

# COVID-19 POPULISM CHALLENGES AND CHINA'S FINANCIAL LAW RESPONSES: THREE EMERGING CASE SCENARIOS

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Submitted: 28 August 2022 - Last revised: 29 January 2023 - Accepted: 31 January 2023

## Abstract

China's increasing engagement in international governance has had significant ramifications in international rule-making and institutional build-up. The post-COVID-19 era has seen a rise of populism in China, as well as an elevation of China's significance in international governance. This article offers a new perspective on China's growing influence in the midst of resurgent populism, by focusing on three case scenarios: defending state liability in public health crisis lawsuits, championing financial multilateralism, and an emerging digital currency landscape. The argument made here is that China's status as a rising power has led it to advocate for international rules, standards, and institutions in a de-Americanised and anti-populist manner.

**Keywords:** *Global Public Health Crisis, Populism, Financial Aid, Public Goods, Financial Multilateralism*

## I. INTRODUCTION

As we write this article, the Coronavirus disease (COVID-19) pandemic continues to rage across and reshape the world. Due to the rapid transmission and novel infection rate of the virus, social distancing, travel restrictions, and masking have become the new normal, forcing globalisation efforts into lockdown and blockades. COVID-19 demands international cooperation, yet populist nationalism is resurgent, threatening not only global public health, but also existing international economic governance. In contrast with most globalisation goals, populist nationalism seeks to walk away from cross-border collaboration by prioritizing national interests over the collective good of the international community. While China has faced many of these above-mentioned consequences, it is among the first countries in the world to recover economically, due to effective containment measures, public investment

measures, and central bank liquidity support.<sup>1</sup> China has relaxed some market access restrictions and financial regulations and eased fiscal and monetary policies to mitigate the pandemic's impact on growth. Financial stability laws have been enacted to manage systemic risks, and financial support has been offered to struggling companies, including those in the manufacturing and real estate sectors.<sup>2</sup> China's Gross Domestic Product (GDP) returned to its pre-pandemic level in 2020 and rebounded to a 7.2% growth rate in 2021. China showed a much stronger recovery from the initial phase of the pandemic than the rest of the world.<sup>3</sup>

There is an abundance of research literature on the rise of China and its potential influence on the global governance. The Chinese economy, described as "China, Inc.," is managed through a unique economic structure to serve political objectives.<sup>4</sup> Economically, China's economic practices involving State-Owned Enterprises ("SOEs"), industrial policies, subsidies, and technology development supported by Intellectual Property ("IP") theft prevention and forced technology transfer, which has distorted the global playing field at expense of the interests of China's trading partners.<sup>5</sup> Insufficient attention has been paid to China's response to the challenges of COVID-19-induced populism. These responses appear from the latest demonstration of China's growing international influence, whereas more specific analyses are necessitated because COVID-19 crisis has increased the uncertainty surrounding the changing global landscape in political, economic, and technological aspects. Taking this unprecedented and unpredictable factor into consideration, China's international role must be seen from a new perspective while overcoming the limits of the existing analysis frameworks.

This article bridges this gap, by focusing on China's response, both domestically and internationally, to the global public health crisis, and the implications for global governance. The first section lays down the analytical framework of this article, with elaboration on populism and its prominence in the latest global public health crisis. In so doing, theoretical and historical perspectives will be lent. In the subsequent section, three scenarios in the

<sup>1</sup> Office of Financial Research, Annual Report to Congress 2021, available at <https://www.financialresearch.gov/annual-reports/files/OFR-Annual-Report-2021.pdf>, 22.

<sup>2</sup> World Bank, Global Economic Prospects (June 2022), available at <https://www.worldbank.org/en/publication/global-economic-prospects>, 93.

<sup>3</sup> *Ibid.*

<sup>4</sup> See generally Mark Wu, *The "China, Inc." Challenge to Global Trade Governance*, *Harvard International Law Journal* 57 (2016): 1001.

<sup>5</sup> See Generally Joshua P. Meltzer and Neena Shenai, *The U.S.-China economic relationship: A comprehensive approach* (February 2019), available at [https://www.brookings.edu/wp-content/uploads/2019/02/us\\_china\\_economic\\_relationship.pdf](https://www.brookings.edu/wp-content/uploads/2019/02/us_china_economic_relationship.pdf); Chad P. Bown, *The 2018 U.S.-China Trade Conflict After 40 Years of Special Protection* (April 2019), available at <https://www.piic.com/system/files/documents/wp19-7.pdf>.

COVID-19 crisis are selected as case studies reflecting or of intensifying populism.

As to the emerging scenarios, we first examine transnational litigation against China arising from the COVID-19 crisis, and China's tremendous efforts to fight state liability. These cases can be viewed as a populist movement in the context of the Sino-American rivalry, although packaged in legal claims. Then, we look into China's foreign lending and aid practices in response to the COVID-19 pandemic. It must be understood in the broad context of China's lasting efforts in public health crisis management which has profound implications for the reshaping of international economic law. Against a pandemic-incited populist legal backdrop, the discussion of an emerging China-centric narrative has at least two dimensions. The first dimension focuses on the degree to which China has risen in prominence in key multilateral financial institutions with the U.S. international leadership lost in limbo. The second dimension reflects changes in financial markets and national regulations in the midst of the healthcare emergency, as China envisions an appreciable difference for how to organize and govern global capitalism, reshaping transnational integration and governance. In this part, the vulnerabilities of the current international financial and monetary system will also be touched upon, forming the premise of understanding China's proposals and practices. As the last scenario, we focus on China's latest movements in monetary digitalisation by launching the world's first central bank digital currency, which poses a threat to the U.S.' dominant international regulatory position, conventionally facilitated by a U.S. dollar-centric system, U.S. law's increasing extraterritorial reach, and soft power build-up.<sup>6</sup>

## II. POPULISM, INTERNATIONAL ECONOMIC LAW, AND THE GLOBAL PUBLIC HEALTH CRISIS

Populism is defined as a thin-centred ideology that separates the whole society into two homogeneous and antagonistic camps: "the pure people" versus "the corrupt elite," and argues that politics should be an expression of the general will of the people.<sup>7</sup> Populism is a feature of contemporary politics around the globe, the legal perspective of which may be under-investigated during the current political and economic turmoil. Increased anti-globalisation sentiment and populist movements have led to regulatory uncertainty and government policies demonstrating nationalist, unilateral, and protectionist tendencies.

<sup>6</sup> Pierre-Hugues Verdier, *Global Banks on Trial: U.S. Prosecutions and the Remaking of International Finance* (Oxford: Oxford University Press, 2020), 109-146.

<sup>7</sup> Cas Mudde & Cristobal Rovira Kaltwasser, *Populism: A Very Short Introduction* (Oxford: Oxford University Press, 2017), 6.

The decade following the 2008-2009 financial crisis that widened the inequality gap<sup>8</sup> has been characterised by increased populism, scepticism, or even extremism<sup>9</sup> towards globalisation. Both national and international politics are confronted with populist movements that refocus on nationalism and challenge cooperative frameworks.<sup>10</sup> The rise of popular sovereignty as a political category questions the very legitimacy and utility of international cooperation in globalization efforts. As a result, increasing evidence has suggested a newly emerging world order with greater focus by governments on national interests rather than on multinational solutions.<sup>11</sup>

Domestically, populism nurtures such an ideology, departing from the established and mainstream political and legal thoughts and impedes governance systems. National economies are framed by dysfunctional regulatory institutions, nativist objectives, and authoritarianist measures, resulting in non-market threats such as national security review, judicial arbitrariness, and/or regulatory overhaul, turning national states into regulatory or police states.<sup>12</sup> One example is America's FIRMMA-amended CFIUS process, which gives the U.S. President greater authority and discretion to block foreign acquisitions in the U.S. based on national security concerns. It currently mandates foreign investors to report any "covered transaction" in which a foreign government has a "substantial interest."<sup>13</sup> The legal consequences of the routinisation of populist politics are regulatory instability and policy uncertainty, ultimately damaging the rule of law, checks and balances, and global cooperation. Legal issues surrounding the environment, trade, immigration, tax, investment, and even healthcare have all become highly politicised.

Internationally, populism and the failure of globalisation projects has led to unilateralism, fragmentation, and polarisation, as evidenced by the dysfunctionality of the World Trade Organization, withdrawals by more nations from the International Centre for The Settlement of Investment

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<sup>8</sup> Thomas Piketty, *Capital in The Twenty-First Century*, Trans. Arthur Goldhammer (Cambridge: The Belknap Press of Harvard University, 2014), 24-26. It is said that four million Americans lost their homes to foreclosure, and housing prices dropped 32% from their peak. The financial crisis in 2007-2008 wiped out more than \$17 trillion in U.S. household net worth. Michael S. Barr, Howell E. Jackson and Margaret E. Tahyar, *Financial Regulation: Law and Policy* (Foundation Press, 2016), 16-17.

<sup>9</sup> Piketty, *Capital in The Twenty-First Century*, Introduction.

<sup>10</sup> Viatcheslav Avioutskaa and Mouloud Tensaout, "Does Politics Matter? Partisan FDI in Central and Eastern Europe", *Multinational Business Review* 24 (2016): 375-398.

<sup>11</sup> Steven Globerman, "A New Era for Foreign Direct Investment?" *Multinational Business Review* 25 (2017): 5-10.

<sup>12</sup> Lisa Schultz Bressman, Edward L. Rubin and Kevin M. Stack, *The Regulatory State* (Wolters Kluwer, 2019), xxi. They define regulatory state as one that social and economic policy that was largely determined by the market regime that has been largely displaced by statutes and regulations.

<sup>13</sup> James Jackson, *The Committee on Foreign Investment in the United States (CFIUS)*, Congressional Research Service Report, 23 (14 February 2020), available at <https://fas.org/sgp/crs/natsec/RL33388.pdf>.

Dispute (ICSID), thereby causing a backslide in the rule-of-law,<sup>14</sup> among other adverse consequences. Both the United States and the European Union are on a path to reinvigorate discussions on counter-majoritarian solutions for trade deficits under the WTO dispute resolution mechanism malfunction and ICSID legitimacy crisis. Populism promotes national interests over globalization, multilateralism, and the free movement of goods, services, and labour. The new wave of nationalism, unilateralism, and protectionism has triggered a salient need for more investigation into the state-centric, non-market threats, anti-global challenges, and strategic responses.

Populism on the global stage delivers contradictory and disturbing visions of the world's future. The various forms of populism challenge continuities and fractures the world's legal infrastructure. Countries in both hemispheres, though in a battle for influence over international law,<sup>15</sup> are experiencing some populist movements, fundamentally effecting international rulemaking and world governance systems. The co-existence of both populism and state capitalism are linked to nativism, jingoism, sovereigntism, and authoritarianism, as well as calls for new governance at the global level.

