

Comparative study of Costa Rica, Argentina, Malaysia, Djibouti and their complex relationship with China: advantages, disadvantages and lessons learned

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ABSTRACT

This study provides a cross-country comparative analysis of China's development finance policies and foreign policy practices to identify patterns of conduct within the sector and across regions as well as of differences in this conduct. Using both primary and secondary sources, we analyze the cases of Costa Rica, Argentina, Malaysia, and Djibouti and their complex relationship with Beijing. We find that China's modus operandi in these countries has some telling similarities that help us understand how Beijing operates in the global South.

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I. INTRODUCTION

China's position in the Global South as a leading source of development finance and a key provider of infrastructure has made it a major player, and even geopolitical force in a relatively short time. Among the chief causes of this transformation is the pre-eminent role of its policy banks—especially China ExIm Bank and China Development Bank—in lending to governments needing project funding but finding it difficult to secure from multilateral sources. Also involved is a range of Chinese state-owned enterprises (SOEs) as well as some private firms operating as implementing agents for the infrastructure sector. In order to understand China's rapid advances as well as the obstacles and setbacks it has experienced overseas, more insight is needed into how its development sector conducts business across a variety of regions and regulatory environments.

This paper will undertake a cross-country comparative analysis of China's development finance policies and contract implementation practices to identify patterns of conduct within the sector and across regions as well as of differences in this conduct. Using both primary and secondary sources, we analyze Chinese development finance, SOEs and private firms in Costa Rica, Argentina, Malaysia, and Djibouti. This is followed by a comparative assessment of these cases to conclude whether or not there are relevant commonalities and/or case-specific features in these examples.

II. COSTA RICA

We start this study with Costa Rica because of the strategic importance China is giving to the region of Latin America and the Caribbean. China's trade with LAC mushroomed beginning in the early 2000s. Today China is the first or second largest trading partner of most of the region's countries, making the overall relationship, both trade and nontrade, unexpectedly more important in world affairs. Costa Rica has been part of this story (Argentina as well, see below).¹

Costa Rica did not establish diplomatic relations with the PRC until 1 June 2007, when former President Oscar Arias took the bold decision to switch from Taipei to Beijing. Soon afterwards, Beijing subsidized the Costa Rican government in constructing a sports stadium (just as it had done in Djibouti approximately 30 years earlier) and committed itself to buying US\$300 million worth of Costa Rican bonds.² In addition, in 2013 Beijing offered a US\$1.5 billion loan to expand refinery capacity on Costa Rica's east coast to handle Venezuelan oil (China being one of its largest customers), and also built a highway from the interior to a port on the Pacific coast. The sustained protests of local communities worried about the environmental impact of the refinery finally caused the government to shelve the idea of investing in this sector.³

The story of the negotiations between Beijing and San Jose is very informative and we narrate some of it here. Most observers assume that this was a move initiated by China; the fact is that Arias took the very important initiative of approaching Beijing even before being elected President of Costa Rica in early 2006. He had been President before, between 1986 and 1990, which is when he obtained international accolades for brokering a major peace agreement across Central America in August 1987. His efforts put an end to decades of violent conflict in El Salvador, Guatemala, Honduras and Nicaragua. Soon afterwards, Arias won the Nobel Peace Prize for his pivotal role in making this peace agreement a reality.⁴

1 Alvaro Mendez, "Dependency in the Twenty-First Century? *The Political Economy of China-Latin America Relations*," *The China Journal* 85 (2021): Review Article. doi:10.1086/711517

2 Gaston Fornes and Alvaro Mendez, *The China-Latin America Axis: Emerging Markets and their Role in an Increasingly Globalised World*, 2 ed. (New York: Palgrave Macmillan, 2018).

3 Ibid.

4 Phillip Travis, "Oscar Arias and the Treaty of Esquipulas," *Oxford Research Encyclopedia of Latin American History* (2017).

In 2005, while running for office the second time, Arias conceived the idea of approaching the PRC in case he won the following year. He ran the idea by his friend and political ally Bruno Stagno, who at the time was Costa Rica's Ambassador to the UN. Stagno was very supportive of the idea, but knew that approaching the PRC would be tricky, as it could antagonized Taipei which was an important diplomatic partner of San Jose.

Stagno, however, had established excellent connections with various Chinese diplomats in his role as Ambassador and was ready to help in case Arias won. In February 2006 Arias was indeed elected President for the second time, and soon afterwards appointed Stagno as Minister of Foreign Affairs. Even before being sworn in, Arias together with Stagno set in motion their plan, approaching Beijing in an unofficial capacity, as they could not do anything official until taking office in May 2006.⁵

Stagno flipped through his rolodex and approached Chinese diplomats in New York in order to test the waters before taking any further steps. Not surprisingly, the Chinese were keen on exploring the possibility of diplomatic ties with Costa Rica. This was seen in Beijing as a 'win-win' deal. On the one hand, it would denude Taiwan of one more diplomatic ally; on the other hand, it would establish diplomatic ties with a country headed by a former Nobel Peace Prize recipient, a soft power coup in Chinese eyes.

