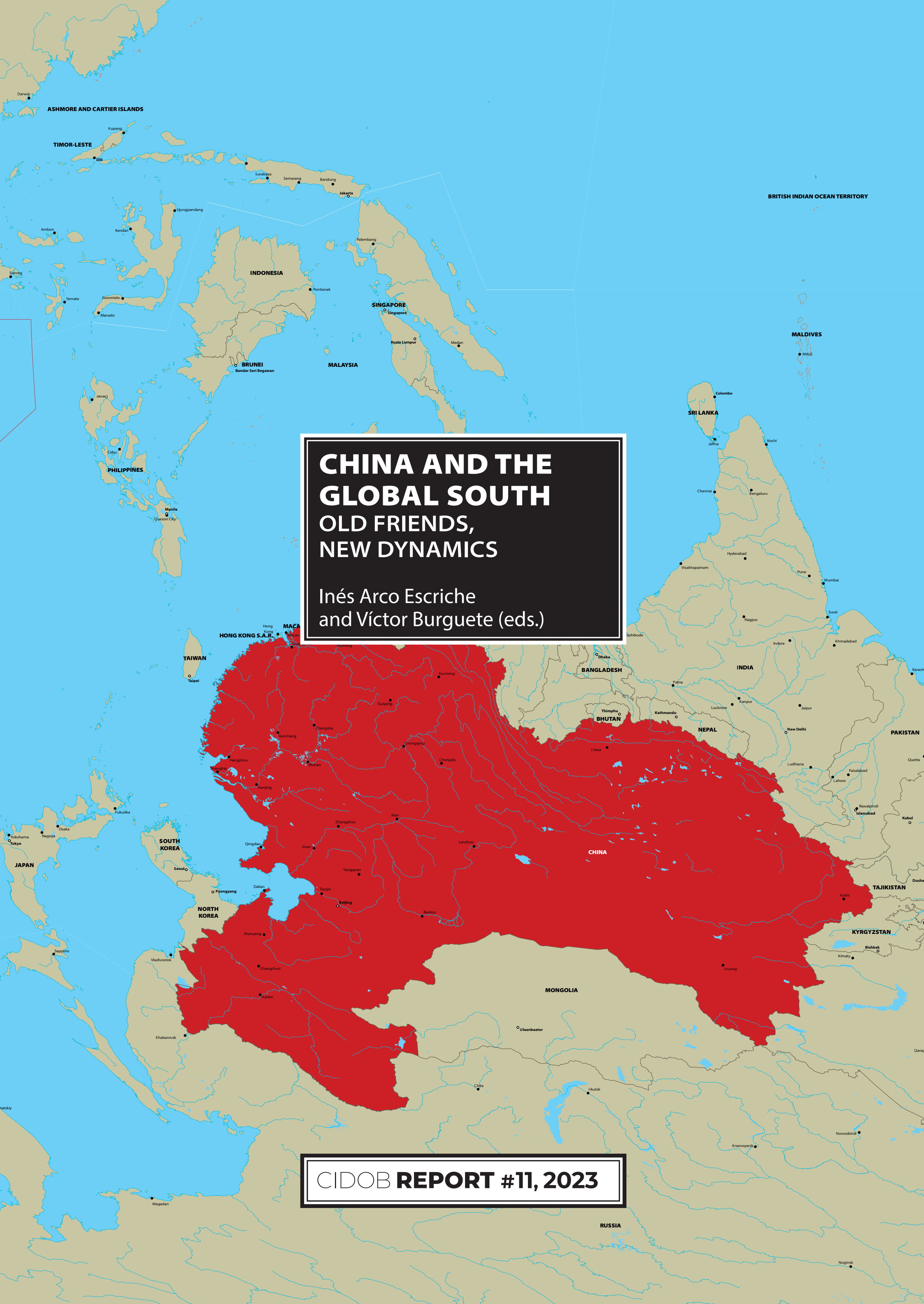

CHINA AND THE GLOBAL SOUTH

OLD FRIENDS, NEW DYNAMICS

Inés Arco Escriche
and Víctor Burguete (eds.)

CIDOB **REPORT #11, 2023**

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CONTENTS

CIDOB REPORT
11- 2023

INTRODUCTION: CHINA'S PRESENCE IN THE GLOBAL SOUTH


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CIDOB REPORT
11- 2023

The third summit of the Belt and Road Initiative (BRI) held in Beijing in October 2023, which coincided with the tenth anniversary of the launch of the project by China, gathered 23 leaders and delegations from over 130 countries. The event was a reflection the multipolar order being pushed by the Asian giant, its desire to continue boosting the agency of the Global South, and its interest in leading the challenge to the liberal international order. Under a paradigm of South-South cooperation and in a context of mounting geopolitical competition with the West, chiefly the United States, relations between China and the Global South have grown exponentially since the shift from an ideology-based approach during the Maoist era to one that places trade and investments at the heart of its foreign relations, which is the result of the Chinese state transformation and the effect of the internationalisation policies adopted at the end of the last century. The BRI, China's main foreign policy tool since President Xi Jinping came to power, aims to connect China with the Global South and Europe through infrastructure construction. Thus, over the last two decades the Asian country has emerged as one of the main trading partners of more than 100 countries, a major development financier and, in times of crisis, a real alternative to the International Monetary Fund (IMF) and the Bretton Woods economic order.

But what do we mean when we talk about the "Global South"? While there is no clear consensus on which countries form part of this group, we can affirm that it is a neat concept to describe the developing regions that share an economic, political and social history marked by the experience of colonialism and imperialism. It also encompasses their subsequent organisation into what was termed the Third World and the movements of non-aligned countries, people's liberation or decolonisation during the Cold War period. Today, its definition has evolved to include a shared identity and coordination among developing countries to promote their interests, concerns and collective solutions in the face of the major Western powers, in groupings like the G77 at the United Nations. The Global South, then, is a space of criticism – and of the desire for transformation – of the liberal international order led by the United States and Europe (Alden *et al*., 2010; Rojas and Rofel, 2023). China, for its part, has built its contemporary national identity around its membership of the Global South, as "the largest developing country", as well as its recent status as a global power. China's participation in the Bandung Conference in 1955, the starting point of the movement of non-aligned countries during the Cold War, and its support for revolutionary and national liberation processes forged strong and enduring ties that have lasted to this day, even if they are in a state of constant flux.

Indeed, thanks to China's greater economic clout obtained through modernisation and development, Beijing has devoted extensive diplomatic and financial effort to the Global South in recent decades, including the BRI project, or the proliferation of new regional cooperation fora. Yet Chinese presence has faced strong international pushback, mainly from the West but also from the countries receiving aid and investments from the Asian giant. The relatively low turnout of world leaders at the third BRI summit, compared to the 37 representatives who attended the second one in 2019, is an indication of the decline in global interest in this initiative. Lack of transparency, limited local impact, accusations of extractivism, the poor quality of some infrastructure, multiple shelved or failed projects and, more recently, the slowdown in investment flows and the mounting problems of some countries to service their debts – among other reasons – have tarnished the BRI's image globally.

Against this backdrop, the *CIDOB Report* nº11 looks at the main geoeconomic and diplomatic instruments China has used to engage with the Global South over the last two decades and explores how the countries grouped into that category perceive the Asian country. A deeper knowledge of this is crucial to understanding the new dynamics that are changing the geopolitical shape of the international order, particularly in the face of growing Western concern that Europe and the United States have "lost" the Global South. The report takes a regional approach to the analysis through seven case studies: sub-Saharan Africa, the Middle East and North Africa, Latin America, Central Asia, Southeast Asia, South Asia and the Pacific Islands. This allows us to examine the changes and (in)consistencies in Chinese foreign policy over the last two decades, questioning the existence of a coherent global strategy, the scope of its influence and the validity of some criticism of the Chinese development model. It enables a comparative approach to observe the similarities, the particularities and the key features of Chinese outreach to the various regions of the Global South. As we shall see, the results of Chinese policies are often the outcome of relatively vague guidelines issued from the central administration in Beijing and their mass, fragmented and poorly coordinated implementation by a diversity of domestic actors with their own interests and agendas, as well as the action of local agents that shape the Chinese presence in their territories.

It is also worth noting that the current approach of relations between China and the Global South, particularly under the BRI, is nearing its end. Partly in a bid to respond to the failings and criticism of the initiative, Xi Jinping announced a new phase of investments, with smaller projects and higher standards, focusing on the green and digital transition, which will allow China to continue to project itself as the champion of globalisation and development into the BRI's second decade. The project, moreover, is no longer so relevant even for China's elites, who have dialled down their pronouncements on the subject at the same time as they have adopted new global governance proposals, like the Global Development Initiative, the Global Security Initiative or the new Global Civilisation Initiative. From now on, the BRI will be one of several Chinese efforts to coordinate its relations with the Global South in its quest for a greater role in the international system.

How the report is structured

This report comprises eight chapters and an appendix. It takes a regional approach to China's varying strategies and presence – and how they are perceived or criticised – in the different geographical areas that make up the Global South, with the exception of the first chapter, which is more theoretical and general. Thus, it begins with an article by Víctor Burguete, who takes an overall view of how China uses trade, investment and rescue loans as geoeconomic tools to increase its geopolitical clout in the Global South.

Entering the regions now, the second chapter by Oscar Mateos explores China's "assertive" and security-focused shift in sub-Saharan Africa, where there are clear signs of the end of the loan era and a new phase of Sino-African relations. For African governments, China's arrival has broadened their options, which previously were constrained by the agendas of the European

Union (EU) and the United States. In the Middle East and North Africa, China's dynamics are marked by its energy concerns, an issue that Moussa Bourekba develops in the third chapter. He charts Beijing's growing role as a regional power in the shadow of waning US influence in the region, despite questions over China's readiness to accept the ramifications and responsibilities that this new status might bring. Turning to Latin America, a region still redefining its role in the world in the face of growing geopolitical competition, Anna Ayuso provides a snapshot of the impact of China's entry into the region. This includes rolling out new cooperation fora and contributing to the "reprimarisation" of its economies - a return to activities associated with the primary sector - by developing economic incentives that capitalise on the region's endemic reliance on foreign funding and huge infrastructure deficit.

Focusing on China's immediate neighbourhood, in the fifth chapter Francisco Olmos zooms in on Central Asia's key role in the Eurasian interconnection projects promoted by Beijing, as well as this geographical area's importance in terms of security and natural resources. Chinese presence here, however, is faced with growing Sinophobia, a dwindling number of remaining infrastructure projects, and concerns about the disturbing level of debt incurred by some countries in the zone. Javier Gil's article, meanwhile, explores Southeast Asia, the main target of Beijing's "neighbourhood diplomacy", analysing how China's outreach in the zone aims to ensure a favourable regional environment for its security and development. However, while relations between China and this region have improved considerably, there is a lingering distrust of the Asian giant arising from its political influence and growing military might, visible in the South China Sea dispute.

Ana Ballesteros tackles South Asia in her contribution, with the emphasis on China's dynamics with India and Pakistan, countries that form the pivot of its strategy in the zone. While Pakistan is the biggest recipient of BRI investment, India has felt compelled to seek alternatives to preserve its leadership in the region, including drawing closer to Washington, in the wake of China's greater assertiveness in its area of influence. These processes permeate the other countries in the zone, which must strike a balance between their own economic and development interests and geostrategic concerns. Lastly, in chapter eight, Inés Arco focuses on the distant region of the South Pacific. She highlights how China's presence in the zone is mostly shaped by its contest for international recognition with Taiwan and a new security dimension. However, a large part of Chinese presence - and of the stories that reach us of its presence in the region - can only be understood by considering the agency of the 14 island nations and their desire to determine the Pacific's future by involving both the Asian country and other powers in the region.

The report ends with an appendix that provides a concise comparison of the different regions' importance to China in terms of trade and the Global South states' dependence on this country, as well the distribution by region and by country of China's investments over the last two decades, before and after the launch of the BRI. It provides a comparative collection of data with which to obtain a more detailed understanding of China's economic presence (and importance) in the different countries of the Global South.

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CHINA AND THE GLOBAL SOUTH: TRADE, INVESTMENT AND RESCUE LOANS

The Global South occupies an increasingly important place in China's trade and investment flows. This grouping of countries is allowing China to diversify its imports, secure new markets and reduce its vulnerabilities as it engages in a strategic competition with the West. Currently, three out of every four dollars that China invests go to countries participating in the Belt and Road Initiative, where the Asian giant is emerging as a funding alternative in times of crisis. This greater presence brings greater geopolitical influence, but it is not without its challenges.

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CIDOB REPORT
11- 2023

The Global South: a more positive view of China's trade boom

At the end of the 1970s, China embarked on a series of economic reforms that would take its share of global goods exports from barely 1% to 15% in the space of 40 years. This was to the detriment of the exports of Europe, the United States and Japan, which experienced severe industrial decline. The defining moment of this process was China's accession to the World Trade Organization (WTO) in 2001. It was a milestone that allowed the country to leverage its manufacturing power and integrate into the global value chains ushered in by globalisation.

The structure of China's trade remained virtually unchanged from early 1990 to 2001, a period in which high-income countries accounted for 70% of its commercial dealings. Today, however, these countries "only" represent 50% of Chinese trade, while the Global South has hit 40%[1], thanks to

1. Estimate based on data from the World Integrated Trade Solution (WITS) software from the World Bank and correcting Hong Kong's distorting effect on trade statistics. The last reference year is 2019 in order to disregard the upturn in demand for industrial goods during the COVID-19 pandemic.

greater economic growth and China's readiness to diversify its transactions and reduce its reliance on the West[2].

By region, Asia accounts for nearly half of China's trade activity. The Global South countries located in Southeast Asia are particularly important (15% of the trade) because they are close at hand and integrated into the value chains of Chinese products. South America, the Middle East and Sub-Saharan Africa, meanwhile, account for over 20% of China's imports, largely thanks to their natural resources.

THE GLOBAL SOUTH NOW REPRESENTS 40% OF CHINESE TRADE, THANKS TO GREATER ECONOMIC GROWTH AND CHINA'S READINESS TO DIVERSIFY ITS TRANSACTIONS AND REDUCE ITS RELIANCE ON THE WEST.

But these intense trade relations have spawned major economic dependencies, especially for certain countries in Central and Southeast Asia and the Pacific Islands[3]. Turkmenistan and Timor-Leste, for example, rely on China as the destination for 70% and 60% of their exports, respectively. In general, raw materials exporting countries are more dependent on China. There are regions, however, like North Africa and the Middle East, whose countries' trade is more diversified and where China's economic influence is more limited.

This trade growth is without precedent in recent history. It was possible thanks to the nature of the Chinese economy and policies that kept manufacturing costs low, but which caused friction with the West. This was especially true of the granting of state subsidies and restrictions on foreign investment, measures that were taken to protect its companies from competition and on national security grounds. China also received particular criticism for alleged appropriation of intellectual property and currency manipulation to support its exports. In addition, the West sees China's trade surplus as a weakness and Chinese dominance of key technologies for the green and digital transitions raises fears that the trade imbalance will become permanent and jeopardise supply security.

From the Global South's viewpoint, however, the perception and impact of China's commercial rise is very different. Most of these economies are net importers of goods and they have benefited from greater affordability

2. See Appendix, Tables 1 and 2.

3. See Appendix, Tables 3 and 4.

of global consumer prices triggered by the increase in Chinese exports, and from the rise in China's demand for raw materials. Some economies, moreover, like those in Southeast Asia, have profited from the boom by tapping into the Asian giant's production value chains. Others, like Brazil, have gained from the trade tensions between the United States and China and the measures taken by the authorities in Beijing to diversify imports.

To date, China's commercial success over the last few decades has not been predicated on seeking trade agreements[4]. Rather, to a large extent, it has been the result of its industrial and diplomatic policy. And yet in 2022 the Regional Comprehensive Economic Partnership (RCEP) came into effect. It is the world's largest trade deal and China is spearheading it in the hope it will be a major driver of regional trade from hereon in[5]. Ironically, the initiative arose to counter the Trans-Pacific Partnership (TPP), the US-driven agreement to isolate China that collapsed during the Trump administration.

FROM THE GLOBAL SOUTH'S VIEWPOINT, THE PERCEPTION AND IMPACT OF CHINA'S COMMERCIAL RISE IS MORE BENIGN. MOST OF THESE ECONOMIES ARE NET IMPORTERS OF GOODS AND THEY HAVE BENEFITED FROM GREATER AFFORDABILITY OF GLOBAL CONSUMER PRICES TRIGGERED BY THE INCREASE IN CHINESE EXPORTS.

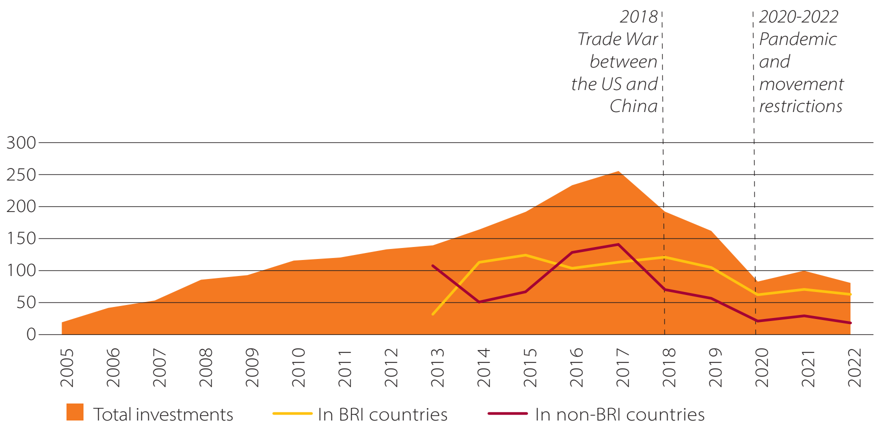
China can be expected to retain its trading edge for the foreseeable future. But that dominance could be eroded by the slowdown of its economy, rising labour costs, population decline, the growing weight of domestic consumption in GDP (which will mean a rise in imports over exports) and the policies adopted by Western economies to counter their reliance on the Asian country. In these circumstances, and thanks in part to the infrastructure improvements linked to the Belt and Road Initiative (BRI), the Global South's position as a trading partner of China will only be cemented.

