Jebat: Malaysian Journal of History, Politics & Strategic Studies
51(1)(2024): 78-117
https://doi.org/10.17576/jebat.2024.5101.05

China's Financial Statecraft under Xi Jinping Administration in Selected Southeast Asian Countries

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Received: 10 January 2024 Accepted: 03 March 2024

Abstract

With China's economic rise and influence, financial statecraft has increasingly been deployed to serve the country's national interest. The growth of China's financial statecraft in the region has drawn greater media and academic attention. Notwithstanding the abundant literature on China's financial statecraft in Southeast Asia, the previous studies lack a detailed analysis of various financial statecraft instruments deployed by China. To get a better understanding of China's deployment of financial statecraft over the years under Xi Jinping's administration, this article fills the gap in the existing literature by delving into various factors that influenced various financial statecraft instruments with respect to the objectives, trends or patterns and agencies involved in the region. Given Xi's successful bid for continued political rule by eliminating a term limit on the presidency as well as the escalating China-US strategic rivalry, it is important to examine how the interaction of domestic and international forces has shaped the evolution of financial statecraft in Southeast Asia. Due to the changes in domestic politics and shifts in the geopolitics and geoeconomics, an important question that deserves our attention is how these changes has influenced China's deployment of various financial statecraft instruments in different Southeast Asian countries. The paper focuses on two middle-income countries (i.e., Malaysia and Thailand) and two low-income countries (i.e. Cambodia and Laos) in the region.

Keywords: Financial Statecraft; China; Southeast Asia; Xi Jinping; US-China Rivalry

Introduction

The growth of China's financial statecraft in the region has drawn greater media and academic attention. For instance, Chellaney, coined the term "debt trap" over his concern that China's substantial loans for the Belt and Road Initiative (BRI) infrastructure projects in developing countries could leave them vulnerable to China's insurmountable geopolitical sphere of influence.[1] On the contrary, Singh dispels the debt trap narrative and shows that China's financing may provide more "flexibility and breathing space" to developing countries that wish to avoid the imposition of strict austerity measures by the US dominated International Monetary Fund.[2] While existing literature on China's financial statecraft delves into the debate on the desirability of China's financial statecraft, the paper focuses on its conception and evolvement in Southeast Asia during the Xi Jinping Administration.

China has emerged as Southeast Asia's leading development partner since the countries in the region have become major participants in China's BRI.[3] With China's economic rise and influence, financial statecraft has increasingly been deployed to serve the country's national interest. Given Xi's successful bid for continued political rule by eliminating a term limit on the presidency as well as the escalating China-US strategic rivalry, however, it is important to examine how the interaction of domestic and international forces shaped the evolution of financial statecraft in Southeast Asia. Due to the changes in domestic politics and the increasingly adverse external environment, an important question that deserves our attention is how the changes have influenced China's deployment of various financial statecraft instruments in different Southeast Asian countries. Would the export of capital-intensive BRI infrastructure projects remain a key driving factor of China's financial statecraft as pointed out by Lim et al?[4]

The next section reviews the literature on China's deployment of financial statecraft to come up with the theoretical framework to analyse factors shaping the state's deployment of financial statecraft in Southeast Asia. The subsequent two sections respectively zoom in on the influence of domestic factors (in particular, Xi's leadership, bureaucracy, and domestic economic lobbies) and foreign factors (in particular, the US hegemonic influence). This is followed by the scrutiny of how the PRC deployed five financial statecraft instruments differently in Southeast Asia − two middle-income countries, namely Malaysia and Thailand, and two low-income countries, namely Laos and Cambodia. The final section provides the concluding remarks.

1. Literature Review and Theoretical framework

Financial statecraft can be defined as the use of those aspects of economic statecraft directed at influencing international capital flows (or simply financial means) to pursue foreign policy goals.[5] The use of financial means to promote bilateral or regional economic or trade development suits well with Xi Jinping's foreign policy objectives.[6] The previous studies on China's financial statecraft can be divided into two categories. The first examines the state's deployment of financial statecraft and the other delves into the impact on or responses of recipient countries. This article is concerned with the first category. [7]

Southeast Asian countries have attracted greater attention not only due to its increasing potential for geopolitical competition but also its growing trade and investment link to China. In an analysis of China's financial statecraft objectives, Kastner and Pearson argue that how China intends to utilize its growing economic power to achieve political clout depends on specific conditions and situations.[8] China's national objectives include advancing foreign policy goals, developing the national economy, and promoting economic opportunities. In a study investigating the sources of China's financial statecraft, Zhang and James contend that the core of economic statecraft lies in the leadership's determination to match China's global influence with the scale and scope of its economy.[9] Lim and Mukherjee investigate how different types of international economic transactions involving foreign direct investment, official development assistance, and foreign loans between sending and receiving countries generate security externalities by influencing the latter's security and foreign policy decisions.[10] In Chheang's article, China's economic and investment ties with Southeast Asian countries have led them to support China's economic diplomacy to varying degrees, while they are concerned that power imbalances and economic overdependence on China may limit their foreign policy options and strategic flexibility.[11] Overall, these studies indicate that, given China's economic size and global influence, China's financial statecraft is aimed at promoting China's economic development, fostering a good external international security environment, and enhancing China's international influence. On the contrary, Gong takes a different view by arguing that China's economic involvement in Southeast Asian countries is unlikely to have a significant impact on China's strategic and political influence.[12]

As argued by Soong and Chheang, the regional economic cooperation and the sub-regional cooperation mechanisms as important agents for China's overseas development finance.[13] Macikenaite's study examines how China uses its economic resources to influence the behavior of other countries to achieve a variety of national goals. China's financial statecraft includes development finance, foreign aid, foreign direct investments, and sanctions are all tools in China's financial statecraft.[14] China's financial statecraft faces competition from Japan, particularly in the area of foreign aid and FDI in Southeast Asian countries based on Katada et al.[15] Zhao contrasts the infrastructure investment operations of China and Japan in Southeast Asia. [16] According to Huang's study, China's foreign aid pattern and rationale emphasize equality, mutual benefit, and non-interference in other nations' domestic affairs.[17] Xu concludes that the concept of change in leadership is a crucial component in shifting China's strategic aid focus and that changes in international circumstances have brought pressure in different ways.[18] Those suggests that China's financial statecraft has been influenced by international influence. Trinidad contrasts aid provided by the Chinese government with aid provided through the Development Assistance Commission (DAC). He finds that China's foreign aid is as good as the DAC, with no strings attached or political conditions.[19] According to Rabe and Kostka's study, the "Digital Silk Road" (DSR) statement shows Chinese government supporting for global digital investments. [20] As argued by Mulakala, DSR cooperation connectivity facilitates digital applications, trade, and financial integration between China and ASEAN.[21]

In addition, there are studies which examine the role of China's financial statecraft agents. Wu and Pan focused on research based on the means and goals of BRI. His study indicates a link between the BRI and China's financial statecraft.[22] The article by Lim et al. reflects that China's financial statecraft has different implementers. As the interplay of diverse interests between the government bureaucracy and enterprises at different levels, they have different approaches.[23] Liu investigates the China Investment Corporation (CIC) as a sovereign fund agent, concentrating on its sources, shareholders, investment preferences, goals, purpose, performance, and development. Furthermore, several Chinese departments compete in the CIC, as well as how the CIC supports the BRI.

The way China's financial statecraft operates has three characteristics: One is that China's financial statecraft is tightly integrated with China's technology and engineering construction skills. Second, unlike the IMF conditional loans, China's financial statecraft imposes no political conditions. Third, China's financial statecraft will formulate equivalent measures based on the recipient country's specific actual situation and development strategy. The purpose of China's financial statecraft is to ensure the security of energy, raw material, and export product markets, to develop the country's economy, to advance foreign policy objectives, to create a favorable regional security environment, and to increase the country's global clout.

Based on these studies as summarized in Table 1, there are five financial statecraft instruments deployed by China in Southeast Asian countries although none of the previous studies incorporate them in their research. Notwithstanding the abundant literature on China's financial statecraft in Southeast Asia, the previous studies lack a detailed analysis of various financial statecraft instruments deployed by China. To get a better understanding of China's deployment of financial statecraft over the years under Xi Jinping's administration, this article fills the gap in the existing literature by delving into five financial statecraft instruments with respect to the objectives, trends or patterns and agencies involved in the region.

Drawing inspiration from Wang's article[24], the paper examines how the international-domestic interactions shaped China's financial statecraft in Southeast Asia. As shown in Figure 1, leadership, bureaucracy, and economic lobbies are the important domestic factors that influence China's financial statecraft. China, a predominantly geo-politically independent state can base its financial statecraft policy on domestic factors when the international environment is stable. Domestic factors include leadership, government bureaucracy, and economic lobby. China's financial statecraft is significantly affected by the considerations of its domestic leadership, the interaction of bureaucracy, and the lobbies of interest groups. Following the successful bid for continued political rule by eliminating a term limit on the presidency Xi Jinping reinforced his position at the center of the Political Bureau of the Central Commission.

Table 1: Previous studies on the instruments of China's financial Statecraft

Previous Studies	Overseas Development Finance (ODF)	Foreign Direct Investment (FDI)	Foreign Aid	RMB Internationalisation	Digital Yuan, Finance, Payment
LIU (2023)	√				
Rabe and Kostka (2023)					√
Lim and Ji (2022)		√			
Soong (2022)	√				
Chin (2021)		√			
Mulakala (2020)					√
Macikenaite (2020)	√	√	√		
Huang (2020)			√		
Lim and Mukherjee(2019)	√	√			
Xu (2020)			√		
Gong (2019)	√	√		√	
Zhao (2018)		√			
Chheang (2018)	√	√			
Wu and Pan (2018)	√	√		√	
Katada and Armijo (2017)		√	√		
Kong and Gallagher (2017)		√			
Trinidad (2016)			√		
Wu and Wei (2014)				√	

Source: Authors' compilation

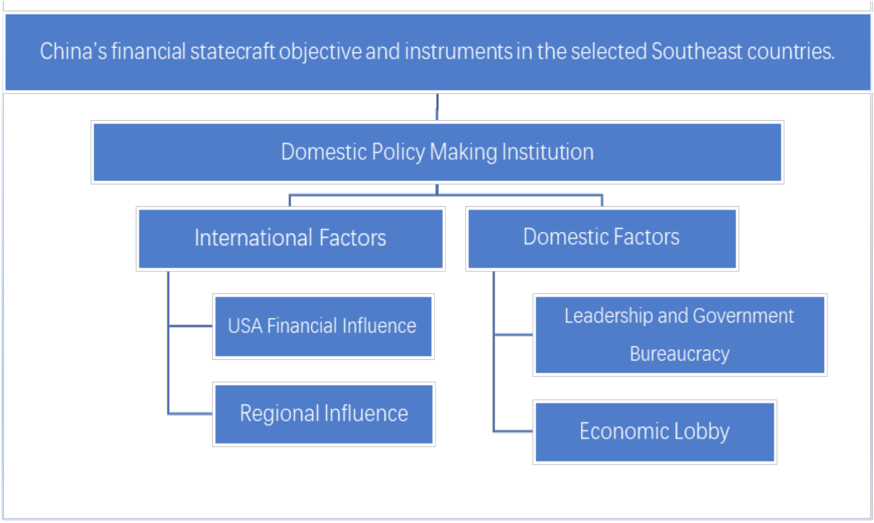

Figure 1: Analytical framework of China's financial statecraft making decision process of objectives and instruments in the selected Southeast Asian countries.
Sources: Analytical Framework structure from Wang, 2017.