Soon afterwards secret negotiations were arranged in New York, Beijing and Mexico City. The negotiations were at a very high level and included a secret trip to Beijing by Arias and Stagno before they took office in May 2006. This remarkable trip passed unnoticed by observers and became a key piece in laying the foundation of future diplomatic relations. Once in office, Stagno continued negotiations in Mexico City with the utmost secrecy to avoid alarming Taipei too soon. This was necessary because Costa Rica had a number of agreements and projects with Taipei, some of which were being substantially funded.⁶ In addition, many domestic actors of the "Taiwan Lobby" were working hard to keep it going with Taipei, including high-ranking official and business elites. Stagno and Arias had always believed that Taiwan was a cause of massive local corruption, precisely to keep it going diplomatically.⁷

To cut a long story short, the negotiations were long and hard; difficult for Costa Rica for the above-mentioned reasons and difficult because China was choosing carefully how to approach the issue. It is sometimes assumed that China has to work to convert conservative policy makers in traditional Latin American states to abandon Taipei, but in reality, this is a two-way process that has to be analyzed country-by-country. While Beijing was open to negotiating with Costa Rica, in other cases it has not been so open. For instance, in the case of the Dominican Republic, who switched diplomatic ties from Taipei to Beijing in late 2018, it took years to materialize. According to ex-President of the Dominican Republic Leonel Fernandez, who did the switch to the PRC in 2018, it took them several years to convince the PRC to agree, and it was not easy.⁸ Panama also tried for years to convince Beijing to open the door to them, but they steadfastly refused Panama and several other nations to avoid precipitating a diplomatic crisis by stripping Taipei of all international personhood.⁹ Panama was finally let in for geostrategic reasons, yet the Financial Times called it a "diplomatic victory for China".¹⁰

5 "Interview by one of the Authors with former President of Costa Rica - Oscar Arias (1986-1990 & 2006-2010) and Nobel Peace Prize Laureate (1987)." (San Jose, Costa Rica 2017).

6 After receiving the news of Costa Rica's decision to switch from Taipei to Beijing, the Taiwanese were furious and initiated a diplomatic campaign in August 2007. This included visits by President Chen to Costa Rica's neighbors El Salvador, Nicaragua and Honduras, see: Alvaro Mendez, "Geopolitics in Central America: China and El Salvador in the 21st Century," in *China-Latin America and the Caribbean: Assessment and Outlook*, ed. Thierry Kellner and Sophie Wintgens (Abingdon, UK: Routledge, 2021).

7 "Interview by Authors with Bruno Stagno - Former Foreign Minister of Costa Rica (2006-2010)," (San Jose, Costa Rica 3 May 2018).

8 "Interview by the Authors with former President of the Dominican Republic - Leonel Fernandez (1996-2000; 2004-2008)," (London, UK 2016).

9 Fornes and Mendez, *The China-Latin America Axis: Emerging Markets and their Role in an Increasingly Globalised World*.

10 Ben Bland, "Diplomatic victory for China as Panama ditches Taiwan," *Financial Times* (2017), <https://www.ft.com/content/9869ef7a-4fe7-11e7-bfb8-997009366969>.

Costa Rica is an exceptional country, the only one in Latin America counted amongst the world's 22 oldest democracies.¹¹ It was ranked third in the world, and first in the Americas, in the 2010 Environmental Performance Index.¹² The traditional agricultural exports of bananas, coffee, sugar, and beef are still the backbone of the commodity export trade. More recently, high value-added goods and services, including microchips, have entered the mix.¹³ Costa Rica is well-known for tourism with its mega-biodiversity, which makes it a favorite destination for ecotourists. Costa Rica has also attracted one of the highest per capita rates of FDI in Latin America.¹⁴ After establishing diplomatic ties with the PRC, it became the third Latin American country to sign an FTA with China. That was the last one (so far) that China has signed with a Latin American country. It entered into force in 2011. "Over 90 percent of goods trade between China and Costa Rica enjoy a zero tariff on a stage-by-stage basis"¹⁵ (MOFCOM, 2011).

Costa Rican exports to China are mostly raw materials, then capital goods. Nevertheless, a significant proportion of its exports to China (more than a quarter) is, exceptionally for a Latin American country, machinery and electronic goods. China exports the same kind of goods back, but mostly consumer and capital goods.¹⁶ Development lending has followed diplomatic recognition. In 2015 China lent US\$395 million for construction of the San José to Limón Highway. That was after the US\$100 million lent in 2013 to finance clean technologies like electricity, gas or hybrid-fueled in public transport, and the US\$92.36 million for the Chucús Hydroelectric Project in San José built by the Chinese state-owned Sinohydro in 2010.¹⁷ These are big projects for a country as small as Costa Rica.¹⁸

III. ARGENTINA

Argentina established diplomatic relations with the PRC on 19 February 1972.¹⁹ The pendulum swings in the Argentina-China relationship may be said to track political shifts in Argentina, from Peronists to neo-liberals. Peronist politicians on the center-left found in China a partner with deep financial pockets, an appetite for risk—or certainly one which ignored the Western financial markets consensus on Argentine economic woes—and a proven capacity to build big infrastructure projects that answered both to Argentina's grandiose development ambitions and to its will to decouple from US dominance. For the neo-liberal proponents on the center-right, China's ideological predilections and the lack of transparency in loans and its suspect intentions toward Argentina, contributed to a residual hostility towards Beijing even when circumstances obliged them to deeper commercial engagement.

Motives of nationalism, necessity, and profit applied to Argentina-China ties produced multi-billion-dollar loan packages for two major dams, two nuclear power plants, an expansion of the production of Argentine soya bean and other agricultural exports to meet Chinese demand, not to mention investment in the commodity sector, especially lithium. It also heated up domestic debates about debt exposure and growing dependency on China; the disruptive effect of Chinese imports on local businesses; Chinese FDI in landed property; and the systematic exploitation of Argentina's coastal marine riches by China's fishing fleets.

11 Robert A. Dahl, *How Democratic Is the American Constitution?* (New Haven, CT: Yale University Press, 2008).

12 EPI, "2010 Environmental Performance Index - Summary for Policy Makers," http://epi.yale.edu/sites/default/files/2010_epi_summary_for_policymakers.pdf.