4. China has only signed 16 trade agreements (ASEAN, Asia Pacific Trade Agreement – APTA, with Australia, Chile, Costa Rica, Georgia, Hong Kong, South Korea, Macao, Mauritius, New Zealand, Singapore, Iceland, Pakistan, Peru and Switzerland), representing 15 countries and 30% of global GDP.
5. This free trade agreement among 15 countries of East Asia and the Pacific covers a third of the world's economy. The UN's trade division calculates that it will remove 90% of tariffs and increase interregional exports by $42bn.

China, the main investor in the Global South

China has ranked as the world's second largest investor since 2015. It launched the "Going Out" strategy in 1999 and targeted Global South regions especially. But it was not until 2014 that China added a more strategic dimension to its role as an investor abroad with the launch of the BRI, the Asian Infrastructure Investment Bank (AIIB) and the New Silk Road Fund.

Figure 1. Cross-border investments made by China (billions of dollars)



Source: Created by CIDOB with data from China Global Investment Tracker.

The BRI's chief purpose was to create multiple trade routes – overland through Central Asia and by sea across Southeast Asia – to provide supply alternatives to transit through the straits controlled by the United States and its allies. The initiative also sought to offer an outlet to the country's surplus production capacity, particularly in the manufacturing sector and construction, as the economy slowed and the property market cooled, as well as promote the development of its interior provinces. To boot, the BRI also served as a new "discursive framework" to cover and provide coherence to the multiple investments already flowing into the Global South. Abroad, the BRI helped to close the infrastructure gap in developing countries and would become a key element of China's influence and leadership, serving to consolidate economic interdependence.

In order to achieve these goals, China modified its policy of accumulating foreign reserves after amassing nearly $4tn, three times the reserves of Japan

– the world's second largest reserve holder – and an amount equivalent to the GDP of Germany. Stockpiling reserves boosts an economy's capacity to tackle crises. But it also has the adverse effect, from China's point of view, of bankrolling the US government and economy. This is because currency reserves are deposited in the central bank (People's Bank of China – PBOC) and invested in US Treasury bonds and other largely dollar-denominated assets. Foreign investment, then, allowed China to find an outlet for its reserve surplus, bypass funding the United States and place assets out of reach of possible sanctions. The chief recipients of the Chinese investment would be countries located in the Global South, particularly those with rich resources and located at key geographical points on global trade routes[6].

Before the launch of this initiative, the countries that now form part of the BRI were the recipients of 23% of Chinese investment. Data from the American Enterprise Institute[7] (AEI) show that since 2014, on average they have been the recipients of over 60% of the investment flows and since 2020 they have received three out of every four dollars the Asian country invests. That reflects these countries' growing importance for China and the Asian giant's waning appetite for investment in Western countries, and the obstacles in place, because of the strategic competition with the United States and greater scrutiny of its investments.

By sector, energy (38%), transport (24%) and metals (9%) have captured 70% of the investment flows into countries that today form part of the BRI since 2005, while 60% of projects have been connected to infrastructure construction. By country, the chief Global South recipients to date are Brazil (which is not part of the BRI), Pakistan, Indonesia and Saudi Arabia. By region, Latin America has gained importance at the expense of Sub-Saharan Africa in the quest for commodities. China, meanwhile, is now one of the top five investors in cumulative terms in 16 countries[8], which enhances its geoeconomic influence over them.

6. Appendix, Table 5.

7. The China Global Investment Tracker is the main source of open data on China's foreign investments. These investments are characterised by their opacity and difficulty in tracking. According to Gelpern et al. (2021), Chinese contracts contain unusual confidentiality clauses that forbid the borrowers to reveal the terms or even the existence of the debt, while Horn et al. (2019) estimate that 50% of the loans to developing countries are not gathered in IMF or World Bank statistics. AEI data make no distinction between development aid and the rest of the investments because in China's case both are frequently used to fund the same type of infrastructure projects.

8. China is the main foreign investor in Tajikistan, Cambodia, Kyrgyzstan and Sri Lanka; and the second largest in Niger, Myanmar, Mongolia, Zambia, Nepal and Bangladesh.

Yet success in terms of investment volume and access to natural resources has been overshadowed by repayment difficulties in up to 60% of the loans extended from China. This is partly due to the issue of relatively vague guidance on the part of China's central administration and massive, fragmented and ill-coordinated implementation involving a huge number of actors[9] and different economic agencies (Hameiri and Jones, 2018). Also, they are usually high-risk financial operations.

SUCCESS IN TERMS OF INVESTMENT VOLUME AND ACCESS TO NATURAL RESOURCES HAS BEEN OVERSHADOWED BY REPAYMENT DIFFICULTIES IN UP TO 60% OF THE LOANS EXTENDED FROM CHINA.

This increase in bad loans gave rise to a slight slowdown in Chinese investment in BRI countries in 2019 (Figure 1) and prompted reflection on how projects were being executed. In addition, Chinese investments had sparked local resentment over labour and environmental transgressions, fears of natural resource hoarding and a lack of quality and over-presence of Chinese companies and labour on some projects, which limited the benefit of the investments[10].

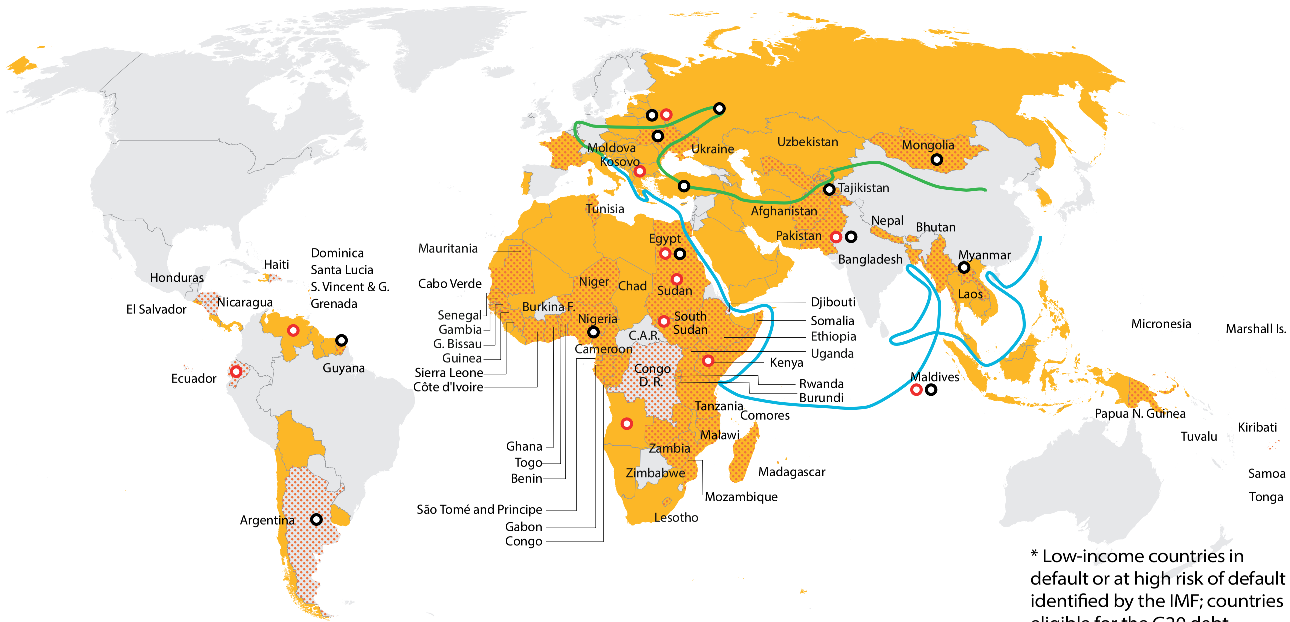
Following an investment slump between 2020 and 2022 owing to the pandemic, restrictions on movement and the economic downturn in China, Xi Jinping announced during the Third Belt and Road Summit a new stage of investments with smaller projects focused on the ecological and digital transition, and more control of corruption and the quality of projects. In addition to responding to some of the failures and criticisms against the BRI, this redirection of investments towards closer to home could help dodging Western tariffs and sanctions.

9. Prominent agencies responsible for BRI implementation are ministries (primarily the Foreign Ministry – MFA, the Ministry of Commerce – MOFCOM, the latter being the more dominant, and the Ministry of Finance, which holds the purse strings); the National Development and Reform Commission, which spearheaded the design of the BRI and grants budget; commercial and institutional banks, including the Export-Import Bank (Exim Bank) and the China Development Bank (which grant loans close to commercial interest rates); and provincial governments and state-owned enterprises (SOEs). On top of all this is the role played by private companies, which in some cases have accounted for nearly half of Chinese investment abroad.

10. Much of the infrastructure financed by China's loans is built by Chinese firms, which sometimes means the cash may never leave the country.

Figure 2. China's rescue loans

Since 2014, the countries that form part of the Belt and Road Initiative (BRI) have received increasing financial assistance of last resort from China through the liquidity lines of the country's central bank and rescue loans from Chinese state-owned banks and enterprises. In the wake of the pandemic and the energy crisis, many emerging countries with debt repayment problems or at high risk of default could be tempted to turn to China as a lender of last resort.



Countries participating in the BRI
- Sea route
- Land route
- BRI member states
- Countries at risk of debt default*

Countries that have received rescue loans from China
- Loans from Chinese banks and enterprises
- Use of China'scentral bank liquidity lines to tackle an economic or financial problem

* Low-income countries in default or at high risk of default identified by the IMF; countries eligible for the G20 debt service suspension initiative; and countries at risk identified by *The Economist* in July 2022.

Source: Created by CIDOB with data from Horn et al. (2023) and IMF (2023)

China's new role as a lender of last resort

In the face of the deteriorating repayment capacity of many countries, China has decided to act as a lender of last resort (see Figure 2). Its central bank (PBOC) and rescue loans from state-owned banks and enterprises provide financially distressed economies with liquidity and protect Chinese companies and lenders from being hit by defaults.

From the standpoint of the recipient countries (Figure 3), South Sudan, Venezuela, Mongolia, Pakistan, Angola and Ecuador have benefited most (with assistance in excess of 9% of their GDP). Pakistan and Argentina, however, are the countries to which China has allocated most resources.

IT MUST BE SAID THAT CHINA'S ROLE AS A LENDER OF LAST RESORT CHALLENGES ACCUSATIONS THAT IT IS SEEKING TO ENSNARE THESE COUNTRIES IN A DEBT TRAP.

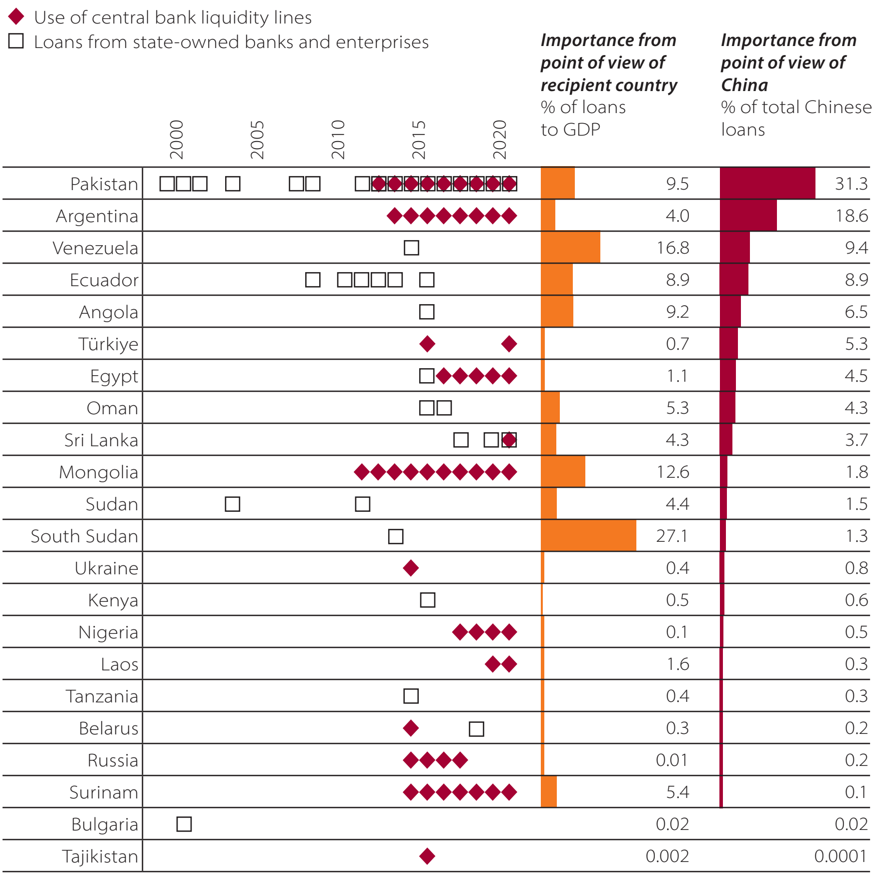
Apart from the PBOC's emergency liquidity lines, most of the rescue operations carried out by China have been administered bilaterally through the China Development Bank (CDB) and the State Administration of Foreign Exchange (SAFE). The rescue loans through Chinese banks and enterprises – not through the PBOC – have been extended almost entirely to Pakistan and oil producing countries (Figure 4). Although for several years now loans to countries with serious repayment difficulties, like Venezuela or Angola, have been severely curtailed and are only issued to countries with a clear geostrategic value, like Pakistan. In general, in debt terms, the nations most exposed to China are low-income, raw materials exporting, heavily indebted developing countries, like Angola, Ecuador, Niger or Venezuela (Horn et al. 2019).

China, then, has emerged as a major development financier and a real alternative to the International Monetary Fund (IMF) and the Western economic order in times of crisis[11]. China's loans have high interest rates, but they entail no interference in the recipient countries' domestic affairs, nor do they come with demands for economic policy adjustments like those that triggered broad resentment from developing countries towards the United States in the 1980s, or towards the EU on the part of Greece in 2012. The only political conditionality

11. Between 2016 and 2021, China loaned $185bn to 22 countries, equivalent to 34% of what the IMF loaned globally in the same period. China is the world's largest bilateral creditor (Horn et al. 2019).

China stipulates is respect for the "one China principle". In addition, it must be said that China's role as a lender of last resort challenges accusations that it is seeking to ensnare these countries in a debt trap. It could opt for seizing the collateral (e.g. infrastructures) in the event of default, instead of granting new loans and accepting the risk of non-payment.

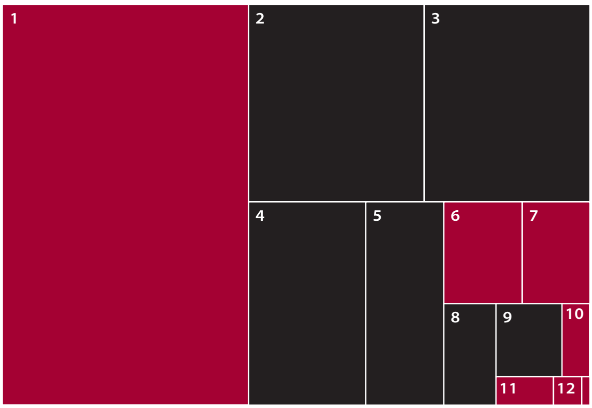
Figure 3. China's cross-border rescue lending (by country, 1998-2022)



Source: Created by CIDOB with data from Horn *et al.* (2023).

Lastly, it should be noted that China has adapted contracts and sovereign debt to maximise the odds of recouping the investment in countries where capital inflows have traditionally been low owing to scant legal security and high probability of default. Accordingly, the main clause Chinese creditors have introduced is exclusion from the Paris Club and other collective restructuring initiatives (Horn et al. 2021). This saves them from having to write off the debts and playing a subordinate role to Western countries or multilateral institutions. While that has allowed the growth of Chinese financial flows into developing countries, now it is stymying debt restructuring efforts in a context in which there are also more private creditors with which to negotiate. In this regard, China's participation in G20 debt relief initiatives for low-income countries during the pandemic shows its willingness to collaborate in the multilateral sphere.

Figure 4. Rescue loans exclusively through Chinese state-owned banks and enterprises (1998-2022)



■ **Oil producing states**

	Billions of dollars	%
1. Pakistan	28,57	42
2. Venezuela	10	15
3. Ecuador	9,45	14
4. Angola	6,9	10
5. Oman	4,55	7
6. Sri Lanka	2,3	3
7. Egypt	2	3
8. Sudan	1,55	2
9. South Sudan	1,4	2
10. Kenya	0,6	1
11. Tanzania	0,3	0,4
12. Belarus	0,02	0,03
13. Bulgaria	0,02	0,03
Total	**68,13**	**100**

NB: The only oil producing country to which China has extend loans of last resort via its central bank is Nigeria. Source: Created by CIDOB with data from Horn et al. (2023)

In the short term, China's new role as a lender of last resort and its participation in the debt restructuring processes of countries in distress will become increasingly important to how it is perceived and to its geoeconomic influence over a Global South[12] that will continue to arbitrate

12. China is the main bilateral creditor of over half the 73 low-income countries eligible for the G20 debt service suspension initiative. China holds over 20% of the total debt of 22 of those countries, although just six countries (Angola, Ethiopia, Kenya, Laos, Pakistan and Zambia) account for more than half of the Chinese loans.

between the Asian giant and other powers in pursuit of its own economic agency. Whether China maintains its investment flows into these countries in absolute terms will also be key. Their volume determines the interest created and restricts the influence of other initiatives, like the EU Global Gateway. A sudden stop in Chinese capital inflows, meanwhile, could cause financial problems in some of these economies. China therefore has a crucial financial role to play in the fortunes of the Global South.

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FROM "DISCRETION" TO "ASSERTIVENESS": A NEW ERA IN SINO-AFRICAN RELATIONS?

