

## Welcome to This Week's Edition of Asia on the Horizon

This week, we witness a confluence of pivotal developments that underscore the dynamic shifts occurring across Asia and beyond. From China's monetary policy shift after 14 years to rising military tensions in the Taiwan Strait, political upheaval in South Korea, and the United Kingdom's strategic entry into the Indo-Pacific trade bloc, the region continues to be at the forefront of global transformations.

In a major economic shift, China's leadership has adopted a "moderately loose" monetary policy stance, a significant departure from its 14-year "prudent" approach. The move, prompted by persistent deflationary pressures and sluggish domestic demand, signals Beijing's intent to boost consumption, expand investment, and stabilize growth amid growing economic headwinds.

Meanwhile, the Taiwan Strait has seen heightened military activity, as China's PLA launched large-scale naval and aerial operations, including incursions into Taiwan's ADIZ. These maneuvers, captured in this week's Map of the Week, highlight rising regional tensions and Beijing's intensifying pressure on Taiwan.

South Korea, on the other hand, remains gripped by political turmoil. President Yoon Suk Yeol's controversial martial law declaration and subsequent impeachment have triggered nationwide protests and a ripple effect on regional alliances. This crisis not only jeopardizes Seoul's bilateral ties with Japan but also risks undermining the broader trilateral security cooperation with the United States at a time of mounting challenges in Northeast Asia.

In a significant economic milestone, the United Kingdom officially joined the CPTPP, becoming the first European nation to do so. This historic move secures Britain's access to a bloc that accounts for 15% of global GDP and a market of over 500 million people, positioning the UK to strengthen its economic foothold in the Indo-Pacific region post-Brexit.

Amidst these pressing geopolitical and economic shifts, this edition also features our Statistics of the Week, offering insights into China's evolving monetary policy trends and inflation dynamics over the past three decades. Additionally, our Infographic of the Week explores China's strategic recalibration in the Middle East following Assad's downfall.

We hope this week's analysis, visuals, and updates provide valuable perspectives as we navigate the complexities shaping the Asia-Pacific and global landscapes. Thank you for joining us, and we look forward to delivering continued insights in the weeks ahead.



## 1. KEY DEVELOPMENTS

### South Korea's Political Crisis: Martial Law Fallout

South Korea is grappling with political turmoil following President Yoon Suk Yeol's controversial martial law declaration earlier this month. The move, justified by claims of combating "anti-state activities" within the opposition, was met with immediate domestic and international backlash. Parliament voted overwhelmingly to impeach Yoon, suspending him from office pending a Constitutional Court decision. In the interim, Prime Minister Han Duck-soo has assumed the role of acting president, though his position is also under scrutiny. Public protests have surged across the nation, reflecting widespread anger over the martial law debacle and Yoon's handling of the crisis.

The fallout extends beyond Yoon's impeachment. Former Defense Minister Kim Yong-hyun, who reportedly proposed the martial law declaration, was arrested and subsequently attempted to take his own life in custody. This high-profile arrest follows the resignations of multiple senior officials, including the Interior Minister and key presidential aides. Investigations into allegations of insurrection are underway, targeting Yoon and other officials involved in the martial law decision. Meanwhile, opposition parties are planning weekly impeachment motions, vowing to restore democratic stability. South Korea now faces an extended period of political uncertainty, with significant implications for its governance and regional standing.

### China's Strategic Actions: Minerals Ban and Military Posturing

China has escalated its trade and security measures in response to U.S. actions, signaling a sharp rise in geopolitical tensions. The Chinese Commerce Ministry announced an export ban on critical minerals, including gallium, germanium, and antimony, targeting the U.S. technology and defense industries. This move follows Washington's expanded restrictions on Chinese semiconductor manufacturing tools. The banned materials are essential for producing semiconductors, renewable energy systems, and defense technologies, creating significant challenges for global supply chains. Analysts view this as part of an intensifying U.S.-China trade war, particularly as President-elect Donald Trump prepares to assume office with a focus on tough trade policies.

