

CHINA'S INTERNATIONAL PROJECTION SINCE 2008: THE NEW CORE-PERIPHERY RELATIONS AND THE BELT AND ROAD INITIATIVE THROUGH FOREIGN DIRECT INVESTMENT

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ABSTRACT

This paper's central hypothesis is that China's Belt and Road Initiative (BRI) implies the construction of new networks in the international division of labor that insert the partner countries in a peripheral condition towards China. Although it is clear that the ambitious project of Eurasia's integration, announced by Xi Jinping in 2013 and formalized in 2017, is by itself a novelty of structural impacts in the international system, it is also a product of deep transformations within China since the early 2000s and, to understand its current impacts, it is crucial to look back at the roots of China's foreign insertion in the previous decade. This paper is divided into the following sections: i) a brief discussion of the three major domestic transformations in China since the 2000s; ii) China's economic statecraft overseas as a byproduct of strategic and economic forces; iii) the symbolic-institutional dimension of that economic statecraft; iv) a case study of Chinese projection in Southeast (SE) Asia divided in two parts, which correspond to the two waves of outward foreign direct investments (OFDI); and v) final considerations.

Keywords: Belt and Road Initiative. China's Rise. Economic Statecraft. China-Indo-Pacific Relations. Foreign Direct Investment.

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Immanuel Wallerstein (1974) argues that the modern world-system is composed of two overlapping and mutually affected subsystems: the power struggle between sovereign states and the international division of labor under the Braudel logic of capitalism. Within the latter there is a hierarchy between core and peripheral states, with an intermediate extract, the semiperiphery. What defines the position of states in this hierarchy is the predominance of activities that produce capital accumulation and derive large portions of profit from the world-economy (the organic core) and less sophisticated activities that transfer value to the core (peripheral states). And the semiperiphery coincides with states that display a roughly balanced proportion between the two types of activities (Brussi, 2015; Arrighi, 1997).

The outcome of unequal exchanges between states with high and low composition of core activities is the structural dimension of the capitalist world-economy. Organic core activities in the first decades of the twenty-first century are different from those in the mid-twentieth century. The interaction between industrialized cores and peripheries specialized in the exports of raw materials or less value-added manufactures, which characterized capitalist relations for much of the last century, is insufficient to explain the contemporary world. That is, the core-periphery interaction is a constant in the modern world-system, but the activities that characterize each pole and the geographic space on which they are based have changed rapidly, so that many of the once organic core activities are now peripheral.

This paper's central hypothesis is that China's Belt and Road Initiative (BRI) implies the construction of new networks in the international division of labor that insert the partner countries in a peripheral condition towards China. Although it is clear that the ambitious project of Eurasia's integration, announced by Xi Jinping in 2013 and formalized in 2017, is by itself a novelty of structural impacts in the international system, it is also a product of deep transformations within China since the early 2000s and, to understand its current impacts, it is crucial to look back at the roots of China's foreign insertion in the previous decade.

This paper is divided into the following sections after this introduction: i) a brief discussion of the three major domestic transformations in China since the 2000s; ii) China's economic statecraft overseas as a byproduct of strategic and economic forces; iii) the symbolic-institutional dimension of that economic statecraft; iv) a case study of Chinese projection in Southeast (SE) Asia divided in two parts, which

correspond to the two waves of outward foreign direct investments (OFDI); and v) final considerations.

DOMESTIC BACKGROUND IN THE 2000S

Since the early 2000s, China's relations with the outside world have been shaped by three major domestic shifts: i) the change in the domestic pattern of accumulation; ii) the centralization of symbolic and material power in the figure of the Chinese Communist Party (CCP) and, more recently, in the hands of Xi Jinping; and iii) the change in the strategic paradigm and in the role of the armed forces. Given that BRI is a project of international insertion that results from these internal forces, a brief retrospective of such processes is essential.

The transition to a new pattern of accumulation, namely the "Xi Era", began even before Xi Jinping became the CCP general secretary in 2013. Since Hu Jintao's last term (2009-2013) China's economy has been marked by a slowdown in GDP's growth rate, a shift from industry to service as the leading sector and a more effective role of private-owned enterprises (POEs) companies. It has also been characterized by the expansion of the domestic market with higher wages and the attempt to reduce regional and social inequalities. Thus, a new social contract with greater coverage in the public health and welfare system is at stake, enforced by a higher purchasing power and an arising environmental concern due to recent urbanization and industrialization (Cintra, Pinto; 2017, 384).

These changes became possible due to a complex internationalization of national firms through: i) the acquisition of technology and know-how from their Global North's partners, whether by acquisitions, mergers or even by breaking some intellectual property rights; and ii) a focus on the Global South markets and natural resources. In this new context, China's economic external projection presented two main spearheads: infrastructure companies (mostly state-owned enterprises from energy and transport sectors) and high technology and innovation companies (mostly private-owned enterprises in the tertiary and quaternary sectors).

Despite these economic changes, the CCP's political legitimacy and the integrity of the unitary state have remained constant. In the institutional arena, the Party has adopted a bias of "changes to permanence", which means that instead of soften its grip on society, the political regime in the

Xi Era has turned to authoritarianism and to the centralization of power. After promotions as Party head in Zhejiang, then Shanghai, and finally onto the Standing Committee of the Politburo, Xi Jinping gained in six months, between 2012 and 2013, the titles of President, Party Secretary and Chair of the Central Military Commission, thus becoming the supreme leader of China's fifth generation of leaders (Brown, 2014: 157).

The climax of power concentration in Xi's hands (so far) occurred during the 19th Conference of the Communist Party in October 2017 through a symbolic and a material facet. The symbolic aspect came with the inscription of the supreme leader's name and his political doctrine in the Party's Constitution and the material facet came with the end of the two-term limit on the president's mandate, paving the way for an unprecedented permanence in power for more than ten years since Mao Zedong.

Besides the transformations in the pattern of accumulation and in the game of politics, there is a third phenomenon underway: the change in the strategic paradigm and in the role of the armed forces. A certain consensus in Beijing has emerged since the 1990s that military modernization "is not just about modern weapons and technologies but also about institutions, people, corporate culture, and a host of other issues that require time and attention" (Piie: 194). At the institutional level, there was a gradual process of professionalization of the armed forces, cooperation with the main universities in the country to attract new cadres, outsourcing to reduce the non-combat activities linked to the corporation and the strengthening of civilian-military ties with the concept of "people's war" focused on the 800 thousand reservists in the country.