2. Xi's Leadership, Bureaucracy and Lobbies

The diplomatic philosophy of Xi Jinping is to "promote the construction of a new type of international relations, promote the construction of a community with a shared future for mankind, and continuously create major-country diplomacy with Chinese characteristics", emphasizing the need to adhere to diplomacy for the people, the independent foreign policy of peace, and win-win cooperation.[25] Unlike the previous Presidents, Xi's diplomatic philosophy is more optimistic and proactive. His foreign policy intends to make a more active contribution to international governance than that of its predecessors in China. BRI has been written into the Party Constitution of the Communist Party of China[26], and "promoting the construction of a community with a shared future for mankind" has been written into the Constitution[27]. Connecting with Asia and Europe motivates China to assume the primary responsibility for financing development. In addition to providing developing countries with development funds, the BRI can also facilitate greater economic integration between China and developing nations.

Figure 3 displays the decision-making process of the Chinese government leadership regarding China's financial statecraft, as well as the jurisdiction of each major agencies, the ownership structure of state-owned financial institutions, and the corresponding implementation measures of China's financial statecraft. First, China's sole ruling party is the Communist Party of China (CPC). The Political Bureau of the Central Commission is the highest-ranking organization of the Communist Party of China (CPC)[28], and its offices and executive departments are the various institutions of the party, government, and military. President Xi Jinping is the CPC Central Commission's general secretary. The Central Finance and Economics Commission will present the national economic work objectives and significant strategies at its annual meeting. Primer Li Qiang is the second-ranking member of the Political Bureau of the Central Commission, and he presides over the State Council. It coordinates the China Securities Regulatory Commission (CSRC)[29], the State Administration of Financial Supervision and Administration (NAFR)[30], the Ministry of Finance (MOF)[31], the National Development and Reform Commission (NDRC)[32], State-owned Assets Supervision and Administration of the State Council (SASAC)[33], the People's Bank of China (PBC)[34], and other ministries.

The following are the operational agencies and the state-level management organizations mentioned above. The PBC plays a key part in China's foreign monetary policy, and its functions include "formulating and implementing monetary policy, maintaining financial stability, and providing financial services", as demonstrated by Renminbi (RMB) internationalization, digital RMB/Yuan, finance and payment. PBC administers the State Administration of Foreign Exchange (SAFE). It serves to determine China's financial statecraft in Southeast Asia in foreign exchange lending, international settlement, and foreign exchange market management. SAFE has full ownership of Wutongshu Investment Platform Co., Ltd.[35] Wutongshu Investment Platform Co., Ltd is the major shareholder of the Export-Import Bank of China (CEXIM)[36], and the other shareholder is the Ministry of Finance[37]. China Development Bank's (CDB)[38] three principal shareholders are Wutongshu Investment Platform Co., Ltd, Central Huijin Investment Company Limited[39], and the Ministry of Finance. Central Huijin Investment Company Limited wholly owned subsidiary of China Investment Corporation (CIC)[40]. CIC is a wholly owned subsidiary of the State-owned Assets Supervision and Administration Commission (SASAC)[41] of the State Council. CIC is a wholly owned subsidiary of SASAC of the State Council. SASAC of the State Council is to perform the responsibility of the funds on behalf of the state.

There are three development and policy banks in China. CDB is a development financial institution, and CEXIM and the Agricultural Development Bank of China (ADBC)[42] are policy financial institutions. In addition to funding domestic infrastructure, pillar industries, and other "important projects", CDB is also responsible for assisting PBC in implementing monetary policy and issuing non-concessional loans for overseas investment. CEXIM is an export credit institution specializing in supporting the export and investment of Chinese enterprises and is a national policy bank. ADBC currently does not provide overseas financing business.

China's overseas development finance continue to dominate the business of the CEXIM and CDB, but foreign direct investment has grown in recent years. CEXIM and CDB are very important implementation tools for China's financial statecraft. Additionally, both CEXIM and CDB offer offshore RMB bonds. After 2010, offshore RMB bonds started a period of rapid expansion, and bond issuers extended from early Chinese policy banks and commercial banks to overseas financial institutions, multinational corporations, international organizations, and Hong Kong-listed Chinese corporations.[43] CDB and CEXIM have rich experience and knowledge in foreign cooperation, which is of great help to the measures of China's financial statecraft.

China's foreign aid is based on its principles, which have no requirement for political conditions.[44] Southeast Asian nations received financial aid from China in the form of debt relief[45], low- and no-interest loans[46], and other tangible ways. In 2018, the Ministry of Commerce formulated foreign aid policies and programs, prepared foreign aid plans, determined foreign aid projects, and managed the scale and use of foreign aid, which were assigned to the China International Development Cooperation Agency (CIDCA)[47]. CIDCA is an agency directly under the State Council of the People's Republic of China at the vice-ministerial level in charge of foreign aid affairs.

China's foreign direct investment (FDI) is a crucial instrument of China's financial statecraft. China's outward FDI will reach US$178.82 billion in 2021, ranking second in the world.[48] As of the end of 2021, China's 28,600 domestic investors had made a total of $2,785.15 billion in net foreign direct investment, which was spread among 46,000 foreign direct investment businesses in 190 countries. State-owned enterprises accounted for 51.6% of foreign non-financial direct investment at the end of 2021.[49] The State Council's State-owned Assets Supervision and Administration Commission oversees these state-owned firms.

China Investment Corporation (CIC) was founded in 2007 as China's sovereign wealth fund incorporated by China's company law, with a registered capital of $200 billion[50]. The company was established as a vehicle to diversify China's foreign exchange holdings and seek maximum returns for its shareholders within acceptable risk tolerance. CIC has three subsidiaries, CIC International Co., Ltd. (CIC International), CIC Capital Corporation (CIC Capital), and Central Huijin Investment Ltd. (Central Huijin). CIC International and CIC Capital are important conduits for China to implement financial statecraft.

In October 2022, Xi Jinping was re-elected as the general secretary of the CPC and formed a seven-member Standing Commission of the Party Central Commission. The financial reform of President Xi's third term stresses consolidated and unified central government leadership and control. Figures 2 and 3 shows the changes in China's financial statecraft internal decision-making bureaucracy. At the plenary session of the 14th National People's Congress of China on March 7, 2023, the State Council made a declaration regarding its institutional reform agenda. The most notable points are concentrated on the financial system, manifesting themselves mostly in (1) Establishing the State Administration of Financial Supervision and Administration on the basis of the China Banking and Insurance Regulatory Commission; (2) Changing the China Securities Regulatory Commission from a public institution directly under the State Council to a unit directly under the State Council; (3) Promoting the reform of the branches of the PBC; (4) Establishing a local financial management system dominated by local agencies of the PBC.The CPC's financial leadership is strengthened by this institutional transformation since China's government gives priority to financial activity. The growth of the financial system will be aided by national financial regulation. To strengthen the CPC Central Commission's centralized and unifying leadership over financial work, the Financial Stability and Development Commission of the State Council and its offices are no longer retained, and the responsibilities of the Office of the Financial Stability and Development Commission of the State Council are transferred to the National Administration of Financial Regulation. Additionally, the re-establishment of the Central Financial Work Committee, an agency of the Party Central Committee, leads party building in the financial system, implements the Party's lines, principles, policies, and relevant instructions and decisions of the Party Central Committee and the State Council, and assists the Central Committee. The Organization Department manages the central management cadres of the financial system, supervises the financial system's leadership at all levels, and leads cadres to implement the party's lines, principles, policies, and compliance with laws and regulations. Institutional-local party committee connections.

In China, lobbying is typically directed at administrative agencies and law enforcement officials, as opposed to legislators as China's domestic and foreign policies formulated by the central government are implemented by different agencies. Local government lobby groups had certain influence on China's financial statecraft, especially in the implementation of policies and programs. An example of stakeholder lobbying came from Ma Zhengshu, chairman of Hongyu Group Co., Ltd. and member of the Yunnan Provincial Committee of the Chinese People's Political Consultative Conference, who proposed in 2015 that Yunnan should accelerate the promotion of cross-border RMB settlement business in Laos, Myanmar, and other countries, which was conducive to promoting business.[51] In 2016, the People's Government of Yunnan Province issued an announcement regarding five implementation plans to enhance financial innovation capabilities and construct financial service centers for South Asia and Southeast Asia.[52] The circular made it clear that Yunnan Province intended to expand the cross-border use of RMB, intensify exchanges and cooperation with financial regulatory authorities in neighboring nations, and increase financing support for significant projects.

3. Escalating US-China Rivalry

As Graham Allison's Thucydides' Trap argues, when the growth of an emerging power threatens the international hegemony of existing power, the two sides will directly engage in conflict. Since 2018, the Trump administration (January 20, 2017-January 20, 2021) has manifestly shifted toward rivalry and hostility with China. Adhering to his "America First" policy[53], the scope for collaboration between the US and China had reduced significantly. The US policy toward China shifted from strategic competition to rivalry. Policy measures to contain China-gained currency such as a ban on Huawei[54] and ZTE equipment[55], currency manipulator designation, sanctions under the Uyghur Human Rights Policy Act[56], sanctions under the Hong Kong Autonomy Act[57], and prohibition of investment in companies linked to China's military.

