ISSN 2180-3250

VOL. 16 NO. 2

December 2025

INTERNATIONAL JOURNAL OF CHINA STUDIES

International Journal of China Studies

Editor-in-Chief

Karl LEE Chee Leong, Universiti Malaya

Deputy Editor-in-Chiefs

LIM Guanie, National Graduate Institute for Policy Studies
CHAN Ying-kit, National University of Singapore
Kristina KIRONSKA, Palacký University Olomouc
YEW Wei Lit, Universiti Malaya

Editors

NGEOW Chow Bing, Universiti Malaya
Jeremy GARLICK, Prague University of Economics and Business
LING Tek Soon, Universiti Malaya
ZHANG Miao, Xiamen University
Ardhitya Eduard YEREMIA, Universitas Indonesia
Richard Q. TURCSANYI, Palacký University Olomouc
LI Ran, Universiti Malaya
Ian CHEN Tsung-yen, National Sun Yat-sen University
LEE Pei May, Universiti Islam Antarabangsa Malaysia
WANG Qichao, Xi'an International Studies University
Josie-Marie PERKUHN, Universität Trier
Mustafa YAGCI, İstinye University
Sadia RAHMAN, Universiti Malaya
XU Chengwei, International University of Japan
Julia Christine MARINACCIO, University of Bergen
Reymund Botin FLORES, West Visayas State University
LEE Kean Yew, Universiti Malaya

Assistant Editors

Muhammad ZULKARNAIN bin Zulkifli, Universiti Malaya
SIA Wan Hui, Universiti Malaya
Ahmad MAHMOOD bin Azman, Universiti Malaya
ONG Jia Sing, Universiti Malaya
LI Hongying, Universiti Malaya
Annie ZHAO Haipeng, Universiti Malaya

Advisory Panel Members

Gerald CHAN, University of Auckland
Brantly WOMACK, University of Virginia
KUIK Cheng Chwee, Universiti Kebangsaan Malaysia
Evelyn DEVADASON, Universiti Malaya
Gregor BENTON, Cardiff University
Mark HAYLLAR, City University of Hong Kong
Carlyle THAYER, University of New South Wales
Jonathan BENNEY, Monash University
Michael JAKOBSEN, Copenhagen Business School
David MCMULLEN, Cambridge University
Samuel C.Y. KU, National Sun Yat-Sen University
Shiping HUA, University of Louisville
Suzanne OGDEN, Northeastern University
Alfred GERSTL, Palacký University Olomouc
WOO Wing Thye, University of California-Davis / Jeffrey Cheah Institute
YAN Jirong, Peking University
BO Zhiyue, Victoria University of Wellington
Lowell DITTMER, University of California-Berkeley
THAM Siew Yean, Universiti Kebangsaan Malaysia
LEE Chun-yi, Nottingham University
CHENG Ming Yu, Universiti Tunku Abdul Rahman
LI Chen, Chinese University of Hong Kong
Andrew KAM Jia Yi, Universiti Kebangsaan Malaysia

International Journal of China Studies, Vol. 16, No. 2, December 2025

© Institute of China Studies
First published in 2025

COPYRIGHT

All rights reserved. No part of this publication may be reproduced, copied or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without written permission from the publisher. Under the Copyright Act 1987, any person who does any unauthorized act in relation to this publication shall be liable to prosecution and claims for damages.

The *International Journal of China Studies* is a biannual academic journal of the Institute of China Studies, University of Malaya, Malaysia. The journal is abstracted/indexed in *Scopus, International Political Science Abstracts, International Bibliography of the Social Sciences, Bibliography of Asian Studies, EconLit, e-JEL, JEL on CD, Ulrich's Periodicals Directory, Ulrichsweb Global Serials Directory, Reference Corporation's Asia-Pacific Database, ProQuest Political Science and Research Library, ABI/INFORM Complete, ABI/INFORM Global, PAIS (Public Affairs Information Service) International, CSA (formerly Cambridge Scientific Abstracts), Worldwide Political Science Abstracts and NLB's ISI (Index to Singapore Information)*.

Website: *https://ics.um.edu.my/international-journal-of-china-studies-ijcs*

For submission to the journal, please visit https://ejournal.um.edu.my/index.php/IJCS

Manuscripts for consideration and editorial communication should be sent to:

The Editor, *International Journal of China Studies*
Institute of China Studies, University of Malaya
50603 Kuala Lumpur, Malaysia
Tel: +(603) 7967 7288
Fax: +(603) 7967 4438
E-mail: *chinastudies@um.edu.my*

Further editorial communication and acquisition, subscription and other enquiries could also be sent to:

Miss Susie Ling, IJCS Editorial Manager (E-mail: *susielyp@um.edu.my*)

Table of Contents

Feature Research Article

China's Assertiveness and the Indo-Pacific Response: Australia's Strategic Calculus 1
Jonathan Ping and Edward Sing Yue Chan

Research Articles

Labour-Use Efficiency in China: A Stochastic Frontier Analysis 37
Wisuwat Chujan, Le Bao Ngoc Nguyen, Ahmad Shabir Faizi and Juan Huang

China's Energy Sector and the Search for Structural Power 65
Tiago Luís Carvalho

Does Foreign Ownership from China and Hong Kong Decrease Investment Efficiency of Malaysia Firms? An Empirical Investigation 95
Joseph Wee Siong Hii and Thirunaukarasu Subramaniam

The Belt and Road Initiative in Malaysia: Progress, Impacts and Challenges 125
Zaharul Abdullah, Noor Ashikin Said and Warjio

Assessing the Features of Propaganda and Thought Work in Post-Trust China 153
Haoguang Li

The New Frontier of Exploitation: Human Trafficking for Online Scams in Taiwan 177
Sheila Devi Michael

Book Reviews

Sonny Shiu-Hing Lo, *The New Politics of Beijing-Hong Kong Relations: Ideological Conflicts and Factionalism* 215
Reviewed by Colin Mianqing Xie

Feature Research Article

International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 1–34 https://doi.org/10.22452/ijcs.vol16no2.1

China's Assertiveness and the Indo-Pacific Response: Australia's Strategic Calculus

Jonathan *Ping*[*] and Edward Sing Yue *Chan*[†]

Abstract

After decades of economic success and relative political stability at home, the Communist Party of China (CPC) has become confident in its governance model, particularly in the wake of its successful navigation of the 2008 Global Financial Crisis. The Party's growing confidence in China's rise and its grip on power has fuelled a more assertive foreign policy on the global stage. This article contends that China's global assertiveness − as experienced and responded by Australia − if taken too far, could ultimately weaken the Party at home. This is because the Party's economic successes have been a result of the PRC's successful integration into the world economy and maintenance of harmonious trade relations with the world's major economies.

Keywords: *CPC Legitimacy, China Dream, Indo-Pacific, Statecraft, Wolf-Warrior*

[°] Dr Jonathan Ping, Associate Professor, Bond University, jping@bond.edu.au.
[†] Dr Edward Sing Yue Chan, Postdoctoral Fellow, Australian National University, Edward.Chan@anu.edu.au.

1. Introduction

Both the Chinese and the global population have benefited from the socialist state-directed market capitalism created by Deng Xiaoping's economic reform policies from the late 1970s. Some 40 years of reform may have granted China the largest foreign policy capacity in the world. The relative size of China's economy – related to the size of the country itself – also lends the CPC the longevity, resilience, and strength that communist parties elsewhere have not enjoyed. Of the fifteen Soviet Republics and twelve pro-Soviet states that set out on the socialist path behind Russia from 1917, only five remain: the small powers of Cuba and Laos, and the middle powers of North Korea and Vietnam (Lowy Institute, 2022a; Malpass, 2021; Strauss, 2021). China is the only Communist Party-led great power and the most developed communist state in history (Lowy Institute, 2022a).

After decades of economic success and relative political stability at home, the Communist Party of China (CPC) has become confident in its governance model, particularly in the wake of its successful navigation of the 2008 Global Financial Crisis. The Party's growing confidence in China's rise and its grip on power has fuelled a more assertive foreign policy on the global stage. This article contends that China's global assertiveness, if taken too far, could ultimately weaken the Party at home. This is because the Party's economic successes have been a result of the PRC's successful integration into the world economy and maintenance of harmonious trade relations with the world's major economies. According to some analysts, foreign policy overassertiveness is already harming China's economic interests (Shirk, 2022). A prominent example is the US law that limits China's access to the most advanced semiconductors and chip-making technology (Bureau of Industry and Security, 2022).

This paper adopts a qualitative methodological framework, drawing on historical analysis, comparative policy review across economic, security, and governance domains, and illustrative case studies. The research is grounded in the examination of official statements, historical documents, and secondary analyses. This approach enables a substantive understanding of the evolving policy landscape and its broader implications. The first section of the article reviews the overall development of China's foreign policy from Mao Zedong to the Hu Jintao era. It suggests that, after attempting to export communism in the early days while adopting a generally isolationist foreign policy, during the first 30 years of economic reform, China pursued

a low profile in foreign policy and actively and peacefully sought to engage with the liberal democratic world, benefitting both economically and diplomatically. The second section examines the assertive shift in foreign policy under Xi Jinping. Finally, we assess the risks of Xi's assertive foreign policy approach. We argue that in creating more external enemies and hampering domestic economic growth, China's international actions have the potential to erode the Party's power base at home.

2. Development of CPC's Foreign Policy

Following the establishment of the People's Republic of China (PRC) in 1949, the socialist state established Marxist theory as the enduring basis for Chinese international relations (BBC, 2021; Cheng, 2018). During Mao's rule, foreign policy was constrained by the lack of economic capacity. The Chinese military confronted the United States and United Nations in Korea, albeit reluctantly: by naming its forces there "volunteers", the PRC avoided directly declaring war on the United States. The PLA moved into Tibet (which the CPC insisted was part of China despite its complex history), and annexed part of Kashmir. It conceptualised international relations as between political parties as much as between sovereign states. The Central Committee's International Department maintained relations with and supported foreign communist parties, primarily within the Soviet bloc and via the Comintern, but also non-governing parties in countries including Malaysia (Ping, 2017). China also pursued a policy of military aggression to support "revolutionary peoples" against, in particular, the imperialism of the United States, which it labelled "hegemonism" (Yong & Pauly, 2013). The PRC was thus mostly alienated from the Western world during the Cold War.

3. The Open-Door Policy

Mao's foreign policy was mostly overturned by Deng Xiaoping and his successors, who adopted a more cautious approach. Deng was more of a pragmatist than ideologue and was willing to experiment with market reforms if the reforms delivered results. Deng looked abroad for lessons in how to advance economic growth and learned much from the experience of Japan and the East Asian Tiger economies. In foreign affairs, Deng advocated the "keeping a low profile" (韬光养晦 *taoguang yanghui*) strategy. This strategy allowed the State to focus on domestic economic development,

while minimising international confrontation (and the resources needed to maintain a confrontational posture) (Dai, 2010; Wang, 2011). In foreign policy, Deng showed a willingness to compromise to create an "auspicious environment for China's economic development" (Hu, 2022; Shirk, 2022). Deng reengaged with the United States very early on – bilateral relations were normalised on 1 January 1979 – and pushed China towards cooperation and trade with Western corporations. He shifted the narrative on the Taiwan issue from "liberation and reoccupation" to "peaceful unification", indicating that the PRC was prepared to take a gradual approach. Deng also introduced the formula of "one country, two systems" to address fears in Taiwan and Hong Kong of communist-style rule in the territories, and with regard to unresolved territorial issues in the South China Sea, advanced the principle of "setting aside differences and pursuing joint development". These low-key but pragmatic approaches indicated that, while Deng was "as determined as any Chinese leader to bring these lost territories back into the fold, yet he was willing to compromise to achieve broader goals" (Shirk, 2022).

The open-door policy benefited China. First, it created a successful foundation for socialist state-directed market capitalism. The CPC increased international engagement during the first decades of economic reform, including accelerating cross-border movements of people and ideas, embracing closer ties with its Asian neighbours, and encouraging foreign direct investment. By interacting with the global liberal economy, Chinese policymakers were able to seek out and learn from other countries' policies and tailor them to China's distinctive situation. For example, after studying Japan's rapid post-war economic growth, the CPC encouraged the expansion of private sector and restructured State-owned enterprises (SOEs). China's fiscal reforms in the 1980s empowered local governments to act as entrepreneurial entities, fostering a system of local State corporatism that incentivised industrial growth and blurred the lines between State and enterprise (Oi, 1992). This decentralised economic dynamism laid the groundwork for broader market reforms and positioned China to benefit from global integration. China's accession to the World Trade Organization in 2001 marked a pivotal shift, as Lardy (2001) argues, committing the country to deeper liberalisation and aligning its domestic institutions with international trade norms. Later, its own economic miracle became a model for other developing countries, especially those whose authoritarian leaders preferred it to democracy-based paradigms. The 2008/2009 Global Financial

Crisis, which challenged the notion of the superiority of the neoliberal economic model, helped to boost the so-called "Beijing consensus" (Ramo, 2004), which further raised Beijing's international status.

Second, the open-door policy offered multinationals an unprecedented opportunity to expand into the world's largest single-country market, which reached 1.1 billion people by 1989 and 1.4 billion people in 2019 (Shen & Mantzopoulos, 2013). Most foreign multinational corporations initially engaged with China by using its people as a source of low-cost labour. By the mid-2000s, China had become the largest producer of steel, responsible for one-third of world production (Shirk, 2007). As the world's factory, China was also the leading manufacturer of photocopiers, microwave ovens, DVD players, and shoes, and later became the leading manufacturer of telecommunication products such as mobile telephones, laptop computers, and digital cameras (Shirk, 2007). Foreign firms establishing plants also contributed to significant growth in China's research and development capacity, particularly in biotech and telecommunications. From 2002 to 2006, the total number of foreign-invested research and development centres in the country increased from 200 to 750 (Shirk, 2007). Some of the technological investment proved useful in building up China's military strength. Chinese consumers, meanwhile, used some of their increased spending power on luxury imports, including foreign cars, jewellery, cosmetics, and high-tech products. Interaction with the outside world was looking like a win-win situation for Chinese people and foreign companies.

Finally, and most importantly, the open-door policy helped to sustain the Party's legitimacy. Market mechanisms helped the CPC "deal with the inefficiencies of allocation and distribution that occur with the central planning system" that had previously been central to CPC economic policy (Saich, 2001). The economic reforms enabled the country to put the devastation of the Cultural Revolution behind it by mobilising its people to focus on activities that would both grow the economy and better their own standard of living. From 1979 to 2006, the reforms resulted in 400 million people lifting themselves out of poverty. The percentage of underweight children halved, and the survival rate rose for children under the age of five (Shirk, 2007). As more and more people went from being able to meet their basic needs to "achieving a middle-class living standard" (State Council, 1991), the Party took the credit and gained credibility. In other words, the economic reforms enabled the Party to rebuild trust with its people.

4. Peaceful Development

Beginning in the late 1990s, and especially following the Global Financial Crisis, China emerged as a great economic power. In 2010, the size of its economy surpassed that of all European economies as well as that of Japan and India to come second behind that of the United States. As its interactions with the outside world grew, however, some countries began to perceive China as a threat to regional security and the international rules-based order (Christensen, 2002, 2006; Pablo-Baviera, 2002). However, Beijing continued to flex its rising power cautiously; it had not yet abandoned Deng's policy of keeping a low profile in international affairs.

Under the leadership of Hu Jintao, who was elected Party General Secretary in 2002, the CPC proposed the political slogan of "peaceful development" (和平发展 *heping fazhan*). This phrase is derived from the concept of "peaceful rise" (和平崛起 *heping jueqi*), which had been proposed by Zheng Bijian, the former Deputy Head of the Propaganda Department in 2004 (Zheng, 2004; Joske, 2022). It suggested that, while China was becoming a global economic power, it did not intend to become a hegemonic one. Instead, it would become a cooperative and responsible great power. China's foreign policy under Hu Jintao mostly chimed with the strategy proposed by Deng and adhered to by Hu's predecessor Jiang Zemin of "keeping a low profile" and minimising confrontation with other countries. This also avoided the risk of taking on too heavy international obligations and commitments that would hamper China's growth and development (Sutter, 2010).

At the same time, because growth in national power allowed China to be more involved in international affairs, the PRC engaged with the Western liberal world more actively (Johnston, 2008; Kent, 2002, 2007), especially in ways that allowed it to portray itself as a "responsible great power". After more than twenty years of negotiation, the PRC joined the World Trade Organization in 2001. It signed the Declaration of Code of Conduct on the South China Sea in 2002. For the first time, the PLA Navy conducted overseas missions, taking part in anti-piracy patrols in the Gulf of Aden in 2008 and providing escorts for both Chinese and foreign cargo ships.

In summary, China's foreign policy remained generally moderate and cooperative prior to 2012. The economic reforms, meanwhile, allowed China to gain the necessary experience, resources, and capital to continue growing economically at an impressive rate. Its moderate approach fostered active

engagement and close interaction with the outside world and proved both successful and beneficial both domestically and globally.

5. A More Assertive Foreign Policy under Xi

China's foreign policy was already beginning to shift when Xi Jinping was announced as the new CPC General Secretary on 15 November 2012. Xi espoused confidence in China's model of governance as equal or superior to Western liberal democracy. Xi has since declared that he is leading a new era in which the country will become "prosperous and strong" (富强 *fuqiang*) (Fewsmith, 2013; Xi, 2014a). Xi promised the Chinese people that the Party would restore China's great power status as part of the goal of "the great rejuvenation of the Chinese nation" (中华民族伟大复兴 *zhonghua minzu weida fuxing*) (Xi, n.d.). Xi Jinping's "new 'historical outlook' hinges on an idealistic (and not historically accurate) idea of cultural homogeneity, unity, and continuity". Xi embraces a Chinese model for human advancement, which he now calls "Chinese-style modernisation" (Xi, 2022). Xi has also warned those who would stand in China's way. As Xi declared in a speech celebrating the 100-year anniversary of the Party in 2021:

> *Only socialism can save China, and only socialism with Chinese characteristics can develop China … we will never allow anyone to bully, oppress or subjugate China. Anyone who dares try to do that will have their heads bashed bloody against the Great Wall of Steel forged by over 1.4 billion Chinese people (BBC, 2021).*

6. Economic Coercion and Statecraft

China's reforms transformed its economy in a little over 30 years. As mentioned above, it is now the second largest economy, just behind the United States. While strengthening the CPC's power domestically, it also enables the Party to use economic power to achieve geopolitical goals. The clearest evidence of CPC foreign policy overassertiveness is in its relations with its immediate or economically interdependent neighbours. The style of diplomacy nicknamed "wolf warrior" in 2020, but which began far earlier as the below examples demonstrate, employs in foreign relations the kind of rhetoric and aggression that the CPC typically aims towards its domestic enemies – insulting, hectoring, tyrannical – along with demands that,

essentially, ask foreign countries to abandon their own self-interest for that of the PRC.

7. Australia's Experiences

There are numerous examples of coercion in the economic sphere. One that has been widely discussed is the sanctions towards Australia from 2020. In 2014, the two countries concluded a historic free trade deal to be enacted in 2015 and agreed to elevate the relationship to a "Comprehensive Strategic Partnership". President Xi Jinping addressed a joint sitting of the Australian Parliament, where he spoke of his own experiences of Australian goodwill, understanding, friendship, and commitment. He stated: "China needs peace. A harmonious and stable domestic environment and a peaceful international environment are what China needs most" (Parliament of Australia, 2014). However, for various reasons, tensions rose over the next six years, and Australia–China relations reached a crisis point in 2020 after Canberra called for an independent investigation of COVID-19's origins.

Then, over the next three years, the PRC announced various measures or disputes (including over packaging, for example) that effectively restricted or banned imports of Australian barley, beef, lamb, wine, cotton, lobsters, timber, and coal. On 17 November 2020, the PRC Embassy in Canberra issued an extraordinary dossier of fourteen "grievances" to Australian journalists (Figure 1). It listed economic grievances alongside political ones. For instance, it complained about decisions by the Australian government to bar certain Chinese investments in Australia and Huawei from the 5G network, blocked Chinese investment projects for "unfounded national security concerns" – but combined these with gripes about negative reporting on Chinese issues, "wanton interference" in Xinjiang, Hong Kong, and Taiwan affairs, and other political issues. As shown, the PRC Embassy attempted to politicise Australia's economic decision, making them even less likely to be addressed. With respect to the bans and the grievances, CPC's foreign policy overassertiveness may be described as hegemonism: aggression against a weaker state (Yong & Pauly, 2013).

Figure 1: Extract from the Dossier of Fourteen "Grievances" Presented by the Chinese Embassy in Canberra

"— foreign investment decisions, with acquisitions blocked on opaque national security grounds in contravention of ChAFTA/since 2018, more than 10 Chinese investment projects have been rejected by Australia, citing ambiguous and unfounded "national security concerns" and putting restrictions in areas like infrastructure, agriculture and animal husbandry.

— the decision banning Huawei Technologies and ZTE from the 5G network, over unfounded national security concerns, doing the bidding of the US by lobbying other countries

— foreign interference legislation, viewed as targeting China and in the absence of any evidence.

— politicization and stigmatization of the normal exchanges and cooperation between China and Australia and creating barriers and imposing restrictions, including the revoke of visas for Chinese scholars.

— call for an international independent inquiry into the COVID-19 virus, acted as a political manipulation echoing the US attack on China

— the incessant wanton interference in China's Xinjiang, Hong Kong and Taiwan affairs; spearheading the crusade against China in certain multilateral forums

— the first non-littoral country to make a statement on the South China Sea to the United Nations

— siding with the US' anti-China campaign and spreading disinformation imported from the US around China's efforts of containing COVID-19.

— the latest legislation to scrutinize agreements with a foreign government targeting towards China and aiming to torpedo the Victorian participation in B&R

— provided funding to anti-China think tank for spreading untrue reports, peddling lies around Xinjiang and so-called China infiltration aimed at manipulating public opinion against China

— the early dawn search and reckless seizure of Chinese journalists' homes and properties without any charges and giving any explanations

— thinly veiled allegations against China on cyberattacks without any evidence

— outrageous condemnation of the governing party of China by MPs and racist attacks against Chinese or Asian people.

— an unfriendly or antagonistic report on China by media, poisoning the atmosphere of bilateral relations"

Source: Kearsley et al. (2020)

However, such an attempt resulted in backlash. The PRC has a growing bad reputation among Australians. The Australian Ambassador to the PRC, Graham Fletcher, warned the Australia China Business Council in 2021 that the PRC is "unreliable as a trading partner and even vindictive" (Dziedzic, 2021). As a result, some Chinese companies find it difficult to do business in Australia, as people are increasingly concerned about their potential interference in Australian politics (Lowy Institute, 2022b. More importantly, the CPC was acting against its own economic requirements and interests. These restrictive trade measures have left Chinese people and industry at

home with higher prices and lower-quality goods as a result of the ban on Australian exports. In contrast, the Australian economy was not significantly affected because goods flowed to other consumers in the global liberal market (Tan & Chen, 2021). In other words, economic coercion towards Australia does more harm than good for China.

China's strategic use of import refusals also serves as a subtle yet potent form of economic coercion, punishing countries that act against its political interests under the guise of regulatory enforcement. As Kim *et al*. (2025) demonstrate, these refusals are not merely technical decisions but calculated sanctions that align with Lampton's (2008) framework of Chinese power—particularly the "money" dimension, where market access becomes leverage. By embedding political motives within ambiguous trade practices, China effectively blends its "might," "money," and "minds" to influence international behaviour while maintaining plausible deniability.

Beijing's economic statecraft is not limited to coercion and sanctions at the national level, but also indirectly through Chinese companies. Shifting from State capitalism to party-state capitalism, the CPC may task Chinese multinationals active in the global market, especially state-owned enterprises with political obligations (Pearson *et al*., 2022). In such cases, they are not independent actors providing profits for investors and goods and services for consumers while responding to the price mechanisms of a rules-based global liberal market (Blanchette, 2021; McGregor, 2010). Among Chinese multinationals active in the global markets are financial corporations such as the Industrial and Commercial Bank of China (now the world's largest corporation), China Construction Bank, Ping An Insurance Group, Agricultural Bank of China, and the Bank of China, all of which rank in the top twenty largest global companies. China also has global corporate reach in technology and energy with companies including Alibaba Group, Tencent Holdings, Sinopec, and PetroChina (Forbes, 2021). While not all these companies are State-owned, they still need to "follow behind [the] flag" of the Ministry of Commerce (Reilly, 2021). Therefore, foreign governments and companies become hesitant to do business with Chinese enterprises, given that they are confused and fearful about the complicated ties among Chinese multinationals and the CPC (Pearson *et al.*, 2022). Accordingly, although these multinationals are impactful on their industries or even the international economy, their opportunities are shrinking.

For instance, the CPC announced its "Made in China 2025" policy in 2015, which envisions China transitioning from low-end manufacturing to becoming a high-technology producer in such areas as robotics, artificial intelligence, information technology and clean energy replacing foreign imports to a high degree at home, and becoming a leader abroad while integrating into global manufacturing chains (Make in China, 2018). But developed countries, including the United States, became increasingly alarmed by the national security implications of China's ambitions in this area. The blowback caused China to downplay the policy and its goals (Martina *et al*., 2018; Cyrill, 2018). Australia, meanwhile, is among those states that are also seeking to reduce its supply chain dependence on China (EurAsian Times, 2022; Kuang *et al*. 2019; Sipalan, 2019). Accordingly, State economic intervention has led to "securiti[s]ation of cross-border trade and investment flows in China" (Pearson *et al*., 2022).

Of special concern to other states are the activities of Chinese telecommunication multinationals in the global market. This is likely due to the National Intelligence Law of the PRC in 2017, which Article 7 states that "all organisations and citizens shall support, assist, and cooperate with national intelligence efforts [work] in accordance with law" (China Law Translate, 2017). As a result, there have been accusations that Huawei and ZTE devices and systems have been used to spy on their customers to abide by the Chinese law, although the companies themselves deny it (Hamilton, 2018; Hamilton & Ohlberg, 2020; Kaska *et al*., 2019; Mascitelli & Chung, 2019). However, in 2021, Bloomberg reported that in 2012, China used Huawei equipment "as a conduit for espionage" in Australia in an incident that substantiated suspicions in both countries [Australia and the United States] about the company and its relationship to Chinese intelligence (Robertson & Tarabay, 2021). In February 2018, FBI Director Chris Wray warned against public servants and State agencies buying Huawei and ZTE phones, and in May that year, the Pentagon banned the use of these telephones on United States military bases (Salinas, 2018; Shaban, 2018). Australia was the first country to ban Huawei from its 5G networks (Slezak & Bogle, 2018). In May 2019, President Trump, by National Security Order, effectively banned Huawei from the United States market (Keane, 2021). To date, at least seven other countries, all United States allies, have banned Huawei from their 5G networks; others, such as India, Spain, and Vietnam, have taken what the Council on Foreign Relations calls a

"quieter approach". Yet the American think tank has acknowledged that "China's Huawei is Winning the 5G Race" (Sacks, 2021). The company has established a significant presence in potential markets such as South America, Africa, Central Asia, and Southeast Asia, including the Philippines, Malaysia, Indonesia, and Thailand. Accordingly, although the PRC is not getting blowback from all quarters, it is raising concerns and suspicions that will affect the abilities of its global corporations to conduct business. China's economic statecraft, motivated in large part by its domestic policy goals, has created uncertainty for the international political economy, and in overreaching, has suffered political blowback.

8. Security: Growing Assertiveness

Graham Allison's "Thucydides Trap" suggests that war can result when a rising state threatens the hegemony of an existing great power (Allison, 2017). The PRC seeks security for its economic construction and transformation into a great power. This includes building a "combat-ready" modern military and indicating a willingness to use it. Xi Jinping's recent report to the Twentieth Party Congress in 2022 indicates a growing focus on national security, with 91 mentions of the word "security" (安全 *anquan*) (Lin et al., 2022). As the Chairman of the Central Military Commission, Xi has long stated his ambitions to build a strong military force that "can fight to win" (能打胜仗 *nengda shengzhang*) (Xi, 2014b). In the Nineteenth National Congress in 2017, Xi announced a road map for China's national defence and military modernisation: enhance basic mechanisation and informatisation by 2020, achieve fundamental national defence and military modernisation by 2035, and fully transform into a world-class armed force by the middle of the 21st century (Xi, 2017). Over the last ten years, China's military has developed significantly. The defence budget increases every year "in line with the overall level of economic development". The Chinese government announced a 2022 defence budget of USD229.5 billion, a nominal year-on-year increase of 7.1 per cent (Grevatt & MacDonald, 2022; Jash, 2022).

The Navy, in particular, has been allocated more resources to accommodate the expansion of China's overseas interests. From 2013 to 2020, the Navy commissioned an average of 16.5 new vessels every year (Chan, 2022). It has introduced new generations of submarines, destroyers, frigates, cruisers, and amphibious ships for sea power projection, as well as

three aircraft carriers. Since 2015, the number of ships in the PLA Navy has surpassed that of the United States Navy, with a total of 348 ships in 2021 (Congressional Research Service, 2022). Beijing has also increased its naval paramilitary capability. The number of patrol vessels available to Chinese coast guard agencies has increased from approximately 156 in 2012 to 524 in 2020 (Guilfoyle & Chan, 2022). The China Coast Guard has vessels of up to 12,000 tonnes and has refitted ex-naval vessels as patrol ships, including several Type-053H2G frigates it received from the PLA Navy in 2015 (Wang, 2015). Although China's defence capability is not yet competitive with that of the United States' armed forces, the growth in both military and paramilitary capability concerns observers who are worried by signs that it is willing to use its military power aggressively.

With the increase in military capability, the PRC has gradually developed more intimidating behaviours. The territorial dispute in the South China Sea is a prominent example of the PRC's growing assertiveness in maritime security. In 2016, the Permanent Court of Arbitration ruled invalid China's claim to exclusive control of the maritime area within the "nine-dash line" under the United Nations Convention on the Law of the Sea (Permanent Court of Arbitration, 2016; Sison III, 2018). The claim directly affects maritime routes, fishing zones, reefs, and other features that are also variously claimed by Brunei, Indonesia, Malaysia, the Philippines, Taiwan, and Vietnam; it would see up to 90 per cent of several states' exclusive economic zones ceded to the PRC (Sison III, 2018). To shape the behaviour of its neighbours and rivals, China has utilised the full spectrum of coercive tools, including diplomatic sanctions, economic sanctions, and military coercion (Zhang, 2019), threatening freedom of navigation along sea lines of communication, maritime trade, and the economic security of neighbouring states. To some extent, the Party's legitimacy increases through these assertive behaviours, since it can demonstrate that national rejuvenation becomes partially successful under the CPC's leadership. However, an assertive security policy has given the Party less room to wiggle. On the one hand, it needs to be constant and continuous. If one day the Party is unable to undertake more assertive responses in the South China Sea, its legitimacy can potentially be undermined.

Tensions have risen in the Taiwan Strait under Xi Jinping, who has focused on the issue of Taiwan's "reunification" with the mainland. In 2019, on the fortieth anniversary of the *Letter to Taiwan Compatriots*, in

which the post-Mao leadership first used the word "reunification" instead of "liberation", Xi declared that the Taiwan issue and the historic mission of peaceful unification cannot be passed on to the next generation to resolve. He urged the Taiwanese people to engage with the idea of "one country, two systems" (Xi, 2019) – the same formulation by which Hong Kong had been promised no change in its way of life for 50 years. If this is successful, it will be a significant achievement for the CPC. However, this becomes less likely to happen after several wrongful moves. The Taiwanese people watched closely as the National Security Law imposed on Hong Kong in 2020 destroyed the promise of "one country, two systems". Beginning with the visit of US House of Representatives Speaker Nancy Pelosi in August 2022, the PLA conducted a number of live-fire military exercises and missile tests in six zones around the island. Missiles fell in waters adjacent to Taiwan's marine borders as well as those of Japan and the Philippines' economic zone. The PLA also flew aircraft across the Taiwan Strait median line more frequently than ever before – 302 times in just a month (Lin *et al.*, 2022). Surely, these intimidating activities will increase the Party's domestic power base in the short term. However, the CPC needs to be more careful since any miscalculation could risk triggering a regional or even global war. On the one hand, it needs to continue the firm position on the Taiwan issue to maintain its legitimacy. On the other hand, rationally speaking, the CPC would not be willing to escalate the tension into a military conflict, given that being involved in a war that it is unlikely to win will affect the Party's legitimacy at home. Then, a question remains: To what extent is growing assertiveness across the Taiwan Strait helpful for the CPC's unfinished business in Taiwan?

9. Global Governance: Our Model is Better than Yours

Great powers such as China have the capacity to impose upon and restrict the global political economy (Ping, 2017). Shifting its strategy from "keeping a low profile" to "striving for achievement" (有所作为 *yousuo zuowei*) (Yan, 2014), the CPC has become more insistent on its right to express its great power capacity in support of what it defines as its national interests. This includes creating a beneficial regional environment for China's national development, including by attempting to dominate discourse in regional and global governance (Xi, 2014b).

One way in which the PRC shows its great power superiority is through its response to criticism from the international community that issues, including anything pertaining to Hong Kong, Tibet, Xinjiang, and Taiwan, are purely PRC "internal affairs". The CPC's control over its political system and economy has allowed it repeatedly to resist pressure for democratic reform, quash public protests, restrict religious and other freedoms, and block information via censorship of media and the internet. The CPC controls the domestic narrative by propagating the ideologically "correct" interpretation of events in media, educational settings, and beyond, and policing "dangerous thought" (Johnson, 2021; McGregor, 2011; Shambaugh, 2007). Its response to criticism of human rights abuses in China by Japan's parliament is typical, with Foreign Ministry spokesperson Zhao Lijian stating that the issues "are purely China's internal affairs, bear on China's sovereignty and territorial integrity, and allow no irresponsible comment by any external forces" (Ministry of Foreign Affairs, 2022). Such uncompromising rhetoric, backed by growing power, enables overreach and disables the kind of useful dialogue that could lead to compromise and enhance the PRC's global standing.

Meanwhile, the CPC tries to present its policies as an alternative path for China (Zhen, 2021). China's aspirations to be the "reformer" of the existing international order can be seen in, for instance, its active engagement in oceans governance (Mazarr *et al*., 2018; Tyler, 2019). It criticises the existing maritime order as serving the interests of traditional sea powers (Fu & Chen, 2018; Yang, 2019). The Fourteenth Five-Year Plan of 2021 states that China aims to promote the "establishment of a fair and reasonable international maritime order" and a "maritime community of shared destiny" (State Council, 2021) – an echo of Xi's broader foreign relations goal of creating a "community of shared destiny" in the region and beyond. While Beijing has not clarified exactly what this would entail, its actions in several areas illustrate. China has also been actively involved in Antarctica and on the issue of marine sustainability in the United Nations (Li, 2015; Xu, 2018; Lanteigne, 2020). Essentially, the PRC attempts to protect its national interests through self-serving reforms to global governance structures.

These "reforms", to a certain extent, increase the CPC's legitimacy in its home base, as it demonstrates China's gradual leadership in global governance. However, liberal states, such as Australia and the United States, have raised concerns that China challenges existing norms and the existing

liberal rule-based order. For example, Beijing pursues activities that are grey areas in international maritime law to establish legitimacy for its claims over the South China Sea, regarding Taiwan and the broader region (Lin, 2022; Dutton, 2019; Erickson *et al.*, 2019; Guilfoyle, 2019; Zhang, 2019), by employing "civilian instruments to achieve objectives sometimes reserved for military capabilities" (Mazarr, 2015). Such activities include the coast guard conducting "law enforcement" operations in contested maritime space, harassment of fishing vessels from other states by maritime militias, and reclaiming land on reefs and building military installations on them. While the PRC claims that it is "reforming" the maritime order, others view China as revisionist, which is slowly decoupling from the existing international system. Under such context, China's international status decreases. Consequently, the Party's credibility at home may potentially be affected, as global prestige has been one of the major sources of its legitimacy.

The "dynamic Zero-COVID" policy, as an example of domestic policy overreach, was also an attempt to promote China's global prestige, though the impact was, in fact, the opposite. Beginning in 2020, China created propaganda extolling the "China solution" that was "ostensibly directed at foreign countries" but in reality was for domestic consumption, to show the "benefits of party rule" (McGregor, 2020). It attempted to cultivate the idea of "external perceptions of China as a positive force, centred around themes of responsibility and generosity" (Rolland, 2020). In 2020, Chinese citizens viewed images of Chinese planes delivering medical masks and equipment to advanced countries such as Italy (Balmer, 2020). It framed Australia's demand for an independent inquiry into the virus's origins as an insult to Chinese sovereignty, and spread various conspiracy theories that claimed the virus had originated with US army personnel and facilities. Propaganda stressed the heroism and Xi-led success of China's efforts against the novel coronavirus while amplifying the relative lack of success elsewhere, including in India and the US – sometimes in such self-assured or subtly dismissive language that it inspired blowback.

The Party's legitimacy would have increased if the policy had proven to be successful. It was not, however. After most countries began to "live with COVID", Beijing continued to adhere to its "dynamic Zero-COVID" approach, only to justify that the "China Model" was superior to the West based on its relatively low COVID death rate (Chan & Lee, 2022; Buckley, 2021). Despite dissatisfaction from its people, the CPC continued frequent

mass testing, intense surveillance, isolation, quarantine, and border closures. As the months wore on, the Chinese people grew increasingly frustrated and critical. A few days before the Congress began, a hand-written banner hung from Sitong Bridge in Beijing's northwest Haidian district: "We want to eat, not do coronavirus tests; reform, not the Cultural Revolution. We want freedom, not lockdowns; elections, not rulers. We want dignity, not lies. Be citizens, not enslaved people" (Shepherd, 2022). Additionally, in late November 2022, public anger spread across China towards widening COVID-19 lockdowns. Protests and demonstrations first occurred in Xinjiang, then erupted nationwide – the first time since 1989. People not only went against the restrictive social distancing policy but also began to call for Xi Jinping and the CPC to step down (Wong & Williams, 2022; Birtles, 2022). By the end of 2022, the Party began to modify the policy slightly. Clearly, as a policy to promote China's global prestige, the "dynamic Zero-COVID" policy has proven to be ineffective. Instead, it can quickly turn into an anti-party protest due to the economic and social crisis, which undermines the CPC's legitimacy domestically.

10. Impacts of the Not-So-Peaceful Rise

Thanks to the suppression of dissent, ideological indoctrination, and the CPC's control over social and other media, China's assertive foreign policy appears to be well received on the home front (Fewsmith, 2021; Shirk, 2022). It reinforces Xi Jinping's image as someone who strongly represents China's interests abroad. With other points of view suppressed, it helps to shape how its citizens view the world – including those involved in formulating the PRC's foreign policy (Wang, 2019).

Nevertheless, in a broader context, China's international actions may potentially undermine the Party's power base at home. The CPC creates a sense of patriotic pride for the country's international accomplishments and its growing global prestige, which has been central to Party legitimacy as it pursues prosperity and strength (Dickson, 2016). For a long time, the growing international status has been based on global integration and friendly relations. However, foreign policy assertiveness has created antagonism towards the CPC and the PRC in the international sphere. Beijing's position in the Russo-Ukraine war has been one of the examples. While most of the world is on Ukraine's side, China receives criticism for supporting Russia. "Oriented around the need to counter the United

States and its allies and partners" (Greitens, 2022), it is losing popularity outside China. In the context of United States-China relations, although a number of developing countries have embraced the "China Model", which does not require them to adopt liberal democracy, it has alarmed observers like Donald Trump's Secretary of State Mike Pompeo and others in the Washington establishment (Clarke, 2020; Pompeo, 2020). The Biden administration's 2022 National Security Strategy identifies the PRC as "the only competitor [to the US] with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to advance [that] objective" (The White House, 2022).

11. Australia's Perceptions

Australia, meanwhile, is concerned that China's activities in the Indo-Pacific could undermine stability in the country's immediate region (Department of Defence, 2020). Canberra is worried about the effects on regional sovereignty, security, democracy, and adherence to the current international rules-based order. As suggested by former national security adviser John Lee, an expert on Chinese political economy and Indo-Pacific strategic affairs:

> *Hubris and overreach will come back to bite. China has crossed the line too far and too many times. Democracies in North America, Europe, and Asia are starting to talk in similar ways and move in similar directions, albeit at different speeds as democratic processes are always messy and inelegant (Lee, 2021).*

In response to concerns over China's foreign policy, Australia announced, via the 2020 Defence Strategic Update and 2020 Force Structure Plan, that it would spend AUD800 million to purchase AGM-158C LRASM (long-range anti-ship missiles) for its F/A-18F Super Hornets, AUD1 billion to create a sovereign missile programme, along with the formation of AUKUS and the acquisition of nuclear-powered submarines (ABC, 2021; Davis, 2020; Galloway & Hartcher, 2020; Prime Minister of Australia, 2021). The Quad, AUKUS, and Australia's domestic and foreign policy responses rebuke the PRC for underestimating the capacity and resolve of states like Australia to counter its hegemonism. Arguably, the most concerning development for Beijing is AUKUS, the 2021 collective security pact that emerged as a

response to fears over China's aggressive foreign policy behaviour. Under the agreement, Australia will purchase nuclear submarines and build an east coast base from which the AUKUS powers (Australia, the United Kingdom, and the United States) will be able to contain PRC power projection in the Indo-Pacific (Pfluke, 2019).

Arguably, foreign antagonism will often lead to a strengthening of a regime's domestic power base. This is somewhat of a case in China, especially when nationalism has been used by the CPC. Nationalist sentiment has historically been mobilised by the Chinese leadership to consolidate internal legitimacy, particularly during periods of external pressure or diplomatic conflict. The CPC has effectively framed foreign criticism and geopolitical rivalry as threats to national sovereignty, thereby reinforcing domestic unity and support for the regime (Ali, 2007). However, when foreign policy overassertiveness creates more diplomatic challenges, the Party's legitimacy may be affected. This is because one of the Party's achievements in the past decades has been the country's growing global prestige, which is based on the continual engagement with the outside world. Therefore, if the State continues its decoupling foreign policy approach, it will lose popularity abroad. Consequently, the Party's domestic legitimacy may be undermined when China's international status declines.

Furthermore, foreign policy assertiveness has declined China's economic status, which may threaten the Party's popularity at home. China plays a major part in the global economy, but it is not the only player. More than 35 per cent of China's GDP is reliant on merchandise trade (World Bank, 2022). The PRC is uniquely vulnerable economically because of its high dependence on energy imports and exports to the global liberal market (Ping, 2014). For instance, China is relatively dependent on Australia for iron ore, coal, and other commodities it needs to maintain economic development and, therefore, political stability. There are very few sources of reliable supply, high-volume, low-cost iron ore, with Australia's proximity also making it highly convenient as a source. In addition, without access to the consumer markets of the developed world (the United States and the European Union alone have a combined population of almost 800 million), as well as globally sourced technologies, corporate knowledge, finance, and innovation, the PRC would not have experienced such rapid development. Without ongoing access, which is threatened by foreign policy assertiveness, the China Dream of national rejuvenation will falter.

Over the course of the economic reforms, the CPC made a deal with the Chinese people—in essence, "stay out of politics and we will look after you". This social contract is harder to keep when foreign policy assertiveness makes it more difficult for Chinese companies to survive, students abroad are restricted in what they can study or come under suspicion of espionage, and energy shortages lead to blackouts and heating issues in winter. As a result of a trade war with the United States, Chinese investment there plummeted in 2019 by nearly 90 per cent (Rappeport, 2019). Concerns over human rights violations have led to at least 28 Chinese organisations being blacklisted, "effectively blocking those entities from buying American products" (Mozur & Swanson, 2019). In 2022, the Biden administration issued a further ban to implement "necessary controls" on the export of "advanced computing integrated circuits (ICs), computer commodities that contain such ICs, and certain semiconductor manufacturing items" to China, due to concerns about the Chinese domestic surveillance programme (Bennett, 2022). This was devastating news for the Chinese technological industries, which heavily rely on these advanced chips in their manufacturing process. Despite cracking down on some tech leaders for other reasons, the CPC needs to tread carefully with business, as profit losses and the shedding of workers will inevitably lead to social problems.

China's domestic situation has become even more difficult to sustain due to the CPC's obsession with its "dynamic Zero-COVID" policy. As part of the campaign of promoting the superiority of the China Model, the regime of snap and extended lockdowns, including factories and other places of business, time-consuming mass testing, and sometimes forced quarantine, contributed to the plunge in the nation's second-quarter GDP growth to only 0.4 per cent in 2022 (Tang, 2022). By the third quarter, it was up to 3.9 per cent and expected to rise by at least a percentage point in 2023 – yet this still counted as sluggish by the standards of the post-reform era (Reynolds, 2022).

The economy is facing other challenges as well. The prolonged Zero-COVID policy began to cause serious damage to the economy in 2022 when youth unemployment rose to just under 20 per cent (Cai, 2022; Bram, 2022). According to the World Bank, exports of goods and services as a percentage of Chinese GDP declined from 36 per cent in 2006 to 20 per cent in 2021 (Liu, 2022); in 2020, to address this trend, the CPC adopted the strategy of "dual circulation" – building up the domestic market to mitigate reliance on

exports – but it is not clear whether the Xi Jinping administration has the capacity to take on all the vested interests that such a restructuring would require. Putting money into the hands of consumers would also require a diversion of funds from the State sector, which could weaken the Party's tight control of the economy. Accordingly, while a more rational policy and less assertiveness would not solve all these problems, this article argues that they would help to avoid some of the problems that have sparked such dissatisfaction.

12. Conclusion

This article has examined how assertiveness in foreign policy could undermine the Party's power base at home. The CPC's legitimacy is central to two factors: China's rising international status and economic success. Both factors are linked to the continual global integration and friendly relations. More specifically, China's status as a great power nowadays is due to a combination of access to the global liberal market as the "world's factory" and its biggest market, and one that attracts significant foreign investment, and the statecraft of the CPC under Deng that used neo-mercantilist policies to develop through export-oriented industrialisation while keeping a low profile in international affairs. However, because of the assertiveness of foreign policy, these two factors that determine the Party's prosperity and strength are at risk.

Economic success and political stability have made the CPC increasingly confident in its governing model. Xi Jinping's cultural nationalist worldview argues that China's development and rapid economic growth have primarily been a result of taking the "correct" socialist path. In overestimating the ideological component of success, it has underestimated how much it has benefited from 40 years of economic reform. Deliberately rejecting Deng's "hide and bide" approach, which enabled those reforms to proceed relatively smoothly and in cooperation with the existing global economic order, the CPC has been tentatively overreaching its foreign policy to demonstrate its place in the world as a great power and to achieve ideological and geopolitical, as opposed to pragmatic goals.

Frankly, the existing international system is relatively unfavourable to China, as it is heavily skewed in favour of the Western liberal order dominated by the United States. It needs to be more inclusive (Ikenberry, 2018; 2020). However, the CPC, rather than reforming the existing global

order, as it claims it wants to do, has ended up decoupling from it. Aspects of its economic statecraft, acts of military coercion or aggression, wolf-warrior diplomacy and its "dynamic Zero-COVID" measures have gradually disengaged China from the outside world.

Clearly, the CPC has overestimated its capacity in foreign policy and has encountered blowback. The global political economy is far larger and more complex than the CPC seems to have considered. Its pursuit of economic statecraft, where it appears to border on coercion or results in other countries taking on high loads of debt, has made it unpopular with weaker states, who feel their autonomy threatened. Developed liberal states, such as the United States and Australia, have become concerned that China is challenging the global liberal market rules-based order in ways that will only benefit itself. The PRC's foreign policy assertiveness has resulted in some pushback from states, firms, and people from these countries. It seems that for all the talk of "communities of shared destiny", the CPC's China Dream is only for China, and not for all. Overall, these overreaching foreign policy decisions damage China's international status, and consequently may affect the Party's legitimacy, which centres on the country's growing global prestige.

The continual economic success, another source of the CPC's legitimacy, is also affected by foreign policy assertiveness. Businesses and citizens in China have begun to suffer the consequences from these poor decisions in foreign policy, including sanctions, termination of foreign investments, and bans of overseas visits. These have resulted in a downturn in the domestic economy and increased their frustration towards the Party. In other words, if China continues to make these international mistakes, it will damage the State's economic performance. Ironically, the CPC pursues a policy to continue its economic success and global prestige to maintain its legitimacy domestically. However, the more it does, the more blowback it receives.

When the reformists took power in the late 1970s, China was still suffering from the consequences of Mao's extreme economic and foreign affairs policies, and the Party was facing a legitimacy crisis. It was Deng Xiaoping's creation of socialist State-directed market capitalism and engagement with the global liberal market that rescued the CPC, not some abstract "correct" socialist path. The miscalculations of the CPC have led it to foreign policy overassertiveness. They may create barriers to the PRC's future success and undermine the foundations of its present.

Reference List

ABC (2021, March 31), "Australia to Produce Its Own Guided Missiles as Part of Billion-Dollar Defence Manufacturing Plan", *ABC News*. https://www.abc.net.au/news/2021-03-31/government-weapons-facility-guided-missiles-made-in-australia/100039990.

Ali, G. (2007), "The Changing Role of Nationalism Within China's Domestic and Foreign Policies", *Strategic Studies*, Vol. 27, No. 4, pp. 164-178. http://www.jstor.org/stable/45242424.

Allison, Graham (2017), *Destined for War: Can America and China Escape Thucydides' Trap?*, Boston: Houghton Mifflin Harcourt.

Bagshaw, E. [@ErykBagshaw] (2020, November 18), *[Tweet]*. X (formerly Twitter). https://x.com/ErykBagshaw/status/1328983898911457280/photo/1.

Balmer, C. (2020, March 14), "China Sends Medical Supplies, Experts to Help Italy Battle Coronavirus", *Reuters*. https://www.reuters.com/article/us-health-coronavirus-italy-respirators-idUSKBN2101IM.

BBC (2021, July 2), "CCP 100: Xi Warns China Will Not Be 'Oppressed' in Anniversary Speech", *BBC News*. https://www.bbc.com/news/world-asia-china-57648236.

Bennett, D. (2022, October 14), "Biden's Chip Restrictions on China Show Shift in US Views on Technology", *Bloomberg*. https://www.bloomberg.com/news/newsletters/2022-10-14/biden-s-chip-restrictions-on-china-show-shift-in-us-views-on-technology.

Birtles, B. (2022, November 28), "China's Biggest Protests Since 1989 Signal the End of Xi Jinping's Hopes to Beat the Virus", *ABC News*. https://www.abc.net.au/news/2022-11-28/chinas-biggest-protests-since-1989-signal-the-end-of-xi-jinping/101704556.

Blanchette, J. (2021, January 22), "Confronting the Challenge of Chinese State Capitalism", *Centre for Strategic and International Studies*. https://www.csis.org/analysis/confronting-challenge-chinese-state-capitalism.

Bram, B. (2022, August 16), "The 19 Percent: The Social Consequences of China's Youth Unemployment Rate", *Asia Society*. https://asiasociety.org/policy-institute/19-percent-social-consequences-chinas-youth-unemployment-rate.

Buckley, C. (2021, March 3), "'The East is Rising': Xi Maps out China's Post-Covid Ascent", *New York Times*. https://www.nytimes.com/2021/03/03/world/asia/xi-china-congress.html.

Bureau of Industry and Security, US Department of Commerce. (2022), *Implementation of Additional Export Controls: Certain Advanced Computing and Semiconductor Manufacturing Items; Supercomputer and Semiconductor End Use; Entity List Modification* (RIN 0694–AI94).

Cai, J. (2022, August 30), "Young and Out of a Job in China: How Covid-19 is Creating an Unemployment Crisis", *South China Morning Post*. https://www.scmp.com/news/china/politics/article/3190569/young-and-out-job-china-how-covid-19-creating-unemployment.

Chan, Edward S. Y. (2022), *China's Maritime Security Strategy: The Evolution of a Growing Sea Power*, Oxfordshire: Routledge.

Chan, L. H., & Lee, P. K. (2022, December), "How Nationalism and Xenophobia Drive China's 'Zero COVID' Policy", *The Diplomat*. https://thediplomat.com/2022/12/how-nationalism-and-xenophobia-drive-chinas-zero-covid-policy/.

Cheng, E. (2018), "Marxism and its Sinicized Theory as the Guidance of the Chinese Model: The 'Two Economic Miracles' of the New China", *World Review of Political Economy*, Vol. 9, No. 3, pp. 296-314. https://doi.org/10.13169/worlrevipoliecon.9.3.0296.

China Law Translate. (2017), "*Zhonghua Renmin Gongheguo Guojia Qingbao Fa* [China's National Intelligence Law]". https://www.chinalawtranslate.com/en/national-intelligence-law-of-the-p-r-c-2017/.

Christensen, T. J. (2002), "The Contemporary Security Dilemma: Deterring a Taiwan Conflict", *Washington Quarterly*, Vol. 25, No. 4, pp. 5-21. https://doi.org/10.1162/016366002760252509.

Christensen, T. J. (2006), "Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy Toward East Asia", *International Security*, Vol. 31, No. 1, pp. 81-126. https://doi.org/10.1162/isec.2006.31.1.81.

Clarke, M. (2020, September 4), "Is China Heading Towards Revolutionary Revisionism?", *Australian Institute of International Affairs*. https://www.internationalaffairs.org.au/australianoutlook/is-china-heading-towards-revolutionary-revisionism/.

Congressional Research Service (2022, March), *China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress.* https://www.congress.gov/crs-product/RL33153.

Cyrill M. (2018, December 28), "What Is Made in China 2025 and Why Has it Made the World So Nervous?", *China Briefing*. https://www.china-briefing.com/news/made-in-china-2025-explained/.

Dai, B. G. (2010, December 7), "*Jianchi Zou Heping Fazhan Daolu* [Adhere to the Path of Peaceful Development]. *Zhongguo Xinwen Wang* [China News Network]. http://www.chinanews.com/gn/2010/12-07/2704984.shtml.

Davis, M. (2020, July 2), "Australia Is Getting the Long-Range Missiles Needed for a Contested Indo-Pacific", *Australian Strategic Policy Institute*. https://www.aspistrategist.org.au/australia-is-getting-the-long-range-missiles-needed-for-a-contested-indo-pacific/.

Department of Defence, Government of Australia (2020), *Defence Strategic Update*, Canberra: Department of Defence.

Dickson, Bruce J. (2016), The Dictator's Dilemma: The Chinese Communist Party's Strategy for Survival, Oxford: Oxford University Press.

Dutton, Peter A. (2019), "Conceptualizing China's Maritime Gray Zone Operations", in Andrew S. Erickson and Ryan D. Martinson (eds), *China's Maritime Gray Zone Operations*, Annapolis: Naval Institute Press, pp. 30-37.

Dziedzic, S. (2021, March 26), "Australia's Ambassador to China Says Beijing's Trade Behaviour Is 'Vindictive'", *ABC News*. https://www.abc.net.au/news/2021-03-26/australian-ambassador-to-china-says-trade-behaviour-vindictive/100030700.

Erickson, A. S., Hickey, J., and Holst, H. (2019), "Surging Second Sea Force: China's Maritime Law-Enforcement Forces, Capabilities, and Future in the Gray Zone and Beyond", *Naval War College Review*, Vol. 72, No. 2, pp. 1-25.

EurAsian Times Desk (2022, March 16), "China Threatens to Stop CPEC Funding to Pakistan Over Unpaid Dues; Imran Khan's Beijing Visit Fails to Break Ice?", *The EurAsian Times*. https://eurasiantimes.com/china-threatens-to-stop-cpec-fundings-to-pakistan-over-unpaid-dues/.

Fewsmith, Joseph (2013), "Xi Jinping's Fast Start", *China Leadership Monitor*, Vol. 41, pp. 1-7.

Fewsmith, Joseph (2021), *Rethinking Chinese Politics*, Cambridge: Cambridge University Press.

Forbes (2025), "The Global 2000", *Forbes*. https://www.forbes.com/lists/global2000/.

