

CHINESE
MALIGN
INFLUENCE
AND THE
CORROSION OF
DEMOCRACY

An Assessment of Chinese Interference
in Thirteen Key Countries

By the International Republican Institute
Edited by David Shullman

IRI International
Republican
Institute

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Disclaimer: This publication was made possible through the support provided by the National Endowment for Democracy. The opinions expressed herein are those of the authors and do not necessarily reflect the views of the National Endowment for Democracy.

Acknowledgements

These case studies were written by John Fei, Shehryar Fazli, Amara Thiha, Humaidha (Humay) Abdul Ghafoor, Gergely Salat, Lorena Herrera, Botond Feledy, Sait Matty Jaw, Vuk Vuksanovic, Wing Hoong Nyee, Maryam Azwer, and several other in-country researchers who declined to be named, under the editorship of IRI Senior Advisor David Shullman. We are grateful to the National Endowment for Democracy for its support of this initiative.

About the BRIDGE Initiative

In recognition of the challenges posed by foreign authoritarian influence, the International Republican Institute (IRI) developed a framework to strengthen the ability to resist this threat. This initiative, entitled Building Resiliency for Interconnected Democracies in Global Environments (BRIDGE), is funded by the National Endowment for Democracy (NED). The BRIDGE framework takes a two-pronged approach to tackling this challenge: 1) Increasing knowledge of the nature of authoritarian tactics; and 2) Engaging stakeholders to develop and implement their own strategies to confront these tactics.

By engaging stakeholders across sectors – including government officials, political parties, media, private enterprise, and civil society actors – IRI is bolstering the resilience of democratic institutions to authoritarian influence. The research presented in this report is part of a growing compendium of case studies documenting China's authoritarian influence tactics and the elements of effective democratic resilience, which directly informs BRIDGE programming.

Glossary: Key Terms and Abbreviations

Belt and Road Initiative (BRI): A global development strategy adopted by the Chinese government involving infrastructure development and investments in across Asia, Europe, Africa, the Middle East, and the Americas. The projects and methods of investment could serve to strengthen China's economic and security interests.

Chinese Communist Party (CCP): The founding and ruling political party of the People's Republic of China.

Debt trap: A situation in which a debt is difficult or impossible to repay, typically because high interest payments prevent repayment of the principal.

Elite capture: A form of corruption in which public officials and national elites manage or direct government projects in a manner that enables them to misdirect resources for their own personal financial gain to the detriment of the public.

Foreign direct investment (FDI): An investment made by a firm or individual in one country in business interests located in another country; this sometimes refers to the aggregation of all foreign investments into or from a particular country.

Great firewall: A colloquial term for mainland China's internet censorship system.

Sovereign debt: The amount of money that a government has borrowed, typically issued as bonds denominated in a reserve currency.

State-owned enterprise (SOE): A legal entity that is created by a government in order to partake in commercial activities on the government's behalf. China's SOEs, among the largest and most powerful in the world, are responsible for a large portion of BRI activity.

Common Acronyms

1MDB: 1Malaysia Development Berhad

ALP: Australian Labor Party

ASEAN: Association of Southeast Asian Nations

ASIO: Australian Security Intelligence Organization

AU: Australian dollars

BN: Barisan Nasional coalition

BOC: Bank of China

BRI: Belt and Road Initiative

CASS: Chinese Academy of Social Sciences

CCCC: China Communications Construction Company

CCP: Chinese Communist Party

CCTV: closed-circuit-television

CEIEC: China National Electronics Import and Export Corporation

CGN: China General Nuclear Power Group

CHALCO: Aluminum Corporation of China

CMEC: China-Myanmar Economic Corridor

CPP: Cambodian People's Party

EU: European Union

FDI: foreign direct investment

FOCAC: Forum on China-Africa Cooperation

FTA: Free Trade Agreement

GDP: gross domestic product

ICBC: Industrial and Commercial Bank of China

ICT: information computing and telecommunications

IMF: International Monetary Fund

IRI: International Republican Institute

ISIS: Malaysia's Institute of Strategic and International Studies

LED: light-emitting diode

MCA: Malaysian Chinese Association

MCTCO: Maldives China Trade and Cultural Organization

MDP: Maldivian Democratic Party

MOU: memorandum of understanding

MPS: China's Ministry of Public Security

NATO: North Atlantic Treaty Organization

PH: Pakatan Harapan opposition party

PLA: People's Liberation Army

PM: Prime Minister

SEZ: Special Economic Zones

SOE: state-owned enterprise

TBEA: a Chinese manufacturer of power transformers

TGSP: Trans Sabah Gas Pipeline

UDG: Union Development Group

UMNO: United Malays National Organization

UTG: University of The Gambia

ZNBC: Zambia's state broadcaster

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INTRODUCTION

China has engaged with countries throughout the developing world for decades, primarily seeking critical resource needs and new markets for its rapidly growing economy. Yet in recent years, Beijing is taking a significantly more aggressive approach to advancing its expanding interests in developing countries, leveraging unprecedented levels of influence to achieve its desired political and economic ends.

Some of this influence is a natural result of China's growing economy and its government's related efforts to expand the country's cultural appeal abroad, as other rising powers have done. The Chinese Communist Party (CCP), however, is employing a unique set of tactics in the economic and information domains that undermines many developing countries' democratic institutions and future prosperity as their dependence on China grows.

CCP influence tactics in the economic and information spheres are of particular concern for several reasons. First, China has rapidly increased the use of its influence tactics in these two domains. Second, uninformed observers are particularly likely to perceive these efforts as innocuous and on par with those employed by democracies. China's leveraging of growing political and security ties across the developing world complements and bolsters these efforts.

Despite growing recognition of the risks of engagement with China, there has been little in-depth research on China's means of influence and the response to such efforts in individual countries. In an effort to address this gap and inform efforts to bolster resilience to foreign authoritarian influence, the International Republican Institute (IRI) enlisted researchers in 12 vulnerable democracies around the world to study the nature of CCP influence and the determinants of democratic resilience to CCP tactics.

This report consists of condensed versions of research findings on Cambodia, Pakistan, Sri Lanka, Serbia, Ecuador, Zambia, Mongolia, Hungary, The Gambia, Myanmar, Malaysia and the Maldives. The country studies are ordered starting with those which have demonstrated the least resilience to Chinese influence efforts. The report concludes with Australia's experience, included because of that country's valuable lessons for developing democracies that have already encountered similar levels of CCP interference – or may soon.

The findings from these studies underscore the pernicious effects of simultaneous unchecked CCP influence in democracies' economies and their internal discourse on China. Beijing's manipulation of the information space neuters institutions such as independent media and civil society that in robust democracies would otherwise expose the risks of China's opaque economic deals and corrupt practices.

The CCP – which systematically suppresses political pluralism and free expression in China – is increasingly attempting to use similar practices abroad to manipulate internal political and information environments to its own benefit. China's preference for opaque, corrupt economic deals corrodes democratic institutions and leaves countries increasingly beholden to their Chinese creditors.

These actions, in conjunction with China's support for likeminded, illiberal partners and growing advocacy for its authoritarian model, have the potential to draw fragile democracies into China's orbit and away from the United States and the democratic West. This represents a clear and significant threat to U.S. strategic and economic interests and has the potential to destroy the American-led liberal democratic order.

The studies in this report also demonstrate the significant variation in CCP methods of influence, which are targeted according to the state of governance and transparency in the particular country in which China is operating. This finding underlines the importance of focusing on the context in individual countries targeted for CCP influence and proactively bolstering fragile democratic institutions to counter the malign effects. Nevertheless, the comparison of these case studies makes it possible for the report to draw conclusions regarding China's common means of influence in the economic and information domains and their effect on developing democracies.

EXECUTIVE SUMMARY OF KEY FINDINGS

Economic Influence

Much of China's growing influence in the developing world can be ascribed to its leverage as a \$14 trillion economy and the world's largest commodity importer.¹ Beijing is expanding trade and investment with countries in need of both. However, there are malign aspects of China's growing economic engagement that render its influence harmful to many developing countries.

- **Opacity is inherent to deals concluded under the Belt and Road Initiative (BRI), China's ambitious global infrastructure and connectivity program.** Chinese companies – typically state-owned enterprises (SOEs) – are looking to secure no-bid contracts with highly favorable terms to carry out projects financed by Chinese policy banks. Not surprisingly, negotiations and contract terms are almost never made public. This lack of transparency is central to many of the damaging consequences of the BRI, including inflated costs and onerous terms that saddle countries with unsustainable debt.
- **In countries such as Ecuador, Pakistan and Sri Lanka, the lack of alternatives to continued reliance on China to finance those debts results in a cycle of dependence.** In the infamous case of Sri Lanka's Hambantota Port, Beijing leveraged that country's inability to pay its debts to acquire a 99-year lease on a strategic asset and surrounding territory – an example of the potential risks of the BRI and unsustainable debt for recipient countries.²
- **The opaque nature of BRI projects presents regular opportunities for massive corruption, best described as a "feature" of the BRI rather than a "bug."** Chinese SOEs seeking preferential bids and terms regularly line the pockets of recipient officials who are all too willing to accept massive amounts of Chinese credit for projects of dubious value.
 - » For example, in Ecuador massive corruption fueled a deal for a Chinese-financed dam built in the shadow of a volcano, against the advice of geologists. The dam has failed to generate the levels of electricity promised, while the contract terms continue to undermine the country's economic prospects. In Malaysia, Chinese SOEs were granted major infrastructure deals at significantly inflated costs, in return for Chinese assistance in bailing out a troubled government investment firm then-Prime Minister Najib Razak reportedly used as his personal piggy bank. In countries like Cambodia, Chinese entities have established enduring corrupt links with leaders, achieving a level of "elite capture" that ensures CCP interests will be protected at the highest levels of the Cambodian government.

Manipulation of the Information Space

- **The CCP is also going to great lengths to ensure greater control over developing countries' internal narratives about their relationships with China, including by suppressing criticism of Chinese activities within their borders.** In Sri Lanka, for example, China has stepped up efforts to quiet the "debt trap" narrative which emerged after China's controversial long-term lease of Hambantota Port, damaging the BRI brand globally.

¹ Wei, Lingling. "China Expects 2019 Economic Growth of 6% to 6.5%." *The Wall Street Journal*, 4 Mar. 2019, www.wsj.com/articles/china-expects-2019-economic-growth-of-6-to-6-5-11551748675; Kennedy, Simon. "China Will Overtake the U.S. in Less Than 15 Years, HSBC Says." *Bloomberg*, 25 Sept. 2018, <https://www.bloomberg.com/news/articles/2018-09-25/hsbc-sees-china-economy-set-to-pass-u-s-as-number-one-by-2030>

² Kratz, Agatha, et al. "New Data on the 'Debt Trap' Question." *Rhodium Group*, 29 Apr. 2019, rhg.com/research/new-data-on-the-debt-trap-question/.

- **China’s manipulation of the information and political environment in countries around the world, which the National Endowment for Democracy has termed “sharp power,” is critical to the CCP’s ability to ensure a positive “China story” and protect its growing investments in developing countries.**³
 - » The studies in this report demonstrate that China is most likely to aggressively employ “sharp power” tools in countries that demonstrate resilience to its economic-influence tactics. This resilience can range from removing corrupt, China-friendly leaders from power to exposing China’s opaque deal-making in the media. The CCP increasingly seeks to head off criticism of Chinese investments and capture of a country’s elites, thereby preventing its negative influence from becoming an election issue as it has in many countries, including Malaysia, Sri Lanka and Zambia.
- **The CCP has a large and growing set of tools it uses to advance its narrative.** These include pervasive official propaganda, funding of research and academic institutions, and use of seemingly innocuous cultural and other “soft power” institutions to cultivate foreign partners and squelch anti-China narratives.
 - » China’s growing investment in cash-strapped media companies throughout the developing world presents another opportunity. In Zambia, the state broadcaster has established a joint venture with a Chinese company, StarTimes, to modernize the country’s broadcasting system. StarTimes owns a majority stake, leading to concerns about China’s potential sway over the national broadcasting service’s content.
 - » The CCP also utilizes Chinese diaspora voices and political influence as tools to serve its interests in many countries, including through control over diaspora media and by compelling Chinese students and businesses to act as political agents.
- **In certain weak democracies, an illiberal regime’s control over information and close ties with China reduces the need for the CCP to expend effort shaping the information space.** In Cambodia, for example, Prime Minister Hun Sen has been able to ensure that the information environment remains friendly to Chinese interests and generally conducive to a continued extension of CCP influence. Similarly, China has not needed to expend effort to ensure positive coverage of its growing ties with Serbia by the Serbian media, which is largely controlled by a China-friendly government.

Risks of CCP Influence for Developing Democracies

In many countries, CCP influence is undermining governance, prosperity and open discourse, encouraging democratic backsliding.⁴

- **Chinese loans, untied to democracy and governance requirements, bolster the fortunes of illiberal actors eager to take credit for delivering Chinese investment – no matter the long-term costs of deals signed behind closed doors.** Such actors often direct Chinese investment in their country toward politically valuable regions and constituencies, further exacerbating inequality and threats to democratic processes.
 - » In Pakistan, for example, corruption and political calculations have produced drastic disparities in Chinese investment across provinces, heightening challenges to the country’s federalist system. The “capture” of elites, through corruption and perversion of sources of information, also leaves leaders less accountable to their publics.

³ Walker, Christopher, and Jennifer Ludwig. “The Meaning of Sharp Power.” *Foreign Affairs*, 16 Nov. 2017, www.foreignaffairs.com/articles/china/2017-11-16/meaning-sharp-power; “President Xi Urges New Media Outlet to ‘Tell China Stories Well,’” *CCTV.com English*, 31 Dec. 2016, english.cctv.com/2016/12/31/ART1dbvXHYpQnQ35nWBGttZg161231.shtml.

⁴ *Freedom on the Net 2018: The Rise of Digital Authoritarianism*. Freedom House, 2018, freedomhouse.org/report/freedom-net/freedom-net-2018/rise-digital-authoritarianism#ftn18-section-china-remakes-the-world-in-its-techno-dystopian-image.

