

# Engaging China for sustainability in Asia: Collaboration, competition, or choppy waters

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## ABOUT THIS PUBLICATION

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## Introduction

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China's economic, political, and military rise has reshaped its engagement in Asia, and it has reshaped the region's engagement with China. China has become the region's largest trading partner and the largest investor. It has adopted a more assertive stance over its territorial claims in disputed areas such as in the South China Sea.<sup>1</sup> China sees itself as the largest developing country in the world that provides a new development model "for the common development of all countries" through the Belt and Road Initiative (BRI).<sup>2</sup> It aims to provide new models for global security through the Global Security Initiative (GSI) and supports expansion of multi- and mini-lateral formats such as the Shanghai Cooperation Organization (SCO) and BRICS Plus. China is seen across the world and in Asia as a main partner for tackling climate change through its globally leading renewable energy technologies. China emphasises its position, along with other developing countries,<sup>3</sup> the need to address climate change proactively,<sup>4</sup> highlighting how developed countries have historically had higher absolute and per capita emissions and have underdelivered on its promises for climate financing under the common but differentiated responsibilities framework.

Engaging China for a sustainable Asia requires an understanding of China's ambitions in the region and its appetite for cooperation with Western countries. After the US's trade impositions and China's border closures from 2020 to 2022 for COVID-19 prevention and control protocols discussions on de-coupling and de-risking were followed by challenging domestic economic development trajectories with youth unemployment of over 20 per cent in June 2023.<sup>5</sup> At the same time, China and Western powers such as Australia and the US have worked on stabilising or improving bilateral relationship in 2023. Yet, distrust between China and many Western power remains acute. Interpretations in China include that certain Western countries aim to decelerate or limit China's global rise and resist multilateral institutions reform that would allow for China's proportional or fair representation.<sup>6</sup> Interpretations in some Western countries include that China aims to export autocratic governance models and create a network of dependent and compliant economies by "weaponising" sovereign debt and trade dependency.<sup>7</sup>

This development also affects Asian economies, who are dependent on diplomatic and economic engagement and support from its international partners including China and Western powers to address some of the region's major challenges, such as the green transition to address climate change and biodiversity loss, digital transformation, as well as trade and security.

Against this backdrop, this chapter analyses five major developments and trends to understand China's engagement in Asia and how Asian countries as well as other partner countries, in particular Western countries like Australia, can engage China through cooperation and provision of alternatives for sustainability and wealth in Asia Pacific. How

we address these developments within the next years will determine whether China's ambition to "get the house in good repair before rain comes, and prepare to undergo the major tests of high winds and waves, and even perilous, stormy seas", as expressed by China's President Xi at the 20<sup>th</sup> National Congress in October 2022—is a literal joint effort to address and reduce the impacts of climate change, or the metaphorical meaning of preparations for major conflicts.<sup>8</sup>

## China's changing role in the region

### China's growing engagement in green transition

China plays a pivotal role in facilitating the transition to green energy. Chinese companies have emerged as global leaders in investment, development and manufacturing of technologies and materials related to the green transition. China dominates significant parts of global value chains in sectors such as mining, renewable energy, and transport.<sup>9</sup> For example, China's solar manufacturing capacity accounts for at least 80 per cent of the global market share.<sup>10</sup> In 2023, 40 per cent of China's announced 5.2 per cent economic growth was driven by the "New Three" industries related to electric vehicles, green power generation and batteries with investment in 2023 these sectors equalling the total GDP of Switzerland (Myllyvirta, 2024).<sup>11</sup>

Many Asian economies, including Pakistan, Kazakhstan, Cambodia and Laos, in their ambition to transition their economy to green are looking to China to provide financing and technology.<sup>12</sup> China engages many Asian economies through the BRI, which originally emphasised large-scale infrastructure building, financial cooperation and trade facilitation and is now more focused on "green Belt and Road" or "high-quality Belt and Road" development with engagement relating to climate change adaptation and mitigation.

At the same time, China is looking at key partners in the region to strengthen its supply chains, particularly in transition metals. An example is Indonesia, which saw over USD 20 billion in Chinese financial engagement since 2013, such as the nickel mine and smelter PT Dragon Virtue Nickel Industry, a subsidiary of a Chinese mining giant, Jiangsu Delong Nickel. Similarly, at the sidelines of the Belt and Road Forum in October 2023, Indonesia's state-owned power company PLN announced deals<sup>13</sup> with China worth USD 54 billion including for production of solar panels through Trina Solar China as well as renewable energy grid expansion. The collaboration is anticipated to expedite the Indonesian government's ambitious energy transition plan, aiming for 75 per cent of new energy capacity from renewable sources and the remaining 25 per cent from natural gas by 2040. The eight underlying deals are twice the amount of the G7-led Just Energy Transition Partnership (JETP) for Indonesia.