Populist politicians run campaigns on anti-establishment and anti-elite platforms. A populist reaction to economic insecurity<sup>16</sup> as well as economic shocks, such as trade imbalance<sup>17</sup> or import competition from minimal labour-cost countries,<sup>18</sup> is a backlash to a societal and legal system that is perceived as too progressive or too cosmopolitan.<sup>19</sup> Populist politics attribute economic distress and deficiencies to the existing global governance system, including the WTO and other global infrastructures which act as conduits for failed redistributive economic policies. The global financial crisis was followed by radicalised political conflict and the rise of populism. This is a natural reaction as a global financial crisis is easily blamed on political, economic, and legal

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<sup>14</sup> One recent example of rule-of-law backsliding is Trump's sanction against the International Criminal Court, see Nahal Toosi & Natasha Bertrand, *Trump Authorizes Sanctions Against the International Criminal Court*, Politico (11 June 2020), <https://www.politico.com/news/2020/06/11/white-house-international-criminal-court-sanctions-313070>.

<sup>15</sup> Jochen von Bernstorff & Philipp Dann (eds), *The Battle for International Law: South-North Perspectives on the Decolonization Era* (Oxford: Oxford University Press, 2019).

<sup>16</sup> Luigi Guiso et al., *Demand and Supply of Populism*, EIEF Working Papers Series 1703 (2017).

<sup>17</sup> David Autor et al., *Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure*, MIT Working Paper (2017); Italo Colantone and Piero Stanig, *The Economic Roots of the Cultural Backlash: Global Competition and Attitudes in Western Europe* (2018).

<sup>18</sup> Italo Colantone and Piero Stanig, "Global Competition and Brexit", *American Political Science Review* 112, no. 2 (2018): 201–218 (2018); Guiso et al., *Demand and Supply*.

<sup>19</sup> Pippa Norris & Ronald Inglehart, *Cultural Backlash: Trump, BREXIT, and the Rise of Authoritarian Populism* (Cambridge: Cambridge University Press, 2018); Francis Fukuyama, *Identity - The Demand for Dignity and the Politics of Resentment* (New York: Farrar, Straus and Giroux, 2018); David Goodhart, *The Road to Somewhere - The New Tribes Shaping British Politics* (Penguin Books, 2017).

establishments, and induces a loss of trust in existing legal institutions.<sup>20</sup> The populist solution, which is purely interest-centric<sup>21</sup> towards a redistributive failure of globalisation, tends to rebalance and redistribute economic benefits to those forgotten in globalised economic modernisation, purportedly to bring equitable and inclusive outcomes.

The COVID-19 pandemic erupted at a moment when systems of international economic and political cooperation were already breaking down.<sup>22</sup> President Trump saw the outbreak through the prism of the stock market and his own re-election campaign.<sup>23</sup> As a part of his “disengagement from globalism” strategy, President Trump had reduced funding for the National Security Council (NSC) and had already abolished the office within the NSC dedicated to combatting epidemics, while putting pressure on his own officials to downplay the risks posed by the virus all the while inciting his followers to call the virus as a “hoax” in exchange of consolidating power and strengthening his support. While Trump had been continuously declaring “America first,” many other countries joined his turn towards isolationism and exceptionalism by issuing numerous COVID-19 related import/export restrictions and closing their borders.<sup>24</sup> Many WTO member states including the United States restricted or banned international travel, and exports of personal protective equipment (PPE), foodstuffs, and other supplies that were vital during a pandemic.<sup>25</sup>

The COVID-19 pandemic has hit the global financial system hard. The COVID-19 pandemic was also the first major test of the global financial system since the implementation of Group of Twenty (G20) reforms following the 2008-2009 financial crisis,<sup>26</sup> and it has had a more severe contagious effect and induced risk transmission greater than the 2008-2009 global financial

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<sup>20</sup> Yann Algan et al., “The European Trust Crisis and the Rise of Populism”, *Brookings Papers on Economic Activity* (2017): 309-382.

<sup>21</sup> *See generally*, Jack L. Goldsmith and Eric A. Posner, *The Limits of International Law* (Harvard University Press, 2005). They argue that international obligations are centred on interest and power, without any moral or legal ones, and that the U.S. is not a part of any international legal community.

<sup>22</sup> Julian Arato et al., “The Perils of Pandemic Exceptionalism”, 144 *American Journal of International Law* 144 (2020): 627-636.

<sup>23</sup> The Coronavirus is Exposing the Limits of Populism, *the Atlantic*, <https://www.theatlantic.com/ideas/archive/2020/03/geopolitics-coronavirus/607414/>.

<sup>24</sup> *See* 21st Century Tracking of Pandemic-Era Trade Policies in Food and Medical Products, *Global Trade Alert*, World Bank Group (May 4, 2020), <https://www.globaltradealert.org/reports/54>.

<sup>25</sup> For a summary of COVID-19 state measures in 50 jurisdictions, *see generally* Julien Chaisse, “Both Possible and Improbable – Could COVID-19 Measures Give Rise to Investor-State Disputes?” 13 *Contemporary Asia Arbitration Journal* 13 (2020): 99.

<sup>26</sup> Financial Stability Board, *Promoting Global Financial Stability*, 2021 FSB Annual Report (October 2021), available at <https://www.fsb.org/wp-content/uploads/P130721.pdf>, 23.

crisis.<sup>27</sup> Before the 2008-2009 global crisis, the global financial architecture (the GFA) had developed as “a child of crises,”<sup>28</sup> mostly relying on a soft law approach and a decentralized implementation and enforcement model.<sup>29</sup> The unprecedented turmoil which started in the financial system then spread to the broader economy stressed the urgent need for reform of the global governance system. Institutional restructuring measures have been put into place to revive the G20, reform the International Monetary Fund (the IMF), and enhance the Financial Stability Board (the FSB), the FSB being the new key institution in reorganising and strengthening the international financial architecture.<sup>30</sup> Specifically, the G20, an informal forum of influential countries, has been tasked with leadership of international coordination for financial regulation, with some initiatives and principles aimed at strengthening global financial stability.<sup>31</sup> The IMF's role in financial supervision has also been strengthened, particularly in formulating and implementing international financial standards. The FSB was reformed with a likewise broader mandate and enhanced capacity for assessing and addressing financial vulnerabilities. The Basel III-centred global financial regulatory framework was developed to harmonise regulation of banks and banking systems.<sup>32</sup>

Supported by these G20 reforms, the global financial system has so far weathered the pandemic, with greater resilience in core parts of the system than had existed during the 2008-2009 financial crisis.<sup>33</sup> The IMF has also been responding to the pandemic by offering financial assistance, developing policy advice, and creating special tools to assist member states.

Despite the progress made at global and domestic levels, the COVID-19 pandemic has still been a disruptive force to the global financial system, putting financial stability at risk. Central banks in most countries have experienced a stockpiling of bad assets on their balance sheets. The ensuing risk is that the high levels of public and private debts, growing levels of non-performing loans in banks' portfolios, a considerable drop in the measures and rates of

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<sup>27</sup> Samet Gunay and Gokberk Can, “The Source of Financial Contagion and Spillovers: An Evaluation of The Covid-19 Pandemic and The Global Financial Crisis”, 17(1) *PLoS ONE* 17(1) (2022).

<sup>28</sup> Douglas W. Arner, “Toward a New Design for International Financial Regulation”, 29 *University of Pennsylvania Journal of International Economic Law* 29 (2007): 391-453.

<sup>29</sup> Annamaria Viterbo, *Economic Law and Monetary Measures: Limitations to States' Sovereignty and Dispute Settlement* (Edward Elgar, 2012).

<sup>30</sup> *Ibid.*, 110.

<sup>31</sup> Claus D. Zimmermann, *A Contemporary Concept of Monetary Sovereignty* (Oxford: Oxford University Press 2013), 196-201.

<sup>32</sup> Mario Giovanoli, “The Reform of the International Financial Architecture After the Global Crisis”, 42 *International Law and Politics* 42 (2009): 81-123.

<sup>33</sup> Financial Stability Board, *Promoting Global Financial Stability*, 2021 FSB Annual Report (October 2021), available at <https://www.fsb.org/wp-content/uploads/P130721.pdf>, 6.

risk, and profitability. The configuration of financial markets may also have been forever changed, with increasing private sector assets and businesses acquired by government bodies.<sup>34</sup> Going forward, the demarcation between public and private will become increasingly blurred, posing new challenges to the future international financial governance.

Another big problem is uneven recovery across national economies. Large-scale, disorderly foreign capital outflows from emerging economies and developing countries, resulting in part from asynchronous economic cycles, have adversely affected the credit ratings and increased the burden of external borrowing on these countries. Meanwhile, many emerging economies have also suffered as a consequence of pressure on their foreign exchange reserves and exchange rates of their national currencies, which, in turn, has increased the demand for foreign currency financing.<sup>35</sup>

The COVID-19 pandemic has and still is imposing a global public health risk in both a direct and indirect way. It not only does damage human health by causing respiratory illness, but also undermines global health, with financial crises as its secondary barrage, by slowing or reversing economic growth, and increasing poverty and economic insecurity.<sup>36</sup> After the 1997 Asian financial crisis, Indonesia, Malaysia and Thailand experienced a deterioration in the physical health of their populations, indicated from malnutrition, growing public and household spending on healthcare.<sup>37</sup> As pointed out by the World Health Organization (WHO) Commission on Social Determinants of Health in 2008, the structural determinants and conditions of peoples' lives - their access to healthcare and education, their conditions of work and leisure, their living environment, and their chances of leading a flourishing life - constitute the social determinants of health and, in large part, account for health inequities across and within countries. Such unequal distribution of health has its roots in the unequal distribution of power, income, goods, and services at both the global and domestic levels.<sup>38</sup> It has also been the case for the COVID-19

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<sup>34</sup> Ahmad El-Safti, *The Covid-19 Effect on the Global Financial System and Efforts to Counter It*, (April 2020), available at <https://trendsresearch.org/product/the-covid-19-effect-on-the-global-financial-system-and-efforts-to-counter-it/>.

<sup>35</sup> *Ibid.*

<sup>36</sup> Ted Schrecker, "The Power of Money: Global Financial Markets, National Politics, and Social Determinants of Health", in *Global Health Governance: Crisis, Institutions and Political Economy*, edited by Owain David Williams and Adrian Kay (Palgrave Macmillan, 2009), 165.

<sup>37</sup> Sandra Hopkins, "Economic Stability and Health Status: Evidence from East Asia Before and After the 1990s Economic Crisis", 75 *Health Policy* 75 (2006): 347-357.

<sup>38</sup> CSDH, *Closing the Gap in a Generation: Health Equity through Action on the Social Determinants of Health*, Final Report of the Commission on Social Determinants of Health (August 2008), available at <https://www.who.int/publications/i/item/WHO-IER-CSDH-08.1>.

pandemic. Undersupplies of financial stability as a global public good is detrimental to the well-being of the most at-risk populations.

As China managed to recover from the first wave of the pandemic more rapidly than any other country, it has increasingly looked outward to expand its influence on international affairs while there is a temporary vacuum in global leadership. While its Western opposition is busily engaged in shaming and ad hominem attacking tactics,<sup>39</sup> the international community can see China's growing influence in multilateral institutions.