Beijing appears to be moving on from the discretion and use of soft power tools that characterised a good part of China's intense relations with Africa over the last two decades. Instead, it is opting for an increasingly political strategy, geared towards safeguarding its interests and funding more productive and strategic sectors in the continent. In doing so, it is recasting its traditional image as a "different partner" on the continent.

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CIDOB REPORT
11- 2023

"Chinafrica" as a global phenomenon

China's economic and trade inroads into Africa in the last two decades comprise what is likely one of the topics of greatest political importance and keenest interest in the field of International Relations of recent years. So much that many have employed the term "Chinafrica" to describe the particular intensity of this relationship. Sino-African relations also rank among the most crucial factors of late for a continent immersed in a process of profound economic, social and political transformation. Africa, in turn, has become vital to Beijing's interests and strategies thanks to an abundance of raw materials and the diplomatic possibilities of bilateral relations with over 50 countries.

This genuine interaction has triggered a process of increasing global competition. China's footprint rivals the geopolitical and geoeconomic hegemony that Europe and the United States have traditionally enjoyed over the continent. It has also helped to attract other rising powers (India, Russia, Brazil, Turkey or Saudia Arabia, to name just a few), forming what some, like *The Economist*, have called a "new scramble for Africa". Indeed, Chinese presence has acted as a catalyst both for the process of transformation of many African countries and for a new regional context marked by greater competition and diversity of actors.

Debt, infrastructure and the principle of non-interference

China is no newcomer to Africa. Sino-African relations were uninterrupted throughout the second half of the 20th century, characterised by modest economic assistance to the new African countries on China's behalf. But, above all, by a strategic political alliance against the backdrop of an emerging Non-Aligned Movement as China stood behind several African liberation movements during the Cold War. In 1971 the new sovereign states of Africa were decisive in the vote that allowed the People's Republic of China (PRC) to wrestle control of the United Nations General Assembly and Security Council seats away from the representatives of the nationalist forces defeated in the civil war and which governed Taiwan (Vines and Wallace, 2023).

AS CHINA STOOD BEHIND SEVERAL AFRICAN LIBERATION MOVEMENTS DURING THE COLD WAR, THESE NEW SOVEREIGN STATES OF AFRICA WERE DECISIVE IN THE VOTED THAT ALLOWED THE PEOPLE'S REPUBLIC OF CHINA TO WRESTLE CONTROL OF THE UNITED NATIONS GENERAL ASSEMBLY AND SECURITY COUNCIL SEATS IN 1971.

The dawning of the new millennium, however, saw those relations move into overdrive. In a little over 20 months, between March 2000 and December 2001, three events gave an extraordinary boost to Sino-African interaction. First, the announcement by the PRC president at the time, Jiang Zemin, of his "Going Out" strategy, which encouraged Chinese enterprises to invest abroad and placed Africa at the heart of this movement. Second, the momentum provided by the first Forum on China-Africa Cooperation (FOCAC) as a platform to establish the guiding principles and criteria of these relations. And finally, China's accession to the World Trade Organisation (WTO), which would underpin its expansionary strategy to scale up trade and investment in Africa.

This new era of relations would send trade, investment and aid figures soaring, with infrastructure construction as the linchpin of all engagement. The figures speak for themselves. According to American Enterprise Institute (AEI) data, China has invested over $300bn in the region since 2005[1]. Some $160bn would appear to be loans the Chinese authorities granted to African governments between 2000 and 2020 (The Economist, 2022). Two-thirds of these investments were allocated to infrastructure projects (roads, ports, railways, public buildings, dams, etc.). It all adds up to two-and-a-half

1. See Appendix, Table 5

times more than what the other bilateral lenders combined granted to the continent for the construction of infrastructure between 2007 and 2020.

Several factors explain this "lend and build" strategy. First, Chinese programmes focus on what Beijing can offer most effectively, fostering what its enterprises – most of which are state-owned – do best. Second, the approach is in step with the "Asian development model", directed at improving production capacity. Third, this model involves little prying into internal affairs such as policy design or macroeconomic management, in line with the principle of non-interference, a doctrine that has steered China's engagement with Africa from the outset. Intrusion into the political or human rights situation of each context in question is eschewed (Colom and Mateos, 2022).

The value of trade between China and Africa has grown exponentially too. It increased from the $10bn posted in 2000 to the record total value of $285bn reached in 2022, according to International Monetary Fund (IMF) data – 10% of Africa's entire GDP and four times the value of the trade existing between the United States and Africa at present. China's exports to Africa in 2022 came to $164bn, according to the country's customs authorities, while imports amounted to $117.5bn. Beijing has gone from being a marginal partner of most African countries only 20 years ago to the main one in many cases. Nigeria is China's chief African importer. South Africa is its greatest exporter, followed by Angola and Democratic Republic of Congo, which together make up its three biggest raw material suppliers on the continent.

This intense relationship has sparked, and polarised, all manner of debates, ranging from its alleged "neocolonial" nature to its potential to transform Africa. China, moreover, has endeavoured to accompany this presence with rhetoric that projects the image of a "different partner" to the continent. It paints itself as an comrade with which African countries can share historical paths and their own values against the backdrop of a flourishing "South-South cooperation" that stands in contrast with Africa's markedly asymmetrical relationship with the West. There is no doubt China's arrival has broadened the possibilities of all African governments, whose options previously were confined to the agendas of the European Union and the United States.

We might ask who the winners and losers are from this intense outreach on the part of Beijing. While it broadens African governments' options, the negative externalities of this footprint are equally important. Prominent among them are the environmental and social repercussions of extractivism, the reinforcement of an authoritarian drift that it brings to many political contexts, or the scant impact the projects have had on the social welfare of the local populations at large.

Xi Jinping's "assertive" and security-focused shift in Africa

Some analysts believe that the era of "Chinese discretion" in Africa is gradually giving way to a more "assertive" approach (Nantulya, 2023). According to the scholars Chris Alden and Zheng Yixiao (2018), this more explicitly political engagement with the continent springs from Beijing's perception that its interests there face three major challenges.

First, China faces a reputational challenge, stemming from its traditional policy of non-interference. Ultimately, this casts China as indifferent to and complicit in human rights violations, tarnishing its image as a global player on the world stage. The second is the challenge posed by its business interests and the security of over 10,000 Chinese companies in Africa in testing regional circumstances. Finally, there is the challenge of ensuring the physical safety of the 1 million-plus Chinese citizens who live on the continent[2] in the face of growing attacks, particularly in unstable environments. Research in 2015 revealed that 60% of all assaults on Chinese workers abroad took place in Africa.

THERE IS NO DOUBT CHINA'S ARRIVAL HAS BROADENED THE POSSIBILITIES OF ALL AFRICAN GOVERNMENTS, WHOSE OPTIONS PREVIOUSLY WERE CONFINED TO THE AGENDAS OF THE EUROPEAN UNION AND THE UNITED STATES.

It is this context that explains why China has decided to complement its traditional soft power approach on the continent with security measures to bolster a more political and geostrategic capacity. On the one hand, we have seen greater cooperation on security matters with various African actors in several spheres. Some prominent examples are the holding of a China-Africa Defence and Security Forum in 2018, attended by 50 of the continent's leaders; the participation of Chinese officers in the training of police forces in different African countries; the staging of military exercises in Cameroon, Gabon, Ghana or Nigeria, joint manoeuvres with Tanzania, or trilateral naval exercises between China, Russia and South Africa in 2019 and 2023.

On the other hand, Beijing has taken more forward measures too, such as the construction of military base in Djibouti in 2016 (and unconfirmed

2. In 2012, this population was mostly in South Africa (around 300,000), Angola (some 260,000) and Nigeria (about 180,000), followed by Mauritius, Madagascar, Ghana and Tanzania (between 30,000 and 50,000 in each) (Rolland, 2022).

rumours of future bases in other locations like Equatorial Guinea) or the growth in outsourcing to Chinese private security contractors to protect Chinese projects, citizens and diplomats in African territory. China is also currently the second biggest arms exporter to the continent (with 20% of the market); only Russia exports more. .

This concern for security on the continent has gone hand in hand with more active diplomatic and geostrategic action that helps to enhance its capacity as a global actor (Nantulya, 2023). Two examples of this dynamic are, one, its greater contribution to United Nations peacekeeping missions in Africa – in Mali or South Sudan, for instance –, as well as alliances with African actors to reshape multilateral institutions and advance the creation of new ones. And two, observers have noted that in certain cases Beijing has also been capable of making its aid or cooperation with African countries conditional on the support it receives from them in certain votes in the various UN forums related to situations such as the Uyghurs in Xinjiang.

End of the loan era?

China has extended a huge volume of loans to a good deal of African countries over the last two decades. Beijing's exposure to African debt is reaching considerable proportions, amounting to some $143bn in 2017 (Alden and Jiang, 2019, p.641). It accounts for approximately 23% of all China's foreign loans and 20.6% of Africa's entire external debt. This volume warrants some consideration, however. While the figure tops that of all the other official bilateral creditors combined, it is still less than what the World Bank or commercial creditors have loaned Africa. Debt with China, moreover, accounts for more than a quarter of the public debt in just seven of the 22 African countries classified by the IMF as being in "debt distress". In 2021, for example, Angola was the most indebted African country with China, while Zambia was the nation that received the largest volume of bilateral loans from Beijing, representing approximately a third of its debt. It has been an issue of mounting importance since this latter country started defaulting on its external debt in 2020 (Vines and Wallace, 2023).

Loans policy, however, has been playing a less central role in the Belt and Road Initiative (BRI), launched in 2013. Chinese loans to the continent have been falling steadily since 2016. Be that as it may, the loans-to-Africa issue has become a major political problem in China, compounded by the severe socioeconomic blow that COVID-19 dealt to many African countries and to the Asian giant itself. This has prompted the Xi regime to embark on a debt restructuring strategy that has included debt service suspensions for 16 African countries during the pandemic and the granting of rescue loans. This strategy complements China's participation in the initiatives from multilateral organisations like the G-20 or IMF and is leading the country to direct its loans towards more specific investments in agriculture and renewable energies such as wind and solar power. At any rate, given the weight China carries as a major creditor, the stance it takes will be key in the https://www.reuters.com/world/africa/zambia-seals-63-billion-debt-restructuring-deal-2023-06-22/.

THE LOANS-TO-AFRICA ISSUE HAS BECOME A MAJOR POLITICAL PROBLEM IN CHINA, COMPOUNDED BY THE SEVERE SOCIOECONOMIC BLOW THAT COVID-19 DEALT TO MANY AFRICAN COUNTRIES AND TO THE ASIAN GIANT ITSELF.

Nevertheless, Alden and Jiang (2019, p.641) wrote that in tandem with the debt problem there has been "a quiet surge in Chinese investments in factories and assembly plants" that is transforming local economies in such a way that "should the trend continue, it could radically alter the continent's position within the global economy". According to the two authors, African states that pursue a programme of industrialisation mostly follow two general development lines (or a combination of both), depending on the availability of natural resources.

Countries like Nigeria, Angola, Mozambique, Zambia and Namibia have prioritised a structural transformation based on mining, utilising the comparative advantage contained in their energy and mineral resources to develop derivative manufacturing industries and increase the added value of their exports. Other countries, like Ethiopia, Kenya, Cameroon and Senegal favour a structural transformation driven by manufacturing industry that often begins with light industry relying less on energy and mineral resources and more on a plentiful supply of labour. The BRI also appears to be playing a significant role here as the destination of Chinese contracting-out and investment abroad, driven by the desire to transfer surplus industrial capacity, cultivate multinational enterprises and establish global value chains. As China's foreign minister, Wang Yi, has said, one of the new features of China-Africa cooperation will be the step up from trade in basic goods to cooperation on skills and processing trade.

However, that "difference" in the way of doing things compared to Western actors appears to be morphing into a relationship that, according to Alden and Jiang (2019), is now bound by more conventional power limitations, what they call a "new normal". The traditional principle of non-interference is currently under challenge from a more intrusive and security-focused strategy, geared towards safeguarding China's interests and lowering risk on the continent, against a regional backdrop of growing geopolitical and geoeconomic rivalry.

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CHINA'S NEW FACE IN THE MIDDLE EAST AND NORTH AFRICA: FROM ECONOMIC GIANT TO POLITICAL HEAVYWEIGHT?

Abundant energy resources and a pivotal position in the Belt and Road Initiative make the Middle East and North Africa a strategic region for Beijing. As well as a major economic presence, China could be a regional power to rival the United States in this part of the world. But it remains to be seen to what extent the Asian country is ready to accept the ramifications and responsibilities of this new-found status.

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The signing of a landmark reconciliation agreement between Saudi Arabia and Iran in March 2023 proved that China is not just an economic giant in the region; it is also taking on an increasingly strategic regional role. While Beijing was not central to the talks themselves, its considerable economic influence over Tehran and Riyadh, coupled with its "zero enemies" policy, make the Asian power the ideal candidate to ensure the deal is implemented. This was no anecdotal diplomatic triumph either, rather it consolidated an already apparent trend in the Middle East and North Africa (MENA) region: the rise of China as a regional power.

How has China's economic presence shaped its outreach as a strategic player in the region? As we shall see, the MENA region is of vital importance to China. This applies both to energy and trade, though there are clear differences between Middle Eastern countries and those in North Africa. Against a backdrop of US decline and a desire on the part of Arab leaders to diversify their alliances, Beijing is looking to establish itself as alternative regional power. The key question is to what extent is the Asian country ready to accept the ramifications and responsibilities that this new-found status brings.

The MENA region: pivot of Asia, Africa and Europe

China has significantly increased its presence in the MENA region since the announcement of the Belt and Road Initiative (BRI) in 2013. It has two purposes in mind: safeguard the supply of natural gas and oil, and develop the trade corridor connecting the Asian country to Africa and Europe.

In terms of energy, nearly half of China's oil imports come from five countries in the Middle East: Saudi Arabia (16%), Iraq (11%), Oman (7.3%), the United Arab Emirates (UAE) (5.5%) and Kuwait (5.1%). Beijing began to strengthen its diplomatic, economic and trade ties with the Gulf states to cover its growing energy demand after becoming a net oil importer in 1993. In a region plagued by conflicts and political instability, its strategy consisted of signing long-term supply deals with certain countries (Saudi Arabia, Iran and Qatar, for instance); investing in energy projects via Chinese state enterprises, such as the China National Petroleum Company (CNPC) and Sinopec (in Iraq and UAE, for example); and building infrastructure to make it easier to transport energy to China.

In addition, China has the BRI to tighten economic bonds with its partners in the region and thus transform a relationship of reliance into one of interdependence. This strategy is reflected in *China's Arab Policy Paper*, which advocates a "1+2+3" cooperation approach in the region. Energy is at the core of this cooperation, while trade and investment along with infrastructure construction form its two "wings". The policy paper also identifies three areas in which cooperation between China and the region's countries will be crucial in the future: nuclear power, space technology and renewable energies (Ministry of Foreign Affairs of China, 2016).

The document makes no mention of any country in particular, but in practice Beijing prioritises the Middle East states because of their twofold strategic importance in terms of energy and geographical position. While China is now the main investor in the Middle East, there is less Chinese investment in North Africa, and it is channelled primarily into Algeria (nearly 50%) and Egypt (36%) (Pairault, 2023). China has also become the top trading partner to countries such as Saudi Arabia, Algeria and Iran. This economic presence is no longer limited to the sale of manufactured goods but covers sectors such as construction, energy, transport and technology.

China has gained a very visible foothold in the region through infrastructure construction after winning public contracts. Multiple Chinese companies and tens of thousands of Chinese migrant workers have taken part in the construction of prominent infrastructure such as the giant port of El

Hamdania in Algeria, the "New Cairo" project and the Mecca metro in Saudi Arabia. In Egypt, Israel, Türkiye or Yemen, state-owned enterprises such as the China Ocean Shipping Corporation (COSCO) have won contracts to operate ports. Big tech firms like Huawei have also made inroads through the supply of communications systems and cybersecurity technologies to several countries to improve the region's digital connectivity, thanks to the Digital Silk Road initiative launched in 2015.

Meanwhile, China's elites are looking to add new dimensions to China-MENA cooperation, as could be seen at the first China-Arab States Summit in December 2022. Bilateral and multilateral agreements in the China-Arab States Cooperation Forum and the Forum on China-Africa Cooperation mean that relations between the Asian giant and the Arab countries cover ever more areas. These include education, culture—with the opening of 17 Confucius Institutes in the region—and health, for example, through vaccine diplomacy during the COVID-19 pandemic. China has an edge here that allows it to consolidate this strategy: it has a very different image to that of the United States and Europe. According to the Arab Barometer in 2022, in seven of the nine surveyed countries (Algeria, Iraq, Palestine, Tunisia, Libya, Lebanon and Sudan) China was preferred over the United States. Beijing is using this advantage to sell itself as an alternative to the West in the MENA region, as we shall see in the next section.

GROWING BILATERAL AND MULTILATERAL AGREEMENTS MEAN THAT RELATIONS BETWEEN THE ASIAN GIANT AND THE ARAB COUNTRIES COVER EVER MORE AREAS THAN EVER, INCLUDING EDUCATION, CULTURE AND HEALTH, AS EXEMPLIFIED BY VACCINE DIPLOMACY DURING THE COVID-19 PANDEMIC.

Anti-imperialism, non-interference and authoritarianism: the potent "Chinese model" in the MENA region

In the conviction that Washington's pivot to Asia means a reduced US presence in the MENA countries, the region's leaders have embarked on various strategies to diversify their geopolitical alliances, bolster their leadership and reduce their dependence on Western powers. In response, China's elites present themselves as a viable alternative via a narrative that underscores the need to create a fairer, more equitable alternative world order, based on strict respect for the sovereignty of states.

While they provide no clear definition of what they mean by "new alternative order", China's leaders employ an anti-imperialist rhetoric to decry "Western hypocrisy". This strikes a chord in countries such as Algeria, Egypt and Libya, where Beijing supported the decolonisation processes. For a large part of the Chinese elites the (neo)colonial approach that they see the Americans and their European allies take in the region stands in complete contradiction to the West's talk of universal values. In practice, China attempts to set itself apart from the Western powers by pursuing a foreign policy governed by three fundamental principles: non-intervention, mutual respect and mutually beneficial cooperation (Sun, 2017).