Indonesia's Institute for Essential Services Reform (IESR) was also one of the founding members of the Green Investment and

Financing Partnership (GIFP) also established at the 2023 Belt Road Forum.<sup>14</sup> With financial institutions such as China Development Bank signed up, GIFP aims to facilitate funding for Chinese-sponsored green energy projects. Similarly, in May 2023, China Exim Bank, together with a dozen financial institutions including China Development Bank, and China Export & Credit Insurance Corporation, released the Initiative for Supporting Belt and Road Energy Transition with Green Finance.<sup>15</sup>

Besides energy and mining, China also significantly invests in green transport-related infrastructure in the region. Examples include high-speed rails in Indonesia, Laos, Thailand, Malaysia or subways in Vietnam and Pakistan.<sup>16</sup>

Currently, few other countries, except for Japan, have similar engagements in the region. With a trillion-dollar financing gap for green transition for climate mitigation and adaptation in the region,<sup>17</sup> and the need not only for installation of green infrastructure systems, but for an indigenous green economy through local manufacturing and ownership (as requested from China e.g., by Indonesia's President during the 2023 Belt and Road Forum), significant opportunities are untapped to support the green transition of Asia's economies.<sup>18</sup>

In addition to the technological and financial aspects of the green transition, China's green engagement also seems to be positive for both its overseas soft power expansion,<sup>19</sup> and as a tool for international collaboration: The Sunnyland statement between the US and China from November 2023 highlighted stronger collaboration between the two major powers and US Climate Envoy John Kerry suggested that climate cooperation could pave the way for improved understanding in other areas to avoid unintended consequences of other conflicts.

### Increased Chinese outward foreign direct investment

Over the past years, multiple Asian economies have seen significant investments by Chinese companies establishing local manufacturing and production capacity. Several reasons might accelerate this development with significant opportunities for Asian economies.

First, Chinese companies have become global technology leaders, for example in green energy or green transport technologies, including companies like CATL, Goldwind, Jinko Solar or BYD. These companies not only see a growing global market for their product, but also a need to produce closer to their customers in Asian and global markets.

Second, with domestic overcapacities in various sectors in China, some Chinese companies are in need to search for alternative markets. Particularly privately owned companies with a stronger financial return mandate (as compared to SOEs that might also have a domestic development mandate), for example in the construction sector, see opportunities in investing abroad and expanding into new markets, including in Asia.<sup>20</sup>

Third, fear of trade impositions between China and Western markets has motivated various Chinese companies and companies traditionally producing in China to build

manufacturing bases outside China to circumvent tariffs or export restrictions. Examples can be found in the technology sector, such as solar or battery factories.<sup>21</sup>

Fourth, increasing manufacturing costs (wages, energy costs and environmental costs) within China provide new opportunities for countries with lower cost structures to attract labour- or energy-intensive industries previously located in China. These companies can be found in assembly-related work, as well as the textile and garment industry.<sup>22</sup>

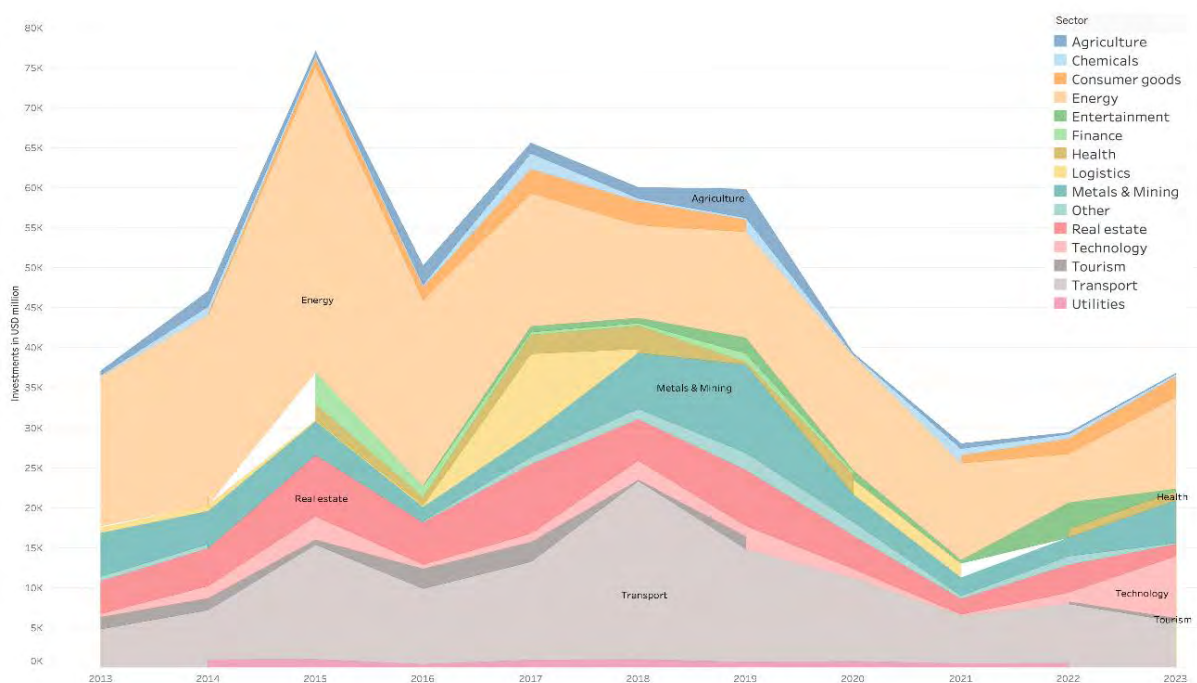
Finally, several Asian countries have also engaged China to increase local value addition. For example, Indonesia has partly banned export of its raw minerals to entice investment in local minerals processing to create local jobs, taxes and GDP growth.<sup>23</sup> However, without significant local ownership, most of the financial benefits will nevertheless be repatriated to China, while particularly environmental cost associated with mining and processing will have to be borne by Indonesia's society.