### **III. CHINA'S COVID-19 REACTION TO GLOBAL GOVERNANCE FRAGMENTATION: THREE CASE STUDIES**

Three post-COVID-19 emerging scenarios – China's sovereignty arguments to counter state liability in the global public health crisis, its serving as the financial champion of multilateralism, and the rise of digital currency – are discussed here as a means to probe into whether China's rise is relevant to deeply tailoring global governance. Although these cases are not comprehensive representations of China's impact on post-COVID international governance, they serve analytical purposes. For each case, we first examine China's post-COVID engagement then evaluate the extent of resulting change to existing legal order and policies.

#### **III.A. Defending Against Lawsuits to Impose State Liability for a Public Health Crisis**

A public health emergency arising from a pandemic can implicate liability for healthcare providers. However, the current public international law system carves out no special rule for holding a state where a pandemic first develops liable for the pandemic's resulting damage.<sup>40</sup> Through private legal fora, transnational public law litigation has always existed under United States law. Private parties can bring transnational public actions either to seek to vindicate public rights and values through judicial remedies, or to articulate

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<sup>39</sup> William S. Dodge, "Jurisdiction, State Immunity, and Judgements in the Restatement (Fourth) of U.S. Foreign Relation Law", 19 *Chinese Journal of International Law* 19(2020): 101; Sandra Engle, "Choosing Law for Attributing Liability Under the Foreign Sovereign Immunities Act: A Proposal for Uniformity", 15 *Fordham International Law Journal* 15 (1992): 1060-1098.

<sup>40</sup> "State Responsibility" and "State Liability" are two separate but related topics. "State responsibility" stems from the internationally wrongful acts of the State, while "State liability" from injurious consequences arising out of certain acts not prohibited by international law. See International Law Commission, *Summaries of the Work of the International Law Commission*, (last update: Jul.15, 2015) available at [https://legal.un.org/ilc/summaries/9\\_6.shtml](https://legal.un.org/ilc/summaries/9_6.shtml).

a public international norm.<sup>41</sup> In the first half of 2020, as the number of patients who tested positive for COVID-19 skyrocketed in the United States, an array of representative civil suits were filed against the People's Republic of China (PRC) in the U.S. district courts in California,<sup>42</sup> Florida,<sup>43</sup> Texas,<sup>44</sup> Louisiana,<sup>45</sup> Missouri,<sup>46</sup> Nevada,<sup>47</sup> Oregon,<sup>48</sup> Mississippi,<sup>49</sup> and Pennsylvania.<sup>50</sup> Other co-defendants in these suits included Chinese public entities, including the National Health Commission of the PRC, the Ministry of Emergency Management, Wuhan Institute of Virology, the People's Liberation Army, the People's Government of Hubei Province, and the government of the city of Wuhan. These claims are said to represent American small business owners who have experienced major economic losses due to the outbreak of the pandemic and have sought trillions of dollars in compensatory and punitive damages. Several courts have ruled that the complaints' allegations against Chinese government were not subject to the commercial activity or non-commercial tortious activity exceptions to the Foreign Sovereign Immunities Act of 1976 (FSIA), and dismissed the complaints for lack of subject matter jurisdiction.<sup>51</sup> Not coincidentally, in non-litigious China, a *pro se* litigant in Wuhan who is also a PRC lawyer, filed a civil claim against the United States government, the Centers for Disease Control and Prevention, the Department of Defense, and International Military Sports Council with its Chinese representative office located in the city of Wuhan, for compensating his own economic damages of *Renminbi* 150,000 (approximately U.S.\$20,000) suffered during the lock-down period plus other emotional distress damages and costs and fees.<sup>52</sup> A Beijing-based lawyer also filed a claim against President Donald Trump based on his

<sup>41</sup> Harold Hongju Koh, *Transnational Litigation in the United State Courts* (Foundation Press, 2008), 23-24.

<sup>42</sup> Bourque CPA and Advisors v. PRC, No. 8:20-cv-00597- RGK-DFM (C.D. Cal. filed Mar. 17, 2020); Cardiff Prestige Property v. PRC, No. 8:20-cv-00683 (C.D. Cal. filed Apr. 8, 2020); Edwards v. The Country of China, No. 2:20-cv-01579- CMC-MGB (D.S. Cal. filed Apr. 23, 2020); Patella v. PRC et al., No. 1:20-cv-00433 (M.D.N.C. filed May. 15, 2020).

<sup>43</sup> Logan Alters v. PRC, No. 1:20-cv-21108-UU (S.D. Fla. filed Mar. 13, 2020); Aharon v. PRC, No. 9:20-cv-80604- RKA (S.D. Fla. filed Apr. 8, 2020).

<sup>44</sup> Buzz Photos v. PRC, No. 3:20-cv-00656-K (N.D. Tex. filed Mar. 17, 2020); Benitez-White v PRC et al., No. 4:20-cv-01562 (S.D. Tex. filed May.3, 2020).

<sup>45</sup> Azalea Woods v. PRC, No. 3:20-cv-00457- TAD-KLH (W.D. La. filed Apr.13, 2020); Edwards v. PRC et al., No. 2:20-cv-01393- NJB-KWR (E.D. La. filed May.8, 2020).

<sup>46</sup> State of Missouri v. PRC, No. 1:20-cv-00099 (E.D. Mo. filed Apr.21, 2020).

<sup>47</sup> Bella Vista LLC v. PRC, No. 2:20-cv-00574 (D. Nev. filed Mar. 23, 2020).

<sup>48</sup> Stirling v. China et al., No. 3:20-cv-00713- SB (D. Or. filed Apr.30, 2020).

<sup>49</sup> State of Mississippi v. PRC, No. 1:20-cv-168-LG- RHW (S.D. Miss. filed May.12, 2020).

<sup>50</sup> Francis Smith v. PRC, No. 2:20-cv-01958- AB (E.D. Pa. filed Apr.20, 2020); Greco et al. v. PRC et al., No. 5:20-cv-02235- AB (E.D. Pa. filed May. 11, 2020).

<sup>51</sup> State of Missouri v. PRC, No. 1:20-cv-00099; Leeland Eisenberg v. PRC, No. 22-cv-10194-IT.

<sup>52</sup> Liang Xu Guang v. Federal Government of the United States of America (梁旭光诉美国联邦政府) (Wuhan Intermediate People's Court March 20, 2020).

labelling COVID-19 as a “Chinese Virus” in press conferences and on Twitter, seeking an official apology and additional compensation for reputational damages.<sup>53</sup>

FSIA provides that foreign nations enjoy immunity from U.S. courts' civil jurisdiction, subject to certain enumerated exceptions. The Supreme Court has made it clear that FSIA provides the sole basis for obtaining civil jurisdiction over a foreign nation in U.S. courts and provides a comprehensive set of legal standards governing claims of immunity from civil suits.<sup>54</sup> These ongoing complaints allege that two exceptions under FSIA apply: §1605(a)(2) for a commercial activity with a sufficient U.S. nexus, and §1605(a)(5) for a territorial tort. However, the complaints did not specify what relevant commercial activity any of the Chinese defendants had engaged in, let alone how that activity has a sufficient nexus to U.S. courts' jurisdiction. Therefore, given the rigidity of such rules, these cases against the Chinese government for spreading the coronavirus have no legal basis. Lacking a judicial remedy, the Never Again International Outbreak Prevention Act (H.R.3583), a bipartisan House bill was introduced in U.S. House of Representatives on May 28, 2021, aiming to establish measures related to international accountability for global public healthcare. If it had become law, it would have removed the sovereign immunity barriers in some circumstances and allow sanctions to be imposed on foreign states for failure to comply with the obligations with respect to international reporting and monitoring of outbreaks of novel viruses and diseases.<sup>55</sup>

China's position on state immunity is absolute, meaning that it does not accept the jurisdiction of any foreign country's courts over its sovereign entities. Its overseas Embassies/Consulates and their diplomatic staff, and certain persons and entities, are immune from suit and enforcement, unless immunity is waived. In the past, attempts to file lawsuits in the U.S. against the Chinese government have usually failed and set precedent that suing the Chinese government is not meaningful as a litigation tactic. Looking through databases of Chinese courts, the only notable claim against foreign countries, diplomatic entities or persons is a case where the International Committee of the Red Cross was sued for its non-performance of a lease between a Chinese

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<sup>53</sup> Chen Yue Qin v. Donald Trump (陈岳琴诉特朗普) (Beijing Intermediate. People's Court Mar. 24, 2020).

<sup>54</sup> The Foreign Sovereign Immunities Act: A Guide for Judges, Federal Judicial Center International Litigation Guide (2nd ed., 2018).

<sup>55</sup> Never Again International Outbreak Prevention Act (H.R.3583) was introduced in House, yet to be passed, the text of which is available at <https://www.govinfo.gov/content/pkg/BILLS-117hr3583ih/pdf/BILLS-117hr3583ih.pdf>.

citizen and its Regional Delegation for East Asia.<sup>56</sup> The Chinese court's position on this appears consistently clear that the absolute state immunity rule would be applied. Similarly, suing the U.S. government or its officials in Chinese courts, though new and perhaps the first time in this manner, may achieve nothing substantial as the procedure and the documentation requirements in these proceedings are extraordinarily burdensome, effectively blocking such actions.<sup>57</sup>

It is uncommon to observe so many claims vindicating the same public international law being rapidly filed within the first month of the COVID-19 outbreak. With very limited access to credible scientific findings and other types of evidence buried in tons of biased and fake news and "expert opinions," almost all of these claims contain factual allegations directly based on poorly sourced media resources. In addition, private litigants in both countries have accused the others' governments of concealing and withholding important information concerning the diagnosis and progress of treatment for COVID-19. Particularly, in the complaint filed in the United States District Court of Nevada, *Bella Vista LLC v. The PRC*, in the Statement of Facts, the plaintiff asserted that "the PRC and other Defendants, are part of a totalitarian governmental system."<sup>58</sup> Part of this system involves exaggerating good news, while suppressing bad news." "[T]hey engaged in a campaign of falsehoods, misinformation, cover-up and destruction of evidence." In the complaint filed by the Wuhan litigant, the plaintiff asserted that the United States government and the CDC tried to withhold and cover-up information known by a small fraction of people inside the administration, by intentionally deceiving the public and calling the novel COVID-19 virus a "flu-like" disease, delaying the best opportunity to contain the infection and caused the international community to have underplayed the importance of quarantine and other social distancing measures. Interestingly, both sides had based their claims on the misinformation of the other side's government.

In the U.S., filing these cases could generate publicity for firms representing plaintiffs as a strategy to attract clients. In times of healthcare emergency, high profile cases help spread fame inside and outside of the legal profession showcasing a lawyer's legal skills and expertise. More fundamentally, given

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<sup>56</sup> Reply of the Supreme People's Court to the Request for Instructions on Issues concerning Immunities in the Case of Disputes over a House Lease Contract between Li Xiaobo and the Regional Delegation for East Asia of the International Committee of the Red Cross.