- » Although governance standards in Cambodia have always been poor, the ready availability of Chinese money has reduced the outside incentive for Hun Sen's government to improve these standards or make itself more accountable to the Cambodian public. Taken together, these activities give credence to authoritarian actors' claims that they can deliver economic development, security and stability.
- **Beijing's support for illiberal actors, the presentation of its model as a superior catalyst of industrial development, and its export of authoritarian tools and practices have the undeniable effect of eroding democratic norms in many countries.** The CCP conducts large-scale trainings for foreign officials about its governance and development model. China also provides training for countries like Cambodia looking to copy its repressive cybersecurity policies.
 - » Islamabad views Beijing's "Great Firewall" efforts to censor and regulate the internet as a model for improving its efforts at suppressing free speech. Additionally, the CCP is offering sophisticated surveillance and monitoring technology to an expanding number of countries. Sri Lanka has reportedly now turned to China to obtain mass online surveillance systems, receiving in May 2019 a commitment for more than \$28 million in software and surveillance equipment, as well as Chinese technical assistance.⁵
 - » At the international level, China is using its growing influence in global governance and in multilateral forums to secure the endorsement of its infrastructure financing practices, weaken human rights protections and shape new, antidemocratic norms regarding issues such as cybersecurity and internet freedom.
- **Beijing has also demonstrated a remarkable ability to maintain and extend its influence in a country even after a friendly illiberal regime loses power, often to an opponent critical of its predecessor's close ties to China.** This reflects the CCP's ability to cultivate a broad cross section of elites in many countries and to establish a state's enduring dependence on China for continued financing.
 - » For example, China was able to protect and advance its significant interests in Sri Lanka despite the electoral defeat in 2015 of China-friendly incumbent Mahinda Rajapaksa by a candidate who had run on a platform criticizing Rajapaksa's deals with China. Despite its skepticism toward Chinese investment, Sri Lanka's new government ultimately determined the country had little choice but to seek further credit from China to finance its debts and complete major infrastructure projects.⁶

The Roots of Resilience

While China's aggressive influence efforts in developed countries like Australia demonstrate the CCP's ambitious global reach, developing countries with shallow democratic roots are especially vulnerable. The studies in this report demonstrate that both China's means of influence and their effects depend on the context in the individual country in which Chinese entities are operating. Understanding the nature of CCP influence in a certain environment is therefore critical to gauging the threat to a country and how it can best be mitigated.

- **Chinese officials and companies take a more aggressive negotiating stance in countries where governance, transparency and the rule of law are weak.** Chinese financing and SOE practices are less

⁵ Fernando, Santhush. "China-styled Mass Online Surveillance." *The Morning*, 19 May 2019, <http://www.themorning.lk/china-styled-mass-online-surveillance/>.

⁶ Aneez, Shihar, and Ranga Sirilal. "Sri Lanka to Allow Chinese Port City Project after Delay." *Reuters*, 12 Jan. 2016, www.reuters.com/article/sri-lanka-china-portcity-idUSL3N14W42G20160112; Chowdhury, Debasish Roy. "Let Bygones Be Bygones, Colombo Urges Beijing, as Chinese Loans Take Their Toll." *South China Morning Post*, 18 Oct. 2015, www.scmp.com/business/global-economy/article/1869177/let-bygones-be-bygones-sri-lanka-urges-china; Aneez, Shihar. "Sri Lanka to Receive \$1 Billion Bank of China Loan This Quarter." *Reuters*, 17 Jan. 2019, www.reuters.com/article/us-sri-lanka-economy-bank-of-china-exclu/exclusive-sri-lanka-to-receive-1-billion-bank-of-china-loan-this-quarter-idUSKCN1PB1DD.

consistent with accepted international standards in countries with looser regulation practices, public procurement rules and labor regulations.

» However, there is evidence that China moderates its influence efforts in the face of pushback by recipient governments. In Myanmar, where Chinese loans account for approximately 40 percent of the country's total government debt, the country has induced China to renegotiate terms for development of a deep-sea port to significantly reduce the potential debt burden.⁷ Myanmar has also reportedly drafted plans to mitigate the risks of BRI-related investments, including by insisting that projects be selected through a public tender process.⁸

- **Indo-Pacific countries are the most likely to have experienced high levels of CCP influence across the economic and information domains, largely due to their geographic location.** Given this experience and the resulting knowledge of CCP influence practices, the region is also home to the few countries that have successfully pushed back on China.

» In contrast, regions such as Latin America or Eastern Europe may have experienced a lesser degree of Chinese influence but also have minimal knowledge about China and its policies, creating a vacuum the CCP can exploit. In the case of Ecuador, China's economic deals with the corrupt regime of former President Rafael Correa caused significant damage to the country's institutions and economy. Greater awareness of China's approach to investment and CCP influence efforts in think tanks, universities, nongovernmental organizations and media is critical where impartial expertise on China and the nature of the CCP is lacking.

- **The potential malign effects of CCP influence are mitigated in countries with both the knowledge and tools to counter this phenomenon and protect their institutions.** In the Australian case and every other instance of successful resilience, the capacity of independent media, civil society, political parties and private enterprise to force greater transparency has mitigated the effects of CCP influence.

» A vigorous independent media and vibrant civil society, particularly in Australia's ethnic Chinese diaspora community, helped to expose CCP influence efforts. Canberra then mounted an effective response, relying on an accountable and transparent government and an independent judicial system.

- **Democratic institutions are critical to recipient countries' ability to monitor and evaluate Chinese project implementation and promote the rule of law, particularly in countries with leaders happy to conclude deals behind closed doors.** The availability of accurate information permits broad public debate about how to engage China, giving citizens the power to keep their leaders accountable and protect their own country's interests.

⁷ Linter, Bertil and Chiang Mai. "Poor and Isolated, Myanmar Backs into a China Debt," *Asia Times*, 31 Jan. 2019, www.asiatimes.com/2019/01/article/poor-and-isolated-myanmar-backs-into-a-china-debt-trap/; "Myanmar Scales Back Chinese-Backed Port Project over Debt Fears," *Reuters*, 2 Aug. 2018, www.theguardian.com/world/2018/aug/02/myanmar-scales-back-chinese-backed-port-project-over-debt-fears.

⁸ Lwin, Nan. "Deft Diplomacy Required as China, Japan, Courts Myanmar." *The Irrawaddy*, 19 Dec. 2018, www.irrawaddy.com/news/analysis-deft-diplomacy-required-china-japan-court-myanmar.html.

RECOMMENDATIONS

- The CCP's aggressive influence campaign undermines vital strategic interests for the United States and its democratic partners, and is unlikely to retreat unless it begins to yield negative consequences. It is vital that the U.S. and its partners combat this threat by shoring up the resilience of the countries that China has targeted.
- In countries where China has made significant inroads, the persistence of strong institutions - for example, a robust independent media - can provide a bulwark against further expansion of Chinese interference, and may even contribute to its retreat.
- The U.S. and its partners should raise awareness of CCP influence tactics within private enterprise, academia, and government, and bolster the capacity of civil society, political parties, and independent media to expose and counter such tactics.

Considering the potential for a particularly detrimental impact from CCP investment practices in economically disadvantaged countries, the U.S. and its democratic partners should lead a united effort to offer alternatives to Chinese investment and financing, as well as technical assistance on negotiations.

CAMBODIA

Cambodia sits squarely in China's widening orbit and demonstrates the extent of dependence and democratic decline that can result from pervasive Chinese Communist Party (CCP) influence. For the past two decades, Beijing has developed affectionate ties with the country's ruling Cambodian People's Party (CPP) and its paramount leader, Prime Minister Hun Sen, who has ruled the country under various guises since 1985.

This relationship has been based on the convergence of strategic interests between the two governments. China has offered Cambodia's government much-needed investment and financing without the types of preconditions of reforms usually demanded from Western institutions. This has given the regime an escape valve from Western pressures relating to democracy and human rights concerns. In exchange, Cambodia has supported China's core interests in the region, including Beijing's aggressive claims in the South China Sea. In fact, during his 2016 visit to Cambodia, Chinese President Xi Jinping described the Sino-Cambodian friendship as "ironclad."⁹

China's Economic Influence

China has achieved nearly pervasive economic influence in Cambodia. These activities range from large infrastructure projects undertaken as part of the Belt and Road Initiative (BRI) to personal connections between Chinese business leaders and prominent Cambodian tycoons and government officials, including Hun Sen.

Chinese companies are represented in every sector of Cambodia's economy – from real estate, agriculture and manufacturing to tourism, mining and hydropower.

China was the country's largest foreign investor for five straight years from 2013 to 2017. In 2017, Cambodia attracted fixed-asset investment of \$1.4 billion from China, accounting for 27 percent of total foreign direct investment (FDI).¹⁰ Much of this engagement has since been subsumed under the BRI, in which the Cambodian government has been an enthusiastic participant. Hun Sen has said he was "amazed by the initiative," praised Xi's "wisdom," and declared that the BRI gave "hope for countries that need capital."¹¹

The Cambodian government's ability to quickly obtain Chinese financing for large-scale infrastructure projects contrasts with the slower oversight processes and good governance conditionalities of its traditional donors. One example is the controversial 400-megawatt Lower Sesan II dam, the country's largest hydroelectricity project, which a Chinese state-owned enterprise (SOE) pushed through despite complaints from environmentalists and protests from thousands of villagers displaced by the project. The dam became operational in December 2018.¹² China has also proposed developing 2,230 kilometers of

⁹ Thul, Prak Chan. "Chinese President Xi Jinping Visits Loyal Friend Cambodia." *Reuters*, 13 Oct. 2016, www.reuters.com/article/us-china-cambodia/chinese-president-xi-jinping-visits-loyal-friend-cambodia-idUSKCN12DONV.

¹⁰ Heng, Pheakdey. "Are China's Gifts a Blessing or a Curse for Cambodia?" *East Asia Forum*, 29 Aug. 2018, www.eastasiaforum.org/2018/08/29/are-chinas-gifts-a-blessing-or-a-curse-for-cambodia/.

¹¹ "Belt and Road Initiative Gives Hope to Developing Countries in Infrastructure Development: Cambodian PM." *Xinhua*, 11 May 2017, www.xinhuanet.com/english/2017-05/11/c_136274730.htm.

¹² Treng, Stung. "Cambodia Hails Opening of Country's Largest Dam Despite Opposition." *Agence France-Press*, 18 Dec. 2018, www.france24.com/en/20181217-cambodia-hails-opening-countrys-largest-dam-despite-opposition. The \$800 million Lower Sesan II dam is a joint-venture investment with China's Hydrolancang International Energy Co Ltd, which holds 51 percent of its shares, with the remainder held by the Cambodian Royal Group conglomerate (39 percent) and Vietnam Electricity (10 percent).



A Chinese construction project in Sihanoukville, Cambodia.

China has achieved nearly pervasive economic influence in Cambodia.

national expressways by 2040, at a reported cost of \$26 billion.¹³ The first of these is already underway: an expansion of National Road 4 from Phnom Penh to Sihanoukville, the home of Cambodia's only deep-water port, which has recently been transformed into a Chinese tourism hub dominated by dozens of unregulated casinos.¹⁴

Despite the large influx of Chinese yuan, BRI loans have not yet placed an undue financial burden on the Cambodian government. By the end of 2016, Cambodia's total public debt stood at around \$6.5 billion, nearly half of which was held by China.¹⁵ For now, the total represents just 32 percent of the country's gross domestic product of \$20 billion, a relatively sustainable debt load.¹⁶ However, if Cambodia continues borrowing at the current rate, the country's debt load could become burdensome in the near future, especially in the event of a recession or some other external shock.¹⁷

¹³ Chheang, Vannarith. "Cambodia Embraces China's Belt and Road Initiative." Singapore, Institute of Southeast Asian Studies, ISEAS Perspective, 6 Jul. 2017, p. 6, www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2017_48.pdf.

¹⁴ Murdoch, Lindsay, and Kate Geraghty. "The Next Macau? China's Big Gamble in Cambodia." *Sydney Morning Herald*, 20 Jun. 2018, www.smh.com.au/world/asia/the-next-macau-china-s-big-gamble-in-cambodia-20180615-p4z1qg.html; Ellis-Petersen, Hannah. "No Cambodia Left: How Chinese Money Is Changing Sihanoukville." *The Guardian*, 31 Jul. 2018, www.theguardian.com/cities/2018/jul/31/no-cambodia-left-chinese-money-changing-sihanoukville; "Cambodia's Bid to Be 'New Macau' Stirs Old Wounds as Chinese Cash In." *Agence France-Presse*, 27 Jan. 2019, www.straitstimes.com/asia/se-asia/cambodias-bid-to-be-new-macau-stirs-old-wounds-as-chinese-cash-in.

¹⁵ Hurley, John, et al. "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective." Washington, D.C., Center for Global Development, Mar. 2018, p. 28, www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf.

¹⁶ Hurley, et al. "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective." p. 12.

¹⁷ Spiess, Robin. "Belt and Road Could Bring Risks for Cambodia Debt." *Phnom Penh Post*, 27 Mar. 2018, www.phnompenhpost.com/business/belt-and-road-could-bring-risks-cambodia-debt.



Sihanoukville Port in Cambodia, an area flooded by Chinese investment.

China's rising economic presence in Cambodia has had clear negative impacts on the country's development trajectory. Although governance practices in Cambodia have always been poor, the ready availability of Chinese money has reduced the external incentives for Hun Sen's government to improve these standards or make itself more accountable to the Cambodian public. Transparency International's Corruption Perceptions Index for 2018 ranked Cambodia the most corrupt nation in Southeast Asia, and it came in 161st out of the 180 ranked countries in terms of popular perceptions of corruption.¹⁸

The heads of Chinese firms – many of whom have close links to the Chinese government – frequently work through the CPP's corrupt networks to forge alliances at the highest levels of the Cambodian government. A prime example is Fu Xianting, also known as Big Brother Fu, a former People's Liberation Army (PLA) officer whose business interests have been helped by his "family-like" relationship with Hun Sen and key members of his inner circle.¹⁹ In 2009, Hun Sen helped Fu and his company win a 99-year lease for a 3,300-hectare concession to build a \$5-billion resort on Cambodia's coast. The government granted the concession after Fu's company made a series of donations to Hun Sen's bodyguard unit, a 3,000-strong private army.²⁰ The intertwining of private Chinese companies with the state and ruling party, and the willingness of these companies to work through the party's illicit economic networks, have been important factors in the expansion of Chinese influence.

¹⁸ "Corruption Perceptions Index 2018." *Transparency International*, www.transparency.org/cpi2018.

¹⁹ Pye, Daniel, and May Titthara. "Friends in High Places." *Phnom Penh Post*, 24 Mar. 2014, www.phnompenhpost.com/national/friends-high-places.

²⁰ Kyngé, James, et al. "How China Bought Its Way into Cambodia." *Financial Times*, 8 Sep. 2016, www.ft.com/content/23968248-43a0-11e6-b22f-79eb4891c97d. See Kotoski, Kali, and Sor Chandara. "Developer Finds New Partners for Planned Resort in Preah Sihanouk." *Phnom Penh Post*, 21 Mar. 2016, www.phnompenhpost.com/business/developer-finds-new-partners-planned-resort-preah-sihanouk.