## China's ambitions for new governance models

Over the past decade, many nations Asia have signed agreements to cooperate with China on Chinese-led or Chinese (co-)initiated mini-lateral or "multi-bilateral" initiatives outside of more established institutions (such as ASEAN, G20). These initiatives include, amongst others:

1. Belt and Road Initiative (BRI), established in 2013 with the aim to strengthen export of Chinese-style development through infrastructure construction and trade facilitation. Although there is a huge infrastructure deficit in the world, especially in developing countries, international and regional development banks have not been able to effectively address this problem, resulting in many developing economies missing out on growth opportunities due to lagging infrastructure development. The BRI reflects China's unique global development concept and its thinking and solutions to global development problems, laying an institutional foundation for the subsequent Global Development Initiative. Over 37 Asian countries have actively signed memorandums of understanding on cooperating with China on the BRI and Asian countries are the main recipients of China's financial engagement reaching almost USD 450 billion (particularly Indonesia, Pakistan, Vietnam).<sup>24</sup> Since 2019, an emphasis has been green development in the BRI, and during the most recent Belt and Road Forum in October 2023, China emphasised that the BRI is a new development model where the Western development model failed to deliver, as these had exacerbated inequalities and had not brought development to most nations.<sup>25</sup> Adjacent, but officially not part of the BRI, China established the Asian Infrastructure and Investment Bank (AIIB) in 2016. The AIIB expanded its membership from 57 to 106 and had approved 202 projects worth USD 8.2 billion by the end of 2022.

Figure 1: China's Asia and Pacific engagement through investment and construction contracts 2013–2023



Source: Nedopil, 2024.<sup>26</sup>

2. Global Development Initiative (GDI) established in 2021 with the aim to provide development assistance through finance and capacity to emerging markets. Since its establishment, the BRI has become an important pillar of the GDI, a broader and more extensive initiative, expanding from hard connectivity to soft connectivity. China has pledged to provide a total of \$1.5 trillion in support of the GDI over the next 15 years. This support will come in the form of investment, financing, and technical assistance.<sup>27</sup> It aims to focus on topics including poverty alleviation, food security, green development and climate change adaptation.
3. BRICS was originally established in 2010 (its predecessor BRIC without South Africa was established in 2006) as a forum for the large developing countries Brazil, Russia, India, China, and South Africa to discuss issues of economic cooperation. The BRICS nations encompass about 27 per cent of the world's land surface and 42 per cent of the global population, as well as about 23 per cent of global exports and 19 per cent of global imports. In 2012, BRICS nations established a new multilateral development bank, the New Development Bank (NDB) with headquarters in Shanghai, China. In 2023, several nations applied to become BRICS members and BRICS nations invited 6 nations (Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates) to join BRICS Plus. Like the BRI, the BRICS Group focuses on development issues, especially in emerging economies. However, the BRICS Group focuses on cooperation and coordination among major emerging economies, emphasising the important role of these countries in building a new international economic order rather than connectivity. The BRICS is seen by some observers as an attempt to provide an alternative to the G7<sup>28</sup> while others see it as a club of nations bound by grievances against the established Western order in search for an alternative system that suits them better.<sup>29</sup>
4. The Shanghai Cooperation Organisation (SCO) was established in 2001 as a political, economic, international security and defence cooperation mechanism by six nations: People's Republic of China, Republic of Kazakhstan, Kyrgyz Republic, Russian Federation, Republic of Tajikistan, and Republic of Uzbekistan.<sup>30</sup> It covers approximately 80 per cent of the area of Eurasia and 40 per cent of the world population. It focuses on several areas, including counterterrorism, combating separatism and religious extremism, promoting trade and investment, and developing cultural and educational cooperation. By November 2023, the SCO had not provided military support in any actual conflicts, but regularly conducts joint military exercises among members to promote cooperation and coordination against terrorism and other external threats.<sup>31</sup> Although the SCO has a strong security focus, it is officially not a military alliance based on the traditional principle of collective security, nor is it aimed at one or some military alliances. Rather, it officially advocates a "new security concept" of mutual trust, mutual benefit, equality and cooperation, which has become an important principle of China's global security initiative.
5. Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement signed in 2020. It includes 15 Asia-Pacific economies including Australia, China, Indonesia, Japan, South Korea, Laos, Malaysia. RCEP is the largest trade bloc with its members accounting for about 30 per cent of the world's population (2.2 billion people) and 30 per cent of global GDP (\$29.7 trillion), making it the largest trade bloc in history.<sup>32</sup>

