commentary on France's Indo-Pacific policy often focus on the idea of France as a "balancing power" or "resident nation."[4] Less attention is given to evaluating whether this posture is sustainable, and to what extent it translates the concept of strategic autonomy into operational capacity. Scholars such as Jolyon Howorth and Sven Biscop have emphasized that autonomy is multidimensional: military, industrial, and political. For France, these dimensions intersect with the dilemmas of a middle power: limited means, overlapping alliances, and dispersed commitments across Africa, Europe, and the Pacific. Addressing these contradictions requires moving beyond declaratory policy toward a measurable assessment of capability and alignment.

This article argues that France's post-AUKUS Indo-Pacific strategy exposes a fundamental paradox: its pursuit of 'strategic autonomy' is fundamentally constrained by an inescapable dependence on U.S.-led security structures and its own finite resources. Rather than achieving true independence, France is executing a distinctive form of 'privileged-partner hedging.' This strategy leverages its EU leadership, sovereign territories, and defense-industrial partnerships to exert a level of influence that masks its inability to act as a unilateral regional power. The AUKUS crisis did not create this paradox, rather it revealed its stark reality. The paper adopts three analytical lenses to test this argument:

1. Strategic autonomy versus alliance dependence, examining how far France can act independently from the U.S. or EU enablers;

2. Middle-power hedging, assessing how France simultaneously engages with and distances itself from both Washington and Beijing;

3. The capability–commitment gap, measuring whether the new LPM and defense reforms provide adequate means for sustained Indo-Pacific operations.

Methodologically, the analysis combines official documents (*Revue nationale stratégique* 2022, LPM 2024–2030, *Assemblée nationale* reports) with secondary literature and policy commentary. It situates France's Indo-Pacific approach within broader debates on European strategic autonomy and middle-power behavior. Empirical evidence focuses on four case studies: India, Japan, South Korea, and selected ASEAN partners – chosen for their strategic relevance and contrasting forms of cooperation. These cases allow an evaluation of France's diplomatic, operational, and industrial instruments, and the degree to which they reduce or reproduce dependency.

The article proceeds as follows: the next section outlines the conceptual framework connecting autonomy, hedging, and capability. The subsequent sections trace France's adaptation after the AUKUS shock, analyze France's main bilateral partnerships, and examine domestic defense reforms under the LPM. The discussion then considers geographical, logistical, and alliance-based constraints that limit France's Indo-Pacific reach. The conclusion reflects on what a realistic "third way" leadership might entail for a European power with global ambitions but finite means.

France's Indo-Pacific Strategy and the Post-AUKUS Pivot

From Submarine Deal to Strategic Reassessment

France's Indo-Pacific strategy did not emerge from a vacuum but was conceived as a response to profound structural shifts in the global order: the accelerating U.S.-China strategic rivalry, the fragmentation of the international system into a competitive multipolarity, and the attendant risks to the rules-based order that underpins French prosperity. The Indo-Pacific region's economic gravity, accounting for 36% of global GDP and 35.4% of France's extra-EU trade, makes it an unavoidable strategic theater.[5] French President Emmanuel Macron's early advocacy for an Indo-Pacific 'axis' in 2017 and the publication of France's first strategy in 2019 were pre-emptive moves to secure French relevance and economic interests, positioning Paris as a 'third way' power offering an alternative to the binary U.S.-China alignment. This framing was a direct response to multipolarity, aiming to leverage France's unique attributes – sovereign territories, a global military footprint, and EU leadership – to avoid the fate of other European powers that perceived as secondary actors. The U.S.-China trade war and subsequent geoeconomic decoupling efforts further cemented the region's status as a contested zone, forcing France to navigate between its significant trade deficit with China (€49 billion in 2022)[6] and its need to 'de-risk' critical supply chains, a tension at the core of its strategic autonomy discourse.

The cancellation of the Franco-Australian submarine contract in September 2021 marked a pivotal rupture in France's Indo-Pacific policy. The decision by Canberra to join the AUKUS alliance with the United States and the United Kingdom instantly transformed a major industrial partnership into a diplomatic crisis. For Paris, the loss of a €56-billion deal was less damaging than the message it conveyed: that France – despite its resident territories and 7,000 personnel stationed from Réunion to New Caledonia – was perceived by its closest allies as a peripheral rather than indispensable Indo-Pacific actor.[7] Official reactions in Paris were immediate and severe. The French government recalled its ambassadors from Canberra and Washington, describing AUKUS as a "stab in the back."[8] Yet beyond rhetorical indignation, the episode prompted a deeper strategic reassessment. The crisis underscored the fragility of France's reliance on bilateral defense-industrial ties and its overconfidence in historical alliances. It also exposed a mismatch between France's global discourse on autonomy and the limited perception of its actual leverage in the region.

While the AUKUS crisis of September 2021 was a profound diplomatic shock, it was less a genesis than a brutal catalyst. The cancellation of the submarine contract exposed the fragility of France's bilateral defense-industrial ties and the stark gap between its rhetoric of autonomy and its perceived leverage. However, this acute shock merely accelerated a strategic adaptation already necessitated by the pre-existing structural drivers. The crisis forced a painful recognition that in an era of great power competition, even historical allies would act unilaterally, validating France's initial fears and intensifying its push for a diversified, network-based approach.

However, this recalibration underscored, rather than resolved, the central paradox of French strategy. The diversification of partnerships and the 'Europeanization' of its posture were not pathways to pure autonomy, but admissions of its impossibility. They were mechanisms to manage dependence, to avoid over-reliance on any single partner, especially the United States, while still relying on the broader Western alliance system for the strategic enablers, from intelligence to logistics, that France alone cannot provide at scale. First, diversification of partnerships beyond Australia became an explicit priority. Paris deepened cooperation with India and Japan – two countries sharing concerns about Chinese assertiveness and valuing France's role as a stable, non-aligned partner. Second, France intensified its coordination with the European Union to 'Europeanize' its Indo-Pacific presence.[9] The publication of the EU Strategy for Cooperation in the Indo-Pacific in 2021 provided political cover for French ambitions to act under a European flag, transforming what had been a national strategy into a shared framework. Third, the Ministry of the Armed Forces initiated an internal review of overseas deployments, logistical assets, and supply chains to assess what degree of operational autonomy France could realistically sustain without U.S. enablers.

The aforementioned adjustments illustrate a shift from declaratory ambition to managed interdependence. The war in Ukraine, erupting just months after AUKUS, acted as a second, competing shock, violently pulling French military resources and strategic attention back to the European continent. This created a critical resource trilemma, narrowing the material and political bandwidth available for Indo-Pacific ambitions and making the 'Europeanization' of its strategy not just an ambition but a necessity to share the burden. Consequently, the post-AUKUS recalibration, as outlined in the Revue nationale stratégique 2022, emphasized 'strategic solidarity' and 'selective engagement' a tacit admission that strategic autonomy would be pursued through partnerships, not in spite of them.

In this context, the AUKUS shock functioned as a strategic stress test, accelerating France's transition from a posture of symbolic balancing to one of pragmatic, network-based hedging. It forced the translation of the autonomy narrative into concrete, if limited, actions: deepening agreements with India, engaging in trilateral dialogues, and leveraging EU naval initiatives all aimed at preserving France's visibility and agency in a region where its capacity for unilateral action is structurally constrained by geography, resources, and now, a land war in Europe.

Strategic Partnerships Across the Indo-Pacific

France's Indo-Pacific strategy rests on the assumption that sustainable influence requires partnerships rather than presence alone. Following the AUKUS rupture, Paris shifted from a hub-and-spoke model centered on Australia to a diversified network of alignments designed to strengthen France's diplomatic credibility and operational reach. The logic underpinning these relationships follows what this paper terms selective hedging: building flexible cooperation with likeminded states without binding commitments that would undermine France's strategic autonomy.

The Franco-Indian partnership is consistently portrayed as a strategic cornerstone, built on shared values of multipolarity and defense-industrial synergy. However, this framing obscures a more transactional and mutually compensatory reality. While the Scorpène submarines and Rafale jets provide India with advanced, non-Russian capabilities, this relationship serves a deeper, reciprocal hedging function. This partnership seems to help France hedge against its own allies much more than it helps India get its independent stance from the U.S.. For India, France is a politically palatable Western supplier that does not demand alignment with U.S. grand strategy, thereby preserving New Delhi's autonomy from Washington and mitigating its dependency on Moscow. Conversely, for France, India is not merely an 'Asian anchor' but a geopolitical counterweight to China that is blessedly free of direct U.S. control, allowing

Paris to demonstrate influence without operating under an American shadow. Yet, this convenient arrangement has clear limits. The partnership thrives on symbolic gestures, such as joint exercises and blue economy roadmaps, but deliberately avoids binding operational planning or formal alliance structures that would compromise either party's cherished autonomy. It is a hedge built on shared aversions rather than shared ambitions, powerful as a diplomatic signal but structurally incapable of generating decisive autonomous power in a regional crisis.

In contrast to the industrially focused relationship with India, France's cooperation with Japan reveals a different, and perhaps more telling, facet of its strategic identity. The frequent joint exercises and participation in dialogues adjacent to the Quad suggest a partnership of principle, aligned on a 'Free and Open Indo-Pacific.' Despite that this cooperation in opposite demonstrates the fundamental comfort for France to say within the U.S.-aligned framework, revealing the ultimate limits of French autonomy. France's engagement with Japan, a core American ally whose security is inextricably linked to Washington, is a far cry from its rhetoric of a 'third way.' Instead, it showcases a pragmatic admission: for high-end operational effectiveness in the Pacific, integration with the U.S.-led ecosystem is not just efficient but necessary. The reciprocal access agreements and observer status in Quad-related talks are not acts of defiance but of assimilation. This relationship demonstrates that France's proclaimed 'strategic autonomy' has a clearly defined boundary: it will not come at the cost of being excluded from the primary security architecture of the region. Cooperation with Japan is the acceptable face of alignment, allowing France to maintain the fiction of independent decision-making while functionally reinforcing the very U.S.-centric system its rhetoric often claims to challenge.

The nascent partnership with South Korea represents a logical, yet complex, extension of France's networked hedging strategy. For France, South Korea is an attractive partner as a leading democracy, a technological powerhouse, and a fellow middle power that also professes a desire for 'strategic autonomy' amid U.S.-China competition. This partnership, focusing on high-tech sectors like batteries, within the framework of ProLogium's investment in France, and potential defense technology collaboration, allows France to tap into South Korea's advanced industrial base and strengthen its economic footprint in Northeast Asia, a region where its influence is otherwise minimal.[10] However, this partnership is inherently double-edged in the context of U.S. dominance. While it diversifies France's regional ties, it simultaneously engages a country whose security is fundamentally anchored in a strict U.S. alliance. France gains access to South Korean technology and a like-minded voice on normative issues, but it does little to diminish the underlying U.S.-centric security architecture. In fact, by engaging a core U.S. ally, France risks having its

'autonomous' partnership indirectly co-opted into reinforcing the very alliance system it seeks to distance itself from. Therefore, the Franco-South Korean partnership is best understood as a complementary, niche collaboration that enhances France's economic and diplomatic weight but does little to resolve, and may even obscure, its fundamental strategic dependency on the U.S. security umbrella in the region. It is a partnership that covers economic and diplomatic drawbacks but leaves the core military-strategic constraints untouched.

France's re-engagement with Southeast Asia demonstrates an effort to translate rhetoric into inclusive diplomacy. Paris has strengthened relations with Indonesia, Singapore, and Vietnam, countries receptive to its non-aligned narrative. It became an ASEAN "Development Partner" in 2020, aligning with EU initiatives on connectivity, climate, and maritime governance.[11] Yet, this outreach remains largely symbolic compared with the Indo-French and Franco-Japanese axes. France's economic footprint in ASEAN states is limited, and its naval presence through Mission Jeanne d'Arc or Marianne serves primarily as demonstration of commitment. The lack of sustained logistics infrastructure in the region underscores the persistence of the capability–commitment gap identified earlier. Paris compensates through niche contributions, such as maritime domain awareness and coast-guard training, which provide visibility at low cost.

The four partnerships collectively reveal France's adaptation from bilateral diplomacy to networked autonomy. Each partner addresses a different dimension of the autonomy dilemma: industrial (India), operational (Japan), technological (South Korea) and normative (ASEAN). Together they diversify France's access, visibility, and influence, yet they stop short of delivering full strategic independence. The emerging pattern is not that of a "balancing power" in the traditional sense but of a middle power operating through cooperative density. This model allows France to maintain relevance in a region dominated by major powers, while accepting that leadership must be shared, situational, and contingent on collective frameworks. The sustainability of this approach will depend on whether France can match its diplomatic agility with material depth – munitions, logistics, and intelligence – under the 2024–2030 defense reforms.

Domestic Military Reforms and Modernization Efforts

France's credibility as an Indo-Pacific actor ultimately rests on its domestic defense modernization. The *Loi de programmation militaire* (LPM) 2024–2030, unveiled in April 2023, represents both a financial leap and a strategic recalibration. With a projected budget of €413 billion over seven years –a 40% increase from the previous cycle– the LPM aims to consolidate France's status as a "comprehensive military power" capable of responding to simultaneous

crises in Europe and beyond.[12] Yet the real question is whether this modernization can translate into sustained capabilities relevant to the Indo-Pacific theater.

President Emmanuel Macron described the new LPM as the blueprint for a "war economy," a term signaling the need to accelerate industrial output, replenish munitions, and ensure supply-chain resilience.[13] The law prioritizes readiness and sustainability over mere force expansion. Among its principal objectives are:

- Replenishment of munitions stockpiles and industrial acceleration through faster production cycles;
- Modernization of naval and air assets, including the future Porte-avions nouvelle génération (*PANG*), six new Barracuda-class submarines, and replenishment tankers;
- Investment in intelligence, cyber, and space capabilities to enhance strategic awareness;
- Improvement of overseas deployments, with special attention to interoperability and logistics in territories stretching from Djibouti to Polynesia.

While these measures appear comprehensive, they are distributed across global commitments from the Baltic to the Sahel, making the Indo-Pacific one among several priority theaters. The LPM acknowledges this dispersion indirectly by emphasizing selectivity of engagement and the principle of endurance through partnerships. In other words, autonomy is defined not by acting alone, but by ensuring that limited forces can be sustained longer through prepositioned assets and shared logistics.

For France, the Indo-Pacific challenge is not numerical but logistical. Maintaining even modest operations requires heavy reliance on enablers: refueling aircraft, intelligence-sharing, satellite coverage, and naval replenishment. The LPM partially addresses these vulnerabilities through investments in aerial refueling (A330 MRTT), multi-mission frigates, and modernization of amphibious ships (Mistral class). However, analysts note that while the new carrier and submarines enhance prestige, they do not necessarily increase regional endurance. The replacement pace for surface combatants and patrol aircraft means that overall volume remains constant. The French Navy will still struggle to maintain continuous presence across three maritime zones (Indian Ocean, South Pacific, and Caribbean) without allied support. In this sense, the LPM underscores the paradox of autonomy: modernization improves quality, but not necessarily availability.

The domestic "war economy" narrative also serves a political function: to align defense reform with economic recovery and industrial sovereignty. France's defense-industrial base, led by Naval Group, Dassault, Thales, and MBDA, is positioned as both national asset and export engine. Indo-Pacific clients, particularly India and Indonesia, feature prominently in government communications as examples of successful strategic partnerships through industry.[14] The LPM strengthens this logic by financing innovation clusters, securing rare materials, and supporting Small and Medium Enterprises (SMEs) critical to supply resilience. Yet the industrial model remains export-dependent. Approximately 40% of French defense production is destined for foreign clients, exposing the system to external demand fluctuations and political constraints.[15] From a strategic autonomy perspective, this export reliance blurs the line between industrial strength and strategic vulnerability: autonomy of production does not guarantee autonomy of employment.

A less visible but significant shift in the LPM is the allocation of over €6 billion to space, cyber, and intelligence capabilities. These domains underpin France's ambition to project influence across vast maritime spaces without proportional troop expansion. The creation of the *Commandement de l'Espace* (Space Command) and the strengthening of the *Direction du renseignement militaire* (DRM) are central to this transformation. For Indo-Pacific operations, these capabilities serve as force multipliers: real-time situational awareness, coordination with partners in maritime domain awareness (MDA) initiatives, and improved deterrence through non-kinetic means. In practice, they support what might be termed "autonomy through information superiority."[16] France thus seeks to compensate for quantitative limits through qualitative technological leverage, consistent with its identity as a high-end but medium-scale power.

Despite its record funding, the LPM's effectiveness will depend on execution. France faces inflationary pressures, industrial bottlenecks, and recruitment shortages that could erode real purchasing power. Moreover, simultaneous commitments in Europe and Africa continue to absorb operational bandwidth. The document's recurring emphasis on endurance and resilience implicitly acknowledges these constraints. From a policy-analysis perspective, the LPM 2024–2030 represents a move from declaratory autonomy to disciplined prioritization. Rather than claiming independence from allies, it defines sovereignty through sustained capability and credible contribution. The law aligns with the *Revue nationale stratégique 2022* in advocating "strategic solidarity" with partners while preserving freedom of decision. This pragmatic reading of autonomy – "autonomy in action, not isolation"– fits the middle-power hedging model discussed earlier.[18]

In the Indo-Pacific context, the modernization program provides France with the tools to remain visible and relevant, but not dominant. Enhanced ISR

(intelligence, surveillance, reconnaissance) and refueling capacity will allow limited but regular deployments of task groups, while prepositioned assets in La Réunion, New Caledonia, and French Polynesia ensure baseline presence. Cooperation agreements with India and Japan are expected to optimize logistics and information sharing. Yet the strategic balance remains fragile. Even with the new budget, France cannot simultaneously fulfill deterrence obligations in Europe and sustain high-intensity operations in the Indo-Pacific. The most plausible outcome is a selective engagement model: episodic deployments backed by diplomacy and industrial cooperation. In essence, the LPM equips France not to dominate the Indo-Pacific, but to remain a credible and autonomous participant within a coalition of likeminded powers.

Constraints and Trade-offs: NATO, the EU, and the African Rebalance

France's Indo-Pacific ambitions operate under the gravitational pull of three interlocking constraints: the demands of European defense through NATO, the evolving architecture of the European Union's security policy, and the ongoing military disengagement from Africa. Together they expose the structural tension between France's global narrative and its finite capabilities – a tension at the core of its strategic autonomy dilemma.

NATO: The Atlantic Anchor and the Autonomy Paradox

Although France formally reintegrated into NATO's military command structure in 2009, it continues to promote an autonomous European defense identity within the Alliance. This duality defines the core paradox of French strategy: Paris depends on NATO, and by extension, U.S. command structures, intelligence, and logistical networks, for its fundamental security, even as it seeks to assert a strategic initiative independent of Washington. The 2022 Russian invasion of Ukraine brutally reinforced this dependence, pulling critical resources back to Europe and making clear that France's Indo-Pacific ambitions exist only at the sufferance of American power guaranteeing European stability. For the Indo-Pacific, this means French naval deployments are symbolic gestures that operate within a U.S.-controlled logistical corridor, a dependency starkly at odds with the rhetoric of global independence.[19]

Politically, the crisis reaffirmed U.S. leadership within NATO just as Paris sought to project influence in Asia. French officials acknowledge that "strategic autonomy" cannot mean strategic solitude; hence the emphasis on complementarity rather than competition with the Alliance.[20] Yet the result is a form of bounded autonomy: freedom to act where U.S. priorities are peripheral, but

limited discretion when European security is at stake. For the Indo-Pacific, this means that France's military profile will remain secondary to its diplomatic and industrial instruments. Its Indo-Pacific missions rely on U.S. logistical corridors, shared intelligence, and access to allied facilities – a dependence at odds with the rhetoric of global independence.