According to Moraes (2015), the People's Liberation Army (PLA) is undergoing not only a technological modernization, but also a doctrinal change, with a higher focus on mobility and on naval and air forces. The document of the Ministry of National Defense (2015) reinforces the new centrality of the PLA's Navy (PLAN) to protect national interests not only in "offshore waters", but also in "open seas". The message is clear in the following excerpt: "The traditional mentality that land outweighs sea must be abandoned, and great importance has to be attached to managing the seas and oceans and protecting maritime rights and interests" (China's Ministry of National Defense, 2015).

Thus, China's military doctrine remains nominally defensive, but incorporates new military requirements to ensure the country's interests. The concept of "active defense" summarizes this stance by combining a

defensive macro-strategy with a war preparation through offensive tactics that act as deterrents. It nominally adheres to the stance that “we will not attack unless we are attacked; but we will surely counterattack if attacked” (Ministry of Defense of China, 2015).

CHINA'S ECONOMIC STATECRAFT OVERSEAS: A BYPRODUCT OF STRATEGIC AND ECONOMIC FORCES

China's outward projection since the late 2000s is a byproduct of the more active and offensive geopolitical strategy and the qualitative leap in the domestic pattern of accumulation. Based on this premise we problematize the concept of *economic statecraft* proposed by James Reilly (2013: 2), which consists of “the use of economic resources by political leaders to exert influence in pursuit of foreign policy objectives.” However, when there is a convergence of geopolitical and economic goals, there is a virtuous cycle that cannot be simply summarized in “the use of the economy means for political ends”. It is precisely the dialectical nexus between a strong state apparatus and a thriving national bourgeoisie that has been sustaining China's economic statecraft in the last decade.

The specialized literature indicates the following tools of economic statecraft: i) foreign direct investment (FDI) (by public companies); ii) financial services such as loans and grants (by public banks); iii) foreign trade policies; iv) access to energy resources and other commodities; and v) monetary policy, with the acquisition of foreign bonds (by sovereign funds), and agreements on the use of currencies for trade (Reilly, 2013; Blackill, Harris, 2016). In general, these tools are used either as means of cooptation/cooperation or as punishment/sanction.

Due to the scarcity of primary sources and the CCP's grip on power, China's international economic projection is usually seen as a rational and calculated geopolitical process, but the reality is more complex than that. Thus, this article adopts the concept of economic statecraft for China international projection as the intersection between the political power which, in theory, draws a “grand strategy” for the country, and the economic accumulation, whose agents are profit-driven. This field is not homogeneous and harmonious, but rather a stage of convergence and divergence among different levels of government (central, provincial and municipal) and between these and the public or private companies (Jones, Zou, 2017).

Within the central government there is a series of ministries and commissions whose functions overlap and sometimes contradict each other. Among them, the Ministry of Commerce (MOFCOM) tends to be the most relevant because, according to Jones and Zou (2017), it oversees all economic relations with foreign countries, including trade, investment, aid and the activities of Chinese companies abroad. Due to the “gray zone” of decision-making within the Chinese state, our effort should be to evaluate whether there is a general convergence among these forces and whether the Belt and Road Initiative is a product of them.

China’s most relevant economic statecraft tools are: i) the internationalization of capital, through OFDI; ii) foreign trade policies as a result of bilateral relations, free trade agreements and multilateral forums; and iii) the financial-monetary policy with the role of public and multilateral banks, which provide lines of credit for Chinese state-owned enterprises (SOEs) and their contracting governments abroad, and bilateral agreements for the use of the RMB instead of the dollar in commercial and financial transactions.

Chinese economic statecraft via OFDI gained momentum in the early 2000s with the implementation of the go global strategy, which supported the internationalization of POEs and SOEs, with the predominance of the latter. The main mechanism was the supply of low-interest loans from state-owned banks such as the Export-Import Bank of China (China Exim Bank). In addition, the distorted capital market to support the Chinese OFDI was combined with the country’s high savings rate and the corporate governance structure (Jones and Zou, 2017: 9; Prasad, 2016).

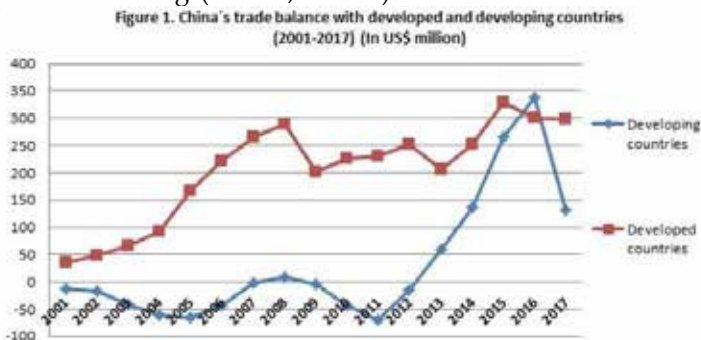
There is an extensive debate in the literature that asks whether SOEs are “arms of the state” that act according to political guidelines or profit-seekers acting by the market laws. Blackwill and Harris (2016: 88) endorse the first chain by stating that almost all SOE executives have access to a “red phone” with the Party and that many of these companies receive government financial subsidies. Based on this assertion, many investment decisions are taken in the Party circles, either in the provinces or in the central government. Jones and Zou (2017) argue that as privatizations for Chinese groups took place in the 1990s and the 2000s, the state moved from an entrepreneurial to a regulatory stance, but retained a series of prerogatives that still shape the operation of SOEs (Jones, Zou, 2017: 5; Yan, 2018) such as:

- Control over exchange rates, taxes, regulations, licenses and permits, including for land use;

- The allocation of subsidies, credit and insurance via policy banks, which is often necessary for large overseas ventures;
- The *nomenklatura* system, whereby the CCP's Organization Department and the Ministry of Personnel appoint central SOEs' topmost leaders;
- The CCP's Central Commission for Discipline Inspection (CCDI), which investigates and punishes malfeasance.