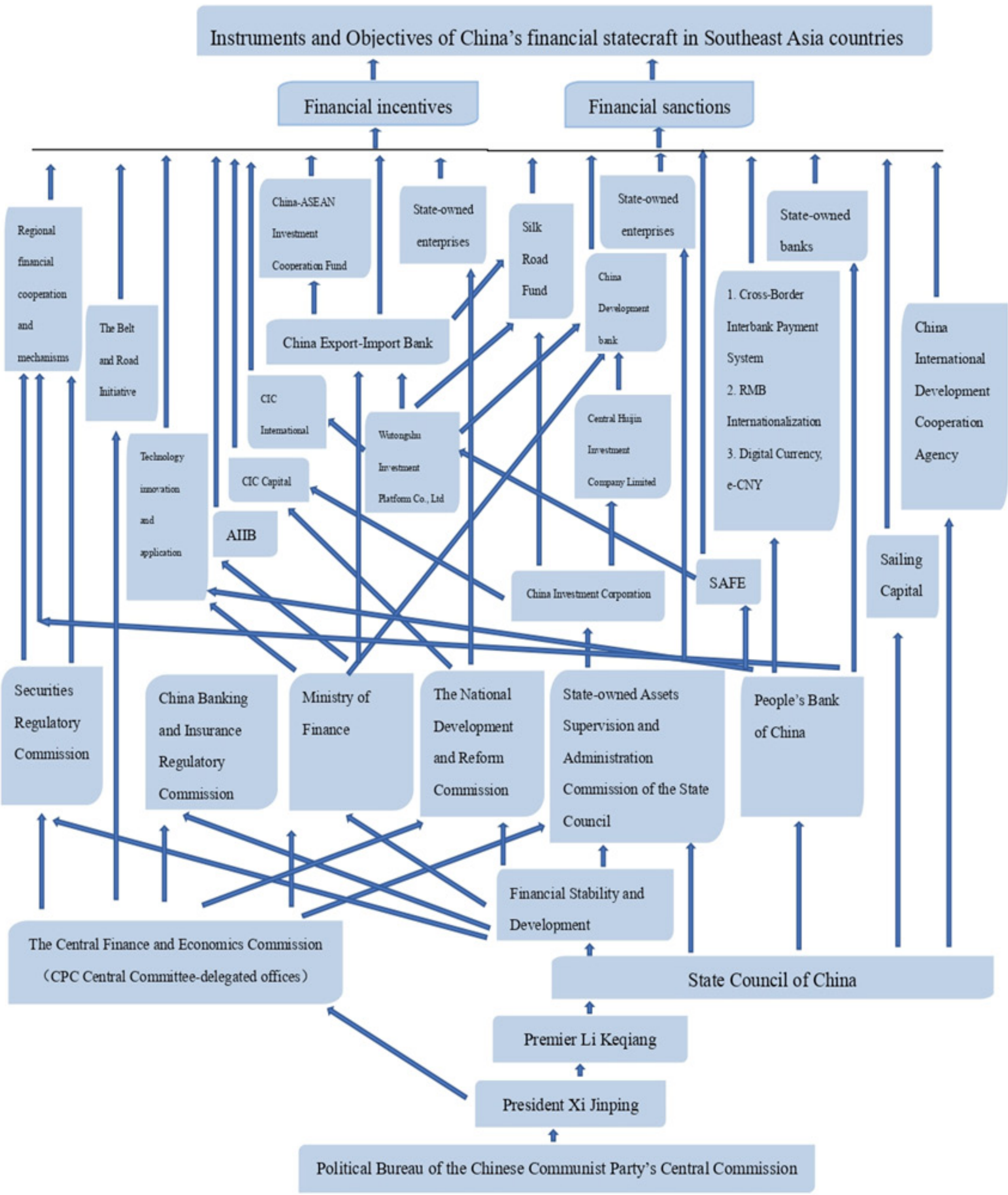

Figure 2: China's financial statecraft internal decision-making bureaucracy before Xi's 3rd Term as President (2013.3-2023.3).
Source: Authors' compilation.

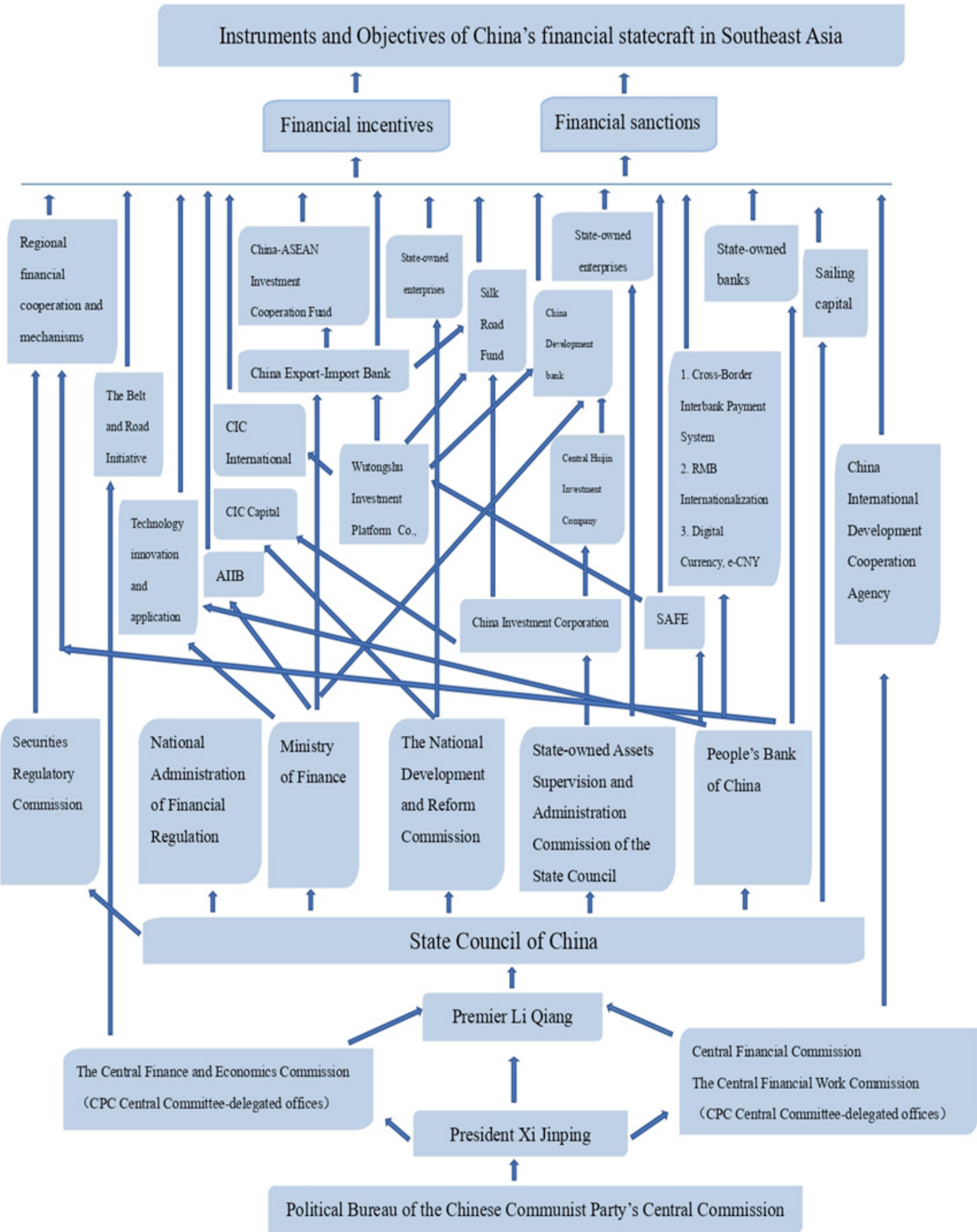

Figure 3: China's financial statecraft internal decision-making bureaucracy after Xi's 3rd Term as President (2023.3-present).
Source: Authors' compilation.

The Biden administration (January 20, 2021 to present) continues to contain China albeit in different ways from that of the Trump administration. Biden emphasized the role of allies and continued to repress China in a variety of areas, including intellectual property rights, technology transfer, subsidies, industrial policies, science and technology. The US imposes unilateral sanctions on the Chinese government, businesses, organizations, and individuals. The U.S. released a new version of the Indo-Pacific Strategy by the White House in February 2022[58], the Indo-Pacific Economic Framework in May[59], the U.S. introduced the Chip and Science Act of 2022 in August 2022[60], and then the U.S. Department of Commerce published the Export Administration Regulations[61], and the U.S. released the Taiwan Policy Act of 2022[62], which seeks to stir up disputes in the Taiwan Straits while carrying out the chip competition in an attempt to block China's rising posture in one fell swoop.

The escalating strategic rivalry between the US and China has an impact on China's deployment of financial statecraft. Concern over the weaponisation of the US dollar and the US-dominated international payment, and settlement systems has compelled China to actively promote RMB internationalization to prevent China's financial systemic risks, and accelerate the reduction of reliance on the US dollar (see Wen, 2023).[63] To this end, Beijing expedited the efforts to expand the members of the Cross-Border Interbank Payment System (CIPS) which was launched in 2015 for global use, to support settlement of global trade in goods and services, cross-border investment, financing and individual remittance. Although digital yuan, known as e-CNY which was designed in the pilot phase mainly for domestic retail payments, the PBC actively responded to initiatives of G20 and other international organisations on boosting cross-border payments, and exploring the applicability of Central Bank Digital Currency (CBDC) in cross-border scenarios.[64]

4. Deployment of China's financial statecraft in Southeast Asia

China actively participates in regional financial cooperation and mechanisms in Southeast Asia. Given their growing trade and investment relations, both would further enhance collaboration in the financial areas. Such cooperation and mechanisms which include bilateral cooperation agreements, regional financial cooperation institutions and mechanisms, collaboration between financial institutions, and cooperation on financial initiatives provide China with the means to strengthen ties with Southeast Asian countries. Institutions and mechanisms for regional financial cooperation typically implement projects in tandem with China's financial statecraft. For instance, bilateral swap agreements facilitate the RMB internationalization in Southeast Asian nations. ASEAN+3 and the Mekong Cooperation Mechanism typically collaborate with the China's overseas development finance. China's central bank and Southeast Asian central banks collaborate to enhance RMB internationalization.

These cooperation organizations are often combined with national funds to promote regional cooperation for economic and social development between Southeast Asian countries and China. For example, the China-ASEAN Investment Cooperation Fund, Silk Road Fund, and Lancang-Mekong Cooperation Fund. China's overseas development finance is an essential tool of China's financial statecraft in Southeast Asia. Table 2 shows that from 2007 to 2023 China's government invested more than $235 billion to overseas funds. The establishment of China's overseas development finance or funds (ODF) peaked in 2013. In 2023, the second phase of China's government's investment funds has been put in place despite relatively lower new overseas development funds. China's ODF are mostly used for infrastructure, resource development, industrial cooperation, financial cooperation, and other projects. In the context of the escalating rivalry between China and the US, China's participation in regional financial cooperation and mechanisms would safeguard domestic financial safety and address external challenges. The following subsections scrutinize the deployment of China's five financial statecraft instruments in Southeast Asia's two middle-income countries (namely Malaysia and Thailand), and two low-income countries (namely Lao and Cambodia).