The Autonomy Paradox: French Strategy and American Power.

The duality of the situation becomes obvious when the "partner-privileged" framework clashes with the French political priorities. While the 2024-2030 LPM represents a significant financial commitment to modernizing France's force structure prioritizing munitions stockpiles, a new-generation aircraft carrier (PANG), and advanced submarines — these investments procure sovereign platforms, not sovereign operational capability. Sustaining a carrier strike group on a protracted deployment like Operation Clemenceau requires a dense network of enablers that France alone cannot provide at scale: persistent, theater-wide ISR from U.S. satellite constellations; aerial refueling and strategic airlift that dwarf French capacity; and a global logistics chain anchored by the U.S. Military Sealift Command.

Consequently, French power projection operates within a logistical corridor and an informational ecosystem ultimately guaranteed by Washington. This reality creates a complex dilemma as NATO, driven by U.S. leadership, formalizes its interest in the Indo-Pacific. On one hand, NATO's engagement, as articulated in its strategic concepts and the 2025 Parliamentary Assembly resolution linking Euro-Atlantic and Indo-Pacific security, offers France a legitimizing, multilateral framework to share burdens and amplify its influence.[21] On the other hand, it presents the threat of strategic subordination, potentially funneling French efforts into a U.S.-centric containment strategy against China, thereby eroding the independent decision-making that defines strategic autonomy. France's 2021 veto of a NATO liaison office in Tokyo is a testament to this fear. Thus, French autonomy in practice is not the absence of interdependence, but a continuous and pragmatic negotiation of it: a calibrated effort to leverage American power without being subsumed by it, preserving the sovereignty of choice even when the means of action are shared.

The European Union: Strategic Multiplier or Bureaucratic Constraint?

If NATO represents structural dependence, the European Union offers France a potential multiplier. Since 2017, Paris has pushed for deeper EU defense integration, culminating in initiatives such as the *European Intervention Initiative* (EI2), *Permanent Structured Cooperation* (PESCO), and the 2022 *Strategic Compass*. The Indo-Pacific features prominently in these documents, largely due to French advocacy.

The EU's 2021 *Strategy for Cooperation in the Indo-Pacific* reframes the region as a shared European concern, allowing France to embed its national agenda in a collective framework. Naval missions under the *Coordinated Maritime Presences* (CMP) concept in the Indian Ocean illustrate how Paris leverages EU instruments to extend reach at minimal cost. However, this Europeanization also dilutes unilateral agency. EU missions proceed by consensus, and most member states remain cautious about antagonizing China. Moreover, the EU's resources –diplomatic and financial rather than military– cannot substitute for hard-power projection.[23] Thus, France's effort to "Europeanize" its Indo-Pacific strategy produces symbolic solidarity but limited force multiplication.

From an analytical standpoint, by anchoring its Indo-Pacific strategy in a multilateral setting, France mitigates the perception of unilateral adventurism and spreads costs across partners. Yet the dependence on consensus and the EU's incremental pace of decision-making slows the translation of policy into action.[24] Strategic autonomy is therefore shared but diluted – a compromise between ambition and practicality.

Africa: Retrenchment and the Redistribution of Attention

The third major trade-off stems from France's retrenchment in Africa. The progressive drawdown of *Operation Barkhane* (terminated in 2022) and expulsions from Mali, Burkina Faso, and Niger mark the end of an era of large-scale French interventions. Officially, this pivot frees resources for other theaters, including the Indo-Pacific.[25] In practice, the transition exposes new vulnerabilities.

First, the African withdrawals are politically costly: they erode France's credibility as a security provider and undermine its image as a global stabilizer. Second, the logistics and personnel released are not easily reallocated; forces specialized in counterinsurgency cannot be redeployed overnight to maritime or high-intensity operations. Third, instability in the Sahel and renewed competition from Russia and China still require diplomatic and intelligence attention, consuming bandwidth in Paris's strategic apparatus.

Nevertheless, the African shift has indirect benefits. It forces the French defense establishment to confront its capability–commitment gap by prioritizing theaters where interests are vital and local partnerships strong.[26] By reducing the scale of African commitments, France aims to preserve readiness for high-end contingencies in Europe and selective presence in the Indo-Pacific. The LPM 2024–2030 explicitly enshrines this logic of "selectivity" and "endurance".[27] In this sense, retrenchment is not only a constraint but also a necessary condition for rebalancing.

Balancing Continental and Maritime Priorities

The interplay of NATO, EU, and African dynamics demonstrates the structural trade-offs of France's grand strategy. Paris remains the global middle power, that has enough ambitions to transform into the rising major power – able to deter on the continent, intervene in its near abroad, and project influence into the Indo-Pacific. But the same finite set of assets must serve all three ambitions. This generates what can be termed a tri-theater tension: European commitments guarantee relevance within the Alliance; African withdrawals test resilience and reputation; Indo-Pacific deployments sustain France's global profile. Managing these simultaneously requires constant arbitration between symbolic presence and operational substance.

From a conceptual lens, these tensions reveal the limits of autonomy in practice. Autonomy is not the absence of interdependence but the ability to choose among dependencies. France's strategic behavior reflects this pragmatic understanding. By engaging in NATO for deterrence, leveraging the EU for legitimacy, and rationalizing its African footprint, Paris constructs an adaptive – not absolute – autonomy. The cost of this adaptability is diffusion: without clear prioritization, each theater risks under-resourcing. The challenge for the coming decade will be to maintain coherence across these commitments while avoiding the trap of strategic overstretch disguised as global ambition.

For the Indo-Pacific specifically, these constraints mean that France will continue to act as a selective contributor rather than a theater leader. Its comparative advantage lies in diplomatic access, industrial partnerships, and symbolic presence through occasional deployments. NATO's European demands and Africa's instability ensure that the Indo-Pacific remains a domain of opportunity but not of concentration. Still, within this constrained autonomy, France retains strategic value: it offers the European Union an external projection vector, the United States a reliable yet independent ally, and Indo-Pacific states a partner without hegemonic baggage. Navigating these overlapping expectations defines the essence of France's third-way diplomacy – a balancing act sustained as much by credibility and endurance as by material power.

Discussion and Conclusion: Between Ambition and Realism

To declare France a 'middle power' is to state a partial truth. While its material resources and inability to dictate the regional order alone fit the classification, this label obscures more than it reveals. France is not a typical middle power like Australia or Canada; it is a **Systemic Middle Power.** Its hedging strategy is distinctive not in its goal of avoiding binary alignment, but in its unique starting position and the singular tools at its disposal. A critical dissection of

French official rhetoric, treating it not as fact but as a strategic claim, reveals that its pursuit of autonomy is a project of managing inescapable dependencies, not transcending them. The distinctiveness of French hedging lies in three constitutive elements that simultaneously enable and constrain its ambitions.

First, France hedges from within the heart of a major alliance. Unlike non-aligned states such as India or traditionally hedging powers like ASEAN members, France's strategic position is fundamentally anchored in NATO. Paris rhetorically champions strategic autonomy as a bulwark against over-reliance on Washington, yet its entire operational posture in the Indo-Pacific is structurally dependent on U.S.-led security infrastructures. The official narrative of the *Revue nationale stratégique 2022* and the LPM speaks of 'sovereign choice' and 'freedom of action.' However, the reality is that a French naval deployment, such as the Mission Clemenceau, operates within a U.S.-controlled logistical corridor, reliant on American ISR satellites, aerial refueling capacity, and the global reach of the U.S. Military Sealift Command. This is not autonomy; it is privileged dependency. France seeks to leverage the Alliance's benefits while publicly denying its pervasive influence, a luxury unavailable to a middle power outside such a structure. Its hedging, therefore, is an intra-alliance maneuver, seen as an attempt to carve out a niche of political discretion within a security system it cannot and will not leave.

Second, France instrumentalizes the European Union as a unique force multiplier. When French diplomacy speaks of 'Europeanizing' its Indo-Pacific strategy, it is not merely pursuing multilateralism; it is engaging in a form of scale-jumping. By embedding its national agenda within the EU's Indo-Pacific strategy and mechanisms like the Coordinated Maritime Presences (CMP), France gains diplomatic weight and resource pooling that a standalone middle power like South Korea could never muster. This allows Paris to punch above its weight, presenting its national interests as collective European concerns. Yet even this multi-play has its own limits. The EU is a consensus-based body where most members more recently prioritize economic relations with China, parallel to their constant fear of antagonizing Beijing. Consequently, the 'Europeanized' presence is often diluted to the lowest common denominator, e.g. symbolic naval port calls and normative initiatives on maritime governance that lack hard-power credibility. France uses the EU to mask its own material shortcomings, but in doing so, it trades unilateral agency for a slow, often anodyne, collective diplomacy. The EU is thus a crutch, not a catalyst, for genuine strategic autonomy.

Third, and most fundamentally, France's claim to be a 'resident power' is not just diplomatic posturing but a legal and physical fact grounded in sovereign territory. With 1.6 million citizens and 7,000 military personnel across Réunion, Mayotte, New Caledonia, and French Polynesia, France possesses a

permanent, legally undeniable footprint in the Indian and Pacific Oceans. This is a distinction no other middle power can claim. Official sources relentlessly promote this 'residency' to justify France's place at the regional table. However, this very asset also constitutes a critical vulnerability. These territories magnify France's capability-commitment gap, stretching its limited logistical and military resources across vast distances. They create a duty of presence that forces Paris to make constant, costly demonstrations of commitment, lest it be seen as a neglectful metropolitan power. The sovereignty that grants it a voice also chains it to a dispersed and expensive defense burden, compelling a strategy of 'selective engagement' that belies the rhetoric of being a full-spectrum resident power.

In conclusion, the distinctiveness of French middle-power hedging lies in this triad of characteristics: intra-alliance positioning, EU instrumentalization, and sovereign residency. Together, they create a form of 'systemic' influence, allowing France to operate across multiple scales of global governance. Yet, a critical voice must emphasize that this very distinctiveness is rooted in contradiction. The gap between the rhetoric of autonomy and the reality of dependency is not a temporary failing but a permanent condition. France's strategy is not a path to true independence but a sophisticated, and at times self-deceptive, management of its constrained position. It is the hedging of a power that was once great, operating within a system it can no longer command, but from which it retains unique and irreducible privileges.

Endnotes

1. The author used Language Tool for grammar and spell-checking. In addition, the author used ChatGPT (OpenAI, GPT-5) to: (1) translate primary sources from French to English, (2) assist in formatting citations for sources used in the manuscript, (3) shorten vast informational blocks to increase the readability of the text. Voyant was used for content analysis of the documents cited in the paper. All AI-assisted content was verified and edited by the author.

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Divergence in Foreign Policy Strategies Despite Shared Threat Perception: How Unexpected Domestic Political Developments Led to Different China Policy between South Korean and Japan

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Abstract: *South Korea and Japan carried out contrasting policies toward China during the Moon Jae-in and Shinzo Abe period, as South Korea implemented an appeasement policy, while Japan opted for a balancing policy against China. Although the two countries experienced a rapid deterioration in threat perception toward China following Beijing's economic coercion, the Japanese and South Korean public's demands to change the ruling party in their respective countries led to the establishment of governments with completely different policies toward China. Due to China's economic retaliation following a territorial dispute in the East China Sea in 2010 and THAAD deployment in 2017, Japan and South Korea developed shared threat perception toward China by the late 2010s. However, their China policies diverged, as Japanese public who tried to replace DPJ as the ruling party due to its policy and crisis management failures chose to elect LDP's Shinzo Abe who advocated balancing policy toward China. On the other hand, the South Korean public, who called for President Park's impeachment, elected the opposition party's Moon Jae-in, who pursued an appeasement policy toward China. This paper shows that domestic political factors, which may appear unrelated to foreign policy, can have consequential influence on the direction of foreign policy.*

Keywords: Threat perception, balancing, appeasement, domestic politics, South Korea, Japan.

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Introduction

Although there have been many ups and downs for South Korean-Japanese relations, most would agree that the Moon-Abe period (from 2017 to 2020) has been one of the most challenging times. During this period, Seoul and Tokyo had not only suffered from unprecedented levels of bilateral feuds regarding historical, territorial, security and economic disputes, they had also demon-

strated diverging foreign policies toward other countries. One of the most notable divergences in this regard could be observed in their policies regarding China. As will be explored in the following sections, while the Japanese Prime Minister Shinzo Abe insisted on establishing a coalition to counter Chinese aggression as soon as his second administration began, the Korean President Moon Jae-in had pursued a "Three No's" policy to appease China since his first year in office.

Considering that (1) both Abe and Moon were inaugurated shortly after Tokyo and Seoul respectively experienced Beijing's economic retaliation, and (2) the two countries were the closest allies of the United States in East Asia, one might wonder why Japan and South Korea had come to develop such contrasting policies toward China during the Moon-Abe period. This paper argues that Seoul and Tokyo's China policy diverged due to unexpected domestic political factors. More specifically, the paper claims that the changes in ruling parties, which resulted from the previous administrations' failures to handle crises or scandals and ensuing public disappointment, led to the divergence regarding the two countries' foreign policies.

This paper conducts comparative case studies based on a qualitative approach. The paper analyzes changes in perception and policy toward China in Japan (from 2010 to 2020) and South Korea (from 2016 to 2022) by adopting process tracing. After briefly reviewing existing literature, the paper traces how perception on China changes in Japan after a territorial dispute in the East China Sea and the ensuing export control on rare earth from China, and how the Abe administration emerges and carries out balancing policy regarding China. Then, the paper traces the shift in perception about China in South Korea following China's economic retaliation after South Korea's Terminal High Altitude Area Defense (THAAD) deployment, and how the Moon administration emerges and pursues an appeasement policy toward China. Finally, the paper analyzes how unexpected domestic political developments followed by changes in the ruling party in both countries led to the diverging China policies between South Korea and Japan despite their similar threat perceptions.

Literature Review and Key Concepts

The existing literature largely focuses on how shared / different threat perceptions lead to convergence / divergence of strategies and policies. Stephen Walt explains how countries align together to balance against the state that is regarded as the greatest threat. According to Walt, the level of threat from other countries is determined based on (1) aggregate power, (2) geographical proximity, (3) offensive power and (4) offensive intentions. Based on this threat assessment, states respond by allying either against the major threat (balanc-

ing) or with the threat (bandwagoning). Walt argues that states generally opt for balancing as it can help preserve states' freedom of action.[1] In other words, countries that share perceptions regarding who poses the greatest threat align together with each other to cope with the perceived threat.

In addition, Cheol Hee Park points out convergence of threat perception between South Korean and Japan as one of the major factors of cooperation between the two countries. According to Park, "convergence / divergence of external threat perception against the third party", along with historical contentions managed by domestic politics, and the "style of U.S. alliance management" influence whether South Korea and Japan pursue cooperation or face conflicts.[2]

Furthermore, Audrye Wong raises a similar question with this paper and explores Seoul and Tokyo's relations with Beijing and Washington from 1992 to 2015. Wong explains that one of the main reasons why South Korea and Japan's strategies have diverged was the fact that the two countries prioritized dealing with "local and imminent threats" over "abstract, structural threats."[3] According to Wong, unlike Japan, which had a more heightened threat perception regarding China due to a territorial dispute, South Korea had not necessarily viewed China as a significant threat. For Seoul, a more severe security threat had been posed by North Korea, and China had been considered as a partner which it should cooperate with to deal with the substantial North Korean threat. Wong claims that these differing threat perceptions between Japan and South Korea, intensified by their national identity gaps, led to their diverging strategies regarding China and the United States. Only after reaching a moment of "disillusionment" regarding Beijing's stance toward Pyongyang following North Korea's attacks on South Korea in 2010 did South Korea decide to bolster its relations with the United States. However, the author points out that even when both countries strengthened their ties with the United States, their China policies remained different as South Korea, having a lower threat perception of China than Japan, did not keep as much distance from Beijing as Tokyo did.[4]

However, the existing literature, focusing on similar / different threat perceptions leading to converging / diverging policies among countries, may not provide sufficient explanations for Seoul's and Tokyo's contrasting policies toward China during the Moon-Abe period. As will be explored in the following sections, contrary to what these studies suggest, South Korea and Japan actually had similar threat perceptions toward China as well as North Korea during the late 2010s. Yet, the two countries had carried out strikingly contrasting policies toward China. Therefore, to resolve this puzzle, the next section traces political developments in Japan and South Korea in the 2010s, which led to their respective policies.

This paper adopts Walt's concept of threat and balancing mentioned above. It uses threat perception to mean assessment of threat based on overall national power, proximity, offensive power, and hostile intention of a state, and balancing to mean working together with other states to counter a threatening or overly assertive country. Since offensive intention and capabilities are important factors that determine threat perception, the paper focuses on changes in threat perception toward China after Japan and South Korea's respective encounters with China's economic coercion.

Also, the paper draws from and slightly modifies Normin M. Ripsman and Jack S. Levy's definition of appeasement, which is "a strategy of sustained, asymmetrical concessions in response to a threat, with the aim of avoiding war, at least in the short term." By appeasement, this paper means making asymmetrical concessions in response to threat or coercion to avoid confrontation with another country.

Case Study 1: Japan since 2010

Senkaku/Diaoyu Incident and Changes in Perception regarding China among the Japanese Public

In September 2010, a collision between a Chinese fishing boat and a Japanese Coast Guard ship took place around the Senkaku / Diaoyu Islands in the East China Sea, where the two countries were facing territorial disputes. Following the incident, Japanese authorities had arrested the Chinese captain, heightening the tensions between Beijing and Tokyo. When Japan declined China's continued requests to release the captain, including Prime Minister Wen Jiabao's demand, rare earth exports from China to Japan abruptly stopped. Japan suspected that it was due to the boat collision incident, even though the Chinese government had never admitted to an embargo on Tokyo, because no change was made regarding Chinese exports to other countries, only to Japan.[6]

While the dispute and export suspension ended as Tokyo released the detained Chinese captain, experiencing Beijing's economic coercion and hostility after territorial dispute had significantly increased mistrust and concern regarding China in Japan, especially among Japanese intellectuals. According to the public opinion survey released in August 2011 by Genron NPO, in general, the percentage of Japanese respondents who said they have negative impressions of China went up from 72.0% in 2010 to 78.3% in 2011. In particular, there was a 12.4% increase in Japanese intellectuals who harbored negative images regarding China, which rose from 46.0% in 2010 to 58.4% in 2011. When asked if and how their perception regarding China changed over the last year, 33.7% of Japanese respondents answered that their perceptions on Beijing had worsened.[7] Also, the percentage of Japanese who replied that they viewed

China's economic development as a threat rose to 41.1% in 2011 from 33.8% in 2010,[8] and those who regarded China as a military threat increased to 57.5% in 2011 from 47.0% in 2010.[9] Notably, for the first time since the survey began in 2006, threat perception regarding China (80.0% of the intellectual respondents) surpassed that of North Korea (69.0%) among the intellectuals.[10] When asked about the reasons why they perceive China as a military threat, 66.4% of Japanese respondents opted for "frequent invasion to Japanese territorial waters," which 47.7% of respondents in 2010 chose, replacing the previous year's "continued military build-up" as the highest rated reason.[11] This suggests that the Senkaku/Diaoyu incident and the ensuing economic retaliation in 2010 had a significant impact on Japan's threat perception.