Rather than defining SOEs strictly as “arms of the state” or “profit-seekers”, Jones and Zou (2017) argue that the state-SOEs relationship is the product of constant clashes and convergence of interests between the various actors immersed in a loose regulation structure. In other words, the “going out” strategy “is not a state directed resource-grab, ‘colonization’ drive, or deliberate challenge to Western interests, but rather a broad regulatory framework, driven by China’s state transformation processes and associated economic developments” that arouse, bottom-up, from a “post hoc rationalisation of what some SOEs were already doing and/or lobbying for” (Jones, Zou, 2017). With a varied menu of options in terms of loans, taxes and labor laws public companies can choose which path to follow and often disobey or ignore central government guidelines for more profitable projects (Jones; Zou, 2017: 8).

Other authors point to the strategic performance of the government in SOEs through the Assets Supervision and Administration Commission (SASAC). This body, which is linked to the State Council, was created in 2002 and became the majority shareholder of most SOEs in strategic sectors, although some remain under the control of local governments and specific ministries (Fan; Hope). And while the number of companies under SASAC's control has declined in the name of efficiency (from about 200 in 2003 to about 100 today), its influence remains strong. (Li-Wen, 2017: 12).



Source: trademap.org

However, the chart displays a significant change in the 2010s: the deficit with developing countries, which reached up to US\$ 50 million between 2001 and 2012, led to a colossal surplus of about US\$ 350 million in 2016. This was due both to the change in China's domestic accumulation regime, which gave rise to world class companies, and to the accession of bilateral and multilateral trade agreements.

In addition to the OFDI and the expansion of foreign trade, the financial-monetary sphere has also become a drive for Chinese economic statecraft, especially through the internationalization of the Renminbi (RMB). Sohn (2015) suggests two defining moments in this process, the first occurring in the early 2000s, when China began to use its currency as a medium of exchange for trade settlement with neighboring countries, reinforced by the establishment of an offshore RMB market in Hong Kong in 2004. The second officially began in 2006 with the publication of *The Timing, Path, and Strategies of RMB Internationalization* by the People's Bank of China (PBOC) and gained momentum after the 2008 global crisis by promoting the use of RMB in private financial markets and in international trade.

According to the main literature references, the most relevant innovations were the following (Huang et al, 2014; Sohn, 2015; Prasad, 2016; Torres Filho; Pose, 2017):

- In April 2009, China's State Council approved a pilot scheme for cross-border trade settlement in RMB. After Shanghai, Hong Kong and four cities in Guangdong, the program eligibility was expanded to include 20 of the 31 mainland Chinese provinces (Sohn, 2015: 189).
- The signing of currency swap agreements with developing countries (mostly in Central Asia, the Middle East and Asia Pacific, but also with Argentina in 2009 and Brazil in 2013) and with developed countries such as Australia (2012), United Kingdom (2013) and most part of the European Union. The aim was to provide funds for trading partners to maintain their imports of Chinese products, affected by the scarcity of international liquidity – but it was also guided by a geopolitical logic, since many of these partners have little economic weight but are eager to retain RMB (Sohn, 2015; Torres, Pose, 2017).
- In June 2012, Hong Kong launched a cross-border RMB

and Hong Kong dollar repurchase market. This new program aims to provide RMB to the rest of the world by allowing foreign financial institutions to tap offshore RMB via secured lending (Sohn, 2015).

- In November 2014 the Shanghai–Hong Kong Stock Connect scheme is officially launched, allowing Hong Kong and overseas investors to trade eligible shares listed in Shanghai (Prasad, 2016).
- In November 2015 the Executive Board of the IMF decided that the RMB met all existing criteria to be included in the Special Drawing Right basket as a fifth currency, along with the U.S. dollar, the euro, the Japanese yen and the British pound (Bradsher, 2015).
- Beijing gradually allowed foreign banks to operate more freely in the domestic market and intensified the operations of Chinese public banks abroad – especially for countries hiring Chinese SOEs.
- The creation of multilateral development banks focused on infrastructure projects, such as the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB).

Within this wide range of monetary-financial expansion lies what is called debt-trap diplomacy. China's public banks usually tie loans with competitive interest rates to the contracting of Chinese SOEs for the execution of infrastructure projects in developing countries. In addition to create a market reserve for Chinese companies, many of these contracts link the insolvency of the recipient country to the access to natural resources, the concession of strategic assets or even the control of the work after its completion. The most striking case is that of Sri Lanka. The country contracted a \$8 billion debt at a very high interest rate of 6% with Chinese banks for the construction of the Hambantota port, which started to operate in 2010. Unable to honor the debt, the government signed a deal with China Merchants Port Holdings, selling 80% (then reduced to 70%) of the port's shares to the Chinese company. The contract is valid for ninety-nine years, includes the lease of an area of fifteen thousand acres adjacent to the port (Pattanaik, 2017) and was announced as one more of the pieces that make up the so-called Chinese "string of pearls" in the Indian Ocean.

Similar cases occurred in Kenya with the financing of a railway and with Venezuela and Turkmenistan, that granted cheap access to oil and gas due to debts with China (Punongbayan, 2018). Finally, there is the Djibouti case, which received a flood of Chinese loans for the construction of a port, an airport and other infrastructure projects. In exchange for the

colossal debt, the country leased an area for the installation of China's first permanent military base abroad (Connars, 2018).

Some analysts draw attention to the risks of the debt trap. According to Constantino Xavier (2018), China's *modus operandi* is to find a local partner, make him accept harmful investment plans in the long run and use the debt to keep the control of the project or gain political leverage over the country. In an opposite point of view, Friedrich Wu (2018) points to a Western hypocrisy in criticizing the internationalization of the RMB. For him, the use of national currency (and other countries' debts) as a tool of *Realpolitik* was widely used by England in the nineteenth century and by the US in the twentieth century. Furthermore, since most of the projects financed by China take place in poor and unstable countries, it is totally legitimate that such investments bring a return compatible with the risk they face.

In sum, the asymmetry in scale and speed of China's economy relative to smaller countries tends to be used as a tool of economic statecraft through trade, investment and financial services that, in a dialectical bias, reinforce the prestige and the geopolitical power of the Asian giant.