On the military front, Taiwan's defense ministry reported China's largest naval deployment in decades, encompassing the First Island Chain. This includes heightened activity near Taiwan, as well as air and naval maneuvers simulating blockades and targeting foreign vessels. Taiwanese authorities interpret the deployment as a response to President Lai Ching-te's recent Pacific tour, which included stopovers in U.S. territories. The scale and intensity of China's actions underscore its regional ambitions and readiness to exert pressure on Taiwan and its allies, raising concerns about future stability in the Indo-Pacific.

## India-Russia Energy Cooperation

India and Russia have deepened their energy partnership through a landmark agreement between Rosneft and Reliance Industries. The \$13 billion annual crude oil supply deal commits Russia to provide 500,000 barrels per day over the next decade, accounting for nearly half of Rosneft's seaborne exports. This agreement solidifies India as Russia's largest oil importer, capitalizing on discounted crude prices amidst Western sanctions. Reliance's Jamnagar refinery, one of the world's largest, will play a pivotal role in refining the incoming oil, enabling India to strengthen its energy security and reduce dependency on Middle Eastern suppliers.

This deal represents a strategic win for both nations. For India, it ensures a steady supply of affordable crude oil to meet its growing energy demands. For Russia, the agreement mitigates the impact of sanctions, allowing it to maintain revenue streams and strengthen ties with a key Asian partner. However, the partnership may face scrutiny from Western powers, particularly as sanctions on Russian energy exports tighten. Additionally, the deal could disrupt market dynamics, increasing competition with Gulf oil producers vying for India's expanding energy market.

## Strengthening U.S.-Philippines Relations: Energy and Maritime Security

The U.S. and the Philippines continue to bolster their bilateral ties through expanded cooperation on energy and maritime security. At the second annual Energy Policy Dialogue, held in Manila, both nations reaffirmed their commitment to renewable energy development, energy security, and nuclear power collaboration. The recently implemented "123 Agreement" on the peaceful use of nuclear energy has opened new avenues for deploying advanced nuclear technologies in the Philippines, aligning with its goals of reducing carbon emissions and ensuring energy diversification.

In parallel, the inaugural U.S.-Japan-Philippines Maritime Dialogue in Tokyo highlighted the nations' shared commitment to a free and open Indo-Pacific. Key topics included countering China's assertive behavior in the South China Sea, enhancing maritime law enforcement, and conducting combined training exercises. This trilateral dialogue reflects a strategic effort to strengthen regional alliances and uphold international law. With maritime security and energy cooperation advancing in tandem, the U.S.-Philippines partnership is positioned to address shared challenges while reinforcing stability in the region.

## China-Russia Relations: High-Level Engagement

China and Russia marked the 75th anniversary of their diplomatic relations with a high-profile visit by Dmitry Medvedev to Beijing. Medvedev, Deputy Chairman of Russia's Security Council, held talks with Chinese President Xi Jinping, reaffirming the "no limits" partnership between the two nations. Discussions centered on deepening cooperation within multilateral frameworks like BRICS and the Shanghai Cooperation Organization,

with a shared emphasis on promoting a multipolar world order. Medvedev also delivered a letter from Russian President Vladimir Putin, emphasizing the strategic alignment between Moscow and Beijing.

A key focus of the dialogue was the Ukraine conflict, with Xi reiterating China's position on de-escalation and political resolution. Beijing's continued push for its "three principles" approach—avoiding battlefield expansion, escalation, and provocations—underscores its aim to position itself as a mediator. Meanwhile, both nations committed to enhancing economic and military cooperation, signaling their intent to counter Western-led initiatives. This visit underscores the strengthening of China-Russia ties amidst ongoing geopolitical shifts.

## German Navy's Indo-Pacific Deployment

The German Navy concluded its 2024 Indo-Pacific Deployment, marking a significant milestone in Germany's maritime defense diplomacy. Over seven months, the deployment covered 45,000 nautical miles, engaging in exercises with regional partners like Japan, the U.S., and Australia. Notable highlights included participation in RIMPAC, joint operations in the South China Sea, and maneuvers with the Indian Navy. Despite operational challenges, such as avoiding the Red Sea due to security concerns, the mission demonstrated Germany's commitment to supporting free and secure shipping lanes.

