China in Panama: From Peripheral Diplomacy to Grand Strategy

Abstract:

The globalisation of China's development strategy, from its origins as infrastructure diplomacy connecting its domestic west with its Central Asian periphery, into the transnational Belt and Road Initiative encompassing the periphery of the world system, epitomises the rapid evolution of a Chinese grand strategy of great economic and political ambition. The small state of Panama is a key node in the global trading system that can make an unexpectedly large contribution to China's national security and international influence. Accordingly, China's economic statecraft in Panama is not only opening up the Latin America and Caribbean markets to further Chinese commercial penetration, but is simultaneously expanding its political influence in this remotest part of the global South. China's is a two-track grand strategy positing to other nations a choice between a liberal internationalist co-prosperity and a zero-sum realist contest. This audacious approach relies on relational power amongst small states, especially semi-peripheral ones like Panama, to put China at the forefront of what is shaping up as a grand coalition of the global South collectively challenging American hegemony.

Keywords: grand strategy – China – Panama Canal – Latin America and the Caribbean – economic statecraft – Belt and Road Initiative – sea power – Maritime Silk Road Initiative – ocean-going transport – economic periphery – economic development – global South – national security

Introduction

Scholars have debated the significance of President Xi Jinping's co-prosperity plan, now called the Belt and Road Initiative (BRI), ever since he announced the Silk Road Economic Belt (SREB) in September of 2013 in Astana, Kazakhstan, and the 21st Century Maritime Silk Road Initiative (MSRI) in October of 2013 in Jakarta, Indonesia (Danner 2018), its overland and maritime forks, respectively. Ostensibly a transport network cutting across Eurasia by land and the Indian Ocean by sea, it is projected to connect the People's Republic of China (PRC) with Central Asia and Europe, branching off to destinations in between. This gambit to reinstate the fabled Silk Road has evolved through successive stages into a grand strategy integrating China first to its neighbours; then Europe and the Near East; finally to the world (as much as proves feasible and advantageous to China).

Four years after the BRI was announced, on 13th June of 2017 Panamanian President Juan Carlos Varela severed relations with Taiwan to recognise the PRC (MIRE 2017). The next six months yielded more progress in Panama-China relations than other Latin America and Caribbean (LAC) states managed in as many years. By May 2019 Panama had signed a gamut of 48 bilateral memoranda of understanding (MoU) and other agreements with Beijing, from free trade and infrastructure development to tourism and cultural exchange to journalist training and judicial cooperation. 'In just a year and a half, bilateral ties have gained strength with extraordinary cooperation', Xi Jinping wrote in an op-ed for a Panamanian periodical before his 2018 State Visit there (Xi 2018).

The agreements reveal an ambitious agenda, particularly the MoU 'on Cooperation in the Framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative' (MIRE 2019) which highlights Panama's pioneering role on the BRI in the region. Setting aside the complication of bounding an initiative of unspecified inclusivity, why should BRI have ended up in Panama of all places, so remote from Eurasia? What end-goals is Beijing

newly developing (if it has not harboured them all along), which transcend the BRI's original context? Here is the puzzle which our paper addresses.

No one can accuse the Chinese of thinking small. It is clear that China intends the MSRI to achieve manifold economic and political ends (Blanchard 2017), captivating the South in a Sinocentric network revising the governing ideas and norms of the world system (Callahan 2016). By serendipity or by design, amid deploying its economic statecraft, Beijing is rounding up a grand coalition of the global South which is to co-prosper with, but also loyally support China. 'For the PRC, small states are a non-ignorable part of a global strategy to shape a more facilitative international environment for its rise' (Hoo and Ardy 2017, 128). As Xi Jinping himself said, 'The broad masses of developing countries are our natural allies in … international affairs' (quoted in: BBC Monitoring 2018).

This vision, we argue, rises to a grand strategy. Beijing's original plan to rebalance its geographically one-sided internal economic development *via* 'periphery diplomacy', incorporating neighbouring states into China's infrastructure connectivity, has evolved into a far more ambitious initiative elevating periphery diplomacy into 'inclusive globalisation' (Liu, Dunford, and Gao 2018). In this, Beijing is only positioning itself at the head of a pre-existing political evolution. Coalitions of the global South first arose amid WTO negotiations, when 'a new era of Southern activism paved the way for a grand power shift in international politics' of a magnitude not seen a hundred years (Alden, Morphet, and Vieira 2010, 92).

Methodology and structure of the article

This article uses terms drawn from several literatures; to avoid confusion, we here specify the meaning of ambiguous nomenclature. The terms 'sea power', 'maritime power', and 'naval power' are not univocal; some scholars distinguish them but others do not. We subsume under *sea power* maritime and naval (respectively, commercial and military) forces operating across the oceans, but usage in scholarly quotations is unavoidably inconsistent. The literature does

use *maritime strategy* fairly consistently as a catch-all and we follow this convention. *Nodality* means the coercive power of one who occupies a central position in human affairs, including *but not limited to* transport nodality and connectivity. *Peripheral* may mean contiguous with China ('neighbouring' in official translations), but also peripheral in the 'world system', as China's neighbours also are.