Japan's policy toward China began to reflect such heightened perceptions toward China. Like previous prime ministers of Democratic Party of Japan (DPJ), Prime Minister Naoto Kan sought to enhance relations with Beijing following DPJ's diplomatic stance of emphasizing relations with Asian countries. However, after the Senkaku/Diaoyu incident as well as North Korea's attack on Yeonpyeong Island in South Korea, the cabinet carried out a large-scale joint military exercise with the United States in December 2010.

Decline of DPJ, Shifts in Japan's Ruling Party from DPJ to LDP, and Abe's China Policy

Japan's pursuit of a firm stance against China became highly noticeable with the change in Japanese leadership, which was prompted by the failures of the then-ruling DPJ. The DPJ became a ruling party in Japan in 2009 for the first time. However, as Yong Bok Kim points out, even though DPJ had seized power emphasizing welfare policy and appealing to the public who had been dissatisfied with Koizumi cabinet's neoliberal economic policy, the party's vision for the welfare state crumbled due to the lack of consensus on carrying out welfare policy in DPJ, the impacts of 2008 global financial crisis and the 2011 Tōhoku earthquake and tsunami, and the ensuing decision to increase consumption tax.[12] Most prominently, the DPJ's incompetence in handling the Tōhoku earthquake and the Fukushima nuclear accident resulted in public anger and mistrust toward the DPJ.[13]

With deep disappointment in the DPJ's leadership among the public and the absence of alternative political options, the second Abe administration was inaugurated in December 2012 with the slogan "Take back Japan" and eager support from the Japanese people, even though the support for the administration's individual policy was not that high.[14] Unlike the DPJ administrations, which had strived to strengthen their ties with their neighboring countries in Asia including China, the second Abe administration clearly articulated its deep security concern regarding China from the very beginning.[15] In his suggestion

of creating Asia's Democratic Security Diamond, which was announced right after Prime Minister Abe was reelected, he criticized China for turning the South China Sea into "Lake Beijing" and called for the creation of multilateral initiatives to counter such attempts.[16] Furthermore, the 2013 Defence White Paper placed more emphasis on Beijing's military activities and the need for Japan's strengthened defense to respond to them.[17]

Hence, Japan under the second Abe administration actively pursued balancing policy to deal with threats from China by closely aligning itself with the United States and cooperating with other states in the region. First, in 2015, the cabinet further strengthened the U.S.-Japan alliance by revising the Guidelines for U.S.-Japan Defense Cooperation and amending its security laws to enable Tokyo's exercise of collective self-defense rights.

Moreover, after China announced its strategy of the Belt and Road Initiative (BRI) in 2013, Japan began taking strong initiatives in promoting a "Free and Open Indo-Pacific" (FOIP), introducing the regional initiative in 2016. Although the strategic concepts of the first Abe administration's "Arc of Freedom and Prosperity" and "Confluence of the Two Seas" were not concretely realized due to Prime Minister Abe's sudden resignation over health issue, the second Abe administration was able to embark on promoting FOIP, starting to lead it with the United States in 2017, and pursuing minilateral cooperation with India and Australia. FOIP highlights the importance of the rule of law and freedom of navigation, "Quality Infrastructure development in accordance with international standards," and "capacity building on maritime law enforcement, disaster risk reduction and non-proliferation." Considering that the initiative (1) is pursued through cooperation with three other countries that Abe named as key countries for Asia's Democratic Security Diamond, (2) emphasizes spreading important factors of the U.S.-led liberal international order such as the rule of law and freedom of navigation, and (3) the fact that Washington puts great emphasis on the security aspect of the initiative amid the intensified U.S.-China competition, it is quite clear that the initiative was aimed at curbing China's assertive foreign policy stance and BRI.

In addition, Japan readily joined the United States when the first Trump administration decided to impose sanctions on two Chinese high-tech companies, Huawei and ZTE, for espionage and illegal economic activities, with the enactment of "U.S. National Defense Authorization Act" and called for its allies to join the measure. Like Australia and New Zealand, Japan decided to implement policies to exclude the aforementioned Chinese companies from its government and Self-Defense Forces.

Case Study 2: South Korea since 2016

China's Economic Retaliation following the THAAD Deployment and Changes in South Korea's Perception on China

Amid the rising North Korean nuclear threats, the South Korean government decided to deploy Terminal High Altitude Area Defense (THAAD) in 2016. After North Korea's fourth nuclear test on January 6, the Defense Minister Han Min-gu called for THAAD deployment, in order to bolster South Korea's capability from a military perspective, during his appearance on a TV program on January 25, 2016.[19] Although Russia and China had vehemently protested against this, arguing that THAAD deployment in South Korea would threaten their security, the South Korean government underscored that the purpose of the THAAD deployment was to enhance Seoul's defense capability, and it was a matter of South Korea's sovereignty.[20] In July 2016, Seoul and Washington officially announced their decision to deploy THAAD in South Korea.

Since this announcement, China has taken a series of retaliatory measures targeting the South Korean economy, imposing sanctions on South Korean commodities, restricting Chinese tourism to South Korea, breaching contracts, and boycotting South Korean companies and entertainers. Amid Beijing's economic retaliation, South Korean companies such as Lotte, which had provided the land for the THAAD deployment, had to withdraw from the Chinese market.[21]

As a series of public opinion surveys indicate, such economic coercion by Beijing had significantly deteriorated South Korea's view on China. A public opinion survey conducted by the Asan Institute suggests that the South Korean public's image on China had kept worsening since July 2016 to March 2017, with a rapid decline in its favorability score toward China from January 2017 (4.31 out of 10) to March 2017 (3.21 out of 10).[22] Additionally, the threat perception regarding China in South Korea increased as well. The 2017 joint public opinion poll by EAI and Genron NPO shows that there was a 14.3% increase in South Korean respondents who regarded China as a military threat, which went up from 36.0% in 2016 to 50.3% in 2017.[23] Another survey conducted in October 2017 by a Chinese scholar, Wang Xiaoling from the Chinese Academy of Social Sciences (CASS), surveyed South Koreans' security concern regarding China. In this survey, about 80.5% of respondents replied that China's military power is a threat to South Korea. The survey result also reveals that the South Korean public largely prefers the United States over China, with 39.2% replying they will support Washington in case of the U.S.-China military confrontation and only 1.1% answering that they will support China. Even in an economic sector, the South Korean public chose South Korea-U.S. economic cooperation over South Korea-China economic cooperation, indicating that the once-advocated Anmigyeongjung (security with the U.S., economy with China) was no longer an appealing option for South Koreans.[24]

The Collapse of Conservatives, Shifts in Ruling Party from Saenuri Party to the Minjoo Party of Korea, and Moon Administration's China Policy

South Korea's pursuit of appeasement policy toward China during the late 2010s had begun with the changes in South Korea's leadership, fueled by the political scandal that led to the collapse of the then-ruling Saenuri Party. The conservative Park administration, which pushed for the THAAD deployment in South Korea against Chinese demands, plunged into a serious political crisis. President Park became embroiled in the so-called "Choi Soon-sil Gate" scandal following JTBC's "Tablet PC" report, and candlelight protests erupted demanding her ousting and igniting the spark for her impeachment.[25] As supporters of President Park also gathered to oppose her impeachment, by the end of 2016, the political situation in South Korea was highly chaotic, marked by the confrontation between Pro-Park and Anti-Park rallies.[26] Eventually, President Park was impeached in March 2017, and the 19th presidential election was hurriedly held after 60 days following the impeachment amid extreme political turbulence and virtual collapse of political conservatives in South Korea. In this election, Moon Jae-in, the presidential candidate of the opposition party, was elected in May 2017.

During this shortened presidential election, amid domestic political turmoil and rising North Korean threats, how each candidate viewed Beijing or what China policy they planned to pursue did not become a major issue of concern. Thus, it was no wonder that the newly elected Moon administration did not necessarily share the nation's shifting perception toward China. In December 2017, during his speech at Peking University, President Moon emphasized that he had a different opinion from people who claimed that the rise of China would pose a threat to the South Korean economy and underscored that he believed South Korea-China relations to be "*Unmyeong gongdongche-ui gwangye* (relationship of a community of common destiny)," in which one country's prosperity would benefit both of them. In addition, calling China "*Nopeun sanbonguri* (a high mountain peak)" while referring to South Korea as a "small but responsible middle power," he declared that Seoul would join the "China Dream." Moreover, President Moon emphasized the need for policy alignment between Seoul and Beijing, expressing his wish to link his administration's "New Southern Policy" and "New Northern Policy" with China's Belt and Road Initiative (BRI). Additionally, he underscored the shared recognition between Seoul and Beijing about how to deal with the North Korean nuclear and missile threat.[27] Furthermore, President Moon's foreign policy advisor Moon Chung-in, during his remarks at an international conference in December 2019, suggested a scenario of South Korea negotiating with North Korea under "China's nuclear umbrella" in case the U.S. Forces in South Korea withdraw from South Korea without having North Korea denuclearized.[28]

Since the Moon administration viewed China as a great opportunity rather than a threat, South Korea under the Moon administration had become extremely cautious not to get on China's nerve. To appease China, South Korea announced the "Three No's" policy, promising political concessions of not strengthening its ties with the United States to Beijing. Foreign Minister Gang Gyeong-hwa stated that (1) South Korea would not additionally deploy THAAD in South Korea, (2) South Korea would not join the U.S.-led missile defense system and (3) the South Korea-U.S.-Japan trilateral cooperation would not be elevated into a military alliance.[29] Similarly, unlike Japan and other Western U.S. allies, South Korea did not join the U.S.-led sanctions on Huawei and ZTE in 2018. In the same sense, the Moon administration had been very hesitant to join the Free and Indo-Pacific strategy despite requests from the United States.[30]

Analysis: Comparing Japanese and South Korean Cases

Shared Threat Perceptions between South Korea and Japan in the late 2010s

It is true that threat perceptions between Seoul and Tokyo had been diverging until the early 2010s as Wong mentions.[31] However, as discussed in section IV, the North Korean threats had increased in 2016, and South Koreans had become wary over not only North Korea, but also China after China's economic retaliation following the THAAD deployment in 2017. Consequently, by the late 2010s, the two countries that have respectively faced economic coercion by China as well as witnessed North Korea's increasing provocations have come to have similar threat perceptions. The joint public opinion polls by Genron NPO and East Asia Institute in 2017 and 2018 both show that the two countries indeed have highly similar perceptions regarding their top two security threats. In 2017, 79.5% of Japanese and 83.4% of South Korean respondents replied they considered North Korea as a security threat, and 46.2% of Japanese and 50.3% of South Korean respondents replied that they viewed China as military threat. Also in 2018, 75.3% of Japanese and 67.4% of South Korean respondents believed that North Korea was military concern, while 45.7% of Japanese respondents and 47.2% of South Korean respondents regarded China as a security threat.[32]

Changes in the Ruling Parties in Seoul and Tokyo and Diverging China Policy

Nevertheless, as analyzed in sections III and IV, the collapse of the then-ruling parties and the shifts in ruling party by the highly dissatisfied public in Seoul and Tokyo led to the establishment of completely different governments that had contrasting views on China and thus diverging policies toward Beijing. The ruling DPJ's failures to realize the welfare policy it promised to carry out

and poor handling of the aftermath of the Tōhoku earthquake and tsunami disappointed the Japanese public. As a result, the Japanese electorate decided to replace DPJ with the LDP, led by Shinzō Abe. Prime Minister Abe, who had sought to "Take back Japan" and shared the public's skeptical views regarding China, carried out policies that aimed to largely strengthen the U.S.-Japan alliance and balance against China.

On the other hand, during the unprecedentedly short presidential election period, South Korean voters, who had been outraged by the political scandal surrounding President Park, opted for Moon Jae-in, the leader of the then-opposition party. However, President Moon and his administration had not necessarily shared the South Korean public's general opinions and sentiments regarding China and had kept their views throughout his term. Hence, regardless of deteriorating perceptions over China and dropping support for Beijing at the public level, South Korea under President Moon's leadership had sought to appease China and keep its distance from the United States. The <Table 1> below summarizes what this paper has discussed thus far.

<Table 1: Summary >

<table>
<tr><th></th><th>Japan</th><th>South Korea</th></tr>
<tr><td>Disputes with China</td><td>2010 territorial dispute and China's export control on rare earth</td><td>2016 THAAD dispute and China's economic retaliations</td></tr>
<tr><td>Country's Overall Threat perception</td><td colspan="2">Similarly High Threat Perceptions regarding China
(and North Korea)</td></tr>
<tr><td rowspan="2">Domestic Politics</td><td colspan="2">Public's immense dissatisfaction with the ruling party
(DPJ in Japan, Saenuri Party in South Korea) and demands to replace the ruling party with an opposition party</td></tr>
<tr><td>DPJ's failures in policy and crisis management
→Inauguration of the second Abe administration</td><td>Political scandals and impeachment of President Park
→ Inauguration of the Moon administration</td></tr>
<tr><td>New Leadership's Perception & Policy regarding China</td><td>China as a Threat
(= Public Perception)
→ Balancing against China (and strengthening ties with the United States)</td><td>China as an Opportunity
(≠Public Perception)
→ Appeasement toward China (and keeping a distance from the United States)</td></tr>
</table>

Conclusion

This paper discussed why South Korea and Japan had developed strikingly contrasting policies toward China in the late 2010s, during the Moon-Abe period. According to the existing literature, which suggests that shared threat perception leads to converging policies or cooperation, Japan and South Korea should have developed similar line of foreign policies in this period. By the late 2010s, after having faced China's economic coercion respectively and witnessing increased provocations from North Korea, the two countries came to develop largely converging threat perceptions toward both China and North Korea. Nevertheless, Seoul and Tokyo had pursued strikingly different policies toward China despite the similar threat perception.

To solve this puzzle, the paper examined changes in public opinions, domestic political developments, and emergence of new leadership and their foreign policies around and after China's economic retaliation in both South Korea and Japan. Through these comparative case studies, the paper found that domestic political factors lay at the center of divergence in government policies despite the shared overall threat perceptions between the two countries. More specifically, the leadership changes in both countries resulting from public discontent and outrage with the failures of the previous governments had played a crucial role in their diverging policies toward China.

This paper mainly relied on sources such as pre-existing public opinion surveys, newspaper articles or government documents. Nevertheless, they may have limitations in capturing the full complexity of domestic political processes. Future research may address this problem by including interviews or new data especially to capture the party dynamics or conducting additional case studies to gain more insights on how domestic politics or party affiliation shapes foreign policy choice.

In addition, this paper has focused on the rapid rise of public wariness and threat perception over China in South Korea and Japan after China's economic retaliation, as these retaliations made Chinese economic coercion and hostile intention visibly evident to the general public. However, further research examining issues of a potential Taiwan contingency scenario and the geostrategic importance of Jeju Island and Okinawa in such a contingency case would be valuable as they might be important factors that would affect Seoul and Tokyo's threat perceptions.

Despite these limitations, this paper underscores the importance of domestic political processes in determining foreign policy choices. Indeed, considering the intensifying U.S.-China strategic competition in the Indo-Pacific region, understanding such domestic political dynamics in the regional states would become more important than ever. This is because these domestic political

elements may affect whether regional partners will cooperate or diverge in their policy coordination and ultimately influence future international relations environment.

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Opportunistic Sub-regionalism in South Asia: The Case of BBIN and Implications for Vietnam's Sub-regional Cooperation

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Abstract: *Subregional cooperation is gaining prominence across Asia as states adopt flexible, pragmatic approaches to address institutional gaps left by broader regional organizations. This paper examines the Bangladesh–Bhutan–India–Nepal (BBIN) Initiative through the conceptual framework of opportunistic sub-regionalism and assesses its policy implications for Vietnam's subregional cooperation efforts, especially the Cambodia–Laos–Vietnam (CLV) Development Triangle. The study is guided by the question of how states leverage "windows of opportunity" created by regional institutional stagnation to establish alternative cooperation models, and what risks this model entails. Using a qualitative, interpretive methodology, the analysis draws on official documents, institutional reports, and comparative cases such as the Indonesia–Malaysia–Singapore Growth Triangle (SIJORI) and the Forum for the Progress and Integration of South America (PROSUR). The findings reveal that BBIN's effectiveness derives from its adaptable, informal structure and targeted sectoral focus — features notably absent in the more rigid and broadly scoped CLV framework. However, this very model also exposes it to risks of policy reversal. These insights provide a diagnostic lens for the CLV's institutional weaknesses. The paper contends that Vietnam, as the CLV's de facto leader, could enhance its subregional impact by embracing flexible institutionalization — a model that selectively institutionalizes cooperation while preserving adaptability and guards against the vulnerabilities of purely opportunistic cooperation. These conclusions contribute to broader discussions on regional governance and the prospects for pragmatic multilateralism in Asia.*

Keywords: Opportunistic sub-regionalism; windows of opportunity; BBIN; CLV Development Triangle; regional governance.

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Introduction

In recent decades, global and regional governance structures have grown increasingly fragmented, with a marked rise in small-scale, issue-specific cooperative arrangements. As traditional multilateral institutions grapple with po-

larization and operational inertia, states are increasingly turning to minilateral and subregional formats to advance practical collaboration. This shift is evident worldwide: Europe's Visegrad Group, South America's PROSUR, and Southeast Asia's SIJORI Growth Triangle each illustrate emerging forms of regionalism that combine functional focus with institutional flexibility.

South Asia offers a particularly revealing example of this trend. Following the effective paralysis of the South Asian Association for Regional Cooperation (SAARC), the BBIN Initiative emerged in 2015 as a pragmatic vehicle for advancing connectivity in transport, trade, and energy. This study applies the theoretical lens of opportunistic sub-regionalism to understand how BBIN capitalized on SAARC's stagnation. The core argument of this paper is that while the opportunistic model offers valuable agility in initiating cooperation, its inherent lack of institutional robustness makes it prone to policy reversal, thereby undermining long-term sustainability.

This analysis, therefore, does not seek to present BBIN as an unequivocal success story. Instead, it employs the BBIN case as a diagnostic tool to illuminate both the enabling strengths and, more importantly, the systemic vulnerabilities of a cooperation model born from "windows of opportunity." The insights generated from this diagnosis are then used to analyze the institutional challenges within the CLV Development Triangle, leading to targeted policy implications for its key stakeholder, Vietnam. The central research question is: How do states leverage "windows of opportunity" created by regional institutional stagnation, what risks does the opportunistic model entail, and how can a pivotal state like Vietnam forge a more sustainable and resilient form of sub-regional cooperation?

The paper proceeds in five sections. After the introduction, Section Two lays out the conceptual and methodological underpinnings. Section Three analyzes BBIN through the framework of opportunistic sub-regionalism. Section Four draws out policy implications for Vietnam's CLV framework, and Section Five concludes with broader reflections on adaptive regional governance.

Conceptual and Methodological Foundations

Literature Review

In Europe, the concept of opportunistic sub-regionalism has been proposed and applied in several studies focusing on the Visegrad Group (V4: the Czech Republic, Poland, Hungary, Slovakia). The article by Claudia Maria Bedea and Victor Osei Kwadwo (2020) is a prominent example. Their research analyzes how, in the last decade, the V4 has shifted from compliance with Western Eu-

ropean norms towards developing a form of flexible sub-regional cooperation, leveraging crises (e.g., the migration crisis) to assert their voice within the EU.[1]

Another significant work by Aleksandra Poznar and Vratislav Havlík (2025) analyzes the shifting attitudes of V4 countries regarding sub-regional cooperation. The study documents their evolution from viewing it as complementary to the EU to exhibiting signs of antagonism or anti-systemic tendencies.[2] This trajectory underscores the inherently opportunistic nature of sub-regional initiatives, revealing how they can be strategically adapted in response to broader political volatility and institutional constraints within the European framework.