However, the deployment also highlighted Germany's limitations in executing global naval operations. The decision to reroute around the Cape of Good Hope due to the Houthi threat in the Red Sea underscores the need for greater operational flexibility and enhanced resources. While the mission showcased Germany's ability to collaborate with allies and project its naval presence, it also served as a reminder of the challenges facing European navies in addressing global security demands. The deployment sets a precedent for future engagements, emphasizing the need for strategic planning and resource optimization.

## China-U.S. Relations: Trump Extends Inauguration Invitation to Xi Jinping

In a surprising diplomatic move, U.S. President-elect Donald Trump has reportedly invited Chinese President Xi Jinping to his January 20 inauguration. While such an invitation to a Chinese leader is unprecedented, Beijing is unlikely to accept, according to sources familiar with the matter. Instead, China is expected to send its ambassador to the U.S., adhering to diplomatic protocol. This invitation comes against the backdrop of Trump's planned reintroduction of aggressive trade policies, including tariffs on Chinese goods and restrictions on Chinese investments in the U.S.

Trump's gesture signals a complex approach to U.S.-China relations. On one hand, it reflects a willingness to engage with adversaries through open dialogue. On the other, his administration has already positioned itself as tough on China, with appointments of known China hawks like Senator Marco Rubio as Secretary of State and

Representative Mike Waltz as National Security Adviser. While Xi's anticipated absence underscores the diplomatic strain between the two powers, the invitation itself could foreshadow the unpredictable dynamics likely to shape their bilateral relations under Trump's administration.

## **China Shifts to 'Moderately Loose' Monetary Policy for the First Time in 14 Years**

In a significant economic policy shift, China's leadership has adopted a "moderately loose" monetary stance for the first time since the 2008 global financial crisis. Announced by the Communist Party's Politburo, this move signals a proactive approach to address deflationary pressures and sluggish domestic demand amid ongoing economic challenges.

The politburo emphasized the need for "extraordinary countercyclical adjustments" to bolster consumption, investment efficiency, and expand domestic demand. Financial markets responded positively, with bond yields hitting a record low of 1.92% and Hong Kong's Hang Seng China Enterprises Index rising by 3.14%.

## **UK Joins CPTPP as First European Member**

The United Kingdom officially became the 12th member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on December 15, marking a significant step in its post-Brexit trade strategy. As the first European nation to join the Indo-Pacific trade bloc, the UK gains access to a market of over 500 million people, with the agreement accounting for roughly 15% of global GDP. Officials project the move could add up to \$2.5 billion annually to the UK's economy.

The bloc, originally established in 2018, includes key partners such as Japan, Australia, Canada, and Vietnam, and is viewed as an economic counterweight to China's regional dominance. This development underscores Britain's strategic shift towards engaging with rapidly growing Indo-Pacific economies while navigating ongoing challenges in its post-Brexit trade relations, particularly with the European Union and the United States.