Fu, M. and Chen, Y. (2018), "*Dui Xinshiqi Zhongguo Canyu Quanqiu Haiyang Zhili De Sikao* [Thoughts on China's Participation in Global Ocean Governance in the New Era]", *Taipingyang Xuebao* [Pacific

Journal], Vol. 26, No. 11, pp. 15-24.

Galloway, A. and Hartcher, P. (2020, June 30), "Australia to Buy Ship-Killing Missiles and Shift Focus to Indo-Pacific", *Sydney Morning Herald*. https://www.smh.com.au/politics/federal/australia-to-buy-ship-killing-missilesnd-shift-focus-to-indo-pacific-20200630-p557op.html.

Greitens, S. C. (2022), "China's Responses to War in Ukraine", *Asian Survey*, Vol. 62, No. 5-6, pp. 751-781.

Grevatt, J. and MacDonald, A. (2022, March 7), "China Increases 2022 Defence Budget by 7.1%", *Janes*. https://www.janes.com/osint-insights/defence-news/industry/china-increases-2022-defence-budget-by-71.

Guilfoyle, D. (2019), "The Rule of Law and Maritime Security: Understanding Lawfare in the South China Sea", *International Affairs*, Vol. 95, No. 5, pp. 999-1017.

Guilfoyle, D. and Chan, E. S. Y. (2022), "Lawships or Warships? Coast Guards as Agents of (In)stability in the Pacific and South and East China Sea", *Marine Policy*, Vol. 140, pp. 1-8.

Hamilton, Clive (2018), *Silent Invasion: China's Influence in Australia*, Melbourne: Hardie Grant Books.

Hamilton, C. and Ohlberg, M. (2020), *Hidden Hand: Exposing How the Chinese Communist Party Is Reshaping the World*, Melbourne: Hardie Grant Books.

Hu, W. (2022), "*Deng Xiaoping Shi Ruhe Tongchou Guonei Guoji Liangge Daju De?*" [How Did Deng Xiaoping Manage Both Domestic and International Situations?]". https://d.wanfangdata.com.cn/thesis/Y4115092.

Ikenberry, G. J. (2017), "A New Order of Things? China, America, and the Struggle Over World Order", in Asle Toje (ed), *Will China's Rise Be Peaceful? The Rise of a Great Power in Theory, History, Politics, and the Future*, Oxford: Oxford University Press, pp. 33-56.

Ikenberry, G. J. (2020, July/August), "The Next Liberal Order: The Age of Contagion Demands More Internationalism, Not Less", *Foreign Affairs*. https://www.foreignaffairs.com/articles/united-states/2020-06-09/next-liberal-order.

Jash, A. (2022), "China's 2022 Defense Budget: Behind the Numbers", *China Brief*, Vol. 22, No. 8, pp. 6-9.

Johnson, M. D. (2021), "Propaganda and Security from Mao Zedong to Xi Jinping", in James Farley and Matthew D. Johnson (eds), *Redefining*

Propaganda in Modern China: The Mao Era and Its Legacies, Oxfordshire: Taylor & Francis Group, pp. 241-65.

Johnston, A. I. (2008), *Social States: China in International Institutions, 1980-2000*, Princeton: Princeton University Press.

Joske, Alex (2022), *Spies and Lies: How China's Greatest Covert Operations Fooled the World*, Melbourne: Hardie Grant Books.

Kaska, K., Beckvard, H. and Minárik, T. (2019), "Huawei, 5G and China as a Security Threat", *NATO Cooperative Cyber Defence Centre of Excellence*, https://www.ccdcoe.org/uploads/2019/03/CCDCOE-Huawei-2019-03-28-FINAL.pdf.

Keane, S. (2021, September 30), "Huawei Ban Timeline: Detained CFO Makes Deal with US Justice Department", *Cnet.com*. https://www.cnet.com/news/privacy/huawei-ban-timeline-detained-cfo-makes-deal-with-us-justice-department/.

Kearsley, J., Bagshaw, E. and Galloway, A. (2020, November 18), "'If You Make China the Enemy, China Will Be the Enemy': Beijing's Fresh Threat to Australia", *Sydney Morning Herald*. https://www.smh.com.au/world/asia/if-you-make-china-the-enemy-china-will-be-the-enemy-beijing-s-fresh-threat-to-australia-20201118-p56fqs.html.

Kent, A. (2002), "China's International Socialization: The Role of International Organizations", *Global Governance: A Review of Multilateralism and International Organizations*, Vol. 8, No. 3, pp. 343-364. https://doi.org/10.1163/19426720-00803007.

Kent, Ann E. (2007), *Beyond Compliance: China, International Organizations and Global Security*, Redwood City: Stanford University Press.

Kim, S. E., Perlman, R. L., & Zeng, G. (2025). "The Politics of Rejection: Explaining Chinese Import Refusals", *American Journal of Political Science*, Vol. 69, No. 2, pp. 438-454. https://doi.org/10.1111/ajps.12883.

Kuang, W., Fang, J. and Jose, H. (2019, April 22), "Australia's Move to Scrap Victoria-China Belt and Road Agreement Goes Viral on Weibo", *ABC News*. https://www.abc.net.au/news/2021-04-22/australia-china-belt-road-initiative-cancellation-viral-weibo/100086594.

Lampton, David M. (2008), *The Three Faces of Chinese Power: Might, Money, and Minds*, Berkeley: University of California Press.

Lanteigne, M. (2020, April 28), "Identity and Relationship-Building in China's Arctic Diplomacy", *The Arctic Institute*. https://www.

thearcticinstitute.org/identity-relationship-building-china-arctic-diplomacy/.

Lardy, Nicholas R. (2001), *Integrating China into the Global Economy*, Washington, DC: Brookings Institution Press.

Lee, J. (2021, June 11), "Hubris and Overreach Will Come Back to Bite China", *United States Studies Centre*. https://www.ussc.edu.au/analysis/hubris-and-overreach-will-come-back-to-bite-china.

Li, L. Q. (2015), "*Quanqiu Haiyang Zhili Yu Zhongguo Jiaose* [Global Maritime Governance and China's Role]", in Feng Zhu (ed), *21 Shiji De Haiquan: Lishi Jingyan Yu Zhongguo Keti* [Sea Power in the 21st Century: Historical Experiences and China's Issues], *Shijie Zhishi Chubanshe* [World Knowledge Press], pp. 276-311.

Lin, B., Garafola, C. L., Mcclintock, B., Blank, J. Hornung, J. W., Schwindt, K., Moroney, J. D. P., Orner, P., Borrman, D., Denton, S. W., and Chambers, J. (2022), "Competition in the Gray Zone", *Rand Corporation*. https://apps.dtic.mil/sti/trecms/pdf/AD1165525.pdf.

Lin, B., Hart, B., Funaiole, M. P. and Lu, S. (2022), "China's 20th Party Congress Report: Doubling Down in the Face of External Threats", *Center for Strategic & International Studies*. https://www.csis.org/analysis/chinas-20th-party-congress-report-doubling-down-face-external-threats.

Lin, B., Hart, B., Funaiole, M. P., Lu, S., Price, H. and Kaufman, N. (2022), "Tracking the Fourth Taiwan Strait Crisis", *The China Power*. https://chinapower.csis.org/tracking-the-fourth-taiwan-strait-crisis/.

Liu, Z. Y. Z. (2022, November 1), "Zero-COVID is the Least of Xi's Economic Problems", *Foreign Policy*. https://foreignpolicy.com/2022/11/01/zero-covid-china-economic-problems-demographics/.

Lowy Institute (2022a), "Asian Power Index 2022", *Lowy Institute*. https://power.lowyinstitute.org/countries/china.

Lowy Institute (2022b), "Are You Personally Concerned or Not Concerned About the Influence of Each of the Following Countries on Australia's Political Processes?", *Lowy Institute*. https://poll.lowyinstitute.org/charts/foreign-influence-australian-politics.

Institute for Security & Development Policy (2018, June), "Made in China 2025", *Institute for Security & Development Policy*. https://www.isdp.eu/publication/made-china-2025/.

Malpass, D. (2021, December 13), "World Bank Group President David Malpass's Interview with Handelsblatt", *The World Bank*. https://www.worldbank.org/en/news/speech/2021/12/13/world-bank-group-president-david-malpass-s-interview-with-handelsblatt.

Martina M., Yao K. and Chen Y. W. (2018, June 25), "Exclusive - Facing U.S. Blowback, Beijing Softens 'Made in China 2025' Message", *Reuters*. https://www.reuters.com/article/us-usa-trade-china-madeinchina2025-exclu-idUSKBN1JL12U.

Mascitelli, B. and Chung, M. (2019), "Hue and Cry Over Huawei: Cold War Tensions, Security Threats or Anti-Competitive Behaviour?", *Research in Globalization*, Vol. 1, No. 100002, https://doi.org/10.1016/j.resglo.2019.100002.

Mazarr, Michael J. (2015), *Mastering the Gray Zone: Understanding a Changing Era of Conflict*, Pennsylvania: US Army War College Press.

Mazarr, M. J., Heath, T. R. and Cevallos, A. S. (2018, May 21), "China and the International Order", *RAND Corporation*. https://www.rand.org/pubs/research_reports/RR2423.html.

McGregor, Richard. (2010), *The Party: The Secret World of China's Communist Rulers*, London: Allen Lane.

McGregor, R. (2011), "5 Myths About the Chinese Communist Party", *Foreign Policy*. https://foreignpolicy.com/2011/01/03/5-myths-about-the-chinese-communist-party/.

McGregor, R. (2020, July 22), "China's Deep State: The Communist Party and the Coronavirus", *Lowy Institute*. https://www.lowyinstitute.org/publications/china-s-deep-state-communist-party-coronavirus#heading-2086.

Ministry of Foreign Affairs, the People's Republic of China (2022), "Foreign Ministry Spokesperson Zhao Lijian's Remarks on the Adoption of China-Related Resolution by Japan's House of Representatives", https://www.fmprc.gov.cn/eng/xw/fyrbt/fyrbt/202405/t20240530_11349738.html.

Mozur, P. and Swanson, A. (2019, October 7), "U.S. Blacklists 28 Chinese Entities Over Abuses in Xinjiang", *The New York Times*. https://www.nytimes.com/2019/10/07/us/politics/us-to-blacklist-28-chinese-entities-over-abuses-in-xinjiang.html.

Oi, J. C. (1992), "Fiscal Reform and the Economic Foundations of Local State Corporatism in China", *World Politics*, Vol. 45, No. 1, pp. 99-126. https://doi.org/10.2307/2010520.

Pablo-Baviera, A. S. (2002), "Perceptions of a China threat: Philippine Perspective", in Herbert Yee and Ian Storey (eds), *The China Threat: Perceptions, Myths and Reality*, Oxfordshire: Routledge, pp. 253-269.

Parliament of Australia (2014, November 17), *Address by the President of the People's Republic of China*. https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:%22chamber/hansardr/35c9c2cf-9347-4a82-be89-20df5f76529b/0005%22.

Pearson, M. M., Rithmire, M., and Tsai, K. S. (2022), "China's Party-State Capitalism and International Backlash: From Interdependence to Insecurity", *International Security*, Vol. 47, No. 2, pp. 135-176.

Permanent Court of Arbitration (2016, July 12), "PCA Press Release: The South China Sea Arbitration (The Republic of the Philippines v. The People's Republic of China)". https://pca-cpa.org/en/news/pca-press-release-the-south-china-sea-arbitration-the-republic-of-the-philippines-v-the-peoples-republic-of-china/.

Pfluke, C. (2019), "A History of the Five Eyes Alliance: Possibility for Reform and Additions", *Comparative Strategy*, Vol. 38, No. 4, pp. 302-315.

Ping, J. H. (2014), "*Lingtu Zhengduozhan Beihou De Zhongshang Zhuyi Dongji* [The Mercantilist Motive for Territorial War]", East Asia Security Symposium and Conference Paper, East Asia Security Centre. https://easc.scholasticahq.com/article/5732-the-mercantilist-motive-for-territorial-war.

———. (2017), "Statecraft", in *Middle Power Statecraft: Indonesia, Malaysia and the Asia-Pacific*, Oxfordshire: Routledge, pp. 13-22.

Pompeo, M. R. (2020), "Communist China and the Free World's Future", *U.S. Department of State*. https://2017-2021.state.gov/communist-china-and-the-free-worlds-future-2/index.html.

Prime Minister of Australia (2023), *Joint Leaders Statement on AUKUS*. https://www.pm.gov.au/media/joint-leaders-statement-aukus.

Ramo, J. C. (2004), *The Beijing Consensus*, London: The Foreign Policy Centre. https://fpc.org.uk/publications/the-beijing-consensus/.

Rappeport, A. (2019, July 21), "Chinese Money in the U.S. Dries Up as Trade War Drags On", *The New York Times*. https://www.nytimes.com/2019/07/21/us/politics/china-investment-trade-war.html.

Reilly, James (2021), *Orchestration: China's Economic Statecraft Across Asia and Europe*, Oxford: Oxford University Press, p. 39.

Reynolds, O. (2022, July 15), "China: Economy Records Weakest Growth Reading Since Q1 2020 in Q2", *Focus Economics*. https://www.focus-economics.com/countries/china/news/gdp/economy-records-weakest-growth-reading-since-q1-2020-in-q2.

Robertson, J. and Tarabay, J. (2021, December 17), "Chinese Spies Accused of Using Huawei in Secret Australia Telecom Hack", *Bloomberg*. https://www.bloomberg.com/news/articles/2021-12-16/chinese-spies-accused-of-using-huawei-in-secret-australian-telecom-hack.

Rolland, N. (2020), "China's Pandemic Power Play", *Journal of Democracy*, Vol. 31, No. 3, pp. 25-38.

Sacks, D. (2021, March 29), "China's Huawei Is Winning the 5G Race. Here's What the United States Should Do to Respond", *Council on Foreign Relations*. https://www.cfr.org/blog/china-huawei-5g.

Saich, Tony (2001), *Governance and Politics of China*, London: Palgrave Macmillan.

Salinas, S. (2018, February 18), "Six Top US Intelligence Chiefs Caution Against Buying Huawei Phones", *CNBC*. https://www.cnbc.com/2018/02/13/chinas-hauwei-top-us-intelligence-chiefs-caution-americans-away.html.

Shaban, H. (2018), "Pentagon Tells U.S. Military Bases to Stop Selling ZTE, Huawei Phones", *The Washington Post*. https://www.washingtonpost.com/news/the-switch/wp/2018/05/02/pentagon-tells-u-s-military-bases-to-stop-selling-zte-huawei-phones/.

Shambaugh, D. (2007), "China's Propaganda System: Institutions, Processes and Efficacy", *The China Journal*, Vol. 57, pp. 25-58.

Shen, R. S. J. and Mantzopoulos, V. (2013), "China's 'Going Out' Policy: Inception, Evolution, Implication", *Journal of Business & Behavioral Sciences*, Vol. 25, No. 2, pp. 121-36.

Shepherd, C. (2022, October 14), "'New Tank Man': Rare Protest in Beijing Mars Xi Jinping's Moment", *The Washington Post*. https://www.washingtonpost.com/world/2022/10/14/china-protest-sitong-bridge-haidian/.

Shirk, Susan L. (2007), *China: Fragile Superpower*, Oxford: Oxford University Press.

———. (2022), *Overreach: How China Derailed its Peaceful Rise*, Oxford: Oxford University Press, p. 41.

Sipalan, J. (2019, July 25), "China, Malaysia Restart Massive 'Belt and Road' Project After Hiccups", *Reuters*. https://www.reuters.com/article/us-china-silkroad-malaysia-idUSKCN1UK0DG.

Sison III, M. P. T. (2018), "Universalizing the Law of the Sea in the South China Sea Dispute", *Ocean Development & International Law*, Vol. 49, No. 2, pp. 157-75.

Slezak, M. and Bogle, A. (2018), "Huawei Banned from 5G Mobile Infrastructure Rollout in Australia", *ABC News*. https://www.abc.net.au/news/2018-08-23/huawei-banned-from-providing-5g-mobile-technology-australia/10155438.

State Council (1991), "*Guanyu Guomin Jingji He Shehui Fazhan Shinian Guihua He Di Ba Ge Wu Nian Jihua Gangyao De Baogao* [Ten Years Proposal for National Economic and Social Development and the Eighth Five Year Plan Report]", Beijing.

———. (2021), "*Guomin Jingji He Shehui Fazhan Di Shisi Ge Wunian Jihua Gangyao* [The Fourteenth National Economic and Social Development Five Year Plan]", Beijing.

Strauss, J. C. (2021), "Ambivalent Successes, Magnificent Failures and Historical Afterlives: A Postscript to Marx and Lenin in Africa and Asia", *Third World Quarterly*, Vol. 42, No. 3, pp. 630-40.

Sutter, R. G. (2010), *Chinese Foreign Relations: Power and Policy Since the Cold War* (2nd ed.), Lanham: Rowan & Littlefield.

Tan, W. Z. and Chen, E. (2021, January 5), "Chinese Cities Reportedly Go Dark as Country Faces Shortage of Coal, a Major Australian Export", *CNBC*. https://www.cnbc.com/2021/01/05/chinese-cities-go-dark-amid-shortage-of-coal-a-key-australian-export.html.

Tang, F. (2022, November 2), "How Much is China's Economy Struggling and How Much Worse Can It Get?", *South China Morning Post*. https://www.scmp.com/economy/china-economy/article/3198040/how-much-chinas-economy-struggling-and-how-much-worse-can-it-get.

Tyler, M. C. (2019, October 9), "China's Views on International Order", *Australian Institute of International Affairs*. https://www.internationalaffairs.org.au/australianoutlook/chinas-views-on-international-order/.

Wang, J. S. (2011), "*Zhongguo De Guoji Dingwei Wenti Yu 'Taoguang Yanghui, Yousuo Zuowei' De Zhanlue Sixiang* [The International Positioning of China and the Strategic Principle of 'Keeping a Low

Profile While Getting Something Accomplished']", *Guoji Wenti Yanjiu* [International Problems Research], Vol. 2, pp. 4-9.

Wang, R. M. (2015), "*Waimei: Zhongguo Jiang 2 Sou Huweijian Gaiwei Haijing Chuan Baoliu 2 Menjian Pao* [Foreign Media: China Will Transfer 2 Frigates into Coast Guard Ships, Remain 2 Naval Cannon]", *Renmin wang* [People's Daily Online]. http://military.people.com.cn/BIG5/n/2015/0729/c1011-27379940.html.

Wang, Y. H. (2019), "The Political Legacy of Violence During China's Cultural Revolution", *British Journal of Political Science*, Vol. 51, No. 2, pp. 1-25.

White House, The (2022), *National Security Strategy*, Washington, D.C.

Wong, T. and Williams, N. (2022, November 28), "China Covid: Protests Continue in Major Cities Across the Country", *BBC*. https://www.bbc.com/news/world-asia-63771109.

World Bank Group (2022), "World Development Indicators". http://databank.worldbank.org/data/.

Xi, Jinping (2014a), *The Chinese Dream of the Great Rejuvenation of the Chinese Nation*, Beijing: Foreign Languages Press.

———. (2014b), *Xi Jinping: the Governance of China*, Beijing: Foreign Languages Press, p. 243.

———. (2017, October 28), "*Xi Jinping Zai Zhongguo Gongchandang Di Shijiu Ci Quanguo Daibiao Dahui Shang De Baogao* [Xi Jinping's Report at the Chinese Communist Party Nineteenth National Congress]", *Zhongguo gongchandang* [Communist Party of China]. http://cpc.people.com.cn/n1/2017/1028/c64094-29613660.html.

———. (2019, January 2), "*Xi Jinping Zai 'Gao Taiwan Tongbao Shu' Fabiao Sishi Zhounian Jinianhui Shang De Jianghua* [Xi Jinping's Speech at the 40th Anniversary of the Book of Letters to Taiwan Compatriots]", *Ministry of Foreign Affairs of the People's Republic of China*. https://www.fmprc.gov.cn/ziliao_674904/zt_674979/dnzt_674981/qtzt/twwt/xjpzsjstzyjh/202206/t20220606_10698873.html.

———. (2022, October 25), "*Xi Jinping Zai Zhongguo Gongchandang Di Ershi Ci Quanguo Daibiao Dahui Shang De Baogao* [Xi Jinping's Report at the Chinese Communist Party 20th National Congress]", *Zhongguo renmin gongheguo Zhongyang renmin zhengfu* [The Central Government of People's Republic of China]. http://www.gov.cn/xinwen/2022-10/25/content_5721685.html.

———. (n.d.), "*Xi Jinping Guanyu Shixian Zhonghua Minzu Weida Fuxing De Zhongguo Meng Zhaibian* [Collection Xi Jinping's Speech on Accomplishing the Chinese Dream of the Great Rejuvenation of the Chinese Nation]", *Gongchandang yuan* [Members of Communist Party of China]. http://www.12371.cn/special/xjpzyls/zgmls/1/.

Xu, H. Y. (2018), "*Zhongguo Yu Quanqiu Haiyang Zhili* [China and Global Maritime Governance]", in *Guojia Haiyangju Haiyang Fazhan Zhanlue Yanjiusuo Keti Zu* [State Oceanic Administration Institute of Marine Research Group Strategic Development] (ed), *Zhongguo Haiyang Fazhan Baogao (2018)* [China's Ocean Development Report (2018)], *Haiyang Chubanshe*, pp. 254-264.

Yan, X. T. (2014), "From Keeping a Low Profile to Striving for Achievement", *The Chinese Journal of International Politics*, Vol. 7, No. 2, pp. 153-184.

Yang, Z. W. (2019), "*Xinshi Dai Zhongguo Shendu Canyu Quanqiu Haiyang Zhili Tixi De Biange: Linian Yu Lujing* [China Deeply Engages in the Reform of Global Ocean Governance Mechanism in the New Era: Ideas and Pathways]", *Falü Kexue (Xibei Zhengfa Daxue Xuebao)* [Legal Science (Northwest University of Politics and Laws Journal)], Vol. 6, pp. 178-188.

Yong, W. and Pauly L. (2013), "Chinese IPE Debates on (American) Hegemony", *Review of International Political Economy*, Vol. 20, No. 6, pp. 1165-1188.

Zhang, K. T. (2019), "Cautious Bully: Reputation, Resolve, and Beijing's Use of Coercion in the South China Sea", *International Security*, Vol. 44, No. 1, pp. 117-159.

Zhen, L. (2021, July 6), "China Shows World an Alternative Path to Modern Future, Xi Jinping Says", *South China Morning Post*. https://www.scmp.com/news/china/diplomacy/article/3140079/china-shows-world-alternative-path-modern-future-xi-jinping.

Zheng, B. J. (2004), "*Zhongguo Heping Jueqi Xin Daolu He Yazhou De Weilai* [China's New Road to Peaceful Rise and the Future of Asia]", *Lilun Cankao* [Theoretical Reference], Vol. 5, pp. 3-4.

Research Articles

International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 37–64 https://doi.org/10.22452/ijcs.vol16no2.2

Labour-Use Efficiency in China: A Stochastic Frontier Analysis

Wisuwat *Chujan*[*] Le Bao Ngoc *Nguyen*[°] Ahmad Shabir *Faizi*[•]
Juan *Huang*[†]
[*]The University of the Thai Chamber of Commerce
[°]The University of Da Nang - Campus in Kontum
[•]FPT University, Greenwich Vietnam, Ho Chi Minh City
[†]Hezhou University

Abstract

Using panel data and applying the stochastic frontier analysis, this paper investigates the labor-use efficiency of 24 provinces/administrative regions of China between 2011 and 2019. The average labor efficiency relative to the most efficient province was 86.1 per cent, whereas Tianjin, followed by Shanghai, was the most efficient province (100 per cent and 95.2 per cent, respectively). We find a potential for reducing labor demand by up to 13.9 per cent across all provinces. At the same time, Guangdong is the least efficient province and could improve its labor efficiency by about 19.5 per cent. In addition, the paper studies labor elasticity and marginal risk with respect to output, capital, wage, and time.

Keywords: *labor, efficiency, China, elasticity of labor demand, marginal risk effect, labor requirement frontier*

[*] Wisuwat Chujan (corresponding author) is a lecturer at the School of Economics, The University of the Thai Chamber of Commerce; Email: wisuwat_chu@utcc.ac.th.
[°] Le Bao Ngoc Nguyen is a lecturer at the Faculty of Economics, The University of Da Nang - Campus in Kontum; Email: ngocnguyen250987@gmail.com.
[•] Ahmad Shabir Faizi is a lecturer at the Business Department, FPT University, Greenwich Vietnam, Ho Chi Minh Campus; Email: faizias@fe.edu.vn.
[†] Juan Huang is a lecturer at the School of Foreign Studies (School of International Education), Hezhou University; Email: alinhuang@foxmail.com.

1. Introduction

With an average annual growth rate of 9.4 per cent, China's economy grew 13.5 times from 1989 to 2019 (Wu et al., 2022). This rapid growth of China's economy over the past three decades is mainly attributed to the abundant labor supply rather than labor-use efficiency (Cheng et al., 2020), which is reflected in an average labor efficiency of only about 54 per cent in the year 2016 across provinces of China (Liu, 2019). However, China faces a deteriorating labor supply due to the recent falling birth rate and the fastest-growing aging population (Textor, 2022a). For instance, China's proportion of employed people to the whole population experienced an annual average decrease of about 0.46 per cent between 2011 and 2021 (Textor, 2022b). Therefore, China's transition from a labor-intensive to an economy that is efficient in labor use is essential to overcome the 'middle-income trap' and transform its economic growth (Cheng et al., 2020). This also implies that analyzing the labor-use efficiency across China is desirable for policy considerations.

The labor-use efficiency is measured by the distance of the quantity of labor used from the labor demand frontier, and the labor demand frontier is defined as the minimum (optimal) quantity of labor required to produce a given output level (Heshmati, 2001; Kumbhakar and Hjalmarsson, 1995, 1998). There are two approaches to estimating labor use efficiency: a non-parametric method - data envelopment analysis (DEA) and a parametric method - stochastic frontier analysis (SFA). Although the DEA model does not impose constraints on function forms and weights, which would otherwise require proportionate improvements of all inputs or outputs Cheng et al. (2020), the present study employs the SFA approach since following Kumbhakar and Hjalmarsson (1995): (1) the notion of the frontier is in line with the fundamental economic theory of optimization; (2) distance from a frontier is interpreted as a measure of an economic unit's efficiency in pursuing its behavioral or technical objectives; (3) understanding the structure of the frontier and the relative efficiency of economic units provides us with many policy applications.

Using SFA in balanced panel data, we investigate the labor-use efficiency of 24 provincial-level administrative regions of China, referred to as provinces, from 2011 to 2019. We use a flexible translog function to specify the labor demand. The labor demand is a function of output (real GDP), average wage, capital stock, province-specific variables that

capture the characteristics of the technology and production environment (including foreign direct investment, government expenditure, and research and development), and time variables. The variance function, which accommodates marginal effects, enters multiplicatively with the demand function. The variance function allows for a specific form of heteroscedasticity in the labor demand function (Heshmati, 2001). This paper specifies the variance function as a function of output produced, wage, capital stock, and time effect. The parameters of the demand and variance models are estimated through a multi-step procedure using generalized least squares (GLS) and a nonlinear method, respectively. Besides the labor-use efficiency, we also compute the elasticity of labor demand and marginal risk effects with respect to output, wage, and capital. Finally, it is noteworthy that, for each year, the labor-use efficiency is measured relative to the province with the best labor-use practice in our sample, which is assumed to be 100 per cent efficient.

To our knowledge, three other studies investigate labor-use efficiency in China. However, each of these studies has notable differences from the current study. First, Kumbhakar and Zhang (2013) investigate labor-use efficiency across China's manufacturing industry, while our paper investigates labor-use efficiency across China's provinces. Therefore, by investigating labor-use efficiency on a provincial level, the present study bears different policy implications. Second, Liu (2019) examines labor-use efficiency across 22 provinces of China in 2016. In contrast, the present study spans nine years, which allows us to capture the dynamic labor-use efficiency. Finally, Cheng et al. (2020) studied labor-use efficiency across 23 provinces of China from 2007 to 2017 using the DEA model. Conversely, the present study employs the SFA approach due to its abovementioned advantages. Moreover, the biggest difference between our study and the existing literature is that we employ the variance function to generalize the labor demand function to capture risks that directly affect provinces' production. Since we employ the labor requirement function approach, the production risk is interpreted as labor variance (Heshmati, 2001). It is labeled as variance since both the mean and variance of labor respond to different combinations of production. A non-optimal labor level with high deviation significantly affects the productivity of provinces when the deviation does not correspond to demands in the event of shocks, for example, the COVID-19 pandemic.

In the following, section 2 discusses the relevant literature on labor-use efficiency in China, section 3 presents the theoretical model, section 4 reports the data sources and variable measurements, section 5 lays out the empirical model and estimation strategy, section 6 reports and discusses the results and section 7 concludes.

2. Literature Review on Labor-use Efficiency in China

As mentioned above, three studies that investigate labor-use efficiency in the context of China include Kumbhakar and Zhang (2013), Liu (2019), and Cheng et al. (2020). First, Kumbhakar and Zhang (2013) investigate the labor-use efficiency and employment elasticity of China's manufacturing sector using panel data from 28 industries between 1999 and 2008. An industry that uses more labor than the minimum required to produce a given output is considered inefficient. The study uses SFA, where the optimal level of labor is defined as a function of output produced, technology proxied by a time trend, capital inventory, a vector of variables that capture the attributes of the industry's production technology and environment, including a dummy capturing if the industry is monopolistic and a dummy that captures labor-intensive industries. The results yield an average labor-use efficiency rate of 85.5 per cent across industries, with the least and most efficient industries being 32.9 per cent and 100 per cent efficient, respectively. Thus, the study concludes that labor is overused by 14.5 per cent. The mean employment elasticity with respect to output is 0.80, implying that a 1% increase in output requires a 0.80 per cent increase in labor use.

Second, employing the DEA and SFA models, Liu (2019) studies the labor efficiency of 22 provinces, 5 autonomous regions, and 4 municipalities in China in 2016. It is considered a province uses more labor than the minimum required to produce a certain level of output as inefficient. Liu (2019) uses provincial capital stock and employment as input variables and gross national product as output. The provincial labor-use efficiency ranking calculated by the two methods is mostly similar, with Beijing and Shanghai being the first and second most efficient and Guangxi and Yunnan being the least efficient provinces. The least efficient provinces are generally concentrated in the northwest region of China, and the most efficient cities are the eastern coastal cities. Furthermore, the study finds that some central region cities rank lower than the northwest region, which reflects an inconsistency with their economic development level. For instance, they find

that Henan, while ranking fifth in total GDP contribution in China, is ranked 27th in efficiency. They infer that the high population of the province may be the cause of this inefficiency in labor use.

Finally, employing the DEA model, Cheng et al. (2020) investigate the humanitarian labor efficiency and labor-use efficiency across 23 provinces of China from 2007 to 2017. Generally, labor-use efficiency has a downward trend in the long run but fluctuates in the short run. From 2007 to 2011, the average labor efficiency was above 0.7 per cent; after 2014, it fell to 0.55 per cent. The sub-regional estimation of labor-use efficiency shows that the western regions are the least efficient across this period, while the central regions are the most efficient. Since the study focuses more on humanitarian labor efficiency, it does not report labor-use efficiency on the provincial level.

3. Theoretical Model

3.1 Labor Demand Function

Theoretically, an economic unit is considered inefficient in two cases: (1) its output levels produced are lower than the maximum permitted by its technology, (2) its input levels used are more than the minimum required by its technology to produce a given output quantity, thereby meaning that inputs are overused. In this paper, we follow the second case. We also assume that labor is the only variable input (i.e., all other inputs are quasi-fixed). Hence, a province is not efficient when it uses more labor than the optimal amount of labor required to produce a given output level (Y).

Let the desired labor level (L^*_{it}) be defined as the optimal amount of labor required to produce the given output level Y_{it} for province i at time t. This optimal level of labor is defined by the labor requirement frontier, which is specified as

$$L^*_{it} = f(Y_{it}, K_{it}, W_{it}, Z_{it}, t) \tag{3.1}$$

where $f(.)$ represents the production technology, the subscript i represents the province i, and t represents the time. Y_{it} is the output, K_{it} is the capital stock, W_{it} is the wage, t indicates the exogenous rate of technical change represented by time trend or time dummy variables, Z_{it} consists of province-specific variables that capture the characteristics of the technology and

production environment that would affect the labor inefficiency and risk (or variance) of employment. According to Layard and Nickell (1986) and Kumbhakar and Zhang (2013), Z_{it} can be GDP growth, export, government expenditure, saving, domestic credit to the private sector, foreign direct investment, industry value added, R&D investment, and human capital.

Given K, W, and Z variables, if the province i at time t does not achieve the labor requirement frontier in producing Y_{it}, it is inefficient as there is excessive use of labor compared to the technically required amount. The relationship between the actual amount of labor used and the labor requirement frontier is modeled by Kumbhakar and Hjalmarsson (1995) as follows:

$$L_{it} = L_{it}^{*} e^{\tau_{it}} \tag{3.2}$$

where L_{it} is the actual quantity of labor used by province i at time t, and $\tau_{it} \geq 0$ for $\forall i$ and t. $\tau_{it} > 0$ represents technical inefficiency, measuring the percentage of labor overuse compared to the optimal level of labor required to produce the output vector Y_{it}. If $\tau_{it} = 0$, province i is technically efficient in labor use. Thus,

$$L_{it}^{*} / L_{it} = e^{-\tau_{it}} \tag{3.3}$$

is used to capture labor-use efficiency. The value of this ratio varies between 0 and 1 for $\forall i$ and t. Then, given the output Y_{it}, a province's labor demand is determined by: (i) the production technology f(.), (ii) technical inefficiency τ_it, and (iii) external factors to the province's control, such as global economic crisis, international conflicts, and trade barriers. These external factors are captured by the random term ϑ_{it} ($-\infty < \vartheta_{it} < \infty$), which is appended in the same manner as τ_{it} in equation (3.2). Thus, the labor requirement function in equation (3.2) can be written as

$$L_{it} = L_{it}^{*} e^{\tau_{it} + \vartheta_{it}} = L_{it}^{*} e^{\varepsilon_{it}} \tag{3.4}$$

where $\varepsilon_{it} = \tau_{it} + \vartheta_{it}$, is the error term. Due to the presence of ϑ_{it}, the labor requirement frontier function is stochastic.

Concerning the behavior of τ_{it}, following Battese and Coelli (1988), Kumbhakar (1988), and Heshmati (2001), we assume that τ_{it} is time-

invariant, i.e. $\tau_{it} = \mu_i \forall t$. Thus, the error term in equation (4) is restructured as

$$\varepsilon_{it} = \mu_i + \vartheta_{it} \tag{3.5}$$

μ_i is a persistent province-specific labor-use inefficiency, which is allowed to be correlated with the regressors. While no further assumptions are made on the distribution of μ_i, ϑ_{it} is assumed to have i.i.d $N(0,1)$.

The model in equation (3.4) is specified without regard for risk. Therefore, we employ the variance function to incorporate production risk. Since the approach used is the labor requirement function, the production risk is interpreted as labor variance (Heshmati, 2001) and specified as a function of all dispersion factors.

3.2 Incorporating Variance Function

To incorporate risk, we rewrite (3.4) as

$$L_{it} = f(X_{it}; \alpha) \exp(g(X_{it};\ \beta)\varepsilon_{it}) \tag{3.6}$$

where $X_{it} = (Y_{it}, K_{it}, W_{it}, Z_{it}, t)$, $f(X_{it}; \alpha)$ is the demand part and $g(X_{it}; \beta)\ \varepsilon_{it}$ is the variance component. Equation (3.6) can be written in a logarithmic form as

$$lnL_{it} = lnf(X_{it}; \alpha) + g(X_{it};\ \beta)\varepsilon_{it} \tag{3.7}$$

The expected value of L_{it}, $E(L)$ and its variance, $V(L)$, are

$$E(L) = f(X; \alpha)\exp(g^2(.)/2) \tag{3.8}$$

and

$$V(L) = f^2(.)\exp(g^2(.))[\exp(g^2(.)/2)\ - 1] \tag{3.9}$$

Thus, if $E(L) \geq f(X; \alpha)$, marginal variance (risk) effect with respect to $X_j(Y_{it}, K_{it}, W_{it}, Z_{it}, t)$ is

$$ME_j = \frac{\delta V(L)}{\delta X_j} = 2f(.)\exp\left(\frac{g^2(.)}{2}\right) \times \left[f_j(.)\{\exp(g^2(.)) - 1\} + f(.)g(.)g_j(.)\{2\exp(g^2(.)) - 1\}\right] \quad (3.10)$$

where *fj*(.) and *gj*(.) are partial derivatives of *f*(.) and *g*(.) with respect to $X_j(Y_{it}, K_{it}, W_{it}, Z_{it}, t)$. The ME_j can be positive or negative depending on the sign and size of the *g*(.) *gj*(.). If *g*(.) *gj*(.) > 0, ME_j0 is positive. If *g*(.) *gj*(.) < 0 and the absolute value of the second term in [.] is greater than that of the first term in [.], ME_j0 is negative.

4. Data

We obtain the data for our empirical analysis from the National Bureau of Statistics of China. The panel is balanced and consists of 24 provincial-level administrative regions (provinces) of China for nine years from 2011 to 2019. The total number of observations used is 216.

In this paper, the labor-use model is defined as an input requirement function where labor (*L*) is a function of output produced (*Y*), capital stock (*K*), wage (*W*), and province-specific variables that capture the characteristics of the technology and production environment (*Z*). Labor (*L*) is measured in the total quantity of employed people. Output (*Y*) is measured as the gross domestic product (GDP). Capital stock (*K*) is measured as the total investment in fixed assets. Wage (*W*) is measured as the average wage of employees. Province-specific variables that capture the characteristics of the technology and production environment (*Z*) consist of province government expenditure (*GEX*) and research and development (*R&D*) proxied by the province's number of R&D projects in industrial enterprises. The GDP, total investment in fixed assets, average wage, and provincial government expenditure are given in the current Renminbi (RMB). They are transformed to fixed 2010 prices based on the consumer price index. Additionally, time dummies are used in the demand function to capture the exogenous rate of technical change, while a time trend is included in the variance function to represent the shifts in labor variance over time.

The summary statistics for all variables of our interest are reported in Table 1.

Table 1. Summary Statics

Variable	Mean	Std. Dev	Min	Max
Labor (thousand)	4538.7	3216.7	436.0	18493.0
GDP (billion RMB)	2702.9	1993.9	481.7	10798.7
Capital (billion RMB)	1974.9	1276.2	396.6	5907.4
Average Wage (thousand RMB)	62.21	22.79	31.30	166.80
Research and Development (number of projects)	1469.2	1908.7	128.0	10634.0
Province Government Expenditure (billion RMB)	529.0	253.3	179.1	1729.8

5. Empirical Model and Estimation Strategy

No assumption on functional form for $f(.)$ and $g(.)$ is made yet. Following the previous studies of the frontier production function (Haouas et al., 2003; Heshmati, 2001; Kumbhakar et al., 2002; Kumbhakar and Hjalmarsson, 1995; Kumbhakar and Zhang, 2013; Rashidghalam, 2017; Saggay and Raies, 2018), we approximate $f(.)$ by a translog function to place minimum restrictions on technology. Following Kumbhakar (1993) and Heshmati (2001), we adopt the linear form of $g(.)$. Using the translog function on $f(.)$ and the linear form of $g(.)$, the relationship in equation (3.6) becomes

$$\begin{aligned} lnL_{it} = {} & \alpha_0 + \alpha_y lnY_{it} + \alpha_k lnK_{it} + \alpha_w lnW_{it} + \theta_t \\ & + \frac{1}{2}\left[\alpha_{yy}(lnY_{it})^2 + \alpha_{kk}(lnK_{it})^2 + \alpha_{ww}(lnW_{it})^2\right] \\ & + \alpha_{yk} lnY_{it} lnK_{it} + \alpha_{yw} lnY_{it} lnW_{it} + \alpha_{kw} lnK_{it} lnW_{it} \\ & + \eta_1 lnGEX_{it} + \eta_2 lnR\&D_{it} \\ & + \left[\beta_y Y_{it} + \beta_k K_{it} + \beta_w W_{it} + \beta_t t\right](\mu_i + \vartheta_{it}) \end{aligned} \quad (3.11)$$

where L_{it}, Y_{it}, K_{it}, W_{it}, GEX_{it}, and $R\&D_{it}$ are defined above, subscripts i and t denote province and time, respectively. Here, θ_t is a vector of time dummy variables capturing the exogenous rate of technological change. The exogenous rate of technical change can be captured by time trends or time dummy variables. In the time trend model, however, technical change is assumed to be a smooth, continuous, and monotonous process, while in the dummy model, it is assumed to be a discontinuous and non-monotonous process (Heshmati, 2001). Thus, the time dummy model is more appropriate

for our panel data. Due to the small sample size, we do not include any interactions between time dummies and other explanatory variables to save degrees of freedom.

Time trend, *t*, is used in the variance component to capture the shifts in the variance over time. The shifts in the variance affect output produced, labor demand, and the levels of inefficiency. The effect of technical inefficiency on labor demand is captured by $g(Y_{it}, K_{it}, W_{it}, t; \beta)\mu_i$. Hence, while μi is time-invariant, its effect on labor demand may vary with time. Here, μ_i and θ_t are treated as fixed, which implies that we are working with a fixed effects model.

In the labor requirement function, there might be an endogeneity problem because output *Y* and capital stock *K* are determined by labor *L*. To deal with this problem, we regress output *Y* and capital stock *K* on exogenous variables in the model and use their predicted values in equation (3.11).

Following Just and Pope (1978), Kumbhakar (1993), and Heshmati (2001), we estimate equation (3.11) through the following process:

Step 1: We use ordinary least squares (OLS) to estimate equation (3.11) without regard to the variance function $g(.)$. μ_i is estimated from 23 provincial dummies and θ_t are estimated from eight time dummies. Since the error term (ϑ_{it}) has a mean of zero, the OLS estimators are unbiased and consistent. However, due to the omission of the variance function, the error term is heteroscedastic; thus, the OLS estimators here are inefficient.

Step 2: Using α, μ, and θ estimated in step 1, we calculate the residuals as follows:

$$\begin{aligned}\hat{\varepsilon}_{it} = \ln L_{it} - \Big(&\alpha_0 + \alpha_y lnY_{it} + \alpha_k lnK_{it} + \alpha_w lnW_{it} + \theta_t T \\ &+ \frac{1}{2}\left[\alpha_{yy}(lnY_{it})^2 + \alpha_{kk}(lnK_{it})^2 + \alpha_{ww}(lnW_{it})^2\right] \\ &+ \alpha_{yk} lnY_{it} lnK_{it} + \alpha_{yw} lnY_{it} lnW_{it} + \alpha_{kw} lnK_{it} lnW_{it} \\ &+ \eta_1 lnGEX_{it} + \eta_2 lnR\&D_{it} + \mu_i \Big)\end{aligned} \tag{3.12}$$

From (3.11) and (3.12), we know that:

$$\hat{\varepsilon}_{it} = \left[\beta_y Y_{it} + \beta_k K_{it} + \beta_w W_{it} + \beta_t t\right] \vartheta_{it} \tag{3.13}$$

In logarithmic terms, equation (3.13) is written as:

$$ln\hat{\varepsilon}_{it} = ln\left[\beta_y Y_{it} + \beta_k K_{it} + \beta_w W_{it} + \beta_t t\right] + ln\vartheta_{it} \tag{3.14}$$

Multiplying both sides of (3.14) by 2, we get:

$$\begin{aligned} 2ln\hat{\varepsilon}_{it} &= 2ln\left[\beta_y Y_{it} + \beta_k K_{it} + \beta_w W_{it} + \beta_t t\right] + 2ln\vartheta_{it} \\ ln\hat{\varepsilon}_{it}^2 &= ln\left[\beta_y Y_{it} + \beta_k K_{it} + \beta_w W_{it} + \beta_t t\right]^2 + ln\vartheta_{it}^2 \end{aligned} \tag{3.15}$$

Since ϑ_{it} is assumed to be i.i.d $N(0,1)$, $ln\vartheta_{it}^2$ is the logarithm of aχ^2 variable with one degree of freedom. Following Theorem 2 of Just and Pope (1978), the estimates of $ln\vartheta_{it}^2$ have a mean and variance of -1.2704 and 4.9348, respectively. These specifications are employed in estimating equation (3.13).

We rewrite (3.15) as:

$$ln\hat{\varepsilon}_{it}^2 = -1.2704 + ln\left[\beta_y Y_{it} + \beta_k K_{it} + \beta_w W_{it} + \beta_t t\right]^{\wedge} + ln\vartheta_{it}^2 + 1.2704 \tag{3.16}$$

Let $\vartheta_{it}^* = ln\vartheta_{it}^2 + 1.2704 \rightarrow E(\vartheta_{it}^*) = 0 \; and \; V(\vartheta_{it}^*) = 4.9348$. Then, (3.16) becomes:

$$ln\hat{\varepsilon}_{it}^2 = -1.2704 + ln\left[\beta_y Y_{it} + \beta_k K_{it} + \beta_w W_{it} + \beta_t t\right]^2 + \vartheta_{it}^* \tag{3.17}$$

We estimate (3.17) using the nonlinear least squares by the linearization method to obtain the estimates of β.

Step 3: Using the estimates of μ_i obtained in step 1, we re-estimate equation (3.11) using GLS to get asymptotically efficient estimates of α and β (Note that the same results can be obtained by using OLS after dividing both sides of (11) by $\hat{g}(.) = \hat{\beta}_y Y_{it} + \hat{\beta}_k K_{it} + \hat{\beta}_w W_{it} + \hat{\beta}_t t$).

Step 4: We iteratively repeat steps 1 to 3 until convergence, where changes in the estimates of α, β, and the value of the labor requirement function are negligible.

Step 5: Since we estimate μ_i from province dummies, the μ for the reference province cannot be estimated. Thus, labor-use inefficiency is measured relative to the most efficient province each year in our sample, with an assumption that $\mu = 0$ (fully efficient) for the most efficient province. The labor-use inefficiency is calculated as

$$LINEFF_{it} = g(X_{it};\hat{\beta})(\alpha_0 + \mu_i) - \min_t[g(X_{it};\hat{\beta})(\alpha_0 + \mu_i)] \tag{3.18}$$

and labor-use efficiency as

$$LEFF_{it} = \exp(-LINEFF_{it}) \tag{3.19}$$

which is both province- and time-specific.

Next, the elasticities of labor demand with respect to output, capital stock, and wage need to be calculated at all data points for making an economic inference, where E_y represents the return to scale.

$$E_y = \frac{\partial \ln L_{it}}{\partial \ln Y_{it}} = \alpha_y + \alpha_{yy} \ln Y_{it} + \alpha_{yk} lnK_{it} + \alpha_{yw} \ln W_{it} \tag{3.20}$$

$$E_k = \frac{\partial \ln L_{it}}{\partial \ln K_{it}} = \alpha_k + \alpha_{kk} \ln K_{it} + \alpha_{yk} lnY_{it} + \alpha_{kw} \ln W_{it} \tag{3.21}$$

$$E_w = \frac{\partial \ln L_{it}}{\partial \ln W_{it}} = \alpha_w + \alpha_{ww} \ln W_{it} + \alpha_{yw} lnY_{it} + \alpha_{kw} \ln K_{it} \tag{3.22}$$

Since we do not allow any interactions between the time dummies and the other regressors, the exogenous rate of technical change comprises only a neutral component (i.e., varies only over time). Therefore, following Heshmati (2001), the technical change, which is a shift the in labor demand function over time, is obtained as the elasticity of labor with respect to time.

$$E_t = \frac{\Delta \ln L_{it}}{\Delta \ln t} = \theta_t - \theta_{t-1} \tag{3.23}$$

If $E_t > 0$, an upward shift in the labor requirement function implies that more labor-using technology is employed. If $E_t < 0$ a downward shift in the labor requirement function implies labor-saving technical progress.

Finally, the marginal variance (risk) effects E_y, ME_k, and ME_w based on $g(.)$ are calculated using the formula in equation (10). $ME_j > 0$ suggests that the variable j is variance increasing and vice versa. $ME_y > 0$ suggests that an expansion in output level increases the labor-use variance and vice versa.

Since the translog form is a point approximation of $f(.)$ with the unknown functional form, the data is normalized by the sample mean before estimating the model.

6. Results

The empirical model and estimation procedure above are employed to estimate the labor demand function for 24 provinces of China in nine years, from 2011 to 2019. The parameter estimates of the demand function - $f(X_{it}, \alpha)$ and variance function from equation (13) - $g(X_{it}, \beta)$, are reported in Appendix A: Table A1.

6.1 Labor Demand Elasticity

The elasticities of labor demand with respect to output, wage, and capital were computed for each province each year. The labor demand elasticities with respect to all dispersion factors are both province- and time-specific. The mean values by province and year are reported in Table 2. The mean values of elasticities have consistent signs with theory: the elasticity of labor with respect to wage is negative, and the elasticities of labor with respect to output and capital are positive. The responsiveness of labor is highest to wage, followed by output and capital.

The sample mean of labor-to-wage elasticity is -0.823, with a standard deviation of 0.489. The estimate of -0.823 means that a 1 per cent increase in the wage is associated with a 0.823% decrease in labor used. A reverse U-shaped pattern is in the size of wage elasticity over time (decreasing in absolute value from 2011 to 2014 and increasing thereon until 2019); this indicates that labor adjustment with respect to wage changes due to labor market conditions slowed down until 2014 and sped up thereon. Among the 24 provinces, labor demands in Beijing, Guangdong, and Shanghai were elastic to wages, indicating that a 1 per cent increase in average wage is associated with a more than 1 per cent decrease in labor use in these provinces.

The sample mean of labor-to-output elasticity is 0.5, with a standard deviation of 0.286, meaning that a 1 per cent increase in the volume of GDP is linked with a 0.5 per cent increase in labor demand. This implies increasing returns to scale in China provinces' economies, i.e., increasing output by k% is associated with less than k% increase in labor requirement. This figure is five times the estimate for the end of the 1990s when China's employment elasticity to output was approximately 0.10 (Zhang and Cai, 2002). Although the elasticity measure was greater in 2019 (at 0.323) and on average (at 0.5), the concern relating to 'jobless growth' remains

where an economy experiences growth, e.g., increasing GDP, while its level of employment is constant or decreasing (Thomas, 2013). However, this increasing return to scale reflects improvements in China's labor performance, which may be attributed to the province-owned enterprises' reform (Zhang and Cai, 2002). Moreover, the responsiveness of labor to output considerably varies across provinces. Henan has the largest output elasticity (0.798). We conjecture that this is because Henan province has one of the highest populations in China. Two exceptions here are again found in Beijing and Shanghai, where the labor-to-output elasticity is negative.

The sample mean of labor to capital elasticity is 0.056, with a standard deviation of 0.455. Although the positive mean labor-to-capital elasticity implies that capital and labor are complements, many provinces have a negative labor-to-capital elasticity, indicating a substitution between capital and labor. The capital elasticity is highest in Shanghai (1.33), closely followed by Beijing (1.247); thus, Shanghai and Beijing are the most effective in using capital to create new jobs.

Table 2. Output, Capital and Wage Elasticities and Marginal Effects

Province/ Year	Labor demand elasticity (Ej)				Marginal variance effect (MEj)				Efficiency (9)
	GDP (1)	Capital (2)	Wage (3)	Time (4)	GDP (5)	Capital (6)	Wage (7)	Time (8)	
Mean by Province									
Anhui	0.634	-0.175	-0.543	0.003	0.052	-0.057	0.143	0.013	0.841
Beijing	-0.247	1.247	-2.059	0.003	-0.073	0.026	0.065	0	0.854
Fujian	0.538	-0.007	-0.785	0.003	-1.432	0.005	-0.429	0.008	0.865
Gansu	0.501	0.103	-0.844	0.003	0.004	0.005	-0.381	0.002	0.877
Guangdon	0.374	0.239	-1.165	0.003	-0.281	-0.615	-2.063	0.067	0.805
Guangxi	0.65	-0.175	-0.548	0.003	0.055	0.054	2.435	0.005	0.869
Guizhou	0.503	0.065	-0.752	0.003	0.025	0.028	-0.015	0.004	0.876
Hebei	0.739	-0.341	-0.391	0.003	0.292	0.09	-0.513	0.014	0.843
Heilongj	0.602	-0.067	-0.738	0.003	0.021	0.008	0.083	0.004	0.863
Henan	0.798	-0.431	-0.373	0.003	-0.179	-0.195	0.292	0.011	0.852
Hubei	0.634	-0.17	-0.608	0.003	0.065	0.285	0.062	0.034	0.821
Hunan	0.661	-0.207	-0.574	0.003	0.049	0.018	-4.793	0.007	0.869
InnerMon	0.535	0.004	-0.69	0.003	0.028	0.007	0.014	0.004	0.871
Jiangsu	0.53	-0.042	-0.741	0.003	-0.165	0.06	4.126	0.031	0.836
Jiangxi	0.658	-0.188	-0.553	0.003	0.107	-0.082	-0.113	0.007	0.856
Jilin	0.625	-0.125	-0.57	0.003	0.027	0.007	-0.026	0.006	0.848

Province/ Year	Labor demand elasticity (Ej)				Marginal variance effect (MEj)				Efficiency (9)
	GDP (1)	Capital (2)	Wage (3)	Time (4)	GDP (5)	Capital (6)	Wage (7)	Time (8)	
Liaoning	0.503	0.079	-0.94	0.003	0.111	-0.145	0.092	0.009	0.834
Shaanxi	0.616	-0.134	-0.572	0.003	0.125	0.01	0.057	0.005	0.87
Shandong	0.698	-0.302	-0.459	0.003	-0.246	0.154	-3.136	0.038	0.826
Shanghai	-0.29	1.33	-2.222	0.003	0.038	0.008	0.022	0	0.952
Shanxi	0.478	0.131	-0.958	0.003	0.016	0.008	0.527	0.003	0.868
Tianjin	0.278	0.394	-0.979	0.003	0.002	0.006	0.004	0	1
Yunnan	0.56	-0.024	-0.735	0.003	0.08	-0.065	-0.076	0.006	0.867
Zhejiang	0.426	0.149	-0.946	0.003	-0.301	-0.092	1.778	0.029	0.811
Mean by Year									
2011	0.612	-0.068	-0.857	0.000	-0.014	-0.123	-0.271	0.006	0.869
2012	0.596	-0.061	-0.803	0.005	0.034	-0.134	-0.386	0.006	0.868
2013	0.588	-0.066	-0.746	-0.019	0.236	0.020	-0.673	0.008	0.866
2014	0.572	-0.054	-0.718	0.022	0.027	0.024	0.535	0.008	0.867
2015	0.536	-0.009	-0.721	-0.034	-0.429	0.007	0.324	0.012	0.863
2016	0.494	0.050	-0.761	0.007	-0.104	-0.013	-1.360	0.013	0.862
2017	0.420	0.163	-0.872	0.145	-0.143	0.047	-0.693	0.013	0.854
2018	0.361	0.249	-0.944	-0.111	-0.110	0.004	0.900	0.024	0.853
2019	0.323	0.303	-0.983	0.012	-0.089	-0.008	0.932	0.026	0.852
Sample Mean	0.5	0.056	-0.823	0.003	-0.066	-0.02	-0.077	0.013	0.861
Standard Deviation	0.286	0.455	0.489	0.063	1.02	0.401	5.404	0.019	0.041

6.2 Technical Change

The values of the exogenous rate of technical change, defined as the shift in the labor demand function over time, are reported in Column 4 of Table 2. The sample mean value is very small and positive (0.003), indicating the technical inefficiency across time - that is, on average, the same amount of output is produced with a larger amount of labor this year than the previous year. Technical inefficiency may contribute to the slowdown of China's economic growth in recent years (The World Bank, n.d.).