Other Forms of Chinese Influence

Current Cambodian policy is so accommodating to China that the CCP has found it unnecessary to resort to coercive influence tactics to advance its interests. Hun Sen has ensured that the Cambodian information environment remains friendly to Chinese interests and conducive to the continued extension of CCP influence in Cambodia. Cambodia hosts just one Confucius Institute, at the Royal Academy of Cambodia in Phnom Penh.²¹ Official Chinese media reported in 2016 that the institute plays “a big role in promoting China’s Belt and Road Initiative in the kingdom.”²²

China has offered considerable technical support to the Cambodian information-technology, telecommunications, education and media sectors. This has increased China’s potential to shape the Cambodian information environment, while bolstering the Hun Sen regime’s control over the population.²³ In April 2017, Cambodia and China signed an agreement initiating regular media exchanges, under which Cambodian journalists and Ministry of Information officials would be offered technical training in China and gain special access to Chinese officials.²⁴ Chinese media support is helping to entrench a model of media engagement in which Cambodian outlets are openly supportive of government positions – a dynamic that a Reporters Without Borders representative has described as “journalism with Chinese characteristics.”²⁵ Chinese firms have also directly invested in state-run Cambodian media.²⁶

China has also given Hun Sen’s regime the security and surveillance tools needed to bolster its hold on power. China’s Ministry of Public Security (MPS) has donated \$3 million in closed-circuit-television (CCTV) cameras to the Phnom Penh municipal government, facilitating the CPP’s increased control of Cambodia’s main urban center.²⁷ In May 2018, Cambodian Interior Minister Sar Kheng and China’s Minister of Public Security Zhao Kezhi signed a memorandum of understanding on “fighting terrorism and cybercrimes,” including a donation of body armor, riot shields, repeater systems and walkie-talkies.²⁸

Cambodia’s Response

China’s influence and support have given Hun Sen the ability to undermine the democratic institutions that might challenge his policies or the growing influence of China in Cambodia. Hun Sen has rolled back the country’s partial media freedoms and quashed the independent outlets most critical of his government.²⁹

The value of Chinese support was on display in the run-up to national elections held in July 2018, when the CPP launched a severe crackdown on its opponents, shuttering critical media outlets and arresting opposition politicians and human rights defenders. In September 2017, opposition leader Kem Sokha was arrested and charged with treason. Facing little effective opposition, the CPP won all 125 seats in the Cambodian National Assembly. When Western nations suspended support for Cambodia’s 2018 elections

²¹ “Spotlight: Confucius Institute in Cambodia Serves as Platform for Promoting China’s Belt and Road Initiative.” *Xinhua*, 13 Oct. 2016.

²² Custer, Samantha, et al. *Ties That Bind: Quantifying China’s Public Diplomacy and Its “Good Neighbor” Effect*. Williamsburg, VA, AidData at William & Mary, 2018, p. 21, www.aiddata.org/publications/ties-that-bind.

²³ “Cambodia, China Ink Cooperation Deal on Telecom, ICT.” *Xinhua*, 27 Jan. 2015.

²⁴ Pheap, Aun. “Ministry, Cambodian Journalists Strengthen Links to China.” *Cambodia Daily*, 11 April 2017, www.cambodiadaily.com/news/ministry-cambodian-journalists-strengthen-links-to-china-127863/; Cited in “With Cambodia’s Free Press under Fire, ‘China Model’ Makes Inroads.” *Agence France-Presse*, 3 June 2018, www.bangkokpost.com/news/asean/1478013/with-cambodias-free-press-under-fire-china-model-makes-inroads.

²⁵ “With Cambodia’s Free Press under Fire, ‘China Model’ Makes Inroads.”

²⁶ “First Chinese-Invested TV Channel Launches in Cambodia.” *Xinhua*, 29 Sep. 2017.

²⁷ Odom, Sek, and Joshua Wilwohl. “China Gives \$3M for City Surveillance System.” *Cambodia Daily*, 13 Aug. 2014, www.cambodiadaily.com/news/china-gives-3m-for-phnom-penh-surveillance-system-66349/; Narim, Khuon. “Chinese Police Start Placing Surveillance Cameras.” *Cambodia Daily*, 16 July 2015, www.cambodiadaily.com/news/chinese-police-start-placing-surveillance-cameras-88535/; Sotheary, Pech. “CCTV Network Goes Live in Capital: Police.” *Phnom Penh Post*, 23 Dec. 2015, www.phnompenhpost.com/national/cctv-network-goes-live-capital-police.

²⁸ Rathavong, Van. “Cambodia and China Sign Security Deal.” *Khmer Times*, 12 May 2018, www.khmertimeskh.com/488848/cambodia-and-china-sign-security-deal/.

²⁹ Paddock, Richard C. “The Cambodia Daily to Close (After Chasing One Last Big Story).” *The New York Times*, 3 Sep. 2017, www.nytimes.com/2017/09/03/world/asia/cambodia-daily-newspaper.html; Wallace, Julia, and Mike Ives. “A Newspaper Is Sold, and Cambodians Fear the End of Press Freedom.” *The New York Times*, 7 May 2018, www.nytimes.com/2018/05/07/world/asia/cambodia-phnom-penh-post-sale.html.

following Kem Sokha's arrest, China voiced its full support for the electoral process, donating laptops, computers, voting booths and other items to the Cambodian National Election Committee, and sent an observer mission to "monitor" proceedings on Election Day.³⁰

The support of the Hun Sen regime has also raised the potential for Chinese control over strategically important assets throughout the country. The most significant asset is a massive economic land concession in Koh Kong province on Cambodia's southern coast. Granted to the Tianjin-based Union Development Group (UDG) in 2008 for the development of an industrial and commercial tourism project, the 36,000-hectare concession includes 20 percent of Cambodia's coast.³¹ UDG's Dara Sakor resort includes plans for an international airport, hospitals, international schools, five-star hotels and – most controversially – a deep-water port large enough to potentially handle cruise ships, bulk carriers or naval vessels.

The lack of strong and independent democratic institutions in Cambodia has created a permissive environment for pervasive CCP influence and left democratic stakeholders with limited means to remedy resulting dependence on China. Support for Cambodian civil society, independent media and other stakeholders will be critical to supporting a restoration of Cambodia's democracy and independence.

³⁰ "China Pledges Support for Cambodia Election after EU, U.S. Withdraw." *Reuters*, 28 Dec. 2017.

³¹ Nagemson, Andrew. "A Chinese Colony Takes Shape in Cambodia." *Asia Times*, 5 June 2018, www.asiatimes.com/2018/06/article/a-chinese-colony-takes-shape-in-cambodia/.

PAKISTAN

Pakistan and China have enjoyed an “all-weather friendship” for many decades, with mutual strategic interests underpinning bilateral cooperation across a range of areas.³² It is therefore not surprising that Pakistan has welcomed growing Chinese economic investment to help its faltering economy.³³

China has been eager to extend both its economic and strategic reach in Pakistan, which plays a key role in the Belt and Road Initiative (BRI) and China’s growing naval ambitions in the Indian Ocean. This influence campaign has exacerbated Pakistan’s economic difficulties, as well as its struggles against corruption and a patronage-based economic system. However, efforts by Pakistani civic actors, and a wider and better-informed public debate, could help mitigate dependence on Beijing.

Chinese Economic Influence

China exerts outsized economic influence in Pakistan, institutionalized through the China-Pakistan Economic Corridor (CPEC), often called the “flagship” project of the BRI.³⁴ Conceived in 2013 and launched in 2015, CPEC is designed to anchor bilateral economic cooperation on a 2,700-kilometer (km) path starting in the port of Gwadar (on the Arabian Sea) and ending in Kashgar in western China. Comprising loans, investments and grants, China’s assistance package was advertised as potentially reaching more than \$60 billion.³⁵ Its first phase included road and highway infrastructure, power plants, special economic zones and development of the strategically located Gwadar port, which has exacerbated political instability in turbulent Balochistan province.³⁶ A second phase is to involve Pakistan’s agricultural sector.³⁷

Starved for external capital that had not materialized from other sources, Pakistan was willing to make major concessions and offer highly lucrative terms as part of CPEC. Facing frequent blackouts and power shortages estimated to have cut Pakistan’s gross domestic product (GDP) by as much as 2 percent, the government offered China special tariff rates and a guaranteed return on equity to Chinese investors.³⁸ These terms caused Pakistan’s energy providers to fall into deeper debt – forcing the government to make up for the shortfall and further exacerbating Islamabad’s fiscal position.³⁹

³² Wintour, Patrick. “All-Weather Friendship’: But Is Pakistan Relying Too Heavily on China?” *The Guardian*, 3 Aug. 2018, www.theguardian.com/cities/2018/aug/03/all-weather-friendship-but-is-pakistan-relying-too-heavily-on-china.

³³ Pakistan has been a regular and habitual recipient of Chinese investment. For example, in 2010, then-Chinese Premier Wen Jiabao announced \$35 billion worth of trade and investment deals. See Lamont, James, and Farhan Bokhari. “A History of China-Pakistan Ties.” *Financial Times*, 19 Dec. 2010, www.ft.com/content/cee90816-0b9b-11e0-a313-00144feabd0.

³⁴ Awan, Zameer Ahmed. “BRI and CPEC, Five Years On.” *China Daily*, 28 Aug. 2018, www.chinadaily.com.cn/a/201808/28/WS5b84f145a310add14f388331.html.

³⁵ Toppa, Sabrina. “Why Young Pakistanis Are Learning Chinese.” *The Atlantic*, 14 Nov. 2018, www.theatlantic.com/international/archive/2018/11/pakistan-china-cooperation-cpec/568750/.

³⁶ Fazli, Shehryar. Unpublished paper on Pakistan-China relations, Feb. 2019. See also “Long Term Plan for China-Pakistan Economic Corridor (2017–2030).” *Government of Pakistan, Ministry of Planning, Development and Reform, and People’s Republic of China National Development and Reform Commission* (undated), www.pc.gov.pk/uploads/cpec/LTP.pdf. Analysts and officials often depict the transformation of a fishing village like Shenzhen, China, into a thriving technology hub as an economic miracle born of the special-economic-zone concept. Beijing continues to replicate the effort domestically and is also trying to do so abroad. See Holmes, Frank. “China’s New Special Economic Zone Evokes Memories of Shenzhen.” *Forbes*, 21 Apr. 2017, www.forbes.com/sites/greatspeculations/2017/04/21/chinas-new-special-economic-zone-evokes-memories-of-shenzhen/#5ad5144a76f2.

³⁷ Fazli. Unpublished paper on Pakistan-China relations. See also Awan. “BRI and CPEC, Five Years On.” Pakistan was (and remains) in urgent need of foreign investment. This need dovetailed with China’s economic desire to export infrastructure overcapacity.

³⁸ The guaranteed rate of return on equity was reportedly as high as 34 percent. See Rana, Shahbaz. “Pakistan to Pay China \$40b on \$26.5b CPEC Investments in 20 Years.” *Express Tribune*, 26 Dec. 2018, tribune.com.pk/story/1874661/2-pakistan-pay-china-40-billion-20-years/. Although the article claimed that its figures were based on official documents, Chinese and Pakistani officials rejected the article’s assessments.

³⁹ This phenomenon is known as circular debt. See also “Pakistan: 2017 Article IV Consultation. IMF Country Report No. 17/212.” *International Monetary Fund*, 13 Jul. 2017, www.imf.org/en/Publications/CR/Issues/2017/07/13/Pakistan-2017-Article-IV-Consultation-Press-Release-Staff-Report-Informational-Annex-and-45078.

Chinese loans also offered Pakistani leaders an alternative to International Monetary Fund (IMF) and Western bailout packages conditioned on fundamental reforms to reverse the country's ballooning fiscal and current-accounts deficits. This access to readily available Chinese capital has reduced the urgency of economic and governance reforms.

Opacity has been a hallmark of CPEC agreements, with details only exposed as a result of Pakistan's robust culture of investigative journalism. The Pakistani government only publicized the CPEC Long Term Plan in December 2017, after the Dawn newspaper published a leaked version.⁴⁰ Islamabad sought an IMF bailout in late 2018 to address unsustainable current-account and fiscal deficits, with Pakistan's repayment obligations to China a key focus in the negotiations. In December 2018, the Express Tribune paper published a report, based on Planning Commission documents, outlining Pakistan's repayment obligations to China of close to \$40 billion over 20 years.⁴¹

Pakistan's embrace of CPEC has also expanded opportunities for corruption and rent seeking by ruling elites, who have used CPEC as a grab bag for pet projects and personal enrichment. For example, former Prime Minister Nawaz Sharif's administration reneged on pledges that CPEC projects would be distributed evenly across Pakistan; they were instead directed to politically powerful Punjab province.⁴² The terms of projects completed under the CPEC have also prompted concerns that Chinese state-owned enterprises will benefit most from the agreement. CPEC reportedly obliges Pakistan to import Chinese machinery – which already accounts for 46 percent of Pakistani imports from China – which may further exacerbate the country's current-account deficit.⁴³

China has also gained significant influence as a result of the 2006 China-Pakistan free-trade agreement, widely viewed as disproportionately benefitting China. Pakistan's trade deficit with China reportedly grew from around \$4 billion in 2012 to more than \$12 billion in 2016, accounting for roughly half of Pakistan's overall trade deficit.⁴⁴ Chinese goods have flooded Pakistan markets, provoking resentment among local producers and the larger business community.⁴⁵

Other Forms of Chinese Influence

China holds significant sway over the Pakistani political elite and public sentiment, primarily because China is seen as a more reliable ally than the United States or other Western countries. The affinity between the two governments is also bolstered by their common approaches to sovereignty and government control over information.

In recent years, there has been a notable crackdown on free speech and civic activity in Pakistan, characterized by increased harassment of media and activists. In this context, Beijing has found a welcome recipient of Chinese information-technology infrastructure and CCP propaganda content in Islamabad.

⁴⁰ "4th Review of the China Pakistan Free Trade Agreement (CPFTA) & Recommendations for Phase II Negotiations." *Pakistan Business Council*, 2018, cited in Fazli. Unpublished paper on Pakistan-China relations.

⁴¹ "Pakistan to Pay China \$40b on \$26.5b CPEC Investments in 20 Years." *Express Tribune*, 26 Dec. 2018. Cited in Fazli. Unpublished paper on Pakistan-China relations.

⁴² Fazli. Unpublished paper on Pakistan-China relations.

⁴³ Fazli. Unpublished paper on Pakistan-China relations. Also see "Preliminary Study on Pakistan and China Trade Partnership Post FTA." *The Pakistan Business Council*, 21 Oct. 2013, www.pbc.org.pk/research/preliminary-study-on-pakistan-and-china-trade-partnership-post-fta/; "4th Review of the China Pakistan Free Trade Agreement (CPFTA) & Recommendations for Phase II Negotiations." *The Pakistan Business Council*, 2018, www.pbc.org.pk/research/4th-review-of-the-china-pakistan-free-trade-agreement-cpfta-and-recommendations-for-phase-ii-negotiations/.

⁴⁴ Fazli. Unpublished paper on Pakistan-China relations.

⁴⁵ See "Preliminary Study on Pakistan and China Trade Partnership Post FTA." and "4th Review of the China Pakistan Free Trade Agreement (CPFTA) & Recommendations for Phase II Negotiations." Cited in Fazli. Unpublished paper on Pakistan-China relations.

Positive images of China and CPEC feature regularly in Pakistani media.⁴⁶ In December 2018, a partner of China's state-run China Economic Daily arranged a five-day visit to Beijing and Shenzhen for the Council of Pakistan Newspaper Editors (CPNE), during which the hosts and participants agreed to highlight the benefits of CPEC for both countries.⁴⁷ Pakistan's most prominent media companies, while independent and often critical of state policy, depend on government and corporate advertising that can influence their coverage.