THE KEY QUESTION IS TO WHAT EXTENT IS THE ASIAN COUNTRY READY TO SHOULDER THIS RESPONSABILITY AS AN EMERGING REGIONAL POWER.

The principle of non-intervention, based on respect for sovereignty and non-interference in internal affairs, rests on the idea that each country must chart its own path to development. In the eyes of Beijing, improving people's living standards is paramount to achieving peace and stability. Matters relating to the rule of law, democracy or respect for human rights, then, are off the table in the conversation between China's leader and his Arab counterparts. Including them would be tantamount to interfering in domestic policy.

This approach appeals to the autocrats of the MENA region. They see China as a counterweight to the pressure from the West to promote—or at least pay lip service to—liberal values, including democracy and human rights. It also situates Beijing as a neutral player, one that is reluctant to take sides in a conflict and ready to engage in dialogue with every leader in the region, regardless of ideology or political system. What's more, moments of tension with the West present opportunities to stand out from other players. China's elites negotiated the reconstruction of Syria with Bashar al-Assad despite his culpability in the country's civil war. They strengthened ties with the Saudi crown prince, Mohamed bin Salman, in the months following the murder of Saudi journalist Jamal Khashoggi. And they consolidated relations with Iran at a time of diplomatic deadlock between Tehran, Washington and Brussels. At the same time, the principles of non-intervention and mutual respect also shield Beijing from any criticism regarding its policy on Xinjiang, Tibet and Taiwan. With the exception of Turkey, which until 2021 openly denounced Chinese repression in Xinjiang, Muslim leaders' complicit silence over the Uyghur tragedy shows they are quite at home with the principle of non-intervention.

Autocracy is another undeniable point in China's favour. For authoritarian leaders like Mohamed bin Salman and the Presidents of Egypt, Abdel

Fattah el-Sisi, or Turkey, Recep Tayyip Erdogan, Xi Jinping personifies the providential figure who has amassed an extraordinary concentration of power and raised his country to the status of major international player. In the words of China specialist Jean Pierre Cabestan, China is the incarnation of "authoritarian modernisation", resting on the idea that economic development, not democracy, is the surest path to achieving stability and, therefore, ensuring the survival of authoritarianism.

Beijing, then, uses these three advantages— longstanding identification with the Global South, contestation of a Western world order, and authoritarianism—to consolidate its presence in the MENA region. Yet as advantageous as this position is, it also comes at a significant cost: maintaining stability in a highly unstable region. The key question, therefore, is to what extent is the Asian country ready to shoulder this responsibility.

Towards regional leadership?

The debate in both China and the MENA region is whether the Asian country will adopt a more prominent role as a regional power or be happy to remain an economic giant. Becoming a regional power has considerable ramifications. First, it would mean China taking greater responsibility for the region's security architecture, countering the perception that it benefits from other countries' contributions without putting anything in itself. Second, if Beijing manages to play an effective role in resolving conflicts, it could cement its status as a rival to Washington. Following the P5+1 model for the nuclear talks with Iran, China could be perceived as a constructive presence in conflict mediation and act as a counterweight to other key players like the United States, the European Union and Russia. The MENA region, then, is a real testing ground, where Beijing must demonstrate that its approach to international relations—defined by non-intervention, non-interference and mutual respect—can truly underpin the establishment of an alternative world order.

Under the sacred principle of non-interference, Chinese diplomats have been reluctant to play a key role in conflict resolution. Traditionally, China's involvement in conflicts has been limited to three forms of governance: (1) political governance, through participation in UN peacekeeping missions in Jerusalem, Lebanon, Western Sahara and Sudan; (2) conflict governance, indirectly through the UN Security Council, with its participation in resolutions in favour of dialogue and peace in Yemen and Syria, and the struggle against Islamic State; and (3) social governance with humanitarian assistance to Iraqi, Palestinian and Syrian refugees, among others (Sun, 2017, p.360).

There have been several signs the Asian giant aspires to become a regional power since the adoption of China's Arab Policy Paper. There are at least two explanations for this. One, regional rivalries contribute to instability and conflict. This poses a direct threat to China's economic interests (energy, investments, Belt and Road Initiative and Silk Road infrastructure). A turning point in this regard came in Libya in 2011, when China lost over $18bn in investments and was forced to evacuate more than 35,000 Chinese nationals (Zoubir, 2023).

THE MENA REGION, THEN, IS A REAL TESTING GROUND, WHERE BEIJING MUST DEMONSTRATE THAT ITS APPROACH TO INTERNATIONAL RELATIONS —DEFINED BY NON-INTERVENTION, NON-INTERFERENCE AND MUTUAL RESPECT— CAN TRULY UNDERPIN THE ESTABLISHMENT OF AN ALTERNATIVE WORLD ORDER.

Second, the US decline, meanwhile, could lead to less engagement in security matters on the part of Washington, which would require China to protect its interests itself. Beijing, then, unveiled its first military base on foreign soil in 2017, in Djibouti, between the Gulf of Aden and the Suez Canal; it opened nine consulates in Saudi Arabia and Egypt; and it upped sales of Chinese weapons, drones and counterterrorist equipment to its partners in the Gulf. On the subject of defence, while China's exports are still modest compared to those of the United States, France and Russia, its presence is on the rise. In fact, during the 2022 China-Arab States Summit Xi Jinping expressed his desire to deepen cooperation between the Chinese and Arab defence ministries. This would include carrying out joint military exercises, counterterrorist cooperation and even the training of Arab military personnel by the People's Liberation Army. In addition, in line with the Global Security Initiative (2022), Beijing intends to implement a "new security concept" in the region. The idea is to foster multilateral dialogue on regional security in which the Arab countries play a primary role. On matters of dialogue and mediation, Chinese diplomats have pinpointed three areas in which they could help to ease regional tension. China believes it could be a good interlocutor between Iran and the Gulf states; between the Syrian president and his counterparts in the region; and between Israel and Palestine.

Yet its political engagement in the region remains selective and modest relative to its economic clout. According to Sun Degang and Yahia Zoubir (2018), China employs "quasi-mediation diplomacy". In other words, a strategy whose priority is not to build regional security but safeguard its own economic and strategic interests. This allows it to sidestep possible contradictions between the principles of neutrality, sovereignty and territorial integrity—which define Beijing's foreign policy—and the need for greater involvement in conflict resolution. Hence China treads very carefully and usually plays a secondary role in conflicts that involve regional and extra-regional powers. It limits its participation to calling for more multilateralism (Libya), issuing generic statements on backing peace (Western Sahara or Yemen), trying to facilitate dialogue between the sides (Syria) and even making unrealistic proposals (Israel and Palestine). But the recent signing of the agreement to restore relations between Saudi Arabia and Iran in Beijing and statements on playing a major role in an intra-Palestinian dialogue in 2023 could be a sign of a significant change in China's readiness to take on the role of regional power.

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CHINA IN LATIN AMERICA AND THE CARIBBEAN: BETWEEN ECONOMIC INTERDEPENDENCE AND GEOPOLITICAL COMPETITION

China's presence in Latin America and the Caribbean stemmed from Beijing's need to secure a plentiful supply of commodities, but that was soon accompanied by a strategy of economic incentives that capitalised on the region's endemic reliance on foreign funding and a huge infrastructure deficit. Today China makes no secret of the battle for leadership of the Global South and is obliging the region to redefine its place in a world heading towards growing geopolitical competition.

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Over the last two decades China has been consolidating its position as an increasingly influential actor in Latin America and the Caribbean (LAC). It is now the region's second biggest trading partner – the first for some countries, particularly the commodities exporters of South America – and a powerful investor and financier. That economic penetration has gone hand in hand with a growing presence in regional forums and bodies, and a proliferation of bilateral agreements.

To make this happen, China has deployed a strategy of investments and loans alongside a narrative asserting the rise of the Global South that sits well with the counterhegemonic and postcolonial discourses that abound in the region. Its strategy was aided by the predominance of progressive governments in numerous LAC countries in the first decade of the 21st century. They championed strategic autonomy in the face of the long history of meddling, chiefly by the United States but also by other traditional Western powers currently in decline (Ríos, 2019).

China has courted strategic partners in the region, like Brazil, but it has been careful to draw closer to smaller countries in the Caribbean and Central America, like Nicaragua, El Salvador or Cuba. Given these nations' vulnerability to economic crises, Beijing has developed relations of dependency with them that furnish it regional allies. It has even managed to inflow countries with strong ties and economic interdependence with the United States, such as Mexico. This strategy has gained from a general lack of attention to the region's problems on the part of the United States, as well as from a growing protectionism that became more pronounced during the Trump administration and which the Biden administration has done little to modify. This economic presence has also benefited from the shortcomings of Latin American regional cooperation stymied by political polarisation and fragmentation, which smooths the path for Chinese diplomacy's bilateral strategies.

THE INCREASE OF CHINESE INFLUENCE IN THE REGION IS MULTIDIMENSIONAL: WHILE IT SEEKS TO CULTIVATE TIES THAT SECURE IT ECONOMIC PARTNERS TO COVER ITS INTERESTS IN THAT AREA AND SATISFY THE DEMAND FOR STRATEGIC RESOURCES, IT IS ALSO LOOKING TO GARNER SUPPORT FOR ITS GEOPOLITICAL ASPIRATIONS.

As in other parts of the world, the increase of Chinese influence in the region is multidimensional. It seeks to cultivate ties that secure it economic partners to cover its interests in that area and satisfy the demand for strategic resources. But it is also looking to garner support for its geopolitical aspirations as a global and regional power. That includes challenging the hegemonic liberal order of the second half of the 20th century.

Trade as the entry lever and investment as the means of consolidation

Trade was China's natural gateway into LAC, helped along by the high degree of complementarity between the Asian country as an avid consumer of commodities amid its modernisation and economic expansion and the region as an exporter of agricultural produce, minerals and hydrocarbons.

China's rise was instrumental in the increase in global demand for raw materials, prompting a supercycle of commodity price growth lasting over a decade. That made a decisive contribution to the economic growth of the countries in the region, but at the cost of tightening the hold of extractivism on their economies. This comes with risks, not least of which is economic slowdown in times of dips in highly volatile commodity prices. It also compounds a model of international integration that does little to diversify and stimulate the production sector to give local industry more added value and improve job quality.

Between 2000 and 2014 trade between China and LAC grew at an average rate of 27% in annual terms (Ríos, 2019). That trade remained relatively stable through economic crises and China became the main trading partner of countries like Brazil and Chile. In addition, China signed free trade deals with Chile (2005), Costa Rica (2010) and Peru (2009). The attempt to open negotiations with Uruguay, however, has met with the opposition of the other Mercosur partners[1] (Goodman, 2023). Trade relations are particularly intense with South America, which sends 24% of all its exports to China. For Mexico and Central America, meanwhile, it is still a minor partner[2]. For China, LAC is the source of 8.6% of all its imports[3]. The agri-food sector is especially important. Nearly 25% of China's agri-food imports come from the region, according to the Inter-American Institute for Cooperation on Agriculture (IICA).

CHINA'S GROWING DEMAND FOR RAW MATERIALS CONTRIBUTED TO A SUPERCYCLE OF COMMODITY PRICE GROWTH LASTING OVER A DECADE WHICH WAS KEY FOR THE ECONOMIC GROWTH OF THE COUNTRIES IN THE REGION, BUT AT THE COST OF TIGHTENING THE HOLD OF EXTRACTIVISM ON THEIR ECONOMIES.

In the first decade of the 21st century, LAC had a trade surplus with China. This was particularly true of South America, home to its main partners. With Mexico the situation was and is quite the opposite, given that the country is not a natural resources supplier. Yet China soon began to penetrate every market in LAC with manufactured consumer and intermediate goods, like machinery, competing with domestic products and imports from other countries. Those surpluses have steadily turned into negative trade balances. That means that even the few countries that still post a trade surplus with China – Brazil, for instance – are reluctant to grant China greater access to their domestic markets.

In the wake of these deep trade inroads came first an increase in loans and then a rise in investments. First, the surge in loans to governments via the China Development Bank (CDB) or the Export-Import Bank of China (Eximbank) took place primarily in the period 2005-2016. Initially it focused on Venezuela (44%), Brazil (26%), Ecuador (12%) and Argentina (11%) (ECLAC,

1. Formally, the Mercosur Treaty forbids the negotiation of trade agreements by member countries individually.
2. See Appendix, Table 3.
3. See Appendix, Table 2.

2018). The distribution shows a clear propensity for countries that had left-wing governments at the time. Second, investments in the region peaked in 2015 on account of the political and economic difficulties facing countries such as Venezuela, Ecuador and Argentina. To stave off defaults, between 2009 and 2016 China granted rescue loans to Venezuela and Ecuador to an aggregate value equivalent to 15% and 14% of their respective GDPs. These two countries rank second only to Pakistan as beneficiaries of the financial assistance extended by China globally. Yet the country in the region to which China has devoted most resources in total is Argentina, via People's Bank of China emergency liquidity lines used as rescue loans4.

THE ABSENCE OF CONDITIONALITY ATTACHED TO THE FINANCIAL OPERATIONS CONDUCTED BY CHINA, WHICH MAKES NO POLITICAL REQUIREMENTS AND KEEPS LOOSER SOCIAL AND ENVIRONMENTAL STANDARDS THAN THE WESTERN COUNTRIES, HAS ONLY AIDED THE ASIAN COUNTRY COMPLETION OF INVESTMENTS AND TENDERS.

Today South America still accounts for nearly 90% of China's investments in LAC5, concentrated in Brazil, Argentina and Peru (ECLAC, 2018), although there has been an increase in investments in Mexico too. In Peru, the emphasis is on mining, while in Brazil and Argentina, the energy sector is paramount. In the case of Argentina, one of the projects to have sparked most controversy, both locally and across the region, is related to the agreement with the China National Nuclear Corporation to double nuclear energy's production in the country. China is also planning hydrocarbons investments in the Vaca Muerta formation.

These projects have gone together with huge inroads into major infrastructure construction. Chinese builders offer the advantage of quick and easy, flexible loans and lower project execution costs. This allows them to tender successful bids or negotiate directly with governments to secure public works contracts to build bridges, airport extensions, railway lines or high-voltage power lines. But problems have begun to arise. Take the Coca Codo Sinclair hydroelectric dam in Ecuador, which has serious construction defects, or more recently the contract to build the Bogota underground, hit by a string of delays and contract breaches. The absence of conditionality attached to the financial operations

4. See the chapter by Víctor Burguete in this series.

5. See Appendix, Table 5.

conducted by China, which makes no political requirements and keeps looser social and environmental standards than the Western countries, has only aided the Asian country completion of investments and tenders. Yet this draws criticism from certain sectors of civil society that decry the violation of fundamental human rights. On top of that is the heavy cost of many of these transactions, which compromise governments' future resources.

The regional approach and "South-South cooperation"

China's first forays into the region were bilateral and economic, but over time Beijing has deployed a strategy that has seen it forge ties and even acquire member status of regional bodies like the Inter-American Development Bank (IDB). While the United States remains the institution's chief funder, China became a member in 2009, and although its subscription to the ordinary budget is low, it has gradually increased its quota with voluntary contributions, which is an indicator of its interest in participating in economic institutions of a highly regional nature. It has also signed numerous cooperation agreements with the Development Bank of Latin America and the Caribbean (CAF), as well as with other subregional banks and funds.

This regional approach was also appreciable at the political and diplomatic level with the devising of a LAC policy in 2008. It was subsequently updated in 2016 with *China's Policy Paper on Latin America and the Caribbean*. In the period between the two policy documents, China established cooperation relations that have steadily grown within the framework of "South-South cooperation". This puts the emphasis on mutual benefit based on equal partnership and it extended from the economic sphere to sectors such as scientific and technical cooperation, education and culture. In a speech to the ECLAC in 2012, the then Chinese premier, Wen Jiabao, proposed launching a cooperation forum between China and Latin America, along with a regular dialogue mechanism.

Two years later, President Xi Jinping attended the summit of the Community of Latin American and Caribbean States (CELAC) in Havana, which saw the creation of the China-CELAC Forum (CCF), with its inaugural meeting coming in January 2015. An institutional framework was also established, with summits, regular ministerial meetings, national coordinators and thematic sub-forums. At the same time, China pledged to provide a $35m financial package consisting largely of loans. A part of those loans went to the China-LAC Cooperation Fund and a special loan programme for China-Latin America infrastructure projects.

The second ministerial meeting of the CCF, held in 2018, approved a special declaration on the Belt and Road Initiative that invited the LAC countries to join the project. The first to sign up were the smaller countries of Central America and the Caribbean, followed by Bolivia, Argentina, Chile or Peru, reaching a total of 21 LAC states. Conspicuous by their absence, however, are Brazil and Mexico, which do not form part of it.

At the third ministerial meeting of the China-CELAC Forum in 2021, which saw the participation of the ECLAC and IDB, the areas of cooperation were extended to social, environmental and cultural spheres. These covered agreements among universities, student grants, a think-tank forum and the Confucius Institutes, which numbered over 40 across LAC in 2022. The final declaration reiterated the willingness to "promote the construction of an open, inclusive, comprehensive and balanced cooperation network". China's image in the region was given a major boost by its cooperation during the COVID-19 pandemic, when it made vaccines available for the LAC countries long before the Western powers.

IN ADDITION TO ITS ACTIVE PURSUIT OF WEAKENING SUPPORT FOR TAIWAN IN LAC, CHINA'S BACKING OF COUNTRIES SUCH AS VENEZUELA, NICARAGUA AND CUBA, ALL OF WHICH ARE HIT BY US SANCTIONS, HAS HEIGHTENED REGIONAL TENSIONS.

The growing geopolitical element

At the start of its penetration into the region China endeavoured to depoliticise its presence. However, as global geopolitical tensions have increased, so its influence in the region has become more apparent. By way of example, if two decades ago LAC was the region where Taiwan maintained the largest number of official diplomatic relations, they have faded in favour of the People's Republic of China (PRC). Currently only seven countries in the region recognise Taiwan – largely in the Caribbean, plus Paraguay – compared to 14 at the start of the century.