China also established several other initiatives, including the Global Security Initiative (GSI) and Global Civilization Initiative, where both initiatives have still to be defined more clearly. These initiatives distinctly prioritise principles and provide flexibility by avoiding the necessity for a selection between China with other countries' security partnerships.<sup>33</sup> However, a common characteristic among these organisations is the absence of major Western economies, such as the US, most EU members, Australia and Japan (with the exception of RCEP) where the decision not to join could be complex, influenced by geopolitical, strategic, and ideological factors, with reasons varying among Western countries.

The ambitious plans including the BRI, the BRICs and the SCO will not only help China radiate its diplomatic and economic influence on the world, but more importantly, build an international cooperation platform in which China can play a decisive role, and provide an important institutional and organisational foundation for China's subsequent Global Development Initiative, Global Security Initiative and Global Civilization Initiative.

While not all initiatives are equally effective, each of the initiatives provides China with convening power with regional decision-makers in government, business, and security outside of the Western dominated global governance system. It also provides China with alternative forums to establish policy and technical standards, such as the BRICS stated aim to provide alternative global payment systems.

China's engagement of Asian economies through these initiatives does not preclude China engagement in and through multilateral institutions, such as the United Nations. However, China laments that its economic might and financial engagement in these institutions is not adequately represented through voting rights.<sup>34</sup>

## Navigating China's global diplomatic relations

After more than two years of COVID-related self-isolation, China significantly elevated its diplomatic, business and academic engagement with the region in 2023. China welcomed over 23 heads of state during the 2023 Belt and Road Forum alone and dozens of heads of state throughout the year including from Australia, the European Union, many Pacific Island nations, and nations from across Asia.<sup>35</sup> In November 2023, China held the world's largest trade fair—the China International Import Export (CIIE)—which attracted record numbers of business and visitors including the largest delegations from Australia.<sup>36</sup> It organised countless academic conferences, including globally leading conferences such as the Shanghai Forum that attracted over 1500 academics from over 80 countries. At the same time, Chinese policy makers, businesses, academics engaged in international events.

At the same time of political rapprochement, China continued to assert its territorial and geopolitical interests. China updated its official map in August 2023 highlighting the land and sea territory under the control of China.<sup>37</sup>

Herein, China also reiterated its claims to wide areas within the South China Sea,<sup>38</sup> with parts of it also claimed by other nations, such as the Philippines, Japan, or Vietnam, which is a contentious issue that involves a complex interplay of historical, legal, economic, and geopolitical factors, and efforts to address the disputes continue through diplomatic channels, albeit with challenges and ongoing concerns among the affected nations. Dangerous encounters between involved nations have increased in 2023, for example through use of military grade lasers against Philippine sailors and collisions of boats where China portrays the conflict with Philippines as driven by American interests.<sup>39</sup> China also expanded security cooperation with the Solomon Islands. A supposed Chinese airbase on an island off Myanmar received much global attention, yet the actual development could not be confirmed but might rather show some of the global fears about China's military expansion in the region.<sup>40</sup> On land, China and India continue an unresolved border conflict, which flares up occasionally and became violent in December 2022.<sup>41</sup> While challenges exist, fostering open communication and diplomatic efforts can contribute to finding peaceful resolutions to these issues, but it will be difficult, especially with Western interference.

China strengthened its borders and supply-chain security with its land-based neighbours. The Laos railway opened in 2021, which China plans to connect to Singapore provides strategic alternatives for sea-based trade routes, in particular the strait of Malacca.<sup>42</sup> China also works on building a railway from China through Myanmar's Bay of Bengal.<sup>43</sup> To support its strategic trade routes, China supported the construction of trading hubs at the borders, for example in Laos, Khorgos at the border in Kazakhstan and Vietnam.<sup>44</sup> In October 2023, Sri Lanka announced a multi-billion dollar Chinese engagement to build out Colombo city, where China already holds a 99-year lease for the Hambatota port.<sup>45</sup>

Growing attention is also given to the Taiwan question. While China sees Taiwan as an inalienable part of China and the Taiwan question as an internal affair, many Western observers worry about a military invasion of Taiwan and its potential consequences for broader military conflict.<sup>46</sup> 2023 saw 1,539 incursions of Chinese military aircrafts into Taiwan's Air Defense Identification Zone (ADIZ) according to data compiled based on Taiwan's Ministry of National Defense, indicating an assertive Chinese military stance on the issue

(see Figure 2), while China also re-opened direct flights and visa free travel with Taiwan to strengthen business and social ties between the two sides of the Taiwan Strait.