6.3 Labor-Use Variance

The labor variance elasticities or marginal variance (risk) effects with respect to the output, capital, wage, and time in equation (10) were computed for each province in each year. Columns 5-8 of Table 2 report the mean values

by province and year and the overall sample mean of the marginal effect. The sample means of marginal effects of labor with respect to output, capital, and wages are negative, meaning that for provinces with production levels closer to the sample mean, the employment variance decreases when output, capital, and wages increase. Moreover, the positive relationship between labor-use variance and time indicates growing uncertainty in labor demand over the period studied.

The marginal effects across the provinces do not show any systematic patterns. We also do not observe any systematic patterns in the size of marginal effects with respect to output, capital, and wage over time.

6.4 Labor-Use Efficiency

Column nine of Table 2 reports the mean values by province and year of estimates of labor-use efficiency. Labor efficiency ranged between 80.5 per cent to 100 per cent with a mean of 86.1 per cent; this means that for a given level of output, on average, the labor is overused by about 14 per cent. Our finding of the mean labor-use efficiency in China is close to Kumbhakar and Zhang (2013), who found that the mean labor-use efficiency in China's manufacturing sector from 1990 to 2008 was 85.5 per cent. Table 3 reports the province- and time-specific estimates of labor efficiency.

In this paper, the labor-use efficiency is measured relative to the province with the best labor-use practice each year in our sample, which is assumed to be 100 per cent efficient. Therefore, it is noteworthy that this level of efficiency does not reflect the level of efficiency of China compared to the rest of the world. We cannot obtain absolute efficiency since the intercept, α_0, also contains the omitted province- and time effects. Therefore, with the assumption that our sample contains the most efficient province, Tianjin is found to be the province with the best labor-use practice for all years. Shanghai is the second most efficient province, with a mean efficiency of 95.2 per cent. All the remaining provinces were efficient, below 90 per cent, and the least efficient province was Guangdong, with a mean efficiency of about 80.5 per cent. This raises the question of why, despite having a high GDP, Guangdong has the least labor-use efficiency. This finding is not shocking since Liu (2019) also found that despite having the 5th highest GDP in the country, Henan was still one of the least efficient provinces. While Liu (2019) attributed this to the high population of Henan, we present the following possibilities in our context. The first reason can

be the capital-to-labor ratio of the province, i.e., Tianjin and Shanghai have capital (in billions of RMB) to labor (in thousands) ratios of 1.39 and 1.19, respectively. However, Guangdong has a very low capital-to-labor ratio of 0.27, implying that the capital stock in Guangdong is not sufficiently high enough to support efficient labor use. The second reason is the quality of human resources, which is expected to correlate positively with labor-use efficiency (Kumbhakar and Zhang, 2013). Considering the demographics, Guangdong and Beijing have large immigrant populations. However, they are very different in terms of their immigrant structure. Particularly, in Guangdong, because of the clustering of factories, most migrant laborers have relatively low education and are engaged in low-skilled employment. The opposite is true for those who migrate to Beijing, almost all of whom are highly educated and engaged in high-skilled labor. As such, the low quality of human resources in Guangdong may have led to lower labor-use efficiency. Appendix B reports the summary statistics of key variables at a provincial level.

The mean labor-use efficiency over time is declining, although at a very low rate, with an aggregate decrease of 1.7 per cent observed during the nine years (from 86.9 per cent in 2011 to 85.2 per cent in 2019). This pattern is consistent with the findings of Kumbhakar and Zhang (2013) and Cheng et al. (2020). Following Cheng et al. (2020), the decrease in labor-use efficiency over time may be due to the decreasing GDP growth rate, which consistently dropped from 9.6 per cent in 2011 to 6 per cent in 2019. Table 3 reports the labor-use efficiency across countries over time.

Table 3. Labor-Use Efficiency Across Countries and Over Time

Year Province	2011	2012	2013	2014	2015	2016	2017	2018	2019	Mean by Province	Std. Dev
Beijing	0.863	0.861	0.86	0.86	0.855	0.854	0.846	0.844	0.844	0.854	0.008
Tianjin	1	1	1	1	1	1	1	1	1	1	0.000
Hebei	0.850	0.849	0.849	0.85	0.845	0.844	0.835	0.834	0.834	0.843	0.007
Shanxi	0.880	0.878	0.875	0.874	0.868	0.865	0.859	0.858	0.857	0.868	0.009
InnerMon	0.881	0.88	0.877	0.877	0.872	0.87	0.862	0.862	0.862	0.871	0.008
Liaoning	0.842	0.842	0.841	0.843	0.837	0.833	0.825	0.823	0.823	0.834	0.009
Jilin	0.857	0.855	0.854	0.855	0.85	0.848	0.84	0.838	0.838	0.848	0.008
Heilongj	0.872	0.87	0.868	0.869	0.864	0.862	0.854	0.852	0.853	0.863	0.008
Shanghai	0.948	0.943	0.949	0.954	0.953	0.957	0.952	0.955	0.956	0.952	0.004

Year Province	2011	2012	2013	2014	2015	2016	2017	2018	2019	Mean by Province	Std. Dev
Jiangsu	0.844	0.843	0.841	0.843	0.838	0.837	0.829	0.827	0.825	0.836	0.007
Zhejiang	0.82	0.819	0.817	0.818	0.814	0.812	0.802	0.799	0.796	0.811	0.009
Anhui	0.847	0.846	0.845	0.847	0.842	0.842	0.833	0.831	0.832	0.841	0.007
Fujian	0.875	0.873	0.871	0.872	0.866	0.864	0.856	0.855	0.855	0.865	0.008
Jiangxi	0.865	0.863	0.861	0.862	0.857	0.855	0.847	0.846	0.846	0.856	0.008
Shandong	0.831	0.831	0.83	0.833	0.829	0.828	0.82	0.819	0.815	0.826	0.006
Henan	0.860	0.859	0.857	0.858	0.854	0.852	0.844	0.843	0.843	0.852	0.007
Hubei	0.827	0.827	0.827	0.828	0.824	0.823	0.814	0.811	0.813	0.821	0.007
Hunan	0.879	0.877	0.874	0.874	0.869	0.868	0.859	0.858	0.857	0.869	0.008
Guangdon	0.813	0.812	0.813	0.814	0.808	0.806	0.797	0.793	0.79	0.805	0.009
Guangxi	0.878	0.876	0.874	0.874	0.87	0.869	0.861	0.86	0.859	0.869	0.007
Guizhou	0.884	0.882	0.881	0.882	0.878	0.877	0.869	0.867	0.867	0.876	0.007
Yunnan	0.875	0.873	0.871	0.871	0.867	0.866	0.859	0.858	0.86	0.867	0.006
Shaanxi	0.881	0.879	0.876	0.876	0.871	0.869	0.86	0.859	0.86	0.87	0.009
Gansu	0.885	0.884	0.882	0.882	0.878	0.876	0.87	0.87	0.868	0.877	0.007
Mean by Year	0.869	0.868	0.866	0.867	0.863	0.862	0.854	0.853	0.852	0.861	
Std. Dev	0.039	0.039	0.04	0.04	0.041	0.041	0.043	0.044	0.045		0.041

Table 4 shows the frequency distribution of labor-use efficiency. The labor-use efficiency levels of most provinces across different years fall between 81.1 per cent to 88 per cent.

Table 4. Labor-Use Efficiency Frequency Distribution.

Percentage efficiency interval	Frequency	Percentage
00.0 – 81.0	8	3.7
81.1 – 86.0	111	51.39
86.1 – 88.0	69	31.94
88.1 – 90.0	10	4.63
94.1 – 96.0	9	4.17
98.1 – 100.0	9	4.17

7. Conclusion

This paper investigates the labor-use efficiency of 24 provincial-level administrative regions/provinces across China from 2011 to 2019. The labor-

use efficiency is estimated as the mean of a stochastic labor requirement frontier function. A flexible translog function is used to represent the labor demand, defined as a function of output (GDP), average wages, capital stock, province-specific variables that characterize the nature of the technology and production environment, and time variables. The variance function appears multiplicatively with the demand function, accommodating both positive and negative marginal effects. A multi-step procedure is used to estimate the parameters of the demand and variance models using generalized least squares and a weighted nonlinear method, respectively.

We observe an increasing return to scale in output, indicating that increasing output by *k*% would increase labor requirement by less than *k*%. The wage elasticity has a U-shape pattern in magnitude across time, with the highest elasticity of -0.983 in 2019, indicating that adjustments in labor force participation across China have become more responsive in recent years. Moreover, although minute, the positive labor-to-capital elasticity indicates that labor and capital are complements. On the other hand, a very small but positive exogenous rate of technical change (0.003) indicates that, on average, provinces are becoming less efficient in labor use over time. Moreover, the negative marginal variance effects with respect to output, capital, and wages indicate that the variance in labor used decreases with increases in these three factors.

Relating to labor-use efficiency, we observe that, on average, there is a potential for reducing labor demand by up to 13.9 per cent. While Tianjin, followed by Shanghai, is the most efficient province (100 per cent and 95.2 per cent, respectively), all the remaining provinces are less than 88 per cent efficient, indicating that there is potential for improved efficiency by at least more than 12 per cent. At the same time, Guangdong is the least efficient province and could improve its labor efficiency by about 19.5 per cent. Furthermore, the declining mean labor-use efficiency over time indicates that other provinces (relative to the most efficient province) are slower in improving their efficiency over time.

The findings of this paper demonstrate that policies across Chinese provinces should be targeted at further enhancing labor-use efficiency to encourage sustained economic growth. A key policy implication of our findings is to improve labor-use efficiency across the less efficient provinces. This can be achieved by narrowing the gap between Tianjin and labor-use efficiency, which should be a focus of policies in China.

Reference List

Battese, G. E. and Coelli, T. J. (1988), "Prediction of Firm-Level Technical Efficiencies with a Generalized Frontier Production Function and Panel Data", *Journal of Econometrics*, Vol. 38, No. 3, pp. 387–399. https://doi.org/10.1016/0304-4076(88)90053-X.

Cheng, S., Fan, W. nd Wang, J. (2020), "Investigating the Humanitarian Labor Efficiency of China: A Factor-Specific Model", *Annals of Operations Research 2020*, pp. 1–23. https://doi.org/10.1007/S10479-020-03736-Z.

Haouas, I., Yagoubi, M. and Heshmati, A. (2003), "Labor-Use Efficiency in Tunisian Manufacturing Industries", *Review of Middle East Economics and Finance*, Vol. 1, No. 3, pp. 1–20. https://doi.org/10.2202/1475-3693.1012.

Heshmati, A. (2001), "Labor Demand and Efficiency in Swedish Savings Banks", *Applied Financial Economics*, Vol. 11, No. 4, pp. 423–433. https://doi.org/10.1080/096031001300313983.

Just, R. E. and Pope, R. D. (1978), "Stochastic Specification of Production Functions and Economic Implications", *Journal of Econometrics*, Vol. 7, No. 1, pp. 67–86. https://doi.org/10.1016/0304-4076(78)90006-4.

Kumbhakar, S. C. (1988), "On the Estimation of Technical and Allocative Inefficiency Using Stochastic Frontier Functions: The Case of U.S. Class 1 Railroads", *International Economic Review*, Vol. 29, No. 4, p. 727. https://doi.org/10.2307/2526830.

Kumbhakar, S. C. (1993), "Production Risk, Technical Efficiency, and Panel Data", *Economics Letters*, Vol. 41, No. 1, pp. 11–16. https://doi.org/10.1016/0165-1765(93)90103-J.

Kumbhakar, S. C., Heshmati, A. and Hjalmarsson, L. (2002), "How Fast Do Banks Adjust? A Dynamic Model of Labor-Use with an Application to Swedish Banks", *Journal of Productivity Analysis*, Vol. 18, No. 1, pp. 79–102. https://doi.org/10.1023/A:1015756527109.

Kumbhakar, S. C. and Hjalmarsson, L. (1995), "Labour-Use Efficiency in Swedish Social Insurance Offices", *Journal of Applied Econometrics*, Vol. 10, No. 1, pp. 33–47. http://www.jstor.org/stable/2284941.

Kumbhakar, S. C. and Hjalmarsson, L. (1998), "Relative Performance of Public and Private Ownership under Yardstick Competition: Electricity Retail Distribution", *European Economic Review*, Vol. 42, No. 1, pp. 97–122. https://doi.org/10.1016/S0014-2921(96)00052-9.

Kumbhakar, S. C. and Zhang, R. (2013), "Labor-Use Efficiency and Employment Elasticity in Chinese Manufacturing", *Economia e Politica Industriale*, Vol. 40, No. 1, pp. 5–24. https://doi.org/10.3280/poli2013-001001.

Layard, R. and Nickell, S. (1986), "Unemployment in Britain", *Economica*, Vol. 53, No. 210, pp. S121–S169. https://doi.org/10.2307/2554377.

Liu, S. (2019), "Research on China's "Lewis Turning Point" and Efficiency Analysis of Each Province—Based on DEA and SFA Methods", *Modern Economy*, Vol. 10, No. 4, pp. 1178–1189. https://doi.org/10.4236/ME.2019.104080.

Rashidghalam, M. (2017), "Labor-Use Efficiency in Kenyan Manufacturing and Service Industries", in Heshmati, A. (eds), Studies on Economic Development and Growth in Selected African Countries. *Frontiers in African Business Research*, Singapore: Springer, pp. 174-185. https://doi.org/10.1007/978-981-10-4451-9_16.

Textor, C. (2022a), Aging Population in China - Statistics and Facts. In *Statista*. https://www.statista.com/topics/6000/aging-population-in-china/.

Textor, C. (2022b), China: Employment Rate 2021. In *Statista*. https://www.statista.com/statistics/239153/employment-rate-in-china/.

The World Bank. (n.d.), *GDP Growth (annual %) - China | Data*. World Bank National Accounts Data and OECD National Accounts Data Files. Retrieved February 15, 2023, from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CN.

Thomas, J. J. (2013), "Explaining the 'Jobless' Growth in Indian Manufacturing", *Journal of the Asia Pacific Economy*, Vol. 18, No. 4, pp. 673–692. https://doi.org/10.1080/13547860.2013.827462.

Wu, S., Yang, D., Xia, F., Zhang, X., Huo, J., Cai, T. and Sun, J. (2022), "The Effect of Labor Reallocation and Economic Growth in China", *Sustainability*, Vol. 14, p. 4312. https://doi.org/10.3390/SU14074312.

Zhang, J. W. and Cai, F. (2002), "A Study of Employment Elasticity in China", *China Industrial Economy*, Vol. 107, No. 5, pp. 22–30.

Appendix A: Parameter Estimates

Table A1. Parameter Estimates of Labor Demand Function and Variance Function

Parameter	Estimate		SE	Parameter	Estimate		SE	Parameter	Estimate		SE
Labor demand function											
α_0	-0.77	***	0.2578	θ_6	-0.01497		0.0306	μ_{14}	0.228695		0.3359
α_y	0.504678	**	0.2475	θ_7	0.09479	***	0.0235	μ_{15}	0.747856	*	0.4207
α_w	-0.6021	*	0.3499	θ_8	0.007687		0.0358	μ_{16}	0.288372		0.4126
α_k	-0.02305		0.088	θ_9	0.038461		0.0415	μ_{17}	0.732089	**	0.3497
α_{yy}	-0.08062		0.2081	μ_2	-0.57181	**	0.2621	μ_{18}	-0.02791		0.3556
α_{ww}	-0.38232		0.2819	μ_3	0.424711		0.3498	μ_{19}	0.57615		0.5362
α_{kk}	-0.22722	*	0.1237	μ_4	0.091251		0.314	μ_{20}	0.02878		0.3316
α_{yw}	-0.44529		0.3761	μ_5	0.006623		0.301	μ_{21}	-0.00649		0.3008
α_{yk}	0.144472		0.197	μ_6	0.451254		0.3189	μ_{22}	0.009661		0.3322
α_{wk}	0.992133	***	0.2426	μ_7	0.414705		0.3239	μ_{23}	0.027532		0.3172
η_1	0.483309	**	0.2042	μ_8	0.128668		0.3488	μ_{24}	0.077729		0.3275
η_2	-0.1541	***	0.0469	μ_9	-0.58273	***	0.1612				
θ_2	0.004585		0.0358	μ_{10}	0.39543		0.4636				
θ_3	-0.02237		0.0362	μ_{11}	0.676376	**	0.3417				
θ_4	0.016236		0.0354	μ_{12}	0.435654		0.3251				
θ_5	-0.04201		0.0334	μ_{13}	0.199804		0.3233				
$R^2 = 0.9878$											
Variance function											
β_y	0.001962		0.0213								
β_k	-0.01851		0.0208								
β_w	0.166665	***	0.0269								
β_t	-0.00997	**	0.00413								
$\sigma_v^2 = 5.7773$											

*Note: *p<0.1, ** p<0.05, *** p<0.01.* The dependent variable is the amount of labor used per province. The number of observations is 243.

Appendix B: Summary Statistics by Province

Table A2. Summary Statistics by Province

Anhui				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	5293.8	1770.5	3278.0	8298.0
GDP (billion RMB)	2537.8	699.2	1628.5	3684.6
Capital (billion RMB)	2417.2	783.6	1245.6	3574.1
Average Wage (thousand RMB)	57.3	13.5	39.4	79.0
Research and Development (number of projects)	1573.9	493.0	842.6	2579.9
Province Government Expenditure (billion RMB)	524.5	131.9	330.3	739.2
Beijing				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	965.0	145.2	716.0	1124.0
GDP (billion RMB)	2561.4	627.9	1718.9	3544.5
Capital (billion RMB)	721.1	92.1	557.9	837.0
Average Wage (thousand RMB)	114.6	29.7	75.5	166.8
Research and Development (number of projects)	797.2	99.4	703.9	1003.7
Province Government Expenditure (billion RMB)	549.7	163.0	324.5	747.1
Fujian				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	4244.9	2424.5	2212.0	9688.0
GDP (billion RMB)	2853.8	834.6	1791.8	4232.7
Capital (billion RMB)	2082.9	746.6	991.1	3119.2
Average Wage (thousand RMB)	58.7	14.2	38.6	81.8
Research and Development (number of projects)	1300.3	487.8	644.1	2168.9
Province Government Expenditure (billion RMB)	378.4	103.1	219.8	507.8
Gansu				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	1882.7	566.3	1149.0	2953.0
GDP (billion RMB)	670.7	123.8	481.7	871.8
Capital (billion RMB)	659.3	182.8	396.6	966.4
Average Wage (thousand RMB)	53.1	14.5	32.1	73.6
Research and Development (number of projects)	161.3	23.0	128.0	191.2
Province Government Expenditure (billion RMB)	287.1	75.0	179.1	395.2

Guangdong				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	11263.4	3338.7	6938.0	15669.0
GDP (billion RMB)	7747.0	1933.7	5307.3	10798.7
Capital (billion RMB)	3045.3	1028.2	1706.9	4644.2
Average Wage (thousand RMB)	68.1	18.2	45.1	98.9
Research and Development (number of projects)	5503.1	2526.7	2924.3	10634.0
Province Government Expenditure (billion RMB)	1177.8	393.3	671.2	1729.8
Guangxi				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	3278.6	977.2	2172.0	5031.0
GDP (billion RMB)	1524.6	376.0	1030.0	2123.7
Capital (billion RMB)	1623.6	584.0	799.1	2489.3
Average Wage (thousand RMB)	53.1	15.3	33.0	76.5
Research and Development (number of projects)	302.7	47.1	239.7	393.7
Province Government Expenditure (billion RMB)	408.8	112.6	254.5	585.1
Guizhou				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	2577.4	986.0	1202.0	4214.0
GDP (billion RMB)	1084.1	386.1	561.6	1676.9
Capital (billion RMB)	1134.2	516.9	423.6	1811.5
Average Wage (thousand RMB)	59.6	16.6	36.1	83.3
Research and Development (number of projects)	218.1	81.7	134.5	385.0
Province Government Expenditure (billion RMB)	393.6	116.9	224.9	594.9
Hebei				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	6128.4	2263.9	3894.0	9822.0
GDP (billion RMB)	2743.5	454.9	2138.5	3497.9
Capital (billion RMB)	2818.3	727.6	1638.9	3771.3
Average Wage (thousand RMB)	52.4	13.5	35.3	73.0
Research and Development (number of projects)	915.6	218.3	605.5	1334.0
Province Government Expenditure (billion RMB)	567.3	165.6	353.7	830.9

Heilongjiang				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	3206.4	656.3	2498.0	4586.0
GDP (billion RMB)	1191.8	103.3	993.5	1354.4
Capital (billion RMB)	1030.8	125.1	747.5	1145.3
Average Wage (thousand RMB)	48.8	11.9	31.3	68.4
Research and Development (number of projects)	363.7	70.4	263.1	434.3
Province Government Expenditure (billion RMB)	392.7	77.1	279.4	501.2
Henan				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	6333.2	2118.1	4005.0	10207.0
GDP (billion RMB)	3858.9	941.6	2631.9	5371.8
Capital (billion RMB)	3519.0	1202.2	1776.9	5194.9
Average Wage (thousand RMB)	48.0	11.8	33.6	67.3
Research and Development (number of projects)	1361.5	468.7	841.5	2381.0
Province Government Expenditure (billion RMB)	696.8	197.3	424.9	1016.4
Hubei				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	8687.0	2207.7	4777.0	11095.0
GDP (billion RMB)	3161.5	868.4	1994.3	4542.9
Capital (billion RMB)	2608.0	924.0	1255.7	3966.8
Average Wage (thousand RMB)	55.9	15.1	36.1	79.3
Research and Development (number of projects)	1084.4	325.6	707.7	1742.4
Province Government Expenditure (billion RMB)	565.2	165.0	321.5	797.0
Hunan				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	4058.9	768.5	3235.0	5351.0
GDP (billion RMB)	2877.7	707.8	1891.5	3989.4
Capital (billion RMB)	2496.7	934.0	1188.1	3870.6
Average Wage (thousand RMB)	53.6	14.0	34.6	74.3
Research and Development (number of projects)	1042.1	482.7	664.6	2121.2
Province Government Expenditure (billion RMB)	575.5	154.5	352.1	803.4

Inner Mongolia				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	2791.4	553.5	1659.0	3244.0
GDP (billion RMB)	1316.3	259.4	945.8	1721.3
Capital (billion RMB)	1306.8	251.2	1004.7	1759.2
Average Wage (thousand RMB)	59.0	12.9	41.1	80.6
Research and Development (number of projects)	206.6	34.4	132.0	235.3
Province Government Expenditure (billion RMB)	413.4	69.0	298.9	510.1
Jiangsu				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	7851.7	2328.5	5330.0	11937.0
GDP (billion RMB)	7256.2	1754.2	4883.9	9865.7
Capital (billion RMB)	4448.1	1135.8	2669.3	5907.4
Average Wage (thousand RMB)	67.9	16.5	45.5	96.5
Research and Development (number of projects)	5825.3	1835.2	3193.3	9524.0
Province Government Expenditure (billion RMB)	933.8	212.7	622.2	1257.4
Jiangxi				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	3900.4	530.0	3161.0	4753.0
GDP (billion RMB)	1745.8	444.2	1158.5	2466.7
Capital (billion RMB)	1758.8	617.6	908.8	2679.4
Average Wage (thousand RMB)	52.4	13.7	33.2	73.7
Research and Development (number of projects)	719.7	544.3	260.8	1864.5
Province Government Expenditure (billion RMB)	434.5	125.5	253.5	638.7
Jilin				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	3557.9	1138.6	2124.0	5367.0
GDP (billion RMB)	1001.7	126.5	773.5	1172.7
Capital (billion RMB)	1144.3	215.8	744.2	1392.3
Average Wage (thousand RMB)	52.5	13.6	33.6	73.8
Research and Development (number of projects)	255.9	146.4	171.5	642.1
Province Government Expenditure (billion RMB)	317.6	62.5	220.2	393.3

Liaoning				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	4581.6	648.4	3645.0	5455.0
GDP (billion RMB)	2045.6	263.7	1635.5	2485.5
Capital (billion RMB)	1495.1	812.3	667.7	2510.8
Average Wage (thousand RMB)	53.7	11.7	38.2	72.9
Research and Development (number of projects)	787.5	151.7	542.2	1037.0
Province Government Expenditure (billion RMB)	486.3	54.8	390.6	574.5
Shaanxi				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	3359.6	1214.4	2074.0	5907.0
GDP (billion RMB)	1864.2	445.9	1217.5	2579.3
Capital (billion RMB)	1889.2	615.7	943.1	2695.4
Average Wage (thousand RMB)	56.6	13.4	38.1	78.4
Research and Development (number of projects)	515.3	94.1	405.4	666.8
Province Government Expenditure (billion RMB)	427.8	91.2	293.1	571.9
Shandong				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	10222.8	4086.3	5789.0	18493.0
GDP (billion RMB)	5493.3	1078.8	3906.5	7054.1
Capital (billion RMB)	4492.8	1115.5	2675.0	5746.6
Average Wage (thousand RMB)	57.9	14.8	37.6	81.4
Research and Development (number of projects)	3596.9	754.5	2519.3	4662.5
Province Government Expenditure (billion RMB)	798.6	193.4	500.2	1074.0
Shanghai				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	540.3	85.5	446.0	679.0
GDP (billion RMB)	2816.5	644.1	2001.0	3798.8
Capital (billion RMB)	641.5	108.2	496.2	801.2
Average Wage (thousand RMB)	110.5	26.4	75.6	149.4
Research and Development (number of projects)	1256.7	103.3	1090.9	1382.1
Province Government Expenditure (billion RMB)	608.2	174.9	391.5	835.2

Shanxi				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	2773.0	824.5	1835.0	4163.0
GDP (billion RMB)	1309.4	215.2	1089.4	1696.2
Capital (billion RMB)	966.7	330.8	604.1	1419.8
Average Wage (thousand RMB)	53.3	10.1	39.2	69.6
Research and Development (number of projects)	288.7	53.1	223.2	382.6
Province Government Expenditure (billion RMB)	342.7	73.7	236.4	471.1
Tianjin				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	744.1	291.3	436.0	1258.0
GDP (billion RMB)	1110.7	195.5	811.3	1405.6
Capital (billion RMB)	1036.2	194.0	706.8	1277.9
Average Wage (thousand RMB)	80.8	18.0	55.7	108.0
Research and Development (number of projects)	1218.5	142.4	1051.5	1505.5
Province Government Expenditure (billion RMB)	291.6	64.0	179.6	369.9
Yunnan				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	3499.3	760.8	2440.0	4811.0
GDP (billion RMB)	1571.2	450.8	952.3	2322.4
Capital (billion RMB)	1423.4	592.4	619.1	2292.9
Average Wage (thousand RMB)	56.1	18.1	34.0	86.6
Research and Development (number of projects)	312.1	158.2	151.4	628.6
Province Government Expenditure (billion RMB)	481.4	122.6	293.0	677.0
Zhejiang				
Variable	Mean	Std. Dev.	Min	Max
Labor (thousand)	7187.9	1656.1	5215.0	9675.0
GDP (billion RMB)	4524.7	1063.4	3185.5	6246.2
Capital (billion RMB)	2638.5	776.6	1418.5	3734.1
Average Wage (thousand RMB)	69.2	18.1	45.2	99.7
Research and Development (number of projects)	5652.7	2221.1	2867.2	9850.1
Province Government Expenditure (billion RMB)	641.4	211.7	384.3	1005.3

International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 65–93 https://doi.org/10.22452/ijcs.vol16no2.3

China's Energy Sector and the Search for Structural Power

Tiago Luís *Carvalho*[*]
Portuguese Air Force Academy
Orient Institute, School of Social and Political Sciences, University of Lisbon
Portuguese Air Force Academy Research Centre,
Military University Institute, Portugal

Abstract

Literature on China's power lacks a structural power perspective regarding the energy sector. This study addresses this gap by posing the research question: Has the internationalisation of national energy companies enhanced China's structural power in the energy sector? Using a qualitative case study, structural power is examined in relation to the international efforts of the five leading Chinese state-owned enterprises in China's outward foreign direct investment. Underpinned by Pustovitovskij and Kremer's operationalisation of structural power, the empirical analysis encompasses the most relevant energy subsectors. The findings reveal a sharp contrast between subsectors: while Chinese national oil and gas companies, as late entrants, face technological lag, China's early, large-scale investments in power and renewables have secured market dominance and the ability to set global standards for green energy technologies. These advancements have directly enhanced China's structural power. The adverse reactions of major competitors to China's growing influence in energy geopolitics reinforce this conclusion.

Keywords: *Structural power, China, Oil and gas, Renewable energy, Internationalisation.*

---

[*] Professor, PhD, Portuguese Air Force Academy, Portugal. Researcher at the Orient Institute, School of Social and Political Sciences, University of Lisbon, Portugal. Researcher at the Portuguese Air Force Academy Research Centre, Military University Institute, Portugal. The views expressed in the article are solely those of the author and do not reflect the opinions of the institutions mentioned. Published work and contact details on: https://www.researchgate.net/profile/Tiago-Luis-Carvalho. Email: tiagosilvacarvalho13@gmail.com.

1. Introduction

Despite a broad consensus on recognising the resurgence of the People's Republic of China (PRC) as a great power, there are still literature gaps in the comprehensive understanding of its power. In particular, current literature lacks a structural power perspective regarding China's[1] energy sector. Indeed, energy has been a pivotal domain of China's Communist Party (CCP) and Xi Jinping's strategies to elevate the country's position in global value chains (GVC). The spearhead of those plans is the national state-owned enterprises (SOEs). This article examines the achievements of those enterprises in Beijing's quest for structural power by answering the research question: Has the internationalisation of Chinese energy companies enhanced China's structural power in the energy sector?

Strange's (1998) concept of structural power, which focuses on influencing global norms and systems, provides the basic theoretical framework to assess structural power. Pustovitovskij and Kremer (2011) enhanced the concept, operationalising structural power in terms of the balance between needs and internationally available goods. Dependency is the key indicator of power. Made in China 2025 is clear evidence of the CCP's prioritisation of structural power, aiming to reduce dependencies on critical technologies. The analytical model of this article seeks to evaluate China's international dependencies in the energy sector (dependent variable) in relation to Chinese SOE internationalisation efforts (independent variable).

The methodological approach is a qualitative case study and follows a deductive logic. The research object comprises the five largest Chinese energy SOEs by outward foreign direct investment (OFDI):[2] China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec), China National Offshore Oil Corporation (CNOOC), State Grid (SG), and China Three Gorges (CTG). These entities ensure comprehensive sectoral representation, spanning oil, gas, power, and renewable energy subsectors. The analysis encompasses information up to 2024, derived from both primary - mainly energy enterprises' reports, which provide the quantitative data - and secondary sources - academic literature and reports from international organisations, contributing with qualitative data.

This article is divided into five parts. Following the Introduction, the second part discusses the application of the structural power concept to the energy sector, situating the analytical model in the existing literature. The third section provides the contextualisation of Chinese internationalisation policies

and the selected energy SOEs. Before the Conclusion, the empirical analysis includes a thorough evaluation of China's position on the relevant energy subsectors, with the necessary mapping of the SOEs' main internationalisation efforts regarding their search for structural power, divided into import diversification, import reduction and export improvement.

2. Conceptualising China's Structural Power

Strange (1998) introduced the concept of structural power, defining it as the "power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate" (24-25). However, merely influencing structures does not inherently constitute power. Pustovitovskij and Kremer (2011) thus propose an analytical model for this type of power, based on four key concepts:

- Goods: Considering the international system, goods are resources - material, positional or ideational, which are general, limited or exclusively available – that match a particular need of another actor.
- Actors: It is not a state-centric term. The only criterion to be classified as an actor is to provide goods.
- Needs: The actors' needs vary in terms of immediacy (referring to the difference between the current realisation of a certain need and its possible fulfilment) and priority, as determined by the influence of domestic policy groups.
- Outside options: The outside options consist of, perceived or real, international alternatives to obtain the necessary goods to meet one's needs.

The source of power resides in the structure created by the relations between actors. Structural power consists of the availability of outside options when combining the needs and goods of all players, consequently providing the actor with bargaining power in international negotiations. For example, various developing countries obtained new options when China, amidst US-EU competition, established itself as a major foreign aid provider (Pustovitovskij and Kremer, 2012).

In the energy sector, the needs can be summarised as the country's energy consumption while the goods are the necessary components to

produce the required energy. Improving a country's structural power implies shifting its needs or goods production (import reduction) or the needs and goods production of others, obtaining more outside options (import diversification), or becoming other actors' outside options (export improvement).

Energy has been deeply studied as an instrument of power, although not structural power or OFDI influence. The exception is Russian energy relations, where a structural power approach has been applied to supply dynamics (e.g., Sassi, 2022). China is a common subject in the structural power literature, except for the energy dimension. Some studies combine an evaluation of multiple primary power structures (Arnold, 2024), while the most selected power structure is finance (e.g., Liu and Tsai, 2021; Gürcan and Donduran, 2023). Another dominant trend is the comparison of China with the other major powers, mainly the USA (e.g., Malkin and He, 2023; Morin and Tepper, 2023), the EU (Pavlićević, 2019), and India (Gabusi, 2020).

Regarding arguments and conclusions, there is a consensual recognition of the rise of China's structural power. The production dimension - GVCs, market power, asset ownership, and standard-setting – is positively highlighted (Malkin, 2022). Conversely, constraints and limitations of China's quest for structural power are discussed in numerous papers. These limitations are viewed in relation to the USA's structural power, sometimes in a total zero-sum logic. On one hand, there are those authors who argue that the USA remains the sole power. Taking the financial dimension case, despite disposing of substantial resources, China fails to shape international monetary policies (Ciorciari, 2014). The USA is considered to have the lead in two of the current most relevant sectors for power competition: semiconductors (Malkin and He, 2023) and space (Morin and Tepper, 2023). China would need a "world-making moment" to modify the systemic slope from the USA towards itself (Kitchen and Cox, 2019). Yet, the literature is divided in this regard. The USA's structural power is also pointed to be declining as China's structural power increases (Gürcan and Donduran, 2023). In the middle ground, Liu and Tsai (2021) identify both China's structural deficits in its quest for structural power and the USA's decline.

Despite the holistic nature of the chosen analytical model, this paper's scope is limited to structural power in the energy sector. Consequently, its conclusions should be read with the understanding that increasing structural

power in one domain does not necessarily signify an overall increase in a country's structural power (Pustovitovskij and Kremer, 2012).

3. China's Energy Internationalisation

Totalling USD 451.87 billion—or 31.5 per cent of China's total OFDI—between 2005 and 2023 (AEI and Heritage, 2024),[3] energy distinguishes itself as Beijing's main sector of interest. This prioritisation relates to China's energy mix and associated concerns - economic, security, geopolitical, and environmental - as identified in the various Five-Year Plans (Guilhot, 2022). OFDI, in particular, is viewed as a means to improve Beijing's standing in the GVC (Chiang and de Micheaux, 2022). China's moving up the GVC means less dependence on outside options, while improving its capacity to be an outside option for others. This reduces the power of those dominating those options. Negative measures are therefore expected against the newcomer. For example, the deterioration of relations between the United States of America (USA) and China is assessed as being related to China's rise in GVC (Ilhéu, 2020).

China's internationalisation policy is underpinned by an industrial policy that shields underperforming enterprises (Evenett *et al*., 2024) and exempts SOEs from paying dividends (Xu, 2017). Additionally, Beijing's sovereign rating enhances the international credibility of its SOEs, enabling them to access overseas capital markets to finance their global expansion (Xu, 2017). The scale of the domestic market, where these companies hold government-created dominant positions, further promotes their internationalisation capabilities, providing a significant comparative advantage (Ma and Ma, 2023).

The initial overarching strategy to promote Chinese OFDI was the Going Out strategy launched in 2000, which simply aimed to internationalise Chinese enterprises. The following strategies, the Belt and Road Initiative (BRI) of 2013, Made in China 2025 of 2015, and China Standards 2035 of 2021, showcased a clear geopolitical focus:

- The BRI combines geographical criteria (land and sea corridors towards China) with massive infrastructure building in countries with high-profile risks, thus expanding Beijing's influence networks.
- Made in China 2025 was an industrial strategy focused on increasing China's self-sufficiency in critical and emerging technologies. On the

one hand, it reduces China's need for foreign suppliers, while on the other, it boosts China as an essential outside option for most countries.

- The China Standards targets the definition of international technical standards. International standards setting merges Beijing's previously mentioned strategies, as it facilitates internationalisation (Going Out), enables connectivity between countries (BRI), and raises the international value of Chinese products (Made in China). This is discussed in Chinese media, where we can find an expression that summarises the mindset underlying these strategies: 得标准者得天下 [He who wins the standard wins the world, Own translation] (Lu, 2016).

China's OFDI is also driven by contingency responses rather than strategic frameworks, such as circumventing trade restrictions imposed by the USA. This was evident in the case of solar supply chains, where China's global export leadership facilitated the rise of Vietnam and Malaysia as key players in PV exports (IEA, 2022).

Concerning the energy and its subsectors, China's OFDI distribution corresponds to its energy mix: fossil fuels still lead, although diminishing, while renewables are surging.[4] From 2005 to 2023, China's energy OFDI was led by three oil and gas companies (AEI and Heritage, 2024): CNPC, Sinopec and CNOOC. They represented, respectively, 16.3 per cent, 14.3 per cent, and 10 per cent of the referred OFDI (AEI and Heritage, 2024). These National Oil Companies (NOCs) were world leaders in revenues, standing as 4th, 5th, and 65th in the Global Fortune (2023) ranking of companies' revenues.

Both China's oil and gas subsectors are characterised by high dependence on imports, thus creating structural vulnerabilities. Renewables and electricity stand on an opposite vector. The world's electricity imports/consumption ratio of 3 per cent (IEA, 2020) exemplifies the previous statement. The main renewable energy sources for China's electricity production are solar, wind, and hydro (BP, 2024). Among the top five energy SOEs in China's OFDI, the 4th and the 5th, namely SG and CTG, operate within these subsectors. They represented 7 per cent and 6 per cent of China's energy OFDI between 2005 and 2023 (AEI and Heritage, 2024)

CTG stands as a front-runner in renewable energy. CTG is the "world's largest hydropower development and operation enterprise" (CTG,

2023a: 8). After CWE, one of the first eight Chinese SOEs authorised to internationalise, was transferred by the Government to CTG in 2008 (CTG, 2009), CTG became a global leader in hydropower plant construction, with projects in more than 80 countries and permanent offices in 32 of those countries (CTG, 2023a). CTG is also indirectly a leader in wind turbine manufacturing. Chinese Goldwind is the world's number one wind turbine supplier, with a 14 per cent global market share in 2023 (BloombergNEF, 2024).

The key to the renewable sector's politically defined growth goals is the integration of this new energy in the electricity networks (Pan *et al*., 2020). This falls precisely within SG's core business: transmission networks (retailing and distribution) (Xu, 2017). The SG network covers 88 per cent of continental China, employs over 1.48 million people, serves 1.1 billion clients, and holds assets worth RMB 4.67 trillion (SG, 2022). Worldwide, in terms of 2022's revenues, SG ranked third, making it the world's largest utility company (Fortune, 2023).

These five companies possess vast resources, granting them unparalleled potential to drive structural changes through economic actions, particularly FDI. This underscores the critical importance of the chosen case study.

4. Empirical Analysis

Considering energy technology exports alongside FDI and finance diplomacy, China has become a leader in the global energy sector (Kong and Gallagher, 2016). This section addresses how that leadership translates into structural power, namely, if selected companies:

- Obtained more outside options for China (import diversification),
- Improved China's goods production (import reduction),
- Became other actors' outside options (export improvement).

4.1. Import Diversification

Import diversification may seem to pertain primarily to the oil and gas subsectors, which highlights the importance of international supply for these energy types. However, supply dynamics are not entirely absent from the electricity and renewables subsectors, where the supply of technology also represents a critical source of power. The vulnerability concerns in the new

geopolitics of energy are not on energy supply disruptions, but on technology and materials access (IRENA, 2024: 30). Similarly, advanced technology is essential for oil and gas companies to optimise resource exploitation.

Beijing's objectives, however, diverge when it comes to energy supply versus energy technology. The key distinction lies in the potential to domestically secure these needs. In terms of energy supply, Chinese companies have focused on diversifying their suppliers internationally, while for energy technology, efforts are concentrated on promoting self-sufficiency. This subsection addresses the first case, while the following subsection, import reduction, focuses on the second case.

Starting in the 1990s, Chinese NOCs began internationalising to acquire shares in overseas oil and gas production, commonly referred to as equity oil and gas (Kuteleva, 2022). As of 2022, CNPC reported that its overseas operations accounted for 42.3 per cent of its oil production, 17.9 per cent of its gas production, and 19 per cent of its crude refining throughput (CNPC, 2023). In the same year, CNOOC Limited, the main subsidiary of CNOOC, reported 29.8 per cent of equity oil production and 21.6 per cent of equity gas production from overseas (CNOOC Limited, 2023). Also in 2022, the Sinopec Corporation, the main subsidiary of Sinopec, reported 10.7 per cent of equity oil and 27.8 per cent of equity gas production from overseas (Sinopec, 2023a).

Compared to domestic (mainland China) consumption, these figures are insufficient to address dependency concerns. Using 2022 China's oil consumption numbers (Energy Institute, 2023), the CNPC oil overseas production accounted for only 11.7 per cent of China's needs; the CNOOC Limited, 2.7 per cent; and the Sinopec Corp., 4.1 per cent. In terms of China's gas consumption in 2022 (Energy Institute, 2023), the CNPC overseas gas production accounted for only 8.5 per cent of China's needs, 1.2 per cent in the case of CNOOC Limited, and 2.6 per cent in the case of Sinopec.

Furthermore, most of the equity oil and gas is not redirected to China but sold on international markets, and, even during a crisis, doubts remain about the feasibility and the cost of redirecting these resources to China (Taylor, 2021). Unlike what it looks at first glance, NOCs' internationalisation is designed to contribute to China's quest for structural power. Positioning its SOEs along the global energy supply chains fosters China's influence over these subsectors (Lind and Press, 2018). NOCs

have to balance the government's security concerns with their profitability (Kuteleva, 2022). This observation aligns with Carvalho's (2024) findings on the internationalisation strategies of SG and CTG. Consequently, within the analytical framework of this paper, these companies' diversification efforts do not represent a significant and direct enhancement of China's own resources.

Beyond direct supply considerations, OFDI also carries a political dimension, as improving economic ties contributes to boosting political influence (Lind and Press, 2018). According to these authors, fostering bilateral relations with producers supports oil supply security. Moreover, China's growing influence in the oil-producing regions also contributes to Beijing's strategic aims of countering the USA hegemony (Liou, 2009).

Nevertheless, these initiatives remain ineffective in strengthening China's relational global position—and, by extension, its structural power—especially since the main vulnerabilities persist, namely the dependency of maritime supply lanes with strategic chokepoints and the external resource dependence itself (Taylor, 2021). Additionally, the Western dominance of oil and gas markets further exacerbates these challenges (Meidan, 2020). While the improvement of bilateral political relations theoretically reduces the risks of external dependence, it neither eliminates the reliance itself nor addresses the geographical constraints of supply routes.

Despite substantial investments, the outcomes of import diversification have not been structurally transformative, and, as a result, China's structural power has seen little meaningful advancement in this context.

4.2. Import Reduction

In the energy sector, reducing imports can be achieved through increased domestic production or by shifting energy consumption towards domestically sourced energy, particularly renewable energy. The focus is on reducing the external influence over China. Both approaches require advanced technologies. The five selected companies have conducted visible efforts in this regard, establishing themselves as global innovation hubs, as illustrated in Table 1.[5]

Table 1. Granted Patents until 2022

Company	Granted patents	Company	Granted patents
Sinopec	49,852	**SG** (until 2021)	129,830
CNPC (PetroChina)	19,869	**CTG**	4,547
Saudi Aramco (until 2021)	16,882	Electricité de France	4,268
ExxonMobil (until 2021)	16,447	ENEL	727
TotalEnergies	8,209	E.ON	721
BP (until 2021)	3,785	Fortum	191
CNOOC	2,583		
Gazprom	80		

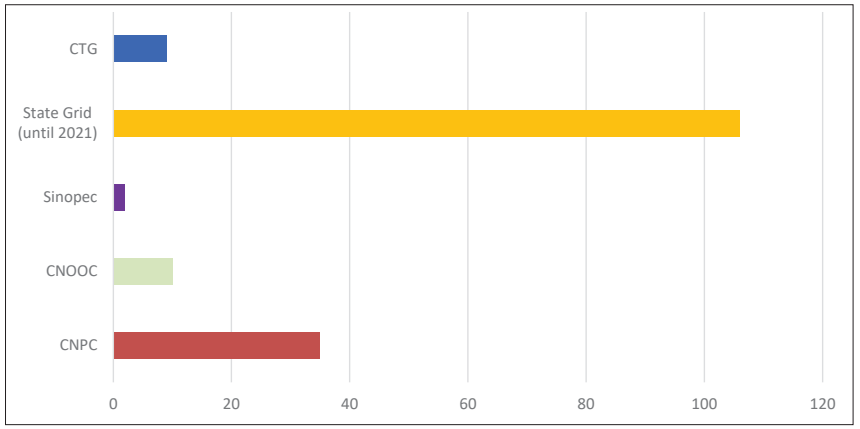
Source: Own creation using data from (CTG, 2020, 2023b; Insights by GreyB, 2023-2024; PetroChina, 2023; Sinopec, 2023b).

The numbers highlight China's efforts in innovation. Taking into account only energy transition technologies, China ranked third in world patent filing in 2023 (IRENA, 2024). However, it must be noted that most of those patents are filed in China. SG, the one with the most patents, has completed 98.7 per cent of its patent filings in China (Insights by GreyB, 2023-2024). SG also tops patent filing in other sectors, such as Artificial Intelligence: first in China, 15th in the world (WIPO, 2019).

Despite higher patent filing and granting, China remains significantly behind its competitors in terms of domestic patents filed or granted abroad: respectively, 4.6 per cent and 7.3 per cent, while the US had, in the same year, 44 per cent and 47.1 per cent domestic patents filed or granted overseas (Nirupamala, 2019). The Chinese patent boom is associated with patent subsidies. The financial support encouraged the filing of low-quality patents and even the artificial splitting of applications to multiply filings (Lei *et al*., 2012). Acknowledging this issue, Beijing announced the gradual elimination of these subsidies until 2025 (Xinhua, 2022).

Another priority area for Beijing's plans, and a key aspect of innovation capability, is standards. Standards can be set by technical institutions or market dominance (Rühlig, 2024). China has been active in both approaches, the OFDI being particularly impactful in the second approach (The US-China Business Council, 2020). Nevertheless, companies can also directly participate in the referred institutions. International standards-setting numbers highlight the effort of these Chinese enterprises in both approaches, led here as well by SG.

Figure 1. Selected Chinese SOEs in International Standards-Setting (until 2022)



Source: Own creation using data from (CTG, 2022, 2023b; SG, 2021, 2022; Sinopec, 2023b; Tan, Zheng, Du, and Wu, 2022).

The stated goal is for Chinese companies to lead international standards formulation to secure competitive advantages and international influence (Tan, Zheng, and Wu, 2022). However, in the oil and gas subsectors, China remains in need of (Western) outside options. China's biggest oil company, CNPC, reported several international cooperation projects in the domestic market (CNPC, 2023). CNOOC, which recently pioneered advanced extraction operations, launching the "world's first deepwater semisubmersible production and storage platform", required the crucial cooperation of four international oil companies for this project (Oil and Gas Facilities, 2021: para. 2). Collaboration with foreign companies has been a landmark strategy for Chinese firms striving to move up the value scale. CNOOC's (2017) statement on international cooperation reflects this perspective, considering it "a significant platform for the Company to build scientific and technological innovation soft power" (52), thus, improving its international operating environment, both technologically (accessing and sharing), and scientifically (improving own research).

Western standards dominate the industry, according to a Chinese NOC's affiliated paper on the current situation of offshore oil and gas platforms in China (Xin *et al*., 2022). A Chinese newspaper affiliated with the CCP and the Government states that not only standards but technology itself, more specifically, underwater connectors for offshore oil and gas

extraction, constitute one of "China's most acute 'chokepoints'" in terms of "technological import dependencies" (Murphy, 2022: 5–6). Analysts deem it improbable that China can halt the growing difference between oil consumption and domestic production (Taylor, 2021). Nor have the NOCs closed the technology gap. Likewise, Chinese NOCs lag behind main competitors in terms of investment, domestic market maturity and industry development (Ma and Ma, 2023).

Nonetheless, the Chinese NOCs OFDI contributes to obtaining competitive factors, thus its technology catching up with Western competitors, in what Kong (2019) classifies as "modernization through globalization" (29). Domestic resources are also instrumentalised to this end. China uses its market size and unconventional hydrocarbon prospects to stimulate the cooperation between Chinese NOCs and international oil companies (Jiang and Ding, 2014).

This has the potential to reduce imports by improving domestic production and enhancing the capabilities of Chinese companies.

Given China's massive energy demands, achieving energy self-sufficiency with fossil fuels has been unfeasible for several decades. Bumping domestic production, which has limited potential, depends on continuous international economic cooperation. Chinese NOCs' internationalisation has contributed to the scale-up of their technological capabilities, but this remains an ongoing endeavour. Consequently, in these energy subsectors, OFDI has contributed to addressing concerns but has not structurally changed China's constraints, leaving its external dependence on oil and gas mostly unchanged.

In the renewable and electricity subsectors, SG and, to a lesser extent, CTG, succeeded in positioning China at the forefront of international standard-setting. Figure 1 shows evidence of SG's decisive contribution to this achievement, which stemmed from SG's ability to persuade Beijing to support its pioneering initiatives in key power technologies. Recognising the power of standard-setting, SG engaged early in international standard-setting for Ultra-high-voltage (UHV) electricity transmission technologies, securing significant advantages in sectoral leadership and cost reduction (Xu, 2017). This SOE's OFDI, for example, in Brazil, contributed to the global expansion of this technology. Consequently, SG is the world leader in UHV deployments, operating or commissioning 34 lines within China and two of the five lines outside China (Quimbre *et al*., 2023).

Nonetheless, in a paper sponsored by a SG subsidiary, Zhang *et al.* (2022) identified several challenges for Chinese influence in international standard-setting in this sector. They can be divided into two dimensions: domestic and foreign. On the Chinese side, the factors are disorganisation and lack of personnel for this task. On the foreign side, SG is still struggling for recognition and cooperation. SG capital shares in foreign power companies are deemed as a mitigating factor due to the positive impact of influencing foreign companies' decision-making towards Chinese standards (Quimbre *et al.*, 2023). In the Philippines, for example, SG even supported the national power transmission company, in which SG holds a shareholder position, in the development of its standards system (Yuhai and Haixiang, 2017).

CTG's importance in international standard-setting is due to its invested non-controlled company of Goldwind, which, if accounted for in Figure 1, would rank second with 42 participations in international standards-setting (Goldwind, 2024). However, the 2023 global leader in wind turbine manufacturing, 95 per cent of Goldwind's projects commissioned in that year were in China (BloombergNEF, 2024). This stresses the importance of caution when observing Chinese stats in the high-tech sectors. Excluding China and Vietnam, Goldwind's global market share in 2023 diminished to 1.7 per cent (total Goldwind's market share for the same year was 14 per cent) (Wood Mackenzie, 2024). At the same time, it also reinforces the magnitude of China's market. According to the previous source, China's domestic market was responsible for 65 per cent of the global wind capacity commissioned in 2023.

International leadership aside, CTG also strives for domestic self-sufficiency. This SOE frames itself as seeking to upgrade China's industry, highlighting, upon a hydropower basis, the development of solar, onshore and offshore wind power (CTG, 2023a). The same report indicated progresses in domestic manufacturing in the offshore wind segment.

Outward investments contributed to CTG's strategy. One investment in particular must be highlighted: EDP, the main Portuguese renewable energy producer and distributor, in which CTG invested in 2012. Excluding China, EDP is the fourth largest onshore wind energy producer in the world; it is also a leading player in solar and offshore wind energy (EDPR, 2024). The EDP-CTG strategic partnership has significantly contributed, via international market knowledge, to CTG's successful internationalisation (Carvalho, 2024).

The CTG's core business, the hydropower industry, has a long-standing partnership with international companies. For the Three Gorges project itself – the world's largest dam and CTG's primary purpose - most of the turbines were brought abroad (Dewey & LeBoeuf LLP, 2010). According to the same author, the Chinese government took advantage of this situation to leverage expertise for domestic manufacturers, working side by side with foreign manufacturers. Recently, Xi Jinping exalted a CTG project that included the world's first 1GW generator, which included key domestic components (CTG, 2023a).

The shift to renewable energy sources presents several challenges for power networks, in terms of transmission and integration. The SG's UHV transmission lines tackle the first issue. For the integration and planning of green energy networks, SG recurred to OFDI. Its investment in Portugal exemplifies it: a country renowned for its exceptional integration of renewable energy, where SG invested in the national transmission operator. One of the key motivations was to acquire expertise and advance network management strategies for intermittent energy sources (Carvalho, 2024).

Overall, China has established itself as the leading global producer of technology in the renewable energy subsector, from electric vehicles to batteries and solar panels (Meidan *et al*., 2024). This progress has gradually reinforced Beijing's ambitions for self-sufficiency in critical technologies. However, the dominance is not complete, as a residual need for international cooperation in high-end technology persists. Nevertheless, the reliance is significantly less pronounced than in the oil and gas subsectors and does not overshadow China's leadership in renewable industries.

The Chinese success in renewable energy technology has accelerated the country's transition towards a more electric-based economy (Meidan *et al*., 2024), with the domestic power sector responding promptly, even in a mostly peremptory manner, to the necessary transformations. This shift promoted another type of dependency reduction crucial to China's structural power in this sector: fossil fuel import dependency. The transformation of domestic needs reduces external power over China. Combined with a relatively autonomous renewable energy industry (and a necessary advanced power sector)—i.e., a sustainable increased resources power—China's domestically led green transition is making substantial improvements to its structural power within this domain.

4.3. Export Improvement

Among the three dimensions examined in this section, exports present the most evident shift in China's structural power within the energy sector. Beijing's leadership in the renewables and electricity subsectors naturally translates into exports, which, in turn, further contribute to consolidating China's dominant position in this global industry (Meidan, 2020). Leading clean energy exports improves China's structural power in the energy sector by affirming China as an indispensable outside option to other countries. This dynamic is supported by China's overcapacity in producing affordable renewable energy technologies (Meidan *et al.*, 2024). In terms of numbers, in 2022, China accounted for circa 70 per cent of the world's solar manufacturing, 50 per cent of the world's wind turbines, and 90 per cent of the world's lithium-ion battery manufacturing (Wood Mackenzie, 2022).

OFDI played a role in enabling China's export success. Invested companies privilege Chinese products (Carvalho, 2024). SG's primary objective is the global market: it invests in UHV to sell its products rather than capitalise on intellectual rents. Thus, it pushes for low-cost intellectual property to facilitate broader adoption of its products (Center for Energy Environmental and Economic Systems Analysis, 2015). SG affirms that its OFDI has created a framework for mutual exchange, allowing it to export its technology and expertise (Yuhai and Haixiang, 2017). According to Xu (2019), SG's global rise also helped other Chinese companies in SG's supply chain to shift from a dependency on imports to export competitiveness.

Moreover, the network dimension of OFDI, discussed in section 4.1, is a determining factor influencing exports. SG's OFDI can help redefine the sector's geopolitical landscape by integrating the power infrastructures of the BRI countries into a cohesive network (Meidan, 2020). Beijing and SG have a specific initiative for this issue: Global Energy Interconnection (GEI). The goal is to establish a globally interconnected yet centralised grid (Xu, 2017). The plan to implement it rests on three vectors: UHV lines, extensive fields of renewable energy, and smart grids (Downie, 2020). China leads globally in each of those three technologies. Through the control of the governing bodies of GEIDCO and related technical standards institutions, Beijing is positioned to influence future grids' structures (Quimbre *et al*., 2023).