In addition to its active pursuit of weakening support for Taiwan in LAC, China's backing of countries such as Venezuela, Nicaragua and Cuba, all of which are hit by US sanctions, has heightened regional tensions. This has been no impediment to China maintaining pragmatic cooperation with governments of different political persuasions. Most LAC countries neither want to nor can forgo China as one of their main partners. Yet certain initiatives cause tensions, like the deal with Argentina signed in 2012 to build the CLTC-CONAE-NEUQUEN space station in Patagonia. While it has no military use, the opacity of its operations makes it the object of suspicion. LAC's wealth of strategic products for the technological and energy transition, like lithium and rare earths, have also added to the weight of the geopolitical element in China's relations with the region. The competition has spread to the tech industry, where rivalry with the United States has prompted Washington to take restrictive measures against China to block the entry of Huawei's 5G technology into LAC. This action has had little effect in Latin America, however, as the 4G mobile phone network infrastructure is largely Huawei. Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador and El Salvador, moreover, are already using or have opted to use Huawei technology in 5G equipment (Roy, 2023).

Lastly, another initiative that transcends LAC, but which has a geopolitical impact on it is the BRICS (Brazil, Russian Federation, India, China, South Africa). China was able to capitalise on Brazil's global ambitions to augment a new network of influence with designs on establishing itself as a counterweight to the Western powers. The announcement of the group's expansion at its summit in South Africa in August 2023, with the addition of six new members including Argentina, was endorsement of China's global leadership at a time when the Ukraine war has spotlighted the growing distance between LAC and Western positions. These initiatives help Beijing portray itself as a leader of a Global South that is crying out for a more balanced international order. Yet that narrative cannot hide the geopolitical tensions emerging in the region and the misgivings of some sectors in LAC that are wary of an authoritarian power's growing hold over the region.

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CHINA IN THE HEART OF EURASIA

Lying halfway between China and the markets of the Middle East and Europe, Central Asia is a key component of Beijing's Eurasian interconnection drive. Its geographical location, and its natural resources, make the region an invaluable partner for China, which also views some countries of the region as vital to its security. However, China's growing presence in Central Asia has brought with it a rise in Sinophobia among the local population.

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On 18 May 2023, President Xi Jinping hosted the leaders of the republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan in the city of Xi'an. It was the first China-Central Asia summit between the heads of state of these six countries. In the three decades since gaining independence after the disintegration of the Soviet Union, the five Central Asian states have become a centrepiece of China's foreign policy. Faced with the risk of being treated as single bloc, each of these republics has its own policy towards China, and vice versa.

Central Asia has turned into one of China's main providers of natural gas over the last two decades, while Beijing has invested billions of dollars in infrastructure projects to make the region a pivot of its geopolitical aspirations. In addition, there are growing political ties between the Central Asian capitals and Beijing, as could be seen in Xi'an. But China's presence in Central Asia has brought with it a rise in Sinophobia in the region and there are concerns about some Central Asian countries' disturbing levels of debt with Beijing.

Beyond the "Belt and Road"

Beijing had been eyeing Central Asia for some time before terms such as "Belt and Road Initiative" appeared in official speeches in 2013. It had also sunk billions of dollars into infrastructure projects in the region, a figure that hit $68bn in 2022. Access to hydrocarbons and overland connections to facilitate China's entry into third markets have dominated Sino-Central Asian relations for years.

CHINA'S PRESENCE IN CENTRAL ASIA HAS BROUGHT WITH IT A RISE IN SINOPHOBIA IN THE REGION AND THERE ARE CONCERNS ABOUT SOME CENTRAL ASIAN COUNTRIES' DISTURBING LEVELS OF DEBT WITH BEIJING.

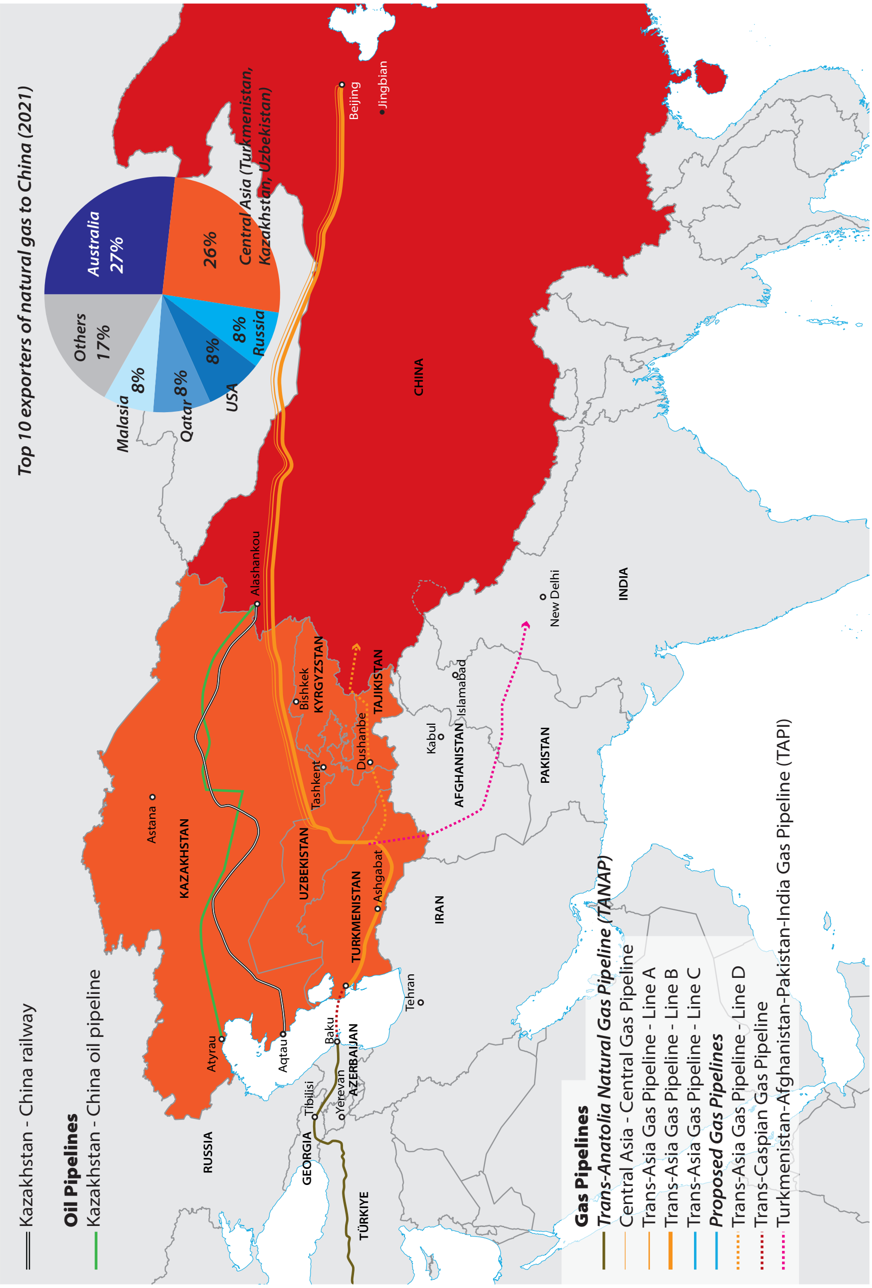
In the 2000s, with China seeking sources of energy to sustain its economic growth and Central Asia ready to diversify its exports, came the Central Asia-China gas pipeline. It is the primary gas infrastructure in the region and one of the most important in Asia. This pipeline system transports mainly Turkmen, as well as Uzbek and Kazakh, natural gas that together accounts for 26% of China's gas imports. Since it entered operation in 2009 it has become China's main conveyor of pipeline-imported natural gas, ahead of Russia. It is hardly surprising, then, that between 2007 and 2014 China bankrolled the construction of its three lines through the state-owned oil company China National Petroleum Corporation (CNPC) and loans from the China Development Bank (CDB) and the Bank of China.

As well as natural gas, China imports oil through the Kazakhstan-China oil pipeline, with a capacity of up to 20m tonnes of crude a year, albeit a token amount considering China's total oil imports.

For China, the region is largely a captive supplier with limited manoeuvrability in the negotiations around natural gas supply. The economy of its main provider, Turkmenistan, relies on exporting natural gas to the Asian giant. Moreover, it was not until 2021 that Beijing began to pay Ashgabat full price for the gas, after the debt for the construction of the Turkmen section of the pipeline and other gas projects had been settled through natural gas exports. China could boost its supply thanks to a fourth line of the Central Asia-China gas pipeline system, which would significantly increase the region's export capacity. However, this decision to build Line D will depend on Beijing's appetite for energy.

Another of China's ambitions for Central Asia is to make the region a hub in the transport of goods to markets in the West. Beijing has enjoyed less success in this regard. Projects such as the Khorgos dry port between China and Kazakhstan, the "new Dubai" as the *South China Morning Post* once dubbed it, have not matched expectations. Transporting goods across Eurasia is largely unprofitable without subsidies. The war in Ukraine and the interest in the West Asia Corridor of the Silk Road

Figure 1. Main gas pipelines between Central Asia and China



Source: Created by CIDOB with data from Hedlund (2019), British Petroleum (2021).

Economic Belt, a route that connects China with Iran and Turkey skirting Russia, could change things in the future. In fact, there are already routes across the region linking China with Ankara, but so far, they have not proven as popular as hoped.

FOLLOWING HECTIC CONSTRUCTION ACTIVITY IN THE EARLY 21ST CENTURY, THERE ARE FEW KEY INFRASTRUCTURE PROJECTS FOR CHINA REMAINING IN THE REGION, EXCEPT LINE D OF THE CENTRAL ASIA-CHINA GAS PIPELINE AND THE CHINA-KYRGYZSTAN-UZBEKISTAN RAILWAY.

Following hectic construction activity in the early 21st century, there are few key infrastructure projects for China remaining in the region. Before Xi Jinping announced the "Silk Road Economic Belt", the overland route of the BRI, on a visit to Astana in 2013, some of the main undertakings, such as the Central Asia-China gas pipeline, the Kazakhstan-China oil pipeline or the modernisation of the Atyrau refinery in Kazakhstan, were already up and running. While positive investment in the region will continue, especially in the extractive, industrial and transit sectors, only two major projects have still to be developed: Line D of the Central Asia-gas pipeline and the China-Kyrgyzstan-Uzbekistan railway. This will shape China's relations with the region into the future. In any case, the age of mammoth Chinese infrastructure projects is over.

Despite the drop in investment, China continues to consolidate its trade position and has dislodged Russia as the main trading partner of the five countries. Central Asian markets have seen a considerable rise in Chinese consumer goods over the last few years, from textiles to electric cars, and this trend is expected to continue. It is not a major market compared to other regions of the world, but Central Asia's little over 80m consumers are just across the border.

A Debt trap?

Chinese investment in the region over the last few years can be seen as a double-edged sword, particularly for Central Asia's two smallest economies: Tajikistan and Kyrgyzstan. Lacking the natural resources or demographic weight of their Central Asian neighbours, both countries rely heavily on loans from foreign lenders to undertake major infrastructure projects. China and its Export-Import Bank of China (Eximbank) are the chief international creditors of both Tajikistan and Kyrgyzstan, accounting for 52% of Tajiki foreign debt and 45% of Kyrgyz external borrowing. This is equivalent to over 20% of their respective GDPs. The economic situation, particularly in Tajikistan, hardly buoyant already and affected by the COVID-19 pandemic and the war in Ukraine, could make it harder to service that debt.

Opinion is divided over whether this is a deliberate strategy on the part of Beijing, a component of a so-called "debt trap". But this asymmetry and dependence gives China a significant edge in its bilateral relations with the two countries. This translates into amenability on matters such as granting mining concessions or, in the case of Tajikistan, tightening security ties, a particularly significant point in a regime with the transparency and corruption issues of Dushanbe. While Tajikistan's cession of over 1,300 sq. km of its territory to China in 2011 was not related to debt payments but to a renegotiation of a border dispute, it still sets a disturbing precedent for the future. And it is all the more important given China's irredentist narratives, echoed in the national press, claiming the Pamir region of Tajikistan as its own. Nevertheless, it is also possible that for the sake of maintaining good relations with the two countries Beijing will agree to refinance or even cancel part of the debt. Tajikistan can access Central Bank of China emergency liquidity lines equivalent to 5% of its economic output and yet, significantly, it has done so only once (in 2015) to keep the local currency afloat, for a limited amount of $500 million.

Tajikistan as a buffer

Tajikistan plays an important role in China's security strategy precisely because of its frontier geographical position in the Pamir Mountains. Lying in the south-eastern corner of the region, Tajikistan shares a border with China of a little less than 500km. More importantly, it shares one with Afghanistan running for over 1,350km. China's priority is not so much to expand its military presence in the region as a projection of its power but to shield itself from threats that could come from abroad, in this case from Afghanistan via Tajikistan.

This prompted Beijing to secure an outpost for some 100 members of the People's Armed Police (PAP) in the far southeast of Tajikistan, in the Gorno-Badakhshan Autonomous Oblast (GBAO). In addition, in 2021 the Tajiki government announced the construction of another outpost in western GBAO, near the border with Afghanistan. Officially, China is funding the $10m cost of building the facility even though it will supposedly house Tajiki special forces.

For the same reason, China has staged primarily bilateral counterterrorist manoeuvres with Uzbekistan, Kyrgyzstan and, particularly, Tajikistan over the last few years. All this is driven by its goal of protecting itself from unconventional threats that could penetrate China via its Central Asian neighbours. To a lesser extent, Beijing has also become a weapons supplier to the region, providing some of its armed forces with equipment such as drones, vehicles and even antiaircraft missiles.

The Sinophobia issue

China may have invested huge amounts of funds in Central Asia, but a large part of the region's society still eyes the Asian giant with suspicion. According to surveys conducted by the Central Asia Barometer between 2017 and 2021, the opinion of Kazakhs, Uzbeks and Kyrgyz people regarding China has deteriorated over time. There are several reasons for this.

While China has ploughed substantial sums of money into Central Asia, the citizens of the region do not get the feeling they have benefited from it. In some cases, it is down to the dubious quality of the infrastructure projects executed by China, like the Bishkek thermal power plant. Following modernisation by a Chinese company, it broke down in the winter of 2018. Another gripe is the way in which the China-funded work is executed. Chinese contractors are hired and workers brought in from China, meaning most of the profits never reach the locals. In addition, there is friction and conflict between the local populations and the foreign workers that sometimes ends in violence.

Another factor is the fear that China will snatch their natural resources or territory. The clearest example of this came in Kazakhstan in 2016, when the Central Asian country witnessed its biggest protests since independence, against a law allowing foreign nationals to lease land for 25 years. The demonstrations took on an anti-Chinese bent, and the Kazakh government was forced to backpedal. Similarly, there is a distrust of Chinese extractive companies. In nationalist circles in particular, they are considered a threat to sovereignty.

To a lesser extent, there is the Chinese regime's repression of Uyghurs, Kazakhs and other Turkic minorities in the region of Xinjiang. Most of Central Asian society takes no stand on the issue and its governments comply with Beijing's requests for non-interference on its internal affairs, including the Uyghur situation. In Kazakhstan, however, members of the Kazakh community who emigrated from China have indeed raised their voices, making things awkward for the authorities. All this serves to tarnish China's image in the eyes of Central Asians. However, as far as government relations are concerned, however, the ties between the region and China are unaffected.

On a historical, cultural and social level, China does not carry much weight in Central Asia and despite a growing use of soft power, especially in education and universities, it still has a limited presence in those areas. Nevertheless, the recent summit in Xi'an made it clear that relations between the region and Beijing will continue to grow stronger on every level. The age of huge infrastructure projects may be at an end, but political, trade and security ties will continue to tighten in the future, as demonstrated by the joint declaration signed by the presidents of the six countries in Xi'an. Central Asia will remain a key partner because of its resources and geographical location. For the Central Asian republics, meanwhile, Beijing will continue to provide an alternative with which to balance a foreign policy largely bound to Russia. And, depending on the country, it will continue to be an important export destination and source of investment.

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CHINA'S BID FOR LEADERSHIP IN SOUTHEAST ASIA

China has become a key player in the future of Southeast Asia. The country is looking to secure its economic, political and security interests the region in order to consolidate its status as a superpower. Relations between China and the Southeast Asian countries have improved considerably, but there is a lingering distrust of the Asian giant fuelled by its diplomatic influence in several countries and its growing military might, visible in the South China Sea.

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China's economic ascent has transformed the country's role in the international system and consequently in one of its areas of greatest interest, Southeast Asia. It has a close terrestrial and maritime connection to the region – it shares a land border with Myanmar, Laos and Vietnam – and interaction has been intense down the centuries, as evidenced by the presence of a large Chinese diaspora scattered across the zone.

There has been a gradual shift in China's relations with the eleven Southeast Asian nations over the last two decades, both on the mainland (Myanmar, Vietnam, Cambodia, Laos, Thailand, Malaysia and Singapore) and in the insular states (the Philippines, Indonesia, Brunei and East Timor), brought on by a dual process of change. First, China's ascent has made the country the Indo-Pacific's main economy. And second, the profound transformation of its foreign policy has turned the Asian giant into an extremely assertive actor, with an agenda designed to maximise its position in the region. While China's global relations have improved with time, there are still major pockets of distrust in Southeast Asia.

What does China want in Southeast Asia?

Deng Xiaoping's arrival in power in the People's Republic of China (PRC) in 1978 spelled the end of its most revolutionary foreign policy period, marked by support for various communist and Maoist insurgencies in the region. The ensuing period of reform and opening up signalled the start of a new stage in relations with Southeast Asia, and a return to the principle of non-interference. It was defined by globalisation and greater cooperation and economic integration.