<sup>57</sup> The 2007 Notice of the Supreme People's Court on the Relevant Issues concerning the People's Courts Acceptance of Civil Cases Involving Privileges and Immunities (the Notice) (最高人民法院关于人民法院受理涉及特权与豁免的民事案件有关问题的通知).

<sup>58</sup> Gal Dor and Menachem Hofnung, "Litigation as Political Participation", 11(2) *Israel Studies* 11, no. 2(2006): 131.

the wide coverage on social media, litigation is also an effective channel to express political opinion, to lead the public discourse towards populist goals. Particularly, when such cases would not achieve any legal purposes, courtrooms become a sounding board instead of a dispute settlement forum. Filing these cases, either against the U.S. government or the Chinese government, is political theatre through which dissatisfaction and anger with public institutions are communicated. In the Chinese context, the cases filed in the Chinese courts are also a means of political legitimization in the government-controlled official media, either through argument or by quoting party elites. In so doing, the Chinese government may, to a certain extent, justify its contradictory governmental actions in the early stages of COVID-19's spread. This has served to glorify its quick top-down nationwide response (e.g., lockdown of Wuhan) to the COVID-19 crisis, shaping a sharp contrast with the U.S. government's much more ineffective and inadequate bottom-up approach to the same crisis, despite U.S.'s strong economy and unparalleled leading position in healthcare infrastructure and medical technology.

Context is critical in understanding the emergence of transnational litigation arising from the COVID-19 crisis. It is a syndrome of the Sino-American rivalry, which is controversially depicted as "Thucydides' Trap" - a dangerous dynamic caused by rise of a new power posing a threat to an established ruling power.<sup>59</sup> China's rising political and economic influence worldwide is increasingly perceived as a challenge to the global supremacy of the U.S. Beyond a competition for status, a combination of ideological differences and security dilemmas further accentuates the antagonism between the states. The power competition can undermine the stability of the broader international system. The strategic Sino-American rivalry has the ingredients to grow into a structural world conflict, trigger progressive de-globalisation, and lead to the emergence of two orders, one led by the U.S. and the other under China's influence.<sup>60</sup>

Populism is ingrained in this type of competition for global power. Increasing import competition from China, facilitated by globalisation, was a major force behind reductions in U.S. manufacturing employment and weak overall U.S. job growth.<sup>61</sup> This tilled the soil in which populism takes root. To some extent, Trump's victory may have been less cause than effect. The Trump administration captured the anti-globalist sentiment which was followed by

<sup>59</sup> Graham T. Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (Boston: Houghton Mifflin Harcourt, 2017), 297.

<sup>60</sup> Peter Rudolf, *The Sino-American World Conflict*, SWP Research Paper (February 2020), available at [https://www.swp-berlin.org/publications/products/research\\_papers/2020RP03\\_rdf\\_Web.pdf](https://www.swp-berlin.org/publications/products/research_papers/2020RP03_rdf_Web.pdf), 5-6.

<sup>61</sup> See Daron Acemoglu et al., "Import Competition and the Great U.S. Employment Sag of the 2000s", 34 *Journal of Labor Economics* 34 (2016):141.

the Biden administration's democratic alliance among Western countries,<sup>62</sup> and culminated the sentiment further. After entering office, Trump announced the U.S. withdrawal from the Trans-Pacific Partnership (TPP, now CPTPP), launched a series of punitive measures against the purportedly unfair trade practices of other states, among many other unilateral moves that led to disengagement from global governance.<sup>63</sup> Populism did not disappear by the presidential transition, but takes on a new, more disguised presence. President Biden on his first day in office announced the U.S. would re-join the WHO, as a part of commitments of the U.S. to "continue to be a full participant and a global leader in confronting such threats and advancing global health and health security."<sup>64</sup> Economically, the Biden administration proposed a U.S.\$1.9 trillion economic stimulus package (on top of U.S.\$3.1 trillion of expenditure in 2020), in anticipation of providing relief, rescue, support, and stimulus to the pandemic-hit economy. It raises concerns of dangerous inflation at a global scale,<sup>65</sup> leaving the at-risk economies in danger of exchange rate volatility and currency depreciation.<sup>66</sup> It is urgent for the vulnerable economies to take prompt, decisive reactions to make their exchange rates more flexible, reduce their reliance on foreign-currency debt, and increase their foreign-exchange reserves.<sup>67</sup> However, in the current international monetary and financial system, it could be difficult to implement such self-preservation measures.

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<sup>62</sup> In President Biden's first major foreign policy speech delivered on 4 February 2021, he expressed a position to "reform the habits of cooperation and rebuild the muscle of democratic alliances", the members of which include Canada, Mexico, the UK, Germany, France, NATO, Japan, South Korea, Australia (mentioned by President Biden as the country's closest friends). President Biden also called the country's alliances around the world its greatest asset and promised to stand shoulder to shoulder with its allies and key partners once again. See The White House, Remarks by President Biden on America's Place in the World (4 February 2021), available at <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/04/remarks-by-president-biden-on-americas-place-in-the-world/>.

<sup>63</sup> Harold Hongju Koh, *The Trump Administration and International Law* (Oxford: Oxford University Press, 2019), 54–58.

<sup>64</sup> The White House, Letter to His Excellency António Guterres (20 January 2021), available at <https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/20/letter-his-excellency-antonio-guterres/>

<sup>65</sup> Harold James et al., *Who's Right on Inflation?* Project Syndicate (1 March 2021), available at <https://www.project-syndicate.org/commentary/threat-of-unanchored-inflation-expectations-by-harold-james-et-al-2021-03>

<sup>66</sup> Elliot Smith, *Era of Higher Inflation Would Cause Major Currency Volatility, Economist Says*, CNBC (4 October 2021), available at <https://www.cnbc.com/2021/10/05/era-of-higher-inflation-would-cause-major-currency-volatility-economist-says.html>.

<sup>67</sup> Shang-Jin Wei, *The Global Dangers of Rising U.S. Inflation*, Project Syndicate (9 July 2021), available at <https://www.project-syndicate.org/commentary/global-dangers-of-rising-us-inflation-and-interest-rates-by-shang-jin-wei-2021-07?barrier=accesspay>.

### III.B. Prioritization of Need-based International Financial Assistance

The COVID-19 pandemic impacted multiple sectors of the markets, resulting in oil price shocks, supply chain collapse, bankruptcy filings, and skyrocketing unemployment rates. In times of upheaval like this people need to secure their essential resources, forcing many countries' debt to rise a risky level.<sup>68</sup> As the pandemic increased countries' demand for financial assistance, the IMF has been responding proactively by providing its member states extraordinary access to funds and emergency financing, lowered interest rates, along with policy advice, technical assistance, and other support.

The IMF is tasked with ensuring the stability of the international monetary system. One of its responsibilities is to extend credit to the states facing balance of payments difficulties.<sup>69</sup> Different from other international institutions whose decision-making is based upon one state, one vote, IMF is a quota-based institution, in which quotas forms the foundation for its financial and governance structure.<sup>70</sup> Each state's quota, reflecting its relative position in the world economy, is determined by a formula devised by the IMF. Out of 194 states, the U.S. ranks first in quota with 82,994.2 million SDRs, equivalent to 17.395% of the total votes at the IMF. China has the third largest quota following the U.S. and Japan, with 30,482.9 million SDRs, and 6.389% of voting power.<sup>71</sup> This is disproportionate, however, to China's economic importance as the world's second largest economy.<sup>72</sup> Political considerations are not only influencing quota allocations, but also the lending decision-making process. The institutional structure of IMF and its decision-making mechanism leaves room for the U.S. to exert outsized political influence. Furthermore, American policymakers have incentives to exert such pressure in the of special interest politics or in service of foreign policy objectives. As a result, large IMF loans are tilted towards the countries with American connections, both commercially and politically.<sup>73</sup>

The IMF detailed on March 9, 2020; the mechanisms available to support countries in crisis from the COVID-19 pandemic. For instance, the Rapid

<sup>68</sup> Hannah Ryder, *China and the COVID-19 Debt Crunch*, *The Diplomat* (1 June 2020), <https://thediplomat.com/2020/05/china-and-the-covid-19-debt-crunch/>.

<sup>69</sup> IMF Financial Operations (2018), 23.

<sup>70</sup> Articles of Agreement of the International Monetary Fund (2016), Article XII.

<sup>71</sup> IMF, Updated IMF Quota Data (Last Updated: November 29, 2021), available at <https://www.imf.org/external/np/fin/quotas/2021/0730.htm>.

<sup>72</sup> Elli Louka, *The Global Economic Order: The International Law and Politics of the Financial and Monetary System* (Edward Elgar Publishing Limited, 2020), 241.

<sup>73</sup> Thomas Oatley and Jason Yackee, *Political Determinants of IMF Balance of Payments Lending: The Curse of Carabosse?* (Department of Political Science University of North Carolina at Chapel Hill, 2000).

Credit Facility (RCF)<sup>74</sup> and Rapid Financing Instrument (RFI),<sup>75</sup> which could amount up to U.S.\$50 billion, provides emergency financial assistance to low-income and emerging markets without the need to have a full-fledged program in place. Emergency lending to low-income countries under the RCF can reach U.S.\$10 billion, and for emerging markets under the RFI it could amount to almost US\$40 billion.

To successfully battle the pandemic by allowing faster and better financial assistance to economically weaker countries, it was a position of the IMF to allow issuance of more Special Drawing Rights (SDR),<sup>76</sup> to which the U.S. has been objecting. These are supposedly strategic efforts to combat China's lengthening list of debtors. The World Bank arranged up to U.S.\$12 billion immediate support for COVID-19 response, and later increased this to a total of U.S.\$14 billion under a fast-track facility. U.S.\$6 billion issued to support governments primarily for the healthcare responses including preventing and limiting local transmission through laboratory equipment, building or expanding critical care facilities, strengthening collaboration for research and response to facilitate the development of vaccines, therapeutics, and other measures. Although assistance from multilateral lenders such as the IMF and World Bank offer partial solutions, sometime before the pandemic, multilateralism has been experiencing major setbacks and the global governance order was being challenged or disrupted.<sup>77</sup>

Since the rise of Trump, the U.S. has demonstrated a certain level of political isolationism by reducing its international engagement and intervention. Although the U.S. is still the biggest financial contributor to multilateralism, the WHO has increasingly been sought after for China's financial contribution. In the recent crisis as Trump announced his decision to halt U.S. funding after the organization failed its "basic duty" to respond, China committed another \$50 million. This move demonstrates China's determination to defend a world order that is gradually being abandoned by Western populist governments, or

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<sup>74</sup> The RCF is rapid concessional financial assistance to low-income countries facing an urgent balance of payments need with no ex-post conditionality where a full-fledged economic program is neither necessary nor feasible. See IMF, Rapid Credit Facility, available at <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility>.

<sup>75</sup> The RFI is rapid and low-access financial assistance to member countries facing an urgent balance of payments need, without the need to have a full-fledged program in place. See IMF, Rapid Financing Instrument, available at <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument>.

<sup>76</sup> China's own currency, the *renminbi*, was included as one of IMF's SDR basket in 2016.