4.1 China's ODF

China's ODF, which is quasi-governmental in nature, aims to serve national strategies. China's ODF comprises (1) grants, interest-free loans and concessional loans − known as foreign assistance or foreign aid in China or official development assistance (ODA) by the Organisation for Economic Co-operation and Development (OECD) as well as (2) non-aid-based finance, which includes preferential buyer credits and export credits, non-concessional loans issued by policy banks or state-owned banks and insured by the official insurance company, and financial cooperation and development fund investments.[65] While the first which is discussed in detail in section 4.3 only accounts for a small proportion, the bulk of China's ODF involves the latter provided using various non-aid-based financial instruments to support development projects, including loans, equity investments, and export/import credits for promoting China's overseas trade and investment.[66]

China's ODF in ASEAN countries which has brought closer regional economic cooperation not only serves Beijing's economic but also political interests. The management agencies of China's ODF are the Ministry of Finance, the National Development and Reform Commission, and the PBC. The China Development Bank, China's Exim Bank, China Investment Corporation, and State Administration of Foreign Exchange are administrative agencies under Chinese government policies such as "Reform and Opening up" and BRI. While the management agencies provide financial support, oversight, and planning, the administrative agencies provide funding for the recipient countries using global, regional, and sub-regional funds.

Table 2: China's Overseas Development Finance

Year of found	China's overseas development funds	Main funds source	Size (billion US$)	The geographical scope of investment
2007	1. China-Africa Development Funds (CAD Funds)	CDB	50	Africa
	2. Mandarin Funds	EXIM Bank, CDB, Italian Bank of San Paolo	N/A	Some bilateral projects between China and Italy
2008	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A
2010	1. China-ASEAN Investment Cooperation Funds(I)	EXIM Bank	1	China and ASEAN
	2. China-Portuguese Speaking Countries Cooperation and Development Funds	CDB Capital and Macao Industrial and Commercial Development Funds	1	Portuguese Speaking Countries
2011	China-ASEAN Maritime Cooperation Funds	No information, seemingly inactive	0.5	China and ASEAN
2012	1. China-Indonesia Maritime Cooperation Funds	No information	N/A	China and Indonesia
	2. China-Central and Eastern Europe Investment Cooperation Funds	China EXIM Bank and Hungarian EXIM Bank, Silk Road Funds, and CEE Equity Partners	1.5	Central and Eastern Europe
	3. Russia-China Investment Funds	CIC, Russian Direct Investment Funds, Public Investment Funds of Saudi Arabia	4	70% invested in Russia, and 30% invested in China
	4. China-Canada Natural Resources Investment Cooperation Funds	EXIM Bank	10	Energy Resources in North America
2013	1. China Co-financing Funds for Latin America	PBoC and IDB	2	Latin America
	2.China-Central and Eastern Europe Investment Cooperation Funds(I)	EXIM Bank, Hungarian Export-Import Bank	0.435	
2014	1. Silk Road Funds (I)	EXIM Bank	20	Latin America
	2. Special Loan Program for China- Latin America Infrastructure Funds	SAFE Capital	30	Latin America

Year of found	China's overseas development funds	Main funds source	Size (billion US$)	The geographical scope of investment
2014	3. China-LAC Cooperation Funds (CLAC Funds)	SAFE (80%) and CDB (20%)	30	Latin America
	4. China-Mexico Investment Funds	CIC and CDB Capital	1.2	Mexico
	5. Africa Growing Together Funds	PBoC and IDB	2	Africa
	6. China-Eurasia Economic Cooperation Funds	EXIM Bank	1	Members of the SCO, countries in the BRI
2015	China-Africa Industrial	SAFE (80%) and EXIM Bank (20%)	10	Africa
	Capacity Cooperation Funds (CAFIC)	No information	3	The least developed countries, small countries, and island countries
2016	1. South–South Cooperation Assistance Funds	No information	3	The least developed countries, small countries, and island countries
	2.China-Central and Eastern Europe Investment Cooperation Funds (II)	EXIM Bank, Hungarian Export-Import Bank	1	
	3. China-LAC Cooperation Funds	EXIM Bank	10	Latin America
2017	1. China-Russia RMB Investment Cooperation Funds	Russia-China Investment Funds, Suiyong Capital, Dazheng Investment Group	10	Russia, China, and BRI
	2. Brazil-China Cooperation Funds for Expansion of Production Capacity	15 from CLAI (additional to its 30), 5 from Brazil	20	Brazil
	3. Silk Road Funds (II)	EXIM Bank	14.8	Countries along the Belt and Road routes, mainly Asian countries
2018	N/A	N/A	N/A	N/A
2019	N/A	N/A	N/A	N/A
2020	N/A	N/A	N/A	N/A
2021	N/A	N/A	N/A	N/A
2022	1. China-Africa Development Funds (CAD Funds) is found in 2007	CDB	50.85 finish all plan size	Africa
	2.China-ASEAN Investment Cooperation Funds (II)	EXIM Bank	1	China and ASEAN

Source: Author's compilation

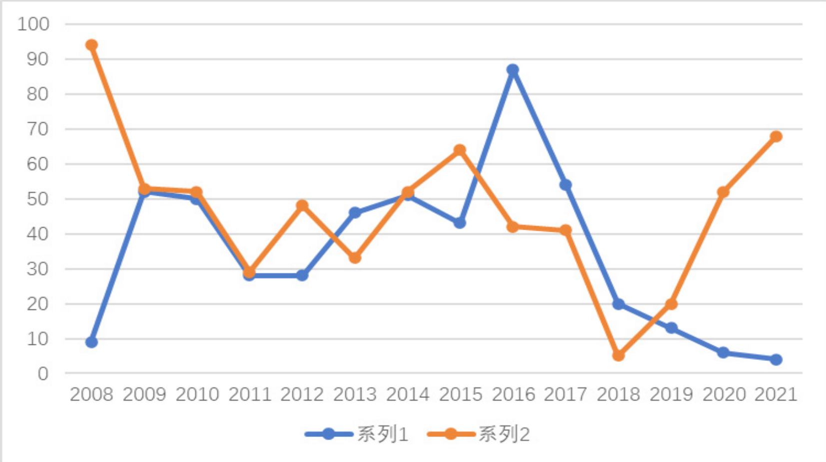

Figure 4: The relationship between China's ODF and Current Account Balance.
Source: Boston University Global Development Policy Center, CEIC, China ODF, China Current Account Balance (RHS) and authors' compilation.

Since the Southeast Asia countries have become major participants in China's BRI, China has emerged as the region's new leading development partner, posing challenges to the traditional development partners which include the multilateral development banks, Japan, South Korea, European countries, the US and Australia. [67] After 2010, China's ODF began to accelerate the rate and scale of establishment, benefiting from China's 1999 "going out" strategy[68]. China has increased the development of overseas funds, particularly after President Xi announced the BRI in 2013.[69] China's ODF records a total of 1,099 Chinese commitments to 100 nations totaling $498 billion between 2008 and 2021.[70] With this level of funding, China's ODF is among the world's most active providers of ODF.

China's ODF has some new characteristics. To begin with, China's ODF is massive and periodic properties. From 2008 to 2021, it already accounted for 83 percent of World Bank sovereign credit.[71] In terms of China's ODF, the project value of Southeast Asian countries accounts for 8.3% of the total global project value, which is very large as compared to the other continents (Africa: 6.80%, Asia: 65.75%, Europe: 14.65%, North America: 0.44%, South America: 4.03%, Oceania: 0.37%).[72] It was normal for China's ODF to invest enormous sums of money in a fund during its early stages. The funding in the second or subsequent phase was contingent on the results of the initiatives. From 2016 to 2017, the Chinese government invested substantial funds in the ODF, as shown in Table 2.

Second, from Table 2 after nearly a decade of high-level overseas development investment, China's quantity began to fall after 2020, owing to China's GDP growth decreasing in the period and the impact of the Covid-19 pandemic. Initially, China's funding was focused on infrastructural development. These initiatives necessitate lengthy investment periods, delayed results, and lengthy cycles. The third point is the Chinese government has been more selective in project funding in recent years. As shown in Figure 4, there was a correlation between China's ODF and China's current account balance from 2009 to 2018. However, after 2019, the trend came to an end. In the BRI's future development strategy, the Chinese government has recommended "small but beautiful" projects as a priority for cooperation.[73] It intends to construct more projects with little investment, quick results, and positive economic, social, and environmental outcomes.[74]

As shown by China's ODF Database retrieved from Boston University Global Development Policy Center, Malaysia, Laos, and Cambodia received varying amounts of China's ODF from 2008 to 2021.[75] Malaysia received sizable China's ODF totaling US$4.4 billion for just three mega projects, namely the Second Penang Bridge, the East Coast Rail Link, and the Trans-Sabah Gas Pipeline.[76] In comparison, China's ODF in Laos and Cambodia with the total amount of US$3.6 billion and US$9.2 billion respectively was dispersed among many small projects in different sectors, which include transportation, energy, water and wastewater and so on.[77] Given the close relations of these countries with China, the recipient country's level of infrastructure and economic development were two important factors that influenced China's ODF. China's ODF would be relatively important and necessary in recipient countries with low levels of national infrastructure and economic development.

4.2 China's Outward Foreign Direct Investment (OFDI)

China's OFDI flow was US$147 billion, and China's outward FDI stock was $2,931 billion, making it the world's third-largest investor home country.[78]After the US and the EU, China is the third-largest source of FDI inflows into ASEAN nations[79] Between China and ASEAN, two-way investments total more than $380 billion as of 2022.[80] The region's well-established trade relations at both the market and institutional levels created a solid foundation for China's OFDI expansion.[81] With the launch of the BRI in 2013, the Chinese government has further accelerated more OFDI.[82] From a geo-economic point of view, China's industrial upgrading and transformation are important factors for Chinese FDI in ASEAN. From a geopolitical point of view, the Chinese government sees China's southern flank, bordering Vietnam and Laos, as a vulnerable area prone to invasion by hostile foreign troops and hence, the political stability of Indochinese Peninsula remains important to its national security. [83]

China's national interests and development needs inform China's OFDI expansion far more than the interests of its private sector.[84] China's OFDI presents a distinct pattern that contrasts with China's outward ODF. It is more dependent on international corporations, especially state-owned corporations, rather than state-owned banks. China's OFDI is managed by the State-owned Assets Supervision and Administration Commission, which serves as its management agencies. These agencies oversee state-owned corporations through the personal appointment and removal of company executives and the development of long-term strategies under the economic climate in China and the conditions of various industries.