Nonetheless, developments of international power interconnections have been limited (Downie, 2020). This is true for China itself, with numerous constraints, ranging from geography to security (Chi *et al*., 2022). These

types of challenges also apply to Europe. SG investments contributed to boosting Chinese influence on the European electricity infrastructure. The economic relation could further expand to inbound flows of cheap Chinese electricity. Yet, this could easily lead to overdependence. Debt traps resulting from major energy infrastructure construction are also a reported concern, adding to the national security risks due to links with the CCP and the People's Liberation Army in companies dealing with critical infrastructures (Quimbre *et al*., 2023).

These Western reactions, although a challenge to further international cooperation, can also be viewed as evidence of China's success, in terms of structural power. In a study on the various renewables subsectors, the European Union (EU), as a whole, with the United Kingdom still included, leads in value-added by having the highest value (i.e., filed in more than one patent office) in patent families' filings and market share (Directorate-General for Energy, 2022). According to the same source, in 2018, the EU represented 67 per cent of the world's wind market, while China, 18 per cent. In hydropower, EU had 39 per cent vs. 23 per cent of China. The exception was the solar market, where, in 2018, China led the patent filings, with 35 per cent of the world's total. The EU only represented 4 per cent. Since solar is the main traded renewable energy technology by value (it represents 78 per cent of renewable energy technology world trading, excluding intra-EU trade), and it is led by China, Beijing is leading the global trade in renewable technology.

EU lagging behind China in the solar industry is officially associated with "China's unfair trade practices", that is China still practises, for example, export restrictions over gallium and germanium, two rare earth materials essential for solar panels (Von der Leyen, 2023). The old energy paradigm had the major energy resources (fossil fuels) geographically clustered. This facilitated direct control. The new paradigm is characterised by globally abundant energy resources (renewable energy). However, access to renewables depends on technologies and materials, such as solar panels and lithium, which are also clustered in specific regions (IRENA, 2024). China strategically tops this concentration (Simmons, 2024). This creates not only dependencies but also bottlenecks that are easy to weaponise. And China has weaponised them several times now. This instrumentalisation of economic means, however, has a downside. When Beijing geopolitically leverages its export power, the subsequent rise in prices and the downward

perception of China prompt global investments in alternative resources, not forgetting efforts to recycle or even to replace the need for them (Meidan, 2020). The international reaction to China's structural power in rare earth elements completely matches the definition of structural power: reducing the necessity for outside options, which, in this case, have been quasi-monopolised by China.

In this context, reducing the dependence on China has become a top priority for several Western nations, allocating major resources to this objective. The European Commission (2022), for example, identified a strategic vulnerability of the EU concerning China in solar photovoltaic technologies, which are crucial, not only to meet climate goals but also for space and defence. However, China's dominance in certain components or technologies presents substantial short-term obstacles to substitution, notably in segments such as electric vehicles (Simmons, 2024: 3). Likewise, the US government recognised this when some components or materials were left out from the measures to de-risk battery supply chains from China in the Inflation Reduction Act until 2026 (Manning, 2024).

The selected companies in this paper are among the targets of US measures to restrict Chinese trade and investment. CTG, CNOOC, and, indirectly, SG—the direct target is Sugon, whose computers play a critical role in SG's operations (Miller, 2019)—are officially listed as "'Chinese Military Companies' operating directly or indirectly in the United States" (US Department of Defense, 2024: para. 1). The listing enables the US government to impose exceptional measures against these entities as part of a sustained effort to counter China's integrated approach, where civilian enterprises contribute to the modernisation of the Chinese Armed Forces. To allow a restricted regime for targeted companies, the US Commerce Department maintains a list of entities that could pose risks to national security, on which CNOOC is included (Bureau of Industry and Security, 2024).

The measures aiming to reduce China's dominance in the energy sector are producing ripple effects, such as raising the costs for new projects, with added difficulties in securing key components, which is already delaying renewable energy projects in the USA (Millard and Jopson, 2023). With the estimated total cost of $700 billion for the period 2024-2031, according to RystadEnergy (2023), the desired outcomes of these Western efforts—namely, countering China's dominance in the energy sector—are unlikely to materialise before the next decade, at the earliest.

Chinese NOCs also export (petroleum) equipment, e.g., CNPC exported equipment to over 80 countries in 2022 (CNPC, 2023). However, it does not fit structural power considerations, because in this subsector, Chinese manufacturers, despite their large-scale advantages, still face a deep technological disparity compared to their international counterparts, depending on imports for key components and falling short on quality and high-end technology (G. Zhang *et al*., 2022).

For the gas subsector, similar challenges persist regarding catching up in advanced technology, hindering domestic industry development. As reported by Chinese SOEs' affiliated sources, China struggles with gaps in both manufacturing and adoption of high-end technology (Li, 2022). Even in the domestic market of oil and gas equipment, Chinese companies dominate only in low-value segments, while foreign companies, with only 10 per cent market share, secure the high-end segment (export.gov, 2019).

Between the three dimensions addressed by this paper, the increase in exports has, for evident reasons, the most direct impact on third countries. From a purely cooperative perspective on the power and renewable energy subsectors, China's affordable and competitive products would be universally welcomed as a substantial step forward in fighting climate change. However, industrial, economic, political and security concerns meddle with Western response to China's recently acquired leadership in these subsectors. While OFDI played a role in this achievement, the foundational effort of establishing the basis for a globally competitive industry was internal. Moreover, the characteristics of the new energy paradigm eliminate China's previous limitation under the fossil fuel-based paradigm of insufficient domestic resources, which required a constant supply from troubled regions through communication lines often constrained by bottlenecks. Despite significant OFDI, no transformative shift has occurred in the oil and gas subsectors. The reasons are primarily domestic, including insufficient energy resources and a late entry into the global market. As a result, these energy sources continue to represent a vulnerability for China.

5. Conclusion

The green transition has an undeniable potential for disrupting global power balances. Hence, the energy sector has been a primary area of concern and investment for China, as consistently highlighted in its strategic plans. From a structural power analytical lens, Beijing aims to scale up the Chinese

industry (enhancing the quality of its goods) and to transition towards a clean energy mix (altering its needs).

This paper analyses China's structural power within the energy sector, focusing on whether the internationalisation of Chinese energy companies has strengthened China's structural power in this domain. The research design is a qualitative case study of five Chinese SOEs. The selected companies' subsectors match the current Chinese energy mix and future trends. Fossil fuels remain a major source, while renewable energy growth is exponential, with all the inherent challenges of a paradigm transformation.

Chinese SOEs' internationalisation in the energy sector has followed strategic aims related to its structural position, with different results in oil and gas, and in power and renewables. OFDI has played a significant role in both cases, growing China's global importance in these energy sectors. Chinese NOCs - CNPC, CNOOC, and Sinopec - have invested heavily in oil and gas-producing countries worldwide. They gained access to oil and gas reserves and infrastructure, improving their position in those sectors. These investments enabled China to secure long-term supply agreements, diversify its energy sources, improve its import capabilities, enhance its bargaining power in energy-related negotiations, and strengthen its ability to influence global prices and trading patterns. However, despite the identified positive contributions of China's internationalisation in oil and gas, Beijing's structural power in these subsectors remains very limited. Chinese SOEs are still dependent on foreign suppliers. This applies not only to basic crude and gas supply, but also to high-end technology.

OFDI in the power and renewables subsectors has also been massive. By expanding its presence in the global electricity market, including transmission, hydro, solar and wind subsectors, Chinese SOEs have gained influence, achieved economies of scale, promoted their technology exports, and raised their cost competitiveness. These investments have allowed China to dominate UHV networks and the production of wind turbines and solar panels, enabling it to shape the global renewable and power grid market, as well as standard development. SG and CTG have contributed to the affirmation of China as a viable option for third parties within the framework of the global energy transition.

Overall, China has been a "price taker" in the oil and gas subsectors, whereas in the renewables and power sector, it is globally setting the stage, including supply chains and critical infrastructures (Meidan, 2020: Abstract).

Furthermore, according to the same source (aligning with this paper's conclusions, even though it is not framed as structural power), China's leadership in renewables has benefited geopolitically. The negative response from Western countries underscores the significance of China's current position in the energy sector.

A key insight for other power structures is that OFDI alone is insufficient for achieving structural changes. The values and outcomes of the Chinese OFDI in the oil and gas subsectors support this view. While FDI can enhance one's structural power, the existence of a competitive basis is a prerequisite for achieving significant results. The Chinese OFDI in the power and renewable energy subsectors serves as an excellent example. Moreover, FDI tends to attract substantial visibility, which contributes to the expected negative reaction from *status quo* powers when faced with a potential challenger—an economic Thucydides Trap.

Notes

[1] In this paper, "China" refers to the People's Republic of China (PRC).

[2] According to AEI and Heritage (2024) data, they represented 56 per cent of China's total energy OFDI from 2005 to 2023. Note that AEI and Heritage (2024) only register investments over 100 million USD.

[3] For comparison, according to the same source, metal was the second main sector of China's OFDI, representing 12.6 per cent of total OFDI.

[4] China's energy mix mirrors the world's trends, highlighting the shared strategic significance of individual energy subsectors for both Beijing and the international community (BP, 2024).

[5] ExxonMobil, TotalEnergies, BP, Saudi Aramco, Gazprom, Electricité de France, ENEL, E.ON, and Fortum, as top-ranked companies in their sectors (Fortune, 2023), were added for comparison purposes.

Reference List

AEI and Heritage (2024), "China Global Investment Tracker". https://www.aei.org/china-global-investment-tracker/.

Arnold, Stephanie (2024), "Africa's Roads to Digital Development: Paving the Way for Chinese Structural Power in the ICT Sector?", *Review of International Political Economy*, Vol. 31, No. 4, pp. 1148-1172. https://doi.org/10.1080/09692290.2023.2297363.

BloombergNEF (2024), "China's Goldwind Retains Turbine Supplier Lead, as Global Wind Additions Hit New High, According to BloombergNEF". https://about.bnef.com/blog/chinas-goldwind-retains-turbine-supplier-lead-as-global-wind-additions-hit-new-high-according-to-bloombergnef/.

BP (2024), *bp Energy Outlook 2024 Edition*. https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/energy-outlook/bp-energy-outlook-2024.pdf.

Bureau of Industry and Security (2024), "Supplement No. 4 to Part 744, Title 15". https://www.ecfr.gov/current/title-15/part-744/appendix-Supplement No. 4 to Part 744.

Carvalho, Tiago Luís (2024), *Segurança Económica Portuguesa: o Caso do Investimento Chinês no Setor Elétrico [Portuguese Economic Security: the Case of Chinese Investment in the Power Sector]*, Lisboa: Lisbon International Press.

Center for Energy Environmental and Economic Systems Analysis (2015), "Power Play: China's Ultra-High Voltage Technology and Global Standards". https://www.paulsoninstitute.org/wp-content/uploads/2017/01/PPS_UHV_English_R.pdf.

Chi, Y., Bai, G., and J.-H. Xu (2022), "Security Assessment of Transnational Power Interconnection between China and Neighboring Countries", *Computers & Industrial Engineering*, Vol. 171, No. 2, p. 108336. https://doi.org/10.1016/j.cie.2022.108336.

Chiang, M. and E. L. de Micheaux (2022), "China's Outward Foreign Direct Investment in Southeast Asia: Analyzing the Chinese State's Strategies and Potential Influence", *Thunderbird International Business Review*, Vol. 64, No. 6, pp. 581–593. https://doi.org/10.1002/tie.22311.

Ciorciari, John D. (2014), "China's Structural Power Deficit and Influence Gap in the Monetary Policy Arena", *Asian Survey*, Vol. 54, No. 5, pp. 869–893. https://doi.org/10.1525/as.2014.54.5.869.

CNOOC (2017), "2016 Annual Report China National Offshore Oil Corp". https://www.resourcedata.org/dataset/cnooc-annualreport-2016/resource/a0043d48-c415-49f6-9311-452802635761/view/12910d68-c9b8-439d-94b6-580c5e88b260.

CNOOC Limited (2023), "2022 Annual Report". https://www.cnoocltd.com/attach/0/2304111316397083.pdf.

CNPC (2023), "2022 Annual Report". http://www.cnpc.com.cn/en/2022enbyfgrme/202307/d999e8735fcb42c590cbc9e06a24fd35/files/0af045dccf63494c9827e99dbb19ffb3.pdf.

CTG (2009), "CTGPC 2008 Annual Report". https://www.ctg.com.cn/en/publications/reports40/annual_report/index.html.

——— (2020), "2019 Sustainability Report". https://www.ctg.com.cn/uiFramework/js/pdfjs/web/viewer.html?file=/ctgenglish/fileDir/resource/cms/article/1463743/1464715/2023120700543016487.pdf.

——— (2022), "2021 Sustainability Report". https://www.ctg.com.cn/ctgenglish/sustainability50/report/csr_report/index.html.

——— (2023a), "2022 Annual Report China Three Gorges Corporation". https://www.ctg.com.cn/ctgenglish/sustainability50/report/annual_report65/index.html.

——— (2023b), "2022 Sustainability Report". https://www.ctg.com.cn/ctgenglish/sustainability50/report/csr_report/index.html.

Dewey & LeBoeuf LLP (2010), "China's Promotion of the Renewable Electric Power Equipment Industry: Hydro, Wind, Solar, Biomass". https://www.nftc.org/archive/Press Release/2010/China Renewable Energy.pdf.

Directorate-General for Energy (2022), *EU's Global Leadership in Renewables: Final Synthesis Report: July 2021*, Luxembourg: Publications Office of the European Union.

Downie, Edmund (2020), "Powering the Globe: Lessons from Southeast Asia for China's Global Energy Interconnection Initiative". https://www.energypolicy.columbia.edu/wp-content/uploads/2020/04/GEI_CGEP-Report_111722.pdf.

EDPR (2024), "Annual Report 2023: We Choose Earth". https://www.edpr.com/sites/edpr/files/2024-04/EDPRAnnualReport2023_disclaimer.pdf.

Energy Institute (2023), "2023 Statistical Review of World Energy Data". https://www.energyinst.org/__data/assets/excel_doc/0007/1055545/EI-stats-review-all-data.xlsx.

European Commission (2022), "Commission Staff Working Document: EU strategic Dependencies and Capacities: Second Stage of In-depth Reviews". https://ec.europa.eu/docsroom/documents/48878.

Evenett, S. J., Martin, F., and A. Krueger (2024), "Scaling Up China's Solar

Panel Industry: Surpassing All Expectations", *Zeitgeist Series Briefing*, No. 25. Global Trade Alert. https://www.globaltradealert.org/reports/download/138.

export.gov (2019), "China Country Commercial Guide: China - Oil and Gas". https://www.export.gov/apex/article2?id=China-Oil-and-Gas.

Fortune (2023), "2022 Global 500". https://fortune.com/ranking/global500/2022/.

Gabusi, Giuseppe (2020), "China's Structural Power and the Fate of the BCIM Economic Corridor", *The International Spectator*, Vol. 55, No. 3, pp. 17–34. https://doi.org/10.1080/03932729.2020.1782071.

Goldwind (2024), "Annual Report 2023: Innovating for a Brighter Tomorrow". https://www.hkexnews.hk/listedco/listconews/sehk/2024/0425/2024042502725.pdf.

Guilhot, Laëtitia (2022), "An Analysis of China's Energy Policy from 1981 to 2020: Transitioning towards to a Diversified and Low-carbon Energy System", *Energy Policy*, Vol. 162, p. 112806. https://doi.org/10.1016/j.enpol.2022.112806.

Gürcan, E. C. and C. Donduran (2023), "The Economic and Institutional Dynamics of China's Growing Financial Influence: a 'Structural Power' Perspective", *The Japanese Political Economy*, Vol. 49, No. 1, pp. 109–135. https://doi.org/10.1080/2329194X.2023.2184387.

IEA (2020), "Electricity Market Report December 2020". https://iea.blob.core.windows.net/assets/a695ae98-cec1-43ce-9cab-c37bb0143a05/Electricity_Market_Report_December_2020.pdf.

——— (2022), "Solar PV Global Supply Chains". https://www.iea.org/reports/solar-pv-global-supply-chains.

Ilhéu, Fernanda (2020), "The Global Value Chains and the Evolution of Chinese Economic Model", *Working Paper CEsA CSG*, No. 178/2020. https://www.repository.utl.pt/bitstream/10400.5/19964/1/wp178.pdf.

Insights by GreyB (2023-2024), "Patent Profiles for BP, CNOOC, E.ON, Enel, ExxonMobil, Fortum, Gazprom, Saudi Aramco, Sinopec, SGCC, Total Energies, and EDF". https://insights.greyb.com/.

IRENA (2024), "Geopolitics of the Energy Transition: Energy Security. International Renewable Energy Agency". https://mc-cd8320d4-36a1-40ac-83cc-3389-cdn-endpoint.azureedge.net/-/media/Files/IRENA/Agency/Publication/2024/Apr/IRENA_Geopolitics_transition_energy_security_2024.pdf?rev=40bab71a18e14038b5a4973b5e3bb4d4.

Jiang, J. and C. Ding (2014), "Partner Country Series: Update on Overseas Investments by China's National Oil Companies: Achievements and Challenges since 2011", IEA. https://www.iea.org/reports/partner-country-series-update-on-overseas-investments-by-chinas-national-oil-companies.

Kitchen, N. and M. Cox (2019), "Power, Structural Power, and American Decline", *Cambridge Review of International Affairs*, Vol. 32, No. 6, pp. 734–752. https://doi.org/10.1080/09557571.2019.1606158.

Kong, B. and K. Gallagher (2016), "The Globalization of Chinese Energy Companies: The Role of State Finance". www.bu.edu/gdp//06/13/the-globalization-of-chinese-energy-companies-the-role-of-state-finance/.

Kong, Bo (2019), *Modernization Through Globalization: Why China Finances Foreign Energy Projects Worldwide*, Singapore: Palgrave Macmillan.

Kuteleva, Anna (2022), *China's Energy Security and Relations with Petrostates: Oil as an Idea*, New York: Routledge.

Lei, Z., Sun, Z., and B. Wright (2012), "Patent Subsidy and Patent Filing in China (Mimeo)". https://funginstitute.berkeley.edu/wp-content/uploads/2013/12/patent_subsidy_Zhen.pdf.

Li, Luguang (2022), "Development of Natural Gas Industry in China: Review and Prospect", *Natural Gas Industry B*, Vol. 9, No. 2, pp. 187–196. https://doi.org/10.1016/j.ngib.2022.03.001.

Lind, J. and D. G. Press (2018), "Markets or Mercantilism? How China Secures Its Energy Supplies", *International Security*, Vol. 42, No. 4, pp. 170–204. https://doi.org/10.1162/isec_a_00310.

Liou, Chih-shian (2009), "Bureaucratic Politics and Overseas Investment by Chinese State-Owned Oil Companies: Illusory Champions", *Asian Survey*, Vol. 10, No. 1525, pp. 670–690. https://doi.org/10.1525/as.2009.49.4.670.

Liu, M. and K. S. Tsai, K. S. (2021), "Structural Power, Hegemony, and State Capitalism: Limits to China's Global Economic Power", *Politics & Society*, Vol. 49, No. 32, pp. 235–267. https://doi.org/10.1177/0032329220950234.

Lu, Zehua (2016), "189项中国标准成为世界标准 [189 Chinese Standards have Become World Standards]", 人民日报海外版 [People's Daily Overseas Edition]. http://paper.people.com.cn/rmrbhwb/html/2016-09/17/content_1713012.htm.

Ma, Z. and Y. Ma (2023), "What's After Coal? Accelerating China's Overseas Investment in Renewables", *World Resources Institute*. https://www.wri.org/insights/whats-after-coal-accelerating-chinas-overseas-investment-renewables.

Malkin, A., and T. He (2023), "The Geoeconomics of Global Semiconductor Value chains: Extraterritoriality and the US-China Technology Rivalry", *Review of International Political Economy*, Vol. 31, No. 2, pp. 1–26. https://doi.org/10.1080/09692290.2023.2245404.

Malkin, Anton (2022), "The Made in China Challenge to US Structural Power: Industrial Policy, Intellectual Property and Multinational Corporations", *Review of International Political Economy*, Vol. 29, No. 2, pp. 538–570. https://doi.org/10.1080/09692290.2020.1824930.

Manning, Robert (2024), "Is Biden Deferring the Green Transition to Contain China?", *Foreign Policy*. https://foreignpolicy.com/2024/05/28/biden-china-electricvehicles/.

Meidan, M., Hove, A., Andrews-Speed, P., and Y. Qin (2024), "OIES China Energy Monthly 10 May 2024", OIES CM, No. 01, Oxford Institute for Energy Studies. https://www.oxfordenergy.org/wpcms/wp-content/uploads/2024/05/OIES-China-Energy-Monthly-Issue-1.pdf.

Meidan, Michal (2020), "China: Climate Leader and Villain", in Manfred Hafner and Simone Tagliapietra (eds), *The Geopolitics of the Global Energy Transition*, Cham: Springer, pp. 75–91.

Millard, R. and B. Jopson (2023), "Solar Supply Chains must Diversify Away from China, Warns EDP", *Financial Times*. https://www.ft.com/content/6ecee5d2-e86b-49d3-9b7f-da937bf8b993.

Miller, Maggie (2019), "Commerce Department Blacklists Five Chinese Tech Groups Due to National Security Concerns", *The Hill*. https://thehill.com/policy/cybersecurity/449777-commerce-department-blacklists-five-chinese-tech-groups-due-to-national/.

Morin, J.-F. and E. Tepper (2023), "The Empire Strikes Back: Comparing US and China's Structural Power in Outer Space", *Global Studies Quarterly*, Vol. 3, No. 4, pp. 1-13. https://doi.org/10.1093/isagsq/ksad067.

Murphy, Ben (2022), "Chokepoints: China's Self-Identified Strategic Technology Import Dependencies", *CSET*. https://doi.org/10.51593/20210070.

Nirupamala, Kanchana (2019), "Intellectual Property: Is China the Global Leader in Innovation?", *SPEEDA*. https://asia.ub-speeda.com/en/

intellectual-property-china-global-leader-innovation/.

Oil and Gas Facilities (2021), "CNOOC Launches World's First Ultradeep Semisub Production and Storage Platform", *Journal of Petroleum Technology*. https://jpt.spe.org/cnooc-launches-worlds-first-ultradeep-semisub-production-and-storage-platform.

Pan, E., Liu, S., Liu, J., Qi, Q., and Z. Guo (2020), "The State Grid Corporation of China's Practice and Outlook for Promoting New Energy Development", *Energy Conversion and Economics*, Vol. 1, No. 2, pp. 71–80. https://doi.org/10.1049/enc2.12007.

Pavlićević, Draga (2019), "Structural Power and the China-EU-Western Balkans Triangular Relations", *Asia Europe Journal*, Vol. 17, No. 4, pp. 453–468. https://doi.org/10.1007/s10308-019-00566-y.

People's Daily (2021), "习近平：能源的饭碗必须端在自己手里 [Xi Jinping: The Energy Job Must be in Our Own Hands]". https://wap.peopleapp.com/article/6338533/6228820.

PetroChina (2023), "PetroChina Company Limited 2022 Annual Report". http://www.petrochina.com.cn/ptr/ndbg/202304/160574715e654711b0f723a3868f6e22/files/85e626beab274137ac1e8068de282d72.pdf.

Pustovitovskij, A. and Kremer, J.-F. (2011), "Structural Power and International Relations Analysis: 'Fill Your Basket, Get Your Preferences'". *IEE Working Paper*, No. 191. https://ideas.repec.org/p/zbw/ieewps/191.html.

Pustovitovskij, A. and Kremer, J.-F. (2012), "Towards a New Understanding of Structural Power: 'Structure Is What States Make of It'", in Enrico Fels, Jan-Frederik Kremer, and Katharina Kronenberg (eds), *Power in the 21st Century: International Security and International Political Economy in a Changing World*, Berlin: Springer, pp. 59–78.

Quimbre, F., Rueda, I. A., Van Soest, H., Schmid, J., Shatz, H. J., Heath, T. R., Meidan, M., Wullner, A., Deane, P., Glynn, J., and L. Regan (2023), "China's Global Energy Interconnection: Exploring the Security Implications of a Power Grid Developed and Governed by China", *RAND Corporation*. https://doi.org/10.7249/RRA2490-1.

Rühlig, Tim (2024), "Chapter 5: China: A Technical Standardisation Power?", in Rogier Creemers, Straton Papagianneas, and Adam Knight (eds), *The Emergence of China's Smart State*, London: Rowman & Littlefield Publishers, pp. 103–122.

RystadEnergy (2023), "Too Little, Too Late: Regional Clean Energy Supply Chains not Possible Until at Least 2030". https://www.rystadenergy.com/news/regional-clean-energy-supply-chains-china.

Sassi, Francesco (2022), "Structural Power in Russia's Gas Sector: The Commoditisation of the Gas Market and the Case of Novatek". *Energy Strategy Reviews*, Vol. 41, p. 100842. https://doi.org/10.1016/j.esr.2022.100842.

SG (2021), "Corporate Social Responsibility Report 2020". https://web.archive.org/web/20230103192759/http://www.sgcc.com.cn/html/files/2022-06/10/20220610161501291488481.pdf.

——— (2022), "2021 国家电网有限公司 社会责任报告 [State Grid Corporation of China: Social Responsibility Report]". https://web.archive.org/web/20230103192307/http://www.sgcc.com.cn/html/files/2022-07/21/20220721120427708767768.pdf.

Simmons, Brad (2024), "US Efforts to Decarbonize and De-risk the Battery Supply Chains: Are They Fundamentally Incompatible?", *OIES Energy Comment*. https://www.oxfordenergy.org/wpcms/wp-content/uploads/2024/05/US-efforts-to-decarbonize-and-de-risk-the-battery-supply-chains.pdf.

Sinopec (2023a), "2022 Annual Report China Petrochemical Corporation". http://www.sinopecgroup.com/group/en/Resource/Pdf/GroupAnnualReport2022en.pdf.

——— (2023b), "2022 Sinopec Corp. Sustainability Report: Cleaner Energy Better Life". http://www.sinopec.com/u/cms/gfyw/202411/27093615d6xm.pdf.

Strange, Susan (1998), *States and Markets*, 2nd ed, London: Bloomsbury Academic.

Tan, Y., Zheng, H., and W. Wu (2022), "浅析标准化工作对企业发展战略的支撑作用 [Supporting Effect of Standardisation on Enterprise Development Strategy]", 石油工业技术监督 [Technical Supervision of the Oil Industry], Vol. 38, No. 5, pp. 8–11. https://doi.org/10.20029/j.issn.1004-1346.2022.05.003.

Tan, Y., Zheng, H., Du, Y., and W. Wu (2022), "新时期中国海油国际标准化工作的思考 [Thinking of CNOOC International Standardisation in New Era]", 石油科技论坛 [Petroleum Science and Technology Forum], Vol. 41, No. 5, pp. 57–62. https://doi.org/10.3969/j.issn.1002-302x.2022.05.008.

Taylor, Monique (2021), "China's Evolving Energy Security Strategy", *Asian Affairs*, Vol. 52, No. 4, pp. 890–913. https://doi.org/10.1080/03068374.2021.2004031.

The US-China Business Council (2020), "China in International Standards Setting: USCBC Recommendations for Constructive Participation". https://www.uschina.org/sites/default/files/china_in_international_standards_setting.pdf.

US Department of Defense (2024), "DOD Releases List of People's Republic of China (PRC) Military Companies in Accordance with Section 1260H of the National Defense Authorization Act for Fiscal Year 2021". https://www.defense.gov/News/Releases/Release/article/3661985/dod-releases-list-of-peoples-republic-of-china-prc-military-companies-in-accord/.

Von der Leyen, Ursula (2023), "2023 State of the Union Address", *European Commission*. https://ec.europa.eu/commission/presscorner/detail/ov/speech_23_4426.

WIPO (2019), "Technology Trends 2019: Artificial Intelligence". https://www.wipo.int/edocs/pubdocs/en/wipo_pub_1055.pdf.

Wood Mackenzie (2022), "China's Renewables Boom Year Poses Major Challenges to Western Markets". https://www.woodmac.com/press-releases/chinas-renewables-boom-year-poses-major-challenges-to-western-markets/.

——— (2024), "China Leads Global Wind Turbine Manufacturers' Market Share in 2023". https://www.woodmac.com/press-releases/2024-press-releases/global-wind-oem-marketshare/.

Xin, C., Yang, P., and W. Liang (2022), "我国海洋油气平台标准应用现状分析 [Application and Development Trend of the Standardisation of Offshore Oil Platforms in China]", 中国标准化 [China Standardisation], Vol. 13, pp. 122–125. https://doi.org/10.3969/j.issn.1002-5944.2022.13.019.

Xinhua (2022), "China to End Patent Subsidies by 2025. State Council". http://english.www.gov.cn/statecouncil/ministries/202201/27/content_WS61f29de1c6d09c94e48a4616.html.

Xu, Yi-chong (2017), *Sinews of Power: The Politics of the State Grid Corporation of China*, New York: Oxford University Press.

——— (2019), "The Search for High Power in China: State Grid Corporation of China", in Loren Brandt and Thomas G. Rawski (eds),

Policy, Regulation and Innovation in China's Electricity and Telecom Industries, Cambridge: Cambridge University Press, pp. 221–261.

Yuhai, H., and L. Haixiang (2017), "Leading the Way in Serving 'Belt and Road' Construction: State Grid International Development Limited's Path to Overseas Business Expansion [做服务‘一带一路’建设的排头兵———国网国际发展有限公司海外业务拓展之路]", *CSIS Interpret: China, original work published in China Power Enterprise Management* [中国电力企业管理]. https://interpret.csis.org/translations/leading-the-way-in-serving-belt-and-road-construction-state-grid-international-development-limiteds-path-to-overseas-business-expansion/.

Zhang, C., Huang, Y., Zhao, X., Cao, L., Zhao, L., Lou, C., and P. Zhang (2022), "Analysis of the current situation and suggestion of countermeasures for international standardization for power grid industry of China", *IOP Conference Series: Earth and Environmental Science*, Vol. 1087, No. 1, p. 012067. https://doi.org/10.1088/1755-1315/1087/1/012067.

Zhang, G., Song, Z., and C. Shang (2022), "我国石油石化装备制造业高质量发展对策研究 [Study Countermeasures for High-quality Development of Petroleum and Petrochemical Equipment Manufacturing Industry]", 石油科技论坛 [Petroleum Science and Technology Forum], Vol. 41, No. 6, pp. 10–16. https://doi.org/10.3969/j.issn.1002-302x.2022.06.002.

International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 95–124 https://doi.org/10.22452/ijcs.vol16no2.4

Does Foreign Ownership from China and Hong Kong Decrease Investment Efficiency of Malaysia Firms? An Empirical Investigation

Joseph Wee Siong *Hii*[*] Thirunaukarasu *Subramaniam*[°]
[*]Institute for Advanced Studies, Universiti Malaya
[°]Faculty of Arts and Social Sciences, Universiti Malaya

Abstract

Foreign investment is becoming increasingly significant in emerging economies, but its effect on efficiency of domestic firms remains ambiguous. In Malaysia, foreign ownership is subject to regulatory restrictions and institutional frameworks. It remains unclear, however, whether foreign investors contribute to efficient capital allocation. Therefore, this study conducted an in-depth analysis on 455 public listed Malaysian firms, specifically on the relationship between foreign ownership and firm-level capital allocations, captured by sensitivity of investment expenditure to investment opportunities (investment-Q sensitivity). The findings indicate that foreign ownership has no significant impact on investment efficiency, and this is consistent across different ownership intervals. Nevertheless, the effect of foreign ownership varies by country of origin. Investments from Japan, Singapore and Western countries have had no significant impact on investment efficiency, while those from China and Hong Kong are associated with significant reduction. The findings, hence, suggest the importance of investor origin and fit when formulating investment policies and designing governance frameworks to facilitate efficient capital allocation.

Keywords: *Investment Efficiency, Countries of Origin, Foreign Ownership, Malaysia, China and Hong Kong.*

[*] PhD candidate at the Institute for Advanced Studies, Universiti Malaya. Email: josephhii007@gmail.com.
[°] (corresponding author) Associate Professor at the Faculty of Arts and Social Sciences, Universiti Malaya. Email: stkarasu@um.edu.my.

1. Introduction

The determinants of a firm's capital allocation are an important area of research. In a frictionless setting, the firm's investment should be guided by opportunities as measured by Tobin's Q (Stein, 2003). However, a firm's investment decision is often distorted by imperfections in capital markets. Prior studies have identified information asymmetry (Chen et al., 2007) and agency problems (Jiang et al., 2011) as key determinants of the sensitivity of firm investment to stock price. Empirical studies have explored the relationship between ownership and sensitivity of firm investment to stock price (Chen et al., 2017; Rashed et al., 2018). They have noted that information asymmetry between managers and external investors can result in suboptimal capital allocation, while agency conflicts may prompt managers to pursue self-interests at the expense of company-wide value.

Agency theory advocates that ownership structure can mitigate these inefficiencies; for instance, concentrated ownership provides incentives for active monitoring and pressures managers to adopt transparent practices (Shleifer & Vishny, 1997; Panda & Leepsa, 2017). Similarly, managerial ownership reduces agency costs by aligning the interests of owners and managers (Jensen & Meckling, 1976; Mustapha & Che Ahmed, 2011).

Foreign ownership has received increasing attention in recent scholarship, especially in this era of rapid globalisation. As external investors, foreign shareholders are constrained by information asymmetries largely due to their unfamiliarity with local business practices and which have often prompted them to impose stricter governance rules as well as demand greater disclosure from their investee firms (Tsang et al., 2019). They may also transfer expertise in investment, technology, and management practices to improve investment efficiency (Chen et al., 2017). Resource-based theory (RBT) suggests that foreign investors provide unique assets, such as advanced technology, to improve production processes and organisational practices. These resources are expected to enhance the domestic firms' ability to access investment opportunities and improve their efficiency (Carney et al., 2019).

The benefits of foreign ownership depend on institutional conditions. Foreign shareholders typically have greater impact on firm efficiency where institutions are weak, but their influence is limited in robust institutional environments (Aggarwal et al., 2011). The investor's country of origin also matters. Investors from advanced economies typically possess superior

monitoring capabilities and expertise (Aggarwal et al., 2009; Lindemanis et al., 2022). Conversely, investors from developing economies may lack these skills (Jiang & Kim, 2020). In extreme cases, the latter tend to expropriate resources for self-interest, thereby negatively affecting investment performance (Greenaway et al., 2014; Makino et al., 2023).

In this context, Chinese investors have drawn significant attention since the 2013 announcement of the Belt and Road Initiatives (BRI). China's outward foreign direct investment (OFDI) global shares rose from 7.6 per cent in 2013 to 10.9 per cent in 2022. Its FDI flow increased from US$878 billion to US$1,631.2 billion over the same period, and its FDI stock (US$2.75 trillion) ranked third globally after US and Netherlands in 2022 (MOFCOM, 2023). In spite of this, Chinese companies are often associated with weak governance, limited board independence and prevalent political interference. This raise concerns that national objectives are prioritised over value creation (Bardhan, 2020; Sabbaghi, 2016; Lazzarini & Musacchio, 2018). Nevertheless, some findings challenge this view, pointing that legal reforms in developing countries have contributed to strengthening of their governance standards (Mohapatra & Ghosh, 2023). Chinese investors also contribute financial resources and infrastructure expertise that enhance investment efficiency of domestic firms in related projects (Li et al., 2020).

Malaysia presents a relevant case for examining the relationship between foreign ownership and investment efficiency. Although the Malaysian government actively promotes FDI through incentives, such as Pioneer Status and the Investment Tax Allowance, their participation is subject to significant sectoral restrictions. Foreign equity, for example, is capped at 30 per cent in commercial banking, 70 per cent in insurance and takaful, and 49 per cent in telecommunication (PwC, 2025; MITI, 2024). In distributive trade, foreign-owned companies must meet stringent requirements, including minimum capital thresholds, allocate 30 per cent equity to Bumiputera shareholders, appoint Bumiputera directors, and mandatory shelf allocations for local products (KPDN, 2020). Beyond these formal restrictions, bureaucratic hurdles, policy uncertainty, and overlapping approval processes together limit the potential efficiency gains (Tham & Jesuthasan, 2020; BNM, 2024).

Therefore, how investors respond to these institutional frictions depends on their origin and capabilities. Investors from developed economies emphasise transparency, disclosure, and governance practices in efforts to

increase efficiency. In contrast, some emerging-market investors, particularly from China, may pursue state-linked objectives that distort decision making, even as their financial strength and infrastructure expertise generate efficiency gains in selected projects (Lazzarini & Musacchio, 2018; Makino et al., 2023; Li et al., 2020).

These contrasting tendencies highlight that the impact of foreign ownership on investment efficiency is likely to vary by country of origin. Malaysia's recent FDI profile reflect this dynamic. Malaysia is a regular recipient of FDI flows from developed economies, such as Singapore (from MYR 90.729 billion in 2014 to MYR 168.537 billion in 2021), Japan (from MYR 66.732 billion in 2014 to MYR 80.686 billion in 2021), the Netherlands (from MYR 43.196 billion to MYR 63.239 billion) and the US (from MYR 35.902 billion in 2014 to MYR 59.575 billion in 2021). It is important to note that FDI stock from developing countries, especially from China, has increased over the years (from MYR 2.137 billion in 2014 to MYR 25.471 billion in 2021). In fact, Malaysia is the top 13th recipient of China's outbound FDI amounting to US$14.3 billion in 2023 (MOFCOM, 2024a; 2024b) and it is also ranked as top five foreign investors in Malaysia in the same year (MIDA, 2023).

This convergence of investors from developed and emerging economies makes Malaysia a compelling setting to examine whether foreign ownership has distinct effects on firms' investment efficiency. This study in particular, explores how foreign ownership from different countries may influence investment efficiency, shedding light on the interaction between investor origin and institutional context in emerging markets.

The rest of the paper is organised as follows. Related literature and hypotheses development are presented in section 2. Sample and variables used in the study are described in section 3 and the findings presented in statistics. The results, findings and implications are discussed in sections 4 and 5. Section 6 concludes the paper.

2. Literature Review and Hypotheses Development

2.1 Determinants of Investment Efficiency

In the perfectly efficient market assumption of Modigliani and Miller (1958) presented in the form of theorem, investment opportunities (as measured by Tobin's Q) should be the only determinant for a firm's involvement.

However, frictions in the capital markets of the real world could deviate from optimal level investment. Investment-related literature have, among others, identified information asymmetry and agency problems as the main obstacles to achieve optimal investment (Stein, 2003; Jiang et al., 2011; McLean et al., 2012).

Information asymmetry models suggest that there are information gaps between managers and investors, creating under-investment issue (Myers, 1984; Myers & Majluf, 1984). Debt and equity securities financing are preferred by managers for instance, when they believe these securities are overvalued based on the private information. Recognising this pattern, investors discount the value of new issue securities resulting in the reluctance of managers to issue new securities when they have profitable project. The outcome is underinvestment.

In contrast to information asymmetry models that assume managers act in the interest of shareholders, agency models proposed by Jensen and Meckling (1976) suggest that managers prioritise their self-interest and may not pursue the interests of shareholders. Thus, the conflict of interest leads to investment inefficiency. One classic example is the Jensen (1986) free cash flow hypothesis which posits that availability of substantial free cash flow increases motivation of managers to invest in projects that benefit themselves (empire-building motive), which results in overinvestment. This is supported by empirical evidence that agency conflicts increase overinvestment issue (Richardson, 2006; Asadi et al., 2021).

2.2 Foreign Ownership, its Origin of Country and Investment Efficiency

Foreign ownership has been proposed as an effective instrument to address information asymmetry and agency problems. Foreign shareholders are subject to information disadvantages due to their unfamiliarity with local business practices (Tsang et al., 2019). In order to address these asymmetries, foreign shareholders are motivated to monitor and enhance the corporate governance mechanisms of domestic firms (Leuz et al., 2009). This pressures domestic firms to practice greater corporate disclosure transparency and quality (Balakrishnan et al., 2014). In short, intensified monitoring and implementation of strong corporate governance reduce agency problem and promotes investment efficiency (Aggarwal et al., 2011; Bimo et al., 2022). Greater corporate disclosure transparency and quality reduce information asymmetry between investors and managers (Dutta & Nezlobin, 2017).

Moreover, foreign shareholders' global investment experience enhances the domestic firm's information processing capabilities and evaluation techniques, thus improving investment efficiency (Chen et al., 2017). Some studies also argue that foreign investors are reluctant to invest in poorly governed companies (Doidge et al., 2009; Cheng et al., 2013). Hence, the presence of foreign investors indicates lesser information problems and thus, reduces investment inefficiency. Nevertheless, the proportion of foreign ownership may contribute to another agency problem. Although a larger proportion of foreign ownership aligns large shareholders interest with others (Shleifer & Vishny, 1986), it increases the potential for resources expropriation for self-interest (Johnson et al., 2000). Thus, the proportion of foreign shareholdings may affect the outcome of investment decisions.

However, the impact of foreign ownership on investment efficiency may vary depending on the foreign investors' country of origin. Investors from different countries may have different characteristics in legal systems and governance structures, which may affect their monitoring capabilities to promote investment efficiency (Ilyas et al., 2024; Med Bechir & Jouirou, 2024).

Extant literature suggests that differences in the economic status of the shareholders' home country could affect the relationship between foreign ownership and firm performance. It is theorised that foreign ownership from developed countries access to advanced resources and extensive investment experiences improves domestic firm performance, whereas those from developing economies do not, as they lack these capabilities (Phung & Mishra, 2016). Therefore, owners from developed countries are expected to improve financial reporting quality and corporate governance of domestic firms (Biddle et al., 2009). In contrast, investors from developing countries are exposed to weaker corporate governance structures in their home countries (Al-ahdal et al., 2020). Nonetheless, empirical evidence suggests that benefits of foreign ownership from developed economies (Driffield et al., 2018) are limited. Findings also challenge the traditional view of weak governance in developing economics, as some countries have enhanced governance quality through legal reforms (Goel, 2018; Mohapatra & Ghosh, 2023). This suggests that the investor's country of origins may affect the way they deal with information asymmetry and agency problems.

Moreover, the effectiveness of foreign ownership may be affected by leadership style and organisational culture. Differences between management

approaches of foreign investors and local executives affect decision-making and collaboration (Dinesen et al., 2020). Shared culture and social norms build trust and improve knowledge exchange (Tan & Meyer, 2011). Ethnic – linked investors may better understand the local market which boosts investment efficiency (Abraham et al., 2010; Mao & Yang, 2016).

Studies have also suggested that investors from different countries pursue distinct objectives in their investment decision (Razzaq et al., 2021). These divergent motives are further shaped by institutional environments, cultural norms and technology gaps between home and host economies (Ford et al., 2008). Moreover, studies that have used RBT suggest that foreign investors from different countries possess distinct, firm-specific advantages that vary based on their home-country environments (Barney, 1991). Japanese firms, for example, leverage their strength in lean manufacturing and R&D intensity to enhance productivity and investment performance in their cross-border acquisition (Inoue et al., 2013). US investors' risk-taking culture (individualism) and capabilities (developed from their strong network resources and organisational slacks) may promote risk-taking investment behaviour (Mihet, 2013; Frijns, 2022). Thus, impact of foreign investors on the domestic firm's investment decision may be explained by their resource availability and cultural differences.

Therefore, the following hypotheses are proposed:

H1: There is a significant relationship between the level of foreign ownership and the investment efficiency of Malaysian firms.

H2: The country of origin of foreign ownership has a significant impact on the investment efficiency of Malaysian firms.

3. Research Design

3.1 Samples

The study analysed secondary data obtained from the published annual reports of all Malaysian firms listed on the main board of Bursa Malaysia between 2013 and 2019. A total of 455 firms was analysed after the exclusion of financial services sectors. This is because they are subject to distinct regulatory and higher systematic risk that directly constrain investment decisions to avoid systemic collapse (Diamond & Rajan, 2001; Brunnermeier & Sannikov, 2014). Moreover, their investment efficiency is also more sensitive to macroeconomic cycles and volatile compared

with non-financial sectors (Claessens et al., 2012). Table 1 depicts a sector distribution of the sample.

Table 1. Sectoral Distribution of Sample Firms

Sectors	No. of Sample Firms
Consumer Products & Services	85
Construction	39
Energy	18
Health Care	13
Plantation	33
Industrial Products & Services	136
Property	60
Technology	28
Telecommunications & Media	13
Transportation & Logistics	19
Utilities	11
Total	455

Source: Compiled by authors

3.2 Regression Models and Variables

Investment models developed by Fazzari et al., (1987), Baker et al., (2003), McLean et al., (2012) and Chen et al., (2017) are used to examine the effect of foreign ownership on investment efficiency. The sensitivity of investment-to-investment opportunities (Tobin's Q) are selected as the proxy for investment efficiency. The foreign ownership effects are formulated as:

$$I_{j,t} = \alpha_j + \alpha_t + \beta_1 \cdot CF_{j,t-1} + \beta_2 \cdot Q_{j,t-1} + \beta_3 \cdot FOWN_{j,t} + \beta_4 \cdot FOWN_{j,t} \times Q_{j,t-1} + \varepsilon_{j,t} \quad (1)$$

In specific, equation (1) is estimated using firm (α_j) and year (α_t) fixed effects to capture unobserved firm- and year-specific effects. Where dependent variable, $I_{j,t}$ is firm j's investment expenditure in year t, which is calculated as the sum of the yearly growth in property, plant, and equipment, add growth in inventory, add R&D expenditure, all deflated by lagged book value of assets.

The independent variables are cash flow (CF), Tobin's Q (Q), FOWN (foreign ownership) and interaction terms between FOWN and Q. Where,

CF is counted as earnings before extraordinary items plus depreciation and amortisation deflated by lagged book value of asset. Q is measured as sum of market value of stocks and the book value of debt divided by the book value of total assets (Bennouri et al., 2018). FOWN refers to foreign ownership which is proxy by percentage of shares (Chen et al., 2017; Tran, 2020). As discussed in previous section, while concentration of ownership is aligned with the interests of shareholders, a relatively large proportion of ownership might increase their intention to expropriate the resources from firms (Johnson et al., 2000). Hence, this study further examines the effects of proportion of FOWN on investment efficiency. This study divides FOWN into three groups, namely FOWN<20 (foreign shareholdings more than 0 per cent but less than 20 per cent), 20≤FOWN<33 (foreign shareholdings equal or greater than 20 per cent but less than 33 per cent) and FOWN≥33 (foreign shareholdings equal or greater than 33 per cent). This follows Chu and Cheah (2006) definition that shareholdings less than 20 per cent is considered as disperse structure and Bursa Malaysia's (2023) definition which is any person who is or a group of persons who together entitled to 33 per cent of shares and are therefore, considered as controlling shareholders. This study asserts that the impact of FOWN on investment efficiency could be different depending on the country of origin. The analysis hence, focuses on the largest foreign investment in Malaysia during the sampling period. They are identified as Singapore (F_SG), Japan (F_JPN), Netherlands and US.

There has been a steady flow of Chinese investment since 2013 (MOFCOM, 2023). Hong Kong is the key investment route for mainland China's investment, accounting for 56 per cent of China's cumulative outward investment stock as of end-2020 and 57 per cent in 2021 (Hong Kong Monetary Authority, 2024). Hong Kong is also considered as the key gateway of mainland China's investment with other countries; this based on its national 14th five-year plan (Choo & Xu, 2023). Hence, this study combines investment from China and Hong Kong in the analysis termed as (F_CNHK). Similarities in economic, political and culture of US and Europe make it appropriate to combine shareholders from Netherlands and US into one region termed Western investors (F_Western) (Demirbag et al., 2007). Additionally, several control variables such as firm size (SIZE), leverage (LEV) and firm age (AGE) are included in the model to account for firm-specific characteristics that may influence investment decisions as

a robustness check. They are measured as "total assets", "total liabilities divided by total assets" and "natural logarithm of firm's operating years" respectively. Lastly, this study takes natural logarithm of the variables in eq. (1) to reduce the influence of outliers. Table 2 below describes the variables.

Table 2. Summary of Variables

Variable Short Form	Variable Name	Definition and Description
$I_{j,t}$	Investment Expenditure	Firm *j*'s investment expenditure, calculated as the sum of the yearly growth in PPE, inventory, and R&D expenditures, are deflated by lagged book value of assets. This is the primary measure of investment efficiency.
CF	Cash Flow	Measured as earnings before extraordinary items plus depreciation and amortisation, deflated by lagged book value of assets. It serves as a proxy for internal financing to control for financial constraints.
Q	Tobin's Q	Measured as sum of the market value of stocks and book value of debt, divided by the book value of total assets. This variable represents investment opportunities.
FOWN	Foreign Ownership	The percentage of shares owned by foreign entities.
FOWN x Q	Foreign Ownership x Tobin's Q	The interaction between FOWN and Q.
FOWN<20	Foreign ownership < 20%	Foreign shareholdings more than 0% but less than 20%. It is used to examine if the effect of foreign ownership varies with its concentration.
20≤FOWN<33	20% ≤Foreign ownership<33%	Foreign shareholdings equal or greater than 20% but less than 33%.
FOWN≥33	Foreign ownership ≥33%	Foreign shareholdings equal or greater than 33%
FOWN<20 x Q	Foreign ownership < 20% x Tobin's Q	The interaction between FOWN<20 and Q.
20≤FOWN<33 x Q	20% ≤Foreign ownership<33% x Tobin's Q	The interaction between 20≤FOWN<33 and Q.
FOWN≥33 x Q	Foreign ownership ≥33% x Tobin's Q	The interaction between FOWN≥33 and Q.
Variable Short Form	**Variable Name**	**Definition and Description**

F_Western	Foreign ownership from Western countries	Foreign shareholdings by investors originating from Western countries.
F_CNHK	Foreign ownership from China and Hong Kong	Foreign shareholdings by investors originating from China and Hong Kong
F_JPN	Foreign ownership from Japan	Foreign shareholdings by investors originating from Japan.
F_SG	Foreign ownership from Singapore	Foreign shareholdings by investors originating from Singapore.
F_Western x Q	Foreign ownership from Western countries x Tobin's Q	The interaction between F_Western and Q.
F_CNHK x Q	Foreign ownership from China and Hong Kong x Tobin's Q	The interaction between F_CNHK and Q.
F_JPN x Q	Foreign ownership from Japan x Tobin's Q	The interaction between F_JPN and Q.
F_SG x Q	Foreign ownership from Singapore x Tobin's Q	The interaction between F_SG and Q.
SIZE	Firm Size	Measured by the firm's total assets. It is included as a control variable to account for potential differences in investment behaviour across firms of varying scale.
LEV	Leverage	Measured by the ratio of a firm's total debt to its total assets. It is included as a control variable to account for the impact of a firm's capital structure on its investment decisions.
AGE	Firm Age	Measured by the natural logarithm of firm's operating years. It is included as a control variable to capture the effects of firm maturity on investment patterns.

4. Results

4.1 Descriptive Statistics and Pearson Correlation Matrix

Statistics of the major variables are presented in Table 3. The average foreign ownership is relatively low (11.83 per cent). This may be due to political instability and frequent change of policy which decrease the confidence of foreign investors (Baker, 2020). Following this, foreign equity from various country of origin is also relatively low. Nonetheless, maximum value of overall FOWN is 81.1 per cent, with individual country contribution ranging between 52.03 per cent and 78.91 per cent. This explains that foreign shareholders prefer to hold concentrated ownership when they invest in Malaysia. Tobin's Q (TQ) mean value of 1.2982 and the median value of 0.8713 suggest that while on average, investors are confident on prospects, they lack confidence in most sampled firms, leading to a slight undervaluation.

The Pearson correlation matrix in Appendix A shows that the correlation coefficients of most explanatory variables are low, with one exception that FOWN is highly correlated with its interval and origin variables. This is expected as they are components derived from FOWN. However, this does not create a multicollinearity problem because FOWN and its component variables are examined in separate models. In addition, a variance inflation factor (VIF) test was conducted for all models. The VIF values range between 1.01 to 1.08 (see Appendix B). This confirms the absence of multicollinearity problem (Din et al., 2022).

Table 3. Descriptive Statistics

Variables	Mean	Median	Min	Max	Std. Dev.	Obs.
Investment Expenditures (RM'000) (I)	0.0835	0.0096	-8.3987	120.8618	2.2577	3,078
Cash flow (RM'000) (CF)	0.0757	0.0661	-1.3023	2.3209	0.1187	3,069
Tobin's Q (Q)	1.2982	0.8713	0.1264	21.3636	1.6354	3,125
Foreign Ownership (FOWN)	11.8729	4.0	0	81.1	17.6337	3,177
Foreign Ownership from China & Hong Kong (F_CNHK)	1.8367	0	0	72.2	8.2928	3,177
Foreign Ownership from Netherlands & United States (F_Western)	1.6050	0	0	61.82	5.3059	3,177
Foreign Ownership Singapore (F_SG)	4.0121	0.16	0	78.91	10.2476	3,177
Foreign Ownership from Japan (F_JPN)	0.7267	0	0	52.03	5.0390	3,177
Total Assets (Size)(million)	3,733.24	645.988	8.233	179,000	11,200	3,134
Leverage (LEV)	0.9501	0.3920	0.0043	73.294	5.1189	3,134
Natural logarithm of Firm Age (AGE)	3.5532	3.4340	0	14.8777	1.4843	3,183

4.2 The Relationship of Foreign Shareholdings with Investment Efficiency

Panel A of Table 4 contains the results of regressing investment (I) on cash flow (CF), investment opportunities (Q), FOWN and the interaction between FOWN and Q. In model 1, the results reveal that coefficient on FOWN x Q is positive but insignificant. This suggests that foreign ownership is not significantly associated with higher investment efficiency.

Models 2 to 4 are analysed to examine whether different proportions of foreign ownership affect domestic firm investment efficiency. The results indicate that the coefficients of FOWN<20 x Q, 20≤FOWN<33 x Q and FOWN≥33 x Q are not significant. Thus, hypothesis 1 is not supported. This explains that FOWN is not associated with less information asymmetry or better corporate governance irrespective of its proportions. In order to perform a robustness check, additional control variables are added into the model. Models 5 to 8 included firm size (SIZE), leverage (LEV) and firm age (AGE) as these firms' characteristic variables might potentially affect the investment decision of managers (Pindado et al., 2010; Owusu-Ansah et al., 2023). Results of equation (1) estimation concludes that overall FOWN and its proportion have no significant relationship with domestic firm investment efficiency.

In respect to countries of origin, Panel B of Table 4, namely models 1 to 4 show that coefficients of foreign ownership from Netherlands and US and Q (F_Western x Q), foreign ownership from Japan and Q (F_JPN x Q) and foreign ownership from Singapore and Q (F_SG x Q) are not significant. This suggests that foreign investors from these countries are not associated with domestic firm investment efficiency. However, the significant negative interaction of foreign ownership from China and Hong Kong and Q (F_CNHK x Q) suggest that with more investment opportunities (measured by Q), F_CNHK could have a negative impact on investment efficiency. Given the mixed results, hypothesis 2 is supported. The results of interaction of F_Western x Q, F_CNHK x Q, F_JPN x Q and F_SG x Q remain the same when the control variables are added into the estimation (model 5 – 8).

In sum, this result suggests that foreign ownership does not promote optimal investment decisions in Malaysian firm. In a worst-case scenario, foreign ownership from China and Hong Kong could deviate the investment decision of a domestic firm from optimality.