## 2. STATISTICS OF THE WEEK

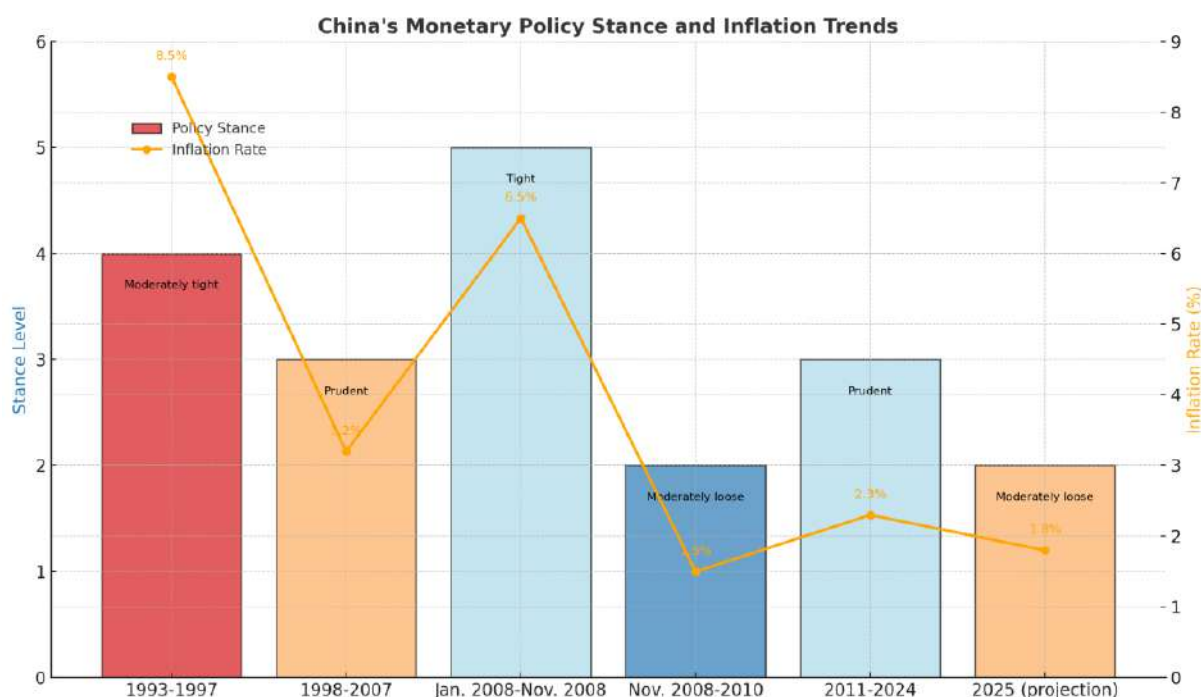
### China's Monetary Policy Stance and Inflation Trends

This week, China's leadership made a pivotal shift by adopting a "moderately loose" monetary policy stance for the first time since the 2008 Global Financial Crisis, signaling a bold response to mounting economic challenges. The graph highlights China's monetary policy trajectory over the past three decades, showing how previous shifts were driven by inflationary concerns or global economic crises.

From 1993-1997, China employed a "moderately tight" stance to curb soaring inflation, peaking at 8.5%. The 2008 crisis prompted a "moderately loose" policy (Nov. 2008-2010) to stabilize the economy, with inflation dipping to 1.5%. Since 2011, a "prudent" policy prevailed as inflation remained relatively stable at 2.3%.

This week's announcement reflects a proactive pivot in response to deflationary pressures, sluggish domestic demand, and a weakening property sector. Leaders emphasized the need for "extraordinary countercyclical adjustments" to stimulate consumption and investment. The projected 1.8% inflation rate for 2025 underscores the urgency of these measures while signaling a cautious yet growth-oriented stance.

China's shift comes at a critical juncture as economic indicators, including consumer price deflation and record-low bond yields, highlight persistent challenges. The move also reflects Beijing's recognition that more aggressive policy adjustments are necessary to boost demand, strengthen investor confidence, and mitigate the risk of prolonged stagnation.





### 3. MAP OF THE WEEK

#### Escalating Tensions in the Taiwan Strait

This week's map highlights heightened military activity by China's People's Liberation Army (PLA) in the Taiwan Strait and surrounding waters, reflecting increasing tensions in the region. The map, sourced from Taiwan's Ministry of National Defense (MND), documents significant PLA air and naval movements over a 24-hour period.