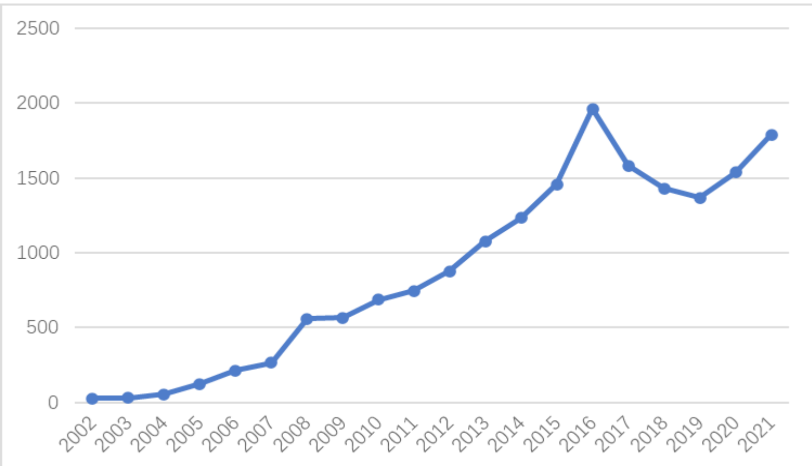

Figure 5: FDI net outflow (BoP, current US$) - China.
Source: 2021 Statistical Bulletin of China's Outward Foreign Direct Investment and authors' compilation.

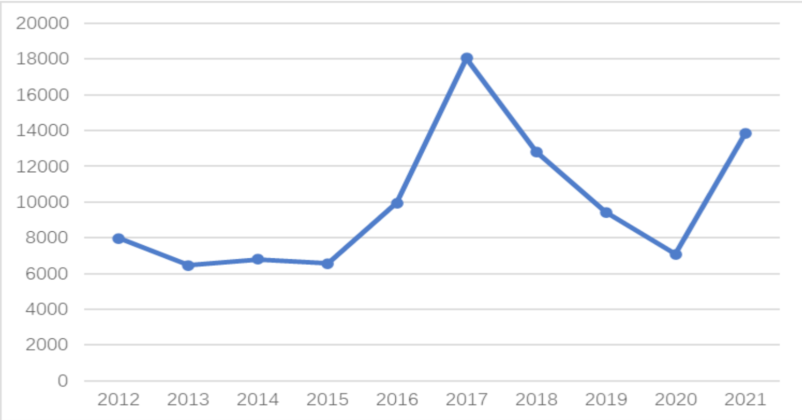

Figure 6: FDI inward flows to ASEAN from China.
Source: ASEAN Secretariat and authors' compilation.

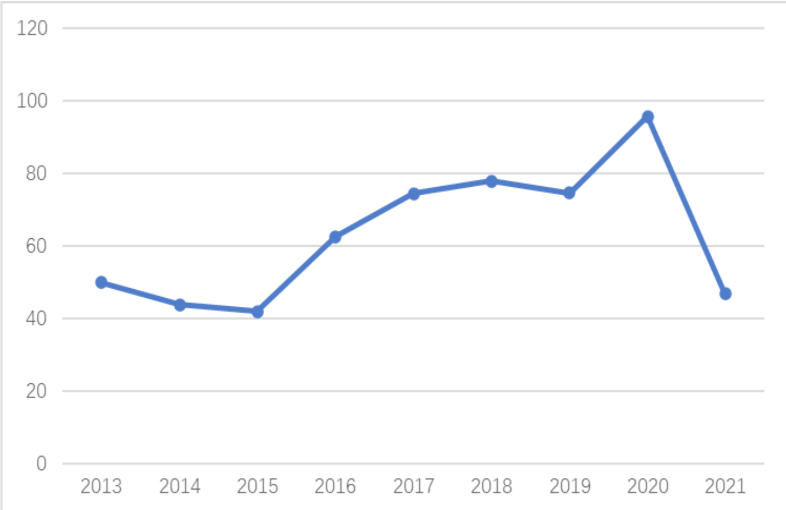

Figure 7: China's FDI net inflows in Malaysia (in million U.S dollars).
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

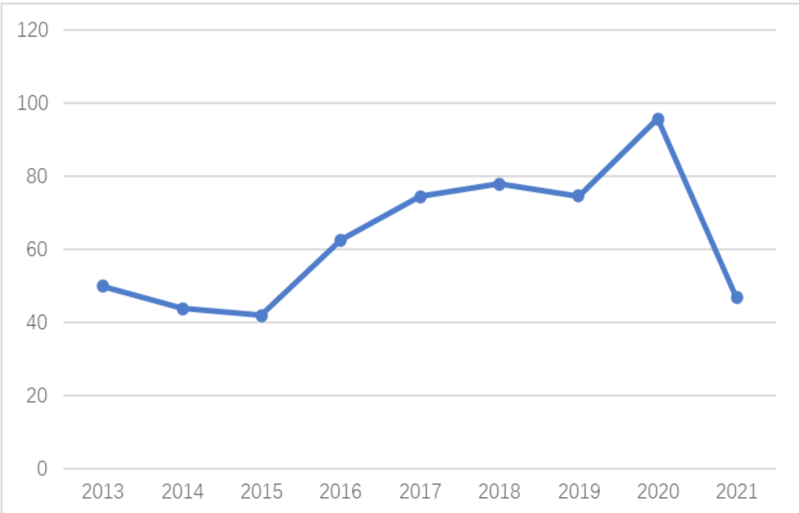

Figure 8: China's FDI net inflows in Thailand (in millions U.S dollars)
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

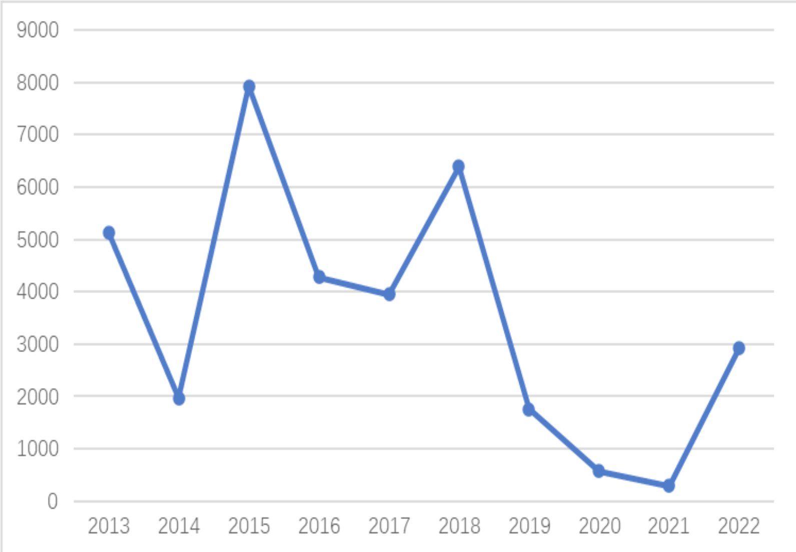

Figure 9: China's FDI net inflows in Lao (in million U.S. dollars).
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

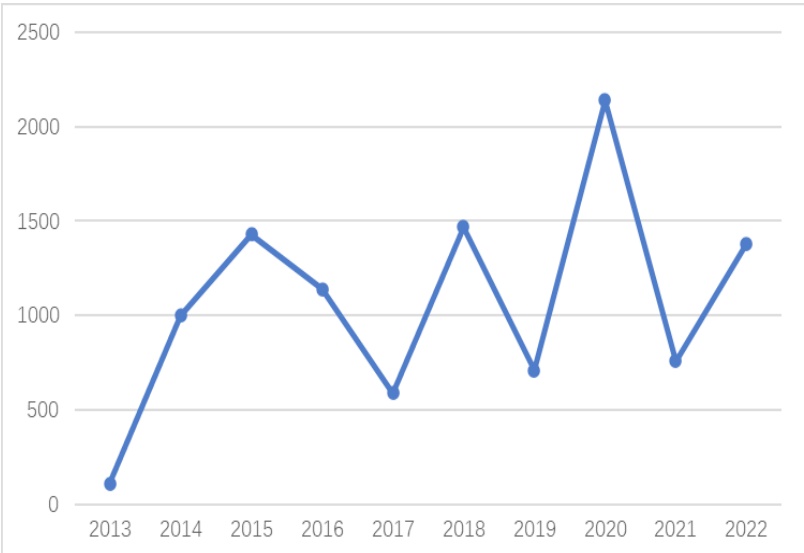

Figure 10: China's FDI net inflows in Cambodia from (in million U.S. dollars).
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

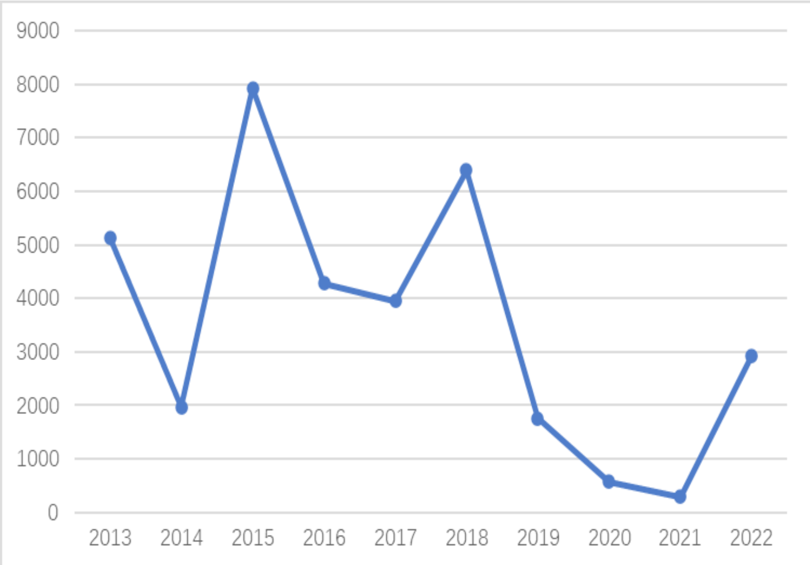

Figure 11: Chinese investment and construction contracts by Malaysia.
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