5. Discussion and Implications

Table 4. The Impact of Foreign Ownership on Investment Efficiency

Panel A: The role of foreign ownership (Basic model)					**Additional controls**			
I	FOWN	FOWN <20	20≤ FOWN <33	FOWN ≥33	FOWN	FOWN <20	20≤ FOWN <33	FOWN ≥33
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CF	-0.0228	-0.0384	-0.0389	-0.0413	-0.2944	-0.0516	-0.0523	-0.05791
	(-0.77)	(-0.56)	(-0.57)	(-0.61)	(-0.85)	(-0.63)	(-0.64)	(-0.72)
Q	0.0216	0.01766*	0.0214	0.01866	0.0191	0.0170	0.0191	0.0157
	(1.64)	(1.65)	(1.57)	(1.31)	(1.53)	(1.57)	(1.47)	(1.17)
FOWN	-0.0034*				-0.0043**			
	(-1.73)				(-2.08)			
FOWN x Q	0.00132				0.0020			
	(0.53)				(0.82)			
FOWN<20		-0.0047				-0.00288		
		(-1.02)				(-0.66)		
FOWN<20 x Q		0.00378				0.0016		
		(0.78)				(0.36)		
20≤FOWN <33			0.0070				0.0103	
			(0.47)				(0.69)	
20≤FOWN <33 x Q			-0.0039				-0.0069	
			(-0.31)				(-0.55)	
FOWN≥33				-0.0151				-0.01658
				(-0.72)				(-0.81)
FOWN≥33 x Q				0.0096				0.01082
				(0.57)				(0.66)
SIZE					0.0119*	0.0111*	0.0114*	0.0118*
					(1.82)	(1.75)	(1.74)	(1.86)
LEV					0.0055	0.0083	0.0090	0.00414
					(0.37)	(0.52)	(0.55)	(0.31)
AGE					0.0019	0.0021	0.0035	0.0027
					(0.16)	(0.19)	(0.31)	(0.24)
Intercept	2.2314***	2.2627***	2.2588***	2.2657***	2.06542***	2.1159***	2.1036***	2.1127***
	(258.20)	(43.72)	(45.61)	(45.50)	(20.80)	(42.05)	(40.96)	(40.88)
Within R-squared	0.0069	0.0063	0.0067	0.0077	0.0093	0.0085	0.0090	0.0101
Observation	3024	3024	3024	3024	3024	3024	3024	3024

*This table reports fixed effect regression estimates of Eq.(1). Model 1 to 4 is the basic model. Model 5 to 8 adds SIZE, LEVERAGE, AGE to the control variables. The full samples include 455 firms and 3,024 firm years. All t-statistics (in parentheses) are based on robust, firm-clustered standard errors. Years dummies and industries dummies are included in all specifications. ***,** and * denote statistical significance at the 1%, 5%, and 10% level respectively.*

Panel A: The role of the countries of origin of foreign ownership (Basic model)					**Additional controls**			
I	F_ Western	F_CNHK	F_JPN	F_SG	F_ Western	F_CNHK	F_JPN	F_SG
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CF	-0.03939	-0.0379	-0.0406	-0.0395	-0.0526	-0.05242	-0.0534	-0.0537
	(-0.58)	(-0.55)	(-0.60)	(-0.58)	(-0.64)	(-0.64)	(-0.65)	(-0.65)
Q	0.0203	0.0209	0.02027	0.0202	0.01792	0.01836	0.0178	0.0177
	(1.53)	(1.61)	(1.56)	(1.55)	(1.41)	(1.49)	(1.44)	(1.44)
F_Western	-0.00176				-0.00278			
	(-0.70)				(-1.12)			
F_Western x Q	0.00227				0.0023			
	(0.93)				(0.99)			
F_CNHK		0.00523				0.0057		
		(1.63)				(1.86)		
F_CNHK x Q		-0.0042**				-0.0047***		
		(-2.15)				(-2.61)		
F_JPN			0.00070				-0.0001	
			(0.32)				(-0.05)	
F_JPN x Q			0.00430				0.0044	
			(1.37)				(1.48)	
F_SG				0.0627				0.0632
				(1.13)				(1.16)
F_SG x Q				-0.0757				-0.0761
				(-1.17)				(-1.20)
SIZE					0.01121*	0.0117*	0.0110*	0.0112*
					(1.74)	(1.84)	(1.71)	(1.74)
LEV					0.0080	0.0071	0.0094	0.0065
					(0.49)	(0.45)	(0.58)	(0.43)
AGE					0.00245	0.0005	0.0019	0.0001
					(0.22)	(0.05)	(0.17)	(0.00)
Intercept	2.2609***	2.2640***	2.2609***	2.2635***	2.1123***	2.1182***	2.1166***	2.1256***
	(45.32)	(45.38)	(45.19)	(45.17)	(41.32)	(42.93)	(41.91)	(43.45)
Within R-squared	0.0063	0.0070	0.0064	0.0071	0.0085	0.0093	0.0086	0.0099
Observation	3024	3024	3204	3204	3024	3024	3024	3024

*This table reports fixed effect regression estimates of Eq. (1). Model 1 to 4 is the basic model. Model 5 to 8 adds SIZE, LEVERAGE, AGE to the control variables. The full samples include 455 firms and 3,024 firm years. All t-statistics (in parentheses) are based on robust, firm-clustered standard errors. Years dummies and industry dummies are included in all specifications. ***,** and * denote statistical significance at the 1%, 5%, and 10% level respectively.*

The findings of this study do not support the traditional and prevalent view that foreign ownership promotes investment efficiency. Thus, it can be surmised that foreign investors may not always possess superior information processing and monitoring capabilities. They may also lack the motivation to participate in domestic investment decisions even if they do possess such capabilities. One possible reason is the generally low proportion of foreign ownership in Malaysian firms. Given the disproportionately high cost of monitoring relative to the potential benefits, smaller shareholders often have little incentive to engage in governance improvement and decision – making (He et al., 2022).

Nonetheless, the current findings also reveal that the interaction of FOWN≥33 x Q is insignificant, suggesting that even higher proportions of foreign ownership do not necessarily promote investment efficiency in Malaysian listed firms. Foreign investors may pursue objectives that do not maximise financial performance of their investee firms (Aguilera & Jackson, 2003). In extreme cases, they may even expropriate resources from domestic firms, as suggested by Johnson et al. (2000). These factors may jointly divert investment decisions away from the optimal level.

The findings also confirm that the country of origin of foreign ownership can have different impacts on the domestic firm's investment efficiency. Specifically, foreign ownership from Netherlands, United States, Japan, and Singapore does not significantly influence investment decisions, while those from China and Hong Kong negatively affect investment efficiency. This supports the argument that foreign investors from different countries possess varying monitoring capabilities, shaped by the governance structures of their home countries. Li and Hao (2015) argue that cultural practices of 'personal relationship' (私人关系 *siren guanxi*) in Chinese community can undermine formal governance mechanism by prioritising personal connections over legal and regulatory framework. Other cultural factors such as 'face' (面子 *mianzi*), 'Confucianism' (儒家思想 *rujia sixiang*) and 'collectivism' (集体主义 *jiti zhuyi*) also reduce the effectiveness of corporate governance. Hence, board independence of Chinese companies is often subject to criticism. This is because their independent directors are typically appointed by large shareholders and they may hesitate to express professional opinions to preserve relationships with these shareholders (Peng et al., 2021). The significant negative coefficient of F_CNHK x Q suggests that investors from China and Hong Kong may prioritise social and political objectives

instead of profit maximisation (Estrin et al., 2016; Lazzarini & Musacchio, 2018). In fact, this finding aligns with that of Chen et al. (2011) who suggest that Chinese firms are routinely subject to government intervention which reduces their investment efficiency. In the specific sectoral analysis, it is also found that Chinese firms investment efficiency in new energy industry is low (Zeng et al., 2018).

In contrast, investors from other countries show insignificant effect on investment efficiency. One possible explanation is that their influence depends on the compatibility of local leadership styles and organisational culture. According to Kennedy (2002), leadership in Malaysia typically depends on connection, hierarchy, and reaching consensus. These practices are greatly different from other countries; for instance, it is found that Japanese companies prioritize collective decision-making (Konings, 2000) while, Singaporean firms prioritise efficiency and meritocracy backed by a strong performance-driven bureaucracy system (Jones, 2016; Cordeiro, n.d.). Similarly, Western investors often promote shareholder value, financial discipline, and innovation over the day-to-day resource allocation (Krugov & Shaw, 2024; Shin, 2013). Therefore, these foreign investors' contributions are more obvious in governance, capital access, or institutional reforms than improving firm-level resource allocation or investment efficiency. Malaysia, for example, has implemented corporate governance reforms modelled after Western practices (Al-Hiyari, 2017). These discrepancies highlight that even well-resourced foreign investors may not enhance investment efficiency if their leadership style and cultural practices do not match local norms.

The current findings provide some insights for policymakers and business owners. The generally low level of foreign equity participation is likely to affect their willingness to engage in local governance. This highlights the need for policy reforms that attract foreign investment while ensuring alignment with domestic development priorities.

Furthermore, foreign investors from developed countries with strong corporate governance systems may not necessarily promote investment efficiency domestically. More importantly, the compatibility of foreign investors with domestic corporate governance practices, leadership styles, and cultural norms should be the primary concern when accepting foreign investment.

Policymakers should also evaluate the underlying objectives of foreign

investors to verify that they are consistent with domestic efficiency and economic goals. This is particularly relevant for Chinese and Hong Kong investment, as they may have political goals in addition to financial objectives. Chinese investors in the construction sector for example, often claim that Malaysian workers lack skills leading them to hire workers from China (Todd & Slattery, 2018). Similarly, in Indonesia, Chinese investors tend to favour hiring Chinese migrant workers instead of locals (Sitorus et al., 2023). This is not only destructive for the local labour market but also raise concerns whether this action is meant to decrease the pressure of high unemployment rate in China at the expense of domestic firm investment performance. It is worth noting that China's overall unemployment rate is 5.1 per cent while youth unemployment is 15.23 per cent in 2024 (Statista, 2024; Trading Economics, 2025).

The negative coefficient of CF, though not statistically significant, may indicate that internal funding is not necessarily cheaper than external funding. This suggests a high opportunity cost of retained earnings in Malaysian financial market (Myers & Majluf, 1984) and potential agency problem in managing internal fund. This structural factor may also affect the effectiveness of foreign ownership in promoting investment efficiency.

6. Conclusion

This study concludes that foreign ownership does not promote investment efficiency in Malaysian listed firms, irrespective of its interval of shareholdings. Therefore, foreign ownership alone does not guarantee superior monitoring, governance, or operational improvements.

Moreover, Chinese and Hong Kong shareholdings negatively affect domestic firms' investment efficiency. This reflects the potential influence from political or social objectives and home-country governance and cultural practices (Estrin et al., 2016; Lazzarini & Musacchio, 2018). Given the fact that Chinese and Hong Kong investment is important for the growth of the Malaysian economy, policymakers should design investment approval schemes that align foreign ownership interests with domestic development priorities. The effects of foreign investment are generally insignificant, reflecting perhaps the misalignment with Malaysian management styles, organisational culture and priorities, although they can still contribute through capital access or technology transfer.

Lastly, these findings highlight practical implications that policymakers

and domestic firms should consider when exploring foreign ownership, especially in the area of proportion of foreign ownership, country of origin, objectives, and cultural fit which together contribute to increase investment efficiency. Nonetheless, further investigations are crucial to generalise these findings. Future studies could include a large and more diverse sample from many countries. In addition, the effects of foreign ownership may be affected by local government and regulatory intervention. These factors could be further explored to better understand the relationship between foreign ownership and investment efficiency.

Reference List

Abraham, F., Konings, J. and Slootmaekers, V. (2010), "FDI Spillovers in the Chinese Manufacturing Sector", *Economics of Transition and Institutional Change*, Vol. 18, No. 1, pp. 143 – 182.

Al-Ahdal, W.M., Alsamhi, M.H., Tabash, M.I. and Farhan, N.H. (2020), "The Impact of Corporate Governance on Financial Performance of Indian and GCC Listed Firms: An Empirical Investigation", *Research in International Business and Finance*, Vol 51, pp.101083.

Al-Hiyari, A. (2017), "A Critical Review of Corporate Governance Reforms in Malaysia", *Journal of Governance and Regulations*, Vol. 6, No. 1, pp. 38 – 44.

Aggarwal, R., Erel, I., Ferreira, M. and Matos, P. (2011), "Does Governance Travel around the World? Evidence from Institutional Investors", *Journal of Financial Economics*, Vol. 100, No. 1, pp. 154 – 181.

Aggarwal, R., Erel, I., Stulz, R. and Williamson, R. (2009), "Differences in Governance Practices between US and Foreign firms: Measurement, Causes, and Consequences", *The Review of Financial Studies*, Vol. 22, No. 8, pp. 3131 – 3169.

Aguilera, R.V. and Jackson, G. (2003), "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants", *Academy of Management Review*, Vol. 28, No. 3, pp. 447 – 465.

Asadi, A., Oladi, M. and Aghel, M.G. (2021), "Evaluation of Managerial Overconfidence, Cash Holding, and Investment Efficiency in Companies". *Journal of Mathematics*, Vol. 2021, No. 1, pp. 1954526.

Baker, J. (2020), "*Crossroads: A Popular History of Malaysia and Singapore*", Marshall Cavendish International Asia Pte Ltd.

Baker, M., Stein, J.C. and Wurgler, J. (2003), "When Does the Market

Matter? Stock Prices and the Investment of Equity-Dependent Firms", *The Quarterly Journal of Economics*, Vol. 118, No. 3, pp. 969 – 1005.

Balakrishnan, K., Core, J.E. and Verdi, R.S. (2014), "The Relation between Reporting Quality and Financing and Investment: Evidence from Changes in Financing Capacity", *Journal of Accounting Research*, Vol. 52, No. 1, pp. 1 – 36.

Bank Negara Malaysia (BNM). (2024), "*Annual Report 2024*", Kuala Lumpur: BNM.

Bardhan, P. (2020), "The Chinese Governance System: Its Strengths and Weaknesses in A Comparative Development Perspective", *China Economic Review*, Vol. 61, pp. 101430.

Barney, J. (1991), "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol. 17, No. 1, pp. 99 – 120.

Bennouri, M., Chtioui, T., Nagati, H. and Nekhili, M. (2018), "Female Board Directorship and Firm Performance: What Really Matters?", *Journal of Banking & Finance*, Vol. 88, pp. 267 – 291.

Biddle, G.C., Hilary, G. and Verdi, R.S. (2009), "How Does Financial Reporting Quality Relate to Investment Efficiency?", *Journal of Accounting and Economics*, Vol. 48, No. 2-3, pp. 112 – 131.

Bimo, I.D., Silalahi, E.E. and Kusumadewi, N.L.G.L. (2022), "Corporate Governance and Investment Efficiency in Indonesia: The Moderating Role of Industry Competition", *Journal of Financial Reporting and Accounting*, Vol. 20, No. 2, pp. 371 – 384.

Brunnermeier, M.K. and Sannikov, Y. (2014), "A Macroeconomic Model with A Financial Sector", *American Economic Review*, Vol. 104, No. 2, pp. 379 – 421.

Bursa Malaysia (2023), "*Bursa Malaysia Listing Requirements*", Kuala Lumpur.

Carney, N., Estrin, S., Liang, Z. and Shapiro, D. (2019), "National Institutional Systems, Foreign Ownership and Firm Performance: The Case of Understudied Countries", *Journal of World Business*, Vol. 54, No. 4, pp. 244 – 257.

Chen, Q., Goldstein, I. and Jiang, W. (2007), "Price Informativeness and Investment Sensitivity to Stock Price", *Review of Financial Studies*, Vol. 20, pp. 619 – 650.

Chen, R., El Ghoul., S., Guedhami, O. and Wang, H. (2017), "Do State

and Foreign Ownership Affect Investment Efficiency? Evidence from Privatizations", *Journal of Corporate Finance*, Vol. 42, pp. 408 – 421.

Cheng, M., Dhaliwal, D. and Zhang, Y. (2013), "Does Investment Efficiency Improve After the Disclosure of Material Weaknesses in Internal Control over Financial Reporting?", *Journal of Accounting and Economics*, Vol. 56, No. 1, pp. 1-18.

Choo, E.C.Y. and Xu, K.J. (2023), "As China Reopens to The World, Hong Kong Must Lean into Super-Connector Role". https://amro-asia.org/as-china-reopens-to-the-world-hong-kong-must-lean-into-super-connector-role/.

Chu, E.Y. and Cheah, K.G., (2006), "Does Ownership Structure Matter? Evidence From Malaysian Equity Market", *Corporate Ownership & Control*, Vol. 4, No. 1, pp. 77 – 90.

Claessens, S., Kose, M.A. and Terrones, M.E. (2012), "How do Business and Financial Cycles Interact?", *Journal of International Economics*, Vol. 87, No. 1, pp. 178 – 190.

Cordeiro, C.M. (n.d.), "In Search of The Singapore Management Style". https://cherylmariecordeiro.se/in-search-of-the-singapore-management-style/.

Demirbag, M., Tatoglu, E. and Glaister, K.W. (2007), "Factors Influencing Perceptions of Performance: The Case of Western FDI in An Emerging Market", *International Business Review*, Vol. 16, No. 3, pp. 310 – 336.

Diamond, D.W. and Rajan, R.G. (2001), "Liquidity Risk, Liquidity Creation, and Financial Fragility: A Theory of Banking", *Journal of Political Economy*, Vol. 109, No. 2, pp. 287 – 327.

Din, S.U., Arshad Khan, M., Khan, M.J. and Khan, M.Y. (2022), "Ownership Structure and Corporate Financial Performance in An Emerging Market: A Dynamic Panel Data Analysis", *International Journal of Emerging Markets*, Vol. 17, No. 8, pp. 1973 – 1997.

Dinesen, P.T., Schaeffer, M. and Sønderskov, K.M. (2020), "Ethnic Diversity and Social Trust: A Narrative and Meta-Analytical Review", *Annual Review of Political Science*, Vol. 23, No. 1, pp. 441 – 465.

Doidge, C., Karolyi, G.A., Lins, K.V., Miller, D.P. and Stulz, R.M. (2009), "Private Benefits of Control, Ownership, and the Cross-Listing Decision", *The Journal of Finance*, Vol. 64, No. 1, pp. 425 – 466.

Driffield, N., Sun, K. and Temouri, Y. (2008), "Investigating the Link between

Foreign Ownership and Firm Performance – An Endogenous Threshold Approach", *Multinational Business Review*, Vol. 26, No. 3, pp. 277 – 298.

Dutta, S. and Nezlobin, A. (2017), "Dynamic Effects of Information Disclosure on Investment Efficiency", *Journal of Accounting Research*, Vol. 55 No. 2, pp. 329 – 369.

Estrin, S., Meyer, K.E., Nielsen, B.B. and Nielsen, S. (2016), "Home Country Institutions and the Internationalization of State-Owned Enterprises: A Cross-Country Analysis", *Journal of World Business*, Vol. 51, No. 2, pp. 294 – 307.

Fazzari, S., Hubbard, R.G. and Petersen, B.C. (1987), "Financing Constraints and Corporate Investment".

Frijns, B., Hubers, F., Kim, D., Roh, T.Y. and Xu, Y. (2022), "National Culture and Corporate Risk-Taking around The World", *Global Finance Journal*, Vol. 52, pp. 100710.

Goel, P. (2018), "Implications of Corporate Governance on Financial Performance: An Analytical Review of Governance and Social Reporting Reforms in India", *Asian Journal of Sustainability and Social Responsibility*, Vol. 3, No. 1, article number 4.

Greenaway, D., Guariglia, A. and Yu, Z. (2014), "The More The Better? Foreign Ownership and Corporate Performance in China", *The European Journal of Finance*, Vol. 20, No. 7 – 9, pp. 681 – 702.

He, C. X., Soh, W.N., Ong, T.S., Lau, W.T. and Zhong, B. (2022), "Analysis of Equity Disputes in Listed Companies with Dispersed Ownership Structure and Protection of Small and Medium Shareholders' Interests", *Frontiers in Psychology*, Vol. 13, pp. 857585.

Hong Kong Monetary Authority. (2024), "Dominant Gateway to China". https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-international-financial-centre/dominant-gateway-to-china/.

Ilyas, M., Mian, R.U. and Mian, A. (2024), "International Evidence on The Monitoring Role of Foreign Institutional Investors in Corporate Investment Efficiency", *International Journal of Managerial Finance*, Vol. 20, No. 4, pp. 967 – 997.

Inoue, K., Nara, S. and Yamasaki, T. (2013), "*Are Japanese Acquisitions Efficient Investments?*", Research Institute of Economy, Trade and Industry (RIETI).

Jensen, M.C. and Meckling, W. (1976), "Theory of Firm: Managerial

Behavior, Agency Costs, and Ownership Structure", *Journal of Financial Economics*, Vol. 3, No. 4, pp. 305 – 360.

Jensen, M.C. (1986), "Agency Cost of Free Cash Flow, Corporate Finance, and Takeovers", *The American Economic Review*, Vol. 76, No. 2, pp. 323 – 329.

Jiang, F. and Kim, K.A. (2020), "Corporate Governance in China: A Survey", *Review of Finance*, Vol. 24, No. 4, pp. 733 – 772.

Jiang, L., Kim, J-B. and Pang, L. (2011), "Control – Ownership Wedge and Investment Sensitivity to Stock Price", *Journal of Banking & Finance*, Vol. 35, No. 11, pp. 2856 – 2867.

Johnson, S., La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (2000), "Tunneling", *American Economic Review*, Vol. 90, No. 2, pp. 22 – 27.

Jones, D.S. (2016), "*Governance and Meritocracy: A Study of Policy Implementation in Singapore*". In J.S.T. Quah (Ed.). The Role of The Public Bureaucracy in Policy Implementation in Five ASEAN Countries (pp. 297 – 369). Cambridge University Press.

Kennedy, J.C. (2002), "Leadership in Malaysia: Traditional Values, International Outlook", *Academy of Management Executive*, Vol. 16, No. 3, pp. 15 – 26.

Kiong, F. (2000), "*The Look East Policy: Its Impact in Promoting Japanese Management Techniques to Manufacturing Firms in Malaysia*", Doctoral dissertation, University of Stirling.

Kruglov, P. and Shaw, C. (2024), "Financial Performance and Innovation: Evidence from USA, 1998 – 2023". arXiv preprint arXiv:2403.10982.

Lazzarini, S.G. and Musacchio, A. (2018), "State Ownership Reinvented? Explaining Performance Differences between State-Owned and Private Firms", *Corporate Governance: An International Review*, Vol. 26, No. 4, pp. 255 – 272.

Li, G., Luo, Z., Anwar, M., Lu, Y., Wang, X. and Liu, X. (2020), "Intellectual Capital and the Efficiency of SMEs in the Transition Economy China: Do Financial Resources Strengthen the Routes?", *PLOS ONE*, Vol. 15, No. 7, pp. 20240774.

Li, W.A. and Hao, C. (2015), "公司治理手册 [*Corporate Governance Handbook*]", Beijing: Tsinghua University Press (In Chinese).

Lindemanis, M., Loze, A. and Pajuste, A. (2022), "The Effect of Domestic to Foreign Ownership Change on Firm Performance in Europe", *International Review of Financial Analysis*, Vol. 81, pp. 101341.

Makino, S., Lan, C.M. and Yeh, R.S. (2023), "Asset Exploitation Versus

Asset Seeking Implications for Location Choice of Foreign Direct Investment from Newly Industrialized Economies", *Journal of International Business Studies*, Vol. 33, No. 3, pp. 403 – 421.

Malaysian Investment Development Authority (MIDA) (2023), "Approved Private Investments by Major Country, January – December 2023 / January-December 2022". https://www.mida.gov.my/wp-content/uploads/2024/03/Approved-Private-Investments-by-Major-Country-January-December-2023.pdf.

Mao, Z.E. and Yang, Y. (2016), "FDI Spillovers in The Chinese Hotel Industry: The Role of Geographic Regions, Star-Rating Classifications, Ownership Types and Foreign Capital Origins", *Tourism Management*, Vol. 54, pp. 1 – 12.

McLean, R.D., Zhang, T. and Zhao, M. (2012), "Why Does the Law Matter? Investor Protection and Its Effect on Investment, Finance and Growth", *The Journal of Finance*, Vol. 67, No. 1, pp. 313 – 350.

Med Bechir, C. and Jouirou, M. (2024), "Investment Efficiency and Corporate Governance: Evidence from Asian Listed Firms", *Journal of Sustainable Finance & Investment*, Vol. 14, No. 3, pp. 596 – 618.

Mihet, R. (2013), "Effects of Culture on Firm Risk-Taking: A Cross-Country and Cross–Industry Analysis", *Journal of Cultural Economics*, Vol. 37, No. 1, pp. 109 – 151.

Ministry of Domestic Trade & Cost of Living (KPDN). (2020), "*Guidelines on Foreign Participation in Distributive Trade Services in Malaysia (GP2020)*". Putrajaya: KPDN.

Ministry of International Trade and Industry (MITI). (2024), "MITI Report 2023". https://www.miti.gov.my/miti/resources/MITI%20Report/MITI_REPORT_2023.pdf?

Modigliani, F. and Miller, M.H. (1958), "The Cost of Capital, Corporation Finance and The Theory of Investment", *The American Economic Review*, Vol. 48, No. 3, pp. 261 – 297.

MOFCOM/Ministry of Commerce of the People's Republic of China. (2023), "2022年度中国对外直接投资统计公报 [2022 Statistical Bulletin of China's Outward Foreign Direct Investment]". http://images.mofcom.gov.cn/hzs/202310/20231007152406593.pdf.

MOFCOM/Ministry of Commerce of the People's Republic of China. (2024a), "中国对外投资合作发展报告[2023 China's Outward Investment and Economic Cooperation Reports 2023]" https://fdi.

mofcom.gov.cn/go-yanjiubaogao-con.html?id=8114.

MOFCOM/Ministry of Commerce of the People's Republic of China. (2024b), "2023年度中国对外直接投资统计公报 [2023 Statistical Bulletin of China's Outward Foreign Direct Investment]". http://swj.wuhai.gov.cn/swj/843439/843564/843569/843489/2182066/20241115095533910 12.pdf.

Mohapatra, C.S. and Ghosh, D. (2023), "Investor Protection Paradigm in India: Mounting Criticality of Digitalization", *Margin: The Journal of Applied Economic Research*, Vol. 17, No. 3 – 4, pp. 251 – 278.

Mustapha, M. and Che Ahmed, A. (2011), "Agency Theory and Managerial Ownership: Evidence from Malaysia", *Managerial Auditing Journal*, Vol. 26, No. 5, pp. 419 – 436.

Myers, S.C. (1984), "The Capital Structure Puzzle", *Journal of Finance*, Vol. 39, No. 3, pp. 575 – 592.

Myers, S.C. and Majluf, N.S. (1984), "Corporate Financing and Investment Decisions when Firms Have Information that Investors Do Not Have", *Journal of Financial Economics*, Vol. 13, No. 2, pp.187 – 221.

Owusu-Ansah, A., Addico, N.L. and Amewu, G. (2023), "Firm Characteristics and the Use of Investment Decision Techniques in The Global South: Evidence from Ghana", *Cogent Business & Management*, Vol. 10, No. 1, pp. 2163095.

Panda, B. and Leepsa, N.M. (2017), "Agency Theory: Review of Theory and Evidence on Problems and Perspectives", Indian Journal of Corporate Governance, Vol. 10, No. 1, pp.74 – 95.

Peng, H., Zhang, J., Zhong, S. and Li, P. (2021), "Corporate Governance, Technical Efficiency and Financial Performance: Evidence from Chinese Listed Tourism Firms", *Journal of Hospitality and Tourism Management*, Vol. 48, pp. 163 – 173.

Phung, D.N. and Anil V. Mishra. (2016), "Ownership Structure and Firm Performance: Evidence from Vietnamese Listed Firms", *Australian Economic Papers*, Vol. 55, No. 1, pp. 63 – 98.

Pindado, J., De Queiroz, V. and De La Torre, C. (2010), "How Do Firm Characteristics Influence the Relationship between R&D and Firm Value?", *Financial Management*, Vol. 39, No. 2, pp. 757 – 782.

PwC. (2025, July 7), "Malaysia: Corporate – Tax Credits and Incentives. PwC Worldwide tax Summaries". https://taxsummaries.pwc.com/malaysia/corporate/tax-credits-and-incentives?

Rashed, A., Abd El-Rahman, E., Ismail, E. and Abd El-Samea, D. (2018),

"Ownership Structure and Investment Efficiency: Evidence from Egypt", *International Journal of Accounting and Financial Reporting*, Vol. 8, No. 4, pp. 1 – 22.

Razzaq, A., An H. and Delpachitra, S. (2021). "Does Technology Gap Increase FDI Spillovers on Productivity Growth? Evidence from Chinese Outward FDI in Belt and Road Host Countries". *Technological Forecasting and Social Change*, Vol. 172, pp. 121050.

Richardson, S. (2006), "Over-Investment of Free Cash Flow", *Review of Accounting Studies*, Vol. 11, pp. 159 – 189.

Sabbaghi, O. (2016), "Corporate Governance in China: A Review", *Corporate Governance*, Vol. 16, No. 5, pp. 866-882.

Shin, T. (2013), "The Shareholder Value Principle: The Governance and Control of Corporations in the United States", *Sociology Compass*, Vol. 7, No. 10, pp. 829 – 840.

Shleifer, A. and Vishny, R.W. (1986), "Large Shareholders and Corporate Control", *Journal of Political Economy*, Vol. 94, No. 3, pp. 461 – 488.

Shleifer, A. and Vishny, R.W. (1997), "A Survey of Corporate Governance", *Journal of Finance*, Vol. 52 No. 2, pp. 737 – 789.

Sitorus, A.M.H., Hardjosoekarto, S., Jahja, R.S., Herwantoko, O. and Anam, F.K. (2023), "The Moral Embeddedness of Labor Market Transactions in Indonesia: A Study of Chinese Migrant Workers", *International Journal of Social Economics*, Vol. 50, No. 11, pp. 1485 – 1500.

Statista. (2024), "Youth Unemployment Rate in China from 2000 to 2024". https://www.statista.com/statistics/811935/youth-unemployment-rate-in-china/.

Stein, J.C. (2003), "*Agency, Information and Corporate Investment*", In: George, M., Constantinides, M.H. and Stulz, R.M., Eds., Handbook of the Economics of Finance, Ed. 1, pp. 111 – 163.

Tan, D. and Meyer, K.E. (2011), "Country-of-Origin and Industry FDI Agglomeration of Foreign Investors in An Emerging Economy", *Journal of International Business Studies*, Vol. 42, pp. 504 – 520.

Tham, S.Y. and Jesuthasan, J. (2020), "Foreign Direct Investment and Development: The Malaysian Experience", *Journal of Southeast Asian Economies*, Vol. 37, No. 2, pp. 203 – 224.

Todd, L. and Slattery, M. (2018), "Impacts of Investment from China in Malays on the Local Economy". http://www.ideas.org.my/wp-content/uploads/2018/10/P154-China_FDI_V2.pdf.

Trading Economics. (2025), "China Unemployment Rate". https://

tradingeconomics.com/china/unemployment-rate#:~:text=China%20Jobless%20Rate%20at%202,surveyed%20unemployment%20rate%20was%205.3%25.

Tran, Q.T. (2020), "Foreign Ownership and Investment Efficiency: New Evidence from An Emerging Market", *International Journal of Emerging Markets*, Vol. 15, pp. 1185 – 1199.

Tsang, A., Xie, F. and Xin, X. (2019), "Foreign Institutional Investors and Corporate Voluntary Disclosure around The World", *The Accounting Review*, Vol. 94, No. 5, 319 – 348.

Zeng, S. Jiang C., Ma, C. and Su, B. (2018), "Investment Efficiency of The New Energy Industry in China", *Energy Economics*, Vol. 70, pp. 536 – 544.

Appendix A. Pairwise Correlation Coefficients

Variable	I	CF	Q	FOWN	FOWN<20	20≤FOWN<33	FOWN≥33
I	1.0000						
CF	0.0108	1.0000					
Q	0.0129	0.2467***	1.0000				
FOWN	0.0008	0.1410***	0.1776***	1.0000			
FOWN<20	-0.0221	0.0127	-0.0105	0.1771***	1.0000		
20≤FOWN<33	0.0429**	0.0327*	0.0091	0.3280***	-0.2823***	1.0000	
FOWN≥33	-0.0101	0.1093***	0.1776***	0.6507***	-0.3902***	-0.1006***	1.0000

Variable	I	CF	Q	FOWN	FOWN<20	20≤FOWN<33	FOWN≥33
F_Western	-0.0108	0.2809***	0.2706***	0.3516***	0.2529***	0.0440**	0.1321***
F_CNHK	-0.0079	-0.0743***	-0.0058	0.3821***	-0.0606***	0.1253***	0.3443***
F_SG	0.0104	0.0512**	0.0202	0.5673***	0.0361**	0.2546***	0.3736***
F_JPN	-0.0024	0.0446**	0.0176	0.2422***	-0.0463***	0.0926***	0.2158***
SIZE	-0.0090	0.0691***	0.0639***	0.1215***	0.1760***	-0.0017	-0.0098
LEV	0.0112	-0.0322	0.0122	-0.0237	0.0132	-0.0228	-0.0188
AGE	-0.0027	0.0053	-0.0948***	0.0147	0.0133	-0.0286	0.0228

Variable	F_Western	F_CNHK	F_SG	F_JPN	SIZE	LEV	AGE
F_Western	1.0000						
F_CNHK	-0.0107	1.0000					
F_SG	-0.0147	-0.0297	1.0000				
F_JPN	0.0265	0.0125	0.1213***	1.0000			
SIZE	0.0435***	0.0484***	-0.0084***	-0.0364***	1.0000		
LEV	0.0035	-0.0414**	0.0025	0.0792***	-0.5038***	1.0000	
AGE	-0.0300	-0.0404**	0.0868***	0.0707***	-0.4779***	0.5080***	1.0000

****,**, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.*

Appendix B. Multicollinearity Diagnostics (VIF) – Panel A

Panel A: The role of foreign ownership on investment efficiency (Basic model)					**Additional controls**			
I	FOWN (1)	FOWN<20 (2)	20≤FOWN<33 (3)	FOWN≥33 (4)	FOWN (5)	FOWN<20 (6)	20≤FOWN<33 (7)	FOWN≥33 (8)
CF	1.01	1.01	1.01	1.01	1.10	1.10	1.10	1.10
Q	1.01	1.01	1.01	1.01	1.04	1.04	1.03	1.04
FOWN	1.01				1.03			
FOWN x Q	1.01				1.01			
FOWN<20		1.01				1.01		
FOWN<20 x Q		1.01				1.01		
20≤FOWN <33			1.01				1.01	
20≤FOWN <33 x Q			1.01				1.01	
FOWN≥33				1.01				1.01
FOWN≥33 x Q				1.01				1.01
SIZE					1.14	1.14	1.14	1.14
LEV					1.11	1.09	1.09	1.09
AGE					1.10	1.09	1.10	1.10
Mean VIF	1.01	1.01	1.01	1.01	1.08	1.07	1.07	1.07

Note: The table displays the Variance Inflation Factor (VIF) for the independent variables in each model.

Appendix B. Multicollinearity Diagnostics (VIF) – Panel B

Panel B: The role of foreign ownership origins on investment efficiency (Basic model)					**Additional controls**			
I	F_ Western (1)	F_ CNHK (2)	F_JPN (3)	F_SG (4)	F_ Western (5)	F_ CNHK (6)	F_JPN (7)	F_SG (8)
CF	1.01	1.01	1.01	1.01	1.10	1.10	1.10	1.10
Q	1.03	1.01	1.01	1.01	1.05	1.04	1.04	1.04
F_Western	1.03				1.06			
F_Western x Q	1.01				1.01			
F_CNHK		1.00				1.01		
F_CNHK x Q		1.00				1.00		
F_JPN			1.01				1.01	
F_JPN x Q			1.01				1.01	
F_SG				1.01				1.02
F_SG x Q				1.02				1.02
SIZE					1.15	1.14	1.14	1.14
LEV					1.10	1.09	1.09	1.09
AGE					1.10	1.10	1.10	1.10
Mean VIF	1.02	1.01	1.01	1.01	1.08	1.07	1.07	1.07

Note: The table displays the Variance Inflation Factor (VIF) for the independent variables in each model.

International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 125–151 https://doi.org/10.22452/ijcs.vol16no2.5

The Belt and Road Initiative in Malaysia: Progress, Impacts and Challenges

Zaharul *Abdullah*[*], Noor Ashikin *Said*[o] and Rosyidah *Muhamad*[•]

Abstract

The Belt and Road Initiative (BRI), launched by China in 2013, is an extensive infrastructure programme aimed at enhancing connectivity in areas such as policy coordination, infrastructure, trade, finance and people-to-people relations. Among Southeast Asian countries, Malaysia, particularly during the tenure of former Prime Minister Najib Razak, demonstrated strong support for the BRI. Various projects have been implemented across multiple sectors, including infrastructure development, energy, industrial parks, construction, real estate, telecommunications, technology, finance, banking and tourism. However, when Mahathir Mohamad returned to power in 2018, he adopted a more cautious stance towards Chinese investments, opting to review and renegotiate key BRI projects to ease Malaysia's financial strain. The administrations of Muhyiddin Yassin and Ismail Sabri focused primarily on handling the COVID-19 pandemic and economic recovery, allowing most BRI projects to continue without interruption, a trend that has persisted under Prime Minister Anwar Ibrahim. Although Malaysia's overall approach to China remains consistent, the country's frequent changes in government—four administrations in five years—have resulted in varied responses and shifting priorities regarding BRI projects. This study examines the progress, impacts and challenges of these projects. The findings reveal that most BRI projects in Malaysia are advancing smoothly despite political changes. Impacts range from high costs to

[*] Zaharul Abdullah is a Lecturer at Asia-Europe Institute, Universiti Malaya. Email: zaharul@um.edu.my.

[o] Noor Ashikin Said is a Lecturer at MPU Department, Xiamen University Malaysia. Email: noorashikin.said@xmu.edu.my.

[•] Rosyidah Muhamad is a lecturer at the Faculty of Business, Economics and Social Development, Universiti Malaysia Terengganu. Email: rosyidah@umt.edu.my.

concerns over autonomy and policy space, while challenges include reducing dependence on China and increasing diversification to maintain active neutrality.

Keywords: *Malaysia, China, Belt and Road Initiative*

1. Introduction

China initiated the Belt and Road Initiative (BRI) in 2013, a colossal infrastructure project encompassing the overland Silk Road Economic Belt and the 21st Century Maritime Silk Road. The primary objective of the BRI is to enhance connectivity across five dimensions: policy coordination, infrastructure, trade, finance and people-to-people relations. As of June 2023, China has entered into over 200 BRI-related agreements with 152 nations and 32 global institutions across five continents. Despite its decade-long existence, BRI has faced criticism on various fronts, including concerns about debt sustainability, project viability, corruption allegations and environmental impacts. Acknowledging these concerns, the second BRI forum held in April 2019 shifted its focus toward achieving high-quality, green, clean and sustainable development. The narrative surrounding the second BRI forum was further enriched during the third BRI forum convened in October 2023. This forum placed significant emphasis on key themes such as connectivity, green growth and the digital economy. The deliberations during the third forum underscore China's evolving vision for the BRI, shifting away from large-scale traditional infrastructure projects to more sustainable and technologically advanced initiatives. Notably, China's private enterprises are now expanding their presence into sectors that were traditionally dominated by policy banks and state-controlled entities (Avdaliani, 2023).

In Southeast Asia, Malaysia has been particularly receptive to the BRI (Kuik, 2021: 256). During the administration of former Prime Minister Najib Razak, Malaysia strengthened its engagement with the BRI by signing 14 memoranda of understanding (MOUs) with China, totaling RM143.64 billion in economic deals. Various projects have been implemented across multiple sectors, including infrastructure development, energy, industrial parks, construction, real estate, telecommunications, technology, finance, banking and tourism. However, when Mahathir Mohamad returned to power in 2018, he adopted a more cautious stance towards Chinese investments, opting to

review and renegotiate key BRI projects to ease Malaysia's financial strain. The administrations of Muhyiddin Yassin and Ismail Sabri focused primarily on handling the COVID-19 pandemic and economic recovery, allowing most BRI projects to continue without interruption, a trend that has persisted under Prime Minister Anwar Ibrahim. Although Malaysia's overall approach to China remains consistent, the country's frequent changes in government—four administrations in five years—have resulted in varied responses and shifting priorities regarding BRI projects.

After more than a decade of Malaysia's participation in the BRI, this study raises several key questions: what is the status of BRI projects in Malaysia? What impacts and challenges have emerged from these projects? To explore these questions, this article is structured into five sections: the introduction, the literature review on the BRI in Malaysia, the progress of BRI projects in Malaysia, the impacts of these projects, the challenges they present and concluding remarks.

2. The BRI in Malaysia: A Literature Review

The BRI has become a major subject of research in Malaysia, covering diverse angles from geopolitical implications to economic opportunities and governance challenges. Early studies, such as those by Abdul Rahman et al. (2017) and Kong (2017), approached the BRI largely from a strategic and geopolitical standpoint. These works assessed the long-term geopolitical risks, sovereignty concerns and maritime security implications for Malaysia, while acknowledging the potential economic benefits brought by Chinese investments. As Chinese projects expanded, studies began to shift focus toward economic and governance impacts. The Socio-Economic Research Centre (2017) and Lim (2018) emphasised how China's investments bolstered infrastructure connectivity but also raised alarms regarding SME displacement, governance gaps and transparency deficits. In particular, the East Coast Rail Link (ECRL) project emerged as a symbol of both opportunity and controversy. Scholars like Serina (2017) and Moser (2018) zoomed in on specific high-profile projects like Forest City, illustrating how they created environmental degradation, socio-economic dislocations and reinforced concerns over Chinese expansionism.

Meanwhile, political economy perspectives gained prominence. Loh (2018) and Liu and Lim (2019) argued that Chinese investments served domestic political interests during Najib Razak's administration, reinforcing

elite capture while exposing Malaysia to governance vulnerabilities. Ngeow (2019) and Kuik (2021) introduced more nuanced analyses showing that Malaysia's engagement with the BRI fluctuated based on elite legitimation needs, with successive governments recalibrating projects without fully rejecting Chinese cooperation. The concept of host-country agency became central in explaining how Malaysia strategically navigated the asymmetry of power with China. Attention also turned to the implementation side of BRI projects. Hutchinson and Tham (2020) demonstrated that strong domestic investment coalitions determined the success of projects like the Kuantan Port Expansion, whereas weak coalitions led to the failure of initiatives such as Melaka Gateway. Studies such as those by Liang *et al*. (2021) and Tritto and Camba (2022) emphasised the localisation and adaptation of Chinese industrial park models in Malaysia, countering the narrative of straightforward Chinese replication abroad.

In parallel, research into trade and SME (small and medium-sized enterprises) participation deepened. Tham and Kam (2019) and Chin *et al.* (2021) evaluated Malaysia's Digital Free Trade Zone (DFTZ) and SME internationalisation under the BRI, showing both opportunities for market expansion and persistent barriers to competitiveness. The environmental governance of BRI projects received critical attention too, with Tham (2024) revealing a significant gap between China's green rhetoric and Malaysia's regulatory realities. Recent contributions, such as those by Zaharul (2020, 2021) and Nur Shahadah (2023), show that while Malaysia's leadership changes (from Najib to Mahathir to Anwar) caused tactical shifts in BRI engagements, the broader strategy remained one of cautious pragmatism: leveraging Chinese investments while managing domestic political, social and economic risks. Finally, analyses by Ming and Kuk (2024) indicate that fears over Malaysia's BRI-induced debt trap are overstated, arguing that Malaysia's exposure to Chinese debt remains comparatively low and manageable within its broader economic resilience.

In short, the literature on the BRI in Malaysia reveals a significant trend toward recognising the complexity of Malaysia's agency in dealing with China. Rather than portraying Malaysia as a passive victim of Chinese expansionism, scholars increasingly highlight the importance of domestic political dynamics, elite strategies, governance quality and institutional capacity in shaping BRI outcomes. Over time, research has expanded from geopolitical anxieties to include political-economy perspectives, project-level

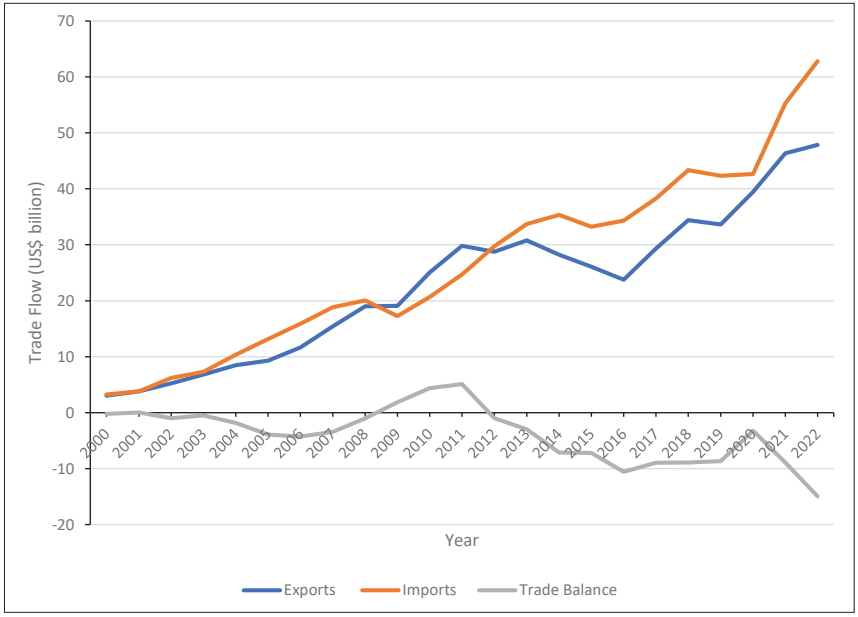
analyses, trade and SME participation, environmental governance and debt sustainability evaluations.

Nevertheless, several research gaps remain. While much attention has been paid to high-profile projects and political narratives, there is limited longitudinal research tracking the long-term developmental impacts of BRI-related investments on Malaysia's industrial upgrading, technological transfer and innovation ecosystems. Environmental sustainability dimensions are emerging but still understudied, especially regarding enforcement effectiveness beyond rhetoric. Comparative analyses between Malaysia and other ASEAN countries engaging with the BRI are also emerging but they remain relatively sparse, leaving open opportunities for broader regional insights. Finally, most existing studies focus heavily on Najib and Mahathir. The post-2020 administrations—Muhyiddin, Ismail Sabri, and especially Anwar Ibrahim—are under-analysed.

3. Progress of BRI in Malaysia

Trade stands as the paramount facet of economic cooperation between Malaysia and China. Since 2009, China has held the position of Malaysia's largest trading partner, reciprocally making Malaysia one of China's principal trade allies in Southeast Asia. As illustrated in Figure 1, the bilateral trade between Malaysia and China has consistently expanded, surging from USD11.48 billion in 2002 to USD110.62 billion in 2022, marking a notable 9.64-fold increase over two decades. Throughout this period, Malaysia's exports to China have risen from USD5.25 billion to USD47.8 billion, while imports from China have escalated from USD6.23 billion to USD62.78 billion. Nevertheless, this sustained trade growth faced disruptions three times—firstly, due to the global financial crisis in 2008-2009, secondly, the economic slowdown of China during 2015-2016, and thirdly, the escalating trade and technology tensions between the US and China since 2018.

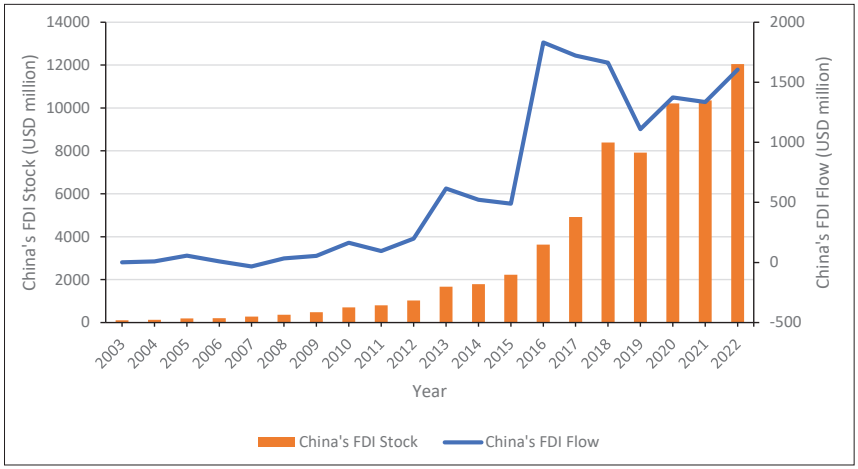
Figure 1. Malaysia's Trade in Goods with China, 2000-2022



Source: World Integrated Trade Solution

The repercussions of the COVID-19 pandemic and ensuing lockdowns were relatively modest, primarily affecting Malaysia's exports to China. This is because Malaysia was undergoing an export recovery following the COVID-19 pandemic. In 2020, exports of manufactured goods, including electrical and electronic (E&E) products and COVID-related items like protective garments, saw an increase, driven by both domestic exports and re-exports. This recovery was partially supported by the gradual easing of COVID-19 restrictions within Malaysia. Additionally, improved demand from key trading partners such as China, Japan, and Thailand also contributed to the rebound (Kam and Tham, 2021:148). From 2002 to 2022, Malaysia's trade deficit with China has widened from USD0.97 billion to USD14.94 billion. Notably, within these two decades, Malaysia only achieved a trade surplus with China from 2009 to 2011, primarily attributed to the recovery of the US and European markets post the 2008 global financial crisis and the full enforcement of the ASEAN-China Free Trade Agreement (ACFTA) in 2010.

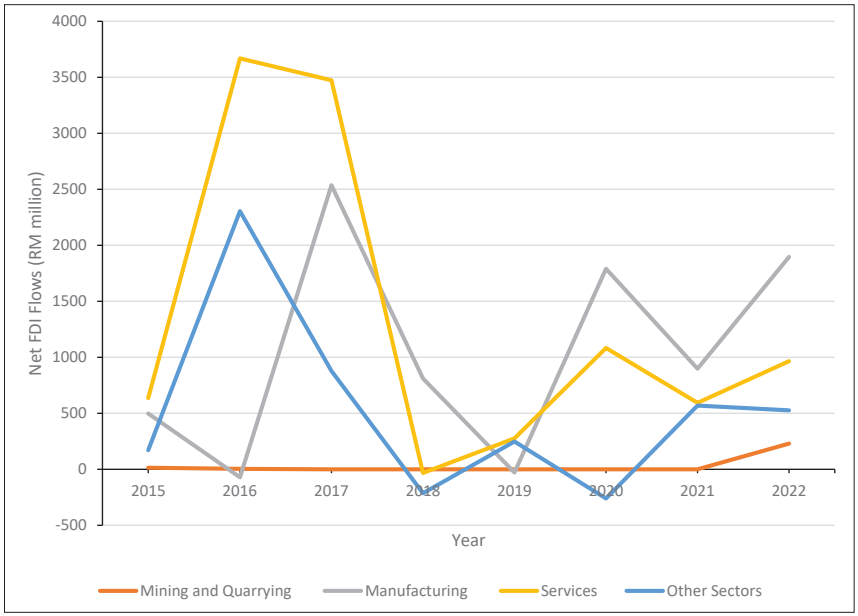
Figure 2. China's FDI Flow and Stock in Malaysia, 2003-2022



Source: Statistical Bulletin of China's Outward Foreign Direct Investment

Regarding China's Foreign Direct Investment (FDI) in Malaysia for the year 2022, China holds the fifth position in net FDI flow, ranking below the US, Singapore, Japan and Hong Kong. In terms of FDI position in Malaysia, China is placed eighth, ranking below Singapore, the US, Hong Kong, Japan, the Netherlands, Switzerland and the British Virgin Islands (Department of Statistics Malaysia, 2022). The significance of China as a source of FDI for Malaysia is evident in Figure 2, depicting a consistent rise in China's FDI flow to Malaysia from USD199 million in 2012 to USD1.61 billion in 2022. During this period, there was a notable surge in FDI flow from USD489 million in 2015 to USD1.83 billion in 2016, followed by a downward trend to USD1.11 billion in 2019 and an upward trend to USD1.61 billion in 2022. This surge can be attributed to the signing of 14 MOUs between businesses from both countries, encompassing diverse sectors such as railways, ports, real estate, steel manufacturing, finance, solar cell manufacturing, bird's nest, e-commerce, pharmaceuticals and information technology. Figure 2 further illustrates a consistent increase in China's FDI stock in Malaysia, growing from USD2.23 billion in 2015 to USD12.05 billion in 2022.

Figure 3. China's Net FDI Flow in Malaysia by Sector, 2015-2022

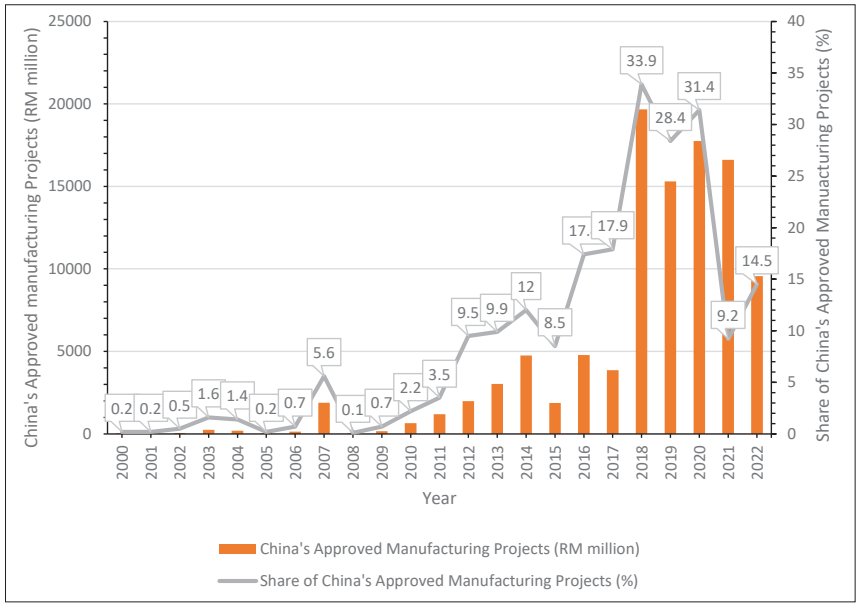


Source: Department of Statistics Malaysia

Figure 3 illustrates that the manufacturing and services sectors play pivotal roles as major contributors to China's net FDI flow in Malaysia. In 2022, manufacturing emerged as the primary contributor, accounting for RM1.90 billion in China's net FDI flow, followed by services with RM964 million, other sectors with RM525 million, and mining and quarrying with RM229 million. The significance of China in Malaysia's manufacturing sector is underscored by its consistent top ranking in approved manufacturing projects in Malaysia from 2016 to 2020. In 2021, China was ranked fourth, and in 2022, it secured the second position after Singapore. Examining the trend of China's approved manufacturing projects in Malaysia, Figure 4 depicts a gradual increase from RM1.19 billion in 2011 to RM3.85 billion in 2017. However, a remarkable surge occurred in 2018, reaching RM19.67 billion, and while the surge continued, it displayed a declining trend, reaching RM9.56 billion in 2022. This surge is attributed to the impact of the Malaysia-China Kuantan Industrial Park (MCKIP), initiated in 2013. As of October 2023, MCKIP has recorded a cumulative

investment value surpassing RM31 billion for 21 projects, poised to generate over 14,000 job opportunities. Notably, RM14.6 billion of this investment in the MCKIP has already been realised (The Star, 7 November 2023).

Figure 4. China's Approved Manufacturing Projects in Malaysia, 2000-2022



Source: Malaysia Investment Development Authority

Regarding the progress of BRI mega projects in Malaysia, a few of these projects are already operational, while the majority are still in progress, and one project has been cancelled and later taken over by the government. Operational projects include the CRRC Rolling Stock Centre, the Digital Free Trade Zone (DFTZ), and the Proton-Geely partnership. Projects currently in progress encompass railway construction, with the ECRL achieving over 82 per cent work progress as of April 2025, and the Gemas-Johor Bahru Electrified Double-Tracking Railway reaching 92 per cent completion as of September 2023. Under the administration of Anwar Ibrahim, plans are underway to revive the Kuala Lumpur-Singapore High-Speed Rail (HSR), with a formal Request for Information (RFI) exercise set to be conducted to gauge private sector interest in undertaking the project.