THE ENSUING PERIOD OF REFORM AND OPENING UP SIGNALLED THE START OF A NEW STAGE IN CHINA RELATIONS WITH SOUTHEAST ASIA, DEFINED BY THE RETURN TO THE PRINCIPLE OF NON-INTERFERENCE AND GREATER COOPERATION AND ECONOMIC INTEGRATION.

Economics

Beijing has prioritised outreach to a region that currently comprises over 675 million inhabitants and constitutes the third economic force in the Indo-Pacific after China and India. As a whole, it accounts for around 15% of China's total trade with the world and 14% of its investments[1]. Southeast Asia's market has huge growth potential, it plays a prominent role in regional value chains and has rich agricultural, energy and mineral resources. For example, China has shown an interest in importing natural gas and oil from Myanmar and Malaysia; nickel from Indonesia and the Philippines; or foodstuffs – like rice and fruit –, reflecting a particular to attention food security, the importance of which has increased in recent years.

China is now the main partner of every country in Southeast Asia, assisted by the signing of the Free Trade Agreement (FTA) between the Association of Southeast Asian Nations (ASEAN) and China in 2010 and the entry into force of the Regional Comprehensive Economic Partnership (RCEP) trade deal in 2022. China was the region's biggest trading partner in 2022, accounting for 21% of ASEAN exports and 24% of its imports. Vietnam (3.8%), Malaysia (2.4%) and Singapore (2.2%) are the main destinations of Chinese exports to the region in the sectors of machinery and electronic goods – with a percentage inside the three countries in excess of 40% –, which illustrates the role these economies play in regional value chains.

1. See Appendix, Table 5.

China's huge Belt and Road Initiative (BRI) targets Southeast Asia as a primary area of operation in the development – and funding – of port infrastructures and overland corridors in order to smooth trade. Two of these corridors are expected to cross mainland Southeast Asia. The Bangladesh-China-India-Myanmar Economic Corridor[2], connecting China to India via the unstable Myanmar, and the China-Indochina Peninsula Economic Corridor, traversing the entire region from north to south, are prime examples of Chinese interests. Similarly, President Xi Jinping's announcement of the Maritime Silk Road in Jakarta in 2013 illustrates the region's importance in China's rush to connect with Europe.

This desire for enhanced economic relations is apparent in the rapid rise in Chinese direct investment in the 10 countries, rocketing from $1.59bn in 2005 to over $30bn in 2018, although it decreased to $18bn in 2022. These investments prioritised manufacturing ($3.51bn), communication and information ($2.44bn) and real estate ($2.36bn) in 2021. Following a reduction in flows on account of the COVID-19 pandemic and the economic downturn, China was the third biggest investor in the region in 2022 with 6.8% of the total, trailing well behind the United States (16%) and the European Union (10%) (ASEANStats, 2022).

By country, Indonesia is the biggest regional recipient, particularly in the logistics and mining sectors thanks to the country's wealth of mineral resources and its geographical importance on maritime trade routes. Singapore is next, with significant investments in the real estate, technology and logistics sectors, owing to the country's position on the Strait of Malacca (through which 80% of China's oil imports transits). It is followed by Malaysia, thanks to major investments in financial services, natural resources and new technologies.

Diplomatic support

Beijing also needs political allies in its undisguised bid to steer the US-led global order towards a more multipolar world. To that end, it is not only key to win the Southeast Asian countries' backing in the United Nations and for China's new global governance initiatives; it is also important to secure their acquiescence on extremely sensitive domestic issues and vital

2. The Bangladesh-China-India-Myanmar Economic Corridor is currently on pause given India's reticence to join the Belt and Road Initiative and the domestic instability of Myanmar, especially after the Military Junta *coup d'état* in 2021.

affairs for Beijing, such as Taiwan, Hong Kong or Xinjiang. Regarding the latter issue, the silence on the plight of the Uyghurs from most Southeast Asian nations, including Indonesia – which has the world's biggest Muslim population –, is a perfect example. They merely state that it is a Chinese domestic matter.

This search for allies is perhaps one of the most compelling features of the current age of systemic rivalry between the United States and China, in which Southeast Asia is a crucial area of competition between the two great powers.

BEIJING ALSO NEEDS POLITICAL ALLIES IN ITS UNDISGUISED BID TO STEER THE US-LED GLOBAL ORDER TOWARDS A MORE MULTIPOLAR WORLD. TO THAT END, IT IS NOT ONLY KEY TO WIN THE SOUTHEAST ASIAN COUNTRIES' BACKING IN THE UNITED NATIONS AND FOR CHINA'S NEW GLOBAL GOVERNANCE INITIATIVES; IT IS ALSO IMPORTANT TO SECURE THEIR ACQUIESCENCE ON EXTREMELY SENSITIVE DOMESTIC ISSUES AND VITAL AFFAIRS FOR BEIJING, SUCH AS TAIWAN, HONG KONG OR XINJIANG.

Laos and Cambodia have been considered close to China for years, as two of the biggest recipients of Chinese development assistance in the region (Lowy Institute, 2023). But while Laos has accommodated the Asian giant to improve its domestic situation and regional standing compared to other actors in the neighbourhood– like Vietnam and Thailand – Cambodia has thrown in its lot with China (Pang, 2018). Of all the countries in the region, it is the one with most political affinity with Beijing, as their near identical voting record in the United Nations shows. In Myanmar too, following the army's coup in February 2021 and the civil war afflicting the country since then, the military junta has swung towards China after receiving certain political support, and in spite of criticism of Beijing's attitude from the rest of the ASEAN members.

At the same time, Washington has seen its influence over the ASEAN member countries wane, with the exception of Singapore and the Philippines thanks to the United States' importance to both countries' defence (Patton & Sato, 2023). In the Philippines, the Biden administration has enjoyed some recent significant success, however, such as the shift by the new government of Ferdinand Marcos Jr and the opening of new US military bases in 2023.

US-China Competition will be fiercest, then, in the countries where they both wield similar influence – like Vietnam and Thailand – and in those that have strong economic relations with Beijing, but close security and defence ties with Washington – like Indonesia, Malaysia or Brunei. Thailand in particular, as the natural leader on mainland Southeast Asia, is set to be a key battleground in the future struggle for hegemony in the region. A struggle in which China will continue to try to transform its huge economic power into political clout.

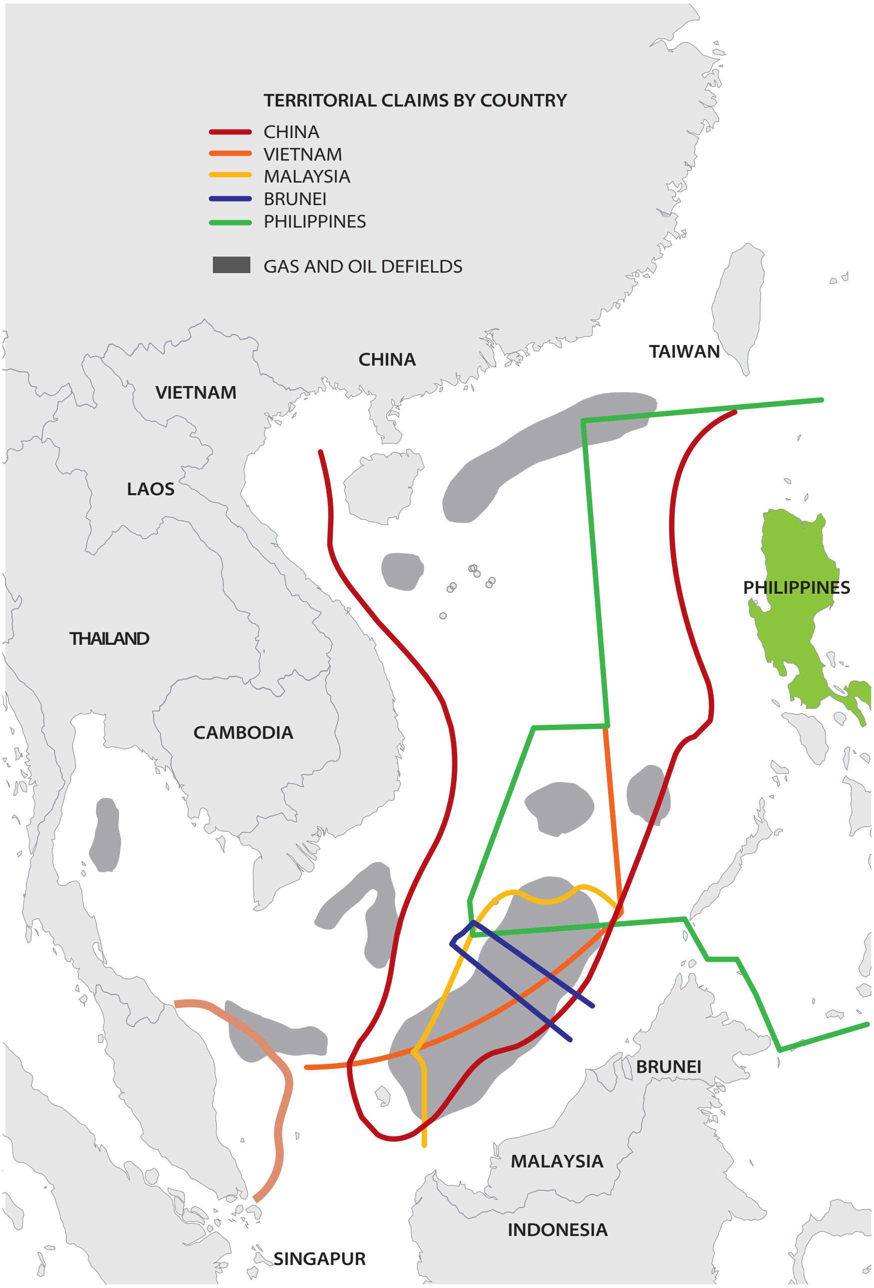
Troubled waters: the South China Sea dispute

In parallel with China's rise and the region's economic integration, Beijing has stepped up its claims to sovereignty and jurisdiction over territory in the South China Sea (SCS). This has caused considerable friction with Vietnam, the Philippines, Malaysia, Indonesia and Brunei, which also claim jurisdiction over parts of the area. The dispute has been simmering since the 1970s, with military clashes between China and Vietnam in 1974 in the Paracel Islands, and 1988 in the Spratlys. But the number of incidents has increased since 2012, coinciding with a rise in China's assertiveness and its inclusion of these territories as "core interests".

Beijing is looking to strengthen a terrestrial and maritime security perimeter through the claim to historic rights in an area demarcated by the famous "nine-dash line" covering nearly 90% of the region's waters, including the Spratly and Paracel Islands. This serves a triple purpose. First, to defend and protect China's mainland coastal provinces, home to the country's economic powerhouse and a large part of the population. Second, to safeguard the shipping routes of a region through which around 65% of China's trade transits and, at the same time, pierce the barrier of US islands blocking China's development as a sea power. Third, Beijing also aspires to force through the reorientation of a huge maritime space that is vital to its political and economic stability, thereby demonstrating its leverage in the vicinity as a major power in the Indo-Pacific.

The International Court of The Hague ruling of 2016 on ownership of the Mischief Reef in favour of the Philippines and its rejection of China's claims of historic rights in the SCS for lack of legal foundation marked a new milestone in the dispute. The authorities in Beijing rejected the arbitration, contradicting the provisions of the United Nations Convention on the Law of the Sea (UNCLOS) that China ratified in 1996. China has embarked on a growing militarisation of the islands over which it exercises de facto authority to reinforce its control of the maritime area for defensive purposes, particularly through the construction of dual-use (civilian and military) infrastructures and coercive action on the part of Chinese coast guard.

Figure 1. Territorial disputes in the South China Sea Map



Source: Created by CIDOB with data from Valencia (2011)

These moves by China have been accompanied by a regional trend for increased defence spending, particularly visible in the case of the PRC, with the modernisation of the People's Liberation Army serving hegemonic designs in the Asian region, thereby increasing tension and the risk of accidents. This conduct is precisely what has raised most hackles among China's neighbours, particularly in the Philippines – which has a Mutual Defence Treaty with the United States –, Vietnam and, to a lesser extent, Indonesia, Malaysia and Brunei. It brings back painful memories of violence experienced in a colonial past under Europe and Japan, or the imprint of the Cold War, such as the Vietnam conflict.

THOUGH THE TENSION IS HIDDEN, IF BEIJING CONTINUES TO DISPLAY HEGEMONIC BEHAVIOUR, WE CANNOT RULE OUT A DETERIORATION IN RELATIONS BETWEEN CHINA AND THE SOUTHEAST ASIAN COUNTRIES AS A WHOLE.

China as a disruptor of the ASEAN consensus

China and ASEAN have gradually strengthened relations since the 1990s, facilitating a process of mutual institutional convergence. If initial contact with ASEAN dates back to 1991, by 1996 China had already acquired the status of ASEAN's full Dialogue Partner. Since then, China has gone on to form part of all the cooperation mechanisms established by the organisation, like ASEAN Plus Three – an economic cooperation platform comprising ASEAN and South Korea, Japan and China – or the East Asia Summit – a forum for regional cooperation and strategic dialogue formed by the 10 ASEAN member states, Australia, China, Japan, India, New Zealand, South Korea, the United States and Russia. Since Chinese President Xi Jinping came to power in 2012, however, the importance and intensity of Southeast Asian interaction has increased, given the region's primacy in a "neighbourhood diplomacy" aimed at ensuring a favourable local environment for its security and development.

In parallel, China is also a divisive factor in ASEAN's unity of action on such vital matters as the SCS wrangle. Cambodia plays a leading role in this, impeding an ASEAN consensus on the dispute. Along with the increase in internal challenges, like the Myanmar issue and the organisation's non-interference principle, and external developments, such as the creation of the AUKUS (the military alliance between Australia, the United Kingdom and the United States) or the war in Ukraine, there is concern about growing disunity among ASEAN members. According to the *State of Southeast Asia 2023 Survey*, 61% of respondents thought ASEAN was increasingly fragmented and 73% feared the transformation of the institution into an arena of geopolitical competition between powers where its members act as proxies of the great powers' interests.

Southeast Asia rises up

Southeast Asia is crucial to China's designs as a regional and global power given the importance of its neighbourhood as an area of natural influence. The view of China held in the region has changed enormously in recent decades. While some governments initially perceived it as a threat because of its support of communist insurgencies, China has now become an indispensable trading partner and crucial to maintaining economic development, as well as a major regional actor. But that preeminent role as a trading partner does not mask deep suspicion triggered by its aggressive policy in the SCS, its political rise in the region, emerging hegemonic tendencies and the economic reliance on China the countries of the neighbourhood have acquired.

In terms of soft power, China has made a major incursion into cultural affairs through the Confucius Institutes – there are now over 30 throughout the region – and a huge scholarship programme to study in the PRC. Yet for all the activity aimed at improving the country's image abroad, China is neither as popular nor as loved as the giant would like. Despite enormous and enduring economic and political clout, it is perceived as a revisionist power which aims to transform the region into its area of influence.

And here lies one of the chief sources of prospective instability: the difficult balance between China's goals of a higher profile as a regional leader, its expansionary policy in the SCS and the response from the Southeast Asian nations. It is a complex situation, since one of the most important legacies of the colonial era in the region was the need to fight for freedom and independence. That is why, though the tension is hidden, if Beijing continues to display hegemonic behaviour, we cannot rule out a deterioration in relations between China and the Southeast Asian countries as a whole.

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INDIA AND PAKISTAN AS THE PIVOT OF CHINA'S SOUTH ASIA STRATEGY

Critical to understanding China's rise in South Asia is an appreciation of the dynamics of competition between Beijing and Delhi, and the geostrategic relationship between China and Pakistan. Indeed, the growing rivalry between China and India has an impact on the domestic and foreign policies of the other countries in the region, which face pressure to find a balance between their economic and development interests and their geostrategic concerns.

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There has been a shift in China's perception of South Asia over the last decade. From being considered peripheral and of little relevance to Beijing, the region comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka has moved up its list of foreign policy priorities. China shares a border with five of these countries, namely Afghanistan, Bhutan, India, Nepal and Pakistan. But the key factor that explains Chinese interest in this subregion of Asia is its contest with India and its strategic relationship with Pakistan, whose support is vital to counter Delhi's hegemonic position in South Asia. The fact that these three countries are also in possession of nuclear weapons adds a disturbing element to the dynamics of competition among them.

Regional trends in South Asia are marked by the dysfunction arising from the confrontation between India and Pakistan; the lack of economic integration among the countries in the region; and structural limitations (like the absence of connecting infrastructure or barriers to trade); as well as changes in governments' foreign policies with each new election cycle. The Chinese government has capitalised on these failings as it has drawn closer to the region. Indeed, Beijing engages with South Asia mainly through economic measures and trade, and the primary instrument is the Belt and Road Initiative (BRI). Under this approach, Beijing proposes improving the various countries' investments, trade development and connectivity with China (not so much among one another), in turn trying to isolate India from its neighbours. Furthermore, it has diversified the channels through which it engages with the countries of the region over the last few years, however, adding security, political and cultural facets to its interaction. Prominent among these instruments are arms sales and military cooperation with Pakistan and Bangladesh (the world's biggest buyers of Chinese weapons); China's role as a mediator in the Istanbul Process for peace in Afghanistan between 2014 and 2022, and between Bangladesh and Myanmar following the Rohingya crisis in 2017 (Legarda, 2018); or the opening of Confucius Institutes in the region, which has 15 of these centres.

THE KEY FACTOR THAT EXPLAINS CHINESE INTEREST IN THIS SUBREGION OF ASIA IS ITS CONTEST WITH INDIA AND ITS STRATEGIC RELATIONSHIP WITH PAKISTAN, WHOSE SUPPORT IS VITAL TO COUNTER DELHI'S HEGEMONIC POSITION IN SOUTH ASIA.

