

China and its Neighbors: Aid and Investment in East Asia

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Agenda

- Introduction
- Three main types of Chinese capital exports to developing countries
- Focus on China and its developing-country neighbors in Southeast Asia
- Financial relations and geopolitical context for region as whole
- Mini-case studies
- Conclusions

Introduction

- Three main types of Chinese financial resources going to developing countries -- FDI, policy bank loans, and foreign aid; very serious data problems with all three types of resources
- Main country recipients of interest for this presentation: poorer members of ASEAN (CLMV countries: Cambodia, Laos, Myanmar, Vietnam); also some discussion of three wealthier ASEAN countries (Indonesia, Malaysia, and Thailand)
- In addition to financial relations (and trade links), geopolitics is very important since these countries border China or territory that China claims in South China Sea

Chinese FDI to SEA neighbors

- FDI is mainly provided by state-owned enterprises (SOEs); this gives firms advantages over host governments because of support from PRC government; over competitors because of implicit guarantees
- Most FDI goes to transportation, energy, natural resources; also real estate and some manufacturing (value chains)
- Complaints are made by host governments about environmental degradation and labor abuse as well as lack of transparency and accountability
- Data available from Ministry of Commerce (MOFCOM) and Heritage Foundation's China Global Investment Tracker

Chinese policy bank loans to SEA neighbors

- Main institutions involved are China Development Bank (CDB) and the non-concessional part of the China Export-Import Bank (CHEXIM)
- Substantial overlap between bank loans and FDI; they finance similar sectors and face similar issues about labor and the environment as well as lack of transparency
- Indeed, many FDI projects are financed by loans from the policy banks; CHEXIM contracts specifically say that their loans must be implemented by Chinese companies
- Data for Latin America and Africa have been collected by research groups, based on public announcements (only energy loan data are available for SEA)

Chinese foreign aid to SEA neighbors

- Amount of foreign aid is substantially smaller today than FDI or policy bank loans in SEA (not always the case)
- Two types of aid flows: grants and zero-interest loans from China's aid agency (MOFCOM); concessional loans from CHEXIM
- Again there are data problems, since China is not a member of the OECD'S Development Assistance Committee (DAC) and thus does not provide data as DAC members do; aggregate data have been collected by JICA Research Institute, but no data on individual countries
- Data on foreign aid are “state secret,” although two White Papers have provided some very general information

FDI, total and to SEA (billions of \$ and %)

Year	Total FDI		FDI to SEA		Share
Total	1,569		59.0		3.8
2010	123		4.2		3.4
2011	125		5.8		4.7
2012	143		5.8		4.1
2013	143		4.1		2.9
2014	178		4.5		2.5
2015	205		16.7		8.2
2016	282		9.2		3.3
2017	278		5.8		2.1
2018 ^a	182		5.6		3.1
Source: China Global Investment Tracker.					
^a Data for 2018 are January-June x 2.					

FDI to SEA and share of GDP (billions of \$ and %)

Country		FDI 2010-18		GDP 2015		FDI/GDP
Cambodia		11.6		18.0		64.4
Indonesia		34.9		860.8		4.1
Laos		25.4		14.4		176.4
Malaysia		42.7		296.4		14.4
Myanmar		5.8		59.7		9.7
Thailand		8.2		401.4		2.0
Vietnam		19.4		193.3		10.0
Source: China Global Investment Tracker; World Development Indicators.						

Loans (energy), total and SEA (billions of \$ and %)

Year		Total Loans		Loans to SEA		Share
Total		183.9		15.6		8.5
2010		12.7		1.3		10.2
2011		12.6		1.2		9.5
2012		9.1		2.9		31.9
2013		18.2		3.9		21.4
2014		15.9		1.2		7.5
2015		33.1		3.1		9.4
2016		48.1		0.9		1.9
2017		33.8		1.2		3.6
Source: BU, China's Global Energy Finance.						