Beyond Visegrad, numerous analyses of sub-regional cooperation in Europe have been conducted. For instance, Andrew Cottey's (2009) working paper surveys the emergence of new sub-regional groups in Central-Eastern Europe, the Balkans, and the former Soviet Union, exploring the drivers and mechanisms behind the proliferation of sub-regionalism in the post-Cold War era. The study identifies three distinct phases of development in European sub-regionalism and delineates four primary functions these groups serve, including bridge-building across political divides and facilitating institutional reform. Ultimately, it concludes that while these groups lack the power of major European institutions, they have nevertheless made substantive contributions to fostering regional security and cooperation.[3]

In the context of the SAARC being deadlocked due to persistent tensions between India and Pakistan, the BBIN Motor Vehicles Initiative was established as a mini-lateral cooperative effort to overcome the limitations of the larger regional mechanism. Numerous studies have emphasized that BBIN represents a form of pragmatic sub-regionalism, wherein member states focus on functional cooperation rather than cumbersome institutional frameworks.[4] Other scholars approach BBIN from the angle of a connectivity initiative, highlighting the role of transportation, energy, and trade infrastructure as tools for fostering regional integration.[5] Concurrently, some research characterizes it as functional cooperation, owing to its flexibility in implementing specific projects without requiring the participation of all SAARC members.[6]

However, to date, the theoretical lens of opportunistic sub-regionalism remains significantly underutilized in the context of Asian regionalism and has yet to be applied to conceptualize the BBIN initiative. This conceptual framework emphasizes the emergence of sub-regional cooperation as a means to leverage a "window of opportunity" during times of crisis or stagnation in the broader regional mechanism. In the case of BBIN, it constitutes a strategic response to the paralysis of SAARC, thereby creating space for practical and complementary cooperation. Furthermore, while the concept of opportunistic sub-regionalism has gained traction in European contexts, its application remains notably absent

in analyzing Vietnam's participation in sub-regional organizations. This constitutes a significant research gap, particularly given Vietnam's evolving strategic positioning in regional governance and its potential utilization of sub-regional platforms to navigate broader institutional constraints.

Compared to other cases, BBIN demonstrates that this phenomenon is not unique to South Asia. In South America, PROSUR emerged in 2019 as an alternative mechanism to the Union of South American Nations (UNASUR), which descended into political deadlock, clearly illustrating how states capitalize on institutional voids in regional governance to promote new forms of cooperation.[7] In Southeast Asia, the SIJORI Growth Triangle was formed in the late 1980s between Singapore, Johor (Malaysia), and Riau (Indonesia), aiming to enhance economic cooperation at a time when the Association of Southeast Asian Nations (ASEAN) lacked deep economic integration mechanisms. These examples substantiate that opportunistic sub-regional cooperation often emerges when larger regional institutions are paralyzed or functionally limited, thereby reinforcing the universal applicability of the opportunistic sub-regionalism concept.[8]

Theoretical Framework

Based on the definition proposed by Bedea and Kwadwo, opportunistic sub-regionalism refers to a form of sub-regional cooperation established to leverage "windows of opportunity" arising during periods of crisis or political-economic instability.[9] Its core objective is to attain a certain degree of political actorship to influence decision-making processes at the regional or supranational level, though it does not necessarily rely on a formal institutionalized foundation.

To situate this concept, it is useful to distinguish it from broader "regionalism," which aims for comprehensive community-building across a wide geographic area (e.g., SAARC or ASEAN), and "sub-regionalism," which typically describes functional cooperation among a smaller, contiguous group of states within that larger region.[10] It is also distinct from "minilateralism." While minilateralism is a functional logic focused purely on efficacy through small group size, "opportunistic sub-regionalism" is a specific strategic variant.[11] It is sub-regional in geographic scope and minilateral in form, but its defining characteristic is its genesis: it emerges tactically to seize a "window of opportunity" created by the stagnation or failure of a larger regional organization. Thus, while all opportunistic sub-regional initiatives are minilateral in form, not all minilateral groups are opportunistic.

This type of sub-regional cooperation is typically characterized by flexibility and informality, crisis-driven motivation, clearly defined action goals, and an adaptive capacity that operates without seeking to replace larger institutional

frameworks.[12] However, a comprehensive understanding requires recognizing that these defining features constitute a double-edged sword, presenting both enabling strengths and inherent vulnerabilities:

First, regarding flexibility and informality, opportunistic sub-regional cooperation typically evolves outside the framework of formal institutional mechanisms, advancing instead through adaptable and often informal agreements among participating states. This structure allows countries to engage proactively and responsively, unencumbered by the often cumbersome procedures that characterize larger regional organizations. While this enables rapid mobilization, it can also result in a lack of binding commitments and enforcement mechanisms, making agreements vulnerable to renegotiation or abandonment. A clear illustration of this approach can be found in the BBIN initiative. Although India has played a leading role, BBIN has deliberately avoided the type of deep institutionalization seen in SAARC, opting instead for a more pragmatic and flexible mode of collaboration, exemplified by the 2015 Motor Vehicles Agreement (MVA). That said, the implementation of the MVA has faced persistent challenges, largely stemming from the absence of a robust institutional foundation and differing policy priorities among member states.[13]

Second, the motivation for such cooperation is often crisis-driven. Opportunistic sub-regional initiatives tend to emerge in response to specific political or economic disruptions, which open critical "windows of opportunity" for collective action. Viewed through the lens of historical institutionalism, these windows represent "critical junctures" — moments when structural constraints loosen, and space opens for new institutional pathways to emerge.[14] In the case of BBIN, it was precisely the prolonged gridlock within SAARC, combined with pressing regional issues — such as energy shortages, inefficient transport networks, and trade barriers — that prompted the member countries to seek alternative, sub-regional avenues for functional cooperation.[15]

Third, a defining feature of this form of cooperation is its clear action orientation, with the central aim of establishing a meaningful degree of collective political agency. This enables member states to exert influence over regional or supranational decision-making processes. Through mechanisms like the MVA, the BBIN countries have managed to cultivate a notable level of agency in shaping regional collaboration, demonstrating that even informal arrangements can confer a measure of influence in addressing shared challenges.[16]

Finally, it is important to emphasize that opportunistic sub-regionalism does not seek to replace existing regional institutions but rather to adapt to and complement them. By offering more agile and targeted mechanisms, it fills functional gaps that larger organizations may overlook. BBIN exemplifies this adaptive logic: it operates alongside SAARC without aiming to supplant it, providing

a nimble platform for tackling specific sub-regional issues. Nevertheless, the initiative's effectiveness continues to be hampered by institutional underdevelopment and divergent national interests, which pose ongoing challenges to the full implementation of agreements such as the MVA.[17]

In summary, this study employs "opportunistic sub-regionalism" rather than the more generic "minilateralism" because it captures not just the form (a small group), but the crucial context and motive (a strategic, reactive move within a specific regional institutional vacuum) of initiatives like BBIN. This refined understanding, which acknowledges the model's inherent tensions between agility and instability, provides the essential diagnostic lens for the empirical and policy analysis that follows.

Research Methodology

This study employs a qualitative, interpretive, and theory-informed case analysis methodology. Its objective is not to conduct a symmetrical, variable-controlled comparison between the BBIN and CLV initiatives. Instead, the research design is structured as a two-stage analytical process that moves from theory application to diagnostic policy formulation.

The analysis relies substantially on secondary sources — spanning scholarly publications, institutional evaluations, policy documents, and official declarations from SAARC, BBIN, CLV, and other relevant bodies. A systematic review of these materials identifies consistent causal relationships and institutional behaviors reflecting core theoretical tenets of opportunistic sub-regionalism: organizational flexibility, informal governance, crisis-induced initiation, and adaptive learning.

Stage One: Theory Application and In-depth Case Diagnostics

In the first stage, the theoretical framework of opportunistic sub-regionalism is rigorously applied to the BBIN Initiative. This phase treats BBIN as a critical case study. The analysis involves process-tracing to reconstruct its genesis as a strategic pivot from a stalled SAARC, mapping its operational characteristics. Most critically, evaluating its consequences — including its pronounced vulnerabilities, such as institutional fragility and susceptibility to policy reversal. The aim here is to deconstruct the opportunistic model and derive a clear set of its defining features and systemic risks.

Stage Two: Diagnostic Transfer and Policy Formulation

The insights generated from the BBIN analysis are then used as a diag-

nostic framework to examine the institutional stagnation of the CLV Development Triangle. This is not a direct comparison of performance, but a theory-guided examination. The diagnostic framework helps to identify parallel institutional weaknesses in the CLV. It then generates targeted, theory-grounded policy implications for Vietnam on how to avoid the pitfalls of a purely opportunistic approach.

Contextualization through Selective Comparison

The examination is further contextualized through selective comparison with other regional mechanisms like the SIJORI Growth Triangle and PROSUR. These comparisons are not meant to be exhaustive. Instead, they illustrate the conceptual framework's broader relevance and its contextual variations, thereby clarifying BBIN's distinct position within the wider spectrum of sub-regional cooperation.

In summary, this methodology prioritizes diagnostic depth over symmetrical comparison. By synthesizing theoretical exploration with a structured regional case analysis, this research connects conceptual understanding with practical policy formulation. It seeks to provide a nuanced understanding of how Vietnam, learning from the strengths and pitfalls of models like BBIN, might employ "flexible institutionalization" to strengthen the resilience and outcomes of its subregional partnerships.

The BBIN Through the Lens of Opportunistic Sub-Regionalism

Genesis in Gridlock: A Strategic Pivot from a Stalled SAARC

The emergence of the BBIN Initiative in 2015 represents a textbook case of opportunistic sub-regionalism in action — a direct response to the chronic paralysis of the SAARC. Conceived as a cornerstone for regional integration, SAARC had repeatedly found itself hamstrung by persistent geopolitical friction, particularly between India and Pakistan. This institutional deadlock, evidenced by repeatedly postponed summits and an inability to ratify crucial agreements, created a palpable governance vacuum across South Asia.[18]

It was within this institutional void that a strategic window of opportunity opened. Rather than remain constrained by the impasse, four nations sharing urgent common interests in logistics connectivity and energy security — Bangladesh, Bhutan, India, and Nepal — moved deliberately to establish an alternative cooperative framework. This decisive shift illustrates the core logic of opportunism: they leveraged the decline of a larger regional institution to advance a more focused and actionable agenda. The fundamental distinction

between BBIN and SAARC lies in BBIN's "minilateral" character — a nimble, small-number framework that operates without requiring full regional consensus, thereby sidestepping political obstacles posed by disengaged states.[19] The signing of the BBIN MVA in 2015, aimed at enabling seamless cross-border movement of goods and vehicles, stands as clear proof of this model's practicality and responsive design.[20]

Therefore, BBIN's creation was far from a passive reaction; it constituted a proactive strategy to capitalize on SAARC's crisis. It marks a strategic reorientation in South Asian regional cooperation — away from reliance on comprehensive but fragile institutions and toward prioritizing sub-regional, flexible, and result-oriented mechanisms. These are the very features that define the essence of opportunistic sub-regionalism.

Placing BBIN within a broader comparative context with similar initiatives worldwide further clarifies how perfectly it embodies this theoretical framework. While other regional arrangements emerged in response to different forms of institutional inadequacy, their core drivers vary significantly. SIJORI was a market-driven initiative designed to complement a then economically nascent ASEAN, focusing on practical cross-border production chains.[21] PROSUR, founded in 2019, represented an ideological schism, created by conservative governments as a liberal-leaning alternative to a stagnating UNASUR.[22] In stark contrast, BBIN was neither an economic complement nor an ideological project but a pragmatic, functionalist workaround. It emerged specifically from the power vacuum left by SAARC's utter breakdown, which was itself a product of deep-seated bilateral rivalries between India and Pakistan.[23] Within this vacuum, the urgent need for tangible cooperation made BBIN's opportunistic move more decisive and its flexible, alternative role more critical than in other comparable cases.

Operational Characteristics of BBIN as Opportunistic Sub-regionalism

The BBIN initiative emerged from a specific set of circumstances. The inherently opportunistic nature of BBIN becomes clear when its causal drivers are examined. The paralysis of a larger regional institution served as the catalyst, creating a decision-making vacuum that the nations of the eastern subcontinent were quick to exploit. This very act of seizing the opportunity subsequently shaped BBIN's operational features. This section demonstrates these characteristics with practical evidence, analyzing the causes, consequences, and impacts, while drawing brief comparisons with other cases to highlight its distinct nature.

A defining trait of BBIN is its flexibility and informality. Since SAARC operates on a principle of comprehensive consensus, any regional initiative can be stalled by a single member's veto. The practical consequence has been that countries

within the region have sought cooperation outside that rigid framework, opting for a mechanism capable of rapid deployment, pilot testing, and adjustment. BBIN reflects this by prioritizing technical, sectoral agreements over building new formal institutions. A representative example is the BBIN MVA, which aims to harmonize cross-border transport regulations without transforming BBIN into a multi-layered organization like SAARC. This approach allows BBIN to conduct vehicle trials and facilitate coordination among specialized agencies more swiftly. The positive outcome is the tangible realization of time and cost savings in transport. Empirical estimates suggest that streamlined connectivity under the MVA could reduce overall transport costs by about 19 percent and travel time by nearly 40 percent along key corridors such as the Kolkata–Dhaka–Agartala route.[24] However, a significant corollary is the lack of a long-term monitoring or enforcement framework — a shortcoming noted in policy analysis and media reports.[25] Without such mechanisms, the sustainability of these cooperative efforts remains uncertain and vulnerable to policy divergence.

The initiative's impetus stems from immediate crises rather than a grand vision for regional integration. The direct cause behind BBIN's promotion was not a long-term integrative ideal, but pressing practical needs: logistical bottlenecks, high transport costs, and massive energy and infrastructure demands essential for growth. With SAARC unable to respond due to political deadlock, that void became an "opportunity window" for the eastern South Asian nations to focus on tangible issues like road connectivity, trade corridors, and energy sharing. For example, seamless transport connectivity between Bangladesh and India under the BBIN MVA is projected to increase national income by about 17 percent in Bangladesh and 8 percent in India.[26] Also, Bhutan and Nepal face surging electricity demand, and their hydropower potential could supply neighboring countries under better cross-border trading regimes.[27] This crisis-driven motivation explains why sector-specific initiatives like the MVA are vigorously promoted, as they offer clear targets, short action timelines, and direct economic benefits.

When BBIN orchestrates functional initiatives, it generates not only immediate economic gains but also enhances the collective political agency of its member states. In other words, by jointly coordinating agreements on transport or energy programs, the BBIN group bolsters its own independent decision-making capacity — a form of agency that does not require a formal, region-wide multilateral institution. The practical effect is that members like Bangladesh and Nepal gain an additional channel to promote their export/import interests; India acquires a pragmatic regional instrument to extend its influence; and Bhutan can access electricity markets and transport links without waiting for the stalled SAARC process.[28] These practical outcomes are reflected in case study analyses and implementation reviews of the MVA.

A crucial factor enabling BBIN's "opportunistic" nature is the members' clear

understanding that it is intended to supplement, not replace, SAARC. Consequently, BBIN concentrates on specific sectors — transport, energy, and logistics — where short-term benefits are measurable.[29] A nuanced comparison reveals its distinct position. PROSUR in South America was established as an explicit political alternative to UNASUR with broader political ambitions. In contrast, the SIJORI Growth Triangle in Southeast Asia is an example of an economic-focused arrangement that complements ASEAN by concentrating on comparative advantages in production, investment, and labour. BBIN occupies a middle ground: it is a supplementary model that still pursues political objective such as enhanced actorship, yet it lacks the deep institutionalization of PROSUR or the public-private regional structure of SIJORI.

From the causal sequences outlined above, two significant practical consequences emerge. First, domestic barriers like legal discrepancies (in documents, insurance, and emission standards), varying infrastructure capacity (road quality and checkpoints), and uneven security and trust concerns persist. These problems constrain BBIN's ability to transition from agreement to action.[30] As a result, trial runs have been delayed and the MVA's real-world scope has been limited. Analyses suggest that for the MVA to genuinely reduce trade costs, regulatory harmonization, corridor investment, and a clear inter-governmental monitoring mechanism are essential.[31] Second, BBIN has demonstrated its short-term pragmatic value. Trial runs on certain routes have successfully shortened transit times, though Bhutan's limited participation in these trials highlights the uneven nature of national commitment within the group.[32]

In conclusion, viewed through a causal lens, BBIN shows how the paralysis of SAARC created an institutional void. This void opened a window of opportunity that enabled the emergence of a flexible cooperation model, seen in the MVA and other sectoral projects. These initiatives brought real outcomes, such as lower transport costs, smoother cross-border movement, and a stronger sense of subregional actorship. However, BBIN also faces clear limits. The lack of enforcement mechanisms, differing domestic policies, and uneven commitment have weakened its long-term sustainability. Without moving from "experimental agreements" to a form of "minimal institutionalization," such as multilateral monitoring or an intergovernmental framework, the initiative may struggle to endure. The relevance of these lessons extends beyond the BBIN context. They provide a valuable reference for other regional institutions facing similar dilemmas. Their core insight is a practical model for balancing flexibility and institutionalization to ensure the long-term sustainability of cooperation.

Challenges, Prospects, and Institutional Implications of the BBIN Initiative

The operation of BBIN as an opportunistic subregional initiative has yielded significant initial progress, yet it now confronts profound challenges and strate-

gic disengagement warnings from India. This situation can be explained through a causal sequence: when the central power reevaluates cost-benefit calculations, it retains the authority to reverse or suspend commitments, revealing the significant institutional limitations of the opportunistic model.

The India-Bangladesh Friendship Pipeline represents a symbol of cross-border energy cooperation between India and Bangladesh. The project commenced with a capacity of up to one million tons of diesel annually and was inaugurated in March 2023, connecting Siliguri (India) to Parbatipur (Bangladesh).[33] However, by September 2024, India suspended pipeline expansion plans due to political instability in Bangladesh and political-security concerns.[34] This represents a clear signal of strategic retreat: national interests can lead to the suspension of halfway commitments when political conditions across borders become unstable. Furthermore, in April 2025, India withdrew the transshipment facility that had allowed Bangladeshi goods to transit through Indian customs stations to reach third-country ports or airports.[35] This abrupt policy change caused major disruptions to Bangladesh's trade operations and weakened the competitiveness of its export-oriented sectors. The ready-made garment industry, which accounts for almost 90 percent of the country's total exports as of 2023, was particularly affected.[36] This withdrawal immediately disrupted key intra-regional transport routes — particularly those linking Bangladesh, Nepal, and Bhutan — resulting in broken logistics chains, higher transportation costs, and a decline in BBIN's overall operational effectiveness.

These events should not be viewed as exceptions but rather as evidence of the inherent limitations of opportunistic subregional models: the lack of strong institutional constraints enables the major member to withdraw when costs outweigh benefits. This represents the precise warning of "opportunistic subregionalism" theory - the possibility of commitment reversal constitutes a systemic risk for this cooperation type. In other words, the BBIN case illustrates a central paradox: its "opportunistic" nature was instrumental for rapid initiation, yet simultaneously undermines its capacity for long-term efficacy and resilience.

Looking toward prospects, BBIN possesses adaptive and expansion potential. In recent meetings, member states have discussed expanding cooperation into renewable energy, digital infrastructure, and green transportation - areas with high spillover effects that could provide new "opportunity windows."[37] If Bhutan and Nepal rejoin the MVA or enhance technical coordination, the BBIN model could transition to an "adaptive opportunism" phase - maintaining flexibility while supplementing soft monitoring structures and light binding agreements among members.[38] In brief comparison, India's withdrawal pattern indicates that BBIN faces higher risks compared to SIJORI, which relies on private investment and adaptable soft structures, or PROSUR, where members have strong political motives to maintain commitments. BBIN must learn to balance flexibility with

institutional bindingness to maintain stability.