<sup>77</sup> There is an abundant literature on the rise of unilateralism, see e.g., Jill I. Goldenziel, "Law as a Battlefield: The U.S., China, and the Global Escalation of Lawfare", 106 *Cornell Law Review* 106(2020): 1085-1172; Daniel C.K. Chow, "United States Unilateralism and the World Trade Organization", *Boston University International Law Journal* 37(2019): 1.

as remarked by Geng Shuang, the former PRC Ministry of Foreign Affairs spokesman, defended the “ideals and principles of multilateralism and upholding the status and authority of the United Nations.”<sup>78</sup>

China has sought to reshape IMF rules so that they can be tailored to different development conditions and take into account of country-specific circumstances. China has also placed substantial pressure upon the IMF-World Bank by providing alternative and significant sources of long-term “patient capital” through the China Development Bank and the newly formed Asian Infrastructure Investment Bank. These alternative approaches to humanitarian aid have the potential to disrupt the international financial system – which presents both challenges and opportunities.<sup>79</sup> Unsurprisingly, since the COVID-19 outbreak, China has already become the biggest creditor to Africa and therefore its decisions regarding potential debt-relief programs has been considered a key to a smooth global recovery.<sup>80</sup>

Similar to its increasing influence in multilateral organizations, China's growing financial interest in multilateralism is accompanied ideological ones.<sup>81</sup> China has started to orchestrate more multilateral financial infrastructure based on global cooperation and financial integration. China holds a 30 percent stake in the 57-countries-signed new Asian Infrastructure Investment Bank.<sup>82</sup> It contributed 19.42 percent to the BRICS<sup>83</sup> New Development Bank, aiming to support sustainable development initiatives in emerging economies.<sup>84</sup> These newly established institutions are widely seen as alternatives to Western financing and especially the U.S.-centric multilateral financial institutions. This not only representing China's shifting approach to multilateralism but also its

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<sup>78</sup> Foreign Ministry Spokesperson Geng Shuang's Regular Press Conference (April 23, 2020), Ministry of Foreign Affairs of the People's Republic of China, available at [https://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/t1772783.shtml](https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1772783.shtml).

<sup>79</sup> IMF, *COVID-19: The Regulatory and Supervisory Implications for the Banking Sector: A Joint IMF-World Bank Staff Position Note* (21 May 2020), available at <https://www.imf.org/en/Publications/Miscellaneous-Publication-Other/Issues/2020/05/20/COVID-19-The-Regulatory-and-Supervisory-Implications-for-the-Banking-Sector-49452>.

<sup>80</sup> Yun Sun, *China's Debt Relief for Africa: Emerging Deliberations*, The Brookings (9 June 2020), available at <https://www.brookings.edu/blog/africa-in-focus/2020/06/09/chinas-debt-relief-for-africa-emerging-deliberations/>.

<sup>81</sup> House of Commons Foreign Affairs Committee, *China, and the Rules-Based International System: Sixteenth Report of Session 2017–19*, (March 2019), available at <https://publications.parliament.uk/pa/cm201719/cmselect/cmfaaff/612/612.pdf>, 32.

<sup>82</sup> Asian Infrastructure Investment Bank, Members and Prospective Members of the Bank (as of April 20, 2022), available at <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

<sup>83</sup> BRICS is an acronym for Brazil, Russia, India, China, and South Africa.

<sup>84</sup> New Development Bank, About us, available at <https://www.ndb.int/about-us/organisation/governance/>.

leadership in reconfiguring the global governance architecture.<sup>85</sup> With the U.S.-China tensions on the rise during the pandemic, the *Renminbi* re-joins ranks of the world's most influential currencies.<sup>86</sup>

In addition, Chinese leadership has already been working hard to change the country's image by promoting its standing in international aid.<sup>87</sup> Before the pandemic, China had grown into the world's largest official creditor to developing countries, exceeding the World Bank and IMF individually and all of the Paris Club creditors together.<sup>88</sup> China's foreign aid is more complicated in nature as it does not neatly fit into any existing Western humanitarian aid frameworks.<sup>89</sup> China takes a different approach to humanitarian aid from traditional donors in aspects of decision-making, funding processes and delivery, challenging the OECD aid norms and causing confusion between humanitarian aid practices of China and traditional humanitarian actors.<sup>90</sup> OECD defines official development assistance (ODA) as resource flows which are: (a) provided by the official agencies; (b) administered with promotion of economic development and welfare as main its objective; and (c) concessional in character.<sup>91</sup> OECD further differentiates between ODA and other official flows (OOF). ODA conveys a grant element of at least 25%, while OOF refers to official sector transactions that do not meet ODA criteria, which include commercially-driven grants, development-motivating transactions with a grant element of less than 25%, and official bilateral transactions that are primarily export-facilitating in purpose.<sup>92</sup> As China diversifies forms of international cooperation and blurs the boundaries between ODA, OOF and commercially oriented financing flows, it causes the difficulty in differentiating

<sup>85</sup> See e.g., Gaye Christoffersen, "The Role of China in Global Energy Governance", *China Perspectives* 2 (2016).

<sup>86</sup> Ruth Carson et al., *China's Yuan Joins Rank of World's Most Influential Currencies*, Bloomberg, (4 June 2020), <https://www.bloombergquint.com/markets/fx-players-from-sydney-to-paris-step-up-scrutiny-of-the-yuan>.

<sup>87</sup> Humanitarian Advisory Group, *Positive Disruption? China's Humanitarian Aid*, Humanitarian Horizons Practice Paper Series, (December 2019), available at [https://humanitarianadvisorygroup.org/wp-content/uploads/2019/12/HH\\_China-Practice-Paper\\_Final-December-2019.pdf](https://humanitarianadvisorygroup.org/wp-content/uploads/2019/12/HH_China-Practice-Paper_Final-December-2019.pdf).

<sup>88</sup> Horn, Sebastian, Carmen M. Reinhart, and Christopher Trebesch, *China's Overseas Lending*, NBER Working Paper No. 26050 (2019), available at [https://www.nber.org/system/files/working\\_papers/w26050/w26050.pdf](https://www.nber.org/system/files/working_papers/w26050/w26050.pdf).

<sup>89</sup> *Ibid.*

<sup>90</sup> Denghua Zhang and Graeme Smith, "China's Foreign Aid System: Structure, Agencies, and Identities", 38 *Third World Quarterly* 38 (2017): 2330-2346.

<sup>91</sup> OECD, Official development assistance-definition and coverage, available at <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm>

<sup>92</sup> OECD, Other official flows (OOF), available at [https://www.oecd-ilibrary.org/development/other-official-flows-oof/indicator/english\\_6afef3df-en](https://www.oecd-ilibrary.org/development/other-official-flows-oof/indicator/english_6afef3df-en).

between different financing vehicles, or assessing the overall impact of Chinese foreign aid on the international aid system and its recipients.<sup>93</sup> Chinese distinctive financing practices has been met with scepticism about its debt sustainability, strategic goal, and the reasonableness of lending terms. China does not adhere to requirements of democratic reform and good governance to its foreign aids as traditional donor countries normally do, which allegedly has disrupted the process of democratic or market reforms in developing countries.<sup>94</sup> Chinese financing practices have also triggered the accusation of “debt trap” or “debtbook diplomacy,” with which China allegedly interferes with the foreign, economic, and security policies of recipient countries by making unserviceable loans.<sup>95</sup> For recipient countries, high debt-to-GDP ratio is often accompanied by economic stagnation, alongside vulnerabilities to financial crises.<sup>96</sup> More radical criticism is focused on the political outcomes of Chinese engagement in developing countries. Increasing aid, concessional debt and trade practices are shaping a generally asymmetrical bilateral relationship, fostering authoritarian regimes, and deteriorating human rights in partner countries.<sup>97</sup> Chinese foreign lending and aid is depicted as a part of geopolitical strategy driven by its own political, economic, and national defence demands. The Belt and Road Initiative (the BRI), for instance, is alleged to serve strategic goals including solving its “Malacca Dilemma” and exert power across vital South Asian trading routes, frustrating and fracturing the U.S.-led regional allegiance against Beijing’s South China Sea claims, and enabling the People’s Liberation Army Navy to pass through the “Second Island Chain” into the blue-water Pacific Ocean.<sup>98</sup> Lending microcosmic insights into the terms and conditions of Chinese foreign lending, Chinese lending terms are found to be contradictory to international ordinary practices. These include confidentiality clauses barring debtors from disclosing the terms and the existence of debts,

<sup>93</sup> Jingdong Yuan, *China’s Evolving Approach to Foreign Aid*, SIPRI Policy Paper (22 May 2022), 23.

<sup>94</sup> Jean-Pierre Cabestan, “China and Ethiopia: Authoritarian Affinities and Economic Cooperation”, *China Perspectives*, 2012, no. 4 (2012): 53-62.

<sup>95</sup> Brahma Chellaney, *China’s Debt-Trap Diplomacy* (2019), available at <https://chellaney.net/2017/01/25/chinas-debt-trap-diplomacy/>; Sam Parker & Gabrielle Chefitz, *Debtbook Diplomacy-China’s Strategic Leveraging of its Newfound Economic Influence and the Consequences for U.S. Foreign Policy* (2018), available at <https://www.belfercenter.org/sites/default/files/files/publication/Debtbook%20Diplomacy%20PDF.pdf>

<sup>96</sup> Carmen M. Reinhart and Kenneth S. Rogoff, *Growth in a Time of Debt*, National Bureau of Economic Research Working Paper 15639 (2010).

<sup>97</sup> Denis M. Tull, “China’s Engagement in Africa: Scope, Significance and Consequences”, 44 *The Journal of Modern African Studies* 44 (2006): 459.

<sup>98</sup> Sam Parker & Gabrielle Chefitz, *Debtbook Diplomacy-China’s Strategic Leveraging of its Newfound Economic Influence and the Consequences for U.S. Foreign Policy* (2018), available at <https://www.belfercenter.org/sites/default/files/files/publication/Debtbook%20Diplomacy%20PDF.pdf>

“no Paris Club” clauses pursuing advantages over other creditors, and collateral arrangements allowing lenders to control debtors’ revenue accounts.<sup>99</sup> The Chinese unreported and opaque lending practices to developing countries is criticized for distorting policy surveillance, risk pricing, and escaping the debt sustainability analyses.<sup>100</sup>

These criticisms, to some extent, reflect the raging populism surrounding China’s increasing role in the global governance, which tends to exaggerate the negative aspects of Chinese financial assistance while overlooking its bright side. There is no correlation between Chinese lending and debt vulnerabilities of recipient countries. In the Pacific region where traditional creditors such as World Bank or the Asian Development Bank dominate, debt sustainability risks have been materialising and elevating.<sup>101</sup> Sri Lanka and Malaysia are often cited as two salient victims of China’s “debt book diplomacy”. However, the most controversial projects were initiated and pushed forward by the recipient countries following their own domestic agendas, and the debt problems are attributable to the misconduct of local elites and Western-dominated financial markets in both countries.<sup>102</sup> A comparative research of Chinese financing and World Bank financing demonstrates that in comparable circumstances, China’s official financing is less concessional than World Bank financing, though concessions are more prevalent in Chinese loans.<sup>103</sup>

Since 2013, China has reformed its foreign aid strategy and approach under President Xi Jinping. First, China restructured its foreign aid system to develop a more institutionalised and systematised foreign aid mechanism. In 2018, China established its first independent foreign aid agency, the International Development Cooperation Agency (CIDCA), to allocate greater personnel and resources to programme evaluation, budget planning and oversight, providing a more coordinated and centralised approach.<sup>104</sup> The newly enacted *Administrative Measures for Foreign Aid* (《对外援助管理办法》) further

<sup>99</sup> Anna Gelpern et al., *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments* (2021), available at <https://www.cgdev.org/sites/default/files/how-china-lends-rare-look-100-debt-contracts-foreign-governments.pdf>.