ECONOMIC STATECRAFT'S CHARM OFFENSIVE

China's economic statecraft has been reinforced by a symbolic-institutional drive, which can be defined as the set of actions of government entities responsible for building a peaceful and responsible image of China abroad. In 2015, Xi Jinping conceded much power to a formerly secondary agency, the United Front Work Department (UFWD), turning it, into a "magic weapon for the rejuvenation of the Chinese people" which, in practice, meant that a branch of the CCP would be responsible for directing activities on sensitive issues in a less bureaucratic way. Despite the lack of more accurate sources, press releases and a US Congress report (Bowie, 2018) suggest that the organization's main thrust is to "control the narrative" abroad on sensitive issues such as Taiwan, separatism in Tibet and Xinjiang and human rights. This would occur through co-optation and coercion of Chinese student associations abroad, financial donations to foreign political parties and business elites more sympathetic to China, influence on international media through investments and courses to invited journalists, and the operation of Confucius Institutes. There is a growing debate in countries like Australia, New Zealand and the US about

the recent Chinese influence that, in some cases, is seen as intelligence work and espionage.

The Ministry of Foreign Affairs is another crucial actor in the symbolic-institutional drive. According to Edward Luttwak (2012: 29), an important residue of the historical tributary system that existed around China in ancient times is the “barbarian-handling” mentality that persists today. The ritualistic of the old world is replicated in the current bilateral diplomacy in a conscious and calculated way. The atmosphere of officiality given to each chief-of-state or foreign envoy makes clear the asymmetry between host and guest. Many arrive without any specific theme to be addressed, which is circumvented by the abundance of ceremonies, banquets and gift exchange. For Luttwak (2012), the amount of time that senior Chinese politicians devote to meetings with leaders from Kiribati, Vanuatu, Uruguay, Latvia, Burundi, among others, for example, would never happen in the White House and proves the “ability of top Chinese leaders to focus seriously on the less unimportant parts of the outside world”.

Regarding bilateral diplomatic relations, China has created its own vocabulary of strategic partnerships, also known as multidimensional diplomacy (Feng, Huang, 2014). This tool emerged in the 1990s as the country sought to break away from Western isolation due to the Tiananmen incidents and the end of the Soviet bloc. It began with Brazil in 1993, then Russia in 1996 and with the US and ASEAN in 1997. Over the course of the 2000s, the number of partnerships has skyrocketed, reaching 47 countries and three economic blocs in 2014 (African Union and European Union as well as ASEAN) (Idem).

The practice of strategic partnerships is not uncommon in international relations, but the Chinese government’s use of them is very peculiar. Unlike the Western utilitarian view, with its clear and fixed goals, the Chinese approach tends to be shaped with “great strategic patience” over time. “They value incremental efforts and are tolerant of temporary setbacks. China’s strategic partnership diplomacy is not designed to achieve spectacular outcomes in one stroke”. (Su, 2009: 35; Feng; Huang, 2014: 15).

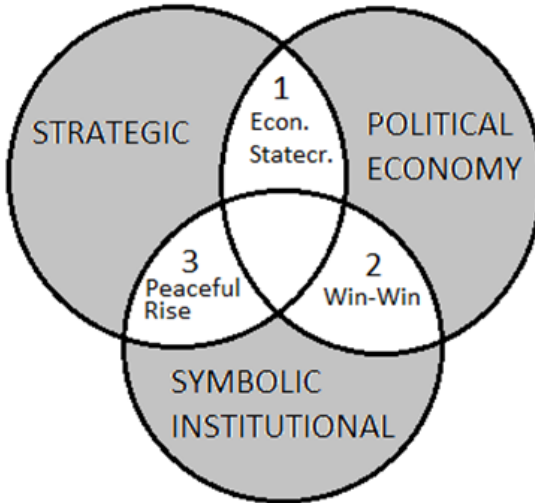
In general, these partnerships revolve around core issues to China’s foreign policy, being shaped according to the interlocutor. The most recurrent themes are usually linked to national security issues (borders, terrorism, military cooperation, promotion of a multi-polar world), territorial integrity and national reunification (isolation of Taiwan,

Tibet and Xinjiang issues), and economic and social topics (economic development and different interpretations of democracy and human rights) (Feng; Huang, 2014:12-13).

Two core-ideas have been diffused along with the symbolic-institutional sphere: the win-win game, combined with the economic arena, and the peaceful rise, combined with the strategic dimension. The diffusion of the win-win motto seeks to build a positive image of Chinese companies through media vehicles and direct support from party members in the negotiation of contracts with foreign firms and governments. This concept is based on the idea that cooperation with China is mutually beneficial and is guided by the five principles of peaceful coexistence, especially non-interference in the internal affairs of other countries (Crovella, 2015: 53), but also on socioeconomic development.

The peaceful rise motto stems from the interaction between the symbolic-institutional and the strategic spheres and has appeared in bilateral and multilateral scope in what is called military diplomacy of the PLA. According to Allen et al. (2017), the main objectives are to enhance the image of China's peaceful rise by: providing common goods such as the fight against piracy and humanitarian assistance in natural disasters; maintaining strategic relations with major powers such as the US and Russia; maintaining strategic relations with countries in the Asia-Pacific region and the New Silk Road countries; and ensuring China's energy security with the protection of sea lanes. Furthermore, the term "peaceful rise" has even been gradually substituted by "peaceful development" in order to hinder the idea of China as a revisionist rising power.

The literature points to the following tools of China's military diplomacy: i) senior-level meetings; ii) joint military exercises, which serve to gather information, and promote transparency and mutual trust; iii) Naval Port Calls, which consist of visits by the PLAN to foreign ports and may have the objectives of escort, refueling, diplomatic meetings or other specific subjects such as providing services with hospital ships; iv) functional interchange, consisting in the movement of personnel for academic, intelligence, logistical or training purposes; and vi) non-military security operations that provide common goods such as humanitarian aid, peace operations, anti-piracy, and specific cases such as the use of PLA assets to search for lost Malaysian Airlines Flight 370 in 2014 (ALLEN et al, 2017).

FIGURE 2. CHINA'S DRIVES OF INTERNATIONAL PROJECTION

When analyzing China's drives of international projection (figure 2) one must bear in mind that the win-win game, the peaceful rise and the economic statecraft are not always harmonious and complementary. They also carry a series of contradictions that may not fit perfectly into the classical concepts of imperialism, but they construct new core-periphery relations (Ribeiro, 2017) that must be analyzed from a critical standpoint. Thus, BRI will be the case study below.

THE FIRST WAVE OF CHINESE OUTWARD FOREIGN DIRECT INVESTMENT IN SOUTHEAST ASIA AND THE BELT AND ROAD INITIATIVE

The Belt and Road Initiative (BRI) is at the intersection of the three drives mentioned above and has appeared as a great novelty in the press vehicles, but its roots date back from at least a decade before its official inauguration. We take SE Asia as a case study in the orbit of BRI due to the historical-geographical ties with China and the proximity and the intensity of relations established in the last two decades.