Pakistan's business and policy communities have raised concerns about unfair advantages for Chinese enterprises in special economic zones, unaffordable debt and returns on investment, and inadequate planning to enable Pakistan to reap CPEC's benefits. Yet such criticism is "either muted or, in many instances, forcibly suppressed."⁴⁸ China has remained vigilant against criticism, calling on the Pakistani public to resist "anti-CPEC propaganda."⁴⁹

Islamabad views Beijing's "great firewall" efforts to censor and regulate the internet as a model for improving its efforts at suppressing free speech.⁵⁰ Not surprisingly, the CPEC Long Term Plan features an "information network infrastructure," which allegedly includes plans for transmitting Chinese content through Pakistan's Digital Television Terrestrial Multimedia Broadcasting.⁵¹ Pakistan launched a \$44-million, 820-km fiber-optic cable from China's Kunjerab Pass to Rawalpindi, Pakistan, in 2018, part of plans to bring internet traffic into Pakistan without relying on existing infrastructure that passes through India.⁵²

Ruling elites have used CPEC as a grab bag for pet projects and personal enrichment.

Pakistan's Response to Chinese Influence

Despite the change in government with Imran Khan's election in 2018, Pakistan continues to face daunting economic challenges, including macroeconomic instability, a fiscal crisis, high levels of debt and a current-account deficit.

Although Khan criticized the Nawaz Sharif administration's preference for large and opaque CPEC contracts that encouraged corruption, the Khan administration has had a difficult time changing course.⁵³ Abdul Razak Dawood, the cabinet member overseeing commerce and industry, acknowledged last year that concessions to Chinese companies disadvantaged Pakistani competitors, and suggested putting CPEC "on hold for a year so we can get our act together."⁵⁴ The commerce ministry quickly denied that the government was reconsidering aspects of CPEC, while the Chinese embassy underscored bilateral commitment to CPEC.⁵⁵ In order to proceed, Pakistan was reportedly required to assure China that CPEC plans remain fundamentally

⁴⁶ For example, the Dawn Media Group (one of Pakistan's oldest media outlets) hosted a two-day summit on CPEC in 2018 and published a 96-page supplement to the daily *Dawn* newspaper. Also see Fazli. Unpublished paper on Pakistan-China relations; "Perspectives: The CPEC 2018 Summit Karachi." *Dawn* supplement, 22 May 2018, www.cpecinfo.com/cpec-supplement.php.

⁴⁷ "Pak-China Media Leaders Call for Common Platform to Promote Strategic Partnership, CPEC." *Associated Press of Pakistan*, 11 Dec. 2018, www.pakistantoday.com.pk/2018/12/11/pak-china-media-leaders-call-for-common-platform-to-promote-strategic-partnership-cpec/.

⁴⁸ Fazli. Unpublished paper on Pakistan-China relations.

⁴⁹ For example, see "China Brushes Aside Anti-CPEC Propaganda." *Dawn*, 20 Dec. 2016, www.dawn.com/news/1303405.

⁵⁰ "China's Great Firewall Is Rising." *The Economist*, 4 Jun. 2018, www.economist.com/china/2018/01/04/chinas-great-firewall-is-rising.

⁵¹ "Long Term Plan for China-Pakistan Economic Corridor (2017-2030)."; "Exclusive: The CPEC Plan for Pakistan's Digital Future." *Dawn*, 3 Oct. 2017, www.dawn.com/news/1361176.

⁵² Fazli. Unpublished paper on Pakistan-China relations. See also Shahid, Jamal. "Army Seeks Fibre Optic Cables Alongside CPEC." *Dawn*, 25 Jan. 2017, www.dawn.com/news/1310593.

⁵³ Fazli. Unpublished paper on Pakistan-China relations.

⁵⁴ Anderlini, Jamil, et al. "Pakistan Rethinks Its Role in Xi's Belt and Road Plan." *Financial Times*, 9 Sep. 2018, www.ft.com/content/d4a3e7f8-b282-11e8-99ca-68cf89602132. Cited in

Fazli. Unpublished paper on Pakistan-China relations.

⁵⁵ "Pakistan, China Refute Financial Times' CPEC Report, Resolve to Expand Cooperation." *Dawn*, 10 Sep. 2018, www.dawn.com/news/1432099. Cited in Fazli. Unpublished paper on Pakistan-China relations.

unchanged as a precondition for receiving further Chinese aid, which came in the form of a fresh \$2.1-billion emergency loan.⁵⁶

The Khan administration has solicited financing and loans from governments other than China, potentially mitigating Chinese influence by broadening of Pakistan's external sources of credit. The solicitation of emergency loans from Saudi Arabia and the United Arab Emirates helped to stave off Pakistan's balance-of-payments crisis, giving the country enough time to negotiate a bailout with the IMF in May 2019.⁵⁷

There is potential for popular pressure to induce the government to modify its approach to China. Pakistanis have expressed concerns that their government's adoption of Chinese-built fiber-optic internet backbone could undermine free speech across social media platforms – one of the last vestiges of free expression in Pakistan amid a crackdown on mainstream press in recent years.⁵⁸ Additionally, frustration with the terms of Chinese deals has already prompted demands for change. The Balochistan Assembly passed a unanimous resolution urging the federal government to address the "injudicious distribution of projects and funds under CPEC."⁵⁹ Perceptions of CPEC's exploitation of Balochistan's resources, including Gwadar Port and major mines near the Iran border, have even risen to the level of violence, as seen in the November 2018 attack on the Chinese consulate in Karachi by the separatist Baloch Liberation Army (BLA).⁶⁰ Popular anger toward Chinese (and Pakistani) elites erupted in a May 2019 BLA attack on Gwadar's only luxury hotel, often frequented by high-profile Chinese visitors.⁶¹

China has been mostly successful in extending both its economic and strategic influence in Pakistan, a flagship of its broader BRI. Chinese projects have exacerbated Pakistan's economic and financial difficulties and deepened the country's dependence on China, all while advancing China's strategic goals in the Indian Ocean. Broader public debate on CPEC priorities is critical to exposing the opaque deals that have allowed rent seeking and corruption to fester in Pakistan. Such debate should involve economists, chambers of commerce, the Pakistan Business Council, trade associations and other business-community stakeholders. It should also include extensive consultation with local communities about the potential costs and benefits of major development projects, which should be reflected in future agreements with China.

⁵⁶ Fazli. Unpublished paper on Pakistan-China relations. See, for example, Jeong-ho, Lee. "China Promises More Economic Aid for Pakistan, but Won't Yet Commit to Specific Pledges." *South China Morning Post*, 3 Nov. 2018, www.scmp.com/news/china/diplomacy/article/2171541/china-promises-more-economic-aid-pakistan-wont-yet-commit. Shah, Saeed. "China's Belt-and-Road Initiative Puts a Squeeze on Pakistan." *The Wall Street Journal*, 3 Apr. 2019, www.wsj.com/articles/chinas-belt-and-road-initiative-puts-a-squeeze-on-pakistan-11554289201.

⁵⁷ Shah. "China's Belt-and-Road Initiative Puts a Squeeze on Pakistan."

⁵⁸ Fazli. Unpublished paper on Pakistan-China relations; Author's interviews, Islamabad, Jan. 2019.

⁵⁹ Shah, Syed Ali. "Balochistan Assembly Adopts Resolution against Meager Provincial Share in CPEC." *Dawn*, 21 Dec. 2018, www.dawn.com/news/1452812; Husain, Khurram. "Balochistan Cabinet Shocked by CPEC Presentation." *Dawn*, 11 Dec. 2018, www.dawn.com/news/1450773. In November 2017, the ports and shipping minister revealed that the Chinese company managing Gwadar Port would receive 91 percent of the port's total revenues for the duration of its 40-year lease, which even Pakistan Muslim League-Nawaz (PML-N) members criticized.

⁶⁰ Fazli. Unpublished paper on Pakistan-China relations. There were also: an August 11, 2018, BLA suicide bombing of a bus transporting Chinese engineers in Balochistan's Chagai district; a February 5, 2018, murder of a senior Chinese shipping executive in Karachi; and a June 2017 murder of two Chinese Christian missionaries who had been abducted from Quetta the month before. In May 2017, militants killed three laborers in Balochistan's Turbat district working on the Gwadar-Quetta highway, and 10 construction workers in Gwadar also working on CPEC road projects, in separate incidents. See Notezai, Muhammad Akbar. "Why Balochs Are Targeting China." *The Diplomat*, 26 Nov. 2018, thediplomat.com/2018/11/why-balochs-are-targeting-china/.

⁶¹ Bokhari, Farhan. "Eight Killed in Attack on Hotel in Southwestern Pakistan." *Financial Times*, 12 May 2018, www.ft.com/content/fd59d2da-740a-11e9-bbad-7c18c0ea0201.

SRI LANKA

China's growing influence in Sri Lanka can be traced back to the government of former two-time President Mahinda Rajapaksa and predates China's Belt and Road Initiative (BRI). China assisted the Sri Lankan government financially, diplomatically and militarily during the final stages of its 26-year campaign against the separatist Tamil Tigers, which ended with the government's victory in 2009. China's support for the Rajapaksa administration continued in the postwar years (when the Sri Lankan government was accused of human rights violations), and set the stage for Sri Lanka's current dependence on China.⁶²

Both governments touted the package of economic investments offered to Sri Lanka at the time as mutually beneficial. In 2010, Sri Lanka's state-owned Sunday Observer described Sri Lanka-China relations as a "silky relationship" taken to "an unparalleled height."⁶³ The general public tends to view it as a strategic, cooperative partnership despite many outside observers viewing China's economic influence in Sri Lanka as the signal example of the dangers of the BRI. Despite occasional setbacks, the Chinese Communist Party (CCP) has managed to protect and deepen its influence in Sri Lanka over the last decade.

China's Economic Influence

China's significant investments during the Rajapaksa administration comprised projects personally favored by Rajapaksa, including an airport and port projects of dubious value in his hometown, and ambitious long-term projects such as the development of Colombo Port City. China's \$1.4 billion investment in the Colombo Port City project involved reclaiming land from the sea to create a 2.6-square-kilometer extension to the city of Colombo for new infrastructure development and a financial district.⁶⁴ The costs for the project, slated to be completed in 2041, could reach \$15 billion.⁶⁵

Over time, China established a portfolio of investments in large-scale infrastructure projects financed by long-term loans.⁶⁶ Some of these Chinese loans came with high interest rates and added to Sri Lanka's already large debt repayments to international banks and other foreign lenders.

The Rajapaksa years were associated with high-level corruption, nepotism, and a lack of government transparency and accountability – facilitated by the deepening relationship with China. The CCP reportedly went to great lengths to try ensuring that Rajapaksa won the 2015 presidential election, including providing at least \$7.6 million in support to his campaign.⁶⁷ Despite these efforts, Rajapaksa was voted out and replaced by a new government headed by President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe, elected on a platform of ending corruption and scrutinizing Chinese-backed development projects.

However, the change in government did not spell the end of Sri Lanka's dependence on China. The new government found itself saddled with foreign debt that had exploded from 36 percent of the gross domestic

⁶² According to a 2010 *Sunday Observer* article, "The Treasury Department of the Ministry of Finance said China became the biggest donor to Sri Lanka in 2009, with US\$ 1.2 billion... worth of assistance in the form of grants, loans and credit representing 54 percent of the total \$2.2 billion committed by foreign countries and multilateral agencies." See "China – Sri Lanka's Top Lender in 2009." *Sunday Observer*, 18 Apr. 2010, archives.sundayobserver.lk/2010/04/18/fea01.asp; Popham, Peter. "How Beijing Won Sri Lanka's Civil War." *The Independent*, 23 May 2010, www.independent.co.uk/news/world/asia/how-beijing-won-sri-lankas-civil-war-1980492.html.

⁶³ "China – Sri Lanka's Top Lender in 2009."

⁶⁴ "Sri Lanka's Chinese Backed US \$1.4 Bn, 665 Acre Port City Could Be Governed by Own Legal System – Report." *Daily Mirror*, *CHEC Port City Colombo (Pvt) Ltd*, 14 Sept. 2018, www.portcitycolombo.lk/press/2018/09/14/sri-lankas-chinese-backed-us-1-point-4-bn-665-acre-port-city-could-be-governed-by-own-legal-system-report.html.

⁶⁵ "Sri Lanka's Chinese backed US \$1.4 Bn, 665 Acre Port City Could Be Governed by Own Legal System – Report."

⁶⁶ Sirimanna, Bandula. "Chinese Project Loans at High Interest Rates." *Sunday Observer*, 19 Jun. 2011, www.sundaytimes.lk/110619/BusinessTimes/bt01.html.

⁶⁷ Abi-Habib, Maria. "How China Got Sri Lanka to Cough Up a Port." *The New York Times*, 25 Jun. 2018, www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html.

product (GDP) in 2010 to 94 percent by the end of 2015.⁶⁸ Then-Finance Minister Ravi Karunanayake pointed to China's loans to Sri Lanka as "a big part of our problem."⁶⁹ Ultimately, the new government determined that it had little choice but to return to China – responsible for the funding and construction of nearly 70 percent of Sri Lanka's ongoing infrastructure projects – for fresh loans.⁷⁰ Given previous allegations that Chinese corporate funds were employed to influence the Sri Lankan leadership, there is also speculation that China has used graft to cultivate ties with elites in the new government.

Many outside observers view China's economic influence in Sri Lanka as the signal example of the dangers of the BRI.

Sri Lanka's acceptance of Chinese financing over the past decade has cemented a long-term dependence, most dramatically represented by Sri Lanka granting a Chinese state-owned enterprise an 85-percent controlling share in the strategically located Hambantota Port on a 99-year lease, after the Sri Lankan government failed to meet debt repayments. A Chinese state-owned enterprise engaged in the Colombo Port City project – China Harbor Engineering Company – will receive 1.16 square kilometers of the Colombo Port City land, also on a 99-year lease.⁷¹

Sri Lanka has become increasingly reliant on China to complete major infrastructure projects and to keep up with payments. In early 2019, it was announced that Sri Lanka would receive a fresh loan of \$1 billion from China to help meet repayments.⁷² As of April 2019, Sri Lanka's total foreign debt was estimated at \$55 billion – around 77 percent of the country's GDP. China is believed to be Sri Lanka's largest single lender, accounting for around 10 to 14 percent of overall foreign debt.⁷³

China's Influence in the Information Space

The CCP has been able to rely on its tight relationships with Sri Lankan elites, along with relatively limited public knowledge of the details of infrastructure-financing deals, to create a generally positive view of China's engagement. However, with foreign media attention on the "debt trap" narrative around the Hambantota Port deal damaging the BRI brand globally, the CCP is stepping up efforts to shape information about China and its engagement with Sri Lanka.