For background purposes, the authors used data from non-scheduled conversations and interviews with political actors in Beijing, London, Panama City, San Jose, and Washington, reflecting that the inquiry was exploratory. The authors did no structured interviews or surveys. All interviewees were political elites who are listed along with venue in Appendix 1: Key Interviews/Personal Communications. Those interviewed off the record were anonymised. Information serving as background to specific citations was triangulated for accuracy with other sources.

The article is structured as follows. The next section broaches China's grand strategy and the origin of the BRI in China's domestic west and its 'periphery diplomacy'. The third section analyses how China precipitated the globalisation of the BRI, and how maritime strategy played a key role in this, highlighting Panama's importance. A fourth section takes up the commercial dimensions of grand strategy in Beijing's economic statecraft in Panama and through it, the LAC region. The last section offers some concluding remarks.

China's Grand Strategy

Grand strategy means the intentional, often planned exploitation of all ways and means at the state's disposal, military, diplomatic, economic and cultural (to the extent available), to achieve its foreign policy goals. It is the state's best guess of how to create security for itself in peace and war. It is conceived for the long term, concerns the highest political priorities, and engages statecraft at every level. An ability to game long-term goals is essential, yet its best practitioners recognise that the future is unforeseeable. No definition is ever complete given the complexity

and uncertainty of the world. One constant found in the literature is that it must fortify the national interest. Most conceptions of grand strategy feature the precept that essential goals must be accommodated to limited resources (Trubowitz 2011).

Epistemologically, grand strategy may be (1) a process, (2) a blueprint, or (3) a variable (Silove 2018). In examining China's grand strategy, we eschew process because the 'policy-making process in China lacks transparency … [even] Chinese scholars have very limited access to data' (Pang and Wang 2013, 1204). In particular, China 'has never released a definite maritime security strategy … Yet, there is a lively Chinese debate about strategic planning and guidance in the maritime domain' (Xu and Cao 2016, 339). Beijing's 2015 white paper, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*, co-authored by the National Development and Reform Commission, the Foreign Ministry of the People's Republic of China, and the Ministry of Commerce (NDRC, FMPRC, and MOFCOM 2015), looks like a strategic blueprint (Clarke 2017), but the opacity issue persists. Our method is empirical: to study China's acts in public today, not what may or may not be planned or happening behind the scenes. The pattern of action, then, is the key *variable*.

Operationally, grand strategy is (a) a worked-out plan, (b) a guiding principle, or (c) an observable 'pattern in state behavior' (Silove 2018, 29). Beijing's plans are as opaque as its policy-making process. Arguably, the quasi-official rubric of the 'march westwards' (Wang 2014) is a guiding principle, but is challenged by China's *démarche* to Panama, which lies east. The one indisputable fact is the observable pattern of behaviour, which is how grand strategy overall is understood hereinbelow.

Experts identify four schools of thought on China's pattern of action: (1) it has no grand strategy, or is acting pragmatically; (2) its grand strategy is contradictory; (3) its culture abhors a 'black or white' choice, but seeks a 'middle way'; (4) China is transitioning from Deng Xiaoping's lying-low strategy to an assertive one (Danner 2018). Those who advocate (4) refer

to the assertive turn as Selective Leadership (Wang and Chen 2012), Striving for Achievement (Yan 2014), or, more recently, Transformational Leadership (Hu 2019).

We propose a fifth school of thought: that China's is a *two-track* grand strategy that may have begun with its economic development imperative but has ended up in superpower ambitions. The term 'two-track' alludes to the two paradigms in international relations theory that best explain China's observable acts. One track enacts liberal internationalism's economic strain (Moravcsik 1997), as transmuted by China's strategic self-interest. The other enacts zero-sum realism for China's rivals (Mearsheimer 2006), – the US above all, but prospectively Japan and India, possibly others. Objectively, China is offering two 'deals', – one where it is accepted as at least equal, maybe in time and in its own discretion hegemonic; the other where its own terms of equality or prospective hegemony are contested.

Owing to their 'victimised' identity, the Chinese perceive themselves as benevolently solicitous of small states in the global South. Xi Jinping advertises the BRI as meant 'to share China's development opportunities with countries along the route … It is a pursuit not to establish China's own sphere of influence, but to support [the] common development of all countries' (quoted in: G20 2016). Not coincidentally, none of them are conceivably rivals to China, and all could fit comfortably into the ancient Imperial tributary system of the Middle Kingdom (Ford 2010)

The small states welcome China's liberal internationalist grand bargain, which purports to converge on their development preferences. Realism, however, warns that all preferences yield to a common exigency of systemic anarchy, which 'forces states concerned about their security to compete with each other for power. The ultimate goal … is to maximize [the] share of world power and eventually dominate the system'(Mearsheimer 2006, 160). To all serious rivals China must therefore apply the Confucian maxim, 'Just as there are not two suns in the sky, so there cannot be two emperors [*sc*. hegemons] on earth' (Ford 2010, 203). The net result

is ‘win-win’ liberalism for weaker states, winner-take-all realism for the colossus of the North. (However, we expressly disclaim predicting China will start any hot wars with the US.) On this twin basis Beijing is binding to itself a ‘grand coalition of the global periphery’ in international politics that is both pro-China and at least implicitly anti-American, – confirming the neorealist prediction that the international system will incentivise aspiring states to balance against the hegemon by allying with weaker states (Taliaferro 2004).