13 Enrique R. Garcia and Alvaro Mendez, "Mañana Today: A Long View of Economic Value Creation in Latin America," *Global Policy* (2021).

14 CIA, "The World Factbook - Costa Rica," <https://www.cia.gov/library/publications/the-world-factbook/geos/cs.html>.

15 MOFCOM, "China-Costa Rica FTA entered into force on August 1," news release, 2011, http://fta.mofcom.gov.cn/enarticle/encosta/encostanews/201108/7440_1.html.

16 World Bank, "Costa Rica Product exports and imports from China 2015," *World Integrated Trade Solution (WITS)* (2017), <http://wits.worldbank.org/CountryProfile/en/Country/CRI/Year/2015/TradeFlow/EXPIMP/Partner/CHN/Product/all-groups>.

17 Fornes and Mendez, *The China-Latin America Axis: Emerging Markets and their Role in an Increasingly Globalised World*.

18 Mendez, "Geopolitics in Central America: China and El Salvador in the 21st Century."

19 Colin Mackerras, *The Cambridge Handbook of Contemporary China* (Cambridge: Cambridge University Press, 1991).

Despite the divergence between these two political trends, commonalities abided which gave continuity to the Latin American country's relationship with the Asian giant.

Argentina is the second largest country in South America after Brazil in terms of GDP. It is a federal republic of 23 provinces plus the autonomous City of Buenos Aires, the capital. It is the eighth-largest country in the world by land area and the largest among Spanish-speaking nations. It has the third-largest Latin American economy after Brazil and Mexico, and one of the highest human development indices and GDPs per capita in the region, along with a well-educated labor force.²⁰ It enjoyed a sustained period of growth and development from 1880 to the end of World War II, when it stood as the world's sixth largest economy.²¹ Since then, Argentina has become mired in a cycle of political and economic conjunctures, including a war with the UK over the Falkland Islands (Islas Malvinas) in 1982. Due to this uneven history, commentators have given the country the pejorative nickname: The Superpower-that-never-was.²² In 2010 the country's growth stood at more than 10%; but since then, it has declined and stagnated. GDP growth for 2016 was -2.2%.²³ Argentina is the world's third-largest producer of soybeans after the USA and Brazil.²⁴ After establishing diplomatic ties with Argentina, China agreed to recognize Argentina's sovereignty over the Malvinas (Falkland Islands)²⁵

(Calvo, 2015). Argentina recognized China as having a market economy in 2004.²⁶ Argentina has signed more than 150 agreements with the PRC on subjects ranging from football to nuclear energy,²⁷ including a 1985 agreement on the pacific use of nuclear energy, a 1992 investment treaty, a 2013 extradition treaty; and one elevating their relationship to an "Integral Strategic Association" in 2014. Nearly all Argentina's exports to China are vegetable products, reflecting the scale of Argentine soya production for consumption in China.²⁸ China exports to Argentina mostly capital goods, machinery and electronics.²⁹ The latest quasi-agreement is Argentina's 2021 membership of the Asian Infrastructure Investment Bank (AIIB), which is not officially a Chinese entity, but it is described as "China's World Bank".³⁰

Foreign direct investment from China totaled US\$1.655 billion between 2010 and 2015, and US\$208 million in 2015 alone.³¹ As at 2014, Chinese development banks had made a total of US\$15.3 billion worth of loans to Argentina, mostly in infrastructure and energy.³² Intriguingly, China nursed Argentina through its sovereign debt default crisis in 2014 through central bank currency swaps worth US\$1.3 billion as part of a loan of

20 Fornes and Mendez, *The China-Latin America Axis: Emerging Markets and their Role in an Increasingly Globalised World*.

21 Daniel K. Lewis, *The History of Argentina*, 1st Palgrave Macmillan ed. ed. (Santa Barbara, CA: Greenwood, 2015).

22 Alan Beattie, "Argentina: the superpower that never was," *Financial Times*, 23 May 2009; M. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

23 World Bank, "Argentina: GDP growth (annual %)," in *DataBank* (World Bank, 2017).

24 Caroline Bain, *Guide to commodities: Producers, players and prices, markets, consumers and trends*, ed. The Economist (London: Wiley, 2013).

25 Alex Calvo, "China and the Falklands," *The Online Journal of the China Policy Institute* (2015),

<https://cpianalysis.org/2015/10/29/china-and-the-falklands>.

26 FMPRC, "The Argentine Government Recognizes China's Market Economy Status," (2004),

http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zjzg_663340/ldmzs_664952/gjlb_664956/3453_664968/3454_664970/t170557.shtml.

27 Ministerio de Relaciones Exteriores y Culto de la República Argentina, "Biblioteca Digital de Tratados,"

<http://tratados.mrecic.gov.ar/busqueda.php?consulta=si&modo=c>.

28 Alvaro Mendez and Mariano Turzi, *The Political Economy of China-Latin America Relations: The AIIB Membership* (New York: Palgrave Pivot, 2020).

29 WITS, "Argentina Product exports and imports from China 2015," in *World Integrated Trade Solution* (Washington, DC: World Bank, 2015).

30 AIIB, "Members and Prospective Members of the Bank," Asian Infrastructure Investment Bank,

<https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>. For more on the negotiations, see: Alvaro Mendez, "Latin America and the AIIB: Interests and Viewpoints," *Global Policy* 10, no. 4 (2019); Mendez and Turzi, *The Political Economy*.