The CCP funds numerous scholarships, seminars and exchange programs for Sri Lankan students from various fields, facilitates people-to-people exchanges and has established Confucius Institutes promoting Chinese culture in Sri Lanka. The CCP sponsors media tours of China for Sri Lankan journalists, including meetings with top government officials. In exchange, according to Sri Lankan journalists, China expects positive coverage in local media.⁷⁴

⁶⁸ Chowdhury, Debasish Roy. "Let Bygones Be Bygones, Colombo Urges Beijing, as Chinese Loans Take Their Toll." *South China Morning Post*, 18 Oct. 2015, <https://www.scmp.com/business/global-economy/article/1869177/let-bygones-be-bygones-sri-lanka-urges-china>; Aneez, Shihar and Ranga Sirilal. "Sri Lanka to Allow Chinese Port City Project After Delay." *Reuters*, 12 Jan. 2016, www.reuters.com/article/sri-lanka-china-portcity-idUSL3N14W42G20160112.

⁶⁹ Iyengar, Rishi. "Sri Lanka Attempts to Repair Relations with China Amid an Escalating Financial Crisis." *Time*, 19 Oct. 2015, time.com/4077757/sri-lanka-china-financial-crisis-ravi-karunanayake-interview/.

⁷⁰ Chowdhury. "Let Bygones Be Bygones, Colombo Urges Beijing, as Chinese Loans Take Their Toll."

⁷¹ Dissanayake, Chathuri. "Tripartite Agreements for Port City Investments." *Daily FT*, 15 Jan. 2019, www.ft.lk/top-story/Tripartite-agreements-for-Port-City-investments/26-670863.

⁷² Aneez, Shihar. "Sri Lanka to Receive \$1 Billion Bank of China Loan This Quarter." *Reuters*, 17 Jan. 2019, www.reuters.com/article/us-sri-lanka-economy-bank-of-china-exclu/exclusive-sri-lanka-to-receive-1-billion-bank-of-china-loan-this-quarter-idUSKCN1PB1DD.

⁷³ Analysts Dushni Weerakoon and Sisira Jayasuriya place the debt owed by Sri Lanka to China at 10 percent of all foreign debt. See Weerakoon, Dushni, and Sisira Jayasuriya. "Sri Lanka's Debt Problem Isn't Made in China." *East Asia Forum*, 28 Feb. 2019, www.eastasiaforum.org/2019/02/28/sri-lankas-debt-problem-isnt-made-in-china/. Dinesh Weerakkody argues that China holds 14 percent of the debt. See Weerakkody, Dinesh. "Sri Lanka's Debt-Ridden Independence." *Daily FT*, 1 Feb. 2019, www.ft.lk/dinesh-weerakkody/Sri-Lanka-s-debt-ridden-independence/5-672066.

⁷⁴ Author interviews with Sri Lankan journalists, 2019.

China is also increasing efforts to shape perceptions through ties with and funding for think tanks and research organizations.⁷⁵ Sri Lankan think tanks are becoming increasingly important in policy debates but remain underfunded, leaving them vulnerable to CCP efforts to encourage studies with positive conclusions about the impact of Chinese investment deals.

Following the April 2019 Easter Sunday terrorist attacks that killed more than 250 people, Sri Lanka has reportedly turned to China to obtain mass online-surveillance systems, with Chinese technical teams expected to offer their expertise in Sri Lanka. During a trip to China in May 2019, Sirisena met with President Xi Jinping and received a commitment of more than \$28 million in software and surveillance equipment.⁷⁶

Looking to develop its information computing and telecommunications (ICT) sector, Sri Lanka has also accepted technology-related assistance from China, specifically from telecommunications giant Huawei, raising potential risks of espionage and dependence on China for future technology infrastructure. In March 2019, Huawei announced plans to build a “Fully Connected Intelligent Sri Lanka” as part of developing the country’s ICT ecosystem.⁷⁷ Huawei is also expected to undertake a “Smart City” initiative as part of the Colombo Port City plan, in collaboration with the national telecommunications-services provider.⁷⁸

The Rajapaksa years were associated with high-level corruption, nepotism, and a lack of government transparency and accountability – facilitated by the deepening relationship with China.

Sri Lanka’s Resilience to Chinese Influence

Within Sri Lanka, China’s influence has typically been framed in a somewhat positive light, save for some concerns raised about corruption. Many Sri Lankan analysts tend to view China-related problems as resulting from flaws in local governance. Foreign observers’ criticism of China’s relationship with Sri Lanka is viewed with apprehension by both the general public and political elites. This is especially true in the case of criticism from Western governments or media, whose views are considered either imperialist or interfering, while China is remembered more fondly for supporting Sri Lanka when the country was isolated internationally.⁷⁹ Chinese officials also frequently remind Sri Lanka of China’s support after the civil war and of longstanding cultural ties.

There is an overall lack of knowledge and transparency around China’s deals in the country, attributable both to CCP obfuscation and a genuine failure on the part of both the Sri Lankan public and policymakers to fully consider the consequences of opaque deals with corrupt leaders. Sri Lanka’s lack of both a national ICT policy and data-protection laws makes it vulnerable to risks involved in growing engagement with China in the ICT sector.

⁷⁵ “Pathfinder Foundation Opens ‘China-Sri Lanka Cooperation Studies Centre.’” *Daily FT*, 18 Dec. 2018, www.ft.lk/news/Pathfinder-Foundation-opens--China-Sri-Lanka-Cooperation-Studies-Centre-/56-669107.

⁷⁶ Fernando, Santhush. “China-Styled Mass Online Surveillance.” *The Morning*, 19 May 2019, www.themorning.lk/china-styled-mass-online-surveillance/.

⁷⁷ “Huawei Commits to Build Fully Connected Intelligent SL.” *Daily FT*, 26 Mar. 2019, <http://www.ft.lk/front-page/Huawei-commits-to-build-fully-connected-intelligent-SL/44-675327>.

⁷⁸ “SLT-Huawei to Partner for Colombo Port City’s Smart City Project.” *Daily Mirror*, 26 Mar. 2019, <http://www.dailymirror.lk/business-news/SLT-Huawei-to-partner-for-Colombo-Port-City%E2%80%99s-Smart-City-project/273-164496>.

⁷⁹ The idea of the “interfering West” is not new to Sri Lanka, and was particularly prominent during the immediate postwar period, when Sri Lanka – specifically, the Rajapaksa administration – was accused of war crimes and human rights abuses.

The absence of an effective critique of China's influence in Sri Lanka is also explained by shortcomings in Sri Lanka's media sector, where many outlets are owned by individuals or families with strong political ties to the Sri Lankan elite. Over the years, the Sri Lankan media industry has also had to endure censorship and attacks on journalists, which have stifled the industry's development. In the rare cases in which journalists undertake investigative reporting on sensitive subjects, they are met with restricted access to information. China is also now investing in Sri Lanka's media sector, as it has in other countries, raising the prospect for even greater influence in the country's information space. Therefore, a stronger and more independent media is critical to educating the public about the risks of foreign interference to their democracy and long-term prosperity.

SERBIA

China's engagement with Serbia was limited before 2009, when the two countries signed a strategic-partnership agreement. The relationship transformed beginning in the mid-2010s, when Serbia began receiving significant Chinese financing for infrastructure projects – an influx which increased significantly through China's Belt and Road Initiative (BRI). China's motivations for this engagement are straightforward: it sees the Balkans as a key door to Europe's broader market, and Serbia lies at the geographic and strategic heart of the region.

The Chinese Communist Party (CCP) benefits from working with an increasingly illiberal Serbian government led by President Aleksandar Vučić, which welcomes Chinese investment as a boon to its political fortunes and controls the media narrative about the bilateral relationship. Vučić and his Serbian Progressive Party (SNS) increasingly control government agencies, the national security apparatus and the media, leading Serbian politics in the direction of "soft autocracy."⁸⁰ The CCP also benefits from the fact that it, and China generally, remains little understood in Serbia. The public maintains a mostly positive view of China, based on Chinese investment in Serbia's development and a lack of knowledge about the opaque terms of such deals. The public also is largely uninformed about the CCP and how China exerts influence abroad to advance its interests.

China's Economic Influence

China's economic engagement with Serbia has grown steadily in response to Serbia's dire need for financing and infrastructure improvement, as well as China's drive for strategic investments in the Balkans. In 2009, Serbia signed both the strategic-partnership agreement with China and an agreement on economic and technical cooperation focusing on infrastructure.⁸¹ The Export-Import Bank of China financed the construction of the Pupin Bridge across the Danube River in Belgrade, the first major Chinese infrastructure project in Serbia. The bridge, constructed by the Chinese state-owned enterprise (SOE) China Road and Bridge Corporation (CRBC), was completed in 2014.⁸²

The Belt and Road Initiative ushered in a major influx of Chinese financing, particularly following Chinese President Xi Jinping's historic visit to Serbia in June 2016. On that occasion, it was agreed that Chinese SOE Hesteel Group would take over a steel mill based in the city of Smederevo that was previously owned by U.S. Steel.⁸³ In August 2018, the Chinese mining company Zijin Mining acquired a 63-percent stake in debt-ridden RTB Bor, the only copper-mining complex in Serbia.⁸⁴ RTB Bor, like the Smederevo steel mill, is considered part of the foundation of Serbia's industrial capacity, and both are major employers in Serbia. Branislav Mihajlović, an opposition politician and former employee of RTB Bor, has claimed, "the entire Serbian mining industry was sold to the Chinese for free."⁸⁵

⁸⁰ Eror, Aleks. "How Aleksandar Vučić Became Europe's Favorite Autocrat." *Foreign Policy*, 9 Mar. 2018, foreignpolicy.com/2018/03/09/how-aleksandar-vucic-became-europes-favorite-autocrat/.

⁸¹ "Serbia, China Sign Framework Agreement on Economic, Technological Infrastructure Cooperation." *The Government of the Republic of Serbia*, 21 Aug. 2009, www.srbija.gov.rs/vesti/en/58295/serbia-china-sign-framework-agreement-on-economic-technological-infrastructure-cooperation.php.

⁸² "Serbia Opens First Chinese-Built Bridge in Europe." *Ecns.cn*, 18 Dec. 2014, www.ecns.cn/cns-wire/2014/12-18/147195.shtml.

⁸³ Sekularac, Ivana. "China's Xi Sees Serbia as Milestone on New 'Silk Road.'" *Reuters*, 19 Jun. 2016, www.reuters.com/article/us-serbia-china/chinas-xi-sees-serbia-as-milestone-on-new-silk-road-idUSKCNOZ50DV.

⁸⁴ Vasovic, Aleksandar. "UPDATE 1-China's Zijin Mining to Take Stake in Serbian Copper Complex." *Reuters*, 31 Aug. 2018, www.reuters.com/article/serbia-copper/update-1-chinas-zijin-mining-to-take-stake-in-serbian-copper-complex-idUSL8N1VM2K6.

⁸⁵ Author's interview with Branislav Mihajlović, Belgrade, 23 Oct. 2018.

In September 2018, Vučić met Xi at the World Economic Forum in Beijing (their fifth meeting in as many years) to sign commercial agreements worth \$3 billion.⁸⁶ These included deals for a Chinese company to build a tire factory in Zrenjanin, Serbia, and the purchase of Chinese military drones by Serbia.⁸⁷ CRBC's parent company, China Communications Construction Company Ltd. (CCCC), is also currently engaged to construct another bridge over the Kolubara and Sava Rivers, financed by the Export-Import Bank of China.⁸⁸

The Serbian Interior Ministry has contracted with Huawei to provide cameras and facial recognition software for its "Safe City" project.

So far, Chinese government and SOE engagement with Serbia appears in compliance with local legislation and has raised hopes of improved local infrastructure and employment opportunities. However, the opacity of these deals has raised concerns among representatives of private enterprise and civil society that Chinese lending could create unmanageable debt loads and future Chinese leverage over the country.⁸⁹ Most of the commercial contracts with Chinese entities are not available to the public, with little opportunity for public review and comment.⁹⁰ At least in certain cases, Chinese officials insist upon a nontransparent bidding process and the ultimate allocation of projects to Chinese SOEs.⁹¹

In contrast to their prevailing practice in many other BRI countries, Chinese SOEs in Serbia have not insisted on using only construction material imported from China, probably due partly to Serbian government conditions. For instance, the contract for the construction of the Pupin Bridge mandated that 45 percent of the construction material originate from Serbia.⁹² However, Chinese SOEs have routinely employed predominantly Chinese machinery and workers, reducing the projects' benefits for local employment and the economy.⁹³ The visa regime between Serbia and China has been liberalized since 2017, contributing to a rapid increase in the number of Chinese tourists visiting the country.⁹⁴

The most prominent Chinese project in Serbia is the high-speed railway connecting Belgrade with Budapest, Hungary, inked in 2013.⁹⁵ However, little progress has been made on implementation, raising questions about the project's utility and feasibility.⁹⁶ Despite this disappointing progress, the high-speed railway has been touted as "the signature project of the 16+1 framework," a grouping established by China to facilitate cooperation and economic engagement between itself and Central and Eastern European

⁸⁶ "Vučić Persistent in Inviting Chinese Leader to Visit Serbia." *B92*, 18 Sep. 2018, www.b92.net/eng/news/politics.php?yyyy=2018&mm=09&dd=18&nav_id=105091.

⁸⁷ Zivanovic, Maja. "\$3bn Economic Agreements Boost China's Role in Serbia." *Balkan Insight*, 18 Sep. 2018, www.balkaninsight.com/en/article/new-agreements-boost-china-role-in-serbia-09-18-2018.

⁸⁸ "Construction of Surcin-Obrenovac Highway and New Bridge on the Sava Starts – Works Worth EUR 208 Million." *eKapija*, 2 Mar. 2017, www.ekapija.com/en/news/1684399/construction-of-surcin-obrenovac-highway-and-new-bridge-on-the-sava-starts.

⁸⁹ Bastian, Jens. "China's Balkan Silk Road Examining Beijing's Push into Southeast Europe." *Reconnecting Asia – Center for Strategic and International Studies*, 20 Nov. 2017, reconnectingasia.csis.org/analysis/entries/chinas-balkan-silk-road/.

⁹⁰ Vladislavljiev, Stefan. "Oversight and Control of Agreements between China and Serbia." *Belgrade Fund for Political Excellence*, 6 Nov. 2018, en.bfpe.org/oversight-and-control-of-agreements-between-china-and-serbia/.

⁹¹ Author's interview with a local businessman, Belgrade, 22 Oct. 2018.

⁹² "Pre-Contracts for the Construction of Zemun-Borča Bridge Have Been Signed." *City of Belgrade*, 23 Oct. 2009, www.beograd.rs/index.php?kat=beoinfo&lang=cir&sub=1363983%3f.

⁹³ In order to facilitate more effective financial transactions between Serbia and China, the Bank of China opened its branch in Belgrade in 2017, becoming the first Chinese bank with operations in Serbia. "Bank of China Officially Opens Branch in Serbia." *Xinhua*, 22 Jan. 2017, www.xinhuanet.com/english/2017-01/22/c_136002668.htm.

⁹⁴ "Number of Chinese Tourists in Serbia Doubles." *eKapija*, 15 Nov. 2018, www.ekapija.com/en/news/2311326/number-of-chinese-tourists-in-serbia-doubles; "Visa Regime for Entering Serbia: China." *Ministry of Foreign Affairs of the Republic of Serbia*, 27 Dec. 2018, mfa.gov.rs/en/consular-affairs/entry-serbia/visa-regime/81-consular-foreigners-to-serbia/11411-china-for-cons.

