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Special Feature

A Different Global Power?

Understanding China's Role in the Developing World

By Xiangming Chen & Ivan Su

China is now the largest trading nation in the world, with strong ties to Africa, Latin and America and the Middle East. This once impoverished and isolated nation has lifted several hundred millions of its own people out of poverty and is now reshaping the developing world. This article looks at China's involvement in four developing regions to assess China's influence as a rising global power.

The China where the first author grew up through college in the early 1980s was the largest and one of the poorest developing countries. The China where the second author left to attend high school in the United States was about to pass Japan to become the world's second largest economy, in 2010. Over the past three decades, China has lifted over 500 million of its people out of poverty. Globally, China has just surpassed the United States to become the largest trading nation in the world and is expected to soon overtake the latter as the world's largest economy (in terms of purchasing power parity or PPP). More importantly regarding the focus of this essay, China is now the largest trader and investor in Africa, with its footprints spreading and seeping into all corners of the developing world.

How did the once impoverished and isolated "Third World" country become a powerful force in shaping a new developing world in the 21st century? What are the positive vs. negative consequences of China's inroads into developing countries by exporting its urbanism to Africa, for example? These questions highlight China's global impact that matters a great deal to the everyday life of millions of poor people in developing countries. In this essay, following China's global footprints in four developing regions, we offer a broad comparison of both the different and consistent economic impacts of China within and across these regions.[1] Figure 1 shows China's investment in energy and infrastructure in the four regions, while Figure 2 breaks China's investment into four specific sectors of one major country in each of the four regions. Guided by these comparative data and focusing on four developing regions, we present a broad picture of China's widespread but mixed role in developing countries, thus offering a preliminary assessment of whether China's influence as a rising global power may differ from the traditional or established Western powers in how they approach the developing world.

Over the past three decades, China has lifted over 500 million of its people out of poverty.

China in Asia: Exerting Neighbouring Influences

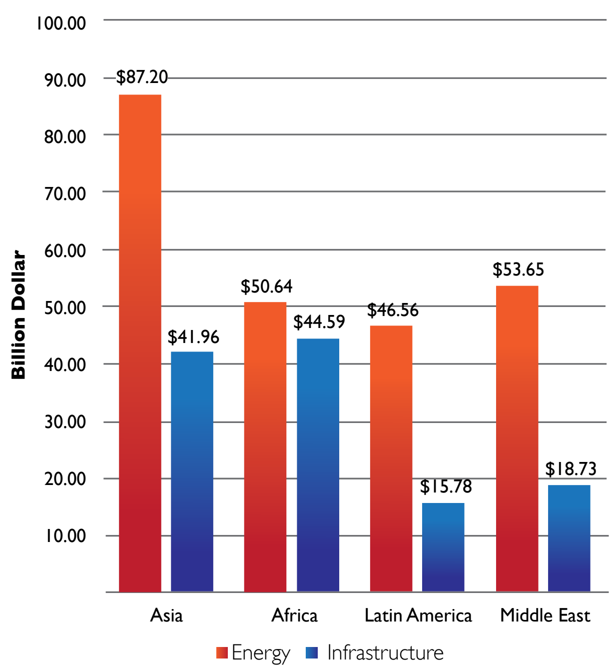
Back in the last decades of the 20th century, the drivers and role models for development in Asia and beyond were the "Four Tigers": Hong Kong, Singapore, South Korea, and Taiwan. The onset of the 21st century began to position China toward the epicentre of the Asian economy, with its influence spreading across the continent through more trade, outward investment, and other outgoing initiatives such as cross-border infrastructure development.