31 Red ALC-China, "OFDI de China en América Latina y el Caribe 2007-2015," in *El Monitor de la OFDI de China en ALC* (Mexico: Universidad Nacional Autónoma de México (UNAM), 2017).

32 Fornes and Mendez, *The China-Latin America Axis: Emerging Markets and their Role in an Increasingly Globalised World*.

US\$11 billion total (not included in the above figures). “Under terms of the loan agreement, Argentina can either use the funds to bolster its reserves or pay for Chinese imports with the yuan currency.”³³

Argentina’s economic problems, especially its disqualification to borrow on the international capital markets or from the IMF, drove the Kirchner government to turn to China in 2016. Among Argentina and China’s biggest joint infrastructure projects and corresponding bilateral loan portfolios are hydro-electric dams. A US\$4.73 billion syndicated loan package involving China Development Bank, Peoples Bank of China, and ICBC was agreed in 2013 by Cristina de Fernandez’s government to permit the Gezhouba Group to lead a consortium that included Argentine partners to build two dams on the Santa Cruz River.³⁴ Tapping into this source of energy will provide 5 percent of the country’s electricity needs while reducing its annual carbon emissions by 2.5 percent.³⁵ Environmental activists critical of the opaque Environmental Impact Assessment brought a lawsuit before the Argentine Supreme Court, resulting in the dam construction coming to a temporary halt in 2015. The Court’s ruling at the end of December 2016 mandated a review process that was to include other affected provinces and the national legislature.

IV. MALAYSIA

Malaysia established diplomatic ties with China on 31 May 1974 after protracted negotiations between Kuala Lumpur and Beijing.³⁶ Despite humble beginnings, Malaysia had the strategic advantage of being one of ASEAN’s five founding members in 1967.³⁷ Malaysia’s remarkable rise from poverty to middle-income developing status in two decades has been attributed to the policies of former Prime Minister Mahathir Mohammed and his governing coalition party, *Bahrisan Nasional*, dominated by the United Malays’ National Organisation (UMNO).³⁸ Of particular note was Mahathir’s skill in mobilizing internal capital and external resources—development assistance, foreign direct investment, even security provisions—in the service of Malaysian development ambitions.³⁹ But the acts of his successor Najib Razak, in particular blatant corruption involving Saudi finances and Chinese mega-projects, threw the country into crisis and brought Mahathir back into national politics.

PM Razak had undertaken an ambitious development program to expand the national transport system into underserved areas of the country and to improve energy infrastructure utilizing the opportunities presented by the BRI.⁴⁰ In 2016, discussions with Chinese officials culminated in a US\$13.1 billion loan to build a standard-gauge, two-track railway along the neglected east coast of peninsular Malaysia to the prosperous western environ and a gas pipeline on the island of Sabah.⁴¹ The China Communications Construction Company (CCCC) won the contract for the East Coast Rail Link and began construction in August 2017. A Malaysian company was assigned to manage all of the operating and maintenance tasks. The pipeline contract, backed

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- 33 Jorge Otaola and Richard Lough, “UPDATE 1-Argentina receives second currency swap from China,” *Reuters*, November 17, 2014 2014.
- 34 [Aprovechamientos hidroeléctricos del río Santa Cruz—IEASA](#); Andres Napoli and Maria Marta de Paola ‘Argentina suspends Patagonia dams’, *Dialogo China* 20 January 2017, [Argentina suspends Patagonia dams \(dialogochino.net\)](#)
- 35 IEASA [Aprovechamientos hidroeléctricos del río Santa Cruz—IEASA](#)
- 36 Kazuyuki Katayama, *China’s rise and Japan’s Malaysia policy* (Magnolia Publishing Company, 2013).
- 37 T. Koh, S.L. Seah, and L.L. Chang, *50 Years Of Asean And Singapore* (World Scientific Publishing Company, 2017).
- 38 Walid Jumblatt Abdullah, “The Mahathir effect in Malaysia’s 2018 election: the role of credible personalities in regime transitions,” *Democratization* 26, no. 3 (2019); Edmund Terence Gomez, *Chinese business in Malaysia : accumulation, ascendancy, accommodation* (Richmond: Curzon Press, 1999).
- 39 Yasuyuki Sawada and Iroyuki Yamada (2003) ‘Japan’s ODA and Poverty Reduction: a cross-donor comparison and a case study of Malaysia’, in Hiroshisa Kohama, ed., *External Factors for Asian Development* (Singapore: Institute of Southeast Asian Studies, pp. 47-69.
- 40 Hong Liu and Guan Lim, “The Political Economy of a Rising China in Southeast Asia: Malaysia’s Response to the Belt and Road Initiative,” *The Journal of contemporary China* 28, no. 116 (2019).
- 41 ‘Malaysia seizes China Petroleum Pipeline’s RM1b funds’, *Malaysian Reserve*, 15 July 2019, [Malaysia seizes China Petroleum Pipeline’s RM1b funds \(themalaysianreserve.com\)](#)

by a US\$2.5 billion loan from China ExIm Bank, was won by the China Petroleum Pipeline Bureau (CPPB), a subsidiary of the state-owned China National Petroleum Corporation (CNPC). The project was to construct a 600-kilometer petroleum pipeline on the west coast of peninsular Malaysia and a 662-kilometer gas pipeline in Malaysia's State of Sabah on Borneo Island. Finally, the state invested in a major development and transport hub, Bandar Malaysia, in the heart of the capital, Kuala Lumpur.⁴² Spillovers from Beijing's economic statecraft to other areas even included military cooperation with joint exercises in the Straits of Malacca.⁴³