Panama, a very small state with a very strategic Canal, is a prime venue where the two tracks converge. China is approaching Panama liberally – (and flatteringly compared to its historic treatment by the US) – as an esteemed peer in a developing country club. The Great Game implications for the US are the realist handwriting on the wall (Fornes and Mendez 2018).

Periphery diplomacy and the BRI’s origins in domestic security

The history of the BRI’s origin in China’s impoverished west shows how it evolved in stages over several Presidencies: – and how striking it is that BRI ended up so far afield as Panama and LAC. But development strategy must follow grand strategy; to be strategic at all, economic development must subvent a loftier vision, – not only peace and prosperity at home, but also China’s strategic advantage in the struggle for power, riches and rank in the world. This is audible in President Hu Jintao’s 2004 instruction to the People’s Liberation Army to ready itself for ‘new historic missions’ in regions outside East Asia, and three years later in his 2007 decision to ‘coordinate the two big situations’, domestic and foreign, at the Chinese Communist Party’s 17th Congress, which now ‘underpins an increasingly mercantile approach to overseas trade, investment and the securing of natural resources overseas’ (Hughes 2011, 615).

One big situation is China’s underdeveloped western provinces of Tibet and Xinjiang where poverty fuels separatist tendencies and terrorism among some elements. More troubling is that Central Asian neighbours like Kyrgyzstan and Tajikistan are incapable of providing

security single-handedly (Khan 2018). Their west has preoccupied China's policy-makers since at least Sun Yat-sen (Ford 2010). Many permutations later, President Jiang Zemin in 2000 crystallised a policy he called the Great Western Development strategy, through *infrastructure* development to close the gap with China's prospering east coast (Clarke 2017).

Economic development requires security, and 'in the current circumstances of constant change … new and comprehensive thinking about geostrategic "rebalancing," [is needed to efficiently exploit China's] land and sea power' (Wang 2014, 136). The ground forces needed to defend China's vast western frontier diverts resources from maritime expansion, a situation Beijing escapes by binding the Central Asians to cooperate with promises of co-prosperity *via* infrastructure interconnectivity with China's west. This birthed *periphery (or neighbourhood) diplomacy* which Xi, in an extraordinary Communist Party Work Forum in October 2013 (CCICED 2013), mandated for states neighbouring China, to (1) build political goodwill; (2) deepen regional economic integration; (3) spread China's cultural influence; and, most importantly, (4) elicit regional security cooperation (Pantucci and Lain 2016).

Periphery's meaning in social science is manifold. Strategic-minded practitioners and scholars understand 'periphery' as any part of the world of lesser interest to (US) policy-makers as (1) remote from the (US) core, and/or (2) incapable of damaging the (US) homeland (Taliaferro 2004). An economic concept meaning was elaborated by the United Nations Economic Commission for Latin America (ECLA) (Wallerstein 2006) as Dependency Theory, featuring a 'periphery' subserving the 'core' states of the 'world system'. In US foreign policy since 1945 the two concepts merged in 'the Third World'. When the US was the world's top capital exporter and trying to integrate this world periphery into one political-economic system, it was taking only one-third of US outward investment yet generating more profit than the two-thirds invested in the developed core (McCormick 1995). Viewed from either a political economy or a national security perspective, all these conceptions of periphery are indifferent

as to whether the US or China is its core.

The Chinese conception of its periphery has globalised as well. The China Institutes of Contemporary International Relations (CICIR), a think tank linked with the Ministry of State Security, defines China's periphery to consist of three rings. The inner comprises the fourteen nations bordering China by land. The middle comprises those 'bordering' China only by sea but nearby in the Western Pacific and Indian Ocean, plus remoter Central Asia non-contiguous with China. The outer ring called the 'Great Periphery' sweeps-in Africa, Europe, the Americas (Swaine 2014). In the more literally geographic Chinese conception, 'great periphery' includes developed and developing countries; of course, Chinese diplomacy minds the distinction. Since periphery diplomacy was absorbed in the Belt and Road Initiative, official development policy is called 'inclusive globalisation', a term that sweeps all peripheries and stages of development into one co-prosperity sphere, with infrastructure, economic growth, and self-determination of development paths for all (Liu, Dunford, and Gao 2018).

This familiar pattern of statements and actions falls in line with great power diplomacy: 'To counter Washington's rebalancing to Asia [and the Pacific], Xi has redirected China's foreign policy westward [away from the Pacific] and globe-wide with a grand "Belt & Road" initiative' (Hu 2019, 2). The 'march eastwards' now to Panama is a daring move to extend co-prosperity diplomacy to the World System periphery that has the US at its core. It is shrewd to give unaccustomed attention to small states (like Panama) the US ignores except to command. The process evolves into an epic vision – a revision of the world system that caters for small states through the BRI's capital projection, mimicking the US post-1945 but wooing away its periphery. The material basis of this 'Chinese new world order' is connectivity, above all by sea. It is a geopolitical watershed to incorporate Panama, with its Canal and eleven Free Trade Zones (DOS 2019), into the MSRI to be China's statecraft hinge in this, the remotest part of the global South, 'America's back yard'.