Key Developments:

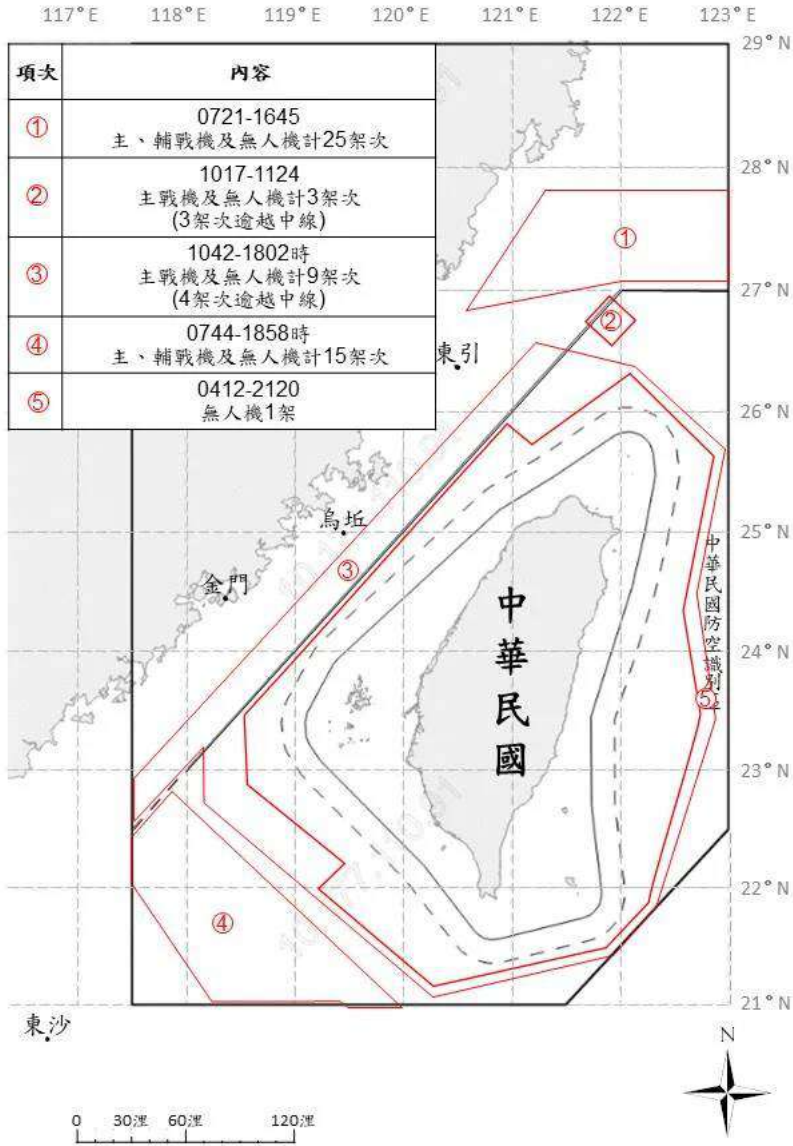
- **Air Intrusions:** A total of **25 Chinese aircraft**, including fighter jets and drones, were detected in multiple sectors surrounding Taiwan. Several crossed the **median line of the Taiwan Strait**, breaching Taiwan's Air Defense Identification Zone (ADIZ).
- **Naval Deployments:** **19 PLAN vessels** were observed operating near Taiwan, further intensifying the military presence in the East China Sea, Taiwan Strait, and the Western Pacific.
- **Escalation Dynamics:** These movements come in response to recent diplomatic tours by Taiwan's leadership and reflect Beijing's strategy of military signaling. Analysts point to China's Joint Sword drills earlier this year as a precedent for these provocations.

Taiwan's Ministry of National Defense has ramped up combat readiness exercises to counter these "gray zone" tactics, which include routine incursions and intimidation maneuvers aimed at testing Taiwan's defenses and regional stability.

Strategically, the map underscores the PLA's growing ability to encircle Taiwan and dominate critical maritime and air zones. Regional allies, including Japan and the United States, are closely monitoring developments, as the scale and frequency of Chinese operations have far-reaching implications for Indo-Pacific security.

## 中共解放軍進入臺海周邊空域活動示意圖 (PLA air activities in the vicinity of the Taiwan Strait)

資料時間：113年12月10日06時至113年12月11日06時



<https://news.usni.org/2024/12/11/chinese-surge-53-military-aircraft-19-ships-near-taiwan-officials-say>



## 4. PHOTO OF THE WEEK

### Jubilation in Seoul: South Korea's Parliament Impeaches President Yoon Suk Yeol

The aerial image captures thousands of demonstrators gathered outside the National Assembly in Seoul, South Korea, celebrating the impeachment of President Yoon Suk Yeol on December 14, 2024. The unprecedented scenes highlight a pivotal moment for South Korea's democracy, as citizens waved banners demanding accountability and an end to the political crisis triggered by Yoon's brief martial law declaration.