The battery of Chinese loans for large-scale infrastructure projects negotiated by the Razak government had by 2018 pushed his country's total external indebtedness to US\$250 billion.⁴⁴ Charges of massive corruption stemmed from these and other loans; for example, only 15% of the pipeline had actually been built after Malaysia had already paid 88% of the US\$2.5 billion loan for it. The growing concern that Malaysia's inability to repay might jeopardizing any development gains otherwise accruing from these projects began to firm up opposition, eventuating in the 92-year-old Mahathir's coming out of retirement to campaign against Razak, who was already under severe criticism for channeling Saudi money into a state fund, 1MDB, which had transferred millions of dollars to his personal bank account.⁴⁵

Exacerbating the sentiment against Razak was the construction projects' use of Chinese labor and supplies, plus a massive housing complex jointly developed and funded by private Chinese firms in the electorally crucial state of Johor, 70% of which had reportedly been bought up by foreign Chinese retirees.⁴⁶ Mahathir fashioned his electoral appeal not only on his past record but also on anti-Chinese sentiment arising from such incidents, which won the critical support of ethnic Malay voters.⁴⁷ In a hard-fought campaign, Razak and *Bahrisan Nasional* were ousted by *Pakatan Harapan*, a coalition of opposition parties, in the May 2018 elections.

The new government led by Mahathir immediately cancelled all construction projects financed by China pending a forensic audit. The new Economy Minister, Mohamed Azmin Ali, noting that the annual interest payments alone amounted to US\$120 million, declared, "We cannot afford to bear this, so this project needs to be terminated without affecting our good relationship with China."⁴⁸ The contracts were terminated and negotiations between Kuala Lumpur and Beijing reopened.⁴⁹ This revealed that the deal struck between Malaysia and China included a "termination clause" that would cost Malaysians a hefty US\$5.3 billion if the East Coast Rail Link project was terminated.⁵⁰

Mahathir's vow to renegotiate the "unequal treaties" with China—a historical reference to the treaties that followed on Western states' forcibly opening trade with Imperial China in the 19th century—set the tone for a contentious exchange.⁵¹ Nevertheless, incendiary rhetoric and the egregious terms of the loans aside, the Prime Minister had to rationalize reversing his initial outright cancellation of the projects, which he explained

42 Liu and Lim, "The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative."

43 Ngeow Chow-Bing 'Malaysia-China defence ties cool amid political changes and South China Sea tensions', *South China Morning Post* 4 May 2021: <https://www.scmp.com/week-asia/opinion/article/3132122/malaysia-china-defence-ties-cool-amid-political-changes-and-south>

44 L. Jones, S. Hameiri, and Royal Institute of International Affairs, *Debunking the Myth of "debt-trap Diplomacy": How Recipient Countries Shape China's Belt and Road Initiative* (Royal Institute of International Affairs, 2020).

45 William Case, "Stress testing leadership in Malaysia: the 1MDB scandal and Najib Tun Razak," *Pacific Review* 30, no. 5 (2017)..

46 'Selling the country to China? Debate spills into Malaysia's election', *Reuters* 27 April 2018, <https://www.reuters.com/article/us-malaysia-election-china>

47 Abdullah, "The Mahathir effect in Malaysia's 2018 election: the role of credible personalities in regime transitions."

48 'Malaysia to cancel \$20 billion China-backed rail project', *Reuters* 26 January 2019, <https://www.reuters.com/article/us-china-malaysia-idUSKCN1PK03P>

49 'Malaysia seizes China Petroleum Pipeline's RM1b funds', *Malaysian Reserve*, 15 July 2019, <https://www.malaysianreserve.com/2019/07/15/malaysia-seizes-china-petroleum-pipeline-rm1b-funds>

50 'Malaysia renegotiated China-backed rail project to avoid \$5bn fee', *Financial Times* 15 April 2019, <https://www.ft.com/content/2019/04/15/malaysia-renegotiated-china-backed-rail-project-to-avoid-5bn-fee>

51 'Malaysian backlash tests China's Belt and Road ambitions', *Financial Times*

as follows: “The government was faced with the choice to either renegotiate or pay termination costs of about RM21.78bn (US\$5.3 billion), with nothing to show for it. As such, we chose to go back to the negotiation table and call for a more equitable deal.”⁵²

Behind the walk-back were an anti-corruption investigation’s findings that CCCC’s provision of bridging loans to 1MDB at massively inflated prices was designed to cover up Razak’s theft from the sovereign fund.⁵³ The willingness of the Chinese SoE to engage in illicit conduct in collusion with the former Prime Minister pointed up the accusations of “crony capitalism” that had dogged Mahathir’s last years in office. In the end, the Chinese government agreed to reduce the original price of the East Coast Rail Link by a third and to expand the number of local suppliers to 40%, as well as to set up a 50-50 joint venture between CCCC and a Malaysian company to operate the railway after completion.⁵⁴ CCCC was also obliged to return in full the initial advance payment by Razak’s government. As for the unfinished pipeline, its cancellation in August 2018 was followed a year later by the Malaysian government’s unilateral seizure of US\$243 million from CPBB’s local bank account. This brazen act effectively brought the pipeline saga to an end.