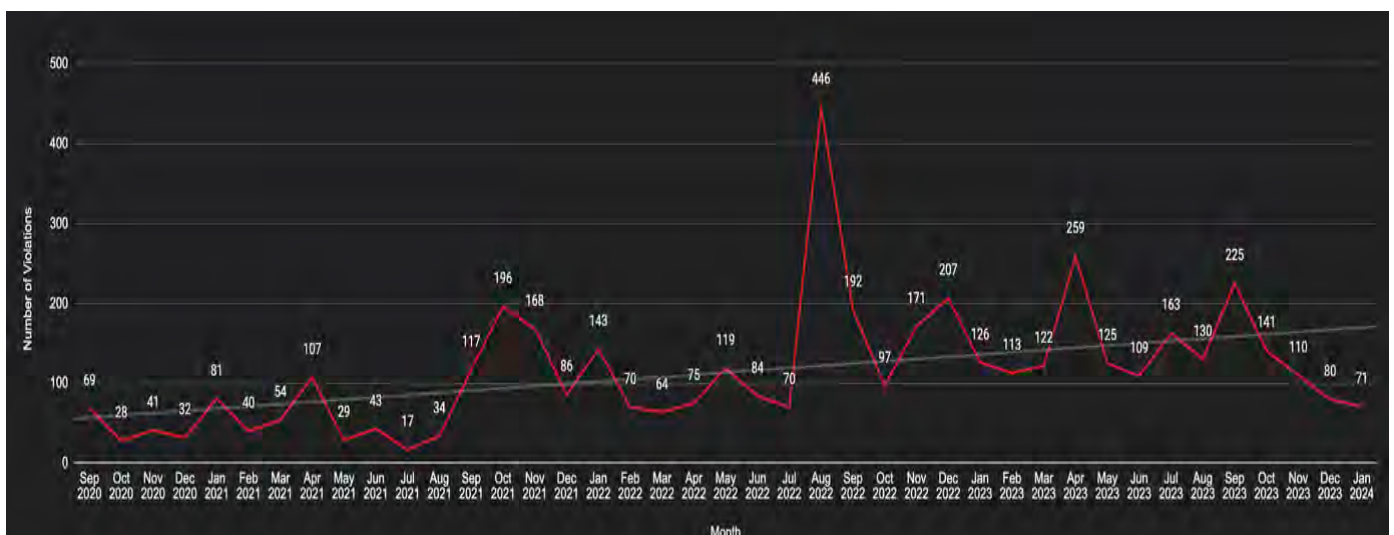
Across the region, economies have adjusted to the great power competition and their engagement with China in different ways. Broadly, China distinguishes between comprehensive strategic partnerships, strategic partnerships, comprehensive co-operative partnerships, cooperative partnerships, and friendly cooperative partnerships.<sup>47</sup> Countries like Pakistan even enjoy a special status as "all-weather strategic cooperative partners" and "iron-clad friendship" re-emphasised in 2023.<sup>48</sup> Also Solomon Islands had upgraded its partnership with China to Comprehensive Strategic Partnership in 2023.<sup>49</sup>

Other countries, meanwhile, are balancing relations with China as pragmatic allies that might choose different allies even for similar objectives. For example, Indonesia has deepened its comprehensive strategic cooperation with China in 2023 while Indonesia also "reaffirmed the strength of the defence pillar" regarding the enduring Strategic Partnership with the United States.<sup>50</sup> Similar pragmatic allies could be Vietnam and India that are equally working with China on geopolitical cooperation and similarly strengthening ties with less aligned partners—such as Japan or the US. For example, India is working closely with Australia, US and Japan through the QUAD strategic security dialogue and has been engaged with Japan in an active defence cooperation agreement.<sup>51</sup>

There are also neutral countries, such as Singapore, navigating between the United States and China by adopting a pragmatic and balanced approach to maintain diplomatic relations and economic partnerships with both major powers.<sup>52</sup> This strategy, rooted in careful diplomacy and regional involvement, ensures flexibility and independence in a complex geopolitical landscape.