In mixed-development projects, the construction progress of Forest

City only involves half of one artificial island, equivalent to 15 per cent of the total proposed area of the project as of August 2023. At this point, approximately 28,000 residential units have been completed, accommodating around 9,000 residents, significantly below its intended target of 700,000. In response to this situation, Anwar Ibrahim's administration has designated Forest City as a special financial zone, offering incentives such as a special income tax rate and multiple-entry visas. Concerning the Melaka Gateway project, it was initially cancelled in April 2021 but was subsequently revitalised and returned to its private developer by the state government in March 2022. Most of the reclamation work for the two islands has been completed, and the Melaka cruise terminal has been reinstated, while work on the other two ports is underway. As for the MCKIP, the areas known as MCKIP 1 and 2 have been fully allocated. In MCKIP 3, IJM Corporation Bhd has entered into a strategic partnership with China Harbour Engineering Company to develop the Malaysia-China Kuantan Industrial Logistics Park (MCKILP) in July 2022.

In the expansion project for Kuantan Port, known as the New Deep Water Terminal (NDWT), the initial phase was successfully finished and began operations in 2018 for Phase 1A and 2019 for Phase 1B. Currently, Kuantan Port is actively involved in planning and strategising for the development of the second phase of NDWT. In terms of ongoing projects, the Trans-Sabah Gas Pipeline (TSGP) and Multi-Product Pipeline (MPP) were initially halted by Mahathir 2.0's administration but were subsequently revived during Muhyiddin Yassin's administration and continued into Ismail Sabri's administration. Regarding Bandar Malaysia, a deal to sell a 60 per cent stake in the project to the IWH-CREC consortium was cancelled by Najib Razak's administration due to the consortium's failure to meet payment obligations. Although the project was reinstated by Mahathir 2.0's administration, the deal lapsed and the agreement was considered null and void. The project was later taken over by the government under Anwar's administration.

4. Impacts of BRI Projects in Malaysia

The first impact of BRI projects in Malaysia is the high costs incurred by the government. According to former Minister of Finance Lim Guan Eng, the ECRL is anticipated to incur an overall cost of RM81 billion, contradicting the RM67 billion asserted by former Prime Minister Najib

Razak. This discrepancy arises from the inclusion of additional factors such as land acquisition, interest, fees and other operational expenses totaling RM14 billion, which were overlooked by the previous administration. The expenditures for the pipeline projects, TSGP and MPP, stand at RM9.41 billion and RM5.35 billion, respectively. Consequently, the cumulative costs of these three projects amount to RM91 billion, with a substantial portion of the financing originating from China (Lim, 2018). The high cost of the ECRL was acknowledged by former Secretary-General of the Ministry of Investment, Trade and Industry (MITI), Dr. Rebecca Fatima Sta Maria, who stated that,

> *"...it was too expensive, over-charged by the companies involved. It made sense from the socio-economic perspective to have it but not at that price. However, I hope that we will continue because these are infrastructure projects. The gains do not come immediately. It is long-term. It is about ensuring the designs, implementation and integrity, and not thinking about the short-term gain. I think it is important to re-review and re-discuss as opposed to cancelling it," (R.F. Sta Maria, Interview, 17 January 2020).*

Dr. Rebecca's view was supported by the Deputy President of the Malaysia-China Chamber of Commerce, Joseph Lim, who believed that the ECRL project should proceed, but at a reduced cost. He argued that the original design of the project was highly sophisticated and could be scaled down to better align with Malaysia's status as a developing country. As Joseph Lim noted,

> *"...I personally think that we should carry on with the project, but at a lower cost. Somehow the original design looks very advanced. But we can [scale it down a bit more] as a developing country," (J. Lim, Interview, 9 October 2018).*

The second impact relates to governance and best practices. Contracts for the ECRL, TSGP, and MPP projects were granted to Chinese contractors without undergoing an open tender process. Specifically, both the TSGP and the MPP contracts were awarded to China Petroleum Pipeline Bureau (CPPB). Additionally, two consultancy agreements, amounting to RM312

million and RM213 million, respectively, along with a maintenance contract valued at RM476 million, were set to be awarded to Chinese companies (Lim, 2018). In the case of ECRL, the primary contract was conferred upon China Communication Construction Company (CCCC). According to former Prime Minister Tun Dr. Mahathir Mohamad,

> *"...but the cost is prohibitive, and the terms of the agreement were very much in favour of the Chinese. The contract to build is given to the Chinese. The money is borrowed from the Chinese and the payments are made in China. Because of that, the Malaysian government does not gain very much," (Mahathir Mohamad, Interview, 3 September 2023).*

In addition, payments to Chinese contractors are tied to a timeline rather than the actual progress of the work. A year after the commencement of pipeline projects, initially slated for completion within three years, the work progress for the MPP and TSGP stood at only 14.5 per cent and 11.4 per cent, respectively. However, payments made for the MPP and TSGP projects amounted to RM4.71 billion and RM3.54 billion, respectively. In total, RM8.25 billion, equivalent to 87.7 per cent of the total project value, has been disbursed to the CPPB contractor, despite an average work progress rate of only 13 per cent with two years remaining in the contract. As per the agreements, 85 per cent of the total project value was supposed to be paid out by March 1, 2018 (Lim, 2018).

Corruption is apparent in the ECRL project, particularly concerning the notorious and debt-ridden 1Malaysia Development Berhad (1MDB), a strategic development company under the control of the Prime Minister's Office (PMO) during the administration of Najib Razak. According to Amhari Efendi Nazaruddin, a special officer to Najib Razak, the ECRL, TSGP, and MPP projects were proposed by former Prime Minister Najib Razak to China as a means of bailing out 1MDB (The Edge, 4 September 2019). The claim is supported by Tun Dr. Mahathir Mohamad, who stated that,

> *"...but sometimes other factors did influence our decision. For Najib, big projects are important. He wants to make money from that. So, he was prepared to accept big Chinese investment[s], not*

because he wanted them, but because he wanted to make money for himself," (Mahathir Mohamad, Interview, 3 September 2023).

The third impact is the insufficient utilisation of local content in Malaysia's construction sector, particularly in projects led by Chinese developers and contractors. Since 2013, the number of contracts awarded to Chinese contractors in Malaysia has risen significantly. The value of these projects grew from RM3.3 billion in 2013 to RM5.9 billion in 2014, RM8 billion in 2015, RM18.2 billion in 2016, and then surged to RM31 billion in 2018 and 2019 (Zaharul, 2021; The Star, 30th October 2019), making China the largest foreign contractor in Malaysia. This dominance of Chinese contractors has had limited benefits for local SMEs, as these projects often produce low levels of business linkage and local content. Former Malaysia-China Chamber of Commerce President Tan Yew Sing attributes this to several factors, including: low output from local companies; a lack of interest among local companies to bid for projects due to low tender prices and minimal profit margins; lower efficiency and slower implementation speed by local companies, often linked to differences in work culture and ethics; and the government's failure to enforce higher local content requirements for sourcing materials and labour (Zaharul, 2021).

Chinese contractors, on the other hand, have greater success in winning domestic construction tenders due to their expertise in large-scale infrastructure projects and their ability to bid competitively at low profitability, supported by financial backing from Chinese policy banks. Given this context, local stakeholders have shown interest in collaborating with Chinese counterparts, motivated by the access to markets and raw materials at competitive prices (SERC, 2017). However, Chinese entities often maintain control over the supply chain by importing skilled and unskilled labour, raw materials and machinery directly from China. For instance, in the ECRL project, former economic advisor to the Prime Minister Dr. Muhammed Abdul Khalid highlighted how local content rules were circumvented. Chinese companies in Malaysia were registered as Malaysian entities, enabling them to be classified as local partners despite their foreign origins. According to Dr. Muhammed Abdul Khalid,

"...if you look at the ECRL project, it is [stated] that about 30 per cent has to be local companies. How they bypass this is by

> *incorporating Chinese companies in Malaysia. So, they become like a Malaysian company, a Malaysian partner. Even that, they do not use local companies," (M.A. Khalid, Interview, 21 November 2018).*

The fourth impact is the varied integration of green, clean and sustainable principles in BRI projects. Some initiatives actively incorporate environmentally friendly strategies in infrastructure, renewable energy and urban planning. For instance, Edra Energy has made significant strides in renewable energy, contributing to Malaysia's ambition of achieving a 20 per cent renewable energy mix by 2025. One notable project is the solar farm in Kuala Ketil, where Edra installed 180,000 photovoltaic panels over 260 acres. This large-scale solar farm is designed to generate approximately 78,400 kilowatt-hours of electricity annually. This output can power around 30,000 homes for 25 years and offset an estimated 54,000 tonnes of carbon emissions per year (Bernama, 9 September 2019). The ECRL project, initially criticised for its environmental impact, underwent substantial revisions to address sustainability concerns. Measures included the construction of tunnels and wildlife crossings, allocating RM10 million for the rehabilitation and relocation of animals affected by the project, and rerouting to avoid ecologically sensitive areas such as Batu Dam and the UNESCO-designated Gombak Quartz Ridge. Additionally, the revised alignment was designed to minimise its impact on forest reserves, water catchment zones, indigenous communities and Malay reserve lands (Tham, 2022).

While these projects actively incorporate environmentally friendly strategies, others reflect mixed progress toward sustainability goals. Although the Forest City project aims to position itself as a sustainable urban model and incorporates several green initiatives, the project initially received approval and was initiated without the implementation of a detailed environmental impact assessment (DEIA) (Serina, 2017). Despite the subsequent implementation of the DEIA by the developer and the introduction of various mitigation measures, activities such as land reclamation and the construction of the sand causeway and highway have had detrimental effects on the largest seagrass meadow in Peninsular Malaysia and a substantial portion of the mangrove swamp forest. Dr. Rebecca notes that land reclamation and other construction activities including the Melaka Gateway project, have compelled local residents to relocate from their original homes, resulting in a loss of income from fishing.

Furthermore, the Melaka Gateway project has eroded local cultural aspects rooted in the identity of village folk and fishing activities, exacerbated by the construction of the Encore Melaka Theatre, a performing arts center that exclusively showcases Chinese culture. According to Dr. Rebecca,

> *"...when it comes to Chinese investments or any other investments, we failed to do with social impact assessment. I keep saying that because some of the Chinese investments, whether in Johor (Forest City) or Melaka (Melaka Gateway), they have forced [the] displacement of people and villages, and loss of employment and loss of livelihood[s]. So, the fishermen protest[ed] us. The Chinese developers gave them a few dollars each but that is just a one-off. These people have lost their jobs permanently. The culture and the livelihoods have changed permanently. No more fishing villages. You cannot have a one-off compensation," (R.F. Sta Maria, Interview, 17 January 2020).*

The fifth impact pertains to Malaysia's sovereignty. In the energy sector, the government, through Edra Global Energy Bhd, sold 100 per cent of its energy assets valued at USD5.96 billion to China General Nuclear Power Corp. (CGN Group) in 2015. This transaction contradicted Malaysian policy, which prohibits the surrender of strategic assets such as electricity generation and supply to foreign entities beyond a 49 per cent equity limit (The Edge, 25 November 2015). In the transportation sector, IJM Corp Berhad sold a 40 per cent stake in Kuantan Port worth RM334 million to Beibu Gulf Holding (Hong Kong) Co Ltd in 2013. In the Melaka Gateway project, the third island dedicated for port development with an expected cost of RM8 billion were constructed by two Chinese companies, namely Yantian Port Group Co. Ltd and Rizhao Port Group Co. Ltd. Through the ownership and control over the interests of these two ports, as well as over the operation and management of the ECRL, China is not only able to guarantee the safe delivery of Chinese goods by going beyond Singapore and the Straits of Malacca but also strengthens China's strategic goals in Southeast Asia (Evers, 2017).

In the real estate sector, parcels of land in Iskandar Malaysia, Johor, with a total value of USD3.76 billion, were sold to Chinese firms, including Zhouda Real Estate Group, Country Garden Holdings Ltd, Guangzhou R &

F Properties Co. Ltd, and Greenland Holdings Group Ltd (China Investment Global Tracker, 2023). In Melaka, the government has sold real estate to a consortium consisting of KAJ Development Sdn Bhd and Power-China International Group Limited to develop Melaka Gateway which has a gross development value of RM30 billion. In addition, the government also signed an agreement to sell 60 per cent or RM7.16 billion of Bandar Malaysia Sdn Bhd's interest to a consortium consisting of Iskandar Waterfront Holdings Sdn Bhd (IWH) and China Railway Engineering Corporation (M) Sdn Bhd (CREC). It should be noted that these lands are sold as permanent holdings following Malaysia's liberal land policy. According to Tun Dr. Mahathir Mohamad,

> *"...these Forest City and Melaka Gateway projects are going to be fully owned by the Chinese, and they are given many privileges. For example, Forest City would be a free port, and now they have announced that it is a total free port. They can move in and out of Malaysia, in and out of Singapore, without any control by the Malaysian government. This gives this area much freedom that is not under the supervision of the Malaysian government. That is why it is not welcome. The other thing is that we see the rich Chinese acquiring more land, and this Forest City project starts with the acquisition of a huge piece of Malaysian land and given certain privileges. So, that is not good for Malaysia," (Mahathir Mohamad, Interview, 3 September 2023).*

The sixth impact relates to Malaysia's security. China's investment, especially in real estate assets will potentially create satellite cities through the Forest City project in Johor and Melaka Gateway in Melaka. The USD100 billion Forest City project is expected to house 700,000 residents although it had only around 9,000 occupants as of August 2023. These satellite cities will likely form a special diaspora of Chinese citizens and meet the needs of the Chinese population where many residential units will remain unoccupied (Evers, 2017). In addition, Chinese nationals are also expected to flood residential units for the Melaka Gateway project, which targets at undertaking real estate and commercial development on the first and second islands. According to Dr. Muhammed Abdul Khalid, the influx of large Chinese citizens into Malaysia in one place will bring imbalance to

the existing Malaysian population (Zaharul, 2021).

The final impact concerns Malaysia's autonomy and policy space, particularly regarding the allocation of special investment incentives. The BRI projects such as the ECRL, MCKIP, Bandar Malaysia, Kuantan Port, and Forest City were reported to have received special investment incentives from the Malaysian government. For Bandar Malaysia specifically, the developer has been granted a 10-year tax exemption, an eight-year fixed duty exemption, exemptions from real estate profit tax and withholding tax, as well as import duty exemptions on construction materials not produced in Malaysia. According to Tun Dr. Mahathir,

> *"...the Malaysian government seems to favour the Chinese above all the other investors, and such a policy is not good for Malaysia. We must never lean on one country alone, even before we were very much in the Commonwealth, but we got away from that," (Mahathir Mohamad, Interview, 3 September 2023).*

However, this claim was refuted by Ong Chong Yi, former Chief Executive Director of CMQIP, who argued that the special incentives are not exclusive to Chinese companies. He stated,

> *"...that land for MCKIP given by the state government is a swampy land. The lands need to have treatment. The developers need to invest a lot in soil treatment. That is why it was given to them at a cheap price. There might be some incentives but that is a general incentive like tax incentives, which are given not specially to China only, but to everybody," (O.C. Yi, Interview, 9 October 2018).*

This opinion aligns with Dr. Rebecca's perspective, who further argues that the allocation of special investment incentives has been a common practice historically and depends on the level of interest the government has in the investment project. According to Dr. Rebecca,

> *"...in the previous administration, it was done bilaterally with a certain amount of political leverage and therefore they were given special preferences. But if you look at our history, we normally do that for big investments. The special incentives are not necessarily*

> *unusual but sometimes the government gives a little bit extra because we really want Alibaba (DFTZ project) here," (R.F. Sta Maria, Interview, 17 January 2020).*

Although the allocation of incentives ultimately depends on government priorities, Chinese companies are also proactive and assertive in seeking special incentives due to their substantial financial contributions and involvement in large-scale projects like integrated developments and infrastructure. According to Khoo Siao Hooi, former Assistant Director of the Foreign Investment Promotion Division of the Malaysian Investment Development Authority (MIDA),

> *"...I would say it is not Malaysia giving preferential [treatment] to Chinese investors, but it is [the Chinese] who are aggressive in a way that they come in huge. They can come to Malaysia and [bring] the whole project. They prepared a list of special incentives that they want so that later, when the project kicks off, then they can promote [it] not only to China but to the whole world like what kind of incentive[s] they can offer," (K.S. Hooi, Interview, 11 October 2018).*

5. Challenges of BRI Projects in Malaysia

One of the challenges arising from BRI projects is to reduce Malaysia's economic dependence on China and diversify investment sources to prevent excessive influence of external powers on the local economy and politics. According to Tun Dr. Mahathir,

> *"...we should source the foreign investment from numerous countries, not only from one country, because that will give that one country too much influence on the local economy. While we can accept many of the investments coming from China, we should make sure that the percentage of Chinese investment is not very high. That other countries also invest and dilute the amount of Chinese investment in Malaysia. So, there is always that fear that with Chinese investment will come with Chinese influence. And Chinese influence is a very sensitive thing for Malaysia," (Mahathir Mohamad, Interview, 3 September 2023).*

The second challenge is to enhance the economic rationale for some projects. For the ECRL project, Jomo (2018) argued that the government's projection that the ECRL will transport 60 million tons of cargo annually starting in 2035 can be considered unrealistic. This skepticism is grounded in the fact that Keretapi Tanah Melayu Berhad (KTM) currently transports only approximately six million tonnes of cargo annually across its entire network. If the anticipated significant increase in cargo capacity is not realised, the project is at risk of incurring more losses, which would ultimately be shouldered by taxpayers through substantial subsidies in the future. This perspective is supported by Tun Dr. Mahathir, who stated,

> *"...well, the ECRL is something that is too early. The time has not yet come for us to build the East Coast railway system, simply because the economy on the East Coast is lower than the West Coast, and the demand for transportation is less and therefore the time has not yet reached for us to build an East Coast Railway," (Mahathir Mohamad, Interview, 3 September 2023).*

To boost demand for freight and passenger services, the Malaysian Investment Development Authority (MIDA) initiated Economic Accelerator Projects (EAPs) in 2019 to stimulate economic activities along the ECRL routes. These EAPs encompass the establishment of industrial parks, logistic hubs, Transit-Oriented Developments (TODs), and inter-modal transportation centers including dry ports (Tham & Zhang, 2021). As Malaysia's leading one-stop centre and investment promotion agency, and as a secretariat to the National Committee on Investment (NCI), MIDA implements various strategies to attract quality investment from China including the setting up of the China Special Channel (CSC) and MIDA China Team which comprises of overseas offices in Beijing, Shanghai and Guangzhou as well as a China desk at the MIDA headquarters. It also targets Chinese companies involved in the technology sector and listed in the Fortune China 500 and Global Unicorns. The monitoring and coordination of BRI projects in Malaysia are conducted by the Belt and Road Initiative National Secretariat (BRINS), a section within the Bilateral Economic and Trade Relations Division at the MITI.

The third challenge is to increase the use of local content. As stated above, local SMEs lack technical expertise and are not fully ready to supply.

The government also cannot impose local content conditions on investors because these conditions only apply to developing countries at a certain stage of development. According to Unny Sankar, former Director of the Belt and Road Initiative National Secretariat at MITI,

> *"...it will be great if the Malaysian government can impose local content requirements but due to some WTO measures, we cannot impose conditions to our investors because we are not in the list of developing countries. We have surpassed that stage. So, it is up to the government to choose the right one to align them with our Malaysia's economic plans," (U. Sankar, Interview, 8 October 2018).*

However, the government responded to this challenge by renegotiating the terms of BRI projects and loans, especially the ECRL project, when Pakatan Harapan (PH) took over the government in 2018. The government not only succeeded in reducing the project cost from RM65.5 billion to RM21.5 billion and involving the main contractor China Communications Construction Company (CCCC) in the operation and management after the completion of the ECRL project, but also increased the participation of local companies from 30 per cent to 40 per cent of the civil works. From 2017 to September 2024, the ECRL project involved more than 3,000 local companies consisting of contractors, consultants and suppliers. The value of contracts involving local companies in the ECRL project reached around RM17.07 billion, thus exceeding the target of RM10.8 billion. Meanwhile, the involvement of *bumiputera* companies reached a value of RM3.16 billion or 90.28 per cent of the target of RM3.50 billion for the ECRL civil works (Malaysia Gazette, 29 October 2024).

The fourth challenge is to enhance policy coherence and coordination. The change in governments since 2018 has led to shifts in the government's response to and priorities in several of China's projects in Malaysia, despite the overall support for the BRI. During Mahathir 2.0's administration, there were improvements to the scope of the ECRL, the revival of Bandar Malaysia with a better deal, the scrapping of TSGP and MPP, the deferral of the Kuala Lumpur-Singapore HSR, the rejection of China's investment in real estate, the assertion of autonomy in the operation and management of MCKIP, and the diversification of capital sources, especially from Japan. Muhyiddin

Yassin's administration reversed some of these measures, reinstating TSGP and MPP and modifying the ECRL scope again, including a reversion of changes to the Section C rail alignment. All BRI projects have been followed through by the administrations of Ismail Sabri and Anwar Ibrahim.

The fifth challenge is to enhance state capacities and capabilities. The lopsided agreements in some BRI projects reveal Malaysia's insufficient negotiating power to secure mutually beneficial outcomes with foreign states or institutions. Additionally, the BRI projects highlight the limited involvement of various stakeholders in the decision-making and implementation processes, including local communities, community-based organisations (CBOs), industry players, professional bodies, academics, NGOs and think tanks. In the Forest City project, while public dialogues were held with local communities, residents contested claims that interviews had been conducted with 10 per cent of the population or that focus group meetings with village representatives had occurred. The broader community was largely unaware of these proceedings (Serina, 2017). For the TSGP project, even key stakeholders such as local community leaders, civil society organisations (CSOs) and journalists were not informed in advance about the project. Village heads themselves seemed unaware of its initiation, with no visible signs of activity at the project site.

In the ECRL project in Pahang, local villagers, despite having a clear view of the ongoing development, were not directly engaged. They relied on politicians or the media for updates and information. Engagement efforts appeared to be limited to instances where the project directly impacted specific landowners, leaving the rest of the community uninformed and excluded from the process. This lack of grassroots engagement has compromised due diligence in the planning and execution of such projects. Feasibility studies and due diligence are often treated as an afterthought, typically conducted only after community complaints arise. Moreover, locals are seldom given opportunities to contribute their perspectives, and final reports are rarely made publicly accessible. In the case of the TSGP, developers bypassed state regulators during impact assessments, which is particularly alarming given the significant environmental consequences these projects often entail. The absence of comprehensive feasibility studies or public disclosure further exacerbates these concerns (Loh *et al*., 2023).

The last challenge is to uphold a position of active neutrality. In the context of US-China trade and tech tensions, the Group of Seven (G7)

nations launched the Partnership for Global Infrastructure and Investment (PGII) in 2021 to support global infrastructure development. The Biden administration aims to mobilise USD200 billion for PGII over the next five years while the broader goal is to mobilise USD600 billion in global infrastructure investments by 2027, with contributions from G7 partners. In the same year, the European Union launched the EU Global Gateway to boost global infrastructure development. The programme aims to mobilise up to €300 billion in investments by 2027 to support projects in digital, energy, transport and health infrastructure, as well as education and research. These two initiatives are largely seen as a response to China's BRI, offering an alternative model for global infrastructure development that emphasises high standards, transparency, sustainability, and democratic values.

While Malaysia has yet to apply for loans from these two initiatives, Malaysia has joined the US led-Indo-Pacific Economic Framework for Prosperity (IPEF) introduced in 2022. The 14 participating countries include Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand and Vietnam, collectively representing 40 per cent of the global GDP. The IPEF is seen as part of the US' strategy to counter China's growing influence in the Indo-Pacific region, particularly through the Regional Comprehensive Economic Partnership (RCEP), where China plays a central role. In 2024, Malaysia had applied for membership in and was later accepted to become a partner country of the expanding BRICS grouping, an alternative pole to the G-7 grouping of wealthy nations. These developments reflect Malaysia's challenging efforts to maintain active neutrality towards major powers.

6. Conclusion

Based on the initial questions posed, this article presents three key findings. Firstly, most BRI projects continued uninterrupted despite changes in government from Najib Razak to Anwar Ibrahim. Major BRI initiatives in Malaysia, such as the ECRL, Gemas-Johor Bahru Electrified Double-Tracking Railway, Forest City, Melaka Gateway, MCKIP, Kuantan Port Expansion Project, TSGP and MPP, are still ongoing. The CRRC Rolling Stock Centre, the DFTZ and the Proton-Geely partnership are among the three completed and operational projects. The Bandar Malaysia development project had been cancelled and reassumed by the government. Secondly,

BRI projects in Malaysia resulted in several impacts including high costs, poor governance, inadequate use of local resources, and negative effects on the environment, local socio-economy, sovereignty, security, autonomy and policy space. Thirdly, Malaysia faces challenges in implementing BRI projects such as reducing economic dependence on China and diversifying investment sources, improving the economic rationale for certain projects, increasing local content, enhancing policy coherence and coordination, boosting state capacities and capabilities and maintaining a stance of active neutrality.

Malaysia's decade-long experience with BRI projects provides valuable lessons for other participating countries. Firstly, Malaysia's experience underscores the need to align BRI projects with national development objectives and strategic priorities to ensure they contribute meaningfully to long-term economic growth and social well-being. Secondly, the state must be adept at negotiating equitable terms and managing contracts effectively to safeguard national interests. Thirdly, BRI initiatives should prioritise creating opportunities for local businesses and workers, maximising economic benefits and fostering the development of local expertise. This necessitates policies that enhance local content, encourage technology transfer and support capacity building. Fourthly, environmental sustainability should be central to project planning and execution. Malaysia's efforts, such as incorporating wildlife crossings and green urban planning, illustrate how development can coexist with environmental stewardship.

Fifthly, effective stakeholder engagement is crucial for managing expectations and addressing community concerns. Limited consultation has often led to misunderstandings and project delays, highlighting the importance of inclusive processes that align with local needs and sustainability goals. Sixthly, to minimise the effects of political influence on project continuity, the establishment of an independent infrastructure commission and a dedicated public infrastructure agency is vital. These bodies can ensure consistent management and technical oversight of major infrastructure initiatives. Lastly, transparency and accountability are fundamental to preventing corruption and mismanagement. Regular audits, public reporting, and clear accountability mechanisms are necessary to foster trust and ensure proper governance of BRI projects.

Acknowledgements

This work was supported by Universiti Sains Malaysia Short-Term Grant (project number R501-LR-RND002-0000000910-0000) and Universiti Malaysia Terengganu Talent and Publication Enhancement Research Grant (project number UMT/TAPE-RG/2022/55392). The authors extend their gratitude to the International Journal of China Studies editors and the anonymous reviewers for their constructive comments on the manuscript.

Reference List

Abdul Rahman, E. (2018), "The Charms of China's New Silk Road: Connecting the Dots in Southeast Asia", In Pieterse, J.N., Abdul Rahman, E. and Tham, S.Y. (eds). *Changing Constellations of Southeast Asia: From Northeast Asia to China*, New York: Routledge, pp. 213-233.

Abdul Rahman, E., Evers, H.D. and Rashila, R. (2017), "One Belt One Road (OBOR) and Malaysia: A long-term Geopolitical Perspective", *IKMAS Working Paper* No. 5. Bangi: Institute of Malaysian and International Studies.

Avdaliani, E. (2023), "The 2023 Belt and Road Initiative Forum: a Greener and More Cost-Effective Vision", https://www.silkroadbriefing.com/news/2023/10/21/ the-2023-belt-road-initiative-forum-a-greener-andmore-cost-effective-vision/.

Bernama (2019, September 9), "Kedah's Solar Farm to Boost Industrial and Agro Activities in State", https://www.bernama.com/en/news.php?id=1765515.

Chin, K.F. (2021), "Malaysia's Perception and Strategy Toward China's BRI Expansion: Continuity or Change?", *The Chinese Economy*, Vol. 54, No. 1, pp. 9-19.

Chin, M.Y., Teo, P.C., Ho, T.C.F., Chong, C.L. and Wai, C.K. (2021), "The Belt and Road Initiative: A study on Malaysian Small and Medium Enterprises' Motives for Internationalization", *The International Journal of Interdisciplinary Organizational Studies*, Vol. 16, No. 2, pp. 1-13.

China Global Investment Tracker (2023), *Chinese Investments and Contracts in Malaysia (2005-2023)*. Washington: American Enterprise Institute and The Heritage Foundation.

Gomez, E.T., Tham, S.Y., Li, R. and Cheong, K.C. (2020), *China in Malaysia: State-Business Relations and The New Order of Investment*

Flows. Petaling Jaya: SIRD & Palgrave Macmillan.

Hutchinson, F.E. and Tham, S.Y. (2020), "The BRI in Malaysia's Port Sector: Drivers of Success and Failure", *ISEAS Economics Working Paper No. 2020-10*. Singapore: ISEAS-Yusof Ishak Institute.

Lim, G. (2018), "Resolving the Malacca Dilemma: Malaysia's role in the Belt and Road Initiative", In A. Arduino and X. Gong (Eds.), *Securing the Belt and Road Initiative*, pp. 81–95. New York: Springer.

Lim, G.E. (2018, July 3), "The Final Cost of The East Coast Rail Link (ECRL) Project is Actually RM81 Billion and Must be Reduced Significantly to Make it Viable Financially". *Ministry of Finance's Press Release*.

———. (2018, June 5), "Suria Strategic Energy Resources Sdn Bhd – A RM9.4 Billion Scandal Where Payment based on Timing Milestone and Not Progressive Work Done". *Ministry of Finance's Press Release*.

Jomo, K.S. (2017, August 11), "ECRL will Only Burden Malaysians", *Free Malaysia Today*, https://www.freemalaysiatoday.com/category/opinion/2017/08/11/ecrl-will-only-burden-malaysians/.

Ku, B.D. and Tan, C.S. (2021), "The Road and Belt Initiative in Malaysia: Challenges and Recommendations", *Akademika*, Vol. 91, No. 3, pp. 79-91.

Kuik, C.C. (2021), "Elite Legitimation and the Agency of the Host Country", In Schneider, F. (ed.). *Global Perspective on China's Belt and Road Initiative: Asserting Agency Through Regional Connectivity*, pp. 217-2. Amsterdam: Amsterdam University Press.

———. (2021), "Malaysia's Fluctuating Engagement with China's Belt and Road Initiative: Leveraging Asymmetry, Legitimizing Authority", *Asian Perspective*, Vol. 45, No. 2, pp. 421-444.

Kam, J.Y. and Tham, S.Y. (2021), "China's Role in Malaysia's Export Recovery in Covid Times", *International Journal of China Studies*, Vol. 12, No. 1, pp. 133-155.

Kong, T.Y. (2017), "Belt and Road Initiative: A New Impetus to Strengthen China-Malaysia Relations", *East Asian Policy*, Vol. 9, No. 3, pp. 5-14.

Liang, Y., Zeng, J., Kuik, C.C., Zhou, Z. and Zhou, K. (2021), "Policy Transfer and Scale Reconstruction of China's Overseas Industrial Parks: A Case Study of the Malaysia-China Kuantan Industrial Park", *Journal of Geographical Sciences*, Vol. 31, No. 5, pp. 733-746.

Lim, G., Li, C. and Adi Syailendra, E. (2021), "Why is It So Hard to Push Chinese Railway Projects in Southeast Asia? The Role of Domestic Politics in Malaysia and Indonesia", *World Development*, Vol. 138, 105272.

Liu, H., and Lim, G. (2019), "The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative", *Journal of Contemporary China*, Vol. 28, No. 116, pp. 216-231.

Loh, B, Imran, S. and Jazreen, H. (2023), "Belt and Road Initiative (BRI) projects and Information Asymmetries: Engagement with Local Communities in Malaysia", *Brief IDEAS No. 38*. Kuala Lumpur: IDEAS.

Malaysia Gazette (2024, October 29), "Lebih 3,000 Syarikat Tempatan Terlibat dalam ECRL – KSN [More than 3,000 Local Companies Involved in ECRL - Chief Secretary to the Government of Malaysia]", https://malaysiagazette.com/ 2024/10/29/lebih- 3000 -syarikat -tempatan-terlibat- dalam-ecrl-ksn/.

Moser, S. (2018), "Forest City, Malaysia, and Chinese expansionism", *Urban Geography*, Vol. 39, No. 6, pp. 935-952.

Muhamad Azwan, A.R. (2019), "Laluan Sutera Baharu Maritim China dan Implikasinya ke Atas Autonomi Negara Malaysia dan Indonesia [China's New Maritime Silk Road and its Implications for Malaysia and Indonesia State Autonomy]", *Akademika*, Vol. 89, No. 1, pp. 17-32.

Ngeow, C.B. (2020), "Malaysia-China Cooperation on the Belt and Road Initiative under the Pakatan Harapan Government: Changes, Continuities and Prospects", *NIDS ASEAN Workshop 2019: China's BRI and ASEAN*. Tokyo: The National Institute for Defense Studies.

———. (2021), "Malaysia and the Belt and Road Initiative: Maritime, Rail, and Digital Connectivity", In Joseph Chinyong Liow, Hong Liu and Gong Xue (ed.). *Research Handbook on the Belt and Road Initiative*, pp. 151-161. Cheltenham: Edward Elgar Publishing Limited.

Nur Shahadah, J. (2023), "Ten Years into the Belt and Road Initiative in Malaysia: Shift, Continuity and Way Forward", *East Asian Policy*, Vol. 15, No. 1, pp. 7-19.

Serina, R. (2017), "Johor's Forest City Faces Critical Challenges", *Trends in Southeast Asia No. 3*. Singapore: ISEAS-Yusof Ishak Institute.

Tham, S. Y. and Kam, A. J. Y. (2019), "Exploring the Trade Potential of the DFTZ for Malaysian SMEs", *Trends in Southeast Asia No. 3*. ISEAS – Yusof Ishak Institute.

Tham, S.Y. (2022, July 19), "Chinese Investments in Malaysia: Nine Years after the BRI". https://www.youtube.com/watch?v=f8aehYobz0E.

———. (2024), "Greening China's Belt and Road Initiative in Malaysia: Rhetoric versus reality", *Journal of Southeast Asian Economies*, Vol. 41, No. 1, pp. 13-27.

———. (2024), "Chinese Investments in Malaysia: Synthesising the Evidence Ten Years into the Belt and Road Initiative (BRI)", *Malaysian Journal of Economic Studies*, Vol. 61, No. 1, pp. 119-139.

The Edge Markets (2015, November 15), "Government Confident of Controlling Edra", http://www.theedgemarkets.com/article/governmentconfident-controlling-edra.

———. (2019, September 4), "Najib Asked Aide, Jho Low to Cut Rail and Pipeline Deals with China to Bail Out 1MDB, SRC", https://www.theedgemarkets.com/article/najib-asked-aide-jho-low-cut-railandpipeline-deals-china-bail-out-1mdb-src.

The Star (2019, October 30), "CIDB Urges More Collaborations between Malaysian and China Contractors", https://www.pressreader.com/malaysia/the-star-malaysia-starbiz/20191030/281539407750927.

———. (2023, November 7), "MCKIP Generates RM31 billion in Foreign Investments", https://www.thestar.com.my/news/nation/2023/11/07/mckip-generates-rm31bil-in-foreign-investments.

Tritto, A. and Camba, A. (2022), "State-facilitated Industrial Parks in the Belt and Road Initiative: Towards a Framework for Understanding the Localization of the Chinese Development Model", *World Development Perspectives*, Vol. 28, 100465.

Socio-Economic Research Centre (SERC) (2017), *China's Investment in Malaysia: Perceptions, Issues and Prescriptions*. Kuala Lumpur: Socio-Economic Research Centre (SERC).

Zaharul, A. (2020), "China's Economic Engagement in Malaysia and Malaysia's Response", *Southeast Asian Social Science Review*, Vol. 5, No. 1, pp. 27-54.

———. (2021), "Economic Cooperation between Malaysia and Vietnam with China: Impacts and Implications", *Southeast Asian Social Science Review*, Vol. 6, No. 2, pp. 103-134.

International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 153–176 https://doi.org/10.22452/ijcs.vol16no2.6

Assessing the Features of Propaganda and Thought Work in Post-Trust China

Haoguang *Li*[*]
Graduate School of Media and Governance, Keio University

Abstract

This article endeavours to evaluate the attributes of propaganda and thought work in contemporary China. Previous studies have highlighted resemblances to Mao-era leadership, particularly in terms of ideological guidance. However, this article contends that while the propaganda strategies employed in contemporary China exhibit similar characteristics to those of the Mao era, the changes in the receivers of the party's propaganda and thought work would not lead to similar ideological consequences seen in the late Mao era. Through an in-depth examination of the features of propaganda and thought work, and interviews with numerous individuals in China, this article demonstrates that despite the post-trust political environment potentially reducing the Party's capability for socio-political mobilisation, the detrimental consequences would be simultaneously mitigated by people's long-term post-trust sentiment and indifferent attitude. This article contributes to the understanding of ideology in contemporary China.

Keywords: *Propaganda and thought work in China, the Mao era, indifference, Post-trust, Ideology.*

[*] PhD Candidate, Graduate School of Media and Governance, Keio University, Kanagawa, Japan; Email: haogli@keio.jp.

1. Introduction

1.1 Research Background

After the establishment of the People's Republic of China in 1949, Mao Zedong implemented an extremely coercive propaganda strategy in order to fully control and manipulate ideology in China. Under Mao's leadership, the propaganda and thought work in China was conducted through various means, including massive political study campaigns, struggle sessions (*Pi Dou*), and the practice of "speaking bitterness" (*Su Ku*). These long-lasting propaganda campaigns were characterised by absoluteness and sharp transitions. Any alternative views other than the mainstream voice faced serious punishment from the government, and the official voice was highly dynamic, constantly undergoing abrupt transformations. Thus, Mao's propaganda strategy eventually triggered indifference among the people toward the Party's political rhetoric. For instance, people in Yan'an, the hallowed place of the Chinese Communist Party (CCP), showed no interest in politics and ignored the latest party directives. Instead, they revitalised local traditions that had been "beaten down" (*Da Dao*) by the CCP (Dikötter, 2023a: 297-298). Moreover, Mao's coercive propaganda strategy even led to massive democratic movements in the late 1970s. The most notable events were the April 5th Incident and the Democracy Wall in 1979.

Therefore, it was clear to Deng Xiaoping, the *de facto* supreme leader of the PRC after Mao's death, that continuing Mao's propaganda strategy would be detrimental to the political stability of the CCP, as it had already provoked widespread resistance among the people. Thus, Deng to a considerable degree loosened the ideological control among the Chinese populace. Toward the Democracy Wall, Deng said, "What is the harm of a little opposition?" (Vogel, 2011: 254). He highly praised it: "The Democracy Wall is very good... 99 per cent of the Wall is good... Let the masses speak out their grievance… Posters are protected by the constitution… This is a kind of democracy" (Shao, 2015: 87). While there were anti-bourgeois liberalisation movements primarily led by members of the conservative faction within the CCP, one could argue that the Chinese people enjoyed an unprecedented level of freedom during the 1980s. Although such a degree of freedom was no longer tolerated after the chaos in the late 1980s, the CCP still allowed certain non-subversive speeches to a certain extent, as long as they were not perceived as threats to the Communist regime.

However, the CCP did not alter its propaganda strategy until the regime assumed leadership in 2012. He gradually abandoned Deng's political legacy and tightened domestic ideological control. His policies have been broadly regarded as retrogressive or "backwardness" by many scholars and liberals, earning him the label "Mao Zedong of the 21st century" (Ding & Panda, 2022: 30). Regarding propaganda and thought work, the current regime's strategy also exhibits many features of Mao's, particularly "absoluteness" and "sharp transitions." State surveillance and political censorship were significantly intensified. More political study campaigns, similar to those in the Mao era, were officially revitalised as a mandatory daily task for every CCP member and college student (Liang *et al.*, 2021). It seems that the current regime's return to Mao's approach could once again lead to strong public resistance and potentially escalate into democratic movements. However, such resistance exists but has not escalated to the scale of the massive subversive movements seen during the late Mao era. Online implicit criticisms and expressions of cynicism are pervasive; however, no large-scale democratic movements have emerged.

1.2 Post-Trust

Post-trust, a term extensively debated by scholars, refers to a societal condition in which public trust does not "simply disappear altogether but is instead re-allocated" (Löfstedt, 2009: xv). Trust, as scholars have interpreted Giddens's notion, is "confidence in the operation of institutions that people cannot directly monitor and control" and serves as "the lifeblood of modernity" (Sanders & West, 2003: 11). It is absent in the most primal forms of human existence, where mistrust constitutes the normal state among individuals. Mistrust, a "general sense of the unreliability of a person or thing," constitutes the fundamental state of human beings, as "other people are, in some sense, unknowable *per se*" (Carey, 2017: 8-10). It is also mutually constitutive with trust, as the possibility of mistrust is necessary for trust to exist (Mühlfried, 2018: 11). Thus, the concept of post-trust does not signify a regression to mistrust but rather a decline in trust toward the once seemingly reliable authorities. In this context, the official channels traditionally responsible for transmitting knowledge have lost their perceived legitimacy and authority, leading to a reallocation of trust to alternative sources. The original authorities quickly become targets of mistrust, with people tending to disregard, ridicule, and even attack them, often perceiving

them as conspicuously out of touch or irrelevant.

The post-trust Chinese society does not imply complete mistrust in the CCP; rather, the key questions revolve around the extent of trust, as well as the shifts in what and whom the public chooses to entrust. The debate surrounding trust in contemporary China remains highly contentious. Some scholars argue that a form of "implicit political trust" exists extensively among the Chinese populace, wherein individuals tend to automatically and intuitively comply with the regime. This implicit trust is considered crucial to the regime's stability (Huang *et al.*, 2022). On the other hand, some scholars refute this notion, arguing that public dissatisfaction with the CCP, driven by its poor performance and corruption, undermines trust in the Party's governance (Pei, 2008: 187, 198), which could potentially lead to political instability (Pei, 2008: 212).

In the early stages, there is no doubt that the CCP enjoyed ultimate credibility, with Chairman Mao wielding absolute charisma and commanding unwavering loyalty among the general populace. However, such public trust, or the so-called implicit political trust, was eroded through coercive ideological campaigns and relentless political movements initiated by Mao, leading to the emergence of a post-trust society in which individuals increasingly disregard and even ridicule the CCP's discourse. The Chinese population has become significantly less influenced by the CCP's political discourse, with their enthusiasm for politics declining markedly in the post-Mao era. This shift could arguably be seen as desirable for the CCP. As Jiwei Ci notes, Deng Xiaoping leveraged hedonism to counteract the nihilism that arose from Mao's political failure to construct a socialist utopia (Ci, 1994: 7-8). Thus, China's post-trust society is largely politically oriented, reflecting both a form of resistance to the CCP's coercive propaganda and ideological campaigns originating in the Mao era, as well as a persistent indifference toward the Party's political rhetoric—an attitude paradoxically desired by the CCP to maintain political stability. Therefore, analysing the similarities with the Mao-era strategies, particularly in terms of propaganda, necessitates a comprehensive examination of China's post-trust society, where the CCP's rhetoric has lost its former impact. Public trust in China should not be viewed solely as a reaction to the CCP's past performance, nor should the corresponding public sentiment and socio-political (in)stability be regarded merely as products of its (non)existence, as suggested in the existing literature, but rather as a crucial factor requiring evaluation within

the post-trust analytical framework to better understand socio-political (in) stability in contemporary China.

1.3 Research Methods and Aims

This article aims to analyse the characteristics of propaganda and thought work, as well as their related consequences, in post-trust China under the current leadership. It will first offer a concise overview of the transformations in propaganda and thought work in China since 1949, emphasising the formation and deepening of a post-trust environment. Subsequently, it will evaluate the propaganda and thought work of this era through examinations of several cases and in-depth interviews with individuals living in China, with a particular focus on public reactions shaped by the accompanying social transformation.

Assessing public sentiment toward the CCP's propaganda and thought work is indeed challenging, given the diversity of Chinese society and the authoritarian nature of the CCP. No specific method can be deemed entirely objective or free from bias. I have conducted long-term observations and in-depth interviews with numerous individuals residing in Beijing, China. All of my interviewees are closely connected to the CCP; they are either currently/previously employed by the Party and the Chinese government or are children of Party cadres. Although these social and political elites cannot represent the entirety of Chinese society, their perspectives provide valuable insights into the attitudes and sentiments within the CCP's inner circles. Given that these individuals are more likely to display alignment with the CCP's ideology due to their connections, it is reasonable to infer that the general public, who lack such direct ties to the CCP, may exhibit even greater levels of skepticism, indifference, or resistance toward the Party's propaganda and thought work in this post-trust era.

This article argues that although the current regime's propaganda strategy shares many similarities with Mao's, the CCP does not face the same challenges as it did under Mao or Deng, as China has long entered a post-trust era. Chinese people inherently do not trust state media controlled by the CCP. Therefore, the side effects of coerciveness are mitigated by people's long-term distrust and indifference. Although Mao's propaganda strategies share many similarities with current ones, their consequences and underlying sociopolitical logic differ fundamentally.

2. Mao's Propaganda Strategy: "Absoluteness" and "Sharp Transitions"

The propaganda and thought work during the Mao era were extremely coercive, and millions of Chinese people were severely purged due to the massive political campaigns. Although Mao's purges were primarily conducted by the masses mobilised by his political rhetoric, his propaganda strategy, characterised by the features of "absoluteness" and "sharp transitions," triggered ideological turbulence among the people, and therefore led to political instability in China. This part aims to elucidate Mao's propaganda strategy by analysing three cases: the anti-rightist movement, the Sino-Soviet Split, and the death of Lin Biao.

In 1956, Khrushchev delivered his famous speech titled "On the Cult of Personality and Its Consequences", known as the "Secret Speech", at the 20th Party Congress. This speech soon sparked an ideological crisis across the Eastern Bloc, as people began to question the legitimacy and sanctified image of these socialist leaders. Mao was also frequently compared to Stalin by the people, with questions like "Why does the XX Congress struggle with the cult of the individual while in the Chinese People's Republic, comrade Mao-Tse-Tung is glorified as 'Good Emperor Mao'?" being posed by some liberals (Kemp-Welch, 1996). Mao soon initiated the "Hundred Flowers Campaign," explicitly stating that the CCP should allow alternative views, or even the "right ones", to be expressed without intervention. He highly encouraged Chinese intellectuals to speak out about their dissent (Wu *et al*., 2013: 574-575). In response to Mao's call, the propaganda machine began to emphasise and promote the idea that Chinese people enjoyed freedom in "literary and artistic work and scientific research" (Lu, 1956). Soon after, a widespread explosion of discontent prevailed throughout China. Many famous intellectuals publicly and explicitly voiced their doubts and alternative views regarding the CCP. For example, Zhang Bojun and Luo Longji expressed certain systematic faults of the CCP's leadership (Kiely, 1993). However, an abrupt transformation occurred in the following year. After hearing the massive dissents from the masses, Mao decided to launch a crackdown on those who spoke out, characterising the Hundred Flowers Campaign as "luring the snake away from its hole" (*Yin She Chu Dong*) (Shen, 2011: 25-40). Soon, China's propaganda machine suddenly shifted to a completely antithetical way, strongly criticising the so-called "rightists" and labeling them as "cow demons and snake spirits" (*Niu Gui She Shen*)

(*People's Daily*, July 1, 1957). This large-scale crackdown, known as the "Anti-Rightist Campaign", was rigidly implemented by the local cadres, who strictly adhered to Mao's prescribed ratio of rightists in each working unit. Or, it could be said that Mao's quota had to be absolutely met by all local cadres. Consequently, there were many "accidental dissidents" who were randomly chosen by those cadres in order to fulfill Mao's "great guidance" (Dikötter, 2023b: 301-303). Those rightists were sent to military farms to "labour under supervision" or undergo "labour reform", while ultra-rightists were sent to re-education camps (Wang, 2017: 6-7).

The case of the Sino-Soviet Split also illustrates the sharp transitions in ideological construction. After the establishment of the PRC, "leaning to one side" became one of Mao's most fundamental policies, where China joined the Eastern Bloc and formed a formal alliance with the Soviet Union. Even though there were strong anti-Soviet sentiments in China, particularly in Manchuria due to Russia's past invasions and interventions (He, 2010: 28-46), the CCP coercively repressed these sentiments through its propaganda and thought work. Lu Dingyi, the head of the Publicity Department, stated that the propaganda machine in China should "consistently showcase the lifestyles and achievements" of the USSR (Chi, 1987: 56-57). The *People's Daily* massively promoted Stalin and elevated his status above Mao's by cheering "Long Live Stalin" before "Long Live Chairman Mao" (*People's Daily*, December 26, 1949). The CCP also organised mandatory pro-Soviet and anti-American rallies. People who did not join these rallies were severely punished by the state, either through fines or by being accused of belonging to "a secret society" (Dikötter, 2023b: 153-155). Individuals who expressed any alternative views on the Soviet Union faced coercive official purges. For instance, one engineer was labeled as a "rightist" and exiled to Manchuria solely because he said that "Not all of the Soviet experts were good people" (Shen, 2015: 3). However, after the dramatic Sino-Soviet Split in the 1960s, the pro-Soviet propaganda and ideological efforts were abruptly and completely replaced by the exact opposite: anti-Soviet propaganda. The most notable articles used by the CCP to criticise the Soviet leaders and the USSR were the so-called "Nine Comments on the CPSU" published by the *People's Daily*. The anti-Soviet propaganda and thought work also exhibited the characteristic of absoluteness, wherein non-anti-Soviet opinions were strictly prohibited. For instance, another engineer was also "beaten down" for his "counter-revolutionary speeches," merely because he stated that

"There were good people among the Soviet experts" (Shen, 2015: 3).

The death of Lin Biao was the most shocking case for Chinese people, causing ideological turbulence and suspicion toward the Cultural Revolution. Due to the persecution of Mao's previously designated successor, Liu Shaoqi, during the Cultural Revolution, Lin rose to second place in the CCP, ranking only below Mao. Mao explicitly designated Lin as his successor, a decision that was enshrined in the Party's constitution in 1969 (MacFarquhar & Schoenhals, 2006: 291). Thus, China's propaganda and thought work profoundly promoted Lin's image, and to a considerable extent, cultivated a cult of personality around him. A mandatory revolutionary ritual, "morning request, evening report" (*Zao Qing Shi*, *Wan Hui Bao*) was practiced by all Chinese people every day. During the practice, individuals were required to hold the "Little Red Book", stand upright, face Mao's portrait, bow, and cheer "Long live Chairman Mao, Vice Chairman Lin, may you always be healthy" (Jian et al., 2006: 194). Lin's image was massively propagated by the propaganda machine as "Chairman Mao's close comrade-in-arms" (*Qin Mi Zhan You*) (*People's Daily*, May 21, 1968). However, following Lin's death, attributed to his unsuccessful attempt to flee to the Soviet Union, the propaganda and thought work sharply turned extremely anti-Lin. Mao amended the party constitution by removing contents related to Lin and formed an investigation group to draft a formal resolution on the "crimes of the Lin Biao anti-party clique" (MacFarquhar & Schoenhals, 2006: 360-361). Shortly thereafter, massive anti-Lin campaigns were launched in China, and the most famous one was the "Criticise Lin, Criticise Confucius Campaign" initiated in 1974. Thus, Lin's sanctified and glorified image abruptly plummeted, transitioning from being reversed as the "Number Two Deity" to being vilified as the "Number One Demon" (Qiu, 2013).

Mao's repressive propaganda and thought work, marked by its absoluteness and sharp transitions, ultimately led to profound indifference, sarcastic views, and even resistance within Chinese society. For instance, by the late Mao era, people were no longer motivated by the Party's political discourses. Instead, prohibited "counter-revolutionary" literature quietly began to spread among the Chinese populace (Dikötter, 2023a: 315). Such ideological turbulence, caused by the abrupt shift and rigid implementation of the highly fluid propaganda and thought work, as MacFarquhar argues, resulted in the discrediting of Mao's Cultural Revolution (MacFarquhar & Schoenhals, 2006: 336). However, this discrediting extended beyond the

political movement launched by Mao, affecting the entire CCP's political rhetoric. This coercive propaganda strategy resulted in Chinese people no longer trusting the CCP's discourse, which eventually led to political instability for the party. The April 5 Incident and the Democracy Wall in 1979 were prominent examples of resistance from the Chinese populace.

3. Anti-Models and Lessons: The Post-1980s Propaganda and Thought Work

Recognising and experiencing the political instability caused by Mao's propaganda strategy, Deng Xiaoping, the *de facto* paramount leader of China, understood that reform was necessary to maintain the CCP's leadership. In the late 1970s, Deng largely allowed free expression and dissent among the Chinese people. As a result, Chinese society began to rapidly democratise, with the voices of many liberals and reformers becoming prevalent.

Deng also explicitly stated that political reform was essential to "adapt to the situation" and that the CCP should expand "socialist democracy." Soon after, the *People's Daily* published a series of articles promoting political reform, with the first article titled "Political Issues Can Be Discussed" (Wu, 1997: 20-21). Therefore, following Deng's directive, a formal political reform study group known as the "Central Study Group" was established, led by Prime Minister Zhao Ziyang. The core members of this group were all high-ranking politburo members (Wu, 1997: 22-23).

The reform of propaganda and thought work was a key part of Deng's political reform, and of course, a core mission of this group. Since the anti-CCP and anti-Deng big-character posters were posted on the Democracy Wall in late 1979, the CCP realised that allowing such free speech would also lead to another form of political instability (Vogel, 2011: 254-256). Thus, the entire 1980s can be seen as a trial for the CCP to find a proper approach to its propaganda and thought work, which could be argued as a process akin to Deng's "crossing the river by feeling the stones" strategy. In the interview with me, a person who was closely related to the Office of the Central Seminar Group on Political Reform formed by Bao Tong and Zhao Ziyang during the 1980s stated that the decade was characterised by a pattern where odd-numbered years saw liberalisation, while even-numbered years saw a tightening of restrictions. China's ideology was in chaos, with massive democratisation movements launched by the people. However, the CCP's attitude was ambiguous and even polarised between

liberals and conservatives. For instance, regarding the 1986 Chinese student demonstrations, which were caused by loosened ideological control, Hu Qili, the first secretary of the CCP secretariat, emphasised that the CCP needed to be cautious about "publicising propaganda" (*Gong Kai Xuan Chuan*), and only advised that radical proposals that could not be achieved in the short-term should be slowed down (Wu, 1997: 216-217). It could be said that liberal ideas prevailed in China during the 1980s, which ultimately led to the chaos in the final years of the 1980s.

The chaos in the late 1980s served as another significant domestic lesson for the CCP. After the suppression of the demonstration, Deng stated, "The developments in this decade are good, but the biggest mistake is in education. Political thought work was not emphasised, and the development of education is lacking" (Deng, edited by *the Party Literature Research Centre of the CCP Central Committee*, 1991: 491). The CCP realised that to a large extent, allowing free speech was indeed detrimental to its durability, as permitted anti-CCP speeches could eventually develop into subversive movements. Moreover, the democratisation of the Soviet satellite states and the collapse of the USSR served as an international lesson for the CCP. Gorbachev's *Perestroika* and *Glasnost* triggered large-scale ideological turbulence in the USSR, and his propaganda strategy, characterised by "transparency" to a large extent, was seen by the CCP as an anti-model (Brady, 2010: 175-177). Therefore, the CCP needed to find a balance between Mao's extremely coercive strategy and the "failed trials" in the 1980s.

After learning from these lessons, Deng once again adjusted the CCP's propaganda strategy. The CCP began to pay extra attention to subversive speeches that could potentially threaten the regime, resolutely suppressing them without the slightest mercy. Both Jiang Zemin and Hu Jintao, the supreme leaders of China, emphasised the necessity of the CCP's close intervention in propaganda and thought work related to the "overall situation" and "political principles" (*People's Daily*, 1999; *People's Daily*, 2008). However, the CCP still allowed a certain degree of free speech and criticism as long as they were considered non-subversive. As Brady notes, the CCP conducted "the most undemocratic practices of modern Western societies" (Brady, 2009). Thus, a diversity of voices and plurality remained visible in Chinese society (Qin *et al*., 2017).