V. DJIBOUTI

China established diplomatic ties with Djibouti on 8 January 1979. Soon afterwards, the PRC financed a stadium (just as in Costa Rica) and a number of other projects, including a hospital and a series of other government edifices, including a cultural center promoting Chinese culture called “The People Palace”.⁵⁵ Djibouti is located on the strategically important Gulf of Aden at the entrance of the Suez Canal, the principal ocean-bound conduit for shipping from Asia to Europe. The former French colony and small desert enclave, with no natural resources and a population of under a million inhabitants, has lain under the rule of President Ismael Omar Guellah since 1999. Leveraging its geographic position, its economy can depend on the income from leasing military bases to interested foreign governments: France, Japan, and the United States. Hoping to develop Djibouti into a major logistics and transshipment hub between Africa, the Middle East, and Asia, Guellah had established port facilities at Doraleh in 2008, jointly managed by Djibouti and DPWorld.⁵⁶

Beijing has been anxious to find a basing arrangement in the Gulf of Aden since at least 2009, when it first deployed a naval task force to the region as part of an international effort to combat Somali piracy. A multinational naval operation led by Western governments, but inclusive of the Russian and Indian navies, had been assembled. With 12% of global trade annually passing through the Suez Canal *en route* to European markets, Beijing recognized its own vulnerability to trade disruptions by piracy and hostage-ransoming.⁵⁷ Beijing joined the operation in late 2008, sending two frigates and a supply vessel; though unlike its naval counterparts, it notably conducted operations without the benefit of rest and rehabilitation or a refueling station.⁵⁸ In an unusual display of candor, China’s Admiral Yin Zhou declared in 2009 that, to continue operations, his navy

52 ‘Malaysia renegotiated China-backed rail project to avoid \$5bn fee’, *Financial Times* 15 April 2019, [Malaysia renegotiated China-backed rail project to avoid \\$5bn fee | Financial Times \(ft.com\)](https://www.ft.com/content/1a1a1a1a-1a1a-1a1a-1a1a-1a1a1a1a1a1a)

53 Shaomin Xu and Jiang Li, “The Emergence and Fallacy of “China’s Debt-Trap Diplomacy” Narrative,” *China international studies*, no. 2 (2020).

54 Jones, Hameiri, and Affairs, *Debunking the Myth of “debt-trap Diplomacy”: How Recipient Countries Shape China’s Belt and Road Initiative*.

55 B. Lintner, *The Costliest Pearl: China’s Struggle for India’s Ocean* (Hurst, 2019).

56 David Styan, “China’s Maritime Silk Road and Small States: Lessons from the Case of Djibouti,” *The Journal of Contemporary China* 29, no. 122 (2020).

57 ‘Suez Canal blockages: 4 of the biggest trade chokepoints’, *DW* 27 March 2021, <https://www.dw.com/en/suez-canal-blockage-4-of-the-biggest-trade-chokepoints/a-57020755>

58 J. Henry and Institut français des relations internationales, *China’s Military Deployments in the Gulf of Aden: Anti-piracy and Beyond* (IFRI Center for Asian Studies, 2016).

needed a basing arrangement in the region.⁵⁹ Its evacuation of 571 Chinese nationals and 225 foreigners after armed conflict erupted in Yemen in March 2015 further underscored the vulnerability of Chinese firms and citizens to regional instability, but also its evolving mission in the wake of the diminishing local piracy.⁶⁰

China announced in May 2015 that it would build a 'logistical support facility', as it called the dual-use facilities, subsequently revealed to be a ten-year lease at US\$20 million annually (as compared to the larger facility of the US, which pays US\$60 million annually).⁶¹ This first-ever foreign base marked a signal departure from the Chinese military's traditional position, signaling its commitment to assuming a global peace and security role. Situating it in a country with many foreign military bases was, as Styan points out, "less controversial internationally for China ... [being] directly alongside other major powers".⁶² Construction began in the town of Obock in November 2015 with facilities housing 400 personnel, reportedly then expanding to 2000 combined naval, army and special forces personnel.⁶³ Regular training exercises began, including joint training exercises with Italian and Spanish troops in conducting humanitarian missions.

Complementing the military base was China ExIm Bank loan of US\$3.5 billion to expand port facilities and to open an industrial park; long-standing development goals hoped to transform the country into the Singapore of the region.⁶⁴ The construction of the Djibouti Industrial Free Trade Park, jointly managed by a subsidiary of China Merchant Group (CMG) and the government of Djibouti, was claimed by CMG's president to be a major step toward the creation of a "new Shekou", the tiny fishing village on Guangdong's Pearl River Delta that was transformed into the manufacturing metropolis of Shenzhen supposedly by a Special Economic Zone.⁶⁵ Completion of the electric railway from Addis Ababa, the Ethiopian capital, to Djibouti's port in 2018 promised a way into the regional interior and the booming Ethiopian economy.⁶⁶ Ambitions within the Djiboutian government grew along with Doraleh, expanding to eight ports set up to handle containers, petroleum, animal livestock, agricultural products; while the port and industrial zone were supplemented by a logistics hub, business services, and housing development, all jointly managed by CMG and the Djibouti government. Notably, Djibouti had to litigate withdrawal from a longstanding agreement with DP World in order to clear the way for CMG to take the leading role in 2018.

The cascading number of Chinese loans was crucial to Djibouti's development agenda, and after the IMF decided in 2013 to suspend negotiations with Djibouti due to its hefty debt portfolio, Beijing was the only alternative lender left.⁶⁷ Unfortunately, Guellah's government quickly accumulated more debt, with 77% of the total held by China. There was concern that, like Sri Lanka, which had to surrender its port to make up for debt defaults, it would be forced to hand over Doraleh to the Chinese. Nevertheless, despite some analysts sharply criticizing Djibouti's increased dependency on Chinese finance⁶⁸, Djibouti itself defended its actions.

59 Chris Alden and Yixiao Zheng, "China's Changing Role in Peace and Security in Africa," in *China and Africa: Building Peace and Security Cooperation on the Continent*, ed. C. Alden, et al. (Cham, Switzerland: Palgrave Macmillan, 2018).