In Southeast Asia, China has been trying to integrate with the Greater Mekong Subregion (GMS), which consists of China's Yunnan Province, Guangxi Autonomous Region, Cambodia, Laos, Myanmar, Thailand and Vietnam. "China's trade with each of the GMS countries has grown since 1990, most rapidly since 2000."[2] In addition to increasing trade, China exerts strong influence on the GMS through various development projects. In Myanmar, China has reached a $20 billion agreement to construct an 800-kilometre rail link between Myanmar's Chinese border and its western coast.[3] In addition to investing in infrastructure, China is also helping its neighbors to generate energy. Since 2005, China has invested over $87 billion in the energy sector across Asia, and about one quarter of these investments went to Malaysia. In 2010, an $11 billion energy deal signed between China's State Grid Corporation and Malaysia Development Company included four hydroelectric mega-dams that are capable of generating up to 28,000 megawatts of power, an aluminium-smelting plant, exploitation of coal mines containing 1.5 billion metric tons of coal, and a 40 billion-cubic-feet natural gas development project. "With Malaysia reeling from an exodus of capital over the past two years, the projects have strong support at the state and federal levels. Officials hope the plan will attract foreign investment to the region."[4]

China's investment in Asia is not limited to Southeast Asia, as countries in South and Central Asia have also been affected by China's direct investment. In 2013, China established a strong foothold in South Asia when it took over the upgrading and operation of Pakistan's Gwadar Port from Singapore. The Gwadar project serves China's "Go West" policy while allowing Pakistan to "look east." China is building a road from Gwadar all the way north to Kashgar, the westernmost large city in Xinjiang. At the same time, Pakistan and China have also planned to connect the port via the Indus Highway, which will provide China with a land-based supply of oil from Central Asia. Given Gwadar's geographical location, Gwadar cuts China's distance from the Persian Gulf, from which China gets 60% of its oil, by thousands of kilometres.[5]

Compared to the other energy projects sponsored by China, the Central Asian vector of China's energy policy has become more important due to the region's abundance of oil and natural gas. While China sees Kazakhstan's energy supply a key to its "Go West" program, Kazakhstan has used Sino-Kazakh cooperation to balance against Russia's influence in its energy sector. China is also constructing a 1,800-kilometre natural gas pipeline from one of the world's largest natural gas exporter, Turkmenistan, which benefits from doubling its energy supply to China and circumventing its biggest competitor – Russia. Beijing wins by securing new gas supplies and thus enlarging its already hefty investment in energy projects in Asia (see Figure 1).

Figure 1: China's Investment in Energy and Infrastructure in Four Developing Regions



Source: Compiled and graphed from *http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map.*

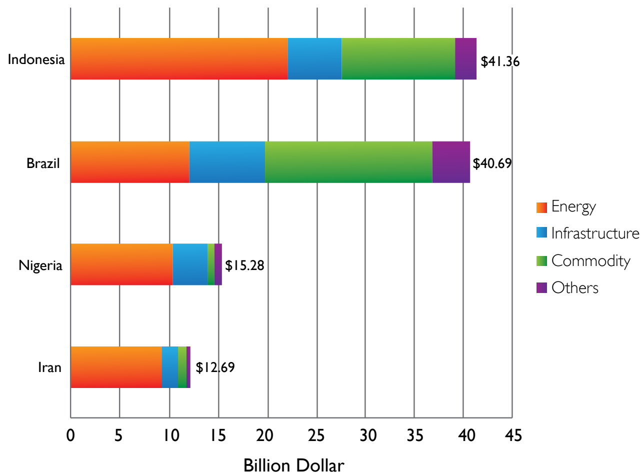
Since 2005, China has invested over $87 billion in the energy sector across Asia, and about one quarter of these investments went to Malaysia.

China in Africa: Reaching Maximum Impact

Through increasing trade and investment, China's growing presence has reshaped the landscape in Africa. While negligible two decades ago, China-Africa trade reached $200 billion in 2013, which makes China Africa's largest trading partner today. With only limited investment in Africa before the 2000s, China's cumulative investment in Africa exceeded $150 billion by the beginning of 2014. Of these investments, close to $100 billion has gone into energy and infrastructure projects.[6]