The impeachment, passed overwhelmingly by the parliament, marks a significant victory for the opposition and protest movements, reflecting both the resilience of South Korea's democratic institutions and the people's role in shaping the nation's future. Despite the political turmoil, the crowd's energy underscored a broader commitment to preserving constitutional order and democratic principles.



Participants gather during a rally to demand South Korean President Yoon Suk Yeol's impeachment outside the National Assembly in Seoul, South Korea, Saturday, Dec. 14, 2024. (Kim Do-hoon/Yonhap via AP)

<https://www.daytondailynews.com/nation-world/south-koreas-parliament-votes-to-impeach-president-yoon-suk-yeol-over-his-martial-law-order/NSKU5RJ7NVBBRPPDC3BGLAAYQ/>

## 5. INFOGRAPHIC OF THE WEEK

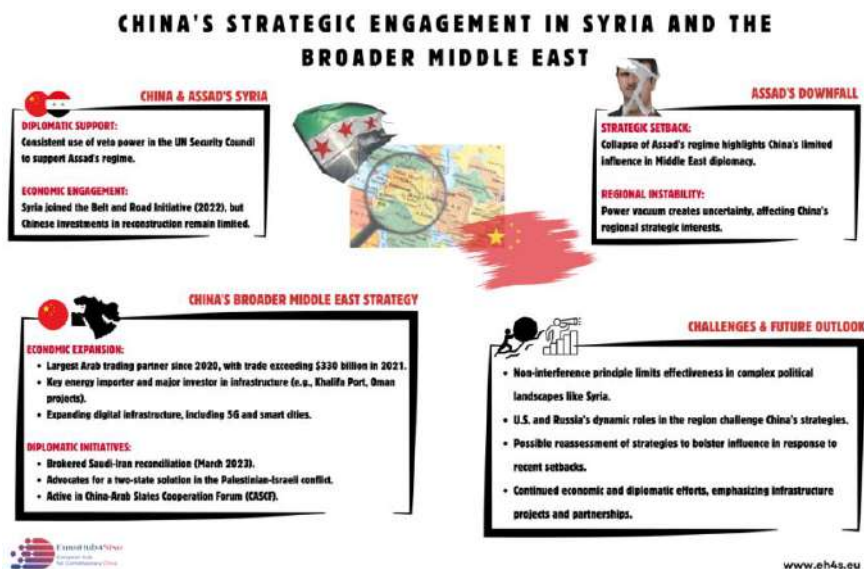
### China's Strategic Challenges in Post-Assad Syria and the Middle East

This week's infographic explores China's strategic position in Syria and the broader Middle East as it grapples with emerging challenges following Assad's downfall. The collapse of Assad's regime marks a significant setback for China, creating a regional power vacuum that threatens its strategic and economic interests.

At the regional level, China's economic ambitions remain robust, solidifying its role as the largest Arab trading partner since 2020, with trade exceeding \$330 billion. Investments in energy, infrastructure projects—such as Khalifa Port—and advanced digital technologies like 5G are central to Beijing's long-term strategy for influence.

Diplomatically, China has enhanced its role as a mediator, exemplified by the Saudi-Iran reconciliation it brokered in March 2023, while continuing to advocate for a two-state solution in the Israel-Palestine conflict. Additionally, China strengthens its security posture in the region through anti-piracy operations and arms supplies to key partners.

Beyond trade and diplomacy, China's engagement includes fostering cultural ties, with Confucius Institutes and scholarships aimed at deepening connections with Arab states. However, Syria's transition and ongoing instability challenge China to balance its economic ambitions, diplomatic outreach, and the need for regional stability as the Middle Eastern landscape continues to shift.