60 Jerome Henry (2016) 'China's Military Deployments in the Gulf of Aden: anti-piracy and beyond', *Asie Visions* 89, Paris, IFRI, November, pp. 20-23.

61 Peter A. Dutton, Isaac B. Kardon, and Conor M. Kennedy, "China Maritime Report No. 6: Djibouti: China's First Overseas Strategic Strongpoint" (2020); Styan, "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti."

62 "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti," 193.

63 Jean-Pierre Cabestan, "China's Military Base in Djibouti: A Microcosm of China's Growing Competition with the United States and New Bipolarity," *The Journal of contemporary China* 29, no. 125 (2020).

64 Styan, "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti," 196.

65 Deng Yangzi, "CMG Wants to Make African Port of Djibouti 'New Shekou'," *China Daily* March 7, 2017, http://www.chinadaily.com.cn/bizchina/2017-03/07/content_28455386

66 Styan, "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti."

67 Katrina Manson, 'Jostling for Djibouti', *Financial Times* 1 April 2016, <https://www.ft.com/content/8c33eefc-f6c1-11e5-803c-d27c7117d132>

68 Daniel Connolly, "The Rise of the Chinese Navy: A Tirpitzian Perspective of Sea Power and International Relations," *Pacific Focus* 32, no. 2 (2017). Ankit Panda 'Chinese navy's Djibouti base: a support facility or something more?' *The Diplomat* February, 2017, <https://thediplomat.com/2017/02/the-chinese-navys-djibouti-base-a-support-facility-or-something-more/>

As Foreign Minister Mahmoud Ali Youssouf declared in an interview in 2016:

*We don't want the Americans to leave but the Chinese invest billions of dollars in our infrastructure; that's what the Americans are not doing. So we are trying to keep the balance to see where our interest lies, as a small country with very limited resources.*⁶⁹

With little freight traffic on the US\$4 billion Addis to Djibouti railway, however, and with the Ethiopian government searching for alternative rail and port routes, the port's future viability was called into question by no less an authority than the Chinese insurance company on the project, Sinosure, which reportedly wrote off US\$1 billion in losses.⁷⁰ Even worse, a dispute arose between Djibouti and China Rail Construction Company (CRCC) over who was responsible for the costs of the last 100 kilometers of the electric railway, which was only settled by Djibouti conceding a large portion of its equity stake in the railway to the Chinese SoE.⁷¹ In the meantime, although the commercial case came under increasing scrutiny, the Chinese military continued to expand its existing naval facilities at Obock to accommodate an aircraft carrier and eventually submarine pens, as well as joint training capacity.⁷²

69 Katrina Manson, 'Jostling for Djibouti', *Financial Times* 1 April 2016, <https://www.ft.com/content/8c33eefc-f6c1-11e5-803c-d27c7117d132>

70 [Botched Chinese railway project in Africa is a warning to belt and road investors | South China Morning Post \(scmp.com\)](https://www.ft.com/content/82e77d8a-e716-11e8-8a85-04b8afea6ea3); 'Chinese investments in Africa go off the rails', *Financial Times*, <https://www.ft.com/content/82e77d8a-e716-11e8-8a85-04b8afea6ea3>

71 Styán, "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti," 202.

72 Cabestan, "China's Military Base in Djibouti: A Microcosm of China's Growing Competition with the United States and New Bipolarity," 146..

VI. ANALYSIS AND CONCLUSION

A key aspect in these case studies is the country's main political and commercial actors. It must be remembered that the analysis seeks to determine advantages, disadvantages, and lessons to be learned from each country. There are remarkable similarities in how Beijing has dealt with these countries, particularly Djibouti and Costa Rica. Despite establishing diplomatic ties with Beijing thirty years apart, both countries profited from China's "stadium diplomacy", being gifted a football stadium after switching to Beijing. This suggests that China follows a similar *modus operandi* in dealing with smaller countries; both countries being the smallest in our sample. The same pattern did not obtain in the cases of Argentina and Malaysia, which are more comparable in terms of size and power. This suggests that Chinese foreign policy is bespoke for local appeal based on what people in these countries may see as a priority for their own development and self-image. China's foreign policy is highly appealing to these countries, particularly absent support and attention from the US and other Western powers. Beijing needs only to do marginally better than Western countries to politically leverage its commercial influence. This has allowed China to garner support for its Belt and Road Initiative from three of the countries studied, Argentina being the exception. This is key, as China sees it as an opportunity to expand its trade and influence in the global South (and all over the world) by reconstructing the fabled Silk Road as part of a grand strategy to expand its hard and soft power all over the world.⁷³ One of the common denominators among these four countries was China's desire to use trade as a tool to achieve political and diplomatic goals. These four countries were looking for trade opportunities and the West was nowhere to be found. This shows that China's admission to the World Trade Organization (WTO) in 2001 was one of China's most important achievements, as it has empowered Beijing to advance its agenda in the global South to an unprecedented degree. All of the countries in this study have important trade relationships with China, ranging from a free trade agreement with Costa Rica to a comprehensive strategic partnership with Argentina, to a free trade zone in Djibouti, to a free trade agreement with Malaysia via its FTA with ASEAN.

COSTA RICA

The lessons learned from Costa Rica and its relations with China indicate that Beijing sees as a positive aligning itself with countries that are perceived to be beacons of democracy in the international arena. The PRC is not always able to establish such cordial relations with other democratic regimes, but Costa Rica was willing to allow the relationship to grow in the way it did. Its Costa Rican diplomacy also indicates Beijing's interest in being able to weaken Taiwan at will, as Central America is the region with the majority of countries that remain Taipei's diplomatic allies—9 out of 15 at the time of writing.