The first mention of the BRI was made by Xi Jinping in 2013, still with the One Belt, One Road (OBOR) title. Other BRI-related events have already occurred, and several projects have been initiated, but its official inauguration took place only in 2017 in Beijing. The event was a move towards regional and global leadership, with a notorious symbolism of Chinese civilizational grandiosity, attracting 29 heads of state, some dozens of ministers from other countries and many representatives from international organizations. This was a definitive step to overcome Deng Xiaoping's Era, marked by the dictum: "hide your strength, bide your time. Never try to take the lead."

China's initial approach to the BRI countries consists of a first wave of investment in transport and energy infrastructure, followed by a second wave focused on telecommunications, manufacturing, mining, finance, tourism, culture and the media. While the first phase is spearheaded by large SOEs financed by state-owned banks, the second is made up of both public and private companies, which receive various types of government incentives. It should be emphasized that the first phase is not replaced by the second, but superimposed by a rise in sectors and values involved.

Figure 3. Funding for BRI by source: outstanding loans or equity investment at end-2016 (US\$ billion)



Source: Deloitte

Seen in the light of the previous topics, BRI has become a tool of economic statecraft and a product of the state-capital alliance inside China. SOEs act as bridges for diplomatic alignments and strategic interests and, conversely, China's closer friends tend to be the hotspots for new economic projects that pave the way for a wider range of companies in a variety of industries.

By financing roads, railways, ports and power lines in underdeveloped parts of Asia, the Belt-and-Road Initiative aims to draw China's neighbors ever tighter into its economic embrace. The goal is to use economic might to restore China's position at the center of Asia (Miller, 2015, p.11).

SE Asia is already in the overlap between the two investment waves. As for the first wave, the energy and transport sectors were predominant in the whole period analyzed (from 77% to 55% and then to 76% in the periods between 2005 and 2017) (Table 1). However, there were opposite trends: the share of the energy sector fell sharply (from 72% in 2005-2009 and 38% in 2014-2017), while the transportation and logistics sector rouse from 12% to 33% in the same period (American Enterprise Institute).

	2005-2009	2010-2013	2014-2017
Energy (A)	\$ 22.250,31	\$ 28.210,00	\$ 42.190,00
Transports + Logistics (B)	\$ 3.960,00	\$ 7.030,00	\$ 36.810,00
Total (A+B)	\$ 26.210,31	\$ 35.240,00	\$ 79.000,00
Total IED	\$ 34.030,00	\$ 63.460,00	\$ 102.910,00
A+B / Total IED	77%	55%	76%

Source: *The China Global Investment Tracker, American Enterprise Institute.*

The BRI's articulation for each region (and for each country) varies. Nevertheless, in SE Asia the following patterns can be identified: i) a high proportion of investments in the energy sector predates BRI (pre-2013) and even though it has grown in absolute numbers, it fell in relative terms due to of the incentives to renewable energies in China; and ii) the transportation and logistics sector has grown considerably, reflecting the shift in the Chinese accumulation regime and the need to internationalize the already saturated infrastructure sector in the domestic market.

Some authors suggest a possible saturation of the domestic infrastructure market due to overcapacity, capital overaccumulation and a subsequent fall in the profit rates (Jones, Zou, 2017; Cintra, Pinto, 2017). Since the long-distance railways are already built and the main conventional sources of energy are already in full exploitation within China, the profit rate of the companies in these sectors, mostly SOEs, tends to fall. And because the gap between energy production and consumption is a security issue for China there is a convergence of economic and geopolitical interests for the internationalization of these companies. In other words, these activities need external markets to keep their profit rates acceptable and ensure their relevance in the China's new accumulation regime – forging, in Wallerstein's (1974) terms, new core-periphery relations with countries that have a deficit in infrastructure.

Taking SE Asia as a case study, Chinese infrastructure projects in the region have two profiles: those aimed at a more direct connection with China (through ports, highways and railways); and those not directly linked to the BRI logistics belt, but that contribute to improving the domestic infrastructure of partner countries. Projects of the first type have a clearer strategic function because port and railroad facilities built and controlled by China's SOEs can be used for strategic purposes in case of conflict with (or protection of) another country – bringing back the mentioned doctrine of the people's war at sea. The strategic function of the second type projects is less evident, but not less important: information networks and transportation and energy facilities operated by Chinese SOEs and POEs inside other countries may turn into a weapon of war, blackmail or simply political influence (Chong, 2014). The bad news for analysts is that both types are commonly merged into one big box named Belt and Road Initiative.

As an example of the first type, one can cite the economic corridors in the Mekong River Region, which aims to link most part of the Indochina Peninsula to the Chinese provinces of Yunnan and Guangxi. Some parts are already completed, such as the Kunming-Bangkok highway, which runs through Laos to connect China and Thailand and the set of express lines linking Nanning to the Vietnam border. However, most projects outside China are still in the planning stages.

FIGURE 4. ECONOMIC CORRIDORS IN THE MEKONG RIVER BASIN



Source: Hong Kong Trade Development Council.

Another example is the construction of a network of ports under control of Chinese companies to compose the so-called Maritime Silk Road (Figure 8). The C4ADS' study by Thorne and Spevack (2017) provides a high-level analysis of Chinese investments in the Indo-Pacific region. After analyzing 15 projects, the authors conclude that such investments are not guided by the idea of a win-win game. Rather, Beijing's "utilizes infrastructure investments to generate political influence, stealthily expand Beijing's military presence, and create an advantageous strategic environment" to overcome fragilities such as the Malacca Dilemma (Thorne, Spevack, 2017: 4, 66).

These goals were explicated in the intellectual debate of the PLA's Navy. According to Commander Deng Xianwu's statement, "Wherever there is Chinese business, warships will have a transportation support point." (Thorne, Spevack, 2017: 19). The study also mentions other top officials who see the construction of BRI ports in Gwadar, Pakistan, and Kota Kinabalu, Malaysia, as the first two chess moves "to break out of a US-led strategic containment" (Thorne and Spevack, 2017: 20-21).