In conclusion, India's suspension of pipeline expansion and withdrawal from the transshipment mechanism are not merely related but constitute important evidence of the deep limitations of opportunistic subregional models: when strong members reprioritize, cooperation can be disrupted. To maintain long-term value, BBIN needs to progress toward establishing soft monitoring mechanisms and selective institutionalization while preserving its original flexible nature.

Policy Implications for Vietnam: Fostering Adaptive Agility in Sub-Regional Cooperation

Insights from BBIN and Vietnam's Subregional Cooperation: A Case Study of the CLV Development Triangle

A critical reassessment of the CLV Development Triangle must begin by acknowledging the distribution of agency and commitment among its members. Empirical evidence substantiates Vietnam's pivotal role within this framework. As of 2024, according to data from Vietnam's Ministry of Planning and Investment, the country is the largest investor in the Development Triangle, with approximately 110 projects and a total registered capital of USD 3.76 billion, accounting for over 44 percent of the zone's total investment capital.[39] A Yusof Ishak Institute (ISEAS) report also affirms this position, identifying Vietnam as the "de facto leader" of the CLV Development Triangle Area, a status attributed to its dominant economic scale and significant influence in coordinating sub-regional cooperation.[40] On institutional and policy fronts, Vietnam has consistently proactively proposed "breakthrough solutions" in infrastructure, human resources, and institutional reform during high-level CLV meetings, thereby cementing its agenda-setting role.[41] Therefore, while the CLV as a sub-regional institution remains the primary unit of analysis, focusing on the policy implications on Vietnam is a strategic and pragmatic choice, targeting the actor with the greatest demonstrated agency and responsibility to enact meaningful reform.

The BBIN experience offers a critical policy lesson for Vietnam: the country must evolve beyond a reactive form of opportunistic sub-regionalism, which remains vulnerable to fragmentation whenever short-term national interests shift. The strategic imperative is to cultivate a more proactive stance — a form of "flexible institutionalization." This approach moves beyond merely seizing transient chances; it involves systematically institutionalizing collaborative frameworks. The ultimate objective is to establish cooperative mechanisms that are both agile enough to adapt to changing circumstances and robust enough to withstand the inevitable ebb and flow of member states' priorities. However, when this lens is applied to Vietnam's existing cooperative frameworks, such as the Greater Mekong Subregion (GMS) and particularly the CLV Development

Triangle, a significant gap emerges. These mechanisms have often proven ineffective at generating and capitalizing on dynamic opportunities, instead exhibiting institutional rigidity that leaves them struggling to adapt to geo-economic and geopolitical shifts. This stagnation not only squanders potential but also raises a pressing question about Vietnam's capacity to reposition its role within the evolving architecture of subregional cooperation.

While not an ideal model to emulate, opportunistic sub-regionalism nonetheless provides a useful theoretical framework for diagnosing weaknesses in Vietnam's existing cooperative mechanisms. The CLV Development Triangle serves as a prime case study. Officially launched in 1999, the CLV was conceived with a strategic vision to transform the border area separating the three nations into a zone of peace, stability, and shared development. Its initial objectives centered on three main pillars: infrastructure connectivity (transport, energy), economic development (trade, tourism), and poverty reduction.[42] In essence, the post-Cold War period served as a "critical juncture," creating a "window of opportunity" for the formation of the CLV, through which member states sought to narrow the development gap and strengthen neighborly relations within a new multilateral framework. Yet, after more than two decades, the cooperative drive within this framework has not lived up to its initial promise. This unfulfilled potential is starkly visible in the persistent high poverty rates and lagging socio-economic development in the very border areas it was meant to transform, where core objectives such as infrastructure connectivity remain chronically behind schedule.[43] The mechanism's ineffectiveness is further compounded by structural weaknesses: chronic underfunding, conflicting national policies on trade and investment, sclerotic border procedures, and a permissive environment for cross-border crime and corruption that stifles legitimate economic activity.[44]

The stagnation of the CLV can be traced to a root cause: an institutional model that is both structurally rigid and incapable of generating a decisive "opportunistic catalyst." This stands in stark contrast to BBIN, which was designed to be agile and swiftly capitalized on a clear window of opportunity — SAARC's ineffectiveness — by focusing on a single, actionable agreement (the MVA). The CLV, however, became mired in a broad, unfocused agenda from the outset. Its objectives spanned multiple fronts, including economic development, poverty reduction, social protection, human resource investment, technological advancement, inclusive growth, and improved wealth distribution mechanisms.[45] Its large-scale infrastructure projects frequently face protracted funding challenges and complex technical coordination, causing tangible benefits for citizens and businesses to materialize too slowly. This implementation gap fuels a gradual erosion of initial political commitment, a process driven by pragmatic national interest calculations. Cambodia's temporary withdrawal from key CLV activities — announced on September 20, 2024 — stands as a clear testament to this erosion, demonstrating how the mechanism's rigidity fails to maintain co-

hesion when member states' interests diverge.[46] In other words, Cambodia acted "opportunistically" in a pragmatic sense: it diverted political and administrative resources away from a mechanism yielding diminishing returns, prioritizing partners and frameworks offering higher strategic and economic value.

Beyond these economic calculations, Cambodia's recent strategic recalibration has also been shaped by its deepening geopolitical dependence. China has emerged as the overwhelmingly dominant source of foreign investment. Between 2018 and 2023, Cambodia received USD 48.4 billion in FDI, and approximately 45.6 percent of that amount originated from China.[47] This asymmetric economic relationship has, in turn, produced significant political and security spillovers. Phnom Penh has increasingly aligned itself with Beijing on contentious regional issues, softening ASEAN statements on the South China Sea (East Sea in Vietnamese usage) and thereby eroding internal trust within the CLV.[48] Beyond diplomatic signals, this alignment extends into security cooperation, exemplified by developments at the Ream Naval Base, highlighting Cambodia's willingness to translate economic dependence into strategic acquiescence — a clear case of military bandwagoning.[49] This dynamic amplifies Vietnam's concerns over maritime sovereignty and raises broader questions about regional stability. The CLV, however, lacks institutional mechanisms strong enough to absorb or mitigate such geopolitical asymmetries, exposing a deeper layer of structural fragility.

In addition, Cambodia's susceptibility to external influence is closely tied to long-standing governance and corruption problems. Transparency International ranks the country near the bottom of global indices — 158th out of 180 in 2023 — underscoring persistent weaknesses in oversight and public accountability.[50] Studies also highlight how opaque procurement processes and the concentration of political authority create room for policy capture, especially in sectors involving large financial flows.[51] These governance gaps make Cambodia more exposed to asymmetric dependence on China, particularly in infrastructure and investment projects where non-transparent bidding and financing have strengthened Beijing's leverage.

Moreover, governance and security challenges inside Cambodia further compound this fragility. Recent investigations reveal that dozens of transnational scam centres continue to operate within Cambodian territory. Many of these facilities rely on trafficked or coerced workers who are forced into online fraud operations, especially "pig-butchering" schemes, with documented abuses ranging from physical confinement to electric shocks and beatings.[52] These criminal networks heighten nationalist tensions and mutual suspicion across borders, making stable subregional cooperation considerably more difficult. Finally, Cambodia's geopolitical risk is far from hypothetical. Recent military tensions — most notably the 2025 clash with Thailand — have undermined investor con-

fidence and exposed Phnom Penh's vulnerability to external shocks.

Taken together, these developments suggest that Cambodia's disengagement from the CLV is not merely a matter of shifting economic incentives but a manifestation of deeper structural, institutional, and geopolitical vulnerabilities. This move exposes a critical weakness of the CLV: it lacks a flexible mechanism to maintain cohesion when member interests diverge and fails to generate a sufficient flow of new, urgent economic-commercial "opportunities" to retain members in an increasingly competitive geopolitical environment. This diagnostic insight provides the essential foundation for exploring potential scenarios of Cambodia's re-engagement in the next section.

Scenarios for Cambodia's Re-engagement with the CLV Development Triangle

Currently, Cambodia faces multiple "crisis-like" scenarios: slowing economic growth, persistently high logistics costs, stalled flagship infrastructural projects (e.g., the Funan Techo Canal), intensifying border frictions with Thailand, and a deteriorating security landscape marked by transnational crime and scam operations. Given these pressing challenges, Cambodia's return to the CLV Development Triangle appears not only feasible but increasingly urgent, for several key reasons:

First, from an economic perspective, Cambodia's real GDP growth for 2024 is projected at around 5.5 percent[53] — a notable slowdown compared to its average growth rate of approximately 7.6 percent between 1995 and 2019.[54] At the same time, the country faces significantly higher logistics costs than its neighbors. According to a 2022 World Bank study, Cambodia's total logistics costs reached roughly $6.7 billion, accounting for about 26.43 percent of its GDP. This includes inventory carrying costs (around 13.07 percent), transportation and warehousing expenses (approximately 10.95 percent), and administrative costs (about 2.40 percent).[55] In contrast, logistics costs represent only about 17 percent of GDP in Vietnam[56] and 13.7 percent in Thailand.[57] These high costs undermine Cambodia's competitiveness in trade and manufacturing, creating a clear incentive for the country to leverage regional mechanisms such as the CLV to expand market access, diversify risks, and improve efficiency.

Second, from an infrastructure and logistics standpoint, the Funan Techo Canal is a planned US$1.7 billion project, equivalent to nearly four percent of Cambodia's annual GDP, designed to link Phnom Penh with the Gulf of Thailand. Yet the project has faced repeated delays due to funding uncertainties, environmental reviews, and unresolved feasibility concerns.[58] The stagnation of such a strategically important project highlights Cambodia's institutional and resource gaps as it seeks to establish itself as a logistics hub or integrate more deeply into

global value chains. By reengaging with the CLV, Cambodia could collaborate with Vietnam and Laos in co-designing or sharing transit corridors, potentially improving route efficiency, lowering transport costs, and strengthening regional connectivity.

Third, geopolitical instability — particularly the renewed border tensions with Thailand — intensifies the strategic imperative for Cambodia. In 2025, serious skirmishes broke out between Thai and Cambodian forces. Although an initial ceasefire was brokered through the Kuala Lumpur accord, Thai Prime Minister Anutin Charnvirakul unilaterally suspended the agreement in November 2025 after a landmine explosion wounded Thai soldiers, declaring that "peace is over."[59] This breakdown not only underscores Phnom Penh's acute vulnerability to geopolitical shocks but also exposes the fragility of bilateral conflict-resolution mechanisms. In this context, revitalizing Cambodia's role within the CLV offers a strategic pathway to anchor its foreign and security policy in a more institutionalized, multilateral setting — one that could help mitigate risks stemming from volatile bilateral relations and foster a more stable regional posture.

Fourth, regional crime and security risks amplify the strategic case for Cambodia's return to CLV. Cambodia has cracked down on cyber scam centres, arresting more than 1,000 suspects in a few days across at least five provinces.[60] Human rights groups report there are at least 53 scam compounds in Cambodia where victims — including children — are trafficked, abused, and forced into online fraud.[61] According to UNODC, these illicit networks operate within or around special economic zones (e.g., in Sihanoukville), raising serious governance and security concerns.[62] A renewed CLV mechanism could institutionalize joint law enforcement, intelligence sharing, and cross-border crime prevention, bolstering Cambodia's institutional resilience and regional credibility.

Fifth, from the historical and social dimension, Cambodia, Vietnam, and Laos share long-term geographic proximity, cross-border population movements, trade, and strong socio-cultural interaction. Over the decades, Cambodia's exports (especially garments) and its imports have heavily relied on Vietnamese Mekong Delta port systems — notably the Saigon port complex.[63] This historical link serves as a foundation of trust, language familiarity, and labor mobility. Rejoining the CLV would allow Cambodia to leverage this "historical corridor" to rapidly align capacity and logistics, shortening the time to realize economic benefits.

From a causal perspective, Cambodia's trade and manufacturing growth is constrained by high logistics costs, infrastructure gaps, and reliance on single transit routes. These structural limitations reduce its economic policy flexibility. At the same time, however, Cambodia's historical social networks and geographical proximity enable a shift from passive participation to proactive regional

engagement. This potential is amplified by growing geopolitical tensions and cross-border security risks, which increase the need for a stable, institutionalized cooperation framework. The possibility of Cambodia re-engaging with the CLV Development Triangle, thus, highlights the "opportunistic" character of subregional cooperation. Such mechanisms endure only when they align with changing national interests and emergent strategic openings.

Cambodia's potential return should therefore be seen not merely as a revival of previous engagements, but as a structural necessity for stabilizing its development path — and equally, as a strategic "window of opportunity" for Vietnam. For Vietnam, this represents more than a diplomatic opportunity. It is a chance to transform the CLV from a peripheral initiative into a resilient, institutionalized platform. By steering the agenda, optimizing projects, and embedding cooperation in sustainable frameworks, Vietnam can consolidate its central role in shaping the future of subregional cooperation.

Lessons from successful subregional mechanisms show that the key lies not in a high or low degree of institutionalization, but in designing frameworks suited to local conditions. The Mekong River Commission succeeded by establishing a robust institutional structure to tackle complex technical issues of water resource management, while the SIJORI Growth Triangle thrived on a flexible mechanism focused purely on economic gains.[64] For the CLV, the lesson for Vietnam is not to choose between rigid institutionalization and entirely non-binding cooperation, but to build a model of "flexible institutionalization" — creating a framework solid enough to ensure commitment, yet sufficiently pliable to adapt to changes in national priorities.

In a potential re-engagement scenario, Vietnam should adopt an opportunity-creating mindset: instead of viewing this as the return of an unreliable partner, it should be seen as a chance to redesign the CLV into a next-generation cooperative mechanism. Here, "flexible institutionalization" is channeled into concrete, practical projects that deliver tangible benefits for all three nations, creating a more sustainable foundation for long-term collaboration. To convert this challenge into an opportunity, Vietnam needs a strategy for rebuilding CLV cooperation based on three core pillars:

First, shift the focus from formalistic cooperation to project-based substance. Rather than maintaining broad, scattered agendas, the CLV should concentrate on three-four areas with clear, quantifiable potential: developing cross-border logistics chains (connecting the 13 border provinces, home to 22 percent of the three nations' combined population), cooperating on renewable energy (with a total potential capacity of 5,000 MW from hydropower and solar power), and managing Mekong water resources, which directly impact the livelihoods of over 65 million people.[65] This approach mirrors ASEAN's project-based model.

A clear illustration of this principle in action is the ASEAN Agreement on Disaster Management and Emergency Response. Operationalized through the ASEAN Coordinating Centre for Humanitarian Assistance and backed by the Japan-ASEAN Integration Fund, this framework has facilitated coordinated relief efforts across more than 5,000 disasters from 2012 to 2023, protecting a population of over 230 million and preventing estimated economic losses surpassing US$19.9 billion.[66] The same focus on concrete results is evident in the economic sphere through the ASEAN SME Action Plan 2016–2025. This initiative establishes clear, quantitative benchmarks to elevate the contribution of SMEs to the region's GDP, building upon their current average share of 44.8 percent. Nations such as Indonesia, Malaysia, Singapore, and Thailand have adopted the ambitious target of raising this figure to 50 percent by 2025.[67] These cases underscore a powerful lesson: regional cooperation yields the most substantive dividends when it is strategically focused and driven by measurable goals.

Second, establish a sustainable and transparent financing mechanism. The experience of the ASEAN Development Fund (ADF) and the EU's Interreg Fund demonstrates that stable financial architecture is crucial for subregional cooperation to avoid dependence on bilateral aid. For instance, the ADF's 5th Work Program demonstrated its active regional role by financing the ASEAN Project Development Training, which directly benefitted 69 Thai and 37 Vietnamese officials, bringing the total number of participants across member states to 664 in 2022.[68] Building on this, the CLV could establish a CLV Subregional Development Fund, based on flexible contribution shares reflecting economic capacity (e.g., Vietnam 40 percent, Laos 30 percent, Cambodia 30 percent) and a multilateral oversight mechanism involving development partners such as Japan or the Asian Development Bank.

Third, institute an independent monitoring and coordination body. The current rotating chairmanship model leads to a lack of continuity in implementing commitments. The lesson from the ASEAN Economic Community (AEC) is clear: its permanent Secretariat in Jakarta has been instrumental in monitoring the implementation of the AEC Blueprint 2025. The Mid-Term Review Report of the AEC Blueprint 2025 reveals that by 2021, over half (54 percent) of the Blueprint's strategic measures had been fully implemented, with an additional 34 percent underway.[69] This progress underscores the ASEAN Secretariat's critical function in providing sustained oversight and ensuring policy continuity among member states. A similarly structured, dedicated CLV Secretariat would provide the necessary institutional memory and technical oversight that the rotating chairmanship lacks, thereby strengthening the mechanism's long-term accountability and implementation capacity.

In summary, to avoid falling into the trap of a shallow, short-term "opportunistic sub-regionalism," Vietnam must champion a reformed CLV model built upon three reinforcing pillars that directly address its current weaknesses: (1) A focus on project-based substance to deliver tangible results and maintain political momentum; (2) The creation of a sustainable and transparent financing mechanism to ensure resource stability and independence; and (3) The establishment of an independent monitoring body to guarantee accountability and continuity. By embedding these pillars within a framework of fairly aligned interests, Vietnam can transform subregional cooperation from a tactical instrument into a genuine engine of sustainable development.

Figure 1: A Strategic Framework for Reinvigorating the CLV Development Triangle

Guiding Principle	**Concrete Proposal**	**Expected Outcome**
Substance Over Form	Prioritize resources for a few high-impact, quantifiable areas: cross-border logistics, renewable energy, and Mekong water resource management.	Generate tangible, measurable benefits for citizens and businesses, thereby reinforcing political commitment from all three nations.
Sustainable Financing	Establish a CLV Subregional Development Fund with contribution tiers based on economic capacity and overseen by a multi-stakeholder board.	Move away from ad-hoc bilateral aid; create a predictable and transparent funding pool for priority projects.
Independent Oversight	Create a dedicated, permanent Secretariat vested with clear authority, mandated to provide regular progress reports against defined benchmarks.	Ensure continuity, strengthen accountability, and improve the overall implementation rate of agreed initiatives.

Source: Author's synthesis and proposed framework.

Conclusion

This study confirms that the BBIN Initiative exemplifies the core dynamics of opportunistic sub-regionalism: it emerged from institutional deadlock, seized a critical juncture, and transformed flexibility into tangible cooperation. Yet, the same opportunistic traits that facilitate rapid mobilization may also undermine long-term sustainability when national priorities shift. By contrast, the CLV Development Triangle — Vietnam's key subregional mechanism — has struggled with stagnation, burdened by excessive formalism, ambiguous objectives, and insufficient adaptive capacity.

Regarding the scope of this study's policy analysis, while the CLV framework comprises three nations, this paper's diagnostic focus has been deliberately placed on Vietnam's leadership role and Cambodia's recent strategic recalibration. This selective emphasis is justified on both empirical and analytical grounds. Empirically, Vietnam's status as the de facto leader and largest investor in the CLV makes it the pivotal actor with the greatest agency to drive institutional reform. Analytically, Cambodia's temporary withdrawal from key CLV activities in 2024 constitutes a critical juncture and a clear symptom of the model's institutional fragility, offering the most urgent and revealing case for diagnosing systemic risks. Laos, by contrast, has maintained a consistent policy of alignment and consensus with Vietnam. This is evidenced by significant Vietnamese investment in its CLV provinces, totaling 65 projects worth over USD 2 billion as of early 2024.[70] Laos further reinforced this position by emphasizing stable, long-term cooperation at the 13th Senior Officials Meeting in Attapeu.[71] Consequently, the lessons drawn from the Vietnam-Cambodia dynamic are paramount for understanding the immediate challenges and recalibration needs of the CLV. Should Laos' strategic alignment evolve in the future, the diagnostic framework of opportunistic and pragmatic sub-regionalism applied here remains a valuable tool for analysis.