<sup>100</sup> Horn, Sebastian, Carmen M. Reinhart, and Christopher Trebesch, *China’s Overseas Lending*, NBER Working Paper No. 26050 (2019), available at [https://www.nber.org/system/files/working\\_papers/w26050/w26050.pdf](https://www.nber.org/system/files/working_papers/w26050/w26050.pdf).

<sup>101</sup> Alexandre Dayant, *Pacific Islands Avoid China’s ‘Debt-Trap’ Diplomacy for Now* (2019), available at <https://asia.nikkei.com/Opinion/Pacific-islands-avoid-China-s-debt-trap-diplomacy-for-now>.

<sup>102</sup> Lee Jones and Shahar Hameiri, *Debunking the Myth of ‘Debt-trap Diplomacy’ How Recipient Countries Shape China’s Belt and Road Initiative* (2020), available at <https://www.chathamhouse.org/2020/08/debunking-myth-debt-trap-diplomacy/summary>.

<sup>103</sup> Scott Morris et al., *Chinese and World Bank Lending Terms: A Systematic Comparison Across 157 Countries and 15 Years*, Center for Global Development, Policy Paper, No.170 (2020).

<sup>104</sup> Jingdong Yuan, *China’s Evolving Approach to Foreign Aid*, SIPRI Policy Paper (22 May 2022), 16.

clarifies the scope of duties of CIDCA, which includes formulating guidelines and policies, promoting the reform of foreign aid methods, managing foreign aid funds, preparing annual budgets and final accounts, determining project allocation, overseeing and assessing the implementation of foreign aid projects, and organizing and implementing international exchange and cooperation on foreign aid. MOFCOM is positioned as the foreign aid implementation department, responsible for offering recommendations and undertaking specific implementation. The Ministry of Foreign Affairs is responsible for making recommendations. The implementation of foreign aid projects overseas is delegated to Chinese embassies and consulates (diplomatic missions) abroad. As a response to foreign criticism for not distinguishing between foreign aid and commercial financial flows, China attempts to distinguish different financing vehicles by designating different authorities: CIDCA takes charge of concessional financial flows such as grants, no-interest and concessional loans, and MOFCOM manages commercial financial arrangements.<sup>105</sup>

Second, China has developed nine forms of delivering foreign aid, namely, complete projects, goods and materials, technical cooperation, cooperation in human resources development, South-South Cooperation Assistance Fund (SSCAF), medical teams, outbound volunteers, emergency humanitarian aid, and debt relief.<sup>106</sup> The spread of COVID-19 highlighted the necessity and urgency of health and medical assistance. Since the outbreak of Covid-19 pandemic, China has assisted more than 150 countries and international organizations by offering medical materials and equipment, sending medical teams, accelerating the construction of public health infrastructure, and providing debt relief to countries facing financial difficulty.<sup>107</sup> China also announced that it would provide an additional one billion doses of COVID-19 vaccine to Africa and pledged to jointly implement nine China-Africa cooperation programs.<sup>108</sup>

Third, China's foreign aid strategy features two major concepts: "global community of shared future" and BRI. Since the first introduction of "community of shared destiny for mankind" at the 18th National Congress of the Communist Party of China in November 2012, the notion has developed as one of the basic policies guiding Chinese diplomacy and foreign affairs.<sup>109</sup> China

<sup>105</sup> Cheng Cheng, *The Logic Behind China's Foreign Aid Agency* (21 May 2019) available at <https://carnegieendowment.org/2019/05/21/logic-behind-china-s-foreign-aid-agency-pub-79154>.

<sup>106</sup> State Council, *International Development Cooperation in the New Era* (10 January 2021), available at [http://english.www.gov.cn/archive/whitepaper/202101/10/content\\_WS5ffa6bbbc6d0f72576943922.html](http://english.www.gov.cn/archive/whitepaper/202101/10/content_WS5ffa6bbbc6d0f72576943922.html).

<sup>107</sup> *Ibid.*

<sup>108</sup> Xinhua, Xi announced supplying Africa with additional 1 bln COVID-19 vaccine doses, pledges to jointly implement nine programs (11 November 2021) available at [http://www.news.cn/english/2021-11/30/c\\_1310341310.htm](http://www.news.cn/english/2021-11/30/c_1310341310.htm).

<sup>109</sup> Zhao Xiaochun, "In Pursuit of a Community of Shared Future: China's Global Activism in Perspective", *China Quarterly of International Strategic Studies* 4, no. 1 (2018): 23.

promotes international development and multilateralism under the notion of creating a “global community of a shared future,” as part of efforts to ease the tensions between China and the West surrounding the perceived “China Threat.” Another core concept is BRI, which is a major platform for China’s international development cooperation. For a long period, relatively scarce foreign aid has been provided by the Development Assistance Commission (the DAC) donors to developing countries’ infrastructure and manufacturing areas,<sup>110</sup> though their need for development has become increasingly urgent. China filled this void by providing additional funding to support infrastructure connectivity in countries along the BRI regions. Chinese development banks (Exim Bank and China Development Bank), sovereign wealth funds (the Silk Road Fund), and Chinese state-owned commercial banks form the main funding sources to BRI-participating projects.<sup>111</sup> In this regard, China is competing with DAC donors and challenging the traditional foreign aid models. After the outbreak of COVID-19, medical and health assistance has become a prominent part of BRI. China is using BRI innovatively and exploring its potential by linking pandemic combating measures in aid recipient countries with the prospect of post-pandemic cooperation within the BRI framework.<sup>112</sup>

Fourth, China is increasingly shifting to a multilateral development cooperation approach. In addition to playing a bigger role in the existing international development financing framework such as the United Nations system, World Bank, and International Development Association,<sup>113</sup> China is also leading trilateral cooperation on its own by establishing the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB).<sup>114</sup> China’s participation in global governance is widened through deeper involvement in multilateral development cooperation. Besides, China has also demonstrated dedication to strengthening the regional financial safety network. After the global financial crisis, China led the growth of bilateral swap lines (BSL) network. China signed six BSLs in 2009, and rapidly

<sup>110</sup>Jingdong Yuan, *China’s Evolving Approach to Foreign Aid*, SIPRI Policy Paper (22 May 2022), 23.

<sup>111</sup>OECD, *Business and Finance Outlook 2018* (OECD: Paris, 2018), available at <https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf>, 20.

<sup>112</sup>Moritz Rudolf, *China’s Health Diplomacy during Covid-19: The Belt and Road Initiative (BRI) in action*, SWP Comment, No. 9/2021, available at <https://www.econstor.eu/bitstream/10419/256670/1/2021C09.pdf>.

<sup>113</sup>Scott Morris et al., *Mapping China’s Multilateralism: A Data Survey of China’s Participation in Multilateral Development Institutions and Funds*, Center for Global Development (CGD) Policy Paper no. 241 (CGD: Washington, DC, Nov. 2021), 36.

<sup>114</sup>Denghua Zhang, *A Cautious New Approach: China’s Growing Trilateral Aid Cooperation* (Canberra: Australian National University Press, 2020).

expanded its BSLs to 32 by end of 2015.<sup>115</sup> After the COVID-19 pandemic, China has broadly maintained its BSL network. The BSLs extended or rolled over by China after COVID-19 pandemic are listed in Table 1 below. China's bilateral swap arrangements have also been criticized for having been used as policy instrument to advance *Renminbi* internationalisation, rather than used to address short-term liquidity and financial stability. During the COVID-19 pandemic, Chinese swap lines have largely been drawn by Mongolia, Pakistan, and Turkey.

**Table 1.**  
**Swap Agreements signed or renewed by China after COVID-19\***

Country (Region)	Size of the Swap Lines (Renminbi billion) <sup>116</sup>	Date of Agreement
Argentina	130	2020.8.16 (renewed)
Australia	200	2021.7.6 (renewed)
Canada	200	2021.1.13 (renewed)
Chile	50	2021.8.20 (renewed)
Egypt	18	2020.12.6 (renewed)
Hong Kong Sar, China	500	2020.11.25 (renewed)
Hungary	60	2020.9.17(renewed)
Iceland	3.5	2020.10.19 (renewed)
Indonesia	250	2022.1.27 (renewed)
Japan	200	2021.10.26
Korea	400	2020.10.22 (renewed)
Lao P.D.R.	6	2020.5.20
Malaysia	180	2021.7.12 (renewed)
Mongolia	15	2020.7.31 (renewed)
New Zealand	25	2020.8.22 (renewed)
Nigeria	15	2021.6.9 (renewed)
Pakistan	30	2020.7.31 (renewed)
Russia	150	2020.11.23 (renewed)
Switzerland	150	2020.7.21 (renewed)
Thailand	70	2021.1.8 (renewed)
Turkey	35	2021.6.2 (renewed)
United Kingdom	350	2021.11.12 (renewed)

\*Prepared by the authors.

On Jun 26, 2022, the People's Bank of China (PBOC), China's central bank, joined Renminbi Liquidity Arrangement (RMBLA) developed by Bank for International Settlements (BIS), which aims to provide liquidity support to participating central banks. The arrangement starts with Asia and the Pacific

<sup>115</sup> Michael Perks et al., *Evolution of Bilateral Swap Lines*, IMF Working Paper WP/21/210 (2021), 14.

<sup>116</sup> PBOC, available at <http://www.gov.cn/xinwen/2021-09/19/5638362/files/652d7b67eb94463f925be3985fcd860.pdf>.

region, including Bank Indonesia, Central Bank of Malaysia, the Hong Kong Monetary Authority, the Monetary Authority of Singapore, and the Central Bank of Chile. RMBLA is the first *Renminbi* reserve pool, which helps meet the rising international demands for *Renminbi*, providing additional liquidity access,<sup>117</sup> and represents a new and expansive move towards multi-polarity of the global financial system.

### III.C. Launch of Central Bank Digital Currency to Challenge the U.S. Dollar's Hegemony

On another front, China is seizing opportunities in the international financial and monetary order by proposing an anti-isolationism solution – the emerging Digital Currency Electronic Payment (DC/EP) system – China's embryotic digital fiat currency which is also known as e-CNY. The implication of DC/EP should be read in the context of the current international financial and monetary system anchored by the U.S. hegemony. The demise long ago of the Bretton Woods system, a par-value system built upon Gold Standard has been substituted with “non-system,” a decentralized hybrid mixture of fixed and floating exchange rate regimes. As emerging economies rise and neoliberalism prevails, the international monetary system has moved to a regime of exchange-rate flexibility, capital mobility, and monetary independence.