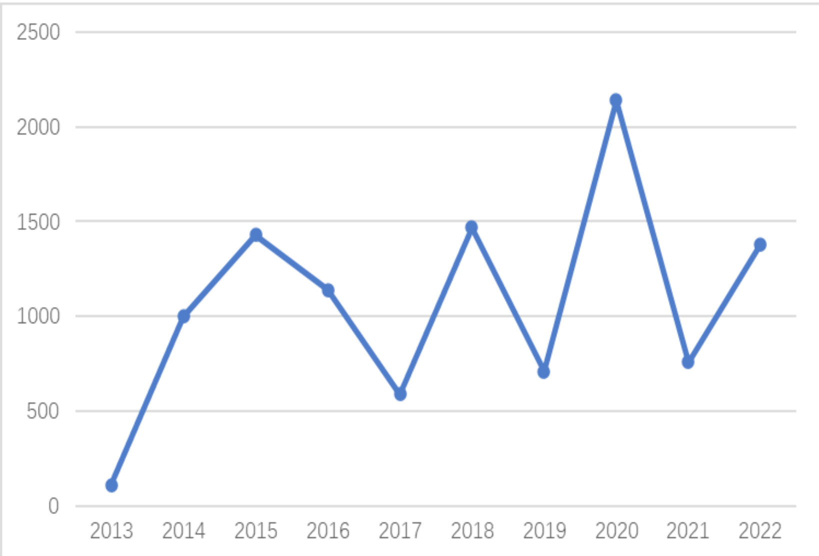

Figure 12: Chinese investment and construction contracts by Thailand.
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

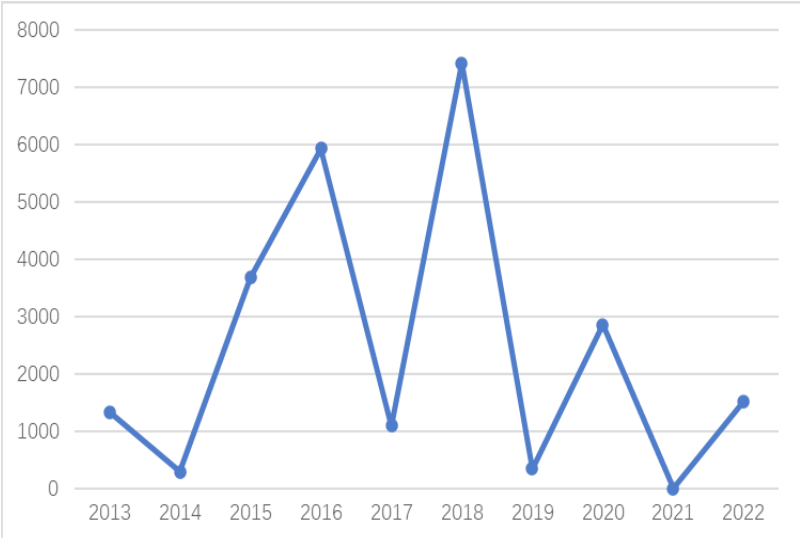

Figure 13: Chinese investment and construction contracts by Laos.
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

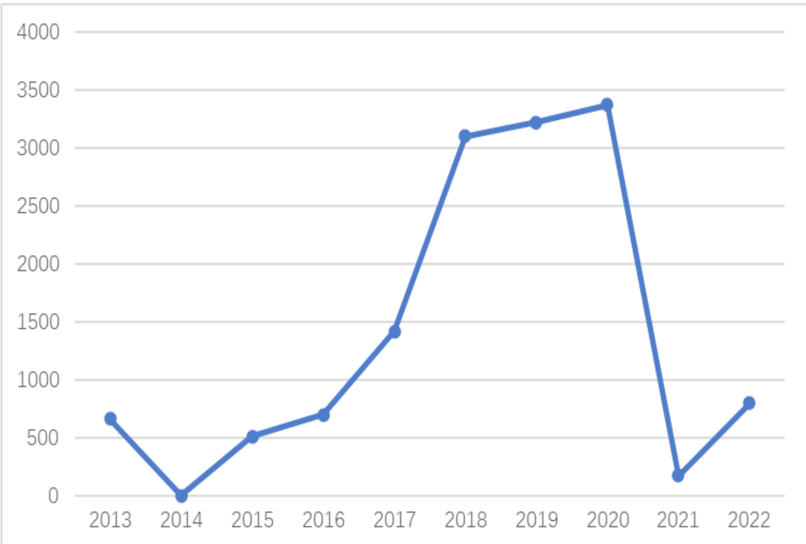

Figure 14: Chinese investment and construction contracts by Cambodia.
Source: China Global Investment Tracker, Maybank IBG Research and authors' compilation.

Figure 5 indicates China's OFDI rising steadily from 2019 to 2021. China's OFDI inflows to ASEAN attained their peak in 2017, followed by a decline and a rebound in 2020, as shown in Figure 6. Most of China's OFDI comes from state-owned companies. China's OFDI volume is $178.82 billion[85], and its foreign loan volume is $3.7 billion in 2021[86]. It demonstrates that China's OFDI is significantly more essential than China's foreign loans as financial statecraft instruments.

From Figures 7 to 10, it can be observed that despite the impact of COVID-19 and China-US strategic rivalry, China's FDI in Malaysia, Thailand, Laos, and Cambodia has increased and maintained an upward trend. When global economic growth declines significantly in 2020, China's OFDI inflows to these four nations will also decline. Figures 11 to 14 shows that Chinese investment and construction contracts in these four nations have begun to rise again. China will continue to prioritize Southeast Asia as the regional supply chain ecosystem has already been well-developed. Within the framework of the Regional Comprehensive Economic Partnership (RCEP)[87], the region's greater economic integration with China also offers greater trade and investment opportunities.

Although Singapore remains the primary destination for China's OFDI, other ASEAN nations are catching up. This change reflects the growing appeal of Malaysia and Thailand to Chinese investors, many of whom are looking for lower-cost manufacturing choices as domestic wages and operational costs keep on rising.[88] In terms of the industrial distribution of China's OFDI flow, the first target industry for investment was the manufacturing industry which received $8.21 billion, accounting for 44% of the total.[89] Multiple Chinese automakers have established manufacturing plants in countries such as Malaysia and Thailand, while also investing in local EV and automobile companies. Thailand Board of Investment claims that the Chinese EV maker will invest 6 billion baht in Thailand Plant.[90] Chinese companies are not only setting up EV factories but are also recognizing the opportunity to tap into the huge consumer markets in Malaysia and Thailand. The sectors in which China's outward FDI is most concentrated in Laos are postal services, construction, transport and storage, and business and leasing services.[91] China's OFDI in Cambodia is mostly focused on infrastructure development, such as energy, but also includes roads, highways, ports, and airports.[92] The distribution of China's OFDI in the region shows that the Chinese government, faced with different political and economic conditions in host countries, adopts an approach of adapting policies to local conditions and gauging specific issues on a case-by-case basis. China's diversified investment strategy is in line with China's national strategic goals.

The upgrading and transfer of China's manufacturing industry are impacted not only by economic law[93] but also by Chinese policies. The "Made in China 2025" strategy states that China will advance in industrial structural upgrading, aiming for a medium-high level to transform China from a quantity manufacturer to a quality manufacturer.[94] The main objectives of China's OFDI in Malaysia and Thailand are to find lower-cost manufacturing options as domestic wages and operating costs continue to rise, as well as a large consumer market in the future. FDI by state-owned corporations are not solely determined by the performance of their enterprises, but also by the industrial conditions of the recipient countries.[95] The data shows that China's OFDI in Malaysia and Thailand remains at a higher level as compared to its OFDI in Laos and Cambodia.[96] However, China's influence through its OFDI in middle-income countries such as Malaysia and Thailand was lesser due larger FDI from other developed countries especially the US in these more developed ASEAN countries.

According to Chiang and de Micheaux, China's OFDI is a distinct sort of investment that cannot be fully explained by conventional FDI theories.[97] The lower weight of low-income countries such as Laos and Cambodia in China's outward FDI[98] in the region does not mean that China has less influence over them. From 2011 to 2021, China was consistently the largest source of FDI received by Laos (except in 2014 when it took second place), accounting for an average of 58% of FDI absorbed by Laos over the past 11 years.[99] From 2011 to 2022, China was Cambodia's first provider of FDI (except 2016 and 2020 when it was the second), accounting for 42% of total investment on average.[100] Maintaining strong economic relations with Laos and Cambodia not only serves China's economic but also political interests as explained earlier.

4.3 China's Foreign Aid

Although foreign aid is only a small part of China's ODF as noted in section 4.1 earlier, the state has a long tradition of providing foreign aid, particularly to developing countries. China is completely aware that developing nations cannot progress without funding. China insists on treating foreign aid as diplomatic assistance for developing countries to develop independently, taking care of mutual interests to promote bilateral friendly relations including economic and technological cooperation.[101] The administrative agencies for China's foreign aid is the China International Development

Cooperation Agency (CIDCA) and Chinese governments at all levels. The management agencies of China's foreign aid are Peoples Bank of China, China's Ministry of National Defense, Chinese People's Liberation.

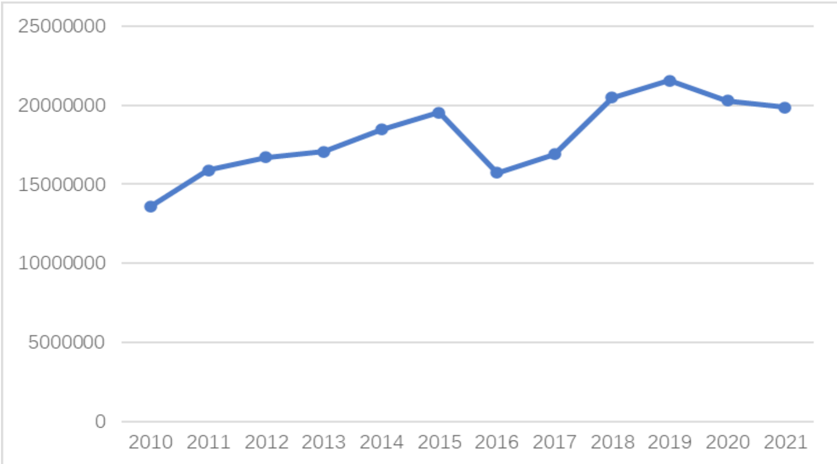

Figure 15: China Government Expenditure: Diplomacy: Aid to Foreign Countries (2010-2021, RMB¥ millions monthly).
Source: CEIC data and authors' compilation.