The study's principal conclusion is that Vietnam should adopt a model of "flexible institutionalization" — one grounded in focused, project-driven collaboration, sustainable financing, and independent oversight. Such an approach balances institutional commitment with operational agility, helping translate temporary opportunities into lasting collaborative frameworks. Beyond its regional significance, this research advances theoretical understanding by extending opportunistic sub-regionalism beyond European contexts to Asia, illustrating how smaller cooperative frameworks can serve as practical tools for states navigating complex geopolitical landscapes.

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Evergrande and Beyond: Stakeholders, Conflicts, and China's Economic Transformation

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Abstract: *This case explores the irrational behaviors and financial risks within China's real estate sector, particularly focusing on the Evergrande Group debt default and bankruptcy. The crisis, triggered by the introduction of the "three red lines" policy, reveals the deep-rooted problems in the real estate market, including over-leveraging, speculative investments, and misaligned incentives among stakeholders. The case examines the roles of five key actors: the central government, local governments, real estate companies, financial institutions, and consumers. While the central government aimed to stabilize the market with the "three red lines" policy, the local governments that were heavily reliant on land sales for revenue instead encouraged rapid expansion and borrowing. Real estate companies, like Evergrande, took on excessive debt and financial institutions not only facilitated but worsened this by offering large loans. Consumers, motivated by rising property prices, continued to invest in real estate, fueling the market bubble. Compared with the main bank system in Japan, this paper will analyze the similarities and differences between the two countries. By analyzing the interplay between these stakeholders, the case highlights how their behaviors contributed to the creation of a real estate bubble and the systemic risks that eventually led to Evergrande's financial collapse.*

Keywords: Real Estate Financialization; Policy Regulation; Systemic Risk; Stakeholder Incentives.

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Introduction

Amid the rapid development of China's real estate market, the debt crisis of Evergrande Group has unveiled deep-rooted risks within the industry. This crisis, a symptom of accumulated vulnerabilities in the property sector, also reflects systemic issues driven by competing interests among various stakeholders. This case study mainly focuses on and aims to determine the causes and impacts of Evergrande's debt crisis by exploring the unique land finance model underpinning China's real estate market. It examines the roles of key

stakeholders—including the central government, local governments, developers, financial institutions, and consumers—in amplifying and mitigating the real estate bubble. By exploring the interactions between the land finance model, central government policies, and market actors, this study strives to recommend future measures by the main characters and provide insights into China's economic transition.

The Evergrande Debacle: How China's Property Giant Fell

In August 2020, the People's Bank of China and the Ministry of Housing and Urban-Rural Development convened a critical meeting with representatives from 12 major real estate developers, including Evergrande, Country Garden, and Vanke. The objective was to introduce new regulations to improve financial discipline within the real estate sector. These regulations, known as the "three red lines," required companies to meet specific financial thresholds by January 1, 2021. The criteria were: an asset-liability ratio (excluding advance payments) of no more than 70%; a net debt ratio under 100%; and a cash-to-short-term debt ratio of at least 1.0. Based on their compliance, firms were classified into four categories—red, orange, yellow, and green—with varying degrees of restrictions on new debt issuance.[1]

"Three Red Lines" Regulatory Rules		
Category	Number of Red Lines Triggered	Regulatory Rule
Red Tier	3	Interest-bearing debt cannot increase
Orange Tier	2	Annual growth rate of interest-bearing debt shall not exceed 5%
Yellow Tier	1	Annual growth rate of interest-bearing debt may be relaxed up to 10%
Green Tier	0	Annual growth rate of interest-bearing debt may be relaxed up to 15%

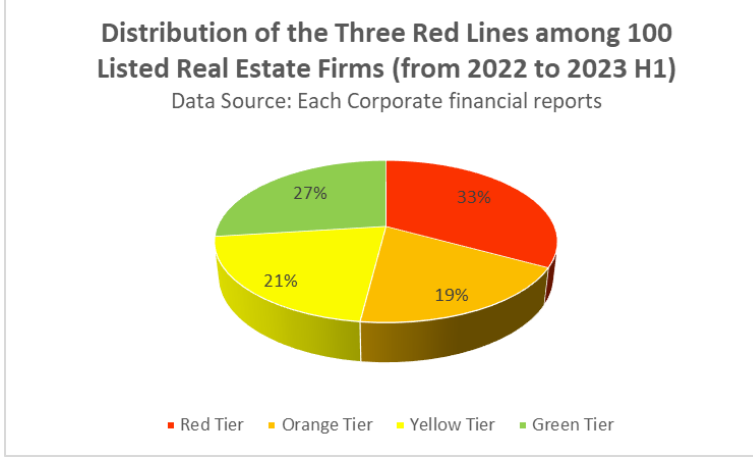
Table 1: "Three Red Lines" Regulatory rules

Evergrande, due to its high debt levels, failed to meet all three red lines, placing it in the "red tier" category. This classification meant that Evergrande was prohibited from acquiring any new debt, severely restricting its ability to finance its operations (see Table 1). The company responded by publicly announcing a plan to significantly reduce its liabilities, aiming to lower its interest-bearing debt to below 590 billion yuan by June 30, 2021, to below 450 billion yuan by June 30, 2022, and to below 350 billion yuan by June 30, 2023.[2] Despite these ambitious targets, the company's liquidity problems worsened, signaling deeper financial instability.

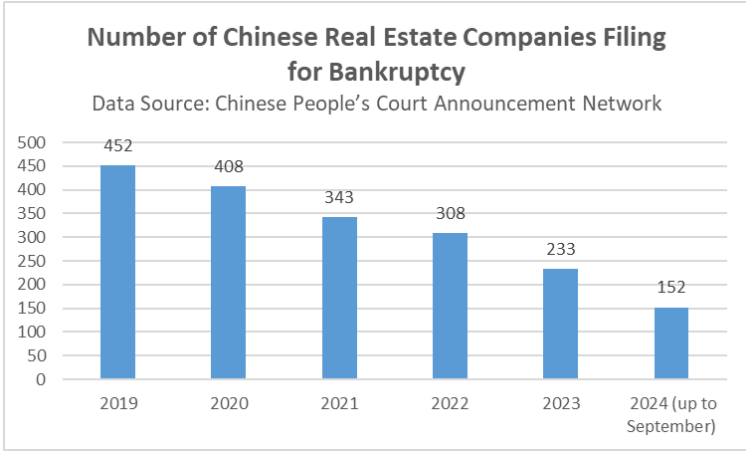
In late September 2020, a report claimed that Evergrande was seeking support for a major asset restructuring initiative.[3] Although the company quickly

denied these reports, it became clear that Evergrande was struggling to manage its debt. By mid-2021, while Evergrande had managed to reduce its debt below the 590-billion-yuan target, further setbacks occurred. In June 2021, the company failed to make a payment of 513.7 million yuan, which led to the freezing of its assets by creditors, including a 1.32 billion yuan asset freeze by Guangfa Bank. Over the following months, Evergrande's situation worsened, with defaults on wealth management products and commercial paper becoming increasingly frequent. By the second half of 2021, the company faced a mounting debt crisis as $6.69 billion worth of debt matured. Despite narrowly avoiding default on two occasions, the company eventually announced on December 3, 2021, that it would be unable to meet its debt obligations, marking the official onset of its financial collapse.

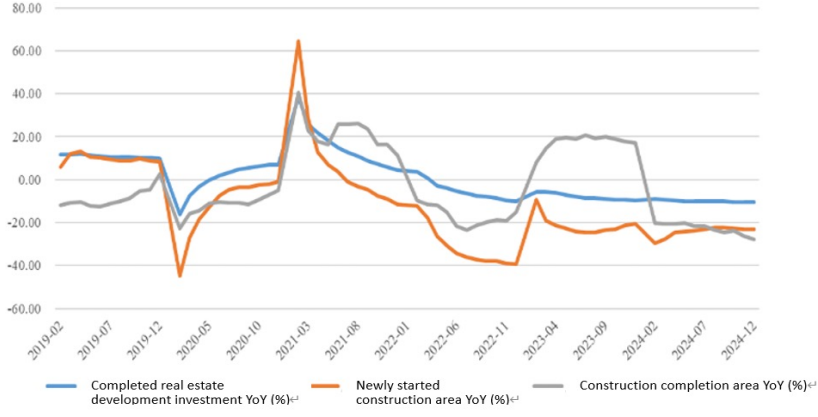
The collapse of Evergrande sent shockwaves throughout the real estate sector in China. In the wake of the "three red lines" policy, numerous other developers also began experiencing financial distress (see Graph 1) . By 2020, over 14,000 real estate firms were reported to have negative credit information, and by the end of 2022, nearly 1,000 real estate companies had filed for bankruptcy (see Graph 2).[4] The combination of the policy and broader economic impacts caused by the COVID-19 pandemic exacerbated an already-cooling housing market, with prices plummeting and many ongoing construction projects halted due to cash flow problems (see Graph 3). This led to widespread delays in home deliveries, causing many consumers to be unable to receive their orders on time, thus increasing social instability.



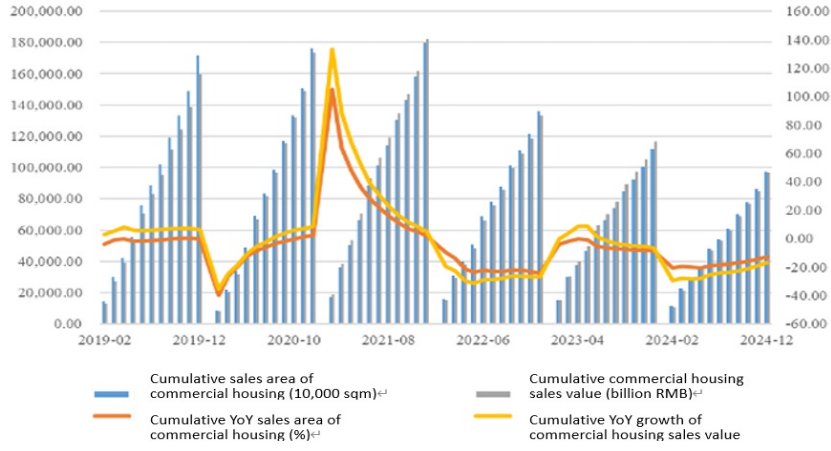
Graph 1: Distribution of the Three Red Lines among 100 Listed Real Estate Firms[5]



Graph 2: Number of Chinese Real Estate Companies Filing for Bankruptcy[6]



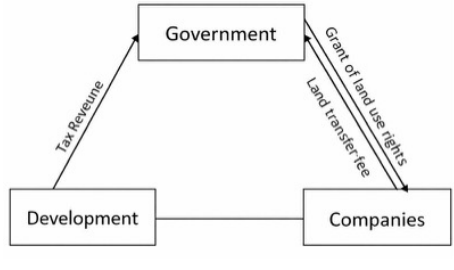
Graph 3: Recent Changes in Real Estate Development Investment, New Construction Area, and Completed Construction Area (YoY)[7]



Graph 4: Recent Sales Situation of Commercial Housing in China[8]

Land Finance: A Product of China's Tax-Sharing Reform

Land finance is a mode by which local governments in China obtain fiscal revenues by selling land as a state-owned asset. During the process, local governments sell the right to use state-owned land to real estate developers or other investors through bidding, auctioning, and listing, thus obtaining land premiums. These revenues have become one of the main sources of local finance,[9] especially when local governments suffer from a shortfall in revenue, and the land premiums have provided local governments with substantial financial support for public services and infrastructure development (see Graph 5). The land finance model has become the main means of revenue for local governments since China's 1994 tax-sharing reform and has become particularly significant in economically developed regions, where land premiums have accounted for more than 30 percent of fiscal revenue in some cities.[10]



Graph 5: Model of Land Financing Model[11]

Local governments are the main drivers of land finance. To achieve economic growth and performance targets, local governments tend to supply industrial land in large quantities at low prices to attract manufacturing investments. They further increase land value by rapidly expanding industrial parks and new urban areas. The rapid expansion of industrial parks drives the rising demand for housing, creating new growth points for the sales of commercial and residential properties, which ultimately fuels the booming real estate market (see Graph 4).[12] As a result, local governments gradually rely on the sale of commercial and residential land to generate substantial revenue.

The rising demand for housing fueled real estate developers' investment enthusiasm, leading them to purchase land use rights from local governments, accelerate construction, and sell properties in advance. As more developers entered the land auction market, local governments raised land prices to maximize profits. To secure higher returns, developers often pushed up housing prices, shifting the increased costs onto consumers.

Chinese homebuyers typically fall into two categories.[13] The first group, housing investors, view rising prices as an opportunity for speculative buying. This expectation of price increases encourages them to adopt a "buying into rising prices" mentality, intensifying market speculation. Many of these investment properties remain vacant as investors wait for prices to climb further before reselling.

The second group consists of end-users, who view housing as a necessity. For ordinary consumers, a large portion of family savings is directed toward down payments and mortgage loans, limiting funds for other investments and expenditures. In China, this situation is common-facing skyrocketing prices, many families deplete their savings to secure a home.

Banks are one of the heaviest supporters of the booming Chinese real estate market. Faced with continuously rising land and housing prices, developers and consumers rely on commercial banks for financing through loans and mortgages. On one hand, banks issue additional loans to large real estate developers with substantial land reserves and market share. During periods of strong housing demand, banks often loosen personal loan approval standards and increase loan limits. On the other hand, the expansion of the real estate market provides banks with a steady stream of interest income.

Japan's Main Bank System

Japan's real estate bubble was primarily caused by the main bank system. Under the main bank system, large banks form long-term ties with corpora-

tions: serving as both shareholders and primary creditors while participating in corporate decision-making. When members of the company incur losses and are unable to repay their debts, the main bank will usually give them a helping hand and continue to issue loans, resulting in the bank's bad debts getting bigger.[14] Following the Plaza Accord in the 1980s, Japan adopted loose monetary policies. Banks obtained vast amounts of low-cost capital and tended to increase the scale of lending.[15] To maintain client relationships, main banks aggressively expanded credit, directing substantial loans toward real estate-backed by land collateral and offering seemingly high returns. Amid widespread expectations that "land prices only rise, never fall," banks prioritized relationships and short-term gains over risk management. Companies similarly channeled funds into real estate and financial speculation, fueling a cycle of "credit expansion → rising property prices → improved balance sheets → further credit expansion."[16] The result was excessive capital flowing into the real estate sector. The main bank system amplified debt accumulation and speculative impulses, becoming one of the key institutional factors behind the formation and expansion of Japan's 1980s real estate bubble.

In the traditional concept of East Asian culture, establishing a home is the basis for settling down, and having a place to live is a family necessity.[17] For housing investors, the rapid rise in housing prices leads consumers to form expectations of continued price increases and stimulates their speculative behavior and the possibility of gaining more profit in the process. Before the bubble, Japan's economy grew well, and the demand for land in metropolitan areas was strong. During the bubble economy, the leverage ratio of Japanese residents and households continued to rise. From 1985 to 1990, it rose from 48.9% to 68.8%.[18] The consumers, both from China and Japan, have indirectly contributed to the real estate bubble, both for speculation and needs. Additionally, the above analysis also clarified that both China and Japan face issues with inadequate review processes by financial institutions when granting mortgages, coupled with a lack of risk assessment.

Unlike Japan, China's "three red lines" policy represents a proactive measure by the central government in response to issues within the real estate market. Therefore, it can be argued that the outbreak of China's real estate crisis is not the result of a vicious cycle of accumulating bubbles, as seen under Japan's main bank system, but rather a product of the Chinese government's deliberate efforts to guide sound asset allocation. Furthermore, the policy tension between China's central and local governments is another distinguishing feature from Japan. Moving forward, this paper will establish an analytical framework encompassing five key actors, including the central government, local governments, real estate companies, financial institutions, and consumers, to analyze the unfolding of China's real estate bubble burst through the lens of their interplay.

Central Government: Balancing Growth and Stability in the Real Estate Game

The central government is the highest administrative body representing China and is the statutory administrator of the entire national economy, with the constitutionally mandated functions of managing economic work and urban and rural construction. The identity positioning of the central government determines that it has the management scope of covering the whole country and the management function of having an overall view of the whole situation, which is complemented by higher management authority.[19] Therefore, the central government has the responsibility of macro-control of the national economy, reducing all kinds of risks in economic development, and maintaining stable macroeconomic development. Over the past 40 years, the central government's interventions in the real estate market have included monetary, credit, land, housing, and tax policies.

Since the 1998 housing reform, China's real estate market has become a key pillar of the national economy, contributing 7% to 10% of GDP.[20] It has stimulated industries such as steel, cement, and home appliances, driving overall growth. Increased homeownership has boosted wealth, supporting consumption and investment. Additionally, property-related loans form a large part of bank credit, linking housing price stability to economic security. Thus, the sector's health is vital for national economic stability.

Estimated Impact of Real Estate Investment Activities on GDP (2007–2020)

Year	Growth Rate of Real Estate Equipment Investment (%)	Nominal GDP Growth Rate (Expenditure Approach) (%)	Real estate investment value-added to GDP ratio (%)	Contribution of Real Estate Investment to Nominal GDP Growth (%)	Pull Effect of Real Estate Investment on Nominal GDP Growth (pct)
2007	28.80%	23.20%	6.70%	–	–
2010	18.90%	17.50%	8.90%	–	–
2012	17.10%	11.40%	11.60%	–	–
2015	0.80%	7.00%	10.90%	–	–
2016	7.40%	7.80%	11.50%	18.40%	1.43
2017	3.00%	11.10%	11.20%	8.50%	0.95
2018	-3.30%	10.50%	9.80%	-3.00%	-0.32
2019	8.00%	8.20%	9.90%	10.00%	0.82
2020	6.60%	3.50%	10.20%	19.20%	0.67
2021	7.20%	11.20%	9.80%	6.50%	0.73

Data Source: National Bureau of Statistics, WIND, Tianfeng Securities Research Institute

Table 2: Estimated Impact of Real Estate Investment Activities on GDP (2007–2020)[21]

However, while contributing to economic growth, China's real estate market has also generated adverse effects, leading to numerous irrational phenomena. One prominent example is Evergrande Group, a leading real estate developer that adopted a "rapid expansion, debt-driven, and high-leverage" model.[22] The company aggressively accumulated land reserves and quickly developed

housing projects nationwide, positioning itself as one of China's largest real estate companies. Financially, Evergrande relied heavily on bank loans and capital market financing, operating with high leverage by using debt and pre-sale funds to sustain cash flow. While this model delivered short-term growth, it also led to mounting financial risks. In the event of market downturns or liquidity issues, excessive debt levels pose systemic financial risks.

Since 2016, the central government has increasingly recognized the problems stemming from irrational real estate market development. It introduced the principle that "houses are for living in, not for speculation," emphasizing the residential nature of housing as a cornerstone of its policy approach. Following this shift, a series of policies have been implemented, including land market reforms, stricter financing regulations for real estate developers, initiatives to develop the rental housing market, and measures to mitigate financial risks within the sector.