The international monetary system built upon the U.S. dollar-dominated regime is inherently instable. In order to meet the global demand for capital to sustain the growth in trade and investment associated with the globalisation, the U.S. needs to accept an unsustainable large balance of payments deficits. Unrestrained U.S. deficits and diminishing confidence in the U.S. dollar, have caused anticipatory declines in its value. Such declines have further diminished confidence in the U.S. dollar as a medium of international exchange, resulting in a major erosion in the value of U.S. overseas liabilities. It is a more complicated version of “Triffin dilemma,” which puts the global economy in a dilemma between two equally damaging macroeconomic pathologies, global deflation, or the destabilisation of the major economy.<sup>118</sup> The predominant position of the U.S. dollar is a pillar of its soft power which, on the one hand, enables the U.S. monetary policy to extend to other parts of the world, and, on the other, exempts the U.S. from the disciplines with which other countries must follow.<sup>119</sup>

<sup>117</sup> BIS, BIS announces Renminbi Liquidity Arrangement, available at <https://www.bis.org/press/p220625.htm>.

<sup>118</sup> Tommaso Padoa-Schioppa, *The Ghost of Bancor: The Economic Crisis and Global Monetary Disorder*, Louvain-la-Neuve (Feb. 2010), available at [https://www.triffininternational.eu/images/RTI/lecturestriffin/TPS\\_Lecture\\_PDF.pdf](https://www.triffininternational.eu/images/RTI/lecturestriffin/TPS_Lecture_PDF.pdf).

<sup>119</sup> *Ibid.*

America continues to assert control over the U.S. dollar payments at the heart of global trade and finance. The threat let alone implementation of U.S. dollar sanctions has given America a massive extraterritorial reach.<sup>120</sup> The U.S. has been using such power in massive financial sanctions against Russia and others by freezing assets and prohibiting financial transactions. Disconnecting Russian banks and sovereign wealth funds and Russian financial institutions from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) is one of the prominent tools of the U.S.-weaponized finance.<sup>121</sup> The post financial crisis development of U.S. financial regulations offers an illustration of American regulators exercising financial control over its foreign counterparts in a populist fashion.<sup>122</sup> U.S. dollar's centrality also vests the U.S.'s privileged position in the World Bank and the IMF, and such influence into key American interests being promoted and probable intrusion into the internal economic affairs and domestic governance of other states.

Creating a new world currency managed by a world central bank has long been advocated as a solution the inherent flaws in the current global financial system.<sup>123</sup> Multi-polarity including a number of reserve currencies (including the *Renminbi*) and central bank digital currency (i.e., CBDC), which is de-politicalized, is potentially a solution<sup>124</sup> to promote the global financial health,<sup>125</sup> instead of the U.S.' self-interest in expanding its own financial and political power. A more ambitious envision points to a multilateral monetary order where assets are denominated in a non-national currency or quasi-currency, global liquidity are provided as steered by the centre, and the burden of international macroeconomic and monetary adjustment are apportioned in a rule-based way.<sup>126</sup>

<sup>120</sup> See e.g., Tom W. Lin, "Financial Weapons of War", *Minnesota Law Review* 100 (2016): 1377.

<sup>121</sup> Joanna Diane Caytas, "Weaponizing Finance: U.S. and European Options, Tools, and Policies", 23(2) *Columbia Journal of European Law* 23, no. 2 (2017): 441-475.

<sup>122</sup> See e.g., Jean Galbarith & David Zaring, "Soft Law as Foreign Relations Law", *Cornell Law Review* 99, no. 4 (2015): 735, 766. They argue that sanction powers are increasingly used to adjust foreign relations; Pierre-Hugues Verdier, "The New Financial Extraterritoriality", *The George Washington Law Review* 87 (2019): 239, 242. The author analyses the increasing use of sanction by federal prosecutors causing extraterritorial expansion of U.S. financial laws.; Federico Lupo-Pasini, "The Rise of Nationalism in International Finance: The Perennial Lure of Populism in International Financial Relations", 30 *Duke Journal of Comparative & International Law* 30 (2019): 93, 124. The author suggests that international sanctions have become a source of concern for foreign bank's compliance and risk departments.

<sup>123</sup> John Detrixhe and Sara Eisen, *Stiglitz Urges New Global Reserve Currency to Stem Imbalances*, Bloomberg, (11 April 2011), <https://www.bloomberg.com/news/articles/2011-04-10/stiglitz-calls-for-new-global-reserve-currency-to-prevent-trade-imbalances>.

<sup>124</sup> Joseph E. Stiglitz & Bruce Greenwald, "Towards a New Global Reserve System", 1(2) *Journal of Globalization and Development* 1, no. 2 (2010): 1-26.

<sup>125</sup> David Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2003), 137-182.

<sup>126</sup> Palais- Royal Initiative, "Reform of the International Monetary System: A Cooperative Approach for the Twenty First Century", 3 *Global Journal of Emerging Market Economies* 3 (2011): 185-193.

Multipolarity and multilateralism marks the right direction in which international monetary system reform should follow, it is faced with strong reluctance by the countries who are required to delegate power to supranational bodies, to submit their domestic choices to external regulator or coordinator, or to be bound by tighter international disciplines. The plurality of the global market, global reserve currency and a stable fiscal regime is essentially in a conflict with a populist, disintegrated and polarised world. As such, a gloomy anticipation is that a renewed multilateral international monetary system is possibly crisis-driven. There needs to be another major financial crisis to weaken the position of the U.S. dollar, and resultingly, gather a momentum towards a shift in the monetary system.<sup>127</sup>

Given the rampant impacts of COVID-19 on the international economic order, the COVID-19 crisis (or the Russia-Ukraine conflict), along with the “Wind from the East,”<sup>128</sup> may act as an impetus that will lead to the decline of the U.S. dollar and the rise of a new international currency order.

The COVID-19 pandemic has fuelled public concerns that the cash could spread the virus and probably reshaped payment behaviour.<sup>129</sup> A WHO spokesperson reportedly recommended that people should use contactless payment technology where possible.<sup>130</sup> The COVID-19 crisis has driven electronic payment to a new height. Together with the COVID-19 is widespread unemployment and economic turmoil, which mean people are looking for government relief fast. However, with the lessons learned from the debatable quantitative easing policy as led by the U.S. back to 2008, new approaches are in demand and digital currency is increasingly viewed as a solution. Threats of U.S. financial sanctions is another reason for accelerating the development of cryptocurrency. Russia has made progress in cryptocurrency as means of payment to reduce reliance on the U.S. dollar and mitigate foreign sanctions.<sup>131</sup>

Central banks globally are exploring, and in some cases, have started to actively embrace the possibility of Central Bank Digital Currency (CBDC) powered by distributed ledger technology (DLT), allowing them to neutralize

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<sup>127</sup> Ignazio Angeloni et al., *Global Currencies for Tomorrow: A European Perspective* (Bruegel Blueprint Series 2011), available at [https://ec.europa.eu/economy\\_finance/publications/economic\\_paper/2011/pdf/ecp444\\_en.pdf](https://ec.europa.eu/economy_finance/publications/economic_paper/2011/pdf/ecp444_en.pdf).

<sup>128</sup> Adam Tooze, *Crashed: How A Decade Of Financial Crises Changed The World* (London: Penguin Random House UK, 2018), Ch 10.

<sup>129</sup> Raphael Auer et al., *Covid-19, cash, and the future of payments*, BIS Bulletin No 3 (3 April 2020), available at <https://www.bis.org/publ/bisbull03.pdf>.

<sup>130</sup> Bill Gardner, *Dirty Banknotes May be Spreading the Coronavirus, WHO Suggests*, The Telegraph (2020), available at <https://www.telegraph.co.uk/news/2020/03/02/exclusive-dirty-banknotes-may-spreading-coronavirus-world-health/>.

<sup>131</sup> Deane R. Konowicz, *The New Game: Cryptocurrency Challenges U.S. Economic Sanctions*, Naval War College Newport United States (2018).

disruptive impact from crypto communities and extend their dominance effect in the monetary space. Virtual currency can effectively eliminate the problem of zero bound on nominal interest rates, enabling the central bank to pay negative interest rates on currency under certain circumstances.<sup>132</sup> The Financial Stability Board has been quite keen on promoting the use of cryptocurrency and any other forms of digital money worldwide.<sup>133</sup> CBDC may play a positive role in boosting economic growth through reductions in real interest rates, distortionary taxes, and monetary transaction costs. Furthermore, countercyclical CBDC price or quantity rules can be used as a second monetary policy instrument to enhance central banks' ability to stabilize business cycles.<sup>134</sup>

As major operators of CBDC, central banks are responsible for many things: performing customer due diligence, offering or vetting wallets, developing or selecting the underlying technology, offering a settlement platform, managing customer data, monitoring transactions, and interacting with customer requests, complaints, and questions. These steps entail costs and put central banks' reputations at risk. The first type of risk is that the central bank may be trapped in a too-low-interest-rate-dilemma. The central bank may try to regain independence from the forced synchronisation with the legislative and executive bodies by moving interest rates down or up relative to the foreign interest rate due to the exchange rate between the home and the foreign currency is a risk-adjusted martingale. The central bank may be forced to the zero lower bound as the global currency consortium seeks to keep its currency in use with low and competitive fees. The other risk is that the national currency may be less used or even abandoned as a medium of exchange (or means of payment) due to symmetry in liquidity services. This basically confirms the doctrine of *Impossible Trinity*, meaning that a nation cannot have a free hand on the flexible exchange rate, free capital flow and free monetary policy at the same time.

Hence, the introduction of a globally circulated currency that would substantially change the landscape of international monetary policy. If the global currency is backed by interest-bearing assets, additional and tight restrictions on monetary policy would follow. The usage of a third country's

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<sup>132</sup> See generally Kenneth S. Rogoff, *Costs and Benefits to Phasing out Paper Currency*, 29 Social Science Electronic Publishing 445, (2015).

<sup>133</sup> Addressing the Regulatory, Supervisory and Oversight Challenges Raised by "Global Stablecoin" Arrangements, Financial Stability Board Consultative Document, 14 April 2020.

<sup>134</sup> John Barrdear and Michael Kumhof, *The Macroeconomics of Central Bank Issued Digital Currencies*, Staff Working Paper No. 605, (July 2016), available at <https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2016/the-macroeconomics-of-central-bank-issued-digital-currencies.pdf?la=en&hash=341B602838707E5D6FC26884588C912A721B1DC1>.

currency can help avoid direct foreign exchange between two countries. A global currency acts as substitute for the medium of account, thereby allowing for currency competition at the local level. Competition from a global currency makes this trinity even harder to reconcile.