China's unprecedented economic growth requires an increasing amount of oil to sustain it. In 2012, close to one-third of China's total oil imports came from Africa, and China is looking to expand its energy presence in Africa. Nigeria has received the most Chinese direct investment over the past decade. While many Western energy firms are reluctant, China reached a $10 billion hydrocarbon deal with Nigeria at the beginning of 2014 (see Photo 1). In addition to exploiting crude oil and natural gas, China has been involved in constructing an additional refinery in Baro, Nigeria.[7] Although critics have attributed China's heavy footprint in Africa's energy sector to its energy and resource demand back home, evidence suggests otherwise. China Africa Sunlight Energy Ltd. recently invested $2.1 billion in developing a 2,100-megawatt plant to help ease electricity shortages in Zimbabwe, which is only capable of generating 1,320 megawatts against a demand of 2,200 megawatts of electricity. "China Africa Sunlight Energy is looking at the possibility of pumping gas to the port city of Beira in neighbouring Mozambique, using an idle pipeline that the National Oil Co. of Zimbabwe once used to bring fuel into the country."[8] This power plant is expected to produce 300 megawatts by mid-2015, and the number

Figure 2: China's Varied Investment in Four Major Developing Countries



Source: Compiled and graphed from *http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map.*

is looking to double by the end of the year. While much of the media attention has focused on China's investment in Africa's energy sector, China is reshaping Africa's landscape through large-scale infrastructure development.

Since 2005, China has invested more in Africa's infrastructure than in any other part of the developing world. More than $44 billion has been spent to build roads, airports, and housing that are essential to the continent's economic development. In Angola, China is helping the country's reconstruction effort after the devastating civil war. One of China's major investments in Angola is the rebuilding of the Benguela Railway, "an 840-mile transcontinental railway that links the Atlantic port of Lobito in Angola with rail networks in the Democratic Republic of Congo and Zambia. The project is expected to cost $300 million, and it will provide a much-needed cheap outlet for Congolese and Zambia copper, tin and coltan."[9] In Nigeria, China is helping to build Africa's largest free trade zone in its commercial capital, Lagos. "A total of 16,500 hectares of land bordered by the Atlantic Ocean and the Lagos and Lekki lagoons has been earmarked for the whole free zone, which will include a deep-water sea port and a new international airport in close proximity."[10] The Lekki Free Trade Zone is aiming to cut down the country's reliance on imports, and it will cost $5 billion to complete the first phrase of the project, which will cover 3,000 hectares of land. The construction will also include roads, power plants, and water plants. This evidence reinforces China's substantial investment in building Africa's infrastructure relative to the energy sector in comparison with the other developing regions (see Figure 2).

However, concerns arise on whether Africa is too dependent on China as results of "high commodity prices and investment inflows."[11] With China-Africa trade looking to hit $280 billion by 2015, some worry that African economies depend too much on China. Some urge African countries to diversify their economies and decrease their dependence on China. There are also calls for China to focus more on human rights and community engagement. As such a dominant investor in some African countries including those with an authoritarian government like Zimbabwe, China struggles to balance between the return on its huge investment, helping local development and living up to international norms of engagement.

> "With only limited investment in Africa before the 2000s, China's cumulative investment in Africa exceeded $150 billion by the beginning of 2014."

China in Latin America: Extending the Reach

Ever since the 1960s, China has been providing limited development assistance to a small number of Latin American countries such as Chile. Fast-forward to the 21st century, China has considerably expanded its economic ties with Latin America through greater trade and more diverse investment.

"Trade between China and Latin American countries has grown exponentially over the past decade. Although Sino-Latin American trade continues to remain a relatively small share of their respective global trade, growth has exceeded many expectations. From 2000 to 2009, annual trade between China and Latin American countries grew more than 1,200%, from $10 billion to $130 billion, according to the United Nations statistics."[12] In 2012, Latin America accounted for 13% of China's total outbound investment - about $11.4 billion, a significant increase from the $120 million of 2004.