Finally, countries with stable but fragile relationships include Japan,<sup>53</sup> Korea<sup>54</sup> and potentially the Philippines. Relationships with the latter were officially described by the Republic of the Philippines foreign Services Institute as "in recent years, both countries have experienced fiery issues that have resulted in their "cooling off," hitting a low point since the establishment of their diplomatic relations in June 1975"<sup>55</sup> with a hotline established in 2023 to avert military conflict.<sup>56</sup>

Figure 2: PLA Aircraft entering Taiwan's De-Facto ADIZ by Month



# China and its role as global creditor and systems broker

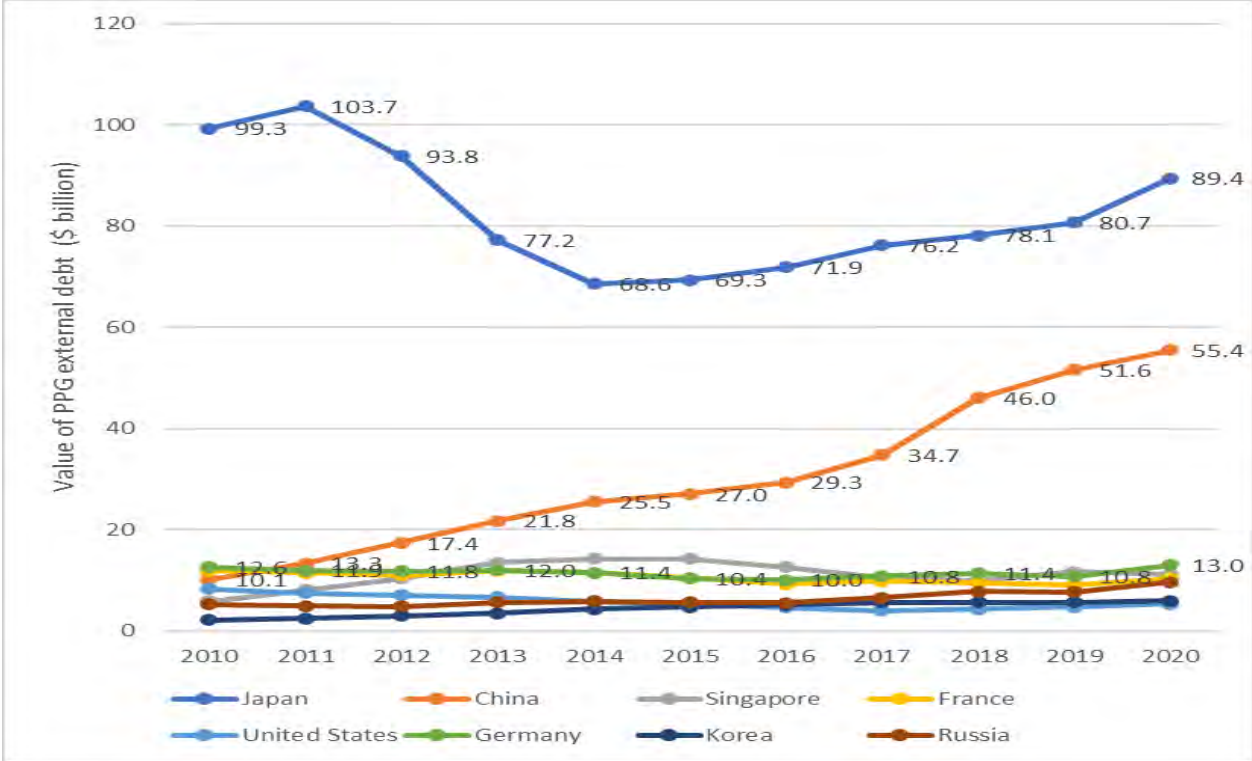
Two issues stand out in China's growing role in the global financial system: its role as a creditor, and its role in promoting new financial systems: China's significant share of Asia-Pacific low- and middle-income countries (LMIC) debt belies its relatively recent expansion into overseas lending. While China began overseas lending in the 1950s, China's overseas lending to 1831 Asia-Pacific LMICs increased more than sixfold. As of 2021, China's largest sovereign debtors in absolute volumes include Pakistan with about USD 27.4 billion in reported debt; Sri Lanka with about USD 7.2 billion; Bangladesh with USD 5.3 billion; and Lao PDR with USD 5.2 billion. China's largest holdings in terms of the debtor country's debt-to-GDP ratio include Lao PDR (28 percent), the Maldives (25 percent), and Tonga (24 percent) from USD 10.1 billion to USD 62 billion between 2010 and 2021. As of 2020, China's largest sovereign debtors in absolute volumes include Pakistan, with about USD 23.4 billion in reported debt; Sri Lanka with about USD 6.82 billion, and Lao PDR with USD 5.47 billion. China's largest holdings in terms of debt-to-GDP ratio include Lao PDR (28 percent) and the Maldives (34.7 percent).<sup>57</sup> The typology of China's overseas lending has previously led to confusion.<sup>58</sup> The classification can happen along a spectrum of sovereign liability, between a spectrum of official or

private, the price of the debt (concessional versus commercial)<sup>59</sup>, the purpose of the debt (e.g., official foreign aid equivalent to OECD official development assistance (ODA), or fully commercial goals).<sup>60</sup>