Table 3: Specific projects of China's foreign aid to Laos

Year	The project name of the foreign aid	Total amount	Organizer	Purpose of foreign aid
2013	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A
2017	China upgraded and rebuilt Laos National Television Channel 3	N/A	N/A	Media from China and Laos collaborate more closely
2018	Chinese government aids Laos National Water	N/A	Chinese government	Improve hydrology and water resource monitoring, forecasting, and early warning in Laos, and provide decision-making and technical support for flood management, drought relief, disaster reduction, and holistic water resource use.
2019	1. Comprehensive medical building of Lao People's Army 103 Hospital	N/A		Improve the condition of Lao hospital
	2. Chinese People's Liberation Army Aid Laos Medical Expert Group from 2019 to 2023	N/A		Medical insurance, clinical instruction, academic exchanges, popular science lectures, free clinic visits
	3. China-aided Laos National Earthquake Data Center Project	N/A		
2020	N/A	N/A	N/A	N/
2021	1. Laos Mahosok General Hospital project	N/A	Chinese government	Improving Lao's medical infrastructure, particularly in Vientiane
	2. Laos is one of the first countries to receive China's free vaccine assistance	N/A	Chinese government	Conflict with COVID-19

Year	The project name of the foreign aid	Total amount	Organizer	Purpose of foreign aid
2022	Laos has trialed 15 Chinese-aided seismic monitoring stations.	N/A	Chinese government	The National Seismic Monitoring Network for Laos is essentially finished.
2023	1. Project to Upgrade the Hospital in Laos's Luang Prabang	¥ 0.4 billion	Chinese government	Improving Lao's medical infrastructure
	2. The China-assisted Vientiane City Piwa Middle School Project in Laos is one of ten schools aided in Laos and is backed by Chinese government aid finances.	N/A	Chinese government	Promoting high-quality educational development in Laos

Source: Authours' compilation.

Table 4: Specific projects of China's foreign aid to Cambodia

Year	The project name of the foreign aid	Total amount	Organizer	Purpose of foreign aid
2013	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A
2017	Since 2017, China has sunk 1,800 deep water wells and built about 80 pounds in 16 provinces in Cambodia	N/A	Chinese government	Improving the water supply in rural areas in Cambodia
2018	1. China provided Cambodia with 40 mobile clinic vehicles equipped with medical devices	N/A	N/A	Meeting the needs of general examination and treatment, covering pediatrics, general surgery, obstetrics, and gynecology, dentistry, ENT, X-ray, and ultrasound.
	2. China provides Cambodia with equipment for mine detection and humanitarian aid	¥ 500 million	Chinese government	To clear mines and rebuild homes in Cambodia
2019	N/A	N/A	N/A	N/A
2020	Seven Chinese medical exports and anti-epidemic medical supplies	N/A	Chinese government	
2021	Cambodia receives China's free vaccine assistance	$2.9 billion	Chinese government	To conflict with COVID-19
2022	1. Chinese Government Aid Cambodia Cosma China-Cambodia Friendship Hospital	N/A	Chinese government	To provide Cambodia with better medical services.
	2. China provides materials to Cambodia's King's Task Force	N/A	Chinese government	The king's task force constructs rural roads, water conservation facilities, and other livelihood and poverty alleviation projects around Cambodia.

Source: Authours' compilation.

As noted in 2021 White Paper of China International Development Cooperation Agency, China has steadily increased the scale and scope of its foreign aid. Between 2013 and 2018, the total amount of China's foreign aid was 270.2 billion yuan, of which 47.30% was free aid mainly used to help other developing countries build small and medium-sized social welfare projects and implement human resources development cooperation, technical cooperation, material assistance, South-South cooperation assistance funds and emergency humanitarian assistance projects, 4.18% were interest-free loans mainly to help other developing countries build social public facilities and livelihood projects, and 48.52% were preferential foreign aid loans to help other developing countries build production-oriented projects and large and medium-sized infrastructure with economic and social benefits, and to provide complete sets of equipment, mechanical and electrical products, technical services and other materials. However, figure 15 illustrates that China's foreign aid gradually fell from 2019 to 2021. In 2021, it reached 3.08 billion.

China's foreign aid in different Southeast Asian countries shows distinct characteristics. In Malaysia and Thailand, China's foreign aid focuses on the natural disasters and humanitarian crises.[102] In contrast, less developed countries such as Laos and Cambodia received more China's foreign aid to improve infrastructure, health, education, and people's livelihoods. [103] According to Table 3 and 4, China's foreign aid to Laos focuses on holistic use of water resources, health system, national seismic monitoring network, promotion of quality education development. As for Cambodia, China's foreign aid concentrates on health care, water conservation, water supply, rural roads and the mine clearance.

4.4 China's RMB Internationalization

Given China's rising economy and financial strengths, RMB internationalization is both inevitable and necessary.[104] China has significant economic and financial clout as the world's second-largest economy, the main trading partner with many countries, and a major creditor for a large part of the Global South, with its outward FDI ranked third in the world.[105] While the PBC plans and monitors China's RMB internationalization, the administrative agencies for China's RMB internationalization are state-owned banks. The purpose of China's RMB internationalization is to provide various benefits, including expanding the usage of RMB, which will increase trade efficiency, save transaction costs, reduce exchange rate risks in trade, obtain international seigniorage, and enhance China's global reputation and clout.[106] The increased use of financial sanctions as weapons by the US and its allies after the Russian-Ukraine crisis in 2022 provided further push for RMB internationalization as an alternative currency for international payments and hence, reducing the potential adverse impact of Western financial weaponisation.

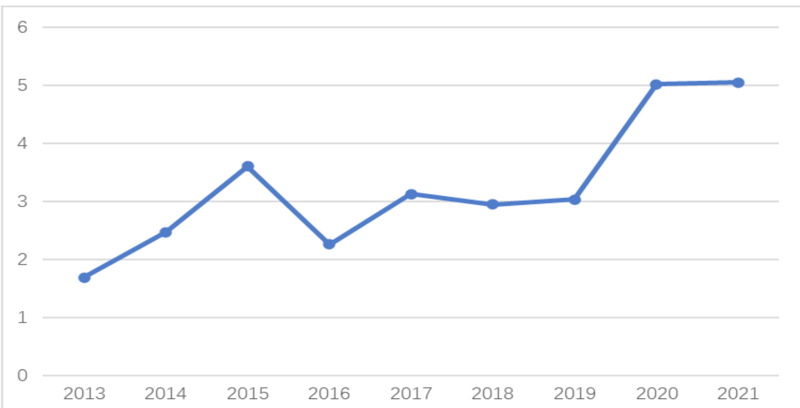

Figure 16: RMB Internationalization Index (2013-2021).
Source: International Monetary Institute and author's compilation.

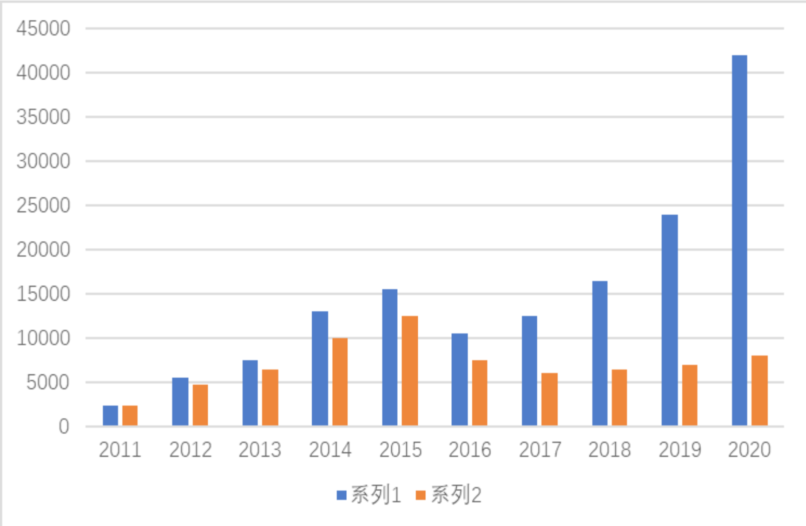

Figure 17: Cross-border RMB receipts and payments in ASEAN countries from 2011 to 2021 (green one is current account, blue is capital account).
Source: "2022 Report on use of RMB in ASEAN countries" and Peoples Bank of China, billion RMB, Capital Account, Current Account) and authors' compilation.

The RMB's proportion of worldwide payments increased to 3.71% in September 2023, ranking fifth, according to figures from the Society for Worldwide Interbank Financial Telecommunication (SWIFT).[107] According to IMF data, the volume of RMB reserves held by global central banks as of the end of 2022 was $298.4 billion, accounting for 2.69% and ranking fifth among major reserve currencies.[108] From 2013 to 2021, Figure 16 demonstrates increasing RMB internationalization trend. From 2015 to 2019, it was relatively stable, but after 2019, a trend of accelerated expansion emerged. RMB internationalization has progressed very rapidly in ASEAN countries. In 2011, cross-border RMB receipts and payments between China and ASEAN amounted to approximately 200 billion yuan; by 2021, the amount reached approximately 4.8 trillion yuan. Cross-border RMB receipts and payments between China and ASEAN have increased by a factor of 24 in ten years.

Table 5: RMB Internationalization in Malaysia, Thailand, Laos, and Cambodia (2009-2003)

Time	**Country**			
	Malaysia	**Thailand**	**Laos**	**Cambodia**
2009	Bilateral Currency Swap Arrangement Agreement (Valid for three years) CNY80 billion/ RM40 billion	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A
2011	N/A	Bilateral Currency Swap Arrangement Agreement (Valid for three years) CNY180 billion/ RM90 billion	N/A	N/A
2012	Bilateral Currency Swap Arrangement Agreement (Valid for three years) CNY180 billion/ RM90 billion	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A
2014	N/A	Bilateral Currency Swap Arrangement Agreement (Valid for three years) 70 billion yuan/370 billion baht	N/A	N/A

2015	1. Bilateral Currency Swap Arrangement Agreement (Valid for three years) billion/ RM90 billion	The Industrial and Commercial Bank of China (Thailand) Co., Ltd. as RMB Clearing Bank in Thailand	N/A	N/A
2016	N/A	N/A	N/A	N/A
2017	N/A	Bilateral Currency Swap Arrangement Agreement (Valid for three years) 70 billion yuan/370 billion baht	N/A	N/A
2018	Bilateral Currency Swap Arrangement Agreement (Valid for three years) CNY180 billion/ RM110 billion	N/A	N/A	N/A
2019	N/A	N/A	N/A	
2020	N/A	Bilateral Currency Swap Arrangement Agreement (Valid for five years) 70 billion yuan/370 billion baht	1. Bilateral Currency Swap Arrangement AgreementB 60 billion yuan/7.6 trillion Lao Kip 2. Bilateral local currency cooperation agreement	N/A
2021	Bilateral Currency Swap Arrangement Agreement (Valid for three years) CNY80 billion/ RM40 billion	N/A	N/A	Bilateral Local Currency Cooperation Agreement
2022	N/A Vientiane Branch as RMB Clearing Bank in Laos	N/A	The Industrial and Commercial Bank of China Co., Ltd.	N/A
2023	Prime Minister Anwar's proposal for the Asian Monetary Fund to President Xi Jinping.	Thailand's central bank and China's central bank discuss support for local currency Settlement	N/A	The National Bank of Cambodia is looking to join the CIPS

Source: International Monetary Institute and authours' compilation.