Like in Asia and Africa, China has favoured the energy sector in Latin America (see Figure 1), targeting Venezuela for its oil and Brazil for its hydropower. Of China's $100 billion investment in Latin America since 2005, more than half has been energy and infrastructure related. In 2010, China's State Grid announced a $1 billion buyout of seven Brazilian power transmission companies. Two years later, in 2012, China's State Grid was chosen by the Brazilian government to build a $440 million power-transmission project. And at the end of 2013, China's State Grid led a group to win the rights building a $21 billion hydropower plant in Brazil. Set to become the world's third-largest hydropower plant and take around 46 months to complete, it will also create a 2,092 km hydropower transmission line and two energy converter stations that will be able to take energy from the State of Pará, along the Xingu River in the Amazon Basin, to Brazil's Southeast region, with a planned capacity of 11,233 megawatts. Brazil's economic acceleration in the past decade led to a surge in the country's energy demand. Given Brazil's geographical endowment, as much as 80% of its total energy comes from hydropower generation.[13] With power generation operating close to the limit, In 2012, Latin America accounted for 13% of China's total outbound investment - about $11.4 billion, a significant increase from the $120 million of 2004.

Brazil is urgently constructing more power plants using the Amazon's abundant hydro resources and transmitting it to its Southeast region, especially Rio de Janeiro where much more energy is needed in light of the upcoming World Cup and Summer Olympics in 2016. To do so, Brazil has turned to China for its expertise and experience in building long-distance power transmission towers or the so-called electricity pylons (see Photo 2).

Besides its growing economic presence in Latin America, China has made some cultural inroads as well. Since 2012, China has opened 32 new Confucius Institutes all over Latin America, a Chinese foreign ministry deputy announced. Hotels in the region have begun to prepare for the increasing number of Chinese tourists by making the menus available in Mandarin.[14] This confirms the larger trend of more Chinese tourists going to developing countries beyond Asia and advanced economies in North America and Western Europe, making China the world's number one tourist-sending nation in 2013 with approximately 100 million overseas trips.

China in the Middle East: Reviving the Silk Road

Tracing what China is doing in the conventionally defined developing world has taken us to Asia, Africa and Latin America. Yet given China's huge demand for external energy, we are not surprised at all to see China's growing presence in the Middle East, whose energy sector ranks second behind Asia in absorbing Chinese investment (see Figure 1).

Despite China's massive efforts to secure energy from Asia and Africa, as well as from Venezuela in Latin America, its dependency on Middle Eastern oil has risen over time. The Middle East is currently the largest exporter of crude oil to China. The share of oil imported by China from the Middle East was 48% in 1990, 49% in 2005, and 51% in 2011. It is expected that China's crude oil imports from the Middle East will reach 70% by 2020 and continue to grow until 2035, according to the International Energy Agency. Saudi Arabia is China's largest energy supplier with about one million barrels per day, accounting for 20% of China's crude oil imports. Iran, another big oil supplier, contributes about 10% to China's overall oil imports as well (see Figure 2). China has maintained a friendly relationship with both Saudi Arabia and Iran. A number of top Chinese leaders including Hu Jintao and the current president Xi Jinping have visited Saudi Arabia. And China has been dragging its feet on the UN sanctions against Iran.[15] These diplomatic postures toward the Middle East conform to China's pragmatic economic policies and interests in other energy- and commodity-rich regions such as Africa and Latin America.

But China's interest in the Middle East does not stop with oil. "As with other regions, China has rapidly expanded its economic ties with the Middle East through trade. From 2005 to 2009, China's total trade volume with the Middle East rose 87%, to $100 billion and reached approximately $222 billion in 2012, according to China's official statistics. This surge pushed China to surpass the United States as the top destination for the Middle East's exports in 2010. China's exports to the Middle East are primarily low-cost household goods that benefit the average Middle East consumer. An example is growing numbers of Egyptians being able to afford inexpensive Chinese cars. Also, residents in the Gaza Strip suffering from the Israeli blockade depend on cheap Chinese goods in their daily lives."[16]

As many African countries have done, some Middle Eastern

Photo 1: Drilling Oil in Nigeria

Source: Accessed from *https://missrosen.wordpress.com/2010/05/24/ed-kashi-curse-of-the-black-gold/.*