The Globalisation of the BRI

The Belt and Road Initiative thus stands revealed as the historic moment when China conceives itself as the core of the global economy. Chinese scholars themselves identify what they call a 'grand strategy' consisting, foremost, of 'a visionary step forward in promoting China's status as the center and the leader of global economy … which is unprecedented for a country of the south' (Hu 2018, 16); achieved by (a) applying all national resources to attain the national goals most effectively, whilst simultaneously (b) staying 'inclusive' of the whole South (Hu 2018). Beijing claims co-prosperity with the South is indispensable 'to fulfill [its Centenary Goals] … The development of China cannot be possible without the development of other developing countries, including countries in Latin America and the Caribbean' (FMPRC 2016). Except for public relations' sake, one has to wonder why Beijing should posit a necessity that would not seem so.

China's current phase of development reflects the 'capital logic' and 'territorial logic' of previous fast-developing states. Historically, capital expands using territory, and territory is expanded using capital, over long political-economic cycles (Arrighi 2010). China's breakneck growth is now flashing signals of the phase of capital glut, auguring a cycle of contraction and stagnation which is intensely pressurising China's state-led capital to pursue a 'spatial fix' by expanding to a larger dimension. Whence Beijing's hopes of reorganising the world economy, expanding its own territorial 'power container' (above all *via* the MSRI), the 'territorial logic' of which works by multi-scalar means of geographic reconfiguration *other than expropriation* (Zhang 2017).

The West's 2008 financial crisis emboldened Beijing to take these enormous external risks (Norris 2016). Kahneman and Tversky's 'prospect theory', as applied to international relations, predicts that leaders' aversion to losses at home (perceived against a *status quo* 'expectation level') goads them into countervailing risk-taking abroad. Experiments show a

consistent pattern of group risk-behaviour: risk-taking to avoid loss and risk-aversion to consolidate gains (Taliaferro 2004). The loss Beijing fears is an economic reversal precipitating a reversion to internal chaos (Khan 2018).

Beijing is willing to gamble big to avoid this. Beijing's 2015 white paper *Vision and Actions* reveals the scope of the gamble. Anyone reading chapter IV. Cooperation Mechanisms must be struck by the sheer complexity of the consensus-building 'infrastructure', constituting a multilateral, multi-scalar governance system wherein no participant's act can be understood except as mutually relational with others in the nexus (Blanchard and Flint 2017), but wherein Beijing contrives to retain preponderance. Development *via* characteristically Chinese hybrid state-market enterprises generates forms of localised and transnationalised territoriality, where Beijing disposes production but elite domestic agency distributes the benefits (Mohan and Tan-Mullins 2019). Orchestrating such a policy-convergence dance worldwide could be hard to coordinate. Yet on many policies China and Panama have already agreed.

Chinese maritime strategy

China never was a sea power; its greatest strategic thinkers were landlocked. The brief moment when it could boast the world's foremost ocean-going fleet was stifled by Ming palace intrigue (Lanteigne 2008). This was reversed by the influx of Western ideas in the 1930s (Liu, Wang, and An 2018), which exerted a significant influence on Chinese political thought, evolving into the contemporary strategic priority of undoing China's neglect of the seas, – a unique moment in Chinese, as in world history.

> [T]he goal of building China into a 'maritime great power' … [was stated] in the CCP's most authoritative political document, the political work report, at [Hu Jintao's] 18th Party Congress in 2012, and was reaffirmed at [Xi's] 19th in 2017. (Chubb 2019)

Now that critical industrial inputs like minerals and fuels are transported by sea, Beijing's 2015 *Defense White Paper* abandons China's traditional indifference to sea power to announce 'great importance has to be attached to … protecting maritime rights and interests' (MOD 2015).

Supply chains are vital but vulnerable lines of force in the international production of wealth 'in urgent need of protection' (Cowen 2014, 9). These sea lines of communication (SLOCs) bind energy security, for instance, to the safety of shipping (Liss 2011).

The MSRI is inherently globally expansive, the seas covering 70% of earth's surface and being the common property of mankind. It reorients China's development strategy toward globalisation in manifold ways. If securitisation at sea is more dynamic than on land, Chinese agency yet has a freer hand. In contrast to 'the free flow of sea-based shipping'(Till 2018, 38), overland transport hinges on the cooperation of each and every country over whose territory traffic must pass. The lesser scale of marine infrastructure bolsters its solvency, and relieves China of having to make concessions to deadbeats in the way (Lu et al. 2018). Fixed overland infrastructure is a 'sitting duck' for terrorism. Ports are vulnerable, too, but there is less territory to guard. Ships are not immune, but evasive reroutes are possible. Terrorists strike by land and air, but rarely venture to sea (Greenblatt 2011), where terrorist incidents comprised only 2% of the total between *ca*. 1975 and 2005 according to the RAND Terrorism Database (Chalk 2008).

The MSRI and China's SLOCs lie mostly in the Indian Ocean, depending heavily on the latter's security and peace; – a public good which far from guaranteed is exposed to shock by local or regional conflict. This is the 'Malacca Dilemma' raised by Hu Jintao at a November 2003 Party Work Conference on China's vulnerabilities (Lanteigne 2008). Nearly 90% of China's energy imports thread the Malacca Strait from the Indian Ocean, wherein its security interests remain sub-optimally guarded (Eberling 2017). Naval power, however, unless potent enough to suppress all other combatants, like the British once and now the American navy, can actually inhibit maritime traffic. War between sovereigns is far riskier than if '[s]ecurity threats linked to piracy increase insurance fees, vessel operating costs, and … lead to rerouting … around the danger area' (De Coster and Notteboom 2011, 104).