According to the study, Chinese SOEs are involved in 12 of the 15 ports, and in nine there is a direct connection between them and the local government. The case of Cambodia is representative. Since the country's main port, in Sihanoukville, was built with Japanese funds that also own a minority portion of the shares (13.5%), two Chinese companies sought different alternatives. After political negotiations between Beijing and Phnom Penh, the Guangxi Beibu Gulf International Port Group (an SOE) signed an agreement on April 24, 2018 to build an alternative port in Kampot, in the adjacent province of Sihanoukville; and in 2008 the privately-held Union Development Group leased an area of 45,000 hectares on 20% of the Cambodian coast of Koh Kong province for 99 years in order to build a tourism-oriented city with a deep-water port and an airport (Thorne, Spevack, 2017: 4). Although the latter case is a POE project, there were records of technical visits by members of the United Front Development Work in recent years, which illustrates the government influence on the company's decisions and, conversely, how the private company can benefit from a government support (Thorne, Spevack, 2017: 29).

FIGURE 5. MAP OF CAMBODIA



Source: elaborated by the author

In general, Chinese companies guarantee long-term financial control over these ports in two ways: by holding the equities of the ports or their management companies; and/or by negotiating lease and concessions

to control and manage the ports. The ownership of shares varies, and out of the fifteen ports analyzed in the C4ADS study, Chinese companies have a stake in nine and own a majority share in six. The leases are fixed for a long period, but it does not mean *carte blanche* for the Chinese. Usually the contracts make explicit the purely economic nature of the agreement, so that the territory remains as a sovereign part of the partner country. However, the lack of transparency in these agreements and the possibility of a dual use (civilian-military) may relativize such sovereignty (Thorne, Speack, 2017: 30-31).

Table 2: Financial Control Totals

Port	Lease time (in years)	Current equity (%)
Colombo, Sri Lanka	35	85
Koh Kong, Camboja	99	100
Darwin, Austrália	99	80
Doraleh Multipurpose Port/Logistics Support Base, Djibouti *	10	23,5
Gwadar, Paquistão	40	-
Hambantota, Sri Lanka	99	70
Kuantan, Malaysia **	30	49
Melaka, Malaysia ***	99	49
Maura, Brunei	60	57

Source: Thorne; Speavack, 2017.

*Extendable for an additional 10 years

**Extendable for an additional 30 years

***Does not include freehold status of reclaimed, man-made islands, which China could hold in perpetuity

Infrastructure projects of the second type, those that are not explicitly linked to the Maritime Silk Road but follow the pattern of BRI projects and use its “brand”, have also drawn some attention. Take Indonesia as an example. One of president Joko Widodo’s main government platforms is precisely the improvement of the country’s infrastructure with a package of 265 projects, including the Jakarta-Bandung high-speed railway, of about 140 kilometers long. China Railway Corporation (a Chinese SOE) won the bid after fierce competition from a Japanese company, and has recently started the project in a joint-venture with the Indonesian state-owned PT Wijaya Karya (Salna, 2018). This outcome was favored by a China Development Bank’s pledge to finance the first installment of US\$170 million (Negara, Suryadinata, 2018), demonstrating how effective China’s economic statecraft is. Currently, the project is in

the initial phase with the opening of the first tunnels and presents some delays due to the process of land purchasing.

FIGURE 6. JAKARTA-BANDUNG RAILWAY PROJECT



Source: <railwaypro.com>.

In February 2018, the Philippines' Socioeconomic Planning Secretary, Ernesto Pernia, announced that his country would take loans from China to carry out infrastructure projects, prompting some criticism because Japanese banks had available loans with an interest rate of 0.25% to 0.75% while Chinese bank offered 2% to 3% (Gatpolintan, 2018, Chan, 2018). To these inquiries, government officials responded that China's conditions are still much better than those from commercial banks and that it is necessary to diversify friends (Rivas, 2018). However, what is implied in the "diversification of friends" is that the loan is somehow linked to the execution of infrastructure projects by Chinese companies (Gatpolintan, 2018).

Shortly after Pernia's statement, in April 2018, Finance Secretary

Carlos G. Dominguez III signed a US\$62 million loan with the Exim Bank of China for the execution of the Chico River irrigation project. The venture promises to supply more than 8,000 hectares of agricultural land and benefit more than 4,000 farmers in Northern Luzon (Vera, 2018). Coincidentally, China CAMC Engineering Corporation, which has 59% of its shares controlled by SASAC, and is therefore an SOE, signed a contract to execute the project a month before the loan. In addition, the so-called “first basket of infrastructure projects” of official development assistance (ODA) to be funded by Chinese loans also includes the construction of the New Centennial Water Source-Kaliwa Dam; two bridges across the Pasig River in Manila; and the Philippine National Railways-South Long-Haul Railway (Tubayan, 2017).

**FIGURE 7. PHILIPPINE NATIONAL RAILWAYS -
SOUTH LONG-HAUL RAILWAY**



Source: Escandor Jr, 2017.

This basket of infrastructure projects fits BRI's second wave of OFDI, i.e., it is not directly linked to the logistic chain of ports, but gives access to the partner country's relevant economic sectors. For China, asymmetric economic ties with the Philippines are a way of influencing the decision-making process on non-economic issues such as Manila's posture in the South China Sea or its long-standing alliance with the US. This is a clear case in which the win-win motto reinforces the China's economic statecraft: Beijing sees president Duterte as an interlocutor with

considerable popularity and willing to shape his foreign policy according to economic incentives that, in the long run, benefit Chinese companies and meet Beijing's strategic interests.

Even China's peaceful rise concept has made its way into Sino-Philippines relations through military diplomacy. China sent US\$ 16 million worth of rifles and ammunition and a donation of nearly US\$ 300,000 for the reconstruction of Marawi, a city in Mindanao threatened by the Abu-Sayyaf guerrilla in 2016-2017 (Chaves, 2017). The Philippines-China Annual Defense Security Talks (Parameswaran, 2017), created in 2005 and suspended in 2013, were resumed in 2017. Three Chinese naval task force vessels made a three days Naval Port Call in Davao, Duterte's hometown, from April 30 to May 2, 2017 (Parameswaran, 2017b). And finally, Duterte stopped construction work on a newly formed sandbar (Sandy Cay) in the disputed South China Sea after China protested after a Beijing protest in November 2017 (Gomez, 2017).