China is a pioneer in the development of CBDC. China has been exploring its digital fiat currency since 2014. The PBOC established its Digital Currency Institute, which developed the first-generation prototype of digital fiat currency in 2016. At the end of 2017, the PBOC, upon the approval of the central government, began to work with commercial institutions in developing and testing DC/EP.<sup>135</sup> The progress was accelerated by COVID-19. The first actual test of the DC/EP system was launched in 2020 with an initial trial in Shenzhen, Suzhou, Chengdu, and Xiong'an. 2021 saw further progress in exploration of DC/EP at home and abroad. Domestically, the tests were expanded to a number of other cities, including Hainan province and Shanghai.<sup>136</sup> Tests will further extend to Tianjin, Chongqing, Guangzhou, Fuzhou, Xiamen and 6 cities in eastern China's Zhejiang Province including Hangzhou, which will host Asian Games.<sup>137</sup> In the overseas market, China also explored the possibilities of using digital currencies for cross-border transactions. During the 2022 Winter Olympics, the trials of DC/EP was further extended to include foreign visitors.<sup>138</sup>

China's DC/EP is designed to be a retail CBDC,<sup>139</sup> which is anticipated to fully meet the public's daily payment needs, further improve the efficiency of the retail payment system, and reduce the cost of retail payments.<sup>140</sup> The ongoing effects of COVID-19 pandemic is impeding economic recovery and contributing to the commodity inflation and price volatility. Given the sluggish recovery of consumption and investment, DC/EP is increasingly perceived as a tool to expand domestic demand and promote recovery of consumption. China has resorted to large-scale digital e-CNY vouchers to spur

<sup>135</sup> People's Bank of China, *Progress on Research and Development of E-CNY in China*, (July 2021), available at <http://www.pbc.gov.cn/en/3688110/3688172/4157443/4293696/2021071614584691871.pdf>.

<sup>136</sup> People's Bank of China, *Progress on Research and Development of E-CNY in China*, (July 2021), available at <http://www.pbc.gov.cn/en/3688110/3688172/4157443/4293696/2021071614584691871.pdf>.

<sup>137</sup> People's Bank of China, *The People's Bank of China Held a Symposium on the Pilot Work of Digital RMB Research and Development* (人民银行召开数字人民币研发试点工作座谈会), 3 April 2022, available at [http://www.gov.cn/xinwen/2022-04/03/content\\_5683323.htm](http://www.gov.cn/xinwen/2022-04/03/content_5683323.htm).

<sup>138</sup> Theodore Benzmilller, *China's Progress Towards a Central Bank Digital Currency*, Center for Strategic & International Studies (April 2022), available at <https://www.csis.org/blogs/new-perspectives-asia/chinas-progress-towards-central-bank-digital-currency.s>

<sup>139</sup> CBDC can be categorized into wholesale CBDC and retail CBDC, based upon their U.S.er and purpose. In contrast to retail CBDC, wholesale CBDC is mainly issued to institutions such as commercial banks and mostly serve large-value settlement.

<sup>140</sup> People's Bank of China, *Progress on Research and Development of E-CNY in China*, (July 2021), available at <http://www.pbc.gov.cn/en/3688110/3688172/4157443/4293696/2021071614584691871.pdf>.

consumer spending and stimulate economy. It is reported that Shenzhen will hand out e-CNY vouchers worth 30 million yuan (US\$4.5 million) through local internet platform.<sup>141</sup> It reflects China's new economic landscape in which domestic consumption plays a bigger part. DC/EP adopts two-tier operation whereby the PBOC lies at the centre of issuance and operation of the DC/EP, taking charge of issuance and disposal, inter-institution connection and wallet ecosystem management. PBOC issues e-CNY to authorised operators which are commercial banks, and then these authorised operators and other commercial institutions are responsible for exchange and circulation services.<sup>142</sup> At the operational level, a user quota has been applied to help the central authority to carry out a series of identity verification steps.<sup>143</sup> Therefore, in theory, one does not need a bank account in order to use DC/EP, although one does need a so called "digital wallet" to manage transfer and purchase transactions. However, if one's digital wallet has not been authenticated for identity purposes, it only has very limited uses. In other words, the more identity information the PBOC has about a particular DC/EP user, more functions associated with the DC/EP opens to the user. It has been suggested that from an accounting perspective, as both traditional currencies and DC/EP are debts of central bank, people have more incentives to hold assets like this during an economic recession, thus increasing potential uses of DC/EP.<sup>144</sup>

China's development of e-CNY is also associated with speculation that China is using e-CNY as a device to raise the international status of the *Renminbi*, boost its international use, and, furthermore, change the international monetary system.<sup>145</sup>

The U.S. is also moving forwards in deploying CBDC. The Fed has recently released a discussion paper about a potential U.S. CBDC, outlining of the pros and cons of developing CBDC. Though the paper invites public discussion and does not infer any particular policy preference, it constitutes an initial step in determining whether and how CBDC could foster the safety, efficiency, and

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<sup>141</sup> South China Morning Post, *China Digital Currency: Shenzhen Hands Out E-CNY Vouchers Worth U.S.\$4.5 Million via Internet Platform Meituan*, 31 May 2022, available at <https://www.scmp.com/tech/tech-trends/article/3179824/china-digital-currency-shenzhen-hands-out-e-cny-vouchers-worth>.

<sup>142</sup> People's Bank of China, *Progress on Research and Development of E-CNY in China*, (July 2021), available at <http://www.pbc.gov.cn/en/3688110/3688172/4157443/4293696/2021071614584691871.pdf>.

<sup>143</sup> Zehua Lu, *First Appearances of the Digital Renminbi*, *People's Daily (Overseas)* (21 August 2019), 8, [http://paper.people.com.cn/rmrbhwb/html/2019-08/21/content\\_1942437.htm](http://paper.people.com.cn/rmrbhwb/html/2019-08/21/content_1942437.htm) (originally in Chinese).

<sup>144</sup> Stefan Stankovic & Ashwath Balakrishnan, *Central Banks Recommended to Ban Stablecoins*, *Crypto Briefing* (14 April 2020), available at <https://cryptobriefing.com/central-banks-recommended-ban-stablecoins/>.

<sup>145</sup> Jonathan Cheng, *China Rolls Out Pilot Test of Digital Currency*, *The Wall Street Journal* (20 April 2020), <https://www.wsj.com/articles/china-rolls-out-pilot-test-of-digital-currency-11587385339>.

effectiveness of the domestic payments system.<sup>146</sup> CBDC is also seen as a tool to support the U.S. dollar's dominant international role. To some extent, the U.S. CBDC initiative is motivated by its worry of handing over the U.S. dollar's current dominant international status to a more attractive CBDC issued by other countries or currency unions.<sup>147</sup>

Potential competition comes from Libra, a stablecoin plan rolled out by Facebook, which was thought to have the potential for exacerbating financial turmoil. Some key comparisons between Libra and CBDC are summarised in Table 2 below. PBOC's recent trials of E-CNY in some cities in China has led it to outpace Libra.

**Table 2.**  
**Key Comparison between Libra and CBDC\***

Perspectives	Libra	CBDC
Issuer	Private entities	Central bank
Value basis	Basket of assets	Digital assets (At a ratio of 1:1 to fiat currency)
Essence	Credit and supranational currency	Tender (legal status) and an intermediary
Volume	Determined by the market	Market-based
Price	To exhibit sharp fluctuations	Stabilised by the central bank, subject to monetary policy
Mint tax	Mortgage fiat interest	Market premium
Mechanism	By all means	All the people
Infrastructure for transmission	Blockchain technology and networks	blockchain
Promotional institution	Libra Association	Digital Asset Exchange
Consumers	Unbanked and underbanked	Consumers for digital assets
Context	All sorts of financial services	Digital asset exchange

\*\*Prepared by the authors.

Although official currencies are the core of the payment system, alternative currencies may change the landscape. Technological developments have resulted in proliferation of alternative privately issued payment instruments, including electronic or virtual currencies. However, some of them like Bitcoins have not been recognised as part of national payment systems comprise authorised institutions, infrastructure, and regulated processes. They become part of the shadow payment system. The U.S. dollar's dominance gives America the ability to exert soft power through the existing international financial and monetary

<sup>146</sup>The U.S. Federal Reserve, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation* (January 2022), available at <https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf>, 1.

<sup>147</sup>*Ibid.* 15.

order. Therefore, a serious implication of replacing existing monetary arrangements with new digital-currency-based infrastructure not only revamps the order, but also calls for new ways for this power to be constrained. With disruptions in payment system and liquidity, currency competition will soon be intensified. For China, this is probably a long-awaited moment, while a global pandemic just pulls the trigger. With CBDC entering into the mainstream, China may have upper hands in setting future regulatory standards.

#### IV. CONCLUDING REMARKS

A crisis is not the time to experiment or implement an entirely new infrastructure, but to build on existing ones. The rise of China's economic and political power is rapidly shifting the world order in an anti-populist fashion. In this article we have provided up to date analysis of three emerging case scenarios to understand the nature of China's fight against COVID-19 from anti-populist perspectives. These findings raise significant theoretical and empirical questions for further research in the post-COVID-19 era. First, we illustrate how China is influencing the global order by redressing state liability and defending multinationalism. Further, theoretical work on the geo-political and socio-economical foundations through which China is exerting these influences are warranted. We also probed into the new digital financial infrastructure China is building to combat the strong extraterritorial influence of the U.S. dollar system while expanding the *renminbi*'s zone of influences. Empirical investigations of DC/EP's impact across areas of international financial ordering, such as emerging standards and regulations, will reveal further insights into conditions under which Chinese policy makers are pushing for these changes.

The United States' long-standing global leadership is being challenged by China's stratagems even more during the current COVID-19 pandemic. China wants the same privileges an economic superpower would expect. A widely used reserve currency conferring a large say over global rules of finance, trade, and investment. China could expand its influence and protect its security interests as the U.S. has done. The fact that the U.S. and China are engaged in a hegemonic rivalry translates into greater complexity and risks involved in remaking the global order and greater resistance of current incumbents to maintain the status quo. The pandemic is still ongoing. The challenge the world and China is facing is much needed competition and reform. Allowing populist nationalism to divide the globe or building a better international economic order to better safeguard health and economic rights is a choice that can be made wisely. Multilateral collaboration is vital for economic recovery

from the pandemic. China's positive engagement in global governance may bring about better public goods for the regression the world is facing in the midst of and even in the aftermath of the pandemic.<sup>148</sup>

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<sup>148</sup>Public goods in Western senses are more about rigorous standards or rules, i.e., standards government debt accounting. Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton University Press, 2009), 282. The other school of thoughts focuses on international financial stability as global public goods provided by the Bretton Woods institutions. Annamaria Viterbo, *International Economic Law and Monetary Measures – Limitations to States' Sovereignty and Dispute Settlement* (Edward Elgar, 2012), 56-100. Nevertheless, the limitation of laws and regulations is also diagnosed to be a key weakness in constraining or enabling the response to financial crises. David Zaring, "The Legal Response to the Next Financial Crisis", *George Mason Law Review* 24 (2017): 533-553.

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