The long peace prevailing in the Indian Ocean thanks to the now-defunct European

empires is threatened by China's emerging rivalry with India (Till 2018), – the only country in the Shanghai Cooperation Organization (SCO) not to endorse the BRI. New Delhi is aware that geography empowers it to interdict the MSRI. *Indian Maritime Doctrine* (2004 [updated in 2009 and 2015]), New Delhi's first public maritime strategy paper, noted that India bestrides China's main SLOCs, and coolly calculates, 'control of the choke points could be useful as a bargaining chip in the international power game, where the currency of military power remains a stark reality' (quoted in: Holmes and Yoshihara 2010, 390). Conflict not directly involving China also slumbers in the Indian Ocean. Bottlenecks like the Strait of Hormuz can be closed by terrorism, piracy, or naval hostilities with disastrous consequences (Eberling 2017).

Crisis management and the MSRI

Beijing knows the BRI entails security risks. It was keenly aware of the risks of 'marching west' through its unpromising Central Asian periphery that is politically unstable, poor and insolubly conflicted ethnically. China could find extrication problematic. 'China must dare to "get involved creatively," but also have crisis management plans' (Wang 2014, 135). The MSRI's expansion to the South Pacific (Blanchard and Flint 2017), and now to Panama, should therefore surprise no one.

Chinese experts simulated the costs to their merchant marine if the world's chokepoints were blocked, and found *only one* where rerouting (by sea) would fail: 'if the Strait of Hormuz is blocked, there is no feasible solution … China loses [37%] of its oil imports; thus, the impact … is the most dramatic' (Gao and Lu 2019, 12). To inform Beijing's state planning, other researchers constructed a model maximising connectivity reliability while minimising costs in selecting paths for maritime transport of crude oil if transport networks are subjected to extreme events. They discovered that 'when paths are selected based on improving … connectivity reliability … there is a remarkable growth in volume of imported crude oil transported through the Panama Canal' (Wang, Yang, and Lu 2018, 578); and if reliability is weighted tops, Panama

becomes the *most favoured* chokepoint.

How actually much Panama offers additional to 'safe harbour' depends on the evolution of the regional economic relationship. Already LAC is a significant supplier of China's energy. In 2018 it was the third-largest supplier of oil after the Middle East and Africa: 13.5% of the total, 94% of which Colombia, Venezuela and Brazil provide (ITC 2019). Minerals and foods might also be rerouted through the Canal. States have been willing to reroute shipping in the past, *pace* peacetime commercial logic. That said, no route is perfectly safe; the cost may be prohibitive even in a crisis (Cowen 2014). Panama, Suez, Malacca, and Hormuz are the four gatekeepers of global freight. 'Their continuous availability for global maritime circulation is challenging' (Rodrigue and Notteboom 2017, 37-38). Challenging indeed, given the impact of a worst-case security failure in the Canal Zone:

> Gatun Lake, created by a gigantic dam, was a key to the Canal's success. Its water, captured from Panama's heavy mountain rainfall, allowed the locks to fill with water. The dam … became one of the waterway's most sensitive points, for if it were destroyed by nature or sabotage, Gatun Lake would empty into the sea and at least two years of rain would be required to refill the lake and make the Canal usable. (LaFeber 1989, 47)

Chinese scholars concur: 'To build the Maritime Silk Road, places like the Suez Canal and Panama Canal could all become our soft spots' (Ge 2018, 9). Yet Beijing's strategic posture in Panama is ambivalent. The Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal 1977 commits the *United States* to keep it open in peace or in war (AJIL 1978). Despite an interest in enforcing this Treaty and joint *communiqués* claiming respect for Canal neutrality (Gobierno de Panamá 2018), China has declined to sign the 1977 Protocol (OAS 1977), open for accession since 1 October 1979 (OAS 1979); clearly indicating Beijing will not act as a security guarantor for the Canal or the maritime system. It will free-ride, implicitly reserving the right to revise it in future (a subtle threat). China might be found defending the Canal as soon as threatening it, implicitly or explicitly; or doing either at different times, or

both at once, subtly; as its timeless statecraft might dictate.

China must balance pursuit of sea power with opportunities for peaceful commerce. If sea power is necessary, so is the stability of the strategic environment (Ju 2015). The MSRI would therefore be enhanced by its alternate expansion beyond the Indian Ocean trap. The Panama Canal, because it *could* tip the fortunes of war in the Indian Ocean to China, depreciates India's 'bargaining chip', and tends, remotely, to nudge the region, and with it the MSRI, toward stability and peace on Chinese terms. Panama's importance to China's grand strategy transcends challenging the US, because if a country 'surrender[s] the control of maritime communications, … [it] will have abandoned … the chief means by which pressure in one quarter … balances pressure in a remote … quarter' (Mahan quoted in: Hattendorf 1991, 78).