## 6. REGIONAL ALLIANCES

### Impact of South Korea's Political Crisis on Japan-South Korea Relations

The fallout from President Yoon Suk Yeol's declaration of martial law is reverberating beyond South Korea's domestic arena, posing significant risks to its bilateral relationship with Japan. Over the past two years, Yoon's administration fostered a notable rapprochement with Tokyo, facilitated by strong personal ties with former Japanese Prime Minister Kishida Fumio. This improved cooperation aimed to address shared regional security challenges, particularly regarding North Korea and China. However, Yoon's impeachment and the ensuing political chaos in Seoul have disrupted this momentum, casting doubt on the future trajectory of Japan-South Korea relations.

The cancellation of high-profile engagements, including visits by Japanese parliamentary and defense delegations, underscores the immediate strain caused by South Korea's instability. Prime Minister Ishiba Shigeru, who had prioritized deepening ties with Seoul, now faces the prospect of working with an uncertain South Korean leadership. The impeachment motion submitted by opposition parties highlights their criticism of Yoon's "Japan-centered foreign policy," indicating a potential reversal in bilateral dynamics if progressive forces, led by Democratic Party leader Lee Jae-myung, assume power. Such a shift could jeopardize the hard-earned progress achieved in bilateral relations and stall initiatives, such as a planned state visit by Yoon to Japan for the 60th anniversary of normalized diplomatic ties.

### Risks to Japan-South Korea-U.S. Trilateral Security Cooperation

Yoon's political crisis also threatens the stability of the Japan-South Korea-U.S. trilateral framework, which has been a cornerstone of regional security strategy. Strongly promoted by the Biden administration, the trilateral alliance aims to counterbalance North Korea's provocations and China's growing assertiveness. U.S. Secretary of Defense Lloyd Austin's decision to cancel his planned visit to Seoul underscores the fragility of this cooperation in the wake of South Korea's turmoil. With President-elect Donald Trump preparing to take office in January, concerns over his "America First" approach and potential demands for increased defense contributions from allies have further heightened anxieties about the alliance's cohesion.

The trilateral partnership's importance has only grown amid emerging threats, including North Korea's alignment with Russia under the Treaty on Comprehensive Strategic Partnership. The treaty, effective as of December 4, 2024, elevates Pyongyang-Moscow ties to a de facto military alliance, intensifying regional security challenges. Moreover, North Korea may exploit South Korea's political paralysis to escalate provocations, such as missile launches or military activities near the Demilitarized Zone (DMZ). Japan, already wary of a progressive administration in Seoul, now faces the difficult task of maintaining strategic alignment with the U.S. and a politically unstable South Korea.

### Strategic Consequences for Regional Engagement with China

The crisis in South Korea also complicates ongoing efforts to balance regional diplomacy with China. Under the trilateral framework, Japan, South Korea, and the U.S. had strengthened coordination to manage Beijing's influence, while simultaneously engaging with China through

initiatives like the Japan-South Korea-China trilateral dialogue. South Korea's political uncertainty now threatens to derail these efforts. Japan, as the next chair of the trilateral dialogue, had been preparing to host foreign ministerial talks early next year, paving the way for a spring summit of the three nations' leaders. This plan is now unlikely to proceed, forcing Tokyo to focus on bilateral engagement with Beijing instead.

Japanese policymakers remain acutely aware that a progressive government in Seoul may adopt a foreign policy less aligned with Tokyo and Washington, potentially seeking warmer ties with China. This risk is compounded by Trump's anticipated return to office, which may further strain multilateral coordination as his administration prioritizes unilateral measures over alliances.

### **Conclusion: A Critical Juncture for Alliances**

The political convulsions in Seoul present a critical test for Japan-South Korea-U.S. security cooperation and broader regional alliances. While the shared strategic imperative of countering North Korea and China remains, South Korea's domestic turmoil threatens to undermine these partnerships at a precarious time. Japan, in particular, faces the dual challenge of managing strained relations with South Korea while navigating the uncertainties of Trump's foreign policy approach. Moving forward, Tokyo and Washington must work closely to stabilize ties with Seoul, ensuring that political disruptions do not compromise regional security or derail ongoing diplomatic initiatives.