⁹⁵ "China, Hungary, Serbia Reach Agreement on Railway Project." *Xinhua*, 26 Nov. 2013, www.chinadaily.com.cn/world/cn_eu/2013-11/26/content_17131238.htm.

⁹⁶ Ferchen, Matt. "China's Troubled Hungary-Serbia Railway Project: A Case Study." *Carnegie-Tsinghua Center for Global Policy*, 12 Dec. 2018, carnegietsinghua.org/2018/12/12/china-s-troubled-hungary-serbia-railway-project-case-study-pub-78100.

countries, including Serbia.⁹⁷ China has pledged billions in credit and investment for the region through the 16+1 mechanism, benefitting Serbia in particular.⁹⁸

Serbian demand for infrastructure financing from China is reinforced by delays in Serbia's progress toward European Union (EU) accession. The country cannot currently use EU funds such as the Instrument for Pre-Accession Assistance (IPA), designed to provide EU "enlargement countries" with financial and technical help, for infrastructure projects. China also gains relative advantage because Chinese funding, unlike that from the EU, is disbursed quickly. As one local businessman with a history of engagement with Chinese SOEs argued, Serbia's economic urgency plays into China's hands: "The EU is telling Serbia you will have something tomorrow, but today you must starve, while the Chinese come with the money right away."⁹⁹

China's ability to ensure such funding correlates with Serbian political cycles offers opportunities for corruption and enhances China's influence with elites. Serbian politicians able to secure Chinese financing around election time can promote themselves to their constituents as enablers of Chinese capital inflows. Many of those same politicians and elites find the lack of transparency in Chinese funding appealing as it creates rent-seeking opportunities.¹⁰⁰

China's Influence in the Information Domain

In spite of its increasing economic presence in Serbia, China thus far has not needed to aggressively pursue influence in the country's information domain to shape debate about its impact on Serbia. China's activities are perceived as largely benign by the Serbian public.

The government-led by Vučić, who has called the friendship with China as one "made of steel," and his SNS Party – helps to ensure this positive view of China through its control over the information and media spheres.¹⁰¹ Most Serbs get their news from television, where approximately 55 percent of advertising money in Serbia is spent. There nevertheless remains a shortage of capital for most major outlets, making almost all of them dependent on state funding and subject to government influence. This ensures largely positive coverage of the ruling party.¹⁰²

Government-friendly media also does not report news that critically examines China's role in the country. The Serbian media, echoing the country's political leadership, typically (and incorrectly) presents Chinese financing as "gifts," rather than loans. Consequently, China can rest assured that under the Vučić administration relatively little critical information on Chinese activities will surface in media outlets that

"The EU is telling Serbia you will have something tomorrow, but today you must starve, while the Chinese come with the money right away."

–Serbian businessman interviewed for report

⁹⁷ Ferchen, Matt. "China's Troubled Hungary-Serbia Railway Project: A Case Study." *Carnegie-Tsinghua Center for Global Policy*, 12 Dec. 2018, carnegietsinghua.org/2018/12/12/china-s-troubled-hungary-serbia-railway-project-case-study-pub-78100.

⁹⁸ The 16+1 mechanism has a secretariat in Beijing. Annual summits are organized under its auspices, with the last one held in Dubrovnik, Croatia, in April 2019. Young, Alex. "COMMENT: China and the Balkans – 'New Engine, New Power, New Platform' ... and New Graft." *bne IntelliNews*, 31 Apr. 2016, www.intellinews.com/comment-china-and-the-balkans-new-engine-new-power-new-platform-and-new-graft-94090/.

⁹⁹ Author's interview with a local businessman, Belgrade, 22 Oct. 2018

¹⁰⁰ Makocki, Michal. "China in the Balkans, the Battle of Principles." *European Council on Foreign Relations*, 6 Jul. 27, www.ecfr.eu/article/commentary_china_in_the_balkans_the_battle_of_principles_7210.

¹⁰¹ "Vucic: Serbia-China Friendship Made of Steel." *B92*, 12 Mar. 2018, www.b92.net/eng/news/politics.php?yyyy=2018&mm=03&dd=12&nav_id=103685.

¹⁰² "Who Owns the Media in Serbia?" *Media Ownership Monitor*, 21 Jun. 2017, rsf.org/en/news/who-owns-media-serbia.

influence Serbian public opinion. Those programs that do appear on Serbian media concerning China are typically overwhelmingly positive. In 2017, the national broadcaster Radio Television of Serbia (RTS) ran a series of Chinese government-produced television documentaries on China, including one on the Silk Road.¹⁰³

China sees the Balkans as a door to Europe's broader market, and Serbia lies at the geographic and strategic heart of the region.

The CCP has sought to further enhance this positive view by cultivating ties with cultural and political elites (including the political opposition) and establishing institutions that could help shape the narrative about China in the future. China supports the Center for International Relations and Sustainable Development (CIRSD), a think tank led by a former Serbian foreign minister and opposition politician Vuk Jeremić, which holds events and releases publications about the benefits of BRI and the expanding China-Serbia relationship. CIRSD is partly funded through CEFC China Energy, a CCP-linked conglomerate marred by corruption scandals.¹⁰⁴

Additionally, Serbia hosts two Chinese government-sponsored Confucius Institutes promoting Chinese culture – and official government viewpoints – at prominent universities in Serbia, and China is investing 45 million euros to build a cultural center on the site of the Chinese embassy building destroyed during the NATO air campaign in 1999.¹⁰⁵

The role of Chinese technology firms in Serbia, and their potential role in the country's surveillance ecosystem, presents another avenue of potential CCP influence in the country. Chinese telecommunications giant Huawei has a cooperation contract with Serbian telecommunications company Telekom Srbija, and the Serbian government has signed a contract that would allow Huawei equipment to be used for traffic surveillance.¹⁰⁶ The Serbian Interior Ministry has contracted with Huawei to provide cameras and facial-recognition software for its "Safe City" project and announced the planned installment of 1,000 cameras in 800 locations in Belgrade. The ministry did not, however, explicitly cite Huawei as a supplier, possibly to avoid attention given the sensitivity surrounding the company and its ties to the CCP.¹⁰⁷

Serbia's Response to Chinese Communist Party Influence and Potential for Resilience

The illiberal tilt of Serbian politics, characterized by Vučić's growing domination of the political scene and its institutions since 2012, has facilitated China's integration into the Serbian economic and political landscape. Vučić and SNS government control allows for one point of focus for Chinese SOEs' and government lobbying resources.¹⁰⁸ Serbia's "soft autocracy" provides few roadblocks to Chinese influence, with very few institutional or societal checks on China's influence or insistence on greater transparency in negotiations with Serbian officials.

¹⁰³ "Najbolji Kineski Dokumentarci – Utorkom na Drugom / Best Chinese Documentaries – Tuesday on the Second Chanel." *RTS*, 27 Oct. 2017, www.rts.rs/page/rt/sr/sr/rtspredstavlja/story/267/najnovije/2919597/najbolji-kineski-dokumentarci--utorkom-na-drugom.html.

¹⁰⁴ "Briefing Paper IV: External Influence in the Cultural and Religious Sphere." *Western Balkans at the Crossroads: Assessing Non-Democratic External Influence Activities – Prague Security Studies Institute*, 29 Nov. 2018, www.balkancrossroads.com/bp-iv-culture-religion; Zhang, Shu, and Chen Aizhu. "China's CEFC Founder Ye Named in Corruption Case – State Media." *Reuters*, 12 Oct. 2018, uk.reuters.com/article/china-corruption-cefc/chinas-cefc-founder-ye-named-in-corruption-case-state-media-idUKL4N1WS261.

¹⁰⁵ "Serbia's First Confucius Institute Celebrates 10th Anniversary." *Xinhua*, 3 Oct. 2016, english.hanban.org/article/2016-10/25/content_661564.htm; "Construction of Chinese Cultural Center in New Belgrade Begins – Investment Worth EUR 45 Million." *eKapija*, 20 Jul. 2017, www.ekapija.com/en/news/1825123/construction-of-chinese-cultural-center-in-new-belgrade-begins-investment-worth-eur.

¹⁰⁶ "Serbia and China Sign Several Important Documents." *B92*, 18 Sep. 2018, www.b92.net/eng/news/business.php?yyyy=2018&mm=09&dd=18&nav_id=105087.

¹⁰⁷ Vladislavjević, Stefan. "Can China become Serbia's 'Big Brother'?" *Belgrade Fund for Political Excellence*, 14 Feb. 2019, en.bfpe.org/can-china-become-serbias-big-brother/.

¹⁰⁸ Author's interview with Milan Igrutinović, Belgrade, 24 Oct. 2018.

The lack of Serbian expertise on China and the CCP's means of influence, in both academic and policy circles, ensures that public awareness of the risks of opaque Chinese investment deals and close relations with the Serbian government remains limited. China's influence, in turn, has facilitated Serbia's tilt toward soft authoritarianism by bolstering the fortunes of illiberal Serbian leaders who use the influx of Chinese investment to promote themselves domestically as those who can deliver needed infrastructure development.

China's growing and opaque investments in the country and tight relationship with the current government point toward potentially negative consequences for Serbia's increasingly fragile democracy. The SNS-led government appears inclined to pursue even closer ties with China. In 2017, the Serbian government established the National Council for Coordination of Cooperation with the Russian Federation and the People's Republic of China, led by former Serbian President Tomislav Nikolić (2012-2017). This new government office may represent yet another channel of potential influence for the CCP going forward.

Despite China's growing influence in Serbia, a nascent but growing awareness of the risks of expanding, poorly scrutinized Chinese economic engagement with the country and CCP cultivation of the ruling government provide a foundation for resilience to China's influence. A key test of Serbian resilience to future CCP influence may emerge if controversy arises over one or more Chinese infrastructure projects. Given government controls on information and the lack of unity among unions and labor advocacy groups, it currently appears unlikely that Serbian society will be able to organize resistance in such a scenario. Greater knowledge of China's influence tactics and the capacity to counter them, across Serbian civil society and the remaining independent media, are critical to better protecting this increasingly weak democracy.

ECUADOR

Bilateral political and economic ties between Ecuador and China have grown steadily since the two countries established diplomatic relations in 1980. Under President Rafael Correa (2007–2017), the Ecuadorian government saw a rapid increase in Chinese economic engagement, leading to a marked uptick in China's influence in the country.

Ecuador's political elites isolated their country from traditional sources of financing and trade, negotiating agreements with Chinese companies for their personal benefit, with little regard for the interests of the Ecuadorian people.¹⁰⁹ As a result, Quito's lack of supervision over Chinese-funded infrastructure projects has caused significant economic and social harm for Ecuador.

Throughout the Correa administration, Ecuadorians protested – and sometimes violently resisted – Chinese construction projects. Despite his status as Correa's hand-picked successor, President Lenin Moreno is departing from many of Correa's policies – seeking to renegotiate many contracts that favored Chinese companies at the expense of the Ecuadorian economy, and revitalizing Ecuador's relations with traditional sources of finance and trade.

China's Economic Influence in Ecuador

The Correa administration encouraged extensive Chinese trade and investment into Ecuador, in keeping with a state-led economic development model emphasizing reduced reliance on Western sources of financing.¹¹⁰ As of 2016, Ecuador imported approximately four times more goods from China than it exported to China, incurring a trade deficit of \$2.3 billion.¹¹¹

Correa's administration increased Ecuador's indebtedness to China while burning bridges with traditional Western lenders such as the International Monetary Fund (IMF), by defaulting on \$3.2 billion of foreign debt.¹¹² One consequence of increased reliance on Chinese sources of credit was the steady growth of Chinese involvement in key areas of Ecuador's economy, such as the petroleum and extractives sectors.¹¹³ As of 2014, 70 Chinese companies were operating in Ecuador.¹¹⁴ As of 2018, Ecuador owed approximately \$19 billion to Chinese creditors.¹¹⁵

With the exception of a \$900-million, 487-megawatt power-generation facility and the dysfunctional Coca Codo Sinclair Dam, most Chinese-funded infrastructure projects agreed to under Correa have not be

¹⁰⁹ Ellis, R. Evan. "Ecuador's Leveraging of China to Pursue an Alternative Political and Development Path." *Air University*, Fall 2018, www.airuniversity.af.edu/Portals/10/JIPA/journals/Volume-01_Issue-1/07-F-Ellis.pdf.

¹¹⁰ Rodas Saa, Christian S. *Ecuador's Trade and Investment Relationship with China Under the Correa Administration*. 2018. Ohio University, MA dissertation. ohiolink.edu/pg_10?0::NO:10:P10_ACCESSION_NUM:ohiou1525795713562622.

¹¹¹ Calculations based on data presented in Ellis. "Ecuador's Leveraging of China to Pursue an Alternative Political and Development Path."

¹¹² Debt figure comes from "Ecuador." *The Economist Intelligence Unit*, 22 Nov. 2016, [country.eiu.com/\(F\(Dvtqd40E5Aqy_L_Wuc8UfKcwrPPg4_ZvCSni4461QhBdsA_KUQVOifM07x4Ebdbu6YsTDZr1zauY76rW7dE5CV6QLuv8m3NNtoUCYimjyfXdsZ32YG2liw0ViCaw_CHNYgXoUs9v-8csSs4N89sJMuy8vKNAGFFb1vHnfxU0BGZpUDl0\)\)/article.aspx?Articleid=1314839715&Country=Ecuador](http://country.eiu.com/(F(Dvtqd40E5Aqy_L_Wuc8UfKcwrPPg4_ZvCSni4461QhBdsA_KUQVOifM07x4Ebdbu6YsTDZr1zauY76rW7dE5CV6QLuv8m3NNtoUCYimjyfXdsZ32YG2liw0ViCaw_CHNYgXoUs9v-8csSs4N89sJMuy8vKNAGFFb1vHnfxU0BGZpUDl0))/article.aspx?Articleid=1314839715&Country=Ecuador). Correa saw the \$3.8 billion in debt negotiated by the prior government as illegitimate and announced in 2008 that Ecuador would default. See Mapstone, Naomi. "Ecuador Defaults on Sovereign Bonds." *Financial Times*, 12 Dec. 2008, www.ft.com/content/7170e224-c897-11dd-b86f-000077b07658.

¹¹³ For background on Chinese investment in Ecuador, see Narins, Thomas P. "China's Eye on Ecuador: What Chinese Trade with Ecuador Reveals about China's Economic Expansion into South America." *The Global Studies Journal*, vol. 4, no. 2, 2012, www.albany.edu/gp/files/Narins_2012_ChinasEyeonEcuador_Vol_4_Issue_2.pdf.

¹¹⁴ Alvaro, Mercedes. "Ecuador and China Seek to Strengthen Ties." *The Wall Street Journal*, 20 Jan. 2014, www.wsj.com/articles/ecuador-and-china-seek-to-strengthen-ties-1390252324.