Even without Chinese strategic necessity, technical and operational changes are afoot that begin to reconfigure global trade flows (Rodrigue and Notteboom 2017). The US shale gas revolution yields soaring extraction rates with important implications for liquified natural gas (LNG) transport to global energy markets. US producers optimise the transport of LNG to Asia *via* the widened Panama Canal (Schach and Madlener 2018), transits of hydrocarbon gas liquids (HGL) having spiked since 2016, most of them southbound (Atlantic to Pacific) (EIA 2019). The Canal Authority's latest figures show that, 2017 to 2018, transits by LNG tankers increased 77.9%, liquified petroleum gas (LPG) tankers 16.1%, oil tankers 7.9%, for an average 19% increase. This outstrips *all other* transits in the same period, which declined by about 1% (ACP 2019).

Another Canal widening, already being mooted so soon after the third set of locks built in 2016, would be momentous. Its US$17 billion-plus cost and the megalocks' consumption of water could make it unfeasible, but the OECD, stressing China's role in financing it, noted that 'a fourth set of locks … would allow [ultralarge] post-Panamax Plus category ships to transit the canal' (OECD 2015, 208). Beijing has shown interest *via* the China Harbour Engineering

Company, whose chairman admits to eyeing manifold canal projects, especially a fourth set of locks (JOC 2014), which would reinforce China's grand strategy.

Chinese Economic Statecraft in Panama and LAC

In cementing strong alliances with a host of peripheral weak states, China strikes a blow at the great few where they are most vulnerable in international politics: – their alienation from the global South, owing not only to the post-2008 failure of the Washington Consensus. The post-Cold War epoch has seen the rise of 'humanitarian intervention', an ideology elaborated by the North (ICISS 2001), which 'unbundles' sovereignty, disquieting the South. Committed to non-intervention, 'Southern governments attempted to blunt the impact of the new interventionist norm' (Alden, Morphet, and Vieira 2010, 94). Beijing follows suit with anti-interventionist discourse whilst 'intervening', subtly, by other means, *viz.* its fabled *economic statecraft*. China appears to be using this *modus operandi* in Panama too.

Economic statecraft is the state's intentional pursuit of foreign policy goals by inducing politically useful economic transactions, like sanctions, but also 'actual or promised rewards' (Baldwin 1985, 20). China is distinctive in eschewing sanctions for a 'win-win' narrative that enlarges the 'win set' of mutually acceptable bargains, making cooperation likelier. The usual pattern of the strong exploiting the weak is inverted as small states reap the benefits of large concessions. But this asymmetric relation creates vulnerability to interruption of irreplaceable benefits (Kirshner 2008; see: Hirschman 1980). So 'positive economic statecraft', especially in the context of Chinese policy banks' infrastructure loans (Alves 2013), renders coercion less visible (Baldwin 1985).

Chinese economic statecraft seeks to incentivise *commercial actors* to create *security externalities* serving the Party-state's strategic interests (Norris 2016). Given that an externality is an impact of market exchange on third parties outside the transaction, which prices cannot internalise in the transactors' motives (Meade 1979), a security externality is an impact on state

security. Beijing seeks security externalities as part of its two-track grand strategy; its security imperative is entrenched (Mearsheimer 2006), but it makes a virtue of necessity by embedding security in its preference for relative gains through international trade, predicted by commercial liberalism (Moravcsik 1997). Judicious engineering of security externalities enables execution of both tracks in a single act of state.

Engineering the conduct of *private* international economic actors is 'an important (and often overlooked) prerequisite for states … to conduct effective economic statecraft' (Norris 2016, 14). The Party-state's power to motivate traders is exceptional. Beijing made statecraft history by its January 2008 'Midnight Raid' on the London Stock Exchange, which prevented an unacceptable consolidation of iron ore supplies in the hands of foreigners, 'act[ing] deftly through commercial actors to stop it' (Norris 2016, 1). Commercial actors even in liberal Hong Kong are entangled with the Communist Party and its goals (Fong 2015); *viz.*, 'Hutchison Whampoa … had links to China' (Sutter 2013, 293), when it outbid Bechtel for the concessions to operate the ports of Cristóbal and Balboa, the Canal's Atlantic and Pacific terminals (EIU 1996). The contracts were final in January 1997 (Asamblea Legislativa 1997), six months before Britain ceded Hong Kong to Chinese sovereignty on 1st July, and well before the US relinquished the Canal in 1999. The deals took the US by surprise, according to Peter Romero, former Assistant Secretary of State for Western Hemisphere Affairs (personal communication, September 6, 2018).

In hindsight the only surprise was anyone's surprise. Beijing had opened in Panama the first-ever PRC office in Latin America, a Bank of China branch, in July 1994 (CEIS 1994). In March 1996 'China opened a trade office in Panama' (Dominguez 2006, 16), Panama reciprocating a few months later. Even then, Beijing anticipated that 'the mutual establishment of trade representative offices … [will advance] the development of friendly and cooperative relations between the two countries' (BBC 1996). And the Panamanian press was broaching

diplomatic recognition of Beijing in August 1997, after Beijing hinted that continuing with Taipei might cramp the Hong Kong trade (Siu 2005).

Nowadays the state of affairs is so altered that hints become unnecessary: a Central American or Caribbean political party cannot fail to feature China 'as a major part of their manifesto' (Alexander 2014, 43), a ubiquity also noted by former Costa Rican President Oscar Arias, who recognised Beijing diplomatically in 2007 (personal communication, November 22, 2017). Although China professes non-interference in its trade partners' political affairs, trade with China was found the strongest variable eliciting convergence of their foreign policies with Chinese interests (Flores-Macias and Kreps 2013). It alters their incentive structures in ways that benefit both parties (if not equally), framing them within 'a set of positive and negative inducements … to not "make trouble for China"' (Swaine 2014, 25).