The chance that the "China factor" will generate political dividends for Duterte's exists, as well as the possibility that there will be positive impacts for the Philippine society. However, the debt trap is an important contradiction in BRI's projects and should not be underestimate, especially if it is linked, albeit indirectly, to the control and exploitation of natural resources in the South China Sea. Although Xi-Duterte is still an ongoing open process, it is possible to identify a pattern of hierarchy and cooptation of decision makers in Manila through Beijing's package of economic statecraft that includes lending money and hiring Chinese companies for the execution of infrastructure works.

The list of BRI infrastructure projects of the second type (i.e., those that are not directly linked to the maritime belt) is large and covers a multitude of projects in different stages of execution and in varied areas such as irrigation, hydroelectric power plants, bridges, roads, electric transmission, etc. Nevertheless, they are not free from contestation and mistrust. The recent election of Mahatir Mohamad as prime minister of Malaysia is an example. His predecessor and political opponent, Nagib Razak, was involved in a corruption scandal related to an investment fund (1MDB) suspected to be connected to Chinese companies. After assuming as prime minister, in May 2018, Mahatir halted major BRI projects - officially for fears of public debt - but geopolitical and corruption aspects were also relevant (Menon, 2018).

Referring to a railroad and two pipeline projects, the prime

minister said: “It’s all about pouring in too much money which we cannot afford, we cannot repay and also because we don’t need these projects for Malaysia at this moment” (Ma, 2018). And at a press conference with Chinese Premier Li Keqiang in August 2018, Mahatir made clear the discomfort with the Chinese projection:

We should always remember that the level of development of countries are not all the same. We do not want a situation where there is a new version of colonialism happening because poor countries are unable to compete with rich countries, therefore we need fair trade (Ma, 2018).

The prime minister’s view illustrates the suspicions that are beginning to emerge around BRI. By vetoing these projects, Mahatir not only points out the contradictions of the supposed material gains for his country, but also refers to the Chinese projection as “new version of colonialism” and questions the Chinese motto of a win-win game.

Despite these criticisms, China has narrowed the gap to Japan (the main source) in total investments in SE Asia. The following table shows the difference in funding and number of projects since 2000.

	In value (US\$ billion)		Number of projects	
	China	Japan	China	Japan
Philippines	3,18	33,54	7	28
Indonesia	45,01	53,16	46	47
Malaysia	47,27	10,88	30	16
Singapore	3,3	19,71	12	23
Thailand	8,49	7,82	5	22
Vietnam	29,26	100,34	30	84

Source: Alegado (2018).

In short, BRI’s first wave of investments tends to create new core-periphery relations and enhances asymmetries and vulnerabilities in China’s favor in the inter-state system. The internationalization of SOEs in energy and transport sectors makes China’s economic and geopolitical goals converge: on the one hand, it means a new path to keep the capital accumulation of companies that were facing a saturated domestic market; on the other, it guarantees access to vital energy resources, creates a logistic belt of ports under Chinese control that can harbor warships and grants some leverage over the hosting country’s politics by controlling strategic economic sectors. This way, Wallerstein’s perspective is valid, for the creation of core-periphery relations reinforces the asymmetry in inter-state power relations and vice-versa.

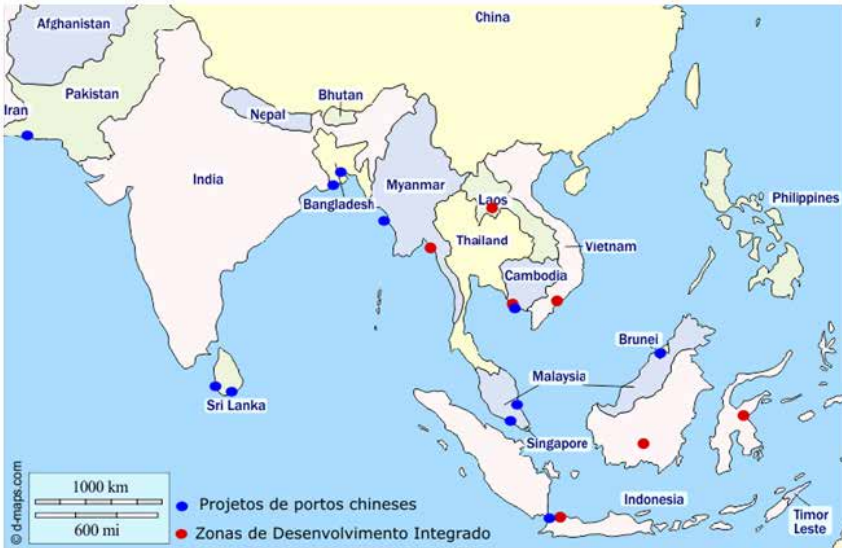
CHINA'S SECOND WAVE OF FOREIGN DIRECT INVESTMENT IN SOUTHEAST ASIA

BRI's second wave of OFDI has already begun in SE Asia. In addition to government incentives such as match-making, technology fairs and cutting-edge research, a relevant phenomenon is the construction of overseas Chinese industrial parks, which have attracted private enterprises and created new manufacturing and service hubs in global value chains. This is part of the Ports-Park-City (PPC) model of development and illustrates the overlap between the two BRI's OFDI waves, for "this approach encourages Chinese companies to build out from a port to create transportation channels, an industrial park, a logistics park, and free-trade and manufacturing zones" (Thorne and Speack, 2017, 27).

Up to 2016 there were already 56 operational industrial parks (also known as Integrated Development Zones, IDZs) in 20 BRI countries, attracting 1,082 companies, a cumulative investment of US\$ 18.55 billion, and the generation of gross revenues of about US \$50 billion (Song et al., 2018). Among these, five SE Asian countries currently hosted seven, most notably Indonesia, with three.

In general, IDZs projects start with a political move through bilateral agreements between the heads of state, followed by high-level coordination and cooperation committees. After state-to-state agreements Chinese construction companies are responsible for the costs of planning and building the facilities – supported by national public banks' loans. The partner country usually offers a mix of natural resources, labor force, consumer market and tax benefits. After its completion, the IDZ is managed by a joint venture company, also responsible for advertising its facilities to attract Chinese companies, which usually get incentives such as subsidized credit, insurance and tax relief from provincial and central governments to move abroad (Song et al., 2018).

FIGURE 8. CHINA'S PORTS AND INTEGRATED DEVELOPMENT ZONES IN THE INDO-PACIFIC



Source: elaborated by the author based on Thorne; Spevack (2017) and Song et al (2018).