Year	Policy Area	Specific Measures	Purpose or Impact
2017	Rental Housing Development	"Notice on Accelerating the Development of the Housing Rental Market in Large and Medium-Sized Cities with Net Population Inflows" proposes the establishment of a government housing rental transaction service platform to foster the housing rental market.[23]	Reduce purchasing by encouraging renting.
2017		"Pilot Program for the Construction of Rental Housing on Collective Building Land"[24]	Pilot projects for special rental housing in 13 cities.
2018		"Notice on Matters Relating to the Participation of Insurance Funds in the Long-Term Rental Market"[25]	Support the entry of specialized, large-scale businesses into the rental market.

2019	Land Management	"Promoting the Formation of a Regional Economic Layout with Complementary Advantages and High-Quality Development" emphasizes land management reform and the tilting of construction land resources towards key urban agglomerations.[26]	Scientific planning of land space.
2020		"Decision on Authorization and Delegation of Land Use Approval Authority"[27]	Controlling the price of land.
2019	Real Estate Market Financing Management	"Notice on Conducting the Work of Consolidating Achievements in Curbing Disorder and Promoting Compliance Development"[28]	Prohibited the use of domestic and foreign funds for land sale financing; strengthened loan management and curbed improper practices, such as misappropriating funds for real estate development.
2019		"Notice of the Requirements for Filing and Registering Applications for Real Estate Enterprises to Issue Foreign Debt"[29]	Requiring real estate enterprises to issue foreign debt to strengthen information disclosure and clarify the use of funds, to prevent possible risks in the issuance of foreign debt by real estate enterprises.

Table 3: Central government's macro-control policies on the real estate industry

The policies implemented by the central government had a clear effect in curbing irrational home-buying behaviors among consumers. For the sales area of commercial housing in China, in 2017, the sales area was 169.4 million square meters, a 7.7% increase compared to 2016.[30] In 2018, the sales area rose to 171.7 million square meters, growing by 1.3%.[31] In 2019, the sales area was slightly down at 171.6 million square meters, a decrease of 0.1%.[32]

However, it is worth noting that despite the slowdown in the growth rate of housing sales, the growth rate of housing prices in China remained relatively

high from 2017 to 2019. In 2017, the average price was 7,892 yuan, a 5.6% increase from 2016. In 2018, the price increased to 8,724 yuan, a 10.5% rise, and by 2019, the average price had reached 9,310 yuan, marking a 6.6% increase, with the average price surpassing 9,000 yuan. Another notable trend is the increase in real estate development investment. In 2017, the total investment in real estate development was 10.98 trillion yuan, a nominal increase of 7.0% from 2016.[33] This rose to 12.03 trillion yuan in 2018, a 9.5% increase, and continued to grow in 2019, reaching 13.22 trillion yuan, up 9.9%.[34]

The slowdown in sales area growth contrasts with the continued rise in housing prices and real estate investment. The demand from investors and speculators created a price bubble and led developers to believe in strong demand, resulting in excessive supply without real demand support. Due to worries about the aforementioned factors, the central government started to control the debt ratios of large real estate companies in August 2020, and Evergrande Real Estate declared bankruptcy due to the restriction of financing from high debt ratios.

Local Governments: Balancing Central Directives with Self-Interest

The organizational structure of local governments in China usually consists of four levels: provinces, cities, districts, and villages (townships), and the lower levels of government are required to follow the orders of the higher levels of government.[35] These local governments implement central government policies within their own areas and adjust them according to local situations.

The mechanism for examining the performance of local officials is one of the core dynamics of the operation of local governments in China and directly influences the direction of local government policy.[36] The promotion and performance evaluation of local officials is usually closely related to the economic growth, fiscal revenues, employment rate, and social stability of the areas under their administration. This assessment mechanism has created a "GDP tournament" in which local governments tend to prioritize economic growth in order to achieve better evaluation results. This "GDP-only" orientation encourages local officials to actively promote the local economy during their term of office.[37]

Considering the existence of land finance, land transfer, and construction have become one of the main means to promote local economic growth. In order to increase revenue from land sales, local governments often raise land prices in the real estate market. In order to guarantee revenue, local governments usually control the supply and demand relationship in the real estate market through land supply. When demand in the real estate market is strong, local governments increase land supply to curb the rapid rise in housing prices and increase

fiscal revenue. When demand is weak, local governments control land supply to stabilize market prices and ensure the continued growth of fiscal revenues.

Thus, the role of local governments in the real estate market is both as policy-makers and as major players in the market. This results in the need for local governments to balance the policy directives of the central government with their own development interests, which gives real estate companies the space and confidence to grow.

In Guangdong Province, where Evergrande Group is located, as an example, under the policy tone of "housing without speculation" demanded by the central government, the local government of Guangdong Province has also gradually strengthened the regulation of the real estate market. Since 2016, the Guangdong government has strictly controlled housing demand through policies such as purchase and loan restrictions. For example, Guangzhou requires non-local residents to provide at least two years of social security payment records for house purchases,[38] while Shenzhen has increased the down payment ratio for home purchases, raising the down payment ratio for second suites to 70% or even higher.[39]

However, out of self-interest, the Guangdong Government has also shown some flexibility in the implementation of regulatory policies. In adjusting the strength of policy implementation, local governments still allow some cities to maintain market activity by increasing land supply and developer financing. First-tier cities such as Guangzhou and Shenzhen have gradually increased land supply in the face of the central government's policy of restricting purchases and loans in order to safeguard fiscal revenue while curbing housing prices. Evergrande Group has actually received policy support from local governments for quite a long time, which is why it still expanded its business territory with large-scale high debts after the central government put forward "housing without speculation", explaining how the seeds were sowed for the crisis.

Real estate companies represented by Evergrande: high debt, high leverage and high turnover

Evergrande Group was founded in Guangzhou City, Guangdong Province in 1996. The Asian financial crisis broke out in the following year, and Evergrande leveraged the opportunity with its real estate marketing strategy of "small space, low price and low cost", and expanded rapidly with its high-turnover and high-leverage business model.[40] The existence of land finance played a key role in promoting Evergrande's expansion in the early stage. During the acceleration of China's urbanization, the local government realized financial revenues by selling land, and the demand in the real estate market was huge.

Evergrande took advantage of this policy window to rapidly expand its land reserves and realized efficient operation of funds and asset expansion through low-cost land purchases and rapid construction and sales.[41]

Although China's central government put forward the 2016 "housing without speculation" policy and increased macro-control efforts to stabilize housing prices, Evergrande did not recognize the situation. Its managers' overconfidence, coupled with the flexibility of the local governments' adjustments, driving the company to continuously expand from 2016 to 2018, Evergrande's land reserve area doubled from the initial 0.051 billion square meters to 312 million square meters in 2018. As its debt scale climbed rapidly and its debt structure tended to be unstable, it was completely contrary to the central government's policy of debt reduction.[42]

Evergrande's Debt Situation Over the Years

Unit: 100 million RMB

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021(Mid)
Total Assets	3841	4745	7570	13509	17618	18800	22066	23011	23776
Actual Total Liabilities	2938	4149	6906	13013	16495	12014	19780	19507	19665
Reported (Nominal) Total Liabilities	2688	3621	6149	11583	15195	15714	18480	19507	19665
Nominal Debt-to-Asset Ratio (%)	77.22	76.31	81.23	85.74	86.25	83.59	83.75	85.77	82.71
Actual Debt-to-Asset Ratio (%)	84.4	87.44	91.23	96.33	93.63	90.5	89.64	84.77	82.71

Note: Data are sourced from Evergrande's annual reports. "Nominal total liabilities" refer to the total liabilities disclosed in the financial statements, while "actual total liabilities" are adjusted based on the substance-over-form principle, taking into account perpetual bonds and investments from strategic investors.

Table 4: Evergrande's Debt Situation Over the Years

In 2021, the "three red lines" policy was formally implemented. Evergrande touched all the lines and was categorized as a red-tier real estate enterprise, therefore, Evergrande was unable to increase any interest-bearing liabilities, its financing ability was greatly reduced, and its cash flow crisis became more and more serious. Evergrande's large-scale defaults have been reported repeatedly, and the crisis has rapidly developed and produced a series of subsequent impacts.[43]

The development history of Evergrande Group, which is highly indebted, highly leveraged and highly turnover, is a microcosm of Chinese real estate companies. High turnover is the most typical business model. In order to accelerate the return of capital and improve the efficiency of capital use, real estate companies usually start projects quickly after acquiring land and bring them to market in a short period of time by streamlining the approval process,

compressing the construction cycle, and utilizing the pre-sale system. The core of this model lies in the use of rapid capital turnover to realize reinvestment, enabling them to complete more projects with limited time and capital investment, further expanding land reserves and asset size. Evergrande and other enterprises use this precise model to achieve high-speed expansion.[44]

However, the high-turnover business model also brings problems of quality and risk. Due to the excessive speed, many companies have problems with project quality and property management. In addition, this model is highly sensitive to market cycles, and companies will face serious liquidity problems once market demand or sales speed declines.

The high-leverage model is an important means for real estate companies to achieve rapid expansion. In order to obtain land and development capital, they rely heavily on highly leveraged means such as bank loans, trust financing, and overseas bonds. Through highly leveraged financing, companies can achieve rapid expansion with limited capital.

However, the use of high leverage increases financial risk, making their debt ratio high, and due to the long real estate construction cycle and short debt maturity time, real estate companies must continue to repay the old debt through new debt. Once the market demand declines or financing constraints arise, real estate enterprises will face the risk of capital chain breakage.[45]

Highly indebted, highly leveraged, high-turnover real estate companies engage in interest-driven high-speed expansion, but neglect risk management and financial health, therefore market storms and policy-oriented tightening problems continue.

Complex Financial Institutions

In the rapid development and cyclical fluctuations of China's real estate market, banks, financial regulators and auditors, as key financial actors, have not only contributed to market expansion, but also played an important role in risk prevention and control. However, these financial institutions have always had an interest game between profit-driven and market regulation, forming a more complex financial network.[46]

Commercial Banks

Commercial banks are the main suppliers of capital to China's real estate market, supporting the expansion of real estate companies and demand for housing purchases through loans and mortgages for home purchases. During the upswing cycle, the credit support provided by banks laid the capital foundation

for the high-speed expansion of real estate companies. In particular, large real estate companies, such as Evergrande, obtained a large number of loans from banks because of their huge project scale and market influence. Such loans not only supported Evergrande's expansion but also increased the bank's revenue. However, the highly leveraged debt model has created potential financial risks for banks, and real estate loans have become one of the main sources of banks' non-performing assets during the downward market trend. As a result, when Evergrande faced liquidity problems, the bank not only had difficulty in recovering its loans but also had its overall asset quality affected, due to a large number of non-performing real estate loans.[47]

Shadow Banking and Informal Financial Institutions

With traditional bank credit struggling to meet the demand of the real estate market, shadow banking and trust financing have become one of the sources of funding for real estate companies. These informal financial channels are more flexible and often bypass credit policy restrictions to provide additional financial support to real estate companies. Evergrande and other real estate companies raised funds through shadow banking tools such as trusts and wealth management products when bank financing was restricted, further pushing up the leverage ratio. As shadow banking is not subject to strict financial regulation, its risk exposure is not fully assessed. The invisibility of such financial instruments made it difficult for regulators to monitor them in real-time, further obscuring the overall risk of the financial system during the period of real estate expansion.[48]

Financial Regulators

Financial regulators, such as the PBOC and CBIRC, act as policy regulators in the real estate market, exercising macro-control through a range of policy tools. In 2021, the "three red lines" policy was implemented to limit the indebtedness of real estate companies, forcing them to adjust. Regulators also have limited speculation in the real estate market by controlling loan ratios and imposing loan limits for house purchases. However, due to the diverse financing channels of real estate companies, the lag in regulation makes it difficult to comprehensively cover all financing behaviors. In the Evergrande incident, although the policy regulation by financial regulators played a role in preventing and controlling the situation, they failed to identify potential risk exposures in shadow banking and other instruments promptly, which led to the accumulation of systemic risks.[49]

Auditors

PwC, as Evergrande Group's long-term auditor, is responsible for Evergrande's

financial statements. However, PwC failed to expose the hidden risks of Evergrande's financial health on time when it was exposed to high-leverage risks.[50]

Its behavior reveals the lack of independence of audit firms driven by complex interests. Influenced by revenue dependence, PwC may have chosen to avoid certain financial issues in Evergrande's audit in order to secure client relationships and long-term business. As a result, the audit report failed to reveal Evergrande's financial pitfalls, which led banks and investors to mistakenly believe that Evergrande was financially healthy and continued to provide financing support during the period of market expansion, thus indirectly exacerbating systemic financial risks. This incident highlights the conflicting roles of audit firms between profit motive and market norms.

Consumers: Drivers and Victims of the Real Estate Bubble

Based on the above, it can be seen that the two major demands in China's real estate market, investment and residence, divide consumers into two categories: housing investors and housing demanders.

As housing prices continue to rise, many investors have turned to real estate for higher returns. According to the China Household Finance Survey, the vacancy rate in urban areas increased from 18.4% to 21.4% between 2011 and 2015 and remained at 21.4% in 2017. First-tier cities had a vacancy rate of 16.8%, while second and third-tier cities had rates of 22.2% and 21.8%, respectively.[51] The "China Urban Housing Vacancy Analysis" reported that 65 million homes were vacant in 2017, indicating a serious issue of unsold properties.[52] For investors, rising prices lead to expectations of further increases, encouraging speculation and greater profit potential. Many properties are left vacant, awaiting price hikes for resale.

Additionally, with expectations of rising housing prices, homebuyers often adopt a "buy now, or prices will only go higher" mentality, while investors share the belief that "prices rise, so buy now." These further fuel demand in the market, driving prices up again.[53]

Since 2016, China's GDP and urban per capita income growth rates have slowed, falling behind housing price growth. The national average housing price-to-income ratio has been rising, reaching 8.19 in 2018, surpassing 9 briefly, and dropping to 8.71 in 2022.[54] This means that for lower-middle income households, incomes are insufficient to pay for house prices, and purchasing a home through a bank loan has become the choice of most home buyers, and those who demand housing are forced to incur large amounts of debt by taking on huge amounts of debt to purchase housing, resulting in the expenditure on housing purchase to account for too high a proportion of house-

hold income and creating a high debt ratio for households.

Along with the continuous rise in housing prices, the deviation of housing prices from their basic level and their continued rise have led to the need for housing demanders to accumulate more down payments and apply for more home mortgages to purchase housing, which has raised the risk of China's financial system, while household indebtedness has risen. Some homebuyers are even obtaining down payments through credit facilities such as "down payment loans", "down payment installment loans" and "consumer loans." By the end of 2020, personal housing loan balances reached 34.44 trillion yuan, making up 69.46% of real estate loans.[55] As a result, many families use most of their savings for down payments and mortgages, limiting other spending and investments. The average family needs to spend most of its savings to realize "a place to live" in the face of high housing prices.

Therefore, housing speculators have become the enablers of the housing price bubble while ordinary consumers have become the victims of high housing prices.

Policy Recommendations

Since the implementation of the "three red lines" policy, large real estate enterprises represented by Evergrande have successively defaulted on their debts. The central government's policy of restricting the financing of large real estate companies out of concern for systemic financial risks and social instability caused by high housing prices and corporate indebtedness is consistent with the central government's function. However, with the outbreak of COVID-19 in early 2020, the already-cold real estate market erupted into a debt crisis one after another under the policy of restricted financing, the price of commercial properties in China plummeted, and many real estate projects under construction were forced to stop due to the broken capital chain, resulting in consumers not being able to get possession of their properties on schedule, and severely affecting the upstream and downstream industry chains, which in fact adversely affected China's economic restructuring.

Based on the analysis of the five main key actors, combined with the need for future development, there are some possible policy recommendations:

1. Central Government as the architect and leader of national development strategies and should focus on three areas: First, prioritize stabilizing housing demand by completing unfinished projects, including establishing special funds, guiding financial institutions and state-owned enterprises to take over projects, and converting them into affordable or rental housing. Second, maintain stable real estate market operations by strengthening management and information disclosure, especially

the transparency in land and housing supply, and preventing systemic risks from sharp fluctuations in the market. Third, focus on institutional development by optimizing the fiscal allocation between central and local governments, strengthening central government oversight of local government debt issuance, financing platforms, and land transfer revenue usage, gradually reducing local governments' overreliance on "land finance," and guiding the new economic growth drivers.

2. Local Government as the practical implementer of national policies, must both follow the decisions of the central government and safeguard the development of its local economies. Therefore, local governments must first align closely with the central government's initiatives, establish systematic thinking, and better serve national strategic development. Then, they should move beyond the traditional land finance model, support the national strategic industry development with local advantages, and explore new engines for local economic growth. Furthermore, amid the current economic depression, it should intensify efforts to stimulate local consumption to drive economic recovery.

3. Real Estate Companies as market suppliers, under the "three red line" policy, should break away from traditional models. Instead they should enhance financial management and risk control capabilities, improve housing and service quality, address consumer's essential housing needs and issues like unfinished buildings, jointly promote the healthy development of the real estate market and align their adjustments with national strategic planning.

4. Financial institutions as capital providers and external regulators, should strengthen oversight of corporate compliance and supervision, enhance transparency in corporate evaluations, and improve risk assessment capabilities. Drawing on Japan's experience, financial institutions, especially the banking system, should establish accountability mechanisms and bankruptcy procedures and non-performing asset resolution frameworks, to prevent systemic risks and capital standardization issues.

5. Consumers, as the demand side of the housing market, should cultivate a rational consumption mindset and stick to the principle of "housing for living, not speculation." When making home-buying decisions, they should fully consider their income levels and long-term repayment capacity, to avoid blindly chasing price hikes, cluelessly following the crowd to purchase properties, as well as engaging in high-leverage operations aimed at short-term speculative gains, which will reduce the irrational demand that fuels the real estate bubble.

Conclusion

The collapse of the Evergrande Group can be seen as a focused burst of system risks that were built on the model of "high-leverage, high-turnover, high-debt" development of the Chinese real estate industry. It highlights the internal vulnerability between the financialization of real estate and the stability of macrofinance. This case also emphasizes the problem that in a complicated political-economic system, incompatible incentives between different stakeholders are a fundamental mechanism that contributes to distortions in the market. The risk prevention goal of the central government, the growth goals of the local governments, the expansion ambitions of the corporations, profit-making incentive of the financial institutions, and speculative incentives of the consumers themselves constitute a vicious cycle of misalignment of the incentives, which is difficult to fix. This paper discussed this chain of risks dissemination through central policy design and local implementation, to corporate strategy, financial multiplication and eventual end-user behaviors based on a multi-stakeholder model.

It should be noted that, the analysis presented in this research is largely premised on case study and qualitative analysis of mechanisms and does not offer a solid quantitative foundation through large-scale datasets. If future analysis could use more detailed information, like corporate financial reports, local land transaction data, and disaggregated household credit data, it would enable a more rigorous quantification of the relation between the behaviors of these actors. This would also help the creation of more accurate early-warning indicators of systemic risk.

In conclusion, according to the above analysis, redefining the real estate industry over the long term, as well as pursuing structural reforms, is the key to future solutions. It requires that policies should go beyond the cyclical adjustments, concerns of the optimization of central-local fiscal relations, a wider range of sources of local government revenue, enhanced financial supervision, and enhance the housing supply system. The experience of the Evergrande crisis teaches us that any supplement to individual parts of policy cannot solve the underlying systemic problems. Therefore, research and policy implementation in the future should be focused on addressing systemic issues. Although possible risk points need to be discussed, it should also be focused on channeling the resources of the over-dependent real estate market into the real economy and innovation sectors. Only such comprehensive actions and creative changes can eliminate the tension between stakeholders and finally, through doing so, the high quality development and better resiliency of the Chinese economy could be achieved.