Photo 2: High on an Electricity Pylon in Eastern China

Source: *China Daily/Reuters*, accessed from *http://online.wsj.com/news/articles/SB10001424127887323300404578202911355634322.*

governments have brought Chinese contractors in to work on major infrastructure projects. Egypt has also partnered with China to develop its Suez special economic zone, a development strategy that China had used itself and promoted in Africa and the least developed parts of Southeast Asia like Laos. While China has diversified its investment in the Middle East, it is much more concentrated in the energy sector than in infrastructure (Figure 1). This further establishes China's significant dependency on the Middle East for energy resources, namely oil. However, once we factor in the non-oil related Chinese economic activities, China's footprint in the Middle East becomes somewhat similar to the large scope of China's economic influence in the other three developing regions, especially in several major countries where China has moved beyond energy into infrastructure and commodities (see Figures 1 and 2). In this sense, the Middle East still marks the old destination for China's new effort to revive the ancient Silk Road through Central Asia.

China's Ambitious and Uncertain Role

Judging by a sampling of evidence across the four developing regions, we characterize China's role as very ambitious and yet uncertain. The ambitious aspect is increasingly fueled by China's abundant surplus capital in both private and public hands that may have a stronger effect on the urban landscape and transport infrastructure of developing countries than on its quest for the latter's energy and commodities.

On the bank of the Mekong River in Cambodia's capital city Phnom Penh, the $700 million Diamond Island Riviera, a joint venture mixed-used development project involving a Chinese company, includes three 33-story condominium towers, a shopping mall, a hospital, an international school and two pedestrian shopping streets with signs in Mandarin. Before its scheduled completion in 2017, Chinese buyers, especially Shanghainese, are already buying the condos in cash as investment properties.[17]

It is again in Africa where the transport infrastructure is the poorest in the developing world that China is scaling up its investment most aggressively. On his recent four-country tour of Africa, Chinese Premier Li Keqiang committed to set aside $2 billion for an African Development Fund and promised his support for a high-speed rail network connecting African capitals. As a start, China Railway Construction Corporation made a $13.1 billion deal to build an 860-mile high-speed railway in Nigeria that would employ more than 4,000 workers during construction, and 5,000 more afterward.[18] Claiming no-strings-attached, China's ambitious effort can deviate from the precedent of Western colonial powers who had built highly limited transport infrastructure for shipping out their craved commodities from Africa. Yes it is uncertain that the Chinese will succeed where the earlier powers largely failed.

As further evidence on its ambition to build the developing world's urban and transport infrastructure, China is funding and building Nicaragua's lifelong dream in having its own canal since the 19th century, when it rivaled Panama for control of the waterway. In August 2013, President Daniel Ortega announced that a $40 billion contract had been signed with a Hong Kong-based Chinese company that would design a route and start construction in December 2014 and manage the canal for 50 years. Estimated to cost as much as $60 billion, an infrastructure project of this massive scale is very uncertain in terms of returning investment to China. Yet China might not be looking for a quick return on investment, but to control a trade route independent from U.S.-managed Panama.[19]

The uncertain aspect of China's strong role has also run into trouble in the Middle East. Despite China's

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While ambitious and already far-reaching and powerful, China's role in reshaping the developing world will only grow and remain uncertain over time.

political advantage in taking a somewhat neutral position regarding Iran under West-imposed sanctions in order to continue buying its oil, Iran's Ministry of Oil has recently removed China from the project to develop the South Azadegan oilfield because of long delays. This puts China's non-political or no-strings-attached approach to dealing with developing countries, especially those with an authoritarian domestic system and a precarious international status, to test or at risk.

While ambitious and already far-reaching and powerful, China's role in reshaping the developing world will only grow and remain uncertain over time. It highlights the ongoing debate about whether China merely exploits commodity and energy resources in developing countries as the old West or truly promotes national and local development through its overseas infrastructure construction and other positive means as a new global power. This debate will not be settled for a long time as we continue to scrutinize China's powerful role in shaping the developing world during the 21st century.

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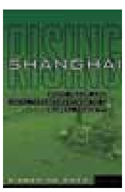

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