



Talking point



Taking stock of China's growing ties with emerging markets: What it means for geopolitics

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China has grown closer economic and business ties with emerging markets across the globe, raising its profile and enhancing its economic and political clout. Thus far, China's interests have been driven mainly by its thirst for energy and commodities – in short, commercially-driven. It is pointless for traditional powers to try to stop China's growing influence. It would be more productive if traditional powers responded to China's emergence by enhancing their own positive engagements with EM regions.

China's influence on geopolitics is fast rising as it increases economic and business ties in various parts of the world. China's GDP (purchasing power parity) accounts for 11.4% of the world total, behind only the US (20.6%) and the euro area (15.7%). In 2008 outward FDI rose to USD 52.2 bn, almost tenfold from USD 5.5 bn in 2004. While China is not yet an independent global growth driver, the rise in its economic weight and increasing engagement in global affairs make its growing influence in geopolitics clearly felt.

Influence in Asia continues to rise through trade and economic ties. China has surpassed the US to become the top export destination of the Asia-9* since 2004. In 2008 the Asia-9's exports to China (USD 428 bn) were almost double the value of their exports to the US (USD 234 bn). China has currency swap arrangements under the Chiang Mai Initiative as well as bilateral arrangements with South Korea and Indonesia. China's sphere of influence in South Asia is also growing. Its bilateral trade with India was over USD 51.4 bn in 2008, and China is now among India's top 3 trading partners. China is Pakistan's largest defence supplier and agreed to provide a USD 500 m loan package in January 2009.

China's engagement in other emerging markets is driven by its interest in oil and natural resources.

- The bulk of Chinese investment in Africa is related to oil, concentrated in Angola, Sudan and Nigeria. But the acquisition by China's ICBC of a 20% stake in South Africa's Standard Bank signals a wider interest in growing trade and business ties with the country and the region. Chinese involvement in areas mired in conflict as well as no-conditionality loans which may displace more traditional programmes from the World Bank and the IMF have often led to criticism by Western powers.
- China's closer ties with the Middle East have also been driven by its growing appetite for oil & gas. China is projected to soon rival the US and Japan as Saudi Arabia's top market for petroleum exports. China's Sinopec has an agreement with Iran to buy 250 million tonnes of LNG over 30 years and to develop an oil field. China's closer ties with Iran appear to be an issue under watch for the US. The Middle East is obviously a strategically important region for both China and the US. China is a major importer of Middle East oil, while the US retains a significant security influence in the region and related oil transport routes.
- Chinese trade with Latin America reached USD 110 bn in 2008, a remarkable jump from only USD 13 bn in 2000. It is still much less than the region's trade with the US (close to USD 600 bn) or the EU (close to USD 300 bn). China signed an FTA with Chile in 2005 – now more than 40% of Chilean exports go to Asia, mostly China. China and Peru also concluded FTA talks in late 2008. A 3rd bilateral deal with Costa Rica (the 1st Central American country to grant China official diplomatic recognition) is under negotiation. Outward FDI flows to Latin America ranged from USD 3.7 bn to USD 8.5 bn during 2005-08. China is now a member of the board of the Inter-American Development Bank and has observer status at the Organization of American States (OAS). China has also entered into a bilateral currency swap with Argentina. China has close relations with both Cuba and Venezuela, but has been careful not to be drawn into any tension between Hugo Chavez and the US.

China is adding to strategic stockpiles of oil, coal, copper and other key minerals. It is not only safeguarding future supplies but also exerting greater influence over global commodity prices. China has been acquiring mining companies in various parts of the world and is exploring new sources for oil and minerals. New projects have been launched in countries such as Congo, Indonesia, Niger and Peru.

China's expanding influence seems commercially-driven. What happens in China, its trade and investment decisions as well as its course of action will have global repercussions. At the moment, China's growing interests in the world appear to be driven by commercial rather than imperialist motives. Other than sending its troops to counter aggression by Somali pirates, the Chinese military has so far not shown an evident interest in expanding its sphere of influence.

It is pointless to try to stop China's growing influence, but traditional powers can counter it with their own positive engagements in the EM regions. US Secretary of State Hillary Clinton rightly described the world as "multi-polar", where the US must compete for attention and relationships with many others. This implies a new diplomatic approach which needs to engage EM leaders in constructive dialogue and recognise EMs' rising influence in global affairs.

*Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

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