At the same time, China has signed bilateral currency swap agreements with 20 partner countries and established renminbi (RMB) clearing arrangements in 17 partner countries. The number of participants, business volume, and influence of the RMB cross-border payment system have gradually increased, effectively facilitating trade and investment.<sup>61</sup> China's global swap line network put in place "is increasingly used as a financial rescue mechanism, with more than USD 170 billion in liquidity support extended to crisis countries."<sup>62</sup> According to the Global Financial Safety Net Tracker even shows that of the USD 1 trillion in active currency swaps in emerging economies by July 2023, over USD 400 billion is provided by the People's Bank of China (PBOC).<sup>63</sup>

Furthermore, China together with BRICS countries established the Contingent Reserve Arrangement (CRA) in 2014 with a pooled reserve of USD100 billion to provide liquidity support for members in sovereign financing needs. CRA was likely established to compensate for the BRICS' economies' frustration over the lacking reforms with Bretton Woods institutions, such as the International Monetary Fund (IMF) that does not give enough support for emerging economies and CRA aims to provide support ideally before IMF support is sought.<sup>64</sup>

Figure 3: China's decade-long rise in lending to 18 Asia-Pacific developing economies, 2010-2020 (current \$ billion)



Note: Paris Club creditors = France, Germany, Japan, Republic of Korea (Korea), Russian Federation. Emerging creditors = China and Singapore. China includes official and nonofficial debt stocks.

The 18 countries: Bangladesh, Cambodia, Fiji, Indonesia, Iran (Islamic Republic of), Lao PDR, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Sri Lanka, Tonga, Vanuatu and Viet Nam.

Source: Authors based on World Bank IDS (2022)

China's growing clout in regional and international finance has originally led to claims of unsustainable debt levels and debt trap diplomacy, which had been mostly debunked.<sup>65</sup> At the same time, calls for China to engage in international debt relief to support emerging economies in reducing debt levels, similar to the Paris Club, have been increasingly voiced<sup>66</sup> and also discussed within China.<sup>67</sup> However, with uncertain economic outlook in China and high debt levels with various provinces in China,<sup>68</sup> Chinese policy makers seem reluctant to engage publicly and strategically in sovereign debt relief beyond debt rollover in emerging economies. China has also laid out its demands that multilateral lenders (e.g., World Bank) would have to be fairly included for any potential debt forgiveness and reduce their "super seniority" in getting paid back.<sup>69</sup>

At the same time, China aims to internationalise its RMB and reduce dependency on international payment systems. By June 2023, 13 Chinese-funded banks had established 145 first-tier offices and branches in 50 BRI partner countries and about 17.7 million businesses in 131 partner countries had opened UnionPay services (a Chinese payment system), and 74 partner countries had opened UnionPay mobile payment services.<sup>70</sup> In 2018, the BRICS Pay project was launched to provide a new payment mechanism<sup>71</sup> while in 2023, BRICS nations even discussed the launch of a new legal tender to challenge the dominance of Western currencies,<sup>72</sup> and in particular the US Dollar, despite many hurdles that would need to be overcome.<sup>73</sup>

## Summary and recommendations

Engaging China is of utmost importance for sustainability in Asia and the Pacific. Partnership and cooperation are essential to achieve the sustainable development goals, which includes cooperation among all countries despite potentially different political systems. However, without acknowledging and possibly addressing significant differences in economic and security interests as well as perceived value differences between China, countries in Asia, and Western countries (such as Australia) with strong interest in Asia, we must expect inefficiencies at best and conflicts at worst.

To increase odds of success in engaging China, a first step is to solidify the foundation of mutual trust. Cooperating on topics of shared interest in the region, such as climate change, acceleration of the green economic transition, can be the bedrock of cooperation. Cooperation in this area addresses three topics of mutual interest simultaneously: economic development, employment, and climate change, fostering innovation and strengthening diplomatic ties. Similarly, engaging on issues of trade allows for similar benefits and is in the interest of China, regional, and likely international economies. Support from Western countries in this area can include financial support (e.g., credit enhancement, local company equity injections, project facilitation funds), and capacity building (e.g., energy planning, trade negotiations, vocational skills development).

For Asia Pacific economies, it is equally important to strengthen its negotiation positions vis-à-vis any individual country to avoid

singular dependencies while Western countries and China will aim to build strong, partially mutually exclusive alternatives. Avoiding dependence should include aspects of security, technological, financial, and trade aspects. Asia Pacific economies can achieve this by strengthening regional integration (e.g., through ASEAN) and engaging in international collaboration with various partners (e.g., Australia, G7 countries), promoting diverse economic ties. A diverse set of allied countries can play an important role in providing credible alternatives based on mutual interest.

The growing geopolitical and ideological divide between many Western countries and China has also affected relations between China and Asian and Pacific economies. It will be constructive to build relationships and dialogue platforms between Chinese, Western, Asian, and Pacific policymakers, universities, businesses and civil society organisations. For Western and Asia-Pacific partners, it should also be helpful to strengthen exchanges with China by attending conferences, seminars, and workshops hosted by relevant institutions in China where China's thinking, discourses, and policy changes in the country are often elaborated and networks with Chinese experts can be established.