ASEAN is an optimal initial target for RMB internationalization. The rapid and deepening regional trade and financial integration following the RCEP and Chiang Mai Initiative Multilateralization Agreement (CMIM) led to the increase in local currency usage although the US dollar remain dominant in cross-border transactions.[109] By the end of 2021, The China-ASEAN bilateral local currency swap agreements exceed 800 billion yuan.[110] In 2022, China-ASEAN current account and direct investment cross-border RMB revenues and payments expanded 60.7% and 13.4%.[111] In addition, another contributing factor is the growing ASEAN RMB cross-border clearance network. The second-generation RMB cross-border payment information management system is operational, and Singapore, Malaysia, Thailand, and the Philippines are building RMB clearing banks.[112] The bilateral currency swap agreement and RMB offshore clearing banks contributed to the alleviation of offshore RMB shortages and benefited RMB internationalization.[113]

4.5 Digital Yuan, Finance and Payment

Science and technology has been regarded by the China authorities as essential to economic growth. As such, various initiatives were taken to develop the country's science and technology infrastructures,[114] which include digital yuan, finance and payment for further development of the financial system. The Chinese government encourages the development and application of financial technologies such as e-commerce, digital payment, blockchain technology, artificial intelligence and big data analytics. The purpose is to improve the effectiveness of financial services, reduce costs and promote financial cooperation. Management agencies for digital yuan, finance and payment are the China Securities Regulatory Commission, the State Administration of Financial Supervision and Administration, PBC.

State-owned banks are the administrative agents of digital yuan, finance and payment.

Digital Yuan, Finance and Payment can include three main things, namely the use of QR code, Cross-Border Interbank Payment System, Chinese digital currency. In 2021, UnionPay International established a partnership with Bangkok Bank, Thailand's largest bank, to offer UnionPay QR codes in the latter's mobile banking and electronic wallet, BeWallet.[115] In 2023, UnionPay International, a subsidiary of China UnionPay, and the Central Bank of Cambodia signed a memorandum of cooperation in Phnom Penh to promote cross-border QR code business interconnection and two-way service for Chinese and Cambodian mobile payment needs.[116] In 2023, UnionPay International and the Lao National Payment Network signed an agreement of understanding. To improve the cross-border mobile payment experience of citizens of China and Laos, the two parties agreed to promote the Lao national unified QR code standard LaoQR, which is compatible with the UnionPay QR code standard. On the same day, Malaysia's money transfer network Payments Network announced that all its QR code accepting merchants have been converted to UnionPay. Visitors to Malaysia can use the UnionPay app to pay at millions of local retailers by scanning QR codes.[117]

China has established financial infrastructure for RMB cross-border payments, known as the Cross-Border Interbank Payment System (CIPS), similar to the US Clearing House Interbank Payment System (CHIPS). It has the potential to reduce the role of offshore clearing banks;[118] additionally, in the future, it will be able to bypass SWIFT and clear and settle cross-border RMB directly. The CIPS (Phase I) system was launched in 2015, while the CIPS Phase II was launched and validated in 2018.[119] Thus far, CIPS membership remains limited, with 139 direct participants, and 1345 indirect participants.[120] CIPS, compared to offshore clearing banks, is open to all foreign financial institutions, regardless of jurisdiction, and participants have direct access to China's domestic Large Payment Settlement System for RMB transactions.[121] The Vientiane Branch of the Industrial and Commercial Bank of China became the only commercial bank to directly connect to China's RMB cross-border payment system's CIPS clearing network in 2021.[122] The National Bank of Cambodia (NBC) is considering joining the CIPS to increase international payment options, boost trade, investment, and tourism between the two countries through yuan-denominated transactions, and simplify Chinese currency management in Cambodia's international reserves.[123] Industrial and Commercial Bank of China (Thai), Bank Of China (Malaysia), Industrial and Commercial Bank of China (Malaysia) are also direct participants with CIPS.[124]

In 2017, the Chinese government initiated a research and development project with legal digital currency (e-CNY). As of June 30, 2021, there were about 1.32 million digital RMB pilot scenarios in living payment, catering, transit, retail and consuming, government services, and other industries. Over 20.87 million personal and 3.51 million public wallets were opened, with over 70.75 million transactions and 34.5 billion yuan in transactions.[125] China expanded the scope of digital RMB usage in the Mohan-Boten Economic Cooperation Zone in Laos in 2022.[126] The multilateral central bank digital currency bridge project (Project mBridge) initiated by the Bank of Thailand and the PBC had also made positive progress.[127] On the other hand, the digital currency of Cambodia evolved extremely rapidly.[128] The central bank of Malaysia has major plan of developing digital currencies.[129]Apart from facilitating the RMB internationalization in Malaysia, Thailand, Laos, and Cambodia, digital yuan, finance and payment also provides a better platform and policy support for Chinese enterprises to compete internationally, and continuously expands and deepens political and economic cooperation with other countries.

5. Comparison of the Deployment of China’s financial statecraft in Southeast Asia

From the comparison of the various financial statecraft instruments with respect to objectives, patterns and agencies involved in four selected Southeast Asian countries as summarised in Table 6, China has made use of various financial statecraft to serve its economic and political interests. China’s financial statecraft in the region under the Xi Jinping administration has been primarily influenced by Chinese leadership and government bureaucracy, and to some extent domestic economic lobbies. The domestic institutional financial reform since Xi’s third term has reinforced central government leadership and control. However, it is a two-level game involving the interaction of domestic and international forces that have influenced China’s deployment of various financial statecraft instruments in different Southeast Asian countries.

While the deployment of financial statecraft was accelerated since the launch of the BRI, an important external factor was the recipient countries with their diverse economic and political development. There was no one-size-fits-all deployment as the countries’ diversity required different deployment of financial statecraft by China to deal with different interests and concerns. Although China’s funding was made attractive as it did impose strict austerity measures on recipient countries like the IMF loans, the PRC government adapted policies to local conditions and gauged specific issues on a case-by-case basis in line with China’s national strategic goals. Southeast Asian countries’ different levels of economic dependency on China may constrain their foreign policy options and influence their strategic manoeuvrability in various ways.[130]

Another important external factor was the changing geopolitical environment. The increased use of financial sanctions as weapons by the US and its allies after the Russian-Ukraine crisis in 2022 pushed China to accelerate RMB internationalization as an alternative currency for international payments to hedge against the risk of Western weaponisation of finance. Building on the growing regional economic and financial integration as well as the international platforms such as BRIC Plus (i.e. the expansion of the BRIC group), China has actively boosted its long-standing bid to internationalise the RMB and cut its dependence on the US dollar by expanding the use of CIPS and e-CNY in both domestic and overseas transactions.

Table 6: The Pattern of the instruments of China's Financial statecraft in Malaysia, Thailand, Laos, and Cambodia

China's financial statecraft instruments	Management Agencies	Administrative Agencies	Purpose and Usage			
			Malaysia	**Thailand**	**Laos**	**Cambodia**
China's overseas development finance	1. MoF 2. SASAC 3. PBC	1. CDB 2. EXIM Bank 3. CIC 4. PBC 5. SAFE	Making effective use of China's infrastructure capacities	No data	Promoting infrastructure construction in Laos	Promoting infrastructure construction in Cambodia
China's foreign direct investment	SASAC	State-owned corporations	The transformation and upgrading of China's manufacturing Industry	The transformation and upgrading of China's manufacturing industry	For geopolitical motives increased FDI would strengthen connections with Laos	For geopolitical motives increased FDI would strengthen connections with Cambodia
China's foreign aid	1. CIDCA 2. Chinese governments at all levels	1. PBC 2.China's Ministry of National Defense 3. Chinese People's Liberation Army	China assists with humanitarian crises and natural disasters in Malaysia	China assists with humanitarian crises and natural disasters in Thaialnd	Improving the livelihoods of the Laos people, including health, education and rural development	Improving the livelihoods of the Cambodia people, including health, education and rural development
RMB Internationalization	PBC	1. PBC 2.Sated-owned banks	Promoting investment and trade	Promoting investment and trade	1. Promoting investment and trade 2. More positive compared	1. Promoting investment and trade 2. More positive compared
Digital Yuan Finance and Payment	1. CSRC 2. NAFR 3. PBC	1. PBC 2. Stated-owned banks	1. Promoting investment and trade 2. There is competition	1. Promoting investment investment and trade	1. Promoting investment investment and trade 2. More positive compared	1. Promoting investment investment and trade 2. More positive compared

Source: Authours' compilation

6. Conclusion

As discussed in the article, the re-election of China's leader Xi Jinping has enabled the continuance of his administration's foreign policy for over a decade. President Xi's administration's foreign policy toward Southeast Asian countries focuses on strengthening partnerships with neighboring countries and actively promoting the BRI. Further regional economic and financial integration arising from RCEP and multilateralisation of the CMI has offered more trade and investment opportunities for the PRC and Southeast Asia. China's priority for Southeast Asian countries has not diminished but strengthened. They are strategic economic and political partners as the region has a well-developed supply chain ecosystem and greater economic integration with China within the RCEP framework.
Although facing heightened competition from traditional development partners (which include the multilateral development banks, Japan, South Korea, European countries, the United States, and Australia, China has emerged as Southeast Asia's leading development partner. China's financial statecraft in the region under the Xi Jinping administration has been primarily influenced by Chinese leadership, government bureaucracy and to some extent, the domestic economic lobbies, However, it was a two-level game involving the interaction of domestic and international forces that have influenced China's deployment of various financial statecraft instruments in different Southeast Asian countries. The political and economic diversity of the recipient countries ensured no one-size-fits-all deployment of financial statecraft by China to deal with different interests and concerns. Not to mention the changing geopolitical environment, which compelled China to accelerate the internationalisation of the RMB by expanding the use of CIPS and e-CNY in both domestic and overseas transactio

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