The political and economic dynamics of South Asia also reflect the impacts of Sino-Indian competition, as every country feels the pressure of such rivalry. Although China's presence in the region is a relatively recent phenomenon, the role of India is crucial. Delhi is obliged to juggle its ambitions of greater global clout with being careful not to alienate China too much, while maintaining the edge in its backyard, where it preserves political, economic and cultural primacy in varying degrees of intensity. However, India sees the launch of the BRI maritime route as a 'string of pearls' with which its rival is looking to restrict or control its access to the sea through the construction or control of surrounding ports, including Chittagong and Payra in Bangladesh, Hambantota and Colombo in Sri Lanka, and Karachi and Gwadar in Pakistan (Faridi, 2021). Delhi's concern over China's interest in dominating its sphere of influence by bringing pressure to bear on small countries is no trivial matter. Every country in the area, regardless of its size, faces pressure to turn towards one power or the other.

Dictating a new regional order: India's perception of China

Since the change of focus towards a foreign policy that prioritises a stable neighbourhood, the Chinese president, Xi Jinping, has pushed the idea of creating a "community with a shared future", based on the principles of friendship, sincerity and mutual benefit, in a bid to create an image of China as a benevolent actor (Garver, 2012). But Delhi rejects that rhetoric, as it eyes China's growing presence in the region with suspicion and is mindful of the contradiction between the words of its neighbour to the north and its actions.

Contrary to the official discourse, Beijing has shown limited interest in defining the demarcation of over 3,400 km of border with India, the only country other than Bhutan in this situation. It is no coincidence that neither is a member of the BRI. In Delhi's view, China reignites the border tensions periodically to throw it off-balance and shape South Asia, as shown by the crisis active since 2020 in the Galwan Valley on the Himalayas border, following a deadly brawl between Chinese and Indian troops. In India they believe that Beijing considers the country inferior, and as such it must never be on an equal footing in the global hierarchy (Menon, 2021).

IN THE FACE OF CHINA'S GROWING ASSERTIVENESS, INDIA HAS FELT COMPELLED TO SEEK ALTERNATIVES TO PRESERVE ITS LEADERSHIP IN THE REGION, INCLUDING DRAWING CLOSER TO WASHINGTON.

China, meanwhile, calls on India to end its conflict with Pakistan and develop their economic and political potential together, accommodating the rise of Beijing in the region. But in the growing competition in the Indo-Pacific, where India is better placed, China sees Pakistan as a longstanding ally and a strategic partner that plays a key role in the zone, one that can be relied on to promote a new order. Pakistan, for its part, tries to thwart Indian leadership in the subcontinent, as well as Delhi's aspirations to be a global actor, by using strategies of attrition and destabilisation along the Line of Control – the boundary separating it from India – employing non-state actors (like the extremist groups Jaish-e-Mohammad and Lashkar-e-Taiba) to rock India's domestic stability and divert its attention away from economic development. Bearing in mind Pakistan's importance for Beijing, these two fronts discourage any cooperation on the part of Delhi.

In the face of China's growing assertiveness, India has felt compelled to seek alternatives to preserve its leadership in the region, including drawing closer to Washington, as it prioritises evening up the balance of forces alongside other powers, aware still of the asymmetry in relation to China. Without altering its preference for creating partnerships rather than alliances, India has come to the conclusion that its previous policy of appeasement towards China failed to temper its neighbour's conduct. If Beijing was looking to turn it away from the United States, then, it has achieved the exact opposite. India's membership of the Quadrilateral Security Dialogue, or Quad, along with the United States, Japan and Australia, illustrates Delhi's desire to invite and obtain greater involvement of other actors in the Indian Ocean that help to check China's ambitions. It is, then, a strategy to manage China's presence rather than outright opposition, which differentiates India's view from that of Washington.

Pakistan and the BRI's success as a foreign policy instrument

China-Pakistan relations have been framed as an "all-weather friendship" for decades, but this bond has grown stronger over the last few years, propelled by India and the United States moving closer, deteriorating relations between Washington and Islamabad and, above all, Pakistan's central place in the BRI. Islamabad is the biggest BRI investment recipient thanks to the China-Pakistan Economic Corridor (CPEC), launched in 2015. It was the beneficiary of over $65bn between 2005 and 2022.[1] In fact, the CPEC is the flagship BRI project and aims to connect the port of Gwadar in the western province of Balochistan – an undertaking that began in 2006 – with the Chinese province of Xinjiang, as well as develop multiple energy and transport initiatives. Once finished, it would give China direct access to the Indian Ocean, allowing the Asian giant to avoid the Strait of Malacca, through which 70% of its energy imports transit. For Beijing, the BRI's legitimacy hangs on the success of this corridor, touted as the deal of the century.

The project has run into obstacles, however. Pakistan is mired in political instability and on the brink of economic collapse, a situation exacerbated by the floods in the summer of 2022 that left a third of the territory under water and damaged a large part of the infrastructure already built. These domestic difficulties have stalled the progress of the CPEC. As the Wilson Center expert Michael Kugelman stated, "the reality on the ground is that Pakistan has been slow to complete infrastructure projects and China has been slow to fund new ones". Given Pakistan's importance, and in order to prevent defaults hitting Chinese firms in the light of the country's debt servicing difficulties, China has come to its financial rescue on numerous occasions through state-owned banks and enterprises. Since 2013, that also includes the use of People's Bank of China liquidity lines[2]. In 2022, for example, China extended a loan to the value of €2.18bn. In total, Pakistan has run up rescue loans to the value of 9.5% of its GDP and is the world's biggest recipient of financial assistance from China. Trade only accentuates that dependence. Nearly a quarter of Pakistan's imports come from the Asian power.

1. See Appendix, Table 5.

2. For more information see the chapter by Víctor Burguete in this series.

China's major presence in Pakistan, however, is facing a growing security threat on account of the existence of insurgent groups that are hostile to its projects, particularly in Balochistan. This western province, which has a long history of opposition to the central government, sees China's presence with distrust, both because of the extractivism it promotes and because of the political and economic exclusion of the Baloch people from the planning and execution of projects instigated by a centralist Islamabad. The perception that the execution of certain investments (particularly infrastructure ventures carried out directly by Chinese companies) do not benefit the local population, as well as Chinese interference in Pakistani politics, generates a hostile environment in the shape of attacks and acts of sabotage on Chinese projects or workers. A suicide bombing in April 2022 claimed the lives of three Confucius Institute staff at the University of Karachi. At present, the Pakistani military establishment has most interest in maintaining good relations with China, given that many of its companies are profiting from CPEC contracts.

ISLAMABAD IS THE BIGGEST BRI INVESTMENT RECIPIENT THANKS TO THE CHINA-PAKISTAN ECONOMIC CORRIDOR (CPEC), LAUNCHED IN 2015. IT WAS THE BENEFICIARY OF OVER $65BN BETWEEN 2005 AND 2022.

However, the increase in terrorist attacks on Chinese nationals and the links between Islamist militants in Xinjiang and Pakistani terrorist groups – a concern that extends to the situation in Afghanistan and the prospect of regional instability – have raised Beijing's reservations about its partner. But it has little bearing on the strategic view that China has of Islamabad or on its readiness to prop the country up. Ultimately, against a backdrop of greater competition in the region, Beijing is backing Pakistan, even if the doubts among China's elites over continued investment may increase if the instability persists.

Echoes of Sino-Indian rivalry in other countries in the region

In 2017, Indian analyst Brahma Chellaney coined the term "debt trap diplomacy" after Sri Lanka surrendered control of the port of Hambantota to China over a supposed loan default. The writer's description holds that Chinese diplomacy rests on the coercive use of geostrategic economic instruments whereby countries take on debt they cannot service and Beijing exploits the situation to secure a position of advantage, gain control of strategic infrastructure and increase its influence over these countries. The idea serves to discredit China's action in the neighbourhood, which India views as interference. While the Sri Lanka argument has been since been rebutted[3], the idea has taken hold in the perceptions and imaginations of leaders across the world, tarnishing China's BRI action as a whole.

Despite India's bid to demonise these economic interests among its neighbours, China is sometimes the only available option given the lack of economic opportunities from Delhi or the inability to meet the conditions imposed by international bodies. Other prominent examples of major beneficiaries of Chinese investment besides Sri Lanka are Bangladesh and Nepal, bearing in mind that Bhutan has not joined the BRI and the Maldives has cooled on the project because of domestic party interests and India's influence. Bangladesh, for instance, is the country to have benefited most from the BRI in the region after Pakistan, with investment in excess of $26bn since 2014 (see appendix table 5). Dhaka's success is also down to its ability to manoeuvre and tread a fine line not only between China and India – which has also invested and developed similar projects in the country – but with other powers like the United States or Japan, too.

Nepal, meanwhile, was one of the first countries to sign up to the BRI in a bid to diversify its dependence on India and attract connectivity and infrastructure projects, particularly after the devastating earthquakes of 2015. Many BRI-linked projects, however, have ground to a halt or are on ice – sometimes because of logistical issues, like the difficulty in executing projects in the Himalayas, other times out of lack of interest of the parties – tarnishing the initiative's image in the region.

In addition, there is also the fear that Beijing's economic sway will influence these countries' domestic policies. Over the last few years, some political parties in Bangladesh, Maldives, Nepal or Sri Lanka have reactivated (and exploited) the power dynamics between Beijing and Delhi to make political gains. In the Maldives, for example, the former president, Abdulla Yameen, who is in favour of a greater Chinese presence, campaigned in a T-shirt bearing the slogan "India Out". Similarly, in Sri Lanka, China's shadow pits the Rajapaksa clan, with their promises of China-sponsored economic

3. In 2016, when Sri Lanka ceded control of the port of Hambantota to China for 99 years, the island nation's debt was mostly in sovereign bonds, not in Chinese hands. Today, China accounts for 20% of the country's total debt, compared to the 36.5% in sovereign bonds. The country's macroeconomic situation was also exacerbated by a series of political decisions in the economic sphere – such as tax cuts – along with the impact of the COVID-19 epidemic, triggering an economic crisis caused by those same elites. See Jones & Hameiri (2020).

development, against the president, Ranil Wickremesinghe, who is more inclined to remain neutral. The latter leader treads a delicate path between not opposing Beijing and moving closer to Delhi, particularly amid the current process of renegotiating Sri Lanka's debt.

Table 1: China's investments in South Asia by sector, 2005-2022 (in billions of dollars)

	Afghanistan	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Agriculture		1,280	510		110	270	1,840
Chemicals			1,130				
Energy	400	12,290	16,630		1,460	47,140	1,760
Entertainment			510				
Financial		160	940			180	
Health			1,080				200
Logistics						520	1,120
Metals	2,520	2,130	3,210			240	
Other		410	4,810			520	
Property		2,360	660	430	680	870	2,300
Technology		1,130	2,260		170	2,730	250
Turístico			1,270			230	540
Transportes	210	9,210	1,910	800	1,270	12,440	5,600
Servicios		1,040				550	330
Total	**3,130**	**30,010**	**34,920**	**1,230**	**3,690**	**65,690**	**13,940**

Source: American Enterprise Institute (2023)

Finally, it is important to highlight that, while these countries have capitalised on the contest to reap gains from both China and India (and even from the United States), what concerns them is how these loans and Chinese infrastructures affect the functioning of their governments. The Chinese projects, which come with few conditions attached, contribute to local economic development. But sometimes other factors, like their poor quality, a lack of sustainability, scant profit sharing or debt pressure, make them less appealing. All the same, it is beyond question that China's growing presence in South Asia has helped to reconfigure the political and economic order of a key region of the Indo-Pacific.

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CHINA IN THE SOUTH PACIFIC: GEOPOLITICAL COMPETITION AND LOCAL AGENCY

The presence of the People's Republic of China in the South Pacific is shaped by its contest for international recognition with Taiwan and its (re)emergence as an economic power. Since 2022, Beijing's geopolitical calculations in relation to the Western powers have altered China's footprint in the region, adding a new security dimension. Yet this presence cannot be understood without considering the agency of the 14 island states and their desire to determine the Pacific's future.

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In 1994, Fijian anthropologist Epeli Hau'ofa defined the South Pacific as "Our Sea of Islands". This phrasing sought to break with the notion of the region as a group of small, remote and vulnerable island states in order to place the ocean at the heart of their identity and independence. The discursive shift would subsequently serve as a platform for the Pacific nations to reframe themselves as "large ocean states", with control over vast maritime areas. The region, comprising 14 sovereign island states plus seven territories under European or United States control[1], covers 15% of Earth's surface area and is rich in natural resources like wood, minerals, fisheries and seafloor deposits.

However, despite these local attempts at self-definition, the narrative of *realpolitik* appears to prevail in the South Pacific. Its history is marked by the shadow of colonialism, its strategic importance during the Pacific War and

1. The 14 sovereign island states are the following: Federated States of Micronesia, Fiji, Cook Islands, Marshall Islands, Salomon Islands, Kiribati, Nauru, Niue, Palau, Papua Nova Guinea, Samoa, Tonga, Tuvalu and Vanuatu. The seven territories under Western control are the Mariana Islands (US), New Caledonia (FR), French Polynesia (FR), American Samoa (US), Tokelau (NZ) and Wallis and Futuna (FR).

the perception of the region as an exotic—and unstable—backyard of Australia and the United States. The consolidation of the People's Republic of China (PRC) in the zone over the last two decades and its presumed impact on the regional order has resurrected old dynamics of geopolitical rivalry. The signing of a security agreement between the Solomon Islands and China in April 2022 and the (rejected) proposal of an interregional agreement with 10 island nations has sparked a fresh wave of interest. The islands, however, are adamant they will determine the future of the region and its bilateral and multilateral relations on their own terms.

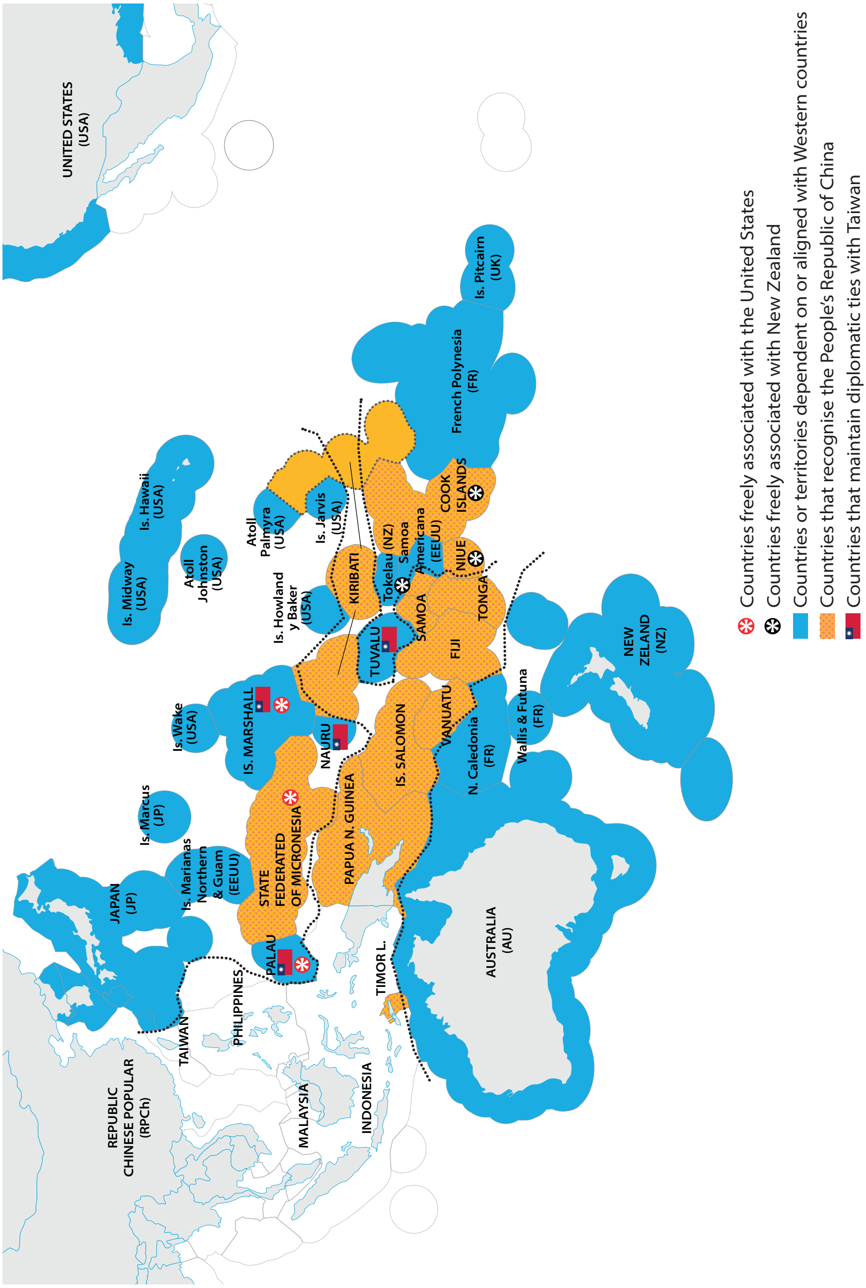
The Taiwan factor

Relations between the PRC and the Pacific nations date back to the 1970s, when Beijing began to provide development assistance to the new postcolonial states as it jostled for international recognition with Taiwan. At the time, both capitals laid claim to the status of legitimate representative of the Chinese government in the international system. And for decades, China and Taiwan employed what was known as "chequebook diplomacy". In other words, they offered foreign aid and other incentives, including bribes and diplomatic support in the United Nations (UN), on one condition: the establishment of official diplomatic relations. The island states, in need of an economic boost following independence, created a "market for diplomatic recognition" that rooted both actors to the region (Atkinson, 2010).

Competition was fierce in the 2000s, with economic assistance, the cultivation of bilateral and multilateral relations via high level visits and the creation of regional cooperation frameworks. A more conciliatory tone towards Beijing from Taiwanese President Ma Ying-jeou, of the Kuomintang (KMT), eased this rivalry between 2008 and 2015. But the arrival in power of the Democratic Progressive Party (DPP) in 2016 under Tsai Ing-wen, and her staunch defence of Taiwan's sovereignty, reignited the competition between them. Since then, Taiwan has lost eight diplomatic allies around the world, two of them in the Pacific. The Solomon Islands and Kiribati broke off relations with Taipei less than a week apart in 2019. Currently, 10 of the South Pacific's 14 island states recognise the PRC diplomatically and just four recognise Taiwan—Nauru, Tuvalu, Palau and the Marshall Islands.