¹¹⁵ Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid." *The New York Times*, 24 Dec. 2018, www.nytimes.com/2018/12/24/world/americas/ecuador-china-dam.html.

As of 2018, Ecuador owed approximately \$19 billion to Chinese creditors. Throughout the Correa administration, Ecuadorians protested – and sometimes violently resisted – Chinese construction projects.

completed.¹¹⁶ To service Chinese loans, Ecuador was also obligated to commit 90 percent of its oil exports to China through 2024.¹¹⁷ Although that number has since dropped to 80 percent, the poorly arranged sales of Ecuadorian crude oil to international intermediaries are estimated to have incurred \$2 billion in losses for Ecuador.¹¹⁸

The Coca Codo Sinclair Dam is perhaps the most notorious example of a mismanaged Chinese-funded infrastructure project. Built against the advice of government officials and numerous experts because of its proximity to an active volcano, the dam has failed to generate the one-third of Ecuador's electricity needs its proponents had promised.¹¹⁹ Instead, "nearly every top Ecuadorean official involved in the dam's construction [has been] either imprisoned or sentenced on bribery charges."¹²⁰

Constructed by Chinese company Sinohydro, the dam is riddled with defects.¹²¹ Ecuador's regulatory compliance office estimates that the inability to commercialize the dam due to malfunctioning turbines has cost the country a total of

\$28 million.¹²² Chinese-funded projects have also caused environmental problems, particularly in the mining industry; the Condor Mirador and Rio Blanco projects have caused widespread environmental damage that has negatively impacted indigenous communities.¹²³

Other Forms of Chinese Communist Party Influence in Ecuador

Under the friendly Correa administration, the Chinese government did not need to expend much effort to manipulate Ecuador's information environment because Correa's control of the media insulated the CCP from criticism. However, as in other countries where Chinese engagement is growing, the CCP has expanded its efforts to shape public perceptions in its favor. The University San Francisco of Quito established Ecuador's only Confucius Institute, employing only instructors who have been "officially sanctioned and sponsored by the Chinese government."¹²⁴

The Correa administration also opened the door for Chinese state-controlled companies to gain access to Ecuador's public-security and surveillance domains. In 2011, Ecuador hired the China National Electronics Import and Export Corporation (CEIEC) to build a national surveillance system under the guise of constructing the national emergency-response system, ECU-911.¹²⁵ Also touted as a crime-fighting system,

¹¹⁶ Astudillo, Giovany. "Sopladora Sera Concesionada por 30 Anos." *El Comercio*, 26 Aug. 2016, www.elcomercio.com/actualidad/azuay-inauguracion-sopladora-concesion-energia.html; Pacheco, Mayra. "Microfisuras y Fisuras, en Dos Areas Sensibles del Coca Codo." *El Comercio*, 13 May 2018, www.elcomercio.com/actualidad/microfisuras-fisuras-cocasinclair-defectos-energia.html, cited in Ellis. "Ecuador's Leveraging of China to Pursue an Alternative Political and Development Path."

¹¹⁷ Kraul, Chris. "Ecuador Faces a Huge Budget Deficit because of Loans It Received from China." *Los Angeles Times*, 10 Dec. 2018, www.latimes.com/world/la-fg-ecuador-loans-china-20181210-story.html.

¹¹⁸ Casey and Krauss. "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid.," Herrera, Lorena. Unpublished paper on Ecuador-China relations, 2019.

¹¹⁹ Casey and Krauss. "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid."

¹²⁰ Casey and Krauss. "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid."

¹²¹ Casey and Krauss. "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid."

¹²² "Coca Codo Sinclair: Perdida de \$27 Millones," *El Universo*, 15 Nov. 2018, www.eluniverso.com/noticias/2018/11/15/nota/7050477/coca-codo-perdida-27-millones=.

¹²³ Herrera, Lorena. Unpublished paper on Ecuador-China relations.

¹²⁴ For a listing of the university on the Confucius Institute Headquarters website, see "Confucius Institute at San Francisco University of Quito." *Hanban*, english.hanban.org/node_42065.htm; Ellis. "Ecuador's Leveraging of China to Pursue an Alternative Political and Development Path."

¹²⁵ Ellis. "Ecuador's Leveraging of China to Pursue an Alternative Political and Development Path."



Ecuador hired the China National Electronics Import and Export Corporation (CEIEC) to build its national surveillance system.

ECU-911 comprises 4,300 surveillance cameras and 16 regional response centers and employs 3,000 government staff.¹²⁶

During his visit in 2016, Chinese President Xi Jinping inaugurated ECU-911's artificial-intelligence research lab.¹²⁷ In reality, ECU-911 was not effective at fighting crime in areas where it was most needed; it was instead used by the Correa administration and its intelligence agency to intimidate political opponents.¹²⁸

Ecuador's Response to Chinese Government Influence

The Correa administration blunted the ability of Ecuadorian civil society and media to monitor his administration and hold it accountable to economic deals inked between Quito and Beijing – steering public opinion in his favor, including through the government's purchase of a newspaper and two television channels. The government also expanded direct control of the media through the Superintendent of Information and Communication (Supercom), which prevented media coverage critical of Correa and his administration.

Primarily at the local level, Ecuador's citizenry has attempted to check abuses by Chinese companies under Correa, with some success. For example, indigenous communities protested the San Carlos Panantza open-

¹²⁶ Rollet, Charles. "Ecuador's All-Seeing Eye Is Made in China." *Foreign Policy*, 9 Aug. 2018, <https://foreignpolicy.com/2018/08/09/ecuadors-all-seeing-eye-is-made-in-china/>

¹²⁷ Rollet. "Ecuador's All-Seeing Eye Is Made in China."

¹²⁸ Mozur, Paul, et al. "Made in China, Exported to the World: The Surveillance State." *The New York Times*, 24 Apr. 2019, www.nytimes.com/2019/04/24/technology/ecuador-surveillance-cameras-police-government.html.

pit copper mine in 2016 despite Correa labeling them “terrorists” for doing so.¹²⁹ Major protests at the Mirador mining projects forced a three-year delay. Correa himself briefly suspended negotiations over the Coca Codo Sinclair Dam and publicly criticized China’s harsh terms for debt repayment.¹³⁰ Ultimately, however, the massive expansion of Chinese financing and graft proved too hard to overcome.

In an environment of increased popular concern over corruption and the excesses of the Correa government, the Moreno administration has sought to reverse many of Correa’s policies and achieve better oversight by renegotiating numerous commercial and investment agreements with the Chinese government and enterprises. For example, the Moreno administration has investigated the sale of Ecuadorian crude oil to service Chinese loans, expanded scrutiny of contracts with Chinese firms and renegotiated contracts with Beijing.¹³¹ Moreno has also sought to repair relations with the United States, other Western powers and financial institutions, which helped to secure a \$10.2-billion bailout package from the IMF and other development banks.¹³²

The Moreno administration has also initiated a rollback of Correa’s policies that had facilitated censorship of independent voices. Recent reforms to the Communications Law abolished the Supercom, raising hopes for the revival of independent media in Ecuador.¹³³ However, the question of whether Moreno will fundamentally shift Quito’s approach to Beijing remains to be seen. During his December 2018 trip to Beijing, Moreno secured a new \$900-million loan from China, and officially signed onto the Belt and Road Initiative (BRI).¹³⁴

Ecuador’s engagement with China illustrates the importance of good governance and oversight to mitigate the harmful effects of Chinese influence. Moving forward, increased vigilance by the government regarding Chinese investment and financing practices, greater consideration and availability of alternative sources of investment, and increased capacity of Ecuadorean civil society and media will help bolster Ecuador’s resilience to Chinese government influence.

¹²⁹ Brown, Kimberly. “Ecuador’s Indigenous March over 600km to Demand an End to Mining.” *Al Jazeera*, 14 Nov. 2018, www.aljazeera.com/news/2018/11/ecuador-indigenous-march-600km-demand-mining-181115011033618.html.

¹³⁰ Ellis. “Ecuador’s Leveraging of China to Pursue an Alternative Political and Development Path.”

¹³¹ Ellis. “Ecuador’s Leveraging of China to Pursue an Alternative Political and Development Path.”

¹³² Maidenberg, Micah, and Ryan Dube. “IMF, Development Banks Agree to \$10.2 Billion Bailout for Ecuador.” *The Wall Street Journal*, 21 Feb. 2019, www.wsj.com/articles/imf-development-banks-agree-to-10-2-billion-bailout-for-ecuador-11550769283.

¹³³ “La Proxima Semana Estara Listo Plan para Cerrar la Supercom.” *El Comercio*, 23 Feb. 2019, www.elcomercio.com/actualidad/supercom-cierre-loc-edison-toro.html.

¹³⁴ “Ecuador Clinches \$900 Mln Loan from China – Moreno.” *Reuters*, 12 Dec. 2018, www.reuters.com/article/ecuador-debt-china/ecuador-clinches-900-mln-loan-from-china-moreno-idUSL1N1YH0YJ; Dreyer, June Teufel. “The Belt, the Road, and Latin America.” *Foreign Policy Research Institute*, 16 Jan. 2019, www.fpri.org/article/2019/01/the-belt-the-road-and-latin-america/.

ZAMBIA

Zambia's relationship with China dates back to the Cold War era when, like many African states, it viewed China as an ally against the continent's Western colonizers. China is still remembered fondly for building a railway linking landlocked Zambia with Tanzania in the 1970s – providing Zambia with a trade route that avoided apartheid South Africa and Rhodesia.

As Zambia strives to develop its economy today, the country's reliance on China for loans and infrastructure development strikes a familiar chord. In recent years, Zambia has again turned to China for credit and investment to develop infrastructure projects, helping it avoid the burdensome conditions that accompany traditional loans. Zambia's faltering economy – resulting from the combined effects of the global collapse of copper prices, poor fiscal choices and a debt-driven national-development policy – made turning to China an attractive option.

Since President Edgar Lungu came to power in 2015, Zambia has taken on additional Chinese loans and become saddled with dangerously high levels of debt. Increased Chinese media influence and rising corruption have exacerbated the tilt toward authoritarianism in Zambia. However, the persistence of a spirited independent media and active opposition politicians has the potential to diminish Chinese influence and help counter Zambia's authoritarian turn.

China's Economic Influence

As one of the largest foreign investors in Zambia, China's economic influence looms large over the country.¹³⁵ Through loans and other instruments, China has funded significant and high-profile infrastructure projects in Zambia, ranging from the \$365-million upgrade of the Kenneth Kaunda International Airport to various roads and a \$94 million stadium.¹³⁶ Furthermore, Chinese companies – most of them state-owned enterprises – have financed or built 83 percent of all public-capital projects.¹³⁷ Although Chinese investments in the mining sector have created some jobs in Zambia's copper-extraction industry – which constitutes 60 percent of the country's total exports – allegations that Chinese companies have exploited Zambian workers continue to draw attention to the high costs of Chinese investment.¹³⁸

Beyond the societal costs of tethering Zambia's economic growth to Chinese investment, Chinese government-backed loans have caused the country's debt to balloon. Although the exact amount of Zambia's sovereign debt is unclear, estimates of external debt range between \$9.5 and \$10.6 billion as of September 2018.¹³⁹ According to the Zambian government, 30 percent of this external debt is owed

¹³⁵ According to Zambia's central bank, the Bank of Zambia, and the Zambian Development Agency, China held the fourth-largest stock of foreign investment in Zambia as of 2017. However, in terms of the total stock of other investments, including trade credits and advances, China's total stock ranked first as of the end of 2017. "Foreign Private Investment and Investor Perceptions in Zambia – 2018." *Balance of Payments Statistical Committee, Government of the Republic of Zambia*, 2018, www.boz.zm/ForeignPrivateandInvestorPerceptionReport2018.pdf.

¹³⁶ "Zambia: China in Africa – the Zambia Experience." *AllAfrica*, 9 Apr. 2019, allafrica.com/stories/201904100554.html. See also Watkins, Derek, et al. "The World, Built by China." *The New York Times*, 18 Nov. 2018, www.nytimes.com/interactive/2018/11/18/world/asia/world-built-by-china.html.

¹³⁷ "At a Crossroads between China and the IMF – Zambia." *The Economist Intelligence Unit*, 27 Jul. 2018, country.eiu.com/article.aspx?articleid=1606951744&Country=Zambia&topic=Economy.

¹³⁸ Chinese companies have a history of mistreating Zambian and African workers. For example, in 2005, 52 Zambians were killed in an explosives factory operated by a company jointly owned by the Beijing General Institute for Research and Metallurgy and the Non-Ferrous China-Africa Mining Company. See Pillay. Unpublished paper on China's influence in Africa and Zambia, 2019.

¹³⁹ "Fears in Zambia of Huge Debt Bust from China-Fueled Building Boom." *Agence France-Presse*, 23 Sep. 2018, www.scmp.com/news/china/diplomacy/article/2165377/fears-zambia-huge-debt-bust-china-fuelled-building-boom; Mitimangi, Taonga Clifford. "Zambian Central Bank Mulls China Debt Swap to Build Reserves." *Bloomberg*, 20 Feb. 2019, www.bloomberg.com/news/articles/2019-02-20/zambia-s-central-bank-mulls-china-debt-swap-to-rebuild-reserves.

Zambia paid twice the African average for road construction on a per-kilometer basis.

to China.¹⁴⁰ The cost of servicing even the lower-end figure would require approximately 90 percent of Lusaka's foreign-exchange reserves – a dangerously high figure.¹⁴¹

Numerous Chinese loans in Zambia have been opaque and resulted in corruption. Zambia has regularly paid above-market rates for products and services that involve Chinese financing, allowing Zambian officials and Chinese intermediaries the opportunity to pocket the difference. According to a 2017 World Bank study, Zambia paid twice the African average for road construction on a per-kilometer basis. Lusaka also paid 70 percent above market

rates for 42 fire engines and has regularly overpaid for infrastructure built by Chinese state-owned firms.¹⁴² Infrastructure projects financed by the Export-Import Bank of China are negotiated directly with Zambian government departments, with loans then made directly to Chinese contractors. The true costs of a deal are rarely made public.¹⁴³

In fact, Lungu has granted Chinese companies special privileges in Zambia, allowing some of them to operate with impunity. Many do not even comply with the government requirement to subcontract at least 20 percent of work to Zambian companies.¹⁴⁴

China's Influence in the Information Space

The Lungu administration has also given China wide berth to undertake influence campaigns in the information space. Zambia granted Star Times, a Chinese firm, preferential access to broadcasting and media rights in the country. Zambia's state broadcaster ZNBC, with StarTimes as its partner, secured a \$273-million loan from the Export-Import Bank of China for a project to modernize the state broadcasting system. The joint venture, called TopStar, obtained two licenses from the Zambian government (for signal distribution and content provision), which violated Zambian competition laws forbidding any single media entity from obtaining that much control over the market.¹⁴⁵ Since China's StarTimes owns a majority stake (60 percent) of the joint venture, the deal effectively paves the way for a Chinese company to control Zambia's national broadcasting service.¹⁴⁶

Beyond just broadcasting, Chinese influence has increased in Zambia's civic discourse; for example, Zambia's official newspaper has published front-page articles in Chinese.¹⁴⁷ Lungu's government has censored or discouraged criticism of China across media. For example, when Kenyan law professor Patrick Loch Otieno Lumumba was invited by Zambia's Eden University to deliver a public lecture on China's rising influence in Africa, he was refused entry to the country upon arrival – and subsequently deported for "security" reasons.¹⁴⁸

¹⁴⁰ "Zambia: China in Africa – the Zambia Experience."