China is thus acting like a core state, using 'binding stratagems' securing international advantages without the costs of negative coercion (Trubowitz 2011) to yield sway over local elites' domestic development strategies and priorities. China uses them both with its neighbours (Reeves 2018) and in LAC (Wigell and Soliz Landivar 2019). China's financial might and infrastructure knowhow, penetrating the great periphery through the MSRI, is beginning to 'entrench Sino-centric networks of trade, investment, and infrastructure [even in LAC]' (Zhang 2017, 321). The global South is not unwillingly drawn into China's network: 'As much as China has actively courted small states, particularly the more "strategic" ones, most … have not been unreceptive to Chinese economic overtures' (Hoo and Ardy 2017, 128). Here is the material basis of Beijing's bid to be the new core, stitching up its inchoative grand coalition.

China's statecraft is accelerating US retreat from LAC (which Trump's trade-war with China may partly be reacting to). US influence correlates inversely with China-LAC trade *in the form* of Chinese state-led economic actors, such as policy banks and SOEs; no correlation was found with the activities of private Chinese enterprise, Western banks, or the commodity

trade. LAC agency pursuing diversification of counterparties is no cause, either; diversification is high in the commodity trade, yet correlation with US decline is low (Fornes and Mendez 2018). We infer that China is purposely contesting US influence by incentivising domestic constituencies to be pro-China, a binding loyalty that has yet to yield to partisan realignment in any LAC country. 'Latin America's political and economic alignment with the United States has been fundamentally revised in the twenty-first century, partly due to China' (Urdinez et al. 2016, 4).

But for residual US influence, Panama should be no exception. If China remains true to form, it will deploy policy banks and SOEs to assist Panamanians economically, – to win their political loyalty. Of the 48 agreements China and Panama have signed so far, six involve policy banks (MIRE 2019). (Panama's Ministry of Foreign Affairs hosts a public web portal (MIRE 2019) where the full text of the first 47 agreements are available for download. The 48th, an MoU on Judicial Cooperation, is unavailable through this portal, as it is not an Executive one (see: SPC 2019).

The China-Panama nexus

Inhabitants of a small but 'interesting' country, the salient motif of Panama's chequered past is surviving a succession of irresistible autocrats. The Spanish Crown colonised it from 1519 to 1821, then Colombia reduced it to a backwater province until it won its independence in 1903; only to fall victim to the US, who constructed, secured and operated the Canal (Leonard 2015). The US so exasperated Panamanian nationalism that the foreign aid needed to pacify it came to outweigh the modest Canal toll profits. The local Americans lacked incentives to make meaningful improvements; it became 'run for the benefit of the Zonians rather than the American consumer, the U.S. Treasury, or the Panamanian economy [and by 1977] the concrete benefits to the United States from ownership of the canal had essentially disappeared' (Maurer and Yu 2011, 213). China had to improve but marginally on this history to win hearts

and minds. Anyone catering for Panamanian pride, as the Chinese have shrewdly done, would have found itself preferred, as China now is.

The high leverage gained is disproportionate to the low cost of acquiring it. *Nodality*, an ideal-type of coercion, is the power of being central to an information and social network, though not necessarily in the strict sense of handling 'many different cases and thus building up a store of information not available to others. … [Nodes] sit in some central place in their domain – the Rome to which all roads lead' (Hood 1983, 4); thus a base for surveillance and mobilisation. Panama's nodality empowers 'senior partners' to receive, communicate, utilise and control information about Panama and its local periphery.

Panama's nodality is unparalleled in Latin America and second to none in the Western Hemisphere. Its connectivity is the LAC acme, with two of its busiest seaports, Balboa and Colón, 'Tocumen International Airport as the regional air-transport hub, and [seven] important telecommunication / internet optical fiber cables passing through' (IMF 2017). Over 13,500 ships of over 70 nations transit the Canal each year (ACP 2018). It rivals the world's great financial centres its own region: 'Centro Bancario Internacional (CBI) is the only regional banking centre *in* Latin America' (Oxford Analytica 2018). Its deposits of US$33 billion imply a lending capacity of US$300 billion by US bank reserve rules (Superintendencia de Bancos de Panamá 2018). The Colón Free Trade Zone (FTZ) is the world's second-largest after Hong Kong (DOS 2019). For the expert practitioner of economic statecraft these are valuable assets indeed. As Beijing mobilises Hong Kong and Taiwan firms, so it is apt to do with Panamanian commercial actors.

China's strain of liberal internationalism trusts in commerce over ideals: a shared self-interest is a more universal basis for global order than preconceptions of intrinsic legitimacy. But by commercial logic, if China would conserve its profitability, the MSRI had better not be

too inclusive, but prefer not-so-peripheral states, triaging-out the intractably needy 'deep periphery'. In the long run, as development 'trickles down' (if it does), this implicit exclusivity may devolve; until then, financing states lacking appreciable prior capitalist development risks insolvency (Zhang 2017).