As well as the initial catalyst of Beijing's engagement in the South Pacific, recruiting states from this zone in support of the "One China" principle and reducing Taipei's influence in the region remains a key issue for the PRC to this day. If we bear in mind that four of the 13 diplomatic allies that Taiwan has left in the world are in the region, the Pacific is of major importance to Chinese interests.

Figure 1. Map of Pacific Islands by diplomatic recognition



Source: Created by CIDOB.

Yet the Pacific states have not been mere spectators of this rivalry; they have stoked it and leveraged it at will according to their interests, weighing up the benefits and challenges of recognising one or the other. Several countries have switched sides in this competition multiple times, be it because of changes in government (Papua New Guinea in 1999; Tuvalu in 2004; or Vanuatu in 2006), a leader's personal financial gain (Kiribati in 2003), promises of development assistance (Solomon Islands and Kiribati in 2019) or more specific but crucial reasons, such as the reestablishment of the country's only airline (Nauru in 2004). The most recent example was in 2023, when, just before leaving office, President of the Federated States of Micronesia David Panuelo declared he was ready to recognise Taiwan to the detriment of the PRC in return for initial aid of $50m and a further $15m a year for a period of three years (Needham, 2023).

RECRUITING STATES FROM THIS ZONE IN SUPPORT OF THE "ONE CHINA" PRINCIPLE AND REDUCING TAIPEI'S INFLUENCE IN THE REGION REMAINS A KEY ISSUE FOR THE PRC TO THIS DAY.

China in the South Pacific: between global trends and geopolitical interest

The first indication of a shift in relations between the South Pacific and China came in 2006. The creation of the Economic Development and Cooperation Forum between Beijing and the—then eight—Pacific Islands nations that recognised the PRC diplomatically provided for preferential loans, the removal of trade tariffs and the cancellation or renegotiation of debt. Since then, China has consolidated its presence in the region with diplomatic visits at the highest level, including President Xi Jinping's trips to Fiji (2014)—the first to the region by a Chinese leader—and Papua New Guinea (PNG) (2018), plus multiple aid packages (including a $4bn pledge in 2018 that failed to materialise). There are several reasons for this surge. In addition to the rivalry with Taiwan, identity issues (the Chinese elite's commitment to south-south cooperation); economic and trade motives (the interests of state-owned and private extractive companies and access to new markets); political grounds (the islands' support in the UN); and geopolitical reasons (gaining political and economic clout in the region and breaking the chain of islands in the US orbit) account for this strengthening of ties.

While economic and diplomatic relations between Beijing and the South Pacific have increased substantially over the last two decades, it is in line with the global trend accompanying China's transformation into a major trading power. According to the Office of Pacific Trade and Investment in Beijing (2020), total trade between China and the independent nations of the Pacific came to over $7.7bn in 2019. PNG and the Marshall Islands are China's main trading partners in the region (nearly 40% of the total in 2022), well ahead of other states such as the Solomon Islands or Fiji, which account for less than 10% of China's regional transactions. PNG is of greater importance because of its position as an exporter of liquified natural gas, nickel, cobalt and fish, and it attracts the biggest Chinese investments, like the $1.4bn Ramu nickel mine. American Enterprise Institute (AEI) figures (2022) suggest PNG has captured 90% of Chinese investment in the South Pacific over the last 17 years. Yet in aggregate terms, the region barely accounts for 0.2% of China's global trade, which shows that economic interests do not drive its affairs in the zone.

What has attracted most attention in the region is the rise in Chinese development assistance without the "conditionality" of political reforms other than diplomatic recognition. According to Australian think-tank Lowy Institute's data base (2022), China committed over $3.7 billion to the region between 2008 and 2020. Papua New Guinea ($964m), Fiji ($378m), Samoa ($362m) and Tonga ($300m) were the main recipients. Beijing provides 9% of the total development aid allocated to the region, making it second only to Australia (36%). But for China the assistance devoted to Oceania amounts to less than 4% of its total foreign aid, given the small size of these economies. After peaking at $333m in 2016, its volume is declining and its size in the future is in question (Smith, 2021).

Contrary to the widely held view of China as a unitary actor implementing a master plan for the region, the truth of the matter is that many of the development assistance projects are not managed from Beijing. Instead, they are run from Guangdong province, the origin of most of the Chinese diaspora in the South Pacific, and from the head offices of some of the companies with greatest presence there, like the China Civil Engineering Construction Corporation or the China Harbour Company. In practice, the most important projects in the South Pacific are in fact promoted by local companies (or politicians) and Chinese contractors that seek funding from institutional banks specialising in investment abroad, like Export-Import Bank of China (Eximbank). The result is a fragmented, bottom-up approach to aid adoption guided by commercial interests that has led to some successful projects, but also some flops and criticism of its ineffectiveness (Smith, 2018). The South Pacific's incorporation into the southern route of the Maritime Silk Road in 2016, however, is seen as a bid for coherence from Beijing in its action and that of the various Chinese stakeholders in the region.

In addition, most of the development assistance has come in the shape of loans, fuelling concerns about a possible "debt trap" that strikes such a chord in other regions of the Global South. The evidence, however, suggests otherwise, at least in the South Pacific. In the case of Tonga, we have seen how China has agreed to a payment deferral on two occasions to avert debt default (2013 and 2018). And this is not the only example of a country where Beijing has forgiven debt or agreed to alternative repayment methods. According to the researcher Alexander Dayant (2020), moreover, while these countries have racked up debt, it has been due to reconstruction after natural disasters, not the China factor.

Zhou Fangyin (2021), expert at the Chinese Academy of Social Sciences (CASS), says that until 2022 there was no clear evidence that the Chinese elites had prioritised the region strategically, politically or economically. But this could be changing following the signing of the security agreement between the Solomon Islands and China in 2022. The deal allows the Solomon Islands government to seek the support of Chinese police and military personnel. And, with Solomon Islands consent, it offers China the possibility of protecting its interests and citizens in the country, as well as providing for Chinese ship "visits". It is a major plus to the relations Beijing has traditionally forged in the zone. Security also featured in the proposed multilateral pact a "Common Development Vision" that China's foreign minister, Wang Yi, offered the Pacific Island countries in May 2022 and which they rejected on the spot. These moves have raised the alarm in Australia and the United States. They are making a bid to return to the South Pacific with new policies, which include blocking strategic telecommunications deals between China and some of these countries, the signing of new security agreements (like the new agreement between the US and PNG that grants an unrestricted increase in US military presence in the country in return for infrastructure) or the reopening of embassies in the island states. This has been met with concern in Beijing, which appointed a Special Envoy for Pacific Island Affairs, Qian Bo, in 2023, redoubling efforts to ensure coordination among all the actors involved and declaring a previously veiled geopolitical interest.

The "Blue Pacific" and local agency

While geopolitics is a visible dynamic in the region, the competition between major powers tends to mask other realities—and agendas—that, far from assuming the Pacific Island states are mere pawns in a geopolitical game, place the emphasis on an indisputable fact: the Pacific nations' own agency.

China's presence in the Pacific cannot be explained solely through Beijing's agenda; it is also shaped by the interests and capacities of the island governments to engage the multiple actors present in the region to their benefit. Zealously protective of their sovereignty and independence, they exert their capacity to switch allegiances depending on their economic interests and maximise their latitude in the face of former regional powers that still wield considerable influence. Until recently, China was a vocal exponent of the principle of non-interference and of funding infrastructures that no other donor would sponsor. It has been the local elites themselves, then, who had the greatest interest in feeding the narrative of China's huge influence to Western audiences (Hameiri, 2015), looking to see them re-engage in the region. In contrast, this has fuelled tension and local negative perceptions in relation to the Chinese diaspora, accompanied by violence in some cases.

ANY ACTOR WHO FAILS TO TAKE ACCOUNT OF ITS "COLLECTIVE ABILITY TO THINK, LIVE, ENGAGE AND DELIVER AS ONE BLUE PACIFIC REGION" WILL FIND IT HARD TO ADVANCE THEIR INTERESTS—AND THAT INCLUDES CHINA.

Since 2017, the Pacific Island leaders have asserted their agency and identity with the construction of the "Blue Pacific" framework that unites and mobilises the countries on matters that are important to them, such as the existential threat posed by climate change. This new narrative champions regionalism, collective decision-making and the commitment to operating as a united and interconnected "Blue Continent" in the face of changes in the regional order (Kabutaulaka, 2021).

It is these same states that have been quick to voluntarily reject Beijing, as well as other actors in the region, when their agency, interests or established deliberation mechanisms have been snubbed. The rejection of Wang Yi's proposal of greater development and security cooperation or the resistance on the part of Nauru, Tuvalu, Palau and the Marshall Islands to cease recognising Taiwan are clear examples of this capacity to stand firm. As was the signing of the security agreement between the Solomon Islands and China despite enormous pressure from the United States, Japan and Australia. As Henry Puna, the secretary general of the region's main multilateral platform the Pacific Islands Forum, recalled, any actor who fails to take account of its "collective ability to think, live, engage and deliver as one Blue Pacific region" will find it hard to advance their interests—and that includes China.

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APPENDIX. THE ECONOMIC PRESENCE OF CHINA IN THE GLOBAL SOUTH (TRADE AND INVESTMENT)

Table 1. Destination of Chinese exports in 2022, by region (% of total)

Southeast Asia	**15.9**
Latin America	**7.0**
South America	4.0
Mexico	2.1
Central America	0.7
Caribbean	0.2
MENA	**6.4**
Middle East	5.3
North Africa	1.0
Commodities exporters*	3.9
South Asia	**4.9**
Africa	**4.5**
Sub-Saharan Africa	3.5
Central Asia	**1.2**
Pacific Islands	**0.2**

* Saudi Arabia, UAE, Iraq, Algeria, Kuwait, Qatar, Oman, Libya and Mauritania. NB: Only sovereign and independent countries included. Western overseas territories and countries for which there are no data available, are omitted.
Source: Complied by CIDOB with data from the IMF.

Table 2. Origin of Chinese imports in 2022, by region (% of total)

Southeast Asia	**15.0**
MENA	**10.2**
Middle East	9.9
North Africa	0.3
Commodities exporters*	9.6
Latin America	**8.6**
South America	7.7
Mexico	0.6
Central America	0.2
Caribbean	0.1
Africa	**4.3**
Sub-Saharan Africa	**4.0**
Central Asia	**1.0**
South Asia	**0.8**
Pacific Islands	**0.2**

* Saudi Arabia, UAE, Iraq, Algeria, Kuwait, Qatar, Oman, Libya and Mauritania. NB: Only sovereign and independent countries included. Western overseas territories and countries for which there are no data available, are omitted.
Source: Complied by CIDOB with data from the IMF.

Table 3. Dependence on China for export of goods. Proportion of exports to China out of total exports in 2022 (% of total)

Central Asia	**23**
Turkmenistan	74
Kazakhstan	18
Southeast Asia	**21**
Timor-Leste	60
Laos	34
Myanmar	29
Philippines	27
Singapore	24
Indonesia	22
Malaysia	20
Vietnam	19
Brunei	17
Thailand	16
Pacific Islands	**16**
Solomon Islands	53
Papua New Guinea	18
Latin America	**14**
South America	**24**
Central America	**4**
Caribbean	**2**
Chile	39
Peru	33
Panama	32
Brazil	27
Ecuador	22
Uruguay	22
Venezuela	13
Africa	**13**
Sub-Saharan Africa	**18**
Eritrea	80
DR Congo	46
South Sudan	44
Angola	41
Congo	36
Gabon	35
Sierra Leone	33
Namibia	31
Ghana	25
Zambia	24
Chad	24
Gambia	20
Equatorial Guinea	18
Madagascar	14
Ethiopia	13
MENA	**12**
Middle East	**13**
North Africa	**4**
Commodities exporters*	**15**
Mauritania	46
Iran	32
Iraq	30
Saudi Arabia	16
Qatar	16
United Arab Emirates	14
South Asia	**5**

* Saudi Arabia, UAE, Iraq, Algeria, Kuwait, Qatar, Oman, Libya and Mauritania. NB: (i) Only countries whose dependence on China exceeds 12% are shown; (ii) Colour scale from lesser (green) to greater (red) dependence on China. Compiled by CIDOB. Source: Complied by CIDOB with data from the IMF.

Table 4. Dependence on China for the import of goods. Proportion of imports from China out of total imports in 2022 (% of total)

Southeast Asia	**24**
Cambodia	40
Vietnam	34
Myanmar	31
Laos	29
Indonesia	27
Thailand	24
Malaysia	23
Philippines	23
Central Asia	**22**
Kyrgyzstan	42
Turkmenistan	28
Uzbekistan	24
Pacific Islands	**21**
Solomon Islands	35
Palau	26
Papua New Guinea	25
Marshall Islands	22
Latin America	**21**
South America	**23**
Central America	**16**
Caribbean	**9**
Paraguay	30
Ecuador	28
Haiti	26
Venezuela	26
Chile	25
Colombia	24
Brazil	23
Uruguay	22
Argentina	21
South Asia	**18**
Sri Lanka	25
Bangladesh	25
Pakistan	23
Africa	**17**
Sub-Saharan Africa	**19**
Niger	33
Eritrea	30
Somalia	28
Chad	27
Ethiopia	25
DR Congo	25
Tanzania	24
Equatorial Guinea	24
Cameroon	23
Nigeria	22
Madagascar	22
Congo	21
Central African Republic	21
MENA	**15**
Middle East	**15**
North Africa	**13**
Commodities exporters*	**14**
Iraq	29
Iran	26
Saudi Arabia	22

* Saudi Arabia, UAE, Iraq, Algeria, Kuwait, Qatar, Oman, Libya and Mauritania. NB: (i) Only countries whose dependence on China exceeds 21% are shown; (ii) Colour scale from lesser (green) to greater (red) dependence on China. Compiled by CIDOB.
Source: Complied by CIDOB with data from the IMF.

Table 5. China's Investments in the Global South

	Since 2005		Since 2014	
	Billion	**% region**	**Billion**	**% region**
Africa (16 since 2005; 13 since 2014)*	**371.610**	**100**	**192.980**	**100**
Sub-Saharan Africa	**307.560**	**83**	**164.900**	**85**
Nigeria	34.750	9	18.950	10
Angola	27.460	7	11.460	6
Algeria	27.340	7	9.430	5
Ethiopia	25.730	7	10.140	5
Egypt	23.850	6	15.580	8
DR Congo	20.210	5	13.310	7
Kenya	17.110	5	9.580	5
Zambia	15.280	4	10.040	5
Guinea	14.690	4	12.440	6
Other countries in the region	165.190	44	82.050	43
Southeast Asia (13 since 2005; 14 since 2014)*	**294.080**	**100**	**208.200**	**100**
Indonesia	64.370	22	47.770	23
Singapore	57.030	19	44.790	22
Malaysia	46.060	16	30.080	14
Laos	31.330	11	23.150	11
Vietnam	30.630	10	14.070	7
Other countries in the region	64.660	22	48.340	23
MENA (10 since 2005; 9 since 2014)*	**230.650**	**100**	**135.500**	**100**
Commodities exporters[1]	**183.860**	**80**	**111.140**	**82**
Middle East	**166.600**	**72**	**107.420**	**79**
North Africa	**64.050**	**28**	**28.080**	**21**
Saudi Arabia	52.120	23	31.790	23
United Arab Emirates	39.230	17	31.600	23
Iraq	32.570	14	17.020	13
Algeria	27.340	12	9.430	7
Egypt	23.850	10	15.580	11
Other countries in the region	55.540	24	30.080	22
Latin America (10 since 2005; 9 since 2014)*	**217.630**	**100**	**138.170**	**100**
South America	**197.690**	**91**	**123.450**	**89**
Caribbean	**8.440**	**4**	**5.950**	**4**
Central America	**4.890**	**2**	**2.970**	**2**
Brazil	76.230	35	45.400	33
Peru	28.170	13	19.490	14
Argentina	25.620	12	16.070	12
Chile	18.210	8	16.110	12
Venezuela	18.150	8	6.520	5
Ecuador	13.840	6	5.530	4
Other countries in the region	37.410	17	29.050	21
South Asia (7 since 2005; 8 since 2014)*	**158.550**	**100**	**112.480**	**100**
Pakistan	65.690	41	52.500	47
India	34.920	22	18.750	17
Bangladesh	30.010	19	26.240	23
Sri Lanka	13.940	9	7.040	6
Other countries in the region	13.990	9	7.950	7
Central Asia (3 since 2005; 2 since 2014)*	**68.390**	**100**	**32.930**	**100**
Kazakhstan	35.610	52	13.420	41
Turkmenistan	15.060	22	7.670	23
Uzbekistan	9.660	14	5.650	17
Kyrgyzstan	4.730	7	4.340	13
Tajikistan	3.330	5	1.850	6
Pacific Islands (0.3 since 2005; 0.3 since 2014)*	**6.650**	**100**	**4.040**	**100**
Papua New Guinea	5.940	89	3.480	86
Other countries in the region	710	11	560	14

* Percentage of total Chinese foreign investments [1] Saudi Arabia, UAE, Iraq, Algeria, Kuwait, Qatar, Oman, Libya and Mauritania. Source: Complied by CIDOB with data from the China Global Investment Tracker.

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On the tenth anniversary of the launch of the Belt and Road Initiative (BRI) in 2023, the Global South's importance to China is clearer than ever in its efforts to promote a multipolar international system and its desire to lead the challenge to the liberal international order, against a backdrop of greater geopolitical competition with the United States.

Given these new dynamics reshaping international geopolitics, this CIDOB Report examines the chief diplomatic and geoeconomic instruments that China uses in its relations with the Global South and explores how the countries that form part of this group perceive the Asian power. In order to conduct this analysis, the report takes a regional approach structured into seven geographical areas, shining a light on the changes and (in)consistencies in Chinese foreign policy in the last two decades.