This does not imply that the propaganda strategy of Jiang Zemin and Hu Jintao, inherited from Deng's political legacy, represented genuine

democracy. Under Jiang and Hu's leadership, the CCP ruthlessly suppressed political dissenters deemed subversive by the Party, showing no mercy. For instance, Falun Gong was labelled a "heretical teaching" (*Xie Jiao*) by the CCP and was extensively suppressed due to its nature—fostering intensified loyalty to a figure outside the CCP and promoting an alternative belief system distinct from communism—along with the massive, well-organised, and unexpected protest in 1999 (Ming, 2011: 16-17). Furthermore, during the Hu era, the CCP went so far as to suppress its own official newspaper. The CCP suspended *Bing Dian* (Freezing Point), a news journal of the *China Youth Daily*, the official newspaper of the Communist Youth League. *Freezing Point* was especially lauded by its readers for its in-depth reporting and critical analysis of social issues. However, such critical perspectives dissatisfied the regime and finally led to the journal's suspension for several weeks and the removal of its editor-in-chief, Li Datong, in 2006 (Li, 2006). Thus, although the propaganda and thought work in this era may appear to represent a rupture, it maintains a clear continuity with the CCP's post-1980s propaganda strategy.

4. Revitalisation of Mao's Strategy: The Current Regime's Approach

Since 2012, the CCP has gradually tightened restrictions on free expression. The current regime's propaganda strategy shares many features with Mao's. Ideological control through coercive propaganda and thought work has been revitalised, bringing characteristics of absoluteness and sharp transitions that are evident in today's China. That is, a re-ideologisation began to prevail over Deng's de-ideologisation. It could be argued that the current regime's approach represents an amplification of the CCP's intolerance toward alternative discourse under its non-genuine democratic political system, with the foundations for his emergence having been laid by the previous regimes of Jiang and Hu.

The current supreme leader is described by many scholars generally in a negative way, and David Shambaugh refers to him as a monarch in the modern era (Shambaugh, 2021). Before delving into his ideological control in detail, it is necessary to first examine the possible reasons behind his adherence to the Maoist style. His father was a communist guerrilla leader in the 1930s who later became one of the top leaders of the CCP. During the Cultural Revolution, his family, including himself, was severely

persecuted. However, unlike others who adopted a hedonistic lifestyle after the Cultural Revolution, he "chose to survive by becoming redder than red," firmly believing that he, as part of the second generation of the CCP's revolutionaries, "deserve(s) to rule China" (US Embassy Beijing, 2009). Thus, his past may provide insight into his return to the Maoist route of governance, and contemporary China under his leadership is described by Shambaugh as a form of "neo-totalitarianism" and "an unprecedented surveillance state" empowered by "the full power of technology" (Shambaugh, 2021). Both Pei Minxin and Wu Guoguang argue that the CCP's propaganda strategy has shown continuity from Mao to the current leadership, with no significant changes in the concepts or organisational structure of its surveillance system. The key differences between them are, first, the enhanced precision of modern surveillance due to technological advancements (Pei, 2024: 178-179), and second, the current regime's tendency to "deceive" the public through political rhetoric, reinforced by the state's violent power (Wu, 2024: 193-196).

Indeed, as existing literature suggests, political studies reminiscent of those from the Mao era have been reintroduced under the leadership of the current regime. These political studies are highly digitalised, with the regime utilising mobile apps to intensify and monitor ideological control over Chinese people. "Study Xi, Strong Nation" (*Xue Xi Qiang Guo*) and "Youth Study Program" (*Qing Nian Da Xue Xi*) are the two main political study sessions. CCP members, students and government officials, are required to pass mandatory quizzes; failure to do so results in official criticism (Liang *et al.*, 2021). Giant posters displaying the Core Socialist Values, which consist of the twelve words proposed by the CCP, are posted everywhere in China. These socialist elements are considerably more intrusive in people's daily lives than during the Reform and Opening-Up era, which, arguably, exhibits closer parallels with the Mao era.

The propaganda and thought work have become significantly more coercive, with much less tolerance for non-subversive speeches and domestic cynicism. Many individuals expressing alternative or sarcastic views would face severe punishment, and these cases of punishment would be propagated by the official media to the Chinese populace for educational purposes. For instance, during the China-India skirmishes in 2020, four Chinese soldiers were killed in action and one was wounded. Soon, these soldiers were promoted as national heroes by the propaganda machine. However,

there were dissenting voices among the Chinese populace. Qiu Ziming, an internet celebrity followed by more than 2.5 million people, was sent to jail for "defaming martyrs" (*Global Times*, 2021). This sentence was widely propagated by domestic propaganda, and Qiu was arguably "beaten down" under public criticism, reminiscent of the Mao era. As another example, in relation to the recent anti-American films centred on the Korean War, Luo Changping, an influential journalist, offered objective yet alternative views on the fate of the company that froze to death during the Battle of Chosin Reservoir—a narrative particularly emphasised in these propaganda campaigns. The company was labeled as the "ice sculpture company" (*Bing Diao Lian*) by the propaganda machine, whereas Luo characterised it as a "silly company" (*Sha Diao Lian*) in his post, where he also raised doubts about the legitimacy of the Korean War. No doubt, Luo was also imprisoned, and his sentence was also widely publicised by the propaganda machine (*Global Times*, 2022). Thus, such coerciveness and intolerance in the current propaganda strategy exhibit a similar feature of absoluteness as seen during the Mao era.

The propaganda and thought work under the current regime also exhibit the feature of sharp transitions. The most recent sharp transition is evident in the pandemic. In the initial stage of the pandemic outbreak in late 2019, Dr. Li Wenliang, a medical doctor in Wuhan, warned about the existence of a new type of coronavirus in a WeChat group. However, Dr. Li and seven other individuals were soon detained by the police department in Wuhan for "spreading rumors" (Green, 2020). They were forced to confess to their "crimes," and the detention of these doctors was widely reported by the domestic propaganda apparatus. However, one month later, the Chinese government officially admitted the existence of the coronavirus pointed out by Dr. Li, and an unprecedented lockdown was launched in Wuhan. On February 7th, 2020, Dr. Li died from COVID-19. His death triggered public anger, and Dr. Li was publicly regarded as the "whistleblower" of the pandemic. The propaganda machine soon shifted to a completely antithetical approach. While deleting massive sarcastic online posts and articles promoting Dr. Li and criticising the Chinese government, the *People's Daily* published the results of the reinvestigation of Dr. Li's case. This report cleared Dr. Li's grievances and announced that the Wuhan police department needed to be "corrected under supervision" and that the charges against Dr. Li would be repealed (*People's Daily*, March 20th, 2020). Such

sharp transitions led to widespread sarcastic views, reflected in the discontent of many individuals toward the grand award ceremony for the medical personnel who contributed significantly to the fight against COVID-19 in September 2020, during which the public appealed that Dr. Li's name should not be absent (*BBC*, 2020).

Another case reflecting the sharp transitions was the medical anti-corruption campaign. After 2012, the CCP launched a series of anti-corruption campaigns. Many corrupt high-ranking government officials and party cadres were arrested, and their crimes and punishments were extensively reported by the state media. Pei Minxin argues that the anti-corruption campaign is a tool to bolster his "political capital" and suggests that the campaign may have negative consequences for the CCP, as it could weaken political cohesiveness (Pei, 2016: 265). However, the anti-corruption campaign was not merely a short-term initiative targeting the so-called "other factions," but a sustained movement affecting all aspects of Chinese society. The targets are not confined to the politicians but include all individuals with access to social resources. In other words, the campaign targets not only political corruption but also common social practices in China that have been widely criticised by the populace. The medical anti-corruption campaign initiated in 2023 was one of this type. During the pandemic that started in 2020, medical personnel were extensively promoted by domestic propaganda, and numerous spectacular performances were initiated to enhance their image. It could be argued that medical personnel were elevated to an unprecedented social status by the political authorities in these years. However, right after the lifting of COVID-19 restrictions, a large-scale medical anti-corruption campaign was launched, and many medical personnel were arrested for accepting bribes. This campaign was extensively reported by the propaganda apparatus, and the People's Daily referred to the corrupt individuals as representing "unhealthy trends" (*People's Daily*, May 12th, 2023).

Thus, as we can conclude from these cases, the current propaganda strategy indeed exhibits many features similar to Mao's. Although the degree of absoluteness and the abruptness of sharp transitions were not as extreme as in the Mao era, it could be argued that the relatively loosened propaganda strategy in the post-1980s era is gradually being discarded by the current regime. Instead, the former disadvantageous strategy seems to be revitalised.

5. Chinese People in the Post-Trust Era

Indeed, the current leadership is often regarded as another Mao by academia and many China watchers, and his policies, particularly ideological control, appear to be similar to Mao's. However, while previous studies—primarily conducted by political scientists—have extensively examined his resemblance to the Maoist route, the social transformation of the recipients of the CCP's propaganda in this post-trust era has not been sufficiently addressed, despite being crucial to the Party's capacity for socio-political mobilisation. Thus, although the current leadership's propaganda strategy features absoluteness and sharp transitions, it is unlikely that the current regime will face the same ideological turbulence as Mao and Deng did. This is because China has been entering a post-trust era for many decades, triggered by Mao's propaganda strategy and further reinforced by Deng's de-ideologisation during the Reform and Opening-Up era. Chinese people commonly hold sarcastic views toward official voices from the government, perceiving official channels as untrustworthy and therefore largely unreliable. As a result, it is much more difficult for the current regime to mobilise the masses due to people's indifference and alternative interpretations. However, this public attitude also weakens the detrimental effects of increasingly coercive propaganda strategies.

As noted in the literature by MacFarquhar, Schoenhals and Dikötter, which has been discussed above, Chinese people's reactions to Mao's propaganda and thought work included ignoring the Party's directives and revitalising the so-called counter-revolutionary practices that had been suppressed for many years in the late Mao era. Thus, it could be argued that the beginning of the post-trust era for socialist China started at this point, as people in the early stage of the PRC would proactively buy the People's Daily even if they were poor (*Ren Min Ri Bao Bao Shi Bian Ji Zu*, 1988: 75-78). The discrediting of the CCP's political rhetoric resulted not only in a rethinking of the past from a retrospective perspective in the 1980s but also in a long-lasting distrust in the future. Such long-lasting distrust has been reinforced by Deng's slogan of "emancipating the mind" (*Jie Fang Si Xiang*), and the Chinese people are equipped with inherent "critical thinking" towards official voices. Due to relatively loosened surveillance, questioning the government's policies and raising alternative views on mainstream voices has become prevalent among Chinese people.

I conducted interviews with numerous individuals living in Beijing who are closely tied to the CCP, arguably the "reddest" personnel in Chinese society due to their family backgrounds. Most of them informed me that they never proactively watch the news through official channels. Many of them expressed sarcastic views about official newspapers and *Xin Wen Lian Bo* produced by China Central Television, quoting an extremely popular saying: "People in *Xin Wen Lian Bo* are way too happy (*Xing Fu*)." Many of my interviewees were college students pursuing bachelor's or master's degrees at Chinese universities, and none of them expressed interest in political study campaigns such as "Study Xi, Strong Nation" and "Youth Study Program" launched by the current leadership. For the mandatory daily study tasks, T (pseudonym), the son of a high-ranking military officer, shared that all of his classmates, including himself, simply put their phones aside while the study videos played. S (pseudonym), a current civil servant in China, shared that during her college years, if students and Party members (many college students joined the CCP for practical reasons) were required to pass a test, they would simply search the internet for the correct answers rather than answering on their own. In some cases, passing the tests is not required; participants simply select random options to complete the task. T mentioned that many Party cadres he knows even asked their family members to complete the quizzes on their behalf rather than doing them themselves. This phenomenon was corroborated by several of my other interviewees. R (pseudonym), the son of a law professor at a prestigious university who holds a county-level executive rank, shared that he was frequently tasked with answering the quizzes on behalf of his parents, as they were unfamiliar with using the internet to search for answers. Furthermore, Y (pseudonym), the son of a mid-ranking government official, informed me that there are applications available online that automatically answer the quizzes. These applications are primarily used by individuals who need to complete these daily tasks.

Regarding the pervasive promotion of the cult of personality, many of the official messages have become a "joke" (*Geng*) among the Chinese people, sometimes in a highly explicit manner. For instance, Li Hongzhong, the Party Secretary of Tianjin at the time, made a famous statement: "Loyalty that is not absolute is absolutely disloyal," to demonstrate his "absolute loyalty" to the supreme leader (Li, 2016). This blatant flattery quickly became a joke among the populace, with online discussions of

Li Hongzhong's words often expressing highly negative sentiments. Furthermore, in the early years of this era, some overt propaganda was employed to build and consolidate his charisma. One of the most notable examples was a song titled "*Xi Dada Loves Peng Mama*", where "*Xi Dada*" (Uncle Xi) referred to Xi himself, and "Peng Mama" (Mother Peng) referred to his wife, Peng Liyuan (Yin & Flew, 2018). Retrospectively, such propaganda songs bear a resemblance to the so-called "red songs" of the Mao era, such as "*Sailing the Seas Depends on the Helmsman*" and "*The East is Red*". However, due to the social transformation among the recipients, the positive influence of such propaganda cannot compare to that of the Mao era. The dissemination of songs praising the current supreme leader was relatively limited, and people often adopted indifferent and negative attitudes toward such overt promotion. Among intellectuals, such promotion has become a target of ridicule. X (pseudonym), an international student in the US and the son of a high-ranking government official, stated that the song was too "explicit" and made people feel embarrassed, adding that the CCP should have anticipated this obvious consequence. Perhaps, as X observed, all discussions about this song had ceased by 2014 according to my observation.

In addition to indifferent attitudes and widespread sarcasm towards official voices, I also noted that many of my interviewees, especially the younger generations, expressed scorn for both the CCP's propaganda and thought work, as well as for those people who believed in these political discourses. Indeed, there have been enduring verbal battles and debates between "Public Intellectuals" (*Gong Zhi*, typically referring to liberals in Chinese society) and the so-called "Little Pinks" (*Xiao Fen Hong*, typically referring to nationalists or supporters of the CCP), and public sentiment towards the CCP has remained highly fragmented. However, in my interview, most of the interviewees, including both "Public Intellectuals" and "Little Pinks," indicated that they do not regard the CCP's official messages as reliable sources. For instance, H (pseudonym), the son of a medical doctor with a mid-level executive rank, described himself as "absolutely pink" but not naive. Regarding the CCP's propaganda, he remarked, "Of course, they are fake, but that is common in all countries," adding, "Those who believe it are truly stupid." These people often ridicule those who still watch the news on TV, typically their grandparents and occasionally their parents. Even the most moderate interviewees informed me that they occasionally place

limited trust in certain pieces of information on foreign affairs broadcast by the CCP's propaganda, primarily because they have never been abroad. However, they indicated that they would never trust information regarding domestic affairs propagated by the propaganda apparatus.

To assess the attitudes of older generations, I also interviewed several senior individuals in their 80s and 90s. Some of them had been labelled as "counter-revolutionary" and "rightist" during the Mao era. D (pseudonym), a senior citizen in his 80s at the time of the interview, was a former hospital president during the Mao era who was "beaten down" as a "rightist" in 1957 but rehabilitated in 1978, regaining his position as hospital president. He explained that the only reason he and his old colleagues often watch TV is that they do not know how to use the Internet, and in some cases, are not even aware of its existence. Even though they often watch TV, they typically neither believe nor care about the propaganda, largely due to their collective memories of the Mao era. C (pseudonym), another medical doctor who was also "beaten down" in 1957 and labeled a "rightist" for 22 years, remarked, "I didn't even believe what Mao said! How could I believe what the later ones say?!"

Thus, Chinese people are typically indifferent toward the political discourses of the CCP in this post-trust era; instead, they care about their income and lifestyles. This is primarily due to the transformation of people's values brought about by Deng's Reform and Opening-Up, in which economic development has been seen as the key priority for China. Borrowing Ci Jiwei's notion, it could be argued that Deng successfully introduced a profound ideology of Hedonism into Chinese society (Ci, 1994: 7). This led to a transformation among Chinese people, valuing personal interests much more significantly, while socialist values were inherently abandoned. Therefore, even though a political regression is visible in China, with many elements of the Mao era being revitalised, there is nonetheless strong social resistance, mostly indirect, invisible and inherent from the masses. This social resistance has been formed due to Mao's coercive approach to propaganda and thought work, reinforced by the relatively loosened ideological control in the post-1980s era, and it now poses a new obstacle for the CCP's propaganda and thought work—a general decline in trust in the Party's authority.

6. Conclusion

This article has examined the characteristics of the propaganda and thought work employed by the current regime, as well as the social transformation of the recipients of the CCP's political discourse. Additionally, it has analysed the evolution of the CCP's propaganda strategy and the underlying reasons for these changes. The findings suggest that the propaganda strategy of the current regime, which abandons the optimisations developed in the post-1980s era, displays features of absoluteness and abrupt transitions reminiscent of the Mao era.

However, contrary to the notions presented in the existing literature—primarily by political scientists—I argue that China is unlikely to face similar political crises again due to its consistent approach to state ideological control. All of my interviewees residing in Beijing, the political centre of China, expressed indifferent and often sarcastic views toward the CCP's official messages. Although their identities are somewhat unique, as they are closely connected to the CCP—a group typically regarded as the most "politically correct" within the Chinese socio-political context—they reflect a profound and genuine mistrust of the CCP. This mistrust is likely even more severe among the general public. For decades, the country has been in a post-trust era, characterised by the general public's indifference toward the Party's discourses. As a result, although the CCP has significantly diminished its capacity for social mobilisation, the negative impacts of the coercive approach to state ideological control have been substantially mitigated.

There have been several instances reflecting public dissent toward coercive ideological control, including the White Paper Revolution in late 2022, Halloween protests in Shanghai in 2023, and the Flowers Revolution in late 2023 following Li Keqiang's death. However, the emergence of such anti-establishment protests was not a result of ideological turbulence stemming from the absoluteness and sharp transitions in propaganda and thought work. Instead, they represented pure acts of resistance by the Chinese populace against political repression and heightened surveillance in the post-trust era.

The CCP has also recognised the long-standing distrust among the Chinese populace, as its authority and legitimacy are continuously questioned, and in some cases, openly challenged. This realisation is perhaps best exemplified by the drama, *In the Name of the People*, which received

significant funding from the Supreme People's Procuratorate. In one notable scene, a retired procurator laments to the Party secretary, "During the old days (the Mao era), people believed that the people's government would not do bad things to them. However, now people believe that the people's government will not do anything good for them." This propaganda drama, designed to promote the anti-corruption campaign, directly reflects the CCP's acknowledgment of and attempts to address the widespread social indifference toward its authority.

While the drama illustrates the Party's awareness of the pervasive post-trust public sentiment, it also highlights the profound transformation occurring within the CCP's propaganda strategy. Though certain features may appear reminiscent of its socialist past, the underlying logic and potential consequences differ significantly. This underscores the necessity of reassessing the CCP's propaganda and thought work to gain a comprehensive understanding of its current approach. Such an analysis requires a refreshed framework that considers the mutual awareness and complexities of the post-trust era.

Reference List

BBC (2020, September 8), "*Li Wen Liang Wei Bo Zai Cheng Re D.ian, "Que Xi" Guan Fang Kang Yi Biao Zhang Da Hui Wang You Bu Man* [Li Wenliang's Weibo Becomes a Hot Topic Again; Netizens Discontent Over His Absence from Official COVID-19 Commendation Ceremony]", *BBC News*. <https://www.bbc.com/zhongwen/simp/chinesenews-54067706>.

Brady, A.-M. (2009), "Mass Persuasion as a Means of Legitimation and China's Popular Authoritarianism", *American Behavioral Scientist*, Vol. 53, No. 3, pp. 434–457. <https://doi.org/10.1177/0002764209338802>.

———. (2010), *Marketing Dictatorship: Propaganda and Thought Work in Contemporary China*, Lanham, MD: Rowman & Littlefield.

Carey, M. (2017), *Mistrust: An Ethnographic Theory*, Chicago: HAU Books.

Chi, P. (1987), *Lu Dingyi Xin Wen Wen Xuan* [Selected Writings on Journalism by Lu Dingyi], Beijing: Xinhua Publishing House.

Ci, J. (1994), *Dialectic of the Chinese Revolution: From Utopianism to Hedonism*, Redwood City, CA: Stanford University Press.

Ding, A. S., & Panda, J. P. (2022), *Chinese Politics and Foreign Policy under Xi Jinping: The Future Political Trajectory*, Oxon: Routledge.

Dikötter, F. (2023a), *The Cultural Revolution: A People's History*, 1962-1976 (S. Xiang & J. Yao, Trans.), Taipei: Linking Publishing.

———. (2023b), *The Tragedy of Liberation: A History of the Chinese Revolution 1945-1957*, (Y. Xiao, Trans.), Taipei: Linking Publishing.

Global Times (2021, May 31), "Internet Celebrity Sentenced to 8 Months in Jail for Defaming Martyrs", *Global Times.* <https://www.globaltimes.cn/page/202105/1224996.shtml>.

———. (2022, May 5), "Update: Journalist Luo Delivers Public Apology on National Newspaper for Offending Martyrs of Chinese People's Volunteers", *Global Times*. <https://www.globaltimes.cn/page/202205/1264915.shtml>.

Green, A. (2020), "Li Wenliang", *The Lancet*, Vol. 395, No. 10225, p. 682. <https://doi.org/10.1016/s0140-6736(20)30382-2>.

Guo, J., Song, Y., & Zhou, Y. (2006), *Historical Dictionary of the Chinese Cultural Revolution*, Lanham, MD: The Scarecrow Press.

He, K. (2010), "*Su Lian Ren Zai Lv Shun He Da Lian De Huo Dong* [Soviet Activities in Lüshun and Dalian]", in Z. Shen and B. Li (eds), *Fragile Alliance: The Cold War and Sino-Soviet Relations*, Beijing: Social Science Academic Press (China), pp. 28-46.

Huang, H., Intawan, C. and Nicholson, S. P. (2023), "In Government We Trust: Implicit Political Trust and Regime Support in China", *Perspectives on Politics*, Vol. 21, No. 4, pp. 1357–1375. <https://doi.org/10.1017/S1537592722001037>.

Kemp-Welch, T. (1996), "Khrushchev's 'Secret Speech' and Polish Politics: The Spring of 1956", *Europe-Asia Studies*, Vol. 48, No. 2, pp. 181–206. <https://doi.org/10.1080/09668139608412343>.

Kiely, J. (1993), "Contending in a Moonless Night: Luo Longji and the Liberal Experience in People's Republic of China During the 1950's", *ProQuest Dissertations & Theses Global.* <https://www.proquest.com/dissertations-theses/contending-moonless-night-luo-longji-liberal/docview/2461027349/se-2>.

Liang, F., Chen, Y. and Zhao, F. (2021), "The Platformization of Propaganda: How Xuexi Qiangguo Expands Persuasion and Assesses Citizens in China", *International Journal of Communication*, Vol. 15, No. 20, pp. 1855-1874. <https://ijoc.org/index.php/ijoc/article/view/16484>.

Li, D. (2006), "Unsubstantiated Accusation", (C. Ben, Trans.), *Index on Censorship*, Vol. 35, No. 4, pp. 167–174. <https://doi.org/10.1080/03064220601092779>.

Li, H. (2016, October 10), "Zuo Jiang Zheng Zhi De Zhi Xing He Yi Zhe [Be One Who Aligns Words and Deeds in Political Commitment]", Tianjin Daily.

Löfstedt, R. (2009), *Risk Management in Post Trust Societies*, Oxon: Routledge.

Lu, D. (1956, June 13), "*Bai Hua Qi Fang, Bai Jia Zheng Ming – Yi Jiu Wu Liu Nian Wu Yue Er Shi Liu Ri Zai Huai Ren Tang De Jiang Hua* [Let a Hundred Flowers Bloom, Let a Hundred Schools of Thought Contend — Speech at Huairen Hall on May 26, 1956]", *People's Daily*.

MacFarquhar, R. and Schoenhals, M. (2006), *Mao's Last Revolution*, Cambridge, MA: Harvard University Press.

Ming, X. (2011), *The Cultural Economy of Falun Gong in China*, Columbia, SC: University of South Carolina Press.

Mühlfried, F. (2018), "Introduction: Approximating Mistrust", in F. Mühlfried (ed), *Mistrust: Ethnographic Approximations*, (pp. 7-22). Bielefeld: Transcript Verlag.

Pei, M. (2008), *China's Trapped Transition: The Limits of Developmental Autocracy*, Cambridge, MA: Harvard University Press.

———. (2016), *China's Crony Capitalism: The Dynamics of Regime Decay*, Cambridge, MA: Harvard University Press.

———. (2024), "*Zhong Gong Jian Kong Ti Xi De Xian Zhuang He Li Shi Yan Bian* [The Current State and Historical Evolution of the CCP's Surveillance System]", in Y. Song & M. Xia (eds), *Brainwashing in Mao's China and Beyond*, (pp. 170-180). Taipei: Xin Rui Wen Chuang.

People's Daily (1949, December 26), "*Wei Da De Si Da Lin Qi Shi Shou Chen, Ge Min Zhu Dang Pai Sheng Hui Zhu Shou, Yi Zhi Gan Xie Si Da Lin Bang Zhu Zhong Guo* [On the 70th Birthday of the Great Stalin, Democratic Parties Hold Celebrations and Jointly Express Gratitude for Stalin's Assistance to China]", *People's Daily*.

———. (1957, July 1), "*Wen Hui Bao De Zi Chan Jie Ji Fang Xiang Ying Dang Pi Pan* [The Bourgeois Orientation of Wenhui Daily Should Be Criticized]", *People's Daily*.

———. (1968, May 21), "*Wei Da Ling Xiu Mao Zhu Xi He Ta De Qin Mi Zhan You Lin Fu Zhu Xi Jie Jian Lai Zi Quan Guo Ge Di De Liang Wan Duo Ming Ge Ming Zhan Shi* [Great Leader Chairman Mao and His Close Comrade Vice Chairman Lin Receive Over 20,000 Revolutionary Fighters from Across the Country]", *People's Daily*.

———. (1999, January 22), "*Quan Guo Xuan Chuan Bu Zhang Hui Yi Zai Jing Zhao Kai Jiang Zemin Yu Chu Xi Hui Yi Tong Zhi Zuo Tan Bing Zuo Zhong Yao Jiang Hua Zhu Rongji Hu Jintao Li Lanqing Chu Xi Zuo Tan Hui* [National Conference of Propaganda Ministers Held in Beijing — Jiang Zemin Holds Discussion and Delivers Important Speech; Zhu Rongji, Hu Jintao, and Li Lanqing Attend the Meeting]", *People's Daily*.

———. (2008, January 23), "*Hu Jintao Zai Quan Guo Xuan Chuan Si Xiang Gong Zuo Hui Yi Shang Fa Biao Zhong Yao Jiang Hua Qiang Diao Ti Gao Guo Jia Wen Hua Ruan Shi Li* [Hu Jintao Delivers Important Speech at National Conference on Publicity and Ideological Work, Emphasizes Enhancing National Cultural Soft Power]", *People's Daily*.

———. (2020, March 20), "*Guan Yu Qun Zhong Fan Ying De She Ji Li Wenliang Yi Sheng You Guan Qing Kuang Diao Cha De Tong Bao* [Report on the Investigation into Public Concerns Related to Dr. Li Wenliang]", *People's Daily*.

———. (2023, May 12), "*Guo Jia Wei Jian Wei Deng Bu Men - Jiu Zheng Yi Yao Gou Xiao Ling Yu He Yi Liao Fu Wu Zhong Bu Zheng Zhi Feng* [National Health Commission and Other Departments Take Action to Rectify Malpractices in Pharmaceutical Sales and Medical Services]", *People's Daily*.

Qiu, J. (2011), "From "Number Two Deity" to "Number One Demon": The Dramatic Change of Lin Biao's Political Image during the Cultural Revolution", *The Chinese Historical Review*, Vol. 18, No. 2, pp. 151–182. <https://doi.org/10.1179/tcr.2011.18.2.151>.

Qin, B., Strömberg, D. and Wu, Y. (2017), "Why Does China Allow Freer Social Media? Protests Versus Surveillance and Propaganda", *Journal of Economic Perspectives*, Vol. 31, No. 1, pp. 117–140. <https://doi.org/10.1257/jep.31.1.117>.

Ren Min Ri Bao Bao Shi Bian Ji Zu [Editorial Board of *People's Daily*] (1988), "*Ren Min Ri Bao Hui Yi Lu* [Memoirs of the People's Daily]", Beijing: People's Daily Press.

Sanders, T. and West, H. G. (2003), "Power Revealed and Concealed in the New World Order", in H. G. West & T. Sanders (eds), *Transparency and Conspiracy: Ethnographies of Suspicion in the New World Order*, (pp. 1-37). Durham, NC: Duke University Press.

Shambaugh, D. (2021), *China's Leaders: From Mao to Now*, Cambridge & Medford, MA: Polity Press.

Shao, J. (2015), *Citizen Publications in China before the Internet*, New York, NY: Palgrave Macmillan.

Shen, Z. (2011), "Mao Zedong and the Origins of the Anti-Rightist Rectification Campaign", in W. C. Kirby (ed), *The People's Republic of China at 60: An International Assessment*, (pp. 25-40). Cambridge, MA: Harvard University Asia Center. <https://doi.org/10.1163/9781684171217_005>.

Shen, Z. (2015), *Soviet Experts in China (1948-1960)*, Beijing: Social Science Academic Press (China).

The Party Literature Research Centre of the CCP Central Committee (1991), *Shi San Da Yi Lai (Shang)* [Since the 13th National Congress (Part I)], Beijing: People's Press.

US Embassy Beijing (2009, November 19), *Portrait of Vice President Xi Jinping: "Ambitious Survivor" of the Cultural Revolution* (Cable No. 09BEIJING3128_a), US Embassy Beijing. <https://wikileaks.org/plusd/cables/09BEIJING3128_a.html>.

Vogel, E. F. (2011), *Deng Xiaoping and the Transformation of China*, Cambridge, MA: The Belknap Press of Harvard University Press.

Wang, N. (2017), *Banished to the Great Northern Wilderness: Political Exile and Re-education in Mao's China*, Ithaca, NY: Cornell University Press.

Wu, G. (1997), *Political Reform under Zhao Ziyang*, Chatsworth, CA: The Pacific Century Institute.

———. (2024), "*Cong Xi Nao Dao Ren Zhi Zhan: Shi Xi Zhong Gong De Xuan Chuan Da Zhan Lue* [From Brainwashing to Cognitive Warfare: An Analysis of the CCP's Grand Propaganda Strategy]", in Y. Song & M. Xia (eds), *Brainwashing in Mao's China and Beyond*, (pp. 181-197). Taipei: Xin Rui Wen Chuang.

Wu, Z., Xiong, H., Huang, Y. and Liu, J. (2013), *Mao Zedong Nian Pu* [Chronicle of Mao Zedong], Beijing: Central Literature Publishing House.

Yin, L. and Flew, T. (2018), "Xi Dada Loves Peng Mama: Digital Culture and the Return of Charismatic Authority in China", *Thesis Eleven*, Vol. 144, No. 1, pp. 80–99. <https://doi.org/10.1177/0725513618756098>.

International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 177–214 https://doi.org/10.22452/ijcs.vol16no2.7

The New Frontier of Exploitation: Human Trafficking for Online Scams in Taiwan

Sheila Devi *Michael*[*]
Department of International and Strategic Studies, Universiti Malaya

Abstract

Human trafficking in Taiwan has taken on new dimensions with the rise of technology-driven crimes. In 2022 alone, hundreds of Taiwanese victims were rescued from trafficking syndicates that exploited them in online scamming networks operating both within Taiwan and across Asia. Victims of other nationalities have also been found trapped in Taiwan's scam industries, highlighting the country's dual role as a source and destination for trafficking. This shift demonstrates that trafficking no longer revolves solely around forced labour or sexual exploitation but increasingly involves coercion into digital fraud, a criminal economy generating trillions of dollars globally. The significance of this study lies in situating Taiwan at the centre of an evolving global trafficking trend, where online scams represent a new frontier of exploitation with profound security, legal, and human rights implications. Accordingly, this paper has three objectives: to explore the operations of human trafficking in Taiwan for online scams; to examine the challenges faced by the Taiwanese government in combating these crimes; and to analyse the government's responses in combating human trafficking for online scamming.

Keywords: *Human Trafficking, Taiwan, Online Scams, Digital Exploitation, Government Response*

[*] Sheila Devi Michael is a Senior Lecturer in the Department of International and Strategic Studies, Faculty of Arts and Social Sciences, Universiti Malaya. She can be reached at sheilamike@um.edu.my.

1. Introduction

Human trafficking remains a significant and evolving challenge in Taiwan, shaped by both historical labour dynamics and contemporary digital transformations. While early patterns of trafficking in Taiwan were closely linked to rapid industrialisation and demand for low-wage labour during the late 20th century (Huynh, 2021), the country today faces more complex and technologically driven forms of exploitation. Foundational studies have documented how migrant workers, particularly women from Vietnam, the Philippines, and Indonesia, were deceived with promises of employment and subsequently subjected to sexual exploitation and forced labour during the 1980s and 1990s (Chen, 2014; Huang, 2017). These analyses underscored the socio-economic drivers, recruitment methods, and gendered vulnerabilities that defined Taiwan's early trafficking landscape.

However, recent evidence shows that the situation has shifted dramatically, requiring a more targeted understanding of contemporary trafficking patterns. Taiwan has witnessed a surge in forced criminality linked to online scam operations, a development that has drawn concern from regional security analysts and international organisations (UNODC, 2023; OHCHR, 2023a). Criminal groups increasingly use digital platforms, including messaging apps, social media, and online recruitment portals, to lure individuals into fraudulent overseas job schemes. The masterminds behind these schemes operate transnationally, using Taiwan as part of a broader web of criminal networks that extend throughout East and Southeast Asia (Chang, 2012; Lin & Nomikos, 2018). Many victims, including Taiwanese citizens and foreign nationals from ASEAN countries, mainland China, Hong Kong, South Asia, Africa, and Latin America, are transported to Taiwan or moved through Taiwan to engage in large-scale cyber-fraud operations. These individuals are forced to participate in criminal activities such as investment scams and telecommunications fraud to scam people. It is a form of exploitation known as forced criminality, forcing victims to commit crimes under threats, manipulation, or confinement, blurring the line between perpetrator and victim (Schidlow, 2025). Once recruited, victims reported coercion, isolation, debt bondage, and threats of violence forcing them to follow the instructions to con people (Schidlow, 2025).

According to Chang (2012), Taiwan's advanced digital infrastructure, high internet penetration, and skilled technological workforce create conditions that criminal networks exploit, allowing scam syndicates to

operate at scale and maintain transnational links across East and Southeast Asia. These factors distinguish Taiwan from other trafficking hubs where exploitation is more closely tied to territorial conflict or weak state governance. Simultaneously, Taiwan's proximity and connectivity to regional cybercrime hotspots, such as Cambodia, Myanmar, and Laos, have enabled cross-border collaboration between syndicates, further complicating law enforcement efforts (Interpol, 2023; Mekong Club, 2023).

In response, the Taiwanese government has introduced a series of measures aimed at strengthening prevention, protection, and prosecution. Recent initiatives include enhanced cross-border police cooperation, the expansion of digital forensics capabilities, increased monitoring of online recruitment, and specialised anti-trafficking units within immigration and police agencies (Taiwan Ministry of Foreign Affairs, 2024; US Department of State, 2024). Nonetheless, persistent gaps remain, particularly in identifying victims forced into criminal activity, regulating online labour intermediaries, and dismantling transnational networks that use Taiwan as a logistical or operational base.

Given these evolving dynamics, this paper examines the intersection between Taiwan's traditional trafficking patterns and the emergence of digitally facilitated forced criminality. Specifically, it aims to (1) analyse how human trafficking operates within online scam industries; (2) identify the structural, technological, and governance-related challenges faced by the Taiwanese government; and (3) evaluate the effectiveness of current policy responses aimed at combating trafficking in the digital age. By addressing these dimensions, the study provides a clearer, evidence-based assessment of Taiwan's contemporary trafficking landscape and its implications for national security and regional cooperation.

2. Methodology

This study adopts a qualitative methodology that integrates a diverse range of secondary sources to examine the nexus between human trafficking and online scam operations in Taiwan. The sources include scholarly publications that provide theoretical and empirical foundations on transnational organised crime and cyber fraud; national and international reports from institutions such as the Taiwan Ministry of Foreign Affairs, United Nations, Interpol, the International Labour Organisation, and the US Department of State. These international institutions offer official data and policy perspectives,

and media and expert commentaries that capture real-time developments, victim narratives, and regional responses. Through qualitative content analysis, these sources were categorised and interpreted to reveal recurring themes and patterns related to digital exploitation, forced criminality, and state–non-state collaboration. Academic literature contributed conceptual clarity and analytical depth, institutional reports provided authoritative and comparative evidence, while media accounts enriched the analysis with human-centred stories and contextual detail. By triangulating these different types of sources, the study ensures credibility, dependability, and contextual validity, enabling a comprehensive understanding of how human trafficking and cyber scams intersect as a new frontier of exploitation in Taiwan and the broader Southeast Asian region.

3. Understanding Human Trafficking and Online Scams

Human trafficking constitutes a severe form of organised crime that violates individual rights while generating profound spillover effects on countries ensnared in its operations (Jesperson *et al*., 2019). It is defined in the United Nations (UN) Palermo Protocol (2000) as the

> *"recruitment, transportation, transfer, harbouring, or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation."*[1]

This comprehensive definition underscores the multifaceted nature of trafficking, encompassing various coercive methods used to exploit individuals (OHCHR, 2020).

Historically, human trafficking was predominantly associated with forced labour, wherein victims were trafficked to work in essential sectors such as agriculture, construction, manufacturing, and domestic service. However, this dynamic has evolved in response to shifts in global economies and the advent of new technologies. Increasingly, trafficking now encompasses newer forms of exploitation, such as forcing individuals to participate in cybercrime and online scam operations (UNODC, 2023). According to the Office of the United Nations High Commissioner for

Human Rights (OHCHR), traffickers exploit victims across a range of industries, including domestic work, construction, and, more recently, cybercrime.

The United Nations Office on Drugs and Crime (UNODC, 2023) explicitly classifies online scams as criminal activities and highlights trafficking for forced criminality as a significant issue. Victims are often compelled to commit illegal acts, such as engaging in fraudulent online activities, for the economic benefit of traffickers or exploiters. Global data further reinforced the gravity of this issue. For instance, analysts from Statista, the FBI, and the International Monetary Fund reported at the January 2024 World Economic Forum that cybercrime represents a growing global threat. The worldwide financial impact of online criminal activities is projected to increase from $8.44 trillion in 2022 to $23.84 trillion by 2027 (Charlton, 2024). Taiwan's geographical location further exacerbates its vulnerability to trafficking. Situated east of China, south of Japan, and north of the Philippines, Taiwan is strategically positioned along vital maritime routes connecting the South China Sea and the East China Sea to global trade networks (Patalano, 2013). These routes, crucial for international commerce, are also exploited for the trafficking of individuals for various forms of exploitation. Taiwan is consistently featured in the United States (US) Department of State's Trafficking in Persons (TIP) Report and has recently been classified as Tier 1 or Tier 2, reflecting its significant efforts to meet the minimum standards for combating human trafficking (Hong, 2022). Nonetheless, one of the major challenges confronting the Taiwanese authorities is the increasing prevalence of trafficking associated with online scams (Davidson & Lin, 2022). This phenomenon, often referred to as "cyber trafficking," involves the coercion and exploitation of individuals, primarily from Southeast Asia, to participate in fraudulent online activities. According to the US Department of State's TIP Reports (2022; 2023), Taiwan serves as both a source and a destination country for human trafficking. Victims, often from economically disadvantaged nations in Southeast Asia, are deceived by false promises of legitimate employment opportunities.

The OHCHR (2023a) estimates that approximately 120,000 individuals from Myanmar and 100,000 Cambodians have been forced into online scam operations. Other neighbouring countries, such as Laos, the Philippines, and Thailand, have similarly been identified as key source or transit

countries, with tens of thousands of individuals ensnared in trafficking networks (OHCHR, 2023a). These victims are particularly vulnerable to traffickers, who exploit their economic hardship with false promises of work opportunities. The emergence of the digital economy has rendered online scams a highly lucrative industry. According to Abraham (2023), an estimated 293 million scam incidents occurred globally in 2021, resulting in a total financial loss of $55.3 billion. This marked a 10.2 per cent increase in reported scams compared to 2020, when 266 million incidents were recorded. These figures underscore the alarming expansion of this illicit industry, facilitated by advancements in technology and digital platforms.

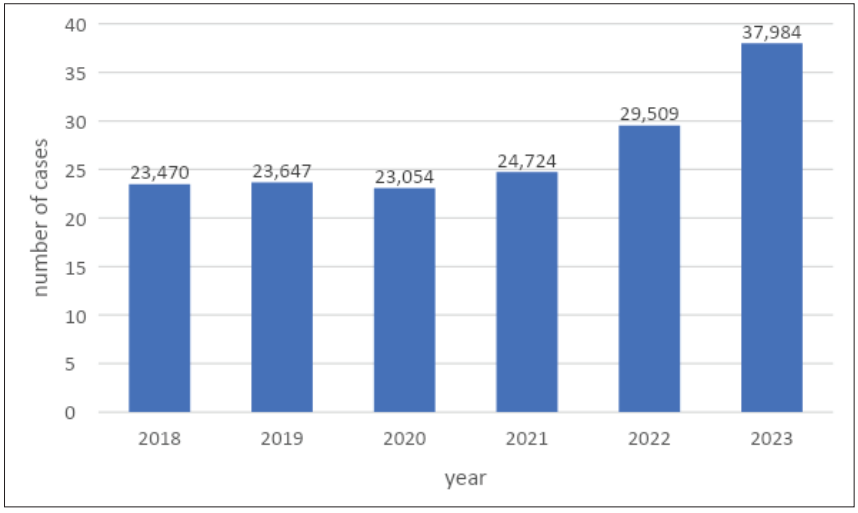
4. Common Types of Online Scams and Their Mechanisms

Scammers employ a variety of sophisticated tactics, including phishing, online dating fraud, and investment schemes, to exploit their victims (Button & Cross, 2017). Phishing, for instance, is a method used to acquire sensitive information such as bank account details through deceptive emails, instant messages, or fake advertisements on websites. When victims unknowingly disclose their personal or banking details to these phishing platforms, their information is at risk of being stolen by scammers. Another tactic involves leveraging crises and calamities to manipulate individuals (Abraham, 2023).

For example, during the COVID-19 pandemic, scammers exploited vaccination campaigns, promoted fraudulent cheap flight tickets for religious pilgrims, and claimed to assist Australian bushfire victims or Ukrainian refugees, among other deceptive strategies (Abraham, 2023). Another common tactic is online romance scams with significant socio-emotional and financial consequences. According to Wang (2023), perpetrators often create accounts on dating apps such as Tinder to target individuals seeking companionship. Women, in particular, are frequently manipulated emotionally and financially. Romance scams vary across cultures, as evidenced by incidents worldwide. In China, the "*Sha Zhu Pan*" or "Pig Butchering Scam" is a well-organised scheme involving multiple roles: hosts, resource gatherers, IT specialists, and money launderers. These groups collaborate to groom victims for financial exploitation, often using romantic pretences to persuade them to invest in fraudulent apps or gambling websites. Victims are enticed to contribute increasing amounts of money, with no possibility of a refund. The profits generated by such scams are substantial, incentivising scammers to maintain and expand their operations

(Wang, 2023). The success of these schemes heavily relies on manpower, which has led to a connection between online scams and human trafficking. Scammers recruit and exploit individuals, often from vulnerable populations, to carry out their operations (OHCHR, 2023). The digital nature of these crimes, combined with their profitability and the anonymity afforded by social media platforms, has made online scams increasingly resilient and pervasive.

Figure 1: The Number of Fraud Cases Reported to the Taiwanese Police (2018 – 2023)



Source: Taiwanese National Police Agency (Li, 2024)

Figure 1, as Li (2024) highlighted, internet fraud is a common issue in the daily lives of Taiwanese people. While many scam tactics are globally prevalent, some exploit Taiwan's unique socioeconomic conditions and cultural attitudes. Data from the Taiwanese National Police Agency showed that from 2018 to 2021, the annual fraud case filings ranged between 23,000 and 24,000. However, a significant increase was observed in 2022 and 2023, with the majority of fraud cases occurring on social media platforms. In 2023, the National Police Agency identified investment fraud as the most prevalent form of internet scam. Li (2024) further argued that perpetrators targeted the widespread interest among Taiwanese individuals in short-term stock market investments.

Scammers often impersonate celebrities to lend credibility to their schemes, using social media platforms such as Facebook and Instagram to post fake announcements (Li, 2024). Additionally, personal messages were sent via text or messaging applications, such as LINE, encouraging individuals to invest in the stock market or join investment clubs established by scammers. According to the Taiwan Ministry (101newsmedia, 2025), women were disproportionately affected by investment scams. In the fourth quarter of 2024, out of 1,242 investment fraud victims, 821 were women, nearly twice the number of male victims. Notably, 516 of these female victims were aged over 50. Additionally, about 32 per cent of the victims were either retired, homemakers, or unemployed. When they joined these fraudulent investment clubs, they were persuaded to register on fake websites or applications. Initially, these victims were enticed by small returns on their investments, which appeared to validate the scammers' claims. However, this false sense of security often led victims to invest substantial sums of money. Ultimately, the scammers ceased communication, and the victims' investments vanished. According to the National Police Agency (2025), victims of investment scams usually realise they have been deceived within about two months, while those targeted by romance scams may take up to 270 days to recognise the deception. In 2023, 31.13 per cent of all fraud cases in Taiwan fell under the category of investment fraud, underscoring its prominence as a critical issue (Li, 2024).

5. The Nature and Proliferation of Scam Hubs in Taiwan and Neighbouring Regions

The OHCHR (2023) has raised significant concerns regarding the emergence of scam centres in Taiwan. According to Jesperson et al. (2023), many of these centres are established across Southeast Asia, often recruiting workers through deceptive means. The expansion of Special Economic Zones (SEZs) and casinos in the region has further contributed to the growth of illicit economies. These zones serve as hubs for smuggling, regulatory evasion, and the proliferation of illegal demand. The United Nations Office on Drugs and Crime (UNODC, 2023) estimates that scam centres in one Southeast Asian country generate revenues ranging from $7.5 to $12.5 billion annually. Another pressing issue involves Taiwanese-led scam centres operating in Southeast Asia, including Malaysia (*The Star*, 2024).

Malaysian authorities recently raided two sites in Kuala Lumpur, apprehending four Taiwanese men and seizing 12 mobile phones, documents, passports, access cards, and two vehicles. These individuals, sought by Taiwanese authorities for their alleged involvement in organised crime and fraud, were later transferred to the custody of the Malaysian Immigration Department (*The Star*, 2024). Jesperson *et al.* (2023) report that recruiters establish these scam centres to groom trafficked victims, coercing them into defrauding innocent individuals through fake investment schemes, including cryptocurrency scams.

The UNODC (2023) underlines that many scam centres originated as call centres or digital operations hubs in Taiwan and other countries, eventually evolving into transnational organised crime networks. To operate effectively, these centres rely heavily on trafficked victims, who are coerced into conducting various online scams, such as phishing, investment fraud, and other cybercrimes. Detecting these operations is particularly challenging, as they are often disguised as legitimate businesses (UNODC, 2023a). Several factors drive the rise of scam centres in Taiwan. The country's advanced digital infrastructure, characterised by high-speed internet and cutting-edge technological capabilities, makes it an attractive location for cybercrime operations (APEC, 2019).

Additionally, Taiwan's environment offers fertile ground for organised crime groups due to the high profitability of online scams and the relatively low risk of detection, enabling these networks to operate with impunity across the Asia-Pacific region (US Department of State, 2023). Traffickers also exploit economic disparities within the region by luring individuals migrating to Taiwan with false job offers. Such exploitation extends beyond Taiwan to other countries with weak governance, including Cambodia and Vietnam (UNODC, 2023). These factors collectively facilitate the establishment of scam centres in Taiwan and other countries, enabling the trafficking and exploitation of individuals. These victims are often forced to engage in illegal online activities, perpetuating a cycle of criminal operations and human rights violations.

6. Digital Trafficking for Online Scams: Push and Pull Factors

This section explores how traffickers exploit digital technologies to facilitate online scam operations, particularly in Taiwan and the surrounding region. Globalisation and prevalent internet access have enabled traffickers to

operate transnationally with greater efficiency. The phenomenon is shaped by push factors such as poverty and lack of opportunity, and pull factors like high profits and low risk of detection. Understanding these dynamics reveals the systemic conditions that make individuals vulnerable and highlights why traffickers are increasingly drawn to this lucrative, digitally driven form of exploitation.

6.1 Push Factors

The rise in trafficking for online scams in Taiwan is significantly influenced by various push factors, which create conditions that traffickers exploit to target vulnerable populations, particularly those from low-income backgrounds in the region.

Economic Disparities and Poverty

Poverty driven by regional economic inequalities remains a primary push factor compelling individuals to seek opportunities abroad. Many individuals from Southeast Asian nations such as Thailand, Vietnam, Laos, Cambodia, Indonesia, and the Philippines, as well as East Asian regions including China, Macau, and Hong Kong, are drawn to Taiwan due to its higher standard of living and better wages (Davidson & Lin 2022). Arguably, Taiwan's relatively strong economy makes it an attractive destination for low-skilled migrants, particularly those seeking employment in construction, manufacturing, or domestic care.

This economic pull factor, however, creates a fertile environment for traffickers, who exploit these advantages through deception and coercion. According to the Global Slavery Index (GSI) (2018), economic disparities in these regions increase susceptibility to trafficking. Particularly, migrants from poorer countries are vulnerable to fraudulent recruitment practices, where promises of high-paying jobs and improved livelihoods disguise exploitative conditions. This vulnerability is further heightened by limited access to education, weak labour protections, and persistent unemployment in their home countries (ILO, 2017). As a result, traffickers prey upon vulnerable individuals only to force them into exploitative labour arrangements, including online scam operations in Taiwan.

Migrant Labour Demand

Taiwan's reliance on migrant labour also contributes to the prevalence of trafficking. The country's demand for workers in specific low-wage sectors, including elderly care, has remained high since 1992 (Lin, 2023). This demand attracts approximately 700,000 migrant labourers, accounting for 80 per cent of Taiwan's 960,000 foreign residents (Lin, 2023). While seeking legitimate employment, many migrants fall victim to traffickers due to precarious legal situations or a lack of awareness about their rights. Frequently, migrants are promised lucrative jobs but find upon arrival that the nature of their work differs significantly from what was initially agreed. Additionally, their situation is compounded by debt bondage, which occurs due to recruitment debts incurred to brokers or lenders to secure employment abroad. The UNODC (2022) highlighted that these financial obligations leave them trapped in cycles of dependency, making resistance to exploitation extremely difficult.

According to Lin and Nomikos (2018), such vulnerabilities are increasingly manipulated by transnational criminal networks, which entice migrants with promises of stable employment but instead coerce them into working in fraudulent call centres and online scam syndicates. Restrictive policies often prevent them from changing employers, leaving them vulnerable to exploitation (Lin, 2023). High unemployment in source countries is one of the push factors driving individuals to seek work abroad. Moreover, the Taiwanese government's promotion of integration through its 2016 New Southbound Policy (NSP) encourages the movement of people seeking employment opportunities.

Global Taiwan Institute (2021) asserted that more than 90 per cent of foreign workers in Taiwan originate from countries included in this policy. With a migrant worker population exceeding 711,000 and a rapidly expanding demographic of nearly one million "new residents" and their children combined, Taiwan's society is experiencing an increasingly pronounced diversification. Under the NSP, visa requirements are relaxed; therefore, people enter the country for job opportunities only to end up in exploitative labour conditions (US Department of State, 2023).

Political Instability

Political instability in source countries intensifies economic hardship and unemployment, while simultaneously triggering large-scale displacement as individuals flee conflict, persecution, or state collapse. Such conditions create acute vulnerabilities, rendering displaced populations prime targets for human traffickers. Taiwan has become a notable destination in this dynamic. Victims fleeing political instability in Southeast Asia, particularly Myanmar and Cambodia, have been lured into trafficking schemes that place them in fraudulent call centres and online scam operations across Taiwan and the wider East Asian region (Lin & Nomikos, 2018).

For instance, Myanmar's ongoing armed conflict, economic deterioration, and weakened governance have led to widespread internal displacement and refugee outflows (UN, 2024). These circumstances are not incidental but symptomatic of a broader erosion of institutional capacity. Instability creates governance vacuums that trafficking networks systematically exploit. In contexts where the rule of law is fragile or absent, oversight of migration pathways collapses, and legal protections for displaced individuals are effectively non-existent. Following Myanmar's 2021 military coup, the breakdown of administrative and judicial protections has enabled traffickers to operate with impunity (OHCHR, 2023), particularly in border regions and contested territories. The US Department of State (2022) highlighted Taiwan-based actors as key organisers of scam networks that recruited and coerced displaced persons from Myanmar into forced online fraud operations. Cambodia has been equally implicated. According to the South China Morning Post (2022), Taiwanese authorities prosecuted nine individuals for trafficking at least 88 victims to Cambodia, where they were forced to work in scam grounds under abusive conditions. These victims included Cambodian nationals as well as other regional migrants who were trapped in syndicates with strong operational ties to Taiwanese criminal networks.

In addition, two Taiwanese students were also deceived by a false job advertisement and trafficked to a Cambodian scam centre in 2022, where they were held under coercion until rescued (Angkor Times, 2022). These incidents illustrate the two-way nature of trafficking; Taiwan is simultaneously a source of trafficked persons and a destination where transnational networks exploit victims from unstable or economically fragile countries. These networks exploit migrants' precarious legal and

socio-economic status, coercing them into cyber-enabled scams rather than traditional forms of forced labour or sexual exploitation. The transition of trafficking into the digital realm highlights how political instability in source countries indirectly fuels Taiwan's online scam industry. Together, these factors illuminate how political instability functions as a structural enabler of trafficking. By dismantling legal protections, weakening institutional responses, and exacerbating socio-economic desperation, instability cultivates an environment in which trafficking networks not only emerge but flourish.

Weak Labour Protections in Source Countries

Gaps in labour protections across Southeast Asian countries, including Myanmar, Malaysia, Thailand, Indonesia, and the Philippines, significantly heighten workers' vulnerability to trafficking. Inadequate legal frameworks and poor enforcement create conditions where traffickers can operate with minimal resistance. These deficiencies allow traffickers to exploit individuals through coercive recruitment and forced labour, often within online scam operations (US Department of State, 2023).

In Myanmar, for instance, political instability and conflict have undermined the enforcement of labour laws, while in Malaysia and Thailand, large migrant workforces in informal sectors often lack legal status or access to protections. This legal invisibility discourages victims from reporting abuses, enabling traffickers to exploit them with impunity. High-risk sectors such as agriculture, construction, and domestic work remain largely unregulated. Workers in these industries often lack awareness of their rights or fear deportation and retaliation, making them susceptible to coercion. These systemic vulnerabilities facilitate trafficking into scam centres frequently linked to Taiwan, where victims are compelled to engage in cybercrime, including phishing and financial fraud, under threat of violence.

The transnational nature of these operations is sustained by the disparity between weak protections in source countries and the enabling infrastructure in destination hubs like Taiwan. This dynamic underscores the urgent need for coordinated regional efforts to strengthen labour laws, enhance enforcement, and provide accessible support mechanisms for at-risk workers.

6.2 Pull Factors

The growth of trafficking for online scams is not only rooted in vulnerabilities within source countries but also fueled by conducive conditions in destination regions. Taiwan exemplifies a key pull factor environment, economic incentives, supportive criminal networks, advanced technological infrastructure, and relatively low enforcement risks. These factors collectively attract trafficking networks seeking to exploit digital platforms for profit. As traditional organised crime declines, particularly in gambling and prostitution, criminal groups have shifted to cyber scams, which offer global reach and reduced detectability (OHCHR, 2023a). Taiwan's digital economy and regulatory gaps make it a strategic hub for such operations.