We offer some recommendations for engaging China for sustainability in Asia:

### RECOMMENDATION 1

#### Green transition

1. Support green energy financing: Developed economies, such as Australia, EU can provide financing for economies in Asia Pacific through blended finance, guarantees or direct investments/loans to support local investments and accelerate the green energy transition. While Western government financiers might prefer to support non-Chinese companies, such reservations should be weighed carefully where no viable alternatives for green technologies exist.
2. Strengthen financial capacity for green investments of local enterprises: due to partly underdeveloped local financial markets or high indebtedness of local (power) companies, local financial capacity is often insufficient to raise money on capital markets. For most Asian economies it would be risky to depend on a single foreign country for green investment. Accordingly, Western partners can aim to strengthen local capital market development and provide financial management capacity and – where needed – financial investments into local companies to support indigenous ownership and financing of green companies.
3. Cooperate on local planning capacity, e.g., to plan electric grids or energy needs. While many partners in Asia Pacific have over the past years developed significant expertise in energy planning, financial and technical support by Western or multilateral institutions for project development and facilitation should both accelerate the transition by simply having more resources, and also build trust for external investors to invest in the project.



## RECOMMENDATION 2

### Outward foreign direct investment

1. Understand local factor endowment to attract right type of Chinese companies: As different industries require different skill sets and local factor endowments (e.g., cheap labour, skilled labour, transport network, ease of import/export, access to raw materials, energy), Asian countries need to understand their specific advantage when aiming to attract Chinese manufacturing investment.
2. Support skills development: as higher skills usually allow for more economic value creation— they usually attract higher paying jobs and thus offer more opportunities for local development. International partners can support Asia-Pacific economies in improving technical and management skills through education programs, exchanges, and vocational training. This would create significant benefits to attract investments from China and all partners in the world.
3. Support in trade facilitation: Trade integration is crucial for economic development. Partners can support Asia Pacific economies to further integrate into global trade networks, e.g., by providing trade negotiation support that benefits local communities.

## RECOMMENDATION 3

### Peaceful and sustainable co-existence

1. Strengthen mutual understanding and trust, e.g., by providing better information on security and defence-related activities and establishing direct communication channels (e.g., red hotline). This should help avoid unintended escalation of conflict.
2. Actively support dialogue between involved partners to find solutions to existing security and border conflicts fully understanding historical background and relevance for China.
3. Strengthen security resilience: Partners can work with Asia Pacific economies to credibly strengthen security alliances based on mutual interest.
4. Support regular engagement at sub-national levels (e.g., province, city) as well as through business, cultural and research exchanges to bolster mutual understanding and trust.

## RECOMMENDATION 4

### Multilateralism

1. Strengthen multilateral institutions and provide transparent pathways for China to ensure equitable representation for China. Multilateral institutions could reform voting structures and decision-making processes to reflect the evolving global economic landscape. While this seems to be an increasingly difficult undertaking given the perceived incapacity of the UN framework, significant distrust towards the IMF and other multilateral banks in Asia, the alternative is a further bifurcation of global institutions.
2. Offer credible, well-financed alternatives for diverse Asian partners. Strengthen existing local institutions like ASEAN or Pacific Forum and establish new initiatives grounded in local engagement. Prioritise economic and social development, including local financial market support, education, trade facilitation, and investment in green jobs.
3. Strengthen joint public communication involving all involved partner countries on successful engagement to provide a confident narrative that is not seen as a reaction to any specific country's engagement, but that highlights the value added through collaborative efforts without specifically referencing any single country's involvement, fostering positive and constructive dialogue.

## RECOMMENDATION 5

### Public financier

1. Fully understand the real exposure to China's debt and engage relevant Chinese stakeholders if need be, bilaterally on debt renegotiation and re-financing.
2. Support development of alternative financing and re-financing channels from China as well as other international and bilateral lenders, such as "A Globally Connected Europe" plan of EU in 2021<sup>74</sup> and the "Partnership for Global Infrastructure and Investment (PGII)" of G7 in 2023.<sup>75</sup>
3. Develop opportunities for engaging with China through mutually beneficial projects (e.g., in renewable energy) to attract new financing—which should be within the "small yet beautiful" logic.
4. Engage with international financial system to also evaluate possibilities to accelerate debt restructuring in line with multilateral bank reform demands.

# Notes and references

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The EAI was established as an independent think-tank dedicated to developing ideas and formulating policy recommendations on the main challenges facing the region. Through hosting scholarly seminars, forums, education program and various publications it can achieve these aims in creating influential products.

The EAI is conducting research activities along with six major projects, which are conducted by the eight research centers.

[eai.or.kr/new/en/](http://eai.or.kr/new/en/)



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