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Pipeline Politics and the Securitization of the Northern Sea Route

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Abstract: *As climate change accelerates the melting of the Arctic ice caps, the region is again emerging as a key arena of geopolitical competition. Once described as a "zone of peace," the Arctic is currently witnessing increasing militarization and strategic rivalry among major powers. This study examines how Russia's energy infrastructure has evolved in recent years from an aspect of economic politics into a component of national security policy, centered around the importance of the Northern Sea Route (NSR). The analysis demonstrates that control over Arctic energy logistics and shipping routes has become central to Russia's security concerns, particularly following its geopolitical isolation after the invasion of Ukraine. Russia's strict enforcement of its territorial sovereignty over the NSR has heightened tensions with the United States and NATO, as competing interpretations of maritime sovereignty challenge existing norms under the United Nations Convention on the Law of the Sea (UNCLOS). At the same time, China has overtly expressed its Arctic ambitions, through its self-identification as a "near-Arctic state", and investment of significant resources in the development of the Polar Silk Road. These converging interests contribute to the emergence of a coalition-based bipolarity in the Arctic, with NATO on one side and a Sino-Russian bloc on the other. By linking energy infrastructure to regional security dynamics, this study offers new insights into the ways economic and strategic interests intersect in the high north, demonstrating how infrastructure can serve as both a geopolitical instrument and a catalyst for systemic change in Arctic security relations.*

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Keywords: Arctic Security; Sino-Russian Relations; Northern Sea Route; Energy Politics; Regional Security Complex

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Introduction

With the northern ice caps melting at an unprecedented speed, the Arctic is again emerging as a stage for geopolitical competition. Once envisioned as a "zone of peace," the region is witnessing significant militarization, and the regional rivalry is stronger than ever in the post-Cold War era. This paper conceptualizes Russia's energy infrastructure not merely as a tool of economic

statecraft, but as an instrument of security policy, wherein control over energy infrastructure becomes framed as a matter of national security. Thus, the research question this paper aims to answer is: What is the primary driver behind the increased securitization of the Northern Sea Route (NSR)?

As Russia turns eastward following its isolation from the West, and China continues to expand its Arctic footprint, the region is transforming. The increased importance of Russia's alternative export channels following the invasion of Ukraine, combined with the increasingly close-knit relationship between Russia and China in the Arctic, suggests that the region is increasingly characterized by a form of coalition bipolarity, with a strengthened NATO on one side and a deepening Sino-Russian partnership on the other.

The analysis presented here is divided into 3 sections. First, it outlines the regional makeup and the key security issues relevant to this paper's analysis, as well the evolution of Arctic securitization from the Cold War to the present. Second, it analyses Russia's changing energy politics and its implications for regional and domestic security, alongside an overview of Chinese Arctic policy and efforts to restructure the regional order to gain increased influence and legitimacy. Finally, the paper assesses how NATO members perceive the changing Arctic security landscape and considers the implications this might have for the future of the Arctic.

Background

THE REGIONAL MAKEUP:

The Arctic is the northernmost region of the globe, extending from the Arctic Circle to the North Pole. It encompasses eight countries: the US, Canada, Iceland, Denmark, Norway, Sweden, Finland, and Russia. Although all countries have a vested interest in the region, only five countries have Exclusive Economic Zones (EEZ) in the Arctic Sea: the US, Canada, Denmark, Norway, and Russia. These are the countries most relevant for the discussion of this paper, as the most pressing security concerns in the region are maritime-based.

These EEZs play an important role in defining the security interests of each regional actor. According to the United Nations Convention on the Law of the Sea (UNCLOS), a country enjoys sovereign rights over all resources within its EEZ.[1] This includes both living resources, such as fisheries, and non-living resources, such as minerals and fossil fuels. Fossil fuels, specifically offshore oil and gas reserves, could potentially play a significant role in determining the Arctic security issues for decades to come. It is estimated that 13% of the

world's undiscovered oil reserves and 30% of the world's undiscovered gas reserves are located in the Arctic, 84% being offshore.[2] As the world's finite supply of oil and gas eventually dries up, the Arctic could end up becoming one of the last frontiers of fossil fuel extraction. On the other hand, some authors have firmly rejected the idea of the Arctic being the stage for 'resource wars' due to the resources all lying within the countries' EEZs.[3] Then again, as is the nature of undiscovered resources, it has yet to be ascertained where exactly they are located. Additionally, there have already been proposals for arctic offshore resource extraction projects in Russia.[4] Thus, the extent of these resources and the implications they will have for regional security remain to be seen.

Given the relative lack of land borders between regional actors, the Arctic is unique as a region. The lack of land borders, however, does not diminish the security interlinkage of the region. On the contrary, given the speed at which the region is geologically changing through the melting of the ice caps, this interlinkage is particularly prominent. As such, for the basis of this article, the Arctic will be viewed as being a Regional Security Complex (RSC). According to Barry Buzan, Ole Wæver, and Jaap de Wilde, an RSC is defined as: "a set of states whose major security perceptions and concerns are so interlinked that their national security problems cannot reasonably be analyzed or resolved apart from one another."[5] This perspective will serve as the foundation of this paper's analysis.

ARCTIC SECURITIZATION

The modern timeline of Arctic securitization can be seen in three parts: Cold War era securitization, post-Cold War desecuritization, and in recent years a *re*-securitization.[6] During the Cold War the Soviet Union undertook significant militarization efforts in the Arctic, building several remote airbases far north in the Arctic, and stationing the Northern Fleet with its nuclear submarines on the Kola Peninsula. Being the shortest distance between the two superpowers, the Arctic was mainly viewed as a potential theater of nuclear exchange.[7] As such there was little to no nuance on the topic of Arctic security issues. Military security issues, particularly the threat of transpolar Intercontinental Ballistic Missiles (ICBMs), took precedence over everything.

However, during the final years of the Soviet Union in the late 80s, the rhetoric started to change. The Arctic saw a wave of desecuritization attempts, most notable of which was the Murmansk Initiative. In October 1987 in Murmansk, then General Secretary of the Communist Party of the Soviet Union Mikhail Gorbachev proposed several adjustments to the Soviet Arctic foreign policy. In strong contrast to his predecessors, Gorbachev proclaimed: "Let the Arctic become a zone of peace." Specifically, he proposed the denuclearization of the Arctic, cooperation on the rights of Arctic indigenous groups, as well as

the creation of an international Arctic scientific cooperative.[9] Shortly after, the Soviet Union fell, and the great power rivalry of the Cold War was no more. In 1996, the Arctic Council was formed to facilitate cross-arctic cooperation, echoing the sentiments of Gorbachev's Murmansk Initiative. Indeed, the hope of the Arctic becoming a region shaped by amiable relationships of cooperation had never been higher.

However, such desecuritization efforts did not last. The Russian military has undergone significant modernization since 2009, completely overhauling its military bureaucracy and reopening and renovating tens of Soviet-era military bases in the Arctic.[10] Russian remilitarization of the Arctic is shaped by security concerns different from those during the Cold War. No longer are transpolar ICBMs crossing longitudinal axes the sole security concern; instead, Russian security concerns now center on latitudinal axes and key infrastructure along the Russian Arctic coast, most notably Arctic oil and gas fields and the Northern Sea Route (NSR).[11]

More recently, the most outspoken state actor linking the Arctic to national security has been US President Donald Trump. Throughout the first year of his second term in office, Trump has repeatedly emphasized the importance of the US assuming sovereignty over Greenland, stating in March 2025: "We need Greenland for international safety and security. We need it. We have to have it."[12] This statement aligns with what Buzan, Wæver and de Wilde define as a securitization attempt; there's a clear speech act that frames the issue as something of national security importance, and it "effects interunit relations by breaking rules."[13] By publicly framing the acquisition of sovereign territory belonging to a NATO ally as a national security necessity, Trump's rhetoric departs from established post-World War II norms governing territorial sovereignty and alliance relations.[14] Danish Foreign Minister, Lars Løkke Rasmussen, said on Danish national TV in response to Trump's comments: " […] we cannot accept actions that undermine our territorial sovereignty", highlighting their opposite positions on this issue.[15]

This historical and modern overview of Arctic securitization lends further support to conceptualizing the Arctic as a Regional Security Complex, in which security issues and securitization attempts of one state have a significant impact on other states, often invoking a response and potentially altering regional security dynamics. Within this framework, Russia's remilitarization of the Arctic and increased maritime and aerial patrolling contribute to heightened threat perceptions in the United States, which in turn has articulated a counter-securitizing discourse framing Greenland as vital to US national security. Denmark, conversely, interprets such rhetoric as a threat to its territorial sovereignty and has responded by re-emphasizing its commitment to Greenland. The interaction illustrates how, in an Arctic RSC, securitization processes are

mutually reinforcing rather than isolated, producing cascading effects across multiple actors.

Pipeline Politics and the Securitiation of the Northern Sea Route

Three major Arctic shipping routes have been proposed: the Northern Sea Route (NSR), the Northwest Passage (NWP), and the Transpolar Sea Route. However, due to the uneven thickness of the Arctic ice caps and the speed at which they will melt, the former two will likely reach commercial viability first, with the NSR having seen the most use and infrastructure development.[16] The NSR is of particular geopolitical interest due to its increasing importance to the Russian economy and the disputed sovereignty of the route. Russia claims sovereignty over the route and considers it internal waters, requiring foreign ships to notify Russian authorities 45 days before using the route, and undergo mandatory escort by Russian icebreakers at high costs. Several Western countries have claimed this is in breach of UNCLOS Article 87, which states that all countries enjoy freedom of navigation within the EEZs of other states.[17] The elevated role of the NSR in Russia's export industry links energy logistics to its broader security posture. Disagreements over territorial sovereignty have transformed the NSR from a matter of domestic economic and energy politics into one of national security, transcending the traditional boundary between politics and security.

RUSSIA'S ARCTIC SECURITY INTERESTS

After Russia's full-scale invasion of Ukraine in February 2022, the securitization of the NSR has become increasingly more pertinent. This securitization is tied to the phenomenon of 'pipeline diplomacy' or 'pipeline politics', the use of gas pipelines as an instrument of foreign policy and strategic influence.[18] Prior to the invasion, the EU was Russia's single largest export market for oil and gas, primarily supplied through an extensive network of gas pipelines. However, the Nord Stream 1 pipeline, which runs from Russia to Germany through the Baltic Sea, halted operations indefinitely in August 2022. Nord Stream 2 never entered service due to the invasion, and the Yamal-Europe pipeline running through Belarus ceased deliveries in September 2022.[19] Following the imposition of Western sanctions on Russian oil and gas, Russia pivoted towards Asia to substitute its European market. As a result, India and China emerged as the primary buyers of Russian fossil fuels.

Figure 3.1 - Russian pipeline infrastructure

One of the key implications of this eastward shift in export is the increasing reliance on tankers as a method of exportation. The existing pipeline infrastructure between Russia and both India and China comes in the form of only one pipeline: the Power of Siberia. As shown in Figure 3.1, the Power of Siberia pipeline only connects China to the Chayanda field in Central Siberia and not the largest Arctic oil fields situated around the Yamal peninsula. The Power of Siberia 2 connecting China directly with the Yamal LNG megaproject has been proposed to address this, although negotiations have stalled around Beijing's price demands.[20] India on the other hand, has no existing pipeline connection to Russia, with none in the works either, meaning Russia remains completely reliant on tankers to export its fossil fuel to India. The shortest route from the Yamal LNG gas field to India and China by tankers is through the NSR, highlighting its significant role in the economic security policies of Russia.

Russian President Vladimir Putin has repeatedly emphasized the importance of the NSR to Russia's Arctic ambitions. In a 2024 speech at the 9th Eastern Economic Forum, he listed several aspects of Russia's large-scale plan for the development of the NSR, including expanding the already world-leading fleet of icebreakers to include 5 more nuclear-powered icebreakers, expanding the satellite network over the Arctic, and investing in both civilian and military infrastructure along the Russian Arctic coast.[21]

Russia's official rhetoric around the security of the NSR is particularly clear in its Arctic Policy 2035 paper, where it introduced several new key points of Russian Arctic security interests, most notable of which was "to ensure Russia's sovereignty and territorial integrity."[22] This point is significant due to the

contentious nature of Russia's claims. Russia's sovereign claims over the NSR and its imposing of strict limitations and regulations for traversing the route has been highly criticized by the US, who claim that enforcing maritime sovereignty in this way directly contradicts the freedom of navigation guaranteed in the UNCLOS.[23] [24] The US has expressed the intention to challenge what they perceive as "excessive maritime claims," an obvious jab at Russia regarding the conflicting views on the extent of territorial sovereignty along the NSR.[25] This perceived challenge to Russian authority has amplified Russia's security concerns along the NSR, leading to major investments in Arctic infrastructure that increasingly depend on Chinese involvement.

CHINA'S ARCTIC AMBITIONS:

China first announced its Arctic ambitions in 2018. In a white paper published by the State Council Information Office of the People's Republic of China (PRC), it classifies itself as a "near-arctic state", in an attempt to legitimize its interests in the region.[26] China has pursued the right to navigation, scientific research, invested significantly in infrastructure development, and more. It has established research stations on Norway's Arctic archipelago of Svalbard and on Iceland. The flagship project of China's Arctic ambitions, however, is the Polar Silk Road (PSR).

An extension of the Belt and Road Initiative (BRI), the PSR has been domestically defined as "the shipping route that crosses the Arctic Circle to connect the economic centers of North America, East Asia, and Western Europe."[27] This definition inherently links the PSR to the NSR, as currently any shipping routes crossing the Arctic would make use of the NSR. The first commercial Chinese voyage through the NSR was completed in 2013, when the vessel "Yong Sheng", owned by the Chinese shipping conglomerate COSCO, arrived in Rotterdam, having set off from the northeastern Chinese port of Dalian 35 days earlier.[28] This voyage shortened the travel time by around 13 days compared to the traditional Suez Canal route.

A shift away from an overreliance on the Suez Canal might be another reason for the development of the PSR. The 2021 Suez Canal obstruction, when a container ship blocked the canal for several days, highlighted just how fragile the traditional Asia-Europe shipping route is. Additionally, 80% of Chinese oil imports are transported through the strait of Malacca between Malaysia and Indonesia, a strait that could be blocked by the US in case of a conflict.[29] The PSR represents a shift away from transportation through these straits where China and its allies have limited political and military influence, and into one where it can more confidently enforce its economic security interests.

Another sign of the Arctic Sino-Russian partnership growing stronger is Chi-

nese investment in Russian Arctic oil and gas extraction. Chinese companies currently own a 39.9% stake in the Yamal LNG megaproject, as well as 20% of the Arctic LNG 2 field.[30] After European companies withdrew their investments in these projects, China became the largest foreign investor in Russian arctic oil and gas projects. With these investments, China is both deepening its partnership with Russia and further legitimizing its interests in the region.

NATO's Response to Sino-Russian Arctic Cooperation

NATO countries remain wary of China's increased involvement in the Arctic. Although China already operates research stations in Norway and Iceland, the fear of dual-use infrastructure means NATOs Arctic members remain skeptical of such investments. The Swedish Space Corporation decided not to renew its contract with Chinese partners for ground stations in Kiruna within the Swedish Arctic over fears that it could be used for military intelligence gathering and surveillance.[31] As part of its PSR project, China has also shown interest in the creation of an "Arctic corridor," a plan to transform the Northern Norwegian port of Kirkenes into a deep-sea port and connect it to Rovaniemi in Finland through an Arctic railway.[32] As part of this "Arctic corridor," China has attempted to acquire a stake in said seaport in Kirkenes, Norway, as well as an airport in Finland, both of which have been blocked by the Norwegian and the Finnish government respectively.[33]

China's efforts to acquire property and infrastructure in the Arctic have raised concerns that it is employing the same tactics as those used to legitimize its claims in the South China Sea. Former US Secretary of State Mike Pompeo warned that China is trying to transform the Arctic into a new South China Sea with widespread militarization and competing territorial claims.[34] Although this statement might be overblown, as China has no semi-legitimate grounds to make territorial claims in the Arctic, it paints a poignant picture of the Western perception of Chinese expansionism in the Arctic.

This rhetoric of protecting the liberal international order against Russian and Chinese pressure in the Arctic has been a trend in recent years. In 2024, the US, Canada, and Finland, signed the Icebreaker Collaboration Effort (ICE) pact, an initiative to jointly produce polar icebreakers. In the joint statement put out by the countries, they stressed that their partnership goes beyond just building icebreakers, saying it will "also enable like-minded nations to uphold international rules, norms, and standards, ensuring peace and stability in the Arctic […]."[35] The wording of 'like-minded nations' draws a distinction between the Western NATO allies and their Arctic rivals Russia and China.

The PRC's interests in the Arctic seem to align with what Buzan, Wæver, and de Wilde referred to as 'external transformation'. A major state like China

inserting itself into the Arctic could lead to an expansion of the region's border, not in the literal sense, but rather in a way that China's actions have a profound impact on other Arctic states' foreign policy, as is evident in the frequent mentioning of China as a threat to regional stability and security. This is precisely what is meant by external transformation, as such a change is certain to have "a substantial impact on both the distribution of power and the pattern of amity and enmity."[36]

Conclusion

This paper has shown that the heightened securitization of the NSR is primarily driven by Russia's isolation from the West and its consequent eastern pivot. It is in this context that a causal chain can be identified. Russia's invasion of Ukraine and the subsequent energy boycott by European countries serve as a trigger. In response to this isolation and the closure of several gas pipelines, Russia turned toward large Asian countries as customers, specifically China and India. Given the lack of pipeline infrastructure to these countries, and the location of the largest Russian oil and gas fields in the Arctic, this infrastructural dependence on the NSR becomes a mechanism of securitization. The outcome of this process is that Russia has continued to renovate Arctic naval bases, air bases, and dual-use facilities along the NSR.

Additionally, China has stepped in as a major investor in many of the commercial projects along the NSR, thereby amplifying the securitization of the route through Russia's financial dependence on China. This investment is part of China's Polar Silk Road, ultimately serving as a tool to legitimize its presence and interests in the region. China has thus assumed the role of an external transformer, seeking to alter the distribution of power in the Arctic.

In 2025, through U.S. President Donald Trump's comments on Greenland, the securitization of the Arctic also received a push from the U.S. side. Viewing the increased presence of Russia and China as a clear threat, the acquisition of Greenland has been framed as a matter of national security. The United States and NATO have expressed strong skepticism toward Chinese involvement in the Arctic, using the terminology "like-minded nations" to draw a distinction from China.

The causal links between this set of events point to the clearly interlinked nature of the Arctic as a region, thus reinforcing its categorization as a Regional Security Complex. Given the accelerating accessibility of the region and the geopolitical interest it has garnered, the dynamics identified in this paper suggest the possibility of continued securitization of the Arctic. While the long-term role of natural resources in the region remains uncertain, the findings demonstrate that, when faced with external pressure and infrastructur-

al dependency, energy politics can become an object of securitization, even in regions previously considered peripheral. These dynamics increasingly manifest at the systemic level, contributing to an emerging pattern of bipolarity in the Arctic, with a NATO coalition on one side and a Sino-Russian partnership on the other.

This paper also points to several avenues for future research. The only shipping route case study considered in this paper is the NSR; thus, a comparative study of the Northwest Passage (NWP) could help assess whether such infrastructure-driven securitization extends beyond the NSR. Given that this is still an early-stage dynamic in the region, the long-term impact on the structure of the Arctic remains unclear. Longitudinal analyses could eventually explore whether the trend of securitization in the Arctic leads to sustained bipolarization or stabilizes into managed competition over time.

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