Panama epitomises 'semi-peripheral' states, whose development path is mediating between hard core and deep periphery (Wallerstein 2006). Its exceptional growth since 2000 catapulting it from middle- to high-income rank (DOS 2019). It becomes the fittest subject for exhibiting 'semi-periphery diplomacy' to Latin America, if the Chinese set a benchmark for best practice in new development assistance by developing Panama industrially. Carlos Ernesto Gonzalez, Panama's former GATT and WTO chief negotiator, told the authors how keenly Panamanians desire this (personal communication, May 8, 2018). China's Ambassador to Panama knows to tout Panama as 'a hub for Chinese firms, notably in manufacturing' (quoted in: Reuters 2018).

China is now poised to run a railway from Panama City to Chiriquí. As former President Varela let on, long before its feasibility was studied, it was to cost US$5 billion using Chinese technology and finance (personal communication, May 15, 2018). Many months later, he signed off the study (MIRE 2018). China Railway Design Corporation reported preliminary results in March 2019, including an extension to Costa Rica, which Varela hailed for boosting Panama's connectivity with Central America, 'facilitat[ing] the commercialization of products between our countries, which have great challenges in logistics' (quoted in: Gobierno de Panamá 2019). All such projects, whether publicly or privately funded, amplify the volume and scope of Chinese commerce, spreading Beijing's dynamic contestation of US influence across LAC.

Panama exerts soft power across LAC, so Panama's former Vice-President, Isabel de

Saint Malo de Alvarado, assures (personal communication, March 2, 2016). Could this explain why so many states eventually followed Panama onto the BRI bandwagon? It was not always so. When CELAC was invited to join the BRI at the China-CELAC Forum in Chile in January 2018, China expected the multilateral response it had enjoyed in Africa since 2015 (Renwick, Gu, and Gong 2018). Foreign Minister Wang Yi presented a letter from Xi proposing to 'join hands with people in [LAC] to make a greater contribution toward building a community with a shared future for mankind' (quoted in: Zhang 2018). Beijing would 'map out the blueprint for … building a road of cooperation that crosses the Pacific Ocean … [the MSRI] needs Latin flavor' (quoted in: Li 2018).

Resistance was palpable: a 'Special' Summit *communiqué* offered a non-committal nod only. Brazil especially apprehended a trap in relations with Washington (Anonymised Brazilian diplomat, personal communication, March 28, 2018). Beijing simply rebounded with a bilateral approach that succeeded brilliantly. Since the Panama MoU in November 2017 and the January 2018 CELAC Summit, eighteen states have signed commitments to the BRI; in chronological order: Trinidad & Tobago, Antigua & Barbuda, Bolivia, Dominica, Guyana, Uruguay, Costa Rica, Venezuela, Grenada, Suriname, El Salvador, Chile, Dominican Republic, Cuba, Ecuador, Barbados, Jamaica, and Peru (BRI Portal 2019). Did Panama's breaking the ice precipitate this cascade? If its enthusiasm and commercial success influenced the region, it may have created an internal cleavage in the Forum between small states eager to bandwagon *versus* aspiring great powers guarding their independence. If 'balancing [strategy] is driven by the desire to avoid losses; bandwagoning by the opportunity for gain' (Schweller 1994, 72), then LAC as a whole is now eager to join China, not an alliance against it.

Conclusion

The globalisation of Beijing's national development strategy is both ambitious and fraught with challenges that expose the vulnerabilities of a China reaching for the Middle Kingdom position

in the international system. What began in the late 1990s as a simultaneous solution to China's internal development imbalance and its strained relations with neighbouring states, by financing and constructing infrastructure connecting both sides of its western frontier, has under Xi Jinping evolved with stunning rapidity into an epic vision, – China's economic integration with the *global* periphery and with it an seemingly inexorable revision of the world system of US hegemony, partly *via* a political grand coalition of the peripheral states which benefit from the BRI. But the material basis of the 'Chinese new world order' is infrastructure connectivity by sea above all, which foregrounds the issue of sea power and maritime strategy. The seagoing fork of the BRI is strategically more far-reaching than the overland fork, as it can reach the great periphery beyond even China's greater Eurasian neighbourhood. Incorporating Panama into the MSRI, with its Canal and its eleven Free Trade Zones (DOS 2019) as the hinge of China's commercial influence and strategic priorities in this, the remotest part of the global South, is a geopolitical watershed that proves the BRI is global in scope, directly challenging the US even in the Western Hemisphere.

This confirms that Beijing is following a two-track grand strategy which treats the core hegemon very differently from the peripheral small states all over the global South, which Beijing perceives as non-threatening. The liberal internationalist track offers this periphery a grand bargain of Chinese co-prosperity development. Chinese economic statecraft will lead this coalition to support China in international politics. The other, realist track engages the incumbent hegemon in a zero-sum contest for supremacy. China's stance toward the Panama Canal's security is ambivalent and easily interpreted as a threat; no one knows where it will lead. China's approach to Panama epitomises how quickly it is winning the global South. Only circumspection to avoid American backlash prevents the final touches being put to a grand strategic partnership in the most nodal point of the Western Hemisphere. Saving US face aside, Chinese multinationals have made such deep inroads into the networks of regional trade that

LAC have now neither the wherewithal nor the will to extricate themselves. The endeavour to lay the groundwork for China's ascendancy to world colossus is well underway.

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