China's relationship with Costa Rica also indicates that Beijing is fully aware that free trade agreements and/or anything to do with free trade goes a long way toward achieving its foreign policy objectives in the global South. Having the third free trade agreement with China in Latin America is a source of pride for many in Costa Rica, particularly for those who achieved it. An FTA in the eyes of many leaders of the global South is a notable achievement in and of itself. This strategy was also used in Djibouti, where China opened an international free trade zone in 2018, which enables users to trade without paying several types of taxes.

ARGENTINA

The case of Argentina illustrates Beijing's ability to use trade as a tool to advance its political and economic interests with a country. Argentine politicians are also fascinated with anything to do with trade, particularly if they feel they are being given the status they deserve (despite their economy being a disaster for years). In 2004 China realized this overriding motive of Argentine politicians and gave Argentina the title of "strategic partner". Ten years later, Beijing again used titles as leverage and upgraded Argentina to a "comprehensive strategic partner". This has allowed Beijing to enjoy a very profitable relationship with Argentina. As at

73 Alvaro Mendez and Chris Alden, "China in Panama: From Peripheral Diplomacy to Grand Strategy," *Geopolitics* 26, no. 3 (2021).

2020 China had become Argentina's largest trading partner, replacing Brazil which had occupied the rank for several years previous. Out of the 24 Latin American countries with diplomatic ties to Beijing, only 19 have endorsed the BRI to date. Argentina, along with Colombia, Mexico, and the Bahamas, is one of the last remaining holdouts. Although there were rumors in mid-2020 that Argentina was going to sign an MoU with Beijing to that purpose, it has not done so yet. Beijing is aware of this and in January 2021 President Xi Jinping appealed to President Alberto Fernandez to do so. In his appeal he promised to deepen the current comprehensive strategic partnership. Fernandez promoted the importance of the BRI, but has yet to agree a formal endorsement. It is expected that Beijing will continue to bring up the issue over and over until Argentina acquiesces. Argentina might be playing hard to get as leverage to obtain a better deal from Beijing, but it is hard to tell whether or not this is so. One thing for sure is that Argentina has an interesting relationship that resembles Djibouti's in going beyond trade to include security issues, as indicated by the Chinese military presence in Patagonia.

MALAYSIA

Malaysia offers a good example of how the astute exercise of local "agency" can bring about a revision of unfavorable deals negotiated with China, improving the terms for the recipient. Concurrently, it demonstrates the lack of transparency in dealings with China that complicates relations. Mahathir's harsh criticism of China's alleged "new version of colonialism" struck a nerve with other countries in the global South.⁷⁴ More recently, Malaysian criticism of BRI projects as an instrument of debt-trap diplomacy also illustrates the strong agency emanating from Kuala Lumpur. Malaysia nevertheless remains deeply dependent on China, whether it likes it or not. In this case again, Beijing has used trade as an instrument to dominate the foreign policy agenda with its counterpart. As a founding member of ASEAN, Malaysia has effectively a free trade agreement with China via the FDA agreement signed in 2004 with ASEAN. This is very important for Malaysia because its economy depends on Chinese purchasing power. With a small domestic market, Malaysian entrepreneurs have to go beyond the borders to seek opportunities: China is "there to help". This is an important similarity with Costa Rica.

DJIBOUTI

Djibouti gives insight into how a comprehensive approach to military base and port construction can bring opportunities for trade, while also drawing interest from other actors who are keen observers of China's first military base overseas. Djibouti has demonstrated that despite its very small size, it has agency that can use to leverage regional economic power via its free trade zone, but also international strategic power via the military bases that it hosts and its geopolitically strategic position at the entrance to the Suez Canal. As mentioned above, it is noteworthy that Djibouti resembles Costa Rica in the way Beijing has dealt with it. "Stadium diplomacy" and other small infrastructure projects are a trademark of Beijing's economic statecraft that elicits diplomatic support and a positive reputation with the locals. After establishing the naval base in Djibouti, which has been operational since 2017, China upgraded Djibouti to a "strategic partner" (the same status that it gave to Argentina). This language has gone a long way toward winning over politicians in Djibouti, whose support for the BRI has also been crucial, as it offers Beijing a well-placed strategic commercial hub near one of the world's most important shipping lanes. This matters for Beijing as a "significant percentage of Beijing's trade with the European Union, valued at over \$1 billion a day, passes through the Gulf of Aden, and 40 percent of China's total oil imports pass through the Indian Ocean. Djibouti controls access to both the Red Sea and the Indian Ocean, and links Europe, the Asia-Pacific, the Horn of Africa, and the Persian Gulf".⁷⁵ ■

74 'Mahathir warns of "new colonialism" during China visit', *Financial Times* 20 August 2018, <https://www.ft.com/content/7566599e-a443-11e8-8ecf-a7ae1beff35b>

75 Mordechai Chaziza (2021). China Consolidates Its Commercial Foothold in Djibouti, *The Diplomat*, <https://thediplomat.com/2021/01/china-consolidates-its-commercial-foothold-in-djibouti/>

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* This reference list includes all the peer-reviewed articles used for the study. It also includes all the primary sources and interviews performed by the authors. It does not include all the other supportive material (e-articles). The exact titles and weblinks can be found in the relevant footnotes.

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The content of this working paper is the sole responsibility of the researchers and does not necessarily represent the views of the institutions that support the project.

Project Title:

New diplomatic relations between Panama and China:
geopolitical and socioeconomic implications

Project Code:

SENACYT-FID-18-034

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