The two main references used so far come to opposite conclusions. The C4ADS study (Thorne, Spevack, 2017) argues that the port construction plan in the Indo-Pacific region goes beyond commercial motivation and serves China's strategic interests. Song et al. (2018) argue that IDZs absorb local labor, generate multiplier effects and cooperate with NGOs and social movements in agriculture and ecology programs. The lack of consensus on the subject reflects the difficulty of access to primary sources and the differences of research approaches. Nevertheless, there is a certain consensus that BRI's ties reinforce the core-periphery dynamics in the international division of labor and the asymmetry of power in the inter-state system, although variables such as the US projection in the region and ASEAN multilateral action need to be taken into account.

Finally, Chinese high-tech POEs have also expanded their operations into SE Asia countries because, according to Lim (2018), these are markets "with few competitors of significant scale, and lower regulatory barriers compared to Europe and the US". Some cases are noteworthy: in 2016, Chinese e-commerce Alibaba bought the Lazada Group of Singapore and signed cooperation agreements with Thailand and Malaysia, culminating in the construction of the first digital free-trade zone (DFTZ)

in Kuala Lumpur. In 2018, Tencent – Alibaba’s competitor, owner of the popular wechat app and developer of successful virtual games – invested in Sea of Singapore, another company focused on e-commerce and game development. Chinese start-up Yitu has equipped the Malaysian police with its facial recognition devices (Capri, 2018). And a plethora of other private companies focused on virtual services, entertainment, hospitality, etc., complete the list.

According to Capri (2018), Southeast Asian countries face a dilemma in this context. On the one hand, cooperating with the Chinese giants involves attracting leading edge technology, expanding the scale of production and access to plug-and-play opportunities that produce instant results. By contracting Alibaba services, Malaysian companies based in the DFTZ will have access to overseas suppliers and buyers, “trade finance, end-to-end logistics services, customs clearance, payment platforms and cloud-based data analytics programs”. On the other hand, China’s tech firms have the power to crush small local firms and crowd out home grown businesses. Moreover, these POEs connections to China’s government and the huge financial and political support they get create the image of companies that work as proxies for China Inc and jeopardize the win-win motto that China’s diplomacy so dearly advocates.

In sum, BRI’s second wave of investment reinforces the core-periphery links established in the first wave, although it is still at a more embryonic stage. IDZs tend to outsource less sophisticated (peripheral) activities to SE Asia, as the companies’ headquarters climb steps in the production chains with core-like activities. There is still no consensus on the multiplier effect of these industrial zones, which can, at the same time, form local skilled labor, transfer technology and generate economic growth; but also produce environmental and social damages and serve as a spearhead for China’s military access.

FINAL CONSIDERATIONS

Although the Belt and Road Initiative has no clear definition, it is China’s most ambitious economic, strategic and symbolic-institutional project of international insertion – and Chinese OFDI has proven to be an important tool of economic statecraft within this broad umbrella. BRI is the product of the three domestic transformations that gained shape in early 2000s and the convergences and divergences among businesses, the

Party-state and the strategists in the armed forces will be determinant to shape its successes and failures in the near future.

The new networks of core-like activities under the control of Chinese companies and periphery-like activities in SE Asia took form even before BRI's official inauguration, but since 2013 they became more dense and sophisticated. The creation of a logistic web of ports in the Indo-Pacific (and perhaps a web of railroads in the Mekong region) is possibly the main engine of the first wave of Chinese OFDI in SE Asian countries. Along with infrastructure projects within these nations, it is likely that China's economic statecraft will establish a regional hierarchy in the division of labor that might have a growing influence on its neighbors' foreign policy – affecting the power politics in the inter-state system and gradually pushing the US away from the region. In addition, might work as an exhaust valve for energy and transportation SOEs that need foreign markets to keep healthy profit rates.

This paper focused on Southeast Asia due to the historical-geographical ties with China and the proximity and the intensity of relations established in the last two decades, but similar processes are taking place in Africa and Latin-America. The main difference is that SE Asia is already facing the second wave of investments, while Latin-America is still predominantly the target of infrastructure projects and Africa is somewhere in the middle. This second wave includes the Integrated Development Zones, the widening of economic sectors with a focus on high-tech and services and the protagonism of Chinese private companies. This is an ongoing process facilitated by the previous investments of infrastructure SOEs, with hard-to-get data, and whose outcomes and contradictions might be way beyond the governments' control. Nevertheless, it is up to academics in general to keep a close eyes on these structural changes.

Many of these processes are still in their early stages and BRI's social, environmental, and geopolitical contradictions tend to emerge in the medium and long term. And to create a critical and autonomous thinking on how to deal with the opportunities and challenges of the Chinese rise, it is crucial to understand how the Asian giant's relations with its neighbors are being constructed and reconstructed.

A PROJEÇÃO INTERNACIONAL DA CHINA DESDE 2008: OS INVESTIMENTOS EXTERNOS DIRETOS ATRAVÉS DA ROTA DA SEDA E NOVAS RELAÇÕES DE CENTRO-PERIFERIA

RESUMO

A hipótese central deste artigo é que a iniciativa chinesa da Nova Rota da Seda (BRI, em inglês) implica a construção de novas redes na divisão internacional do trabalho que inserem os países parceiros em uma condição periférica em relação à China. Embora esteja claro que o ambicioso projeto de integração da Eurásia, anunciado por Xi Jinping em 2013 e formalizado em 2017, é por si só uma novidade de impactos estruturais no sistema internacional, a BRI é também um produto de profundas transformações domésticas da China desde o início dos anos 2000 e, para entender seus impactos atuais, é crucial olhar para as raízes da inserção internacional chinesa. Este artigo está dividido nas seguintes seções: i) uma breve discussão das três principais transformações internas na China desde os anos 2000; ii) o estatismo econômico chinês no exterior como subproduto de forças estratégicas e econômicas; iii) a dimensão simbólico-institucional deste estatismo econômico; iv) um estudo de caso da projeção chinesa no Sudeste (SE) da Ásia dividido em duas partes, que correspondem às duas ondas de investimentos externos diretos (IED); e v) considerações finais.

Palavras-chave: Nova Rota da Seda. Ascensão Chinesa. Estatismo Econômico. Relações China-Indo-Pacífico. Investimento Externo Direto.

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