Economic and Strategic Advantages

Taiwan's economic environment, characterised by relatively low operational costs compared to other advanced economies, makes it an attractive destination for both legitimate businesses and illicit operations, including scam centres. The country's favourable business climate, efficient infrastructure, and competitive labour costs provide traffickers with an opportunity to establish and run profitable criminal enterprises. These factors are particularly appealing to those involved in online fraud and cybercrime, as they can maintain operations at a fraction of the cost compared to more regulated or expensive jurisdictions. As a result, traffickers often exploit Taiwan's economic advantages to set up scam centres where trafficked individuals are forced into participating in illicit activities, such as running online fraud schemes (Jesperson *et al.*, 2023).

Moreover, Taiwan's strategic location in the Asia-Pacific region enhances its role as a hub for transnational crime, including cyber operations. Its advanced connectivity and robust digital infrastructure facilitate the execution of online scams, allowing them to reach global audiences. This geographical positioning, coupled with its modern technological ecosystem, allows traffickers to conduct operations both locally and internationally, targeting victims across multiple continents. The APEC Report (2019) highlights Taiwan's increasing prominence as a key site for cybercriminal activity, making it an attractive base for scam networks looking to capitalise on Taiwan's advanced digital environment.

Taiwan's central position within Asia also provides traffickers with easy access to neighbouring countries, allowing for the swift movement of trafficked individuals into and out of the region. This geographical advantage, combined with its digital connectivity, amplifies the scale and reach of cybercrimes originating from the island. The lack of stringent oversight in some areas further exacerbates the situation, allowing traffickers to exploit the local economy and infrastructure to perpetuate their operations.

Supportive Criminal Networks

Organised crime networks in Taiwan are central to the expansion of cybercrime and trafficking, offering the structural and logistical support required for large-scale scam operations. Deeply embedded in local and transnational criminal ecosystems, these groups provide safe havens, protection from law enforcement, and critical infrastructure, enabling traffickers to operate sophisticated scam centres with minimal disruption (US Department of State, 2023).

These networks often act with impunity, leveraging influence to bypass regulatory systems and facilitate illicit activities, including securing properties, forging documents, and relocating victims. Their international reach further amplifies the threat, allowing traffickers to expand globally and evade coordinated legal action. Taiwan's advanced digital infrastructure, geographic positioning, and gaps in oversight make it an attractive hub for cyber-enabled trafficking, as underscored by the US Department of State's TIP (2023) report. The intersection of organised crime and weak enforcement capacity poses significant challenges to dismantling these well-resourced, transnational operations.

Advanced Digital Infrastructure

Taiwan's advanced digital infrastructure, characterised by high-speed internet, widespread connectivity, and a tech-literate population, has created a favourable environment for the growth of cybercrime. These technological capabilities not only facilitate the rapid execution of online scams but also support the anonymity and scalability required for transnational fraud operations. The robust digital ecosystem allows scam centres to function with limited oversight, making Taiwan an attractive hub for traffickers and cybercriminals (US Department of State, 2023).

Simultaneously, the expansion of Taiwan's digital economy has driven demand for low-wage labour in tech and online service sectors. While this growth offers economic opportunities, it also exposes systemic vulnerabilities. Traffickers exploit the blurred boundaries between legitimate digital work and illicit cyber activities by luring individuals, often migrants, with promises of lawful employment. Once recruited, these individuals are frequently coerced into working under exploitative conditions in scam operations disguised as digital service roles (ILO, 2022).

The prevalence of digital fraud is further enabled by a highly skilled workforce. Trafficked individuals are compelled to use their technological expertise to operate scam platforms, becoming involuntary participants in organised cybercrime. This intersection of digital proficiency, labour exploitation, and weak enforcement mechanisms highlights how technological advancement, while economically beneficial, can simultaneously create channels for criminal exploitation.

Besides, the integration of digital labour into Taiwan's broader economic development complicates regulatory oversight. The increasing indistinguishability between legal and illegal digital work hampers enforcement, particularly in the absence of robust labour protections. Addressing these challenges requires coordinated international policy responses and stronger monitoring frameworks to mitigate trafficking risks in the digital age (ILO, 2022).

Challenges in Cybercrime Enforcement

Although Taiwan has enacted strong anti-human trafficking legislation, the enforcement of laws against cybercrime remains challenging due to the complex, dynamic, and transnational nature of these crimes. Traffickers are drawn to the perception that cybercrimes are less likely to be detected or prosecuted, particularly when operations span multiple jurisdictions. According to Interpol (2023), despite Taiwan's robust legal frameworks, the intricacy of cybercrime enforcement in the Asia-Pacific region creates enforcement gaps. This perceived impunity further motivates traffickers to base their operations in Taiwan.

In summary, a combination of economic, infrastructural, and legal factors makes Taiwan an attractive location for traffickers to exploit individuals and engage in online scams. These pull factors highlight the need for strengthened regional collaboration and enforcement mechanisms

to combat such illicit activities effectively.

The push and pull factors driving trafficking into Taiwan generally reflect global patterns observed in Eastern Europe and West Africa, though they take on forms specific to Taiwan's digital economy. Persistent economic inequalities, unemployment, and weak labour protections remain central push factors across all regions (ILO, 2017; Global Slavery Index, 2018). As seen among victims from Ukraine, Moldova, Nigeria, and Ghana, deceptive recruitment and false job promises continue to lure vulnerable individuals (UNODC, 2020). Similar dynamics shape migration to Taiwan, where traffickers exploit ambitions for upward mobility through fraud, coercion, and debt bondage (Lin & Nomikos, 2018; US Department of State, 2023). However, unlike Eastern European and West African hubs, where sexual exploitation, forced labour, and irregular migration dominate (Adepoju, 2005; Shelley, 2014) Taiwan is increasingly characterised by cyber-enabled forced criminality linked to online scam operations (Jesperson *et al*., 2023; OHCHR, 2023a).

On the pull side, global studies show that trafficking hubs thrive where criminal networks benefit from weak oversight and political protection (Mahmoud & Trebesch, 2010; Shelley, 2010). Taiwan shares these characteristics but differs in its reliance on advanced digital infrastructure, which enables transnational scam networks rather than traditional territorial or transit-based trafficking seen in the Balkans or West African coastal routes (Carling, 2006; Gallagher & Holmes, 2008; ILO, 2022; Interpol, 2023). Taiwan's trafficking patterns align with broader international trends but are distinctly shaped by the island's cyber-oriented economy. Understanding these similarities and differences is crucial for developing effective interventions that address both structural vulnerabilities in source countries and the digital nature of trafficking operations in Taiwan.

7. Forced Criminality: Operations of Human Trafficking for Online Scams

In May 2024, the United Nations Office on Drugs and Crime (UNODC) launched an emergency response network to address the growing issue of scams and human trafficking for forced criminality (UNODC, 2024). Forced criminality refers to situations in which individuals are deceived or coerced into engaging in illegal activities, such as romance scams, cryptocurrency fraud, and illegal gambling. Interpol (2023) stressed that human trafficking

for forced criminality has escalated from a regional crime to a global crisis. The agency identified two distinct groups of individuals impacted by this phenomenon, underscoring the complex and far-reaching nature of the issue.

The convergence of online scams and human trafficking in Taiwan represents a multifaceted and increasingly sophisticated form of exploitation (Thein, 2023). Criminal networks have progressively incorporated human trafficking into their operations to support and sustain large-scale online scam activities. This intersection is primarily driven by Taiwan's advanced digital infrastructure, strategic geographic location, and its favourable economic environment, all of which position it as a key hub for transnational organised crime (Chang, 2012). A comprehensive understanding of this nexus is essential for the development of effective strategies aimed at addressing both human trafficking and cybercrime in the region.

Interpol (2023) further emphasised that online scams and human trafficking represent a dual form of victimisation, affecting two distinct groups. The first group consists of individuals who are trafficked, extorted, and coerced into participating in online fraud activities. These victims are often subjected to severe abuse, including physical beatings, sexual exploitation, torture, and rape, while being trapped in debt bondage (Lin & Nomikos, 2018). The second group comprises victims of online scams, who are defrauded of significant sums of money through fraudulent investment schemes and other deceptive tactics (Interpol, 2023). These scams are perpetrated by the trafficked workers, who are compelled to participate in the criminal activities due to threats of violence and further abuse if they refuse to comply (Thein, 2023).

According to Jesperson *et al.* (2023), traffickers often lure victims with false promises of legitimate employment, only to trap them in exploitative conditions where they are forced to engage in criminal acts. The traffickers' modus operandi typically involves recruiting individuals from overseas via social media and other platforms, offering seemingly legitimate positions in industries such as digital marketing, translation, domestic services, and construction. Upon arrival in Taiwan or other locations, these individuals are shocked to find that they are forced to work in illegal online scam operations. In some instances, as noted by Kennedy and Southern (2022), victims are physically confined, closely monitored, and subjected to psychological abuse, further coercing their compliance.

Furthermore, these trafficked individuals are manipulated into deceiving others, often by cultivating online relationships with unsuspecting victims and subsequently scamming them in various ways. These scams may involve persuading victims to invest in fraudulent businesses or foreign currencies or coercing them into purchasing counterfeit luxury products and services online (Mekong Club, 2023).

Taiwan's model of forced criminality mirrors global patterns but also demonstrates distinct features shaped by its advanced digital environment. As seen in Southeast Asia, Eastern Europe, and parts of Africa, traffickers in Taiwan recruit vulnerable individuals through deceptive employment offers before subjecting them to coercion, confinement, violence, and debt bondage to compel participation in criminal activities (Jesperson *et al.*, 2019). Similar to operations in Cambodia, Myanmar, Laos, and the Golden Triangle, Taiwan's scam centres operate through organised networks that merge human trafficking with online fraud, generating harm for both trafficked workers and fraud victims (Interpol, 2023; Mekong Club, 2023). The heavy reliance on digital platforms for recruitment, manipulation, and cross-border coordination aligns with emerging patterns in African and Eastern European cases, where cyber-enabled exploitation is increasingly embedded within organised crime (UNODC, 2024).

However, Taiwan differs from jurisdictions where forced criminality is tied to territorial control, militia activities, or special economic zones such as Myanmar's conflict areas, Cambodia's casino hubs, or Libya's migration routes. Instead, Taiwan's operations are shaped by its highly developed digital infrastructure, deep internet penetration, and technologically skilled workforce (Franceschini *et al*., 2025). These conditions facilitate more sophisticated and scalable scam operations, with closer integration into global financial cybercrime networks (Lin & Nomikos, 2018; Thein, 2023). Taiwan also recruits victims from relatively stable countries with established migration pathways, resulting in a broader demographic profile than contexts that draw primarily from conflict-affected or collapsed states.

Overall, while Taiwan shares the global features of deception, coercion, and exploitation typical of forced criminality, its technologically driven and internationally networked cyber-fraud systems set it apart and require specialised counter-trafficking and cybercrime responses.

8. Online Scams and Human Trafficking from Regional to Global Crisis

The intersection of online scams and human trafficking has transformed from a regional concern into a global crisis, driven by technological advancements and the increasing interconnectedness of global economies. What were once localised issues have expanded beyond national borders, giving rise to complex transnational networks that systematically exploit vulnerable individuals on a large scale.

Interpol (2023) affirmed that the modus operandi of human trafficking and online scams has rapidly expanded, acquiring a global scope and becoming increasingly entrenched. This trend has prompted a global alert regarding a serious and growing threat to public safety. Initially, Cambodia was considered a hotspot for these crimes; however, Myanmar and Laos have since emerged as additional focal points. Furthermore, evidence suggests that these operations are being replicated in other regions, including the Middle East, West Africa and Central America, where cybercrime-facilitated financial crime is already widespread (Interpol, 2025).

Additionally, online scam syndicates frequently exploit migrants from New Southbound Policy (NSP) countries by enticing them with fraudulent job offers. Victims are trafficked to regions such as Cambodia and Myanmar, where they are coerced into executing deceptive operations, including cryptocurrency and financial fraud. These illicit schemes often leverage advanced technology and social media platforms to manipulate and defraud individuals, demonstrating the intersection of human trafficking and cybercrime in exploiting vulnerable populations (Taiwan News, 2023).

There has been a significant increase in the geographical diversity of victims. While the majority of trafficking victims were once primarily Chinese-speaking individuals from China, Malaysia, Thailand, or Singapore, trafficked persons now come from countries as distant as South America, East Africa, and Western Europe (Interpol, 2023). This shift underscores the transformation of what was once considered a regional issue into a global crisis. The growing concern is that individuals from anywhere around the world are now at risk of falling victim to either human trafficking or online scams.

A real-life case reported by Kennedy and Southern (2022) involved a local government official and business owner in Bangkok, who voluntarily assisted struggling residents during the COVID-19 pandemic.

> *"Today is January 28th at 1 am, 2022. I'm in a building opposite the Karaoke Bar," says the Thai teenager into the camera, her eyes swollen from crying. She seems exhausted, close to breaking point, but determined to get as much information across as she can while she has the chance. The woman explains that she travelled from Bangkok to Sa Kaeo on the Thailand-Cambodia border to meet a Thai broker who had promised her a job in Poipet, a seedy casino town just over the border in Cambodia. She was then told that the role would involve scamming strangers online – and that if she wanted to leave, her father would have to pay 40,000 baht ($1,080) to secure her release. "I know everything and I'm afraid that [the boss] will kill me," she sobs. "I don't know what he will do to the others after this and I don't know if I can contact you again. I've heard that at least 20 or 30 people have died."*

Over the following months, more Thai victims of human trafficking held captive in casino towns along the border of Cambodia, Laos, and Myanmar began sending messages, videos, and pictures. These communications consistently conveyed similar narratives of being deceived with promises of well-paying, respectable jobs, only to find themselves imprisoned by the Chinese mafia under deplorable conditions. Constantly at risk of violence, they were forced to participate in illicit activities, primarily deceiving individuals into fraudulent online investment activities that may have had local government cooperation or knowledge (Kennedy & Southern, 2023). Such cases are common in Southeast Asia, with similar situations involving Taiwanese individuals trafficked to Cambodia and coerced into working in telecom scam networks by human trafficking syndicates (Davidson & Lin, 2022).

Evidently, Davidson and Lin (2022) specified that a large-scale rescue operation saw police forces from Taiwan, China, Hong Kong, Macau, and Vietnam collaborating to free their citizens from trafficking syndicates and dismantle the operations of these organisations. Traffickers, many of whom are linked to prominent triads, target primarily young Asians via social media, offering well-paid jobs and accommodation in countries such as Cambodia, Thailand, Myanmar, and Laos. Upon arrival, these traffickers confiscate passports or sell victims to other criminal groups, forcing them to work in online scam operations. Deprived of their documents and

support, these victims have no choice but to comply. It is estimated that approximately 5,000 Taiwanese nationals have been trafficked to Cambodia under such circumstances, with many never returning home (Davidson & Lin, 2022).

The profitability of online scamming fuels this cycle, with human trafficking syndicates using every available method to lure individuals into their exploitative networks. In response to this pervasive issue, Taiwanese authorities face numerous challenges in combating trafficking for online scams. The following section of this article will explore and analyse these challenges in greater detail.

9. The Challenges Faced by the Taiwanese Government

The Taiwanese government faces a range of significant challenges in its efforts to combat trafficking for online scams. These obstacles are multifaceted, encompassing legal, technological, socioeconomic, and global dimensions. A comprehensive understanding of these challenges is crucial for developing effective strategies to address the growing problem of coerced criminality associated with online scams in Taiwan.

9.1 Inadequate Regulatory and Enforcement

One of the key challenges for the Taiwanese government lies in the limitations of existing legal frameworks, which are often inadequate to address the complex and evolving nature of trafficking for online scams (US Department of State, 2022). While Taiwan has robust laws aimed at combating human trafficking, these laws were primarily designed to address traditional forms of trafficking, such as forced labour and sexual exploitation. Given the rising prevalence of online scams, there is an urgent need to amend human trafficking laws to account for the complexities of trafficking for online scams and coerced criminality.

Additionally, a significant issue lies in distinguishing between victims and perpetrators, particularly in cases where individuals are trafficked and forced to engage in criminal activities such as online scams. In some instances, victims are wrongly prosecuted rather than offered protection, further complicating efforts to combat human trafficking. In light of this, the US Department of State's TIP report (2022) recommended that the Taiwanese government strengthen its legal framework to address the specific

challenges posed by trafficking for online scams, while also enhancing protections for victims coerced into committing criminal acts.

9.2 The Rapid Transition of Technology

Online scam operations leverage highly sophisticated digital technologies, which present significant challenges for Taiwanese authorities and law enforcement agencies in tracking, identifying, and prosecuting traffickers and their accomplices. Given that online scams often involve advanced technologies such as encryption, cross-border digital transactions, and anonymisation tools, these factors complicate efforts to identify and dismantle these networks, particularly when they operate across borders (Interpol, 2023). Furthermore, the rapidly evolving nature of these technologies creates additional obstacles for Taiwanese law enforcement, including difficulties in tracking digital footprints, decrypting communications, and locating the sources of illicit funds.

These technological advancements enable traffickers to operate anonymously, making it difficult to trace their activities or link them to specific geographic locations. As such, the Taiwanese government must bolster its efforts to combat trafficking for online scams by enhancing its technological and technical capabilities. Additionally, regional and global collaboration will be essential in addressing the transnational nature of these crimes.

9.3 Lack of Resources and Capacity

According to the US Department of State's Trafficking in Persons Report (2023), despite progress in addressing human trafficking, Taiwan continues to face significant resource constraints, particularly regarding the needs of victims trafficked for online scams. These victims require specialised care, legal assistance, and rehabilitation services, which are often not sufficiently available. Law enforcement agencies and social services involved in human trafficking cases are limited by insufficient manpower, funding, and training to effectively handle the complexities of these cases.

Furthermore, the government lacks the resources and capacity to thoroughly investigate and prosecute the multifaceted nature of trafficking for online scams while also providing adequate support to victims. The ongoing issues of understaffing and weaknesses in inspection protocols

remain significant obstacles to the authorities' efforts in investigating, identifying, and prosecuting these crimes (US Department of State, 2023).

Additionally, the problem is exacerbated by the international dimension of online scam trafficking, where numerous Taiwanese nationals have been lured abroad, notably to Southeast Asian countries such as Cambodia, through fake job offers and subsequently forced into scam operations. Rescue operations are complicated by the Taiwan government's limited diplomatic presence overseas, the remote locations of scams, and inadequate coordination among domestic, regional, and foreign authorities, including NGOs (Davidson & Lin, 2022).

9.4 Transnational and Cross-border Challenges

Trafficking for online scams is often facilitated by networks that operate across borders, making it a transnational crime. Located in the Asia-Pacific region, Taiwan functions as both a source and a transit point for individuals trafficked for such scams. The cross-border nature of these operations complicates law enforcement efforts and necessitates robust international cooperation, as highlighted by the Global Initiative (2021). However, Taiwan's ambiguous status under international law significantly hampers its ability to engage in these cooperative mechanisms. Despite being a highly developed and proactive jurisdiction, Taiwan's exclusion from major international organisations, due to its contested political status, undermines its capacity to coordinate with other countries, share intelligence, prosecute offenders, extradite suspects, or participate in multilateral enforcement actions (US Department of State, 2023; Global Initiative, 2021).

Also, this legal and diplomatic isolation creates a conducive environment for criminal actors. Transnational criminal gangs and traffickers exploit Taiwan's constrained international engagement, knowing that gaps in intelligence-sharing and enforcement cooperation reduce the likelihood of detection and prosecution. The absence of formal diplomatic ties contributes to the delays or failures in extraditing suspects or collaborating on joint investigations, making Taiwan an attractive base or transit hub for illicit operations (US Department of State, 2023; Global Initiative, 2021).

Consequently, both Taiwan-based perpetrators and their victims may fall through the cracks of the international legal system. This legal and diplomatic isolation leaves Taiwanese authorities at a distinct disadvantage in addressing transnational crimes such as trafficking for online scams, creating

persistent gaps in global efforts to combat organised criminal networks (ILO, 2022).

9.5 Lack of Knowledge and Public Awareness

The ILO (2022) reports that one of the significant shortcomings of the Taiwanese government is the limited public education on human trafficking, particularly concerning online scams. Raising awareness about trafficking for online scams presents a considerable challenge. On one hand, it is crucial to educate the public about the prevalence of such scams, as many individuals fail to recognise the signs of trafficking. This lack of awareness contributes to underreporting and the misidentification of victims. Efforts to address this gap include providing training for frontline staff to help identify victims of trafficking involved in online scams, as well as offering appropriate care and support for those rescued.

On the other hand, many victims of trafficking for online scams may not be fully aware of their legal rights or may fear legal repercussions, which leads to reluctance to seek help. Additionally, some government personnel and members of the public may not fully comprehend the complexities of this form of trafficking, resulting in inadequate responses (ILO, 2022). In a nutshell, Taiwan faces several challenges in combating trafficking for online scams, ranging from legal and technological barriers to resource constraints and difficulties in global cooperation. Addressing these issues is essential, and the following section will examine the government's efforts to combat trafficking related to online scams.

10. The Responses of the Taiwanese Government

In its efforts to combat trafficking for online scams, the Taiwanese government has made significant strides by aligning its initiatives with the four pillars of the US Trafficking Victims Protection Act (TVPA): Prevention, Prosecution, Protection, and Partnership. According to the US Department of State's TIP report (2023), Taiwan remains in Tier 1 of the TVPA, reflecting its compliance with the minimum standards for the elimination of trafficking. This includes the investigation and prosecution of traffickers involved in cyber scam operations, particularly online scams, and enhancing international law enforcement cooperation to address trafficking crimes.

While the government has made notable progress in meeting these standards, it has faced challenges in fully implementing effective victim identification measures, which continue to complicate victims' access to justice and protection. This section will further explore the Taiwanese authorities' responses to the growing issue of trafficking for online scams.

10.1 Prevention

In its efforts to prevent and combat trafficking for online scams, the Taiwanese government has implemented several key measures, focusing on public awareness and education, training, and strengthening regulatory frameworks. According to the US Department of State's TIP report (2023), Taiwan continued its "2021-2022 Anti-Exploitation Action Plan," which outlines strategies to prevent sex trafficking and forced labour among vulnerable populations. Trafficking for online scams is considered a form of forced labour, as victims are coerced and exploited into committing fraudulent acts against innocent individuals. To address this, the government has enhanced its legal framework by tightening regulations on labour recruitment agencies, directly addressing the nexus between human trafficking and online scams. Moreover, efforts to monitor digital platforms have been intensified to prevent the spread of fraudulent job advertisements (US Department of State, 2023).

Additionally, Taiwan has continued to engage in bilateral agreements, establishing memoranda of understanding (MOUs) on trafficking with 26 countries, although some of these agreements have not sufficiently addressed the issue of trafficking for online scams and cybercrime (US Department of State, 2024). Proactive measures include organising workshops and seminars, such as one held by the National Immigration Agency (NIA) in August 2022. This event brought together domestic authorities, foreign officials, scholars, and civil society representatives to discuss strategies for preventing human trafficking through cyber tools and combating cyber scam operations. It also focused on improving collaboration with local and international partners (US Department of State, 2023).

In 2024, Taiwan's Ministry of Digital Development, Ministry of Labour (MOL), and National Police Agency (NPA) collaborated with the technology, social media, and digital communication companies to improve information exchange with the High Prosecutor's Office, Ministry of Justice Investigative (MOJ), and Criminal Police Bureaus. This collaboration resulted in the

establishment of a liaison channel aimed at eliminating fraudulent job and investment advertisements and removing associated fake accounts (US Department of State, 2024).

Furthermore, the government partnered with civil society organisations to organise public awareness campaigns aimed at educating the public about trafficking for online scams. These campaigns provided online assistance to those seeking information and are disseminated through media outlets, workshops, and community outreach programs targeting vulnerable populations, such as migrant workers and young individuals. In August 2024, Taiwan's National Immigration Agency (NIA) organised an international workshop aimed at combating human trafficking. The event drew approximately 300 participants from 11 countries, including government officials, academics, and experts, fostering dialogue on innovative strategies to address trafficking and associated crimes (Scanlan, 2024). According to the Deputy Minister of the Interior, Ma Shih-yuan, in 2023, over 100,000 individuals were coerced into participating in internet and telecommunications fraud operations in Southeast Asia. Among these victims were Taiwanese nationals, highlighting the transnational nature of these criminal activities and the risks posed to Taiwan's citizens (Scanlan, 2024).

10.2 Prosecution

The Taiwanese government has made significant strides in prioritising the prosecution of traffickers involved in online scams by revising its Anti-Trafficking laws (Global Initiative, 2021; US Department of State, 2024). These revisions have led to improvements in legal mechanisms, law enforcement capabilities, and harsher penalties for trafficking-related offences. The amendments to the Anti-Trafficking laws have broadened the scope of trafficking to include new forms of exploitation, such as forced criminality within the digital space. These legal enhancements aim to address the growing issue of online scams and better reflect the complexities of trafficking in the context of cybercrime.

Despite these legislative advances, the US Department of State's TIP report (2024) indicates that the authorities have not reported any specific convictions related to trafficking for online scams, although certain labour trafficking prosecutions have involved cases of online scam operations. Evidently, in 2024, Taiwanese authorities prosecuted 388 individuals in 153

cases related to human trafficking, including 229 cases for alleged forced labour, 115 for alleged sex trafficking, and 44 cases where it was difficult to distinguish between sex and labour trafficking. These efforts reflect Taiwan's ongoing attempts to combat trafficking, including crimes related to online scams, though challenges remain in terms of identifying and prosecuting traffickers, particularly in cases involving complex digital or cross-border elements (US Department of State, 2024).

In addition, the Taiwanese government has established a specialised cybercrime unit within its law enforcement agencies to focus on dismantling networks involved in online scams (US Department of State, 2023). These units are equipped with advanced technology to enhance their ability to trace and prosecute traffickers operating within the digital space. To further strengthen the prosecution process, the government has also invested in capacity-building initiatives, providing training for judges and prosecutors to better understand the intricacies of trafficking cases related to online scams. These efforts aim to improve the effectiveness and efficiency of the legal system in addressing this complex form of trafficking.

10.3 Protection

The protection of victims remains a cornerstone of the Taiwanese government's anti-trafficking strategy. Efforts have focused on establishing a comprehensive victim support system that includes shelters, legal assistance, and rehabilitation programs, aimed at facilitating the recovery and reintegration of survivors (US Department of State, 2023). In January 2024, the National Immigration Agency (NIA) further enhanced these mechanisms by amending the Principles for Victim Identification of Human Trafficking. This amendment expanded the categories of potential victims to include individuals at risk of forced criminality, such as those coerced into online scams. It also introduced the "Human Trafficking Victim Identification Notice," which mandates authorities to provide victims with a newly revised identification and remedy mechanism (US Department of State, 2024).

The government has prioritised immediate access to support services, including emergency shelters, medical aid, and psychological counselling, to address the immediate and long-term needs of victims. Legal aid is also a key component, ensuring victims can navigate judicial processes without fear of prosecution for crimes they were coerced into committing. This aligns with Taiwan's adoption of a victim-centred approach, which incorporates

the non-punishment principle to shield victims from legal penalties for acts resulting from their exploitation (ILO, 2022).

Also, victim participation in legal proceedings has been facilitated through measures such as video interviews, written statements, and witness protection services. Social workers accompany victims during court appearances, while their personal information is safeguarded to prevent public exposure. Resettlement services are also offered to help victims rebuild their lives after exploitation (US Department of State, 2024). These measures highlight Taiwan's commitment to protecting the rights and well-being of trafficking victims, particularly those affected by online scams and forced criminality.

10.4 Partnership

Effectively combating trafficking for online scams requires strategic partnerships, given the inherently transnational nature of these crimes. To bolster its anti-trafficking efforts, the Taiwanese government has prioritised fostering both domestic and international collaborations. At the domestic level, the government has strengthened inter-agency coordination by integrating the National Police Agency (NPA), the Ministry of Justice Investigation Bureau (MJIB), social welfare institutions, immigration authorities, and labour departments into multi-agency task forces. These bodies share intelligence, consolidate investigative resources, and coordinate victim identification and protection services. This "whole-of-government" approach enhances the ability to track illicit online activities, protect victims, and support prosecutors handling transnational trafficking cases (MOI, 2025).

On the international front, Taiwan has successfully established significant partnerships, particularly in Southeast Asia, despite ongoing geopolitical challenges. The MJIB deploys legal attachés in multiple Southeast Asian countries to liaise directly with host-country police, exchange intelligence, coordinate joint investigations, and facilitate rescues of trafficked victims, including Taiwanese nationals detained in scam compounds in Cambodia and Myanmar (NPA, 2025). These attachés act as the primary channels through which Taiwan engages operationally with ASEAN law-enforcement bodies, especially where formal diplomatic relations are limited. Such collaborations have enabled coordinated casework, tracing of financial flows, hunting of ringleaders, and cross-border arrests or deportations. Taiwan's cooperation with Cambodian, Thai,

and Philippine authorities has been particularly critical in dismantling scam compounds and rescuing victims trafficked into forced criminality (Naing, 2025; Taipei Times, 2025; Taiwan Today, 2025).

According to Peck (2025) and Chou (2025), beyond bilateral efforts, Taiwan participates in multijurisdictional operations and regional coordination centres focused on transnational cyber fraud and trafficking. These joint mechanisms, often initiated by regional partners, enable real-time intelligence sharing, digital forensics collaboration, monitoring of cryptocurrency transactions, and synchronised raids on scam compounds across Southeast Asia. Even without formal membership in some international policing organisations, Taiwan contributes operational intelligence and benefits from practitioner-level information exchanges facilitated through partner countries (Taiwan Today, 2025).

Additionally, Taiwan's judicial cooperation efforts rely on both formal mutual legal assistance (MLA) treaties and flexible, case-by-case mechanisms to support cross-border investigations (MOI, 2025). Through these channels, authorities have been able to secure evidence, freeze illicit assets, and strengthen prosecutions in major cyber-trafficking cases (MOI, 2025; Taiwan Today, 2024). In the absence of formal MLA arrangements with many ASEAN states, Taiwan employs alternative tools such as third-party evidence transfers, specialised prosecutor task groups, and support from MJIB attachés stationed overseas (MJIB AMLD, 2024). These mechanisms enhance Taiwan's ability to target organisers, financiers, and recruiters operating abroad.

The Taiwan government also actively participate in international platforms on cybercrime, trafficking, and financial crime, including regional conferences, workshops, and cyber-policing dialogues aimed at improving investigative practices and strengthening collaborative frameworks (MOI, 2025). Despite geopolitical barriers to full multilateral participation, Taiwan continues to advocate for wider inclusion in global policing mechanisms to expand information-sharing, early-warning systems, and accountability for transnational criminal networks (Chou, 2025).

Partnerships with private-sector actors, such as digital communication firms, telecom providers, and financial institutions, play a growing role in detecting scam-related activity, tracing fraudulent schemes, and freezing illicit proceeds. Collaboration with technology companies also supports the disruption of online recruitment channels used by trafficking

syndicates (Interpol, 2023; MJIB AMLD, 2024). Collectively, these judicial, international, and private-sector mechanisms form a comprehensive approach that enhances Taiwan's capacity to combat highly mobile and technologically sophisticated trafficking-for-scam operations across the region.

11. Conclusion

Trafficking for online scams in Taiwan is a multifaceted and evolving challenge, deeply intertwined with global concerns such as human trafficking, cybercrime, and transnational criminal networks. This paper has examined Taiwan's geopolitical and technological landscape, which offers significant advantages but also creates vulnerabilities that traffickers exploit to coerce and manipulate individuals in the digital domain. Also, exploring the causes of trafficking for online scams by discussing the push-and-pull factors that drive vulnerable individuals into exploitative situations underscores the need for systemic approaches to dismantle the traffickers' business model and reduce the supply of victims. The analysis shows that traffickers consistently exploit socio-economic disparities, digital recruitment channels, and weak cross-border law enforcement coordination to lure and control victims, many of whom are deceived with promises of legitimate employment before being coerced into perpetrating cyber-enabled crimes. Furthermore, the digital nature of these operations provides traffickers with anonymity and impunity, creating significant challenges for law enforcement agencies attempting to disrupt these networks.

Taiwan's constrained participation in global policing mechanisms, stemming from geopolitical considerations, amplifies these challenges. Yet the study finds that Taiwan has made meaningful progress by strengthening domestic inter-agency coordination, deploying investigative attachés across Southeast Asia, enhancing legal frameworks for cyber-trafficking cases, and aligning efforts with the four pillars of the Trafficking Victims Protection Act: prevention, protection, prosecution, and partnership.

To strengthen Taiwan's response to trafficking for online scams, the research highlights six key recommendations. First, Taiwan should enhance prosecutorial capacity by improving cross-border evidence collection, expanding flexible mutual legal assistance mechanisms, and investing in specialised cyber-trafficking prosecutors skilled in digital forensics and cryptocurrency tracing. Second, victim-centred protections must be strengthened through clearer guidelines distinguishing victims from offenders

in forced criminality cases, as well as expanded rehabilitation, psychological support, and legal immunity for coerced individuals. Third, Taiwan and neighbouring countries should invest in digital-prevention strategies, including targeted public-awareness and digital-literacy campaigns, and closer cooperation with technology platforms to disrupt fraudulent recruitment. Fourth, operational partnerships with Southeast Asian law-enforcement agencies should be deepened through enhanced intelligence-sharing, joint operations, and coordinated raids on scam compounds, supported by information from MJIB attachés. Fifth, the government should continue to engage actively in regional and global cybercrime forums, despite geopolitical constraints, to enhance early-warning systems and harmonise investigative standards. Finally, collaboration with private-sector actors such as fintech companies, telecom operators, and social-media platforms is essential for tracing illicit transactions, identifying fraudulent activities, and shutting down recruitment channels used by traffickers.

Collectively, these measures underscore the need for sustained vigilance, technological innovation, and robust regional cooperation to dismantle trafficking networks and protect vulnerable people from online scam exploitation.

Notes

[1] See Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime https://www.ohchr.org/en/instruments-mechanisms/instruments/protocol-prevent-suppress-and-punish-trafficking-persons.

Acknowledgement

The author would like to thank the Taipei Economic and Cultural Office in Malaysia for supporting the Bridging Perspectives on Taiwan Studies' Conference.

Reference List

101newsmedia (2025, January 16), "Analysis of High-Value Fraud Losses in the Fourth Quarter of 2024: 3% of Fraud Cases Caused Over 57% of

Financial Losses! The Ministry of the Interior Urges the Public to Be Cautious When Investing to Avoid Being Scammed", *101newsmedia*. https://www.101newsmedia.com/m/news/55411?utm_source=.

Abraham, J. (2023, February 10), "Online Scams Have Become A Global Epidemic", *The Paypers*. https://thepaypers.com/expert-opinion/online-scams-have-become-a-global-epidemic--1260282.

Adepoju, A. (2005), "Review of Research And Data On Human Trafficking In Sub-Saharan Africa", *International Migration*, Vol. 43, No. 1-2, pp. 75-98. https://doi.org/10.1111/j.0020-7985.2005.00313.x.

Angkor Times (2022, June 10), "How Did Two Taiwanese Students End Up Trapped In A Cambodian Scam Center?", *Angkor Times*. https://angkortimes.com/question/how-did-two-taiwanese-students-end-up-trapped-in-a-cambodian-scam-center/.

Asia-Pacific Economic Cooperation (APEC) (2019), "APEC Framework For Securing The Digital Economy", *Asia-Pacific Economic Cooperation*. https://www.apec.org/docs/default-source/publications/2019/11/apec-framework-for-securing-the-digital-economy/219_tel_apec-framework-for-securing-the-digital-economy.pdf?sfvrsn=a7ae9f31_1.

Brokers View (2025, January 21), Taiwan Reports $1.23 Billion Fraud Loss in Q4 2024: Investment Scams Dominate, *Brokers View*. https://www.brokersview.com/news/taiwan-reports-123-billion-fraud-loss-in-q4-2024-investment-scams-dominate-256924.

Button, M. and Cross, C., (2017), *Cyber Frauds, Scams And Their Victims*, London: Routledge.

Carling, J. (2006), *Migration, Human Smuggling And Trafficking From Nigeria to Europe*, Geneva: International Organization for Migration.

Chang, L. Y. C. (2012), "Cybercrime in the Greater China Region: Regulatory responses and crime prevention across the Taiwan Strait", in *Cybercrime in the Greater China Region*, Edward Elgar Publishing.

Charlton, E. (2024, January 10), 2023 Was A Big Year For Cybercrime – Here's How We Can Make Our Systems Safer, *World Economic Forum*. https://www.weforum.org/agenda/2024/01/cybersecurity-cybercrime-system-safety/.

Chen, Y. (2014), Human Trafficking in Taiwan. *Trafficking in Human Beings: Learning from Asian and European Experiences*, Singapore: Konrad-Adenauer Stiftung and European Union, pp. 65-74.

Chou, Y-W. (2025, November 18), "Why INTERPOL Can't Afford to Shut Out Taiwan", *International Policy Digest*. https://intpolicydigest.org/why-interpol-can-t-afford-to-shut-out-taiwan/.

Davidson, H. and Lin, C.H. (2022, August 23), "Hundreds Of Taiwanese Trafficked To Cambodia And Held Captive By Telecom Scam Gangs", *The Guardian*. https://www.theguardian.com/world/2022/aug/23/hundreds-of-taiwanese-trafficked-to-cambodia-and-held-captive-by-telecom-scam-gangs.

Franceschini, I., Li, L., and Bo, M. (2025), *Scam: Inside Southeast Asia's Cybercrime Compounds*, London: Verso Books.

Gallagher, A. and P. Holmes (2008), "Developing an Effective Criminal Justice Response to Human Trafficking: Lessons From the Front Line: Lessons From the Front Line", *International Criminal Justice Review*, Vol. 18, No. 3, pp. 318-343. https://doi.org/10.1177/1057567708320746.

Global Initiative Against Transnational Organized Crime (2021), *Taiwan*. https://globalinitiative.net/analysis/victim-witness-support-crime-resilience-ocindex/.

Global Slavery Index (2018), *Global Slavery Index 2018*, Walk Free Foundation. https://cdn.walkfree.org/content/uploads/2023/04/13181704/Global-Slavery-Index-2018.pdf.

Global Taiwan Institute (2021, November). *Mutual Legal Assistance in the Digital Age and Taiwan's New Southbound Policy* (Policy Backgrounder No. 21-1). https://globaltaiwan.org/wp-content/uploads/2022/08/Hsiao-Weaver_PB21-1.pdf

Hong, J. (2022, November 2), Taiwan's Continued Fight Against Human Trafficking and Next Steps, *Global Taiwan Institute.* https://globaltaiwan.org/2022/11/taiwans-continued-fight-against-human-trafficking-and-next-steps/.

Huang, L. (2017), "The Trafficking Of Women And Girls In Taiwan: Characteristics Of Victims, Perpetrators, And Forms Of Exploitation", *BMC Women's Health*. Vol. 17, p. 104. https://doi.org/10.1186/s12905-017-0463-2.

Huynh, T. S. (2021, December 30), "Addressing Challenges Faced by Taiwan's Migrant Workers", *The Diplomat*. https://thediplomat.com/2021/12/addressing-challenges-faced-by-taiwans-migrant-workers/.

International Labour Organisation (ILO) (2017), Global Estimates of Modern Slavery: Forced Labour and Forced Marriage. https://www.ilo.org/

publications/global-estimates-modern-slavery-forced-labour-and-forced-marriage.

International Labour Organisation (ILO) (2022), Asia–Pacific Employment and Social Outlook 2022: Rethinking Sectoral Strategies for a Human-centred Future of Work. file:///C:/Users/sheil/Downloads/wcms_862410.pdf.

Interpol (2023, June 7), INTERPOL Issues Global Warning On Human Trafficking-Fueled Fraud. https://www.interpol.int/News-and-Events/News/2023/INTERPOL-issues-global-warning-on-human-trafficking-fueled-fraud.

Interpol (2025, June 30), INTERPOL Releases New Information On Globalization Of Scam Centres. https://www.interpol.int/en/News-and-Events/News/2025/INTERPOL-releases-new-information-on-globalization-of-scam-centres.

Jesperson, S., Henriksen, R., Barry, A.M. and Jones, M. (2019), *Human Trafficking: An Organised Crime?*, London: Hurst & Company.

Kennedy, L. and Southern, N.P. (2022, July 2), "Inside Southeast Asia's Casino Scam Archipelago", *The Diplomat*. https://thediplomat.com/2022/08/inside-southeast-asias-casino-scam-archipelago/.

Li, W.P. (2024, April 29), "Too Good To Be True – Online Scams in Taiwan", *Taiwan FastCheck Centre*. https://tfc-taiwan.org.tw/articles/10527.

Lin, Y. (2023, September 28), Southeast Asian Migrant Workers in Taiwan: Human Rights and Soft Power, *Center for Strategic & International Studies*. https://www.csis.org/blogs/new-perspectives-asia/southeast-asian-migrant-workers-taiwan-human-rights-and-soft-power.

Lin, L.S.F., and Nomikos, J. (2018), "Cybercrime in East and Southeast Asia: The Case of Taiwan", in Anthony J. Masys and Leo S. F. Lin (eds), *Asia-Pacific Security Challenges: Managing Black Swans and Persistent Threats*, Cham: Springer, pp. 65-84. https://doi.org/10.1007/978-3-319-61729-9_4.

Mahmoud, T. O. and C. Trebesch (2010), "The Economics of Human Trafficking and Labour Migration: Micro-evidence from Eastern Europe", *Journal of Comparative Economics*, Vol. 38, No. 2, pp. 173-188.

Mekong Club (2023, July 21), "The Horrifying Reality of the Human Trafficking Scam Trade", *The Mekong Club*. https://themekongclub.org/

press/the-horrifying-reality-of-the-human-trafficking-scam-trade.

Ministry of the Interior (MOI) (2025, August 27), "Taiwan Joins Global Partners to Combat Human Trafficking, Highlighting Technology and International Cooperation Ministry of the Interior: Deepening Exchanges to Position Taiwan as a Global Model", *Ministry of the Interior* [News Release]. https://www.moi.gov.tw/english/News_Content.aspx?n=7627&sms=9125&s=331211

MJIB Anti-Money Laundering Division (AMLD) (2024), Anti-Money Laundering Annual Report 2023, Ministry of Justice Investigation Bureau. https://www.mjib.gov.tw/userfiles/files/35-%E6%B4%97%E9%8C%A2%E9%98%B2%E5%88%B6%E8%99%95/files/%E6%B4%97%E9%8C%A2%E9%98%B2%E5%88%B6%E8%99%95-EN/AMLD%20PRESS%20No_18.pdf.

Naing, S. (2025, June 24), "Over 200 Foreigners Rescued From Scam Centres Still Stranded Along Thai-Myanmar Border", *Reuters*. https://www.reuters.com/world/asia-pacific/over-200-foreigners-rescued-scam-centres-still-stranded-along-thai-myanmar-2025-06-24/.

Patalano, A. (2013), "Sea Power, Maritime Disputes, and the Evolving Security of the East and South China Seas", *The RUSI Journal*, Vol. 158, No. 6, pp. 48-57.

Peck, G. (2025, April 21), "UN Researchers Warn That Asian Scam Operations Are Spreading Across The Rest Of The World", *Associated Press*. https://apnews.com/article/asian-scam-operations-cybercime-fraud-united-nations-494b1832f330d6a9690b083411809f93.

Scanlan, S. (2024, August 28), "Taiwan Hosts International Workshop To Fight Human Trafficking", *Taiwan News*. https://www.taiwannews.com.tw/news/5926345.

Schidlow, M. (2025), "Forced Fraud: The Financial Exploitation of Human Trafficking Victims", *Social Sciences*, Vol. 14, No. 7, p. 398. https://doi.org/10.3390/socsci14070398.

Shelley, L. (2010), *Human Trafficking. A Global Perspective*, Cambridge: Cambridge University Press.

———. (2014), *Dirty Entanglements: Corruption, Crime, and Terrorism*, Cambridge: Cambridge University Press.

South China Morning Post (2022, September 3), "Taiwan Charges 9 Suspects Over Human Trafficking Scams in Cambodia", *South China Morning Post*. https://www.scmp.com/news/china/article/3191192/

taiwan-charges-9-suspects-over-human-trafficking-scams-cambodia.

Taipei Times (2025, October 1), "Taiwan Ranked In Top Tier In Combating Trafficking For 16th Consecutive Year", *Taipei Times*. https://www.taipeitimes.com/News/taiwan/archives/2025/10/01/2003844727.

Taiwan's Ministry of Foreign Affairs (2023), Taiwan's Anti-Exploitation Action Plan 2023-2024. https://www.immigration.gov.tw/media/95608/1120626-2023.pdf.

Taiwan News (2023, May 11), "Southeast Asian Leaders Pledge Crackdown On Human Traffickers Online Scams", *Taiwan News.* https://www.taiwannews.com.tw/news/4888622.

Taiwan Today (2024, October 18), "Taiwan, US Mark Milestone In Judicial Collaboration", *Taiwan Today*. https://taiwantoday.tw/Politics/Top-News/260397/Taiwan%252C-US-mark-milestone-in-judicial-collaboration.

———. (2025, August 28), "Taiwan Cultivates Cooperation With Global Partners To Counter Human Trafficking", *Taiwan Today*. https://taiwantoday.tw/Society/Top-News/274143/Taiwan-cultivatescooperation-with-global-partners-to-counter-human-trafficking.

Thein, Y. M. (2023), "Emerging Cyber Scams Trend In Southeast Asia And Addressing Its White-Collar Trafficked Victims", *Ukrainian Policymaker*, Vol. 13, No. 13, pp. 69-76.

The Star (2024, February 17), "Taiwanese Men Nabbed For Trying To Set Up Scam Call Centre", *The Star*. https://www.thestar.com.my/news/nation/2024/02/17/taiwanese-men-nabbed-for-trying-to-set-up-scam-call-centre.

United Nations (UN) (2024, April 4), "As Crisis in Myanmar Worsens, Security Council Must Take Resolute Action to End Violence by Country's Military, Address Humanitarian Situation, Speakers Urge", *United Nations*, [UN Press]. https://press.un.org/en/2024/sc15652.doc.htm.

United Nations Human Rights Office of the High Commissioner (OHCHR) (2020), *Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime*. https://www.ohchr.org/en/instruments-mechanisms/instruments/protocol-prevent-suppress-and-punish-trafficking-persons.

———. (2023), *Hundreds Of Thousands Trafficked To Work As Online Scammers in SE Asia, Says UN report*. https://www.ohchr.org/en/pressreleases/2023/08/hundreds-thousands-trafficked-work-online-scammersse-asia-says-un-report.

———. (2023a), *Online Scam Operations and Trafficking into Forced Criminality in Southeast Asia: Recommendations For A Human Rights Response*. https://bangkok.ohchr.org/wp-content/uploads/2023/08/ONLINE-SCAM-OPERATIONS-2582023.pdf.

United Nations Office on Drugs and Crime (UNODC) (2020), *Global Report on Trafficking in Persons 2020*, United Nations Office on Drugs and Crime. https://www.unodc.org/documents/data-and-analysis/tip/2021/GLOTiP_2020_15jan_web.pdf.

———. (2022), *Global Report on Trafficking in Persons 2022*, UNODC. https://www.unodc.org/unodc/data-and-analysis/glotip.html.

———. (2023), *Casinos, Cyber Fraud, And Trafficking In Persons For Forced Criminality in Southeast Asia.* Policy Report. https://www.unodc.org/roseap/uploads/documents/Publications/2023/TiP_for_FC_Policy_Report.pdf.

US Department of State (2022), Trafficking in Persons Report 2022, *Taiwan*. https://www.state.gov/reports/2022-trafficking-in-persons-report/taiwan.

———. (2023), Trafficking in Persons Report 2023, *Taiwan*. https://www.state.gov/reports/2023-trafficking-in-persons-report/taiwan/.

———. (2024), Trafficking in Persons Report 2024, *Taiwan*. https://www.state.gov/reports/2024-trafficking-in-persons-report/taiwan/.

Wang, F. (2023, August 4), "Online Romance Scams: Research Reveals Scammers' Tactics – And How To Defend Against Them", *The Conversation*. https://theconversation.com/online-romance-scams-research-reveals-scammers-tactics-and-how-to-defend-against-them-210124.

Book Review

Sonny Shiu-Hing Lo. *The New Politics of Beijing-Hong Kong Relations: Ideological Conflicts and Factionalism*. Hong Kong: Hong Kong University Press, 2024, 304 pages. HK$700. ISBN: 978-988-8805-72-3.

In this cutting-edge and exceptional book on Beijing-Hong Kong relations, Sonny Lo provides a comprehensive and up-to-date analysis of Beijing-Hong Kong relations, particularly in the post-national security law era. Moreover, this book understands the alterations in Hong Kong's political landscape over the last two decades from both perspectives of Beijing and the Hong Kong Special Administrative Region (HKSAR) governments, as well as Hong Kong democrats and localists.

This book comprises five succinct chapters, including Introduction and Conclusion. Lo contends in the introduction that ideological clashes have been pivotal to Beijing-Hong Kong relations since the city reverted from British to Chinese rule in 1997. The ideological clashes have escalated significantly since 2003 (p. 1). An instance that exemplifies the ideological clashes is the anti-extradition bill movement that occurred in 2019. Following this incident, the national security law was promulgated and enacted by the Standing Committee of the National People's Congress on 30 June 2020. This legislation represents a watershed in Hong Kong's politics and a hallmark of establishing a political system in HKSAR based on a "patron-client and paternalistic" approach (p. 2). Moreover, factional struggles between the HKSAR government and pro-Beijing forces, as well as between radical democrats and Beijing's authorities, have led to a greater level of intervention from the central government in HKSAR's political development (p. 5). The following chapter draws on in-depth studies of Chinese politics and its implications from policy towards HKSAR.

The enactment and implementation of the Hong Kong national security law signify the increasing involvement of the central government in HKSAR's political development and matters. Thus, it is imperative to comprehend the dynamic of the new politics of Beijing-Hong Kong relations. Lo adopts the approach of analysing the characteristics of Chinese politics and subsequently exploring how these characteristics influence Beijing-Hong Kong relations (Chapter 1). The need for

conformity characterises Chinese political culture. It reflects a "profound fear of *luan*, or disorder," and is one of the most significant motives of the central government's approach towards HKSAR. From Beijing's perspective, conformity is the key to maintaining stability and prosperity, and nonconformity needs to be rectified (p. 18). Beijing's handling of the anti-extradition bill movement and enacting and implementing the national security law demonstrates its perception of political-driven social movements as threats to national security and colour revolution. Lo criticises some Hong Kong protest activists who turn a blind eye to Beijing's fear of the Soviet-style collapse and colour revolution are "unwise" and "unfortunate" (p. 23). Consequently, Beijing tightened its grip towards HKSAR to rectify the nonconformity and address the threat to national security. In addition, this book highlights that China, under President Xi, is internally authoritarian but externally more liberal and multilateral (p. 28). Beijing reckons that implementing the national security law is an effective approach to defeating the political enemies in HKSAR who have been controlled by external forces and continue to see the city as a gateway to expand its ties with the globe multilaterally.

Beijing-Hong Kong relations are characterised by the intertwinement of ideologies and factionalism (Chapter 2). Before 2012, localism in the city was accompanied by widespread concerns and apprehension regarding the potential erosion of the distinctive lifestyle and civil liberties enjoyed by Hong Kong people due to "mainlandisation" (p. 98). The concerns and apprehension transformed into anti-mainland sentiments, which were evident in the interaction between mainlanders and Hong Kong people. After 2012, the political dynamics between Beijing and HKSAR were defined by the clashes between two dominant ideologies: nationalism, which leaned towards the mainland and adhered to the central authority's agenda, and localism, which favoured Hong Kong's distinct identity characterised by resisting "mainlandisation" (p. 99). Moreover, there are different factions in both pro-Beijing nationalism, such as conservative and liberal nationalists and localism, such as nationalistic localists, liberal localists, Marxist localists, confrontational localists, and separatist localists. This factional struggle in the HKSAR was fiercely contested among the Hong Kong people with different perspectives on Beijing's influence across various aspects.

The connotation of Beijing's "comprehensive jurisdiction" for HKSAR becomes increasingly evident with the enactment and implementation

of the Hong Kong national security law (Chapter 3). The concept of "comprehensive jurisdiction" refers to the central government being the source that grants HKSAR a high degree of autonomy. Beijing believes that it not only fosters socio-political stability and economic prosperity but also recognises the distinctiveness of the "one country, two systems" (p. 189). To realise the "comprehensive jurisdiction" over HKSAR, the central government is resolute in cultivating and strengthening patriotic sentiments in HKSAR by reforming the local electoral system. In addition, HKSAR can be seen as a battleground where Chinese political civilisation clashes with Western civilisation, as well as Chinese and Western political cultures. These clashes appear in the ongoing debate between China and the West regarding the development of Hong Kong since mid-2020. The Sinic civilisation is deeply ingrained in China, and its leaders and officials firmly believe that the central state has granted the rights of Hong Kong people. This belief aligns with the concept of "Chinese democracy", which places great significance on "the values of paternalism, collectivism, and state dominance" (p. 194). In contrast, the West reckons that the central government's approaches towards HKSAR since 2019 have weakened the "one country, two systems" and restricted the city's autonomy and social freedom (p. 195). In the conclusion, Lo asserts that there have been tensions in various aspects between Hong Kong people and the central authority since the reversion of Hong Kong. The tensions manifested through the form of socio-political movements and struggles, culminating in the victory of "one country" in the post-national security law era (p. 240).

Overall, the book provides a comprehensive and insightful analysis of Beijing-Hong Kong relations in the post-national security law era. It offers a critical examination of the subject matter, presenting a thorough understanding of the topic. In addition, Lo's articulate writing style enhances the clarity and distinctiveness of the book. This book is undeniably valuable for regular readers who are interested in Hong Kong's politics and status quo. It is also appropriate for scholars and students specialising in Hong Kong studies and Chinese politics.

Review by Colin Mianqing Xie
PhD Candidate
Department of International and Strategic Studies, Universiti Malaya

Title : *International Journal of China Studies*
ISSN : 2180-3250
Publisher : Institute of China Studies, University of Malaya
50603 Kuala Lumpur, Malaysia

The *International Journal of China Studies* is a biannual academic journal focusing on contemporary China in issues pertaining to the fields of political, social and economic development, trade and commerce, foreign relations, regional security and other domains of the social sciences in the context of, more specifically, today's Mainland China, Taiwan, Hong Kong or Macau. The journal is abstracted/indexed in *Scopus, International Political Science Abstracts, International Bibliography of the Social Sciences, Bibliography of Asian Studies, EconLit, eJEL, JEL on CD, Ulrich's Periodicals Directory, Ulrichsweb Global Serials Directory, Reference Corporation's Asia-Pacific Database, ProQuest Political Science and Research Library, ABI/INFORM Complete, ABI/INFORM Global, PAIS (Public Affairs Information Service) International, CSA* (formerly Cambridge Scientific Abstracts) *Worldwide Political Science Abstracts* and NLB's *ISI* (*Index to Singapore Information*).

Website: *https://ics.um.edu.my/international-journal-of-china-studies-ijcs*

Manuscripts for consideration and editorial communication should be sent to:

The Editorial Manager
International Journal of China Studies
Institute of China Studies
University of Malaya
50603 Kuala Lumpur, Malaysia

Tel: +(603) 7967 7288
Fax: +(603) 7967 4438

For further information, please write to *chinastudies@um.edu.my*
For submission to the journal, please visit *https://ejournal.um.edu.my/index.php/IJCS*

UNIVERSITI MALAYA
INSTITUTE OF CHINA STUDIES
马来亚大学中国研究所

ISSN 2180-3250
9 772180 325006