## 7. ANALYSIS

### China's Strategic Miscalculation in Post-Assad Syria

The downfall of Bashar al-Assad in Syria represents a significant diplomatic setback for China and highlights the limits of its Middle East strategy. China's explicit support for Assad—both diplomatically through consistent vetoes at the UN Security Council and symbolically by hosting Assad's state visit in 2023—reflected Beijing's broader ambitions to expand its influence in the region. However, Assad's abrupt fall, brought about by a coalition of rebel forces, underscores Beijing's inability to navigate the complexities of regional geopolitics or influence political outcomes.

China's alignment with Assad was largely grounded in its broader partnership with Russia and Iran, two key players supporting the Syrian regime. This alignment allowed Beijing to position itself as a stabilizing mediator in the region, exemplified by its successful brokering of the Saudi-Iranian reconciliation in March 2023. However, Assad's collapse has weakened China's narrative of constructive diplomacy and risks undermining its relations with regional allies. Analysts note that China's strategy was built on fragile assumptions, particularly that Assad's regime could endure long enough for Chinese firms to capitalize on Syria's reconstruction under the Belt and Road Initiative (BRI).

The consequences of this miscalculation are twofold. First, China's credibility as a power broker has taken a hit, exposing its limited capacity to shape political developments in volatile regions. Second, its overreliance on Iran and Russia to maintain influence in Syria has placed Beijing in a precarious position. As Iran's proxies and influence recede, China may now be forced to reassess its strategic alignment with Tehran and Moscow, both of which have suffered a significant loss of regional leverage. Experts argue that Beijing will likely pivot toward countries like Turkey, a rising regional power, to recalibrate its Middle East approach.

### Implications for China's Economic and Diplomatic Strategy

Despite its ambitions to expand economic ties in the Middle East, China's engagement in Syria has yielded little tangible return. Syria joined the BRI in 2022, yet sanctions and instability deterred significant Chinese investment. This reflects a broader recalibration of China's foreign economic strategy, with Beijing now prioritizing safer, lower-risk investments as part of its reassessment of the BRI's global reach. Syria's collapse raises critical questions about China's ability to deliver on its economic promises in politically unstable environments.

Diplomatically, Beijing remains cautious in its response to Assad's fall. Official statements have emphasized the importance of a "political solution" and hinted at a willingness to engage with a future Syrian government. This pragmatic posture aligns with China's long-standing principle of non-interference, but it also reveals Beijing's hesitancy to commit resources amid geopolitical uncertainties. By remaining open to engagement with a new Syrian leadership, China seeks to protect its economic interests while maintaining a neutral stance to avoid alienating other regional players.

### Regional Ramifications and China's Path Forward

The collapse of Assad's regime has broader ramifications for China's regional posture. It disrupts the delicate balance of power that underpinned China's diplomatic initiatives, such as its advocacy for a two-state solution in the Israel-Palestine conflict and its mediation in Yemen.

Moreover, it exposes vulnerabilities in China's approach to Middle Eastern hotspots, where its non-interference principle often limits its ability to act decisively in crises. In the face of growing competition from the United States and other global powers, China will need to adopt a more flexible and resilient approach to safeguard its influence in the region.

Looking ahead, China's strategic recalibration will likely focus on strengthening economic and diplomatic ties with stable regional partners while maintaining a low-risk engagement strategy. The lessons from Syria may prompt Beijing to temper its ambitions and prioritize infrastructure and trade projects in less politically volatile contexts. As the Middle East transitions into a post-Assad era, China's challenge will be to adapt its policies to an evolving geopolitical landscape while mitigating the fallout from its missteps in Syria.

Ultimately, Assad's downfall has forced Beijing to confront the limits of its Middle Eastern strategy. Whether China can learn from this experience and reshape its engagement to better align with regional realities will be a critical test of its long-term ambitions in the Middle East.