Foreign aid, total and to SEA (billions of \$ and %)

Year	Bilateral: grants/ interest-free loans		Bilateral: gross concessional loans		Bilateral: total	Multilateral	Total	SEA share 20%
Total	16.4		16.5		32.9	5.0	38.1	7.6
2010	1.8		1.8		3.6	0.3	3.9	0.8
2011	2.4		2.1		4.5	0.3	4.8	1.0
2012	2.8		2.0		4.8	0.4	5.2	1.0
2013	2.6		2.3		4.9	0.7	5.6	1.1
2014	2.4		2.6		5.0	0.3	5.4	1.1
2015	2.2		2.8		5.0	1.6	6.6	1.3
2016	2.2		2.9		5.2	1.4	6.6	1.3
Source: Naohiro Kitano, JICA-RI Working Paper.								

Geopolitics in Southeast Asia

- Unlike Sub-Saharan Africa, and especially Latin America, geopolitics plays a crucial role in China's relationships with its neighbors in SEA
- These relationships have manifested themselves both as “hard power” and “soft power”
- Hard power involves use of China's military and economic resources to pressure its neighbors, especially about its territorial claims
- Examples: stationing troops and ships near or beyond boundaries, use of economic boycotts (China is the main trade partner for all SEA countries)

Geopolitics in Southeast Asia

- Soft power aims to offset China's more strident demands by trying to convince its neighbors of China's friendly intentions
- Sometimes referred to as China's "charm offensive"
- An example was China's first FTA, which was with ASEAN; in connection with the FTA, China provided an "early harvest" of benefits
- In addition, China regularly meets with ASEAN and provides finance both to the group as well as to individual countries; also finance for Greater Mekong Sub-region (GMS) activities

Case studies: Cambodia and Laos

- Cambodia and Laos are China's two smallest neighbors, which are ruled by an authoritarian prime minister and a communist party, respectively
- They have received large amounts of resources from China that have overwhelmed their own economies; Laos, for example, is involved in the construction of a railroad that received a loan from China worth more than its entire GDP
- In return, the two governments have been strong supporters of China's positions in the region (e.g., preventing any criticism of China at ASEAN meetings)

Cases study: Myanmar

- After the military coup in Myanmar in 1988, western governments pulled out of the country as far as aid and investment were concerned; they also pressured Japan to pull out, although Japan had previously been the largest supporter of Myanmar
- As China has done in other parts of the world, it stepped into the breach and began providing large amounts of loans and FDI; in general, these went to support the construction of dams and transport routes that would aid the Chinese economy
- When a semi-democratic government returned to Myanmar in 2015, citizen protests forced China to pull back; several projects cancelled

Case study: Vietnam

- In comparison to its neighbors among CLMV countries, Vietnam has a larger and stronger economy – and a long history of struggles against the Chinese
- This historical-structural context has led to standoffs with respect to the joint claims of the two countries to the Spratly and Paracel Islands and the mineral and fishing wealth associated with the area
- China provided relatively small amounts of FDI and aid to Vietnam, given tenuous political relations, despite the fact that Vietnam's economic growth has attracted other Asian investors

Case study: Malaysia

- One of the most interesting dramas in the region with respect to China's investments and loans concerned a relatively advanced country – Malaysia
- When Malaysia's long-time ruler, Mahathir Mohamad, was re-elected Prime Minister in 2018, one of his first actions was to cancel two huge projects financed by China under his predecessor
- The argument was that they were too expensive for the country, which already had a large debt; the Malaysian move followed those of several other countries, which feared Chinese takeover of territory if the loans could not be serviced (as happened in Sri Lanka)

Conclusions

- China's economic relations with its Southeast Asian neighbors differ in several ways in comparison with Africa and Latin America
- The most important difference is the geopolitical context in which economic relations take place in SEA
- Economic relations (trade and finance) have been more tightly linked to China's own economic interests as well as its political interests in the region
- A comparative framework is useful for interpreting Chinese behavior with respect to developing countries – rather than seeing them all as basically the same