¹⁴¹ Mitimngi. "Zambian Central Bank Mulls China Debt Swap to Build Reserves."

¹⁴² "Zambia Slumps Towards Another Debt Crisis." *The Economist*, 13 Sep. 2018, www.economist.com/middle-east-and-africa/2018/09/13/zambia-slumps-towards-another-debt-crisis. Civic groups staged a protest against the abuse of public funds in the case of the 42 fire trucks. These protesters were then arrested and released on bail but have since been harassed by the Zambian judiciary. See Mawarire, Teldah, and Laura Miti. "Corruption in Zambia: 42 Fire Trucks for \$42m." *Al Jazeera*, 23 Jun. 2018, www.aljazeera.com/indepth/opinion/corruption-zambia-42-fire-trucks-42m-180620084648448.html.

¹⁴³ "Zambia Slumps Towards Another Debt Crisis."

¹⁴⁴ Pillay. Unpublished paper on China's influence in Africa and Zambia.

¹⁴⁵ "Zambia: China in Africa – the Zambia Experience."

¹⁴⁶ Pillay. Unpublished paper on China's influence in Africa and Zambia.

¹⁴⁷ While the precise reasons are unknown, some have speculated it was an attempt to increase revenues, despite the small Chinese population in Zambia. "Times of Zambia Newspaper Publishes in Chinese." *BBC News*, 2 Oct. 2018, www.theeastafrican.co.ke/news/africa/Zambia-paper-publishes-in-Chinese/4552902-4788622-g6gw7uz/index.html.

¹⁴⁸ Menya, Walter. "Zambia Refuses to Entry PLO Lumumba for 'Security' Reasons." *Daily Nation*, 29 Sep. 2019, www.nation.co.ke/news/PLO-Lumumba-denied-entry-into-Zambia/1056-4783762-qbwqu3/index.html.

China has also established a Confucius Institute at the nation's most prestigious university, the University of Zambia, to promote Chinese language, culture and a Beijing-friendly interpretation of global events.¹⁴⁹

Zambia's Response to Chinese Influence

Since Zambia's independence in 1973, successive governments have invited Chinese investment to help develop Zambia's infrastructure. However, Lungu opened the door to enhanced Chinese influence across all domains, with the stated intention of stimulating the economy to grow Zambia out of debt. In view of the resulting agreements, it appears likely that Lungu's receptiveness to Chinese influence was motivated to a certain extent by personal financial and political gain. Corruption in the Lungu administration has been accompanied by increased repression and a drift toward authoritarianism.¹⁵⁰ While Lungu's authoritarian turn is neither the cause nor result of corruption, the onset of a more repressive administration has diminished the number of independent actors that can expose corruption, while the influx of Chinese investment has created new opportunities for systemic graft.

Zambia granted Star Times, a Chinese firm, preferential access to broadcasting and media rights in the country.

As Zambia's debt crisis worsens, the Lungu administration has held consultations with multilateral development banks, such as the International Monetary Fund (IMF), while simultaneously deepening its reliance on China. Lusaka has reportedly pondered offering state assets to China as collateral, though various members of the Lungu administration ultimately dismissed this plan.¹⁵¹

Since Lungu assumed power, his administration has closed four media outlets, harassed prominent critics and generally expanded press restrictions.¹⁵² Despite the chilling effects Lungu's actions may have had on journalistic freedom and civic discourse, opposition politicians, civic groups and activists have spoken out against Lungu's authoritarian turn and rising levels of Chinese influence.

Chishimba Kambwili, a former government minister and once Lungu's closest ally, has said that the Chinese are "not investors, but infestors."¹⁵³ Activists have protested against Beijing's increasing footprint, using social media to raise awareness with hashtags such as #sayno2China or displaying signs bearing incendiary slogans such as "China equals Hitler."¹⁵⁴ Even beyond activist communities, there are significant undercurrents of anti-Chinese sentiment across Zambian society. Rising anti-Chinese sentiment has been directed toward several Chinese migrants who came to Zambia to open restaurants or convenience stores that largely service Chinese workers.¹⁵⁵ In one telling example, riots erupted after rumors (later proven false)

¹⁴⁹ Pillay. Unpublished paper on China's influence in Africa and Zambia.

¹⁵⁰ For example, Lungu's 2016 electoral victory was shadowed by allegations of election rigging. Lungu also jailed the opposition leader, Hakainde Hichilema, for not yielding to the presidential motorcade. For more on corruption, see "High Levels of Corruption Should Be Blamed on President Lungu-Msoni." *Lusaka Times*, 31 Jan. 2019, www.lusakatimes.com/2019/01/31/high-levels-of-corruption-should-be-blamed-on-president-lungu-msoni/.

¹⁵¹ There are concerns that Lungu will hand over state assets such as ZESCO, the Zambian energy utility, to China in exchange for debt relief. See "Zambia Slumps Towards Another Debt Crisis." For government dismissal of selling state assets to China, see "Kenneth Kaunda International Airport Will Not be Surrendered to China – Dora Siliya." *Lusaka Times*, 10 Sep. 2018, www.lusakatimes.com/2018/09/10/kenneth-kaunda-international-airport-will-not-be-surrendered-to-china-dora-siliya/.

¹⁵² "Zambia: Independent Media Harassed." Reporters without Borders, rsf.org/en/zambia.

¹⁵³ Ironically, Kambwili had once supported Lungu's friendly ties with China. Kambwili himself is also accused of corruption. See "Zambia: China in Africa – the Zambia Experience."

¹⁵⁴ Contributing to the overall sense that Lungu has sold Zambia to China are reports that the Chinese military is involved in Zambian air-traffic control. See "Zambia: China in Africa – the Zambia Experience.," "Fears in Zambia of Huge Debt Bust from China-Fuelled Building Boom."

¹⁵⁵ Jalloh, Abu-Bakarr, and Fang Wan. "Resistance Growing to Chinese Presence in Zambia." *DW*, 9 Apr. 2019, www.dw.com/en/resistance-growing-to-chinese-presence-in-zambia/a-47275927.

spread that the Lungu administration was going to hand over a state-owned timber company to a Chinese entity.¹⁵⁶

Despite local backlash, Zambia will face an uphill battle if it wishes to reduce Chinese influence, mostly because the Lungu administration has been “a willing collaborator.”¹⁵⁷ Civic actors, opposition party members and the remaining independent media outlets serve as the foundation for resilience. That said, calls to hold the government accountable for corrupt or poorly conceived deals have not yet reached the level at which they might enhance Zambia’s ability to reduce Chinese economic leverage. In order to reduce official corruption and preserve some economic independence, greater enforcement of labor regulations and restrictions on foreign investment are needed. However, if Lungu follows through on stated intentions to seek a third term in 2021, which is currently unconstitutional, Zambia will drift further toward China’s authoritarian model, which would likely stamp out the simmering discourse on Chinese influence.

¹⁵⁶ More than 100 people were arrested after rioters burned tires, fought with police and looted stores run by Chinese. See Rosen, Jonathan W. “China Must Be Stopped: Zambia Debates the Threat of ‘Debt-Trap’ Diplomacy.” *World Politics Review*, 18 Dec. 2018, www.worldpoliticsreview.com/insights/27027/china-must-be-stopped-zambia-debates-the-threat-of-debt-trap-diplomacy.

¹⁵⁷ Pillay. Unpublished paper on China’s influence in Africa and Zambia.

MONGOLIA

Mongolia declared independence from China more than a century ago, yet China continues to cast a large shadow over neighboring Mongolia's economic and strategic landscape. China's already-significant economic influence in Mongolia is likely to grow if the country follows through on plans to accept a reported \$30 billion in new Belt and Road Initiative-related (BRI) loans, which would put the country at high risk of debt distress.¹⁵⁸

Thus far, Ulaanbaatar's longstanding suspicion of Beijing – rooted in ongoing ethnic tensions and fears of Chinese domination – has prevented even greater Chinese economic leverage over Mongolia. However, if Mongolia is to strengthen its resilience to Chinese Communist Party (CCP) influence, it will need to address endemic issues of weak governance and corruption, and further diversify its foreign economic ties.

China's Economic Influence in Mongolia

As Mongolia's most important trading partner and largest investor, lender and aid provider, China exerts significant economic influence.¹⁵⁹ This is due to geographical proximity as well as trade complementarity between Beijing and Ulaanbaatar, with China's economic growth driving demand for the Mongolian raw-material exports, particularly minerals. China absorbs 79 percent of Mongolia's exports and is a key purchaser of coal from the Tavan Tolgoi mine.¹⁶⁰ In recent years, China has invested heavily in Mongolia, financing BRI projects that access the country's natural resources and boost the economies of China's Inner Mongolia region and Gansu province by connecting them with the Mongolian and Russian markets.¹⁶¹

Mongolia has also proven susceptible to Chinese influence because of the country's ongoing struggle with weak governance and corruption. This has contributed to frequent sovereign debt crises necessitating foreign and multilateral bailouts. Western countries have abandoned trade and investment agreements with Mongolia out of frustration, often leaving Chinese state-owned enterprises as Mongolia's only potential partners. Indeed, many Western businesses are not interested in doing business in Mongolia because of its isolated geography, underdeveloped infrastructure, corruption, weak rule of law and unstable domestic politics, and have sold their stakes in Mongolia to Chinese companies.¹⁶²

Chinese businesses' tolerance for Mongolia's turbulent commercial environment is bolstered by their preference for using personal networks to conclude commercial transactions. Chinese businesses also frequently maximize the commercial benefits of relationships forged with newly elected officials by negotiating deals with them immediately prior to their election.¹⁶³

¹⁵⁸ Hurley, John, et al. "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective." CGD Policy Paper 121, *Center for Global Development*, 4 Mar. 2018, www.cgdev.org/publication/examining-debt-implications-belt-and-road-initiative-a-policy-perspective.

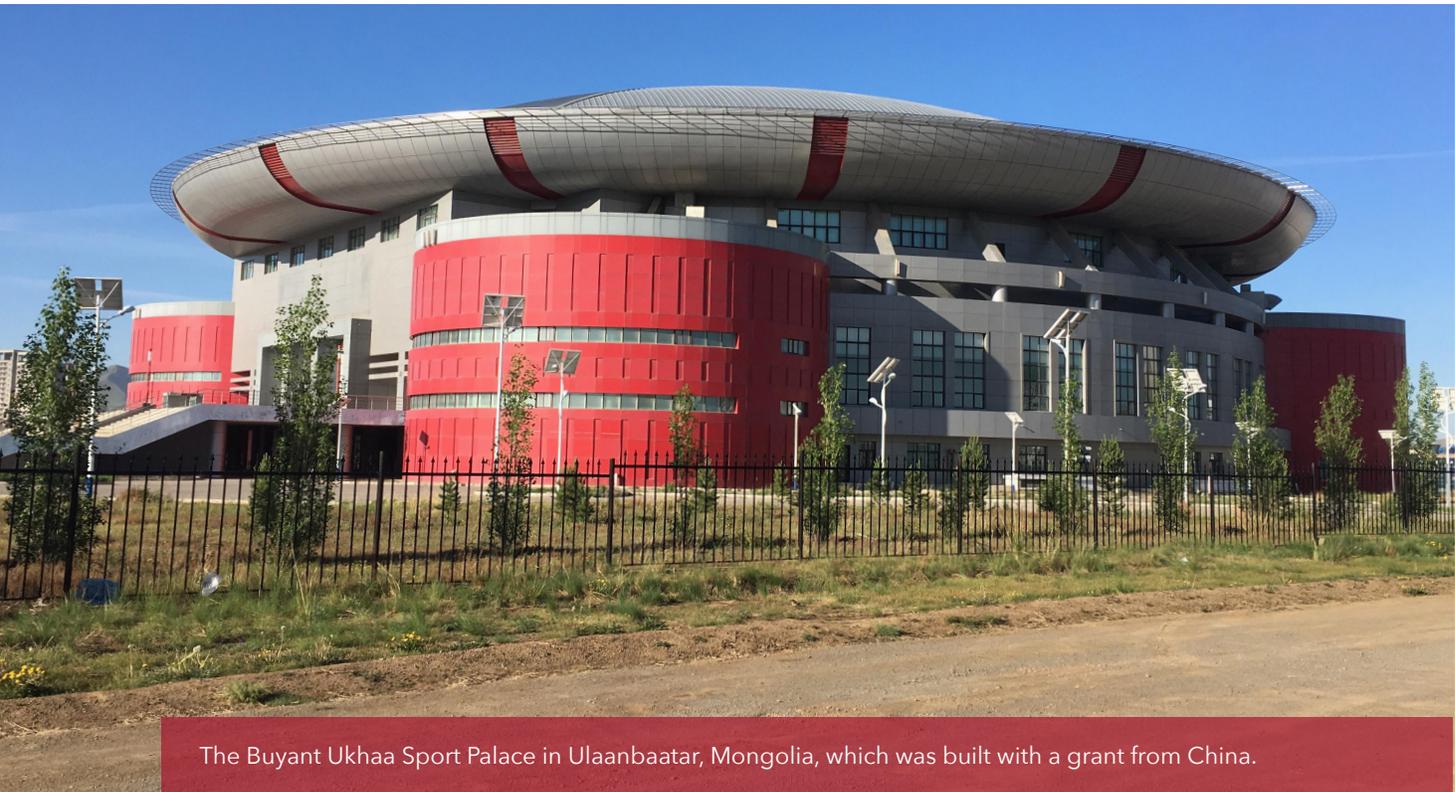
¹⁵⁹ Venzon, Cliff and Eri Sugiura. "Mongolia Hopes for Belt and Road Bonanza Without Heavy Debt." *Nikkei Asian Review*, 30 May 2019, asia.nikkei.com/Spotlight/The-Future-of-Asia-2019/Mongolia-hopes-for-Belt-and-Road-bonanza-without-heavy-debt.

¹⁶⁰ China also provides Mongolia with preferential access to seaports and transit facilities. See "Mongolia Imports 2016." *World Bank*, wits.worldbank.org/CountryProfile/en/Country/MNG/Year/LTST/TradeFlow/Export/Partner/all/; See also Stanway, David. "Mongolia Plans Coal Rail Link to China by 2021: Official." *Reuters*, 7 Nov. 2018, www.reuters.com/article/us-china-coal-mongolia-tavan-tolgoi/mongolia-plans-coal-rail-link-to-china-by-2021-official-idUSKCN1ND0HP.

¹⁶¹ Venzon and Sugiura. "Mongolia Hopes for Belt and Road Bonanza Without Heavy Debt."

¹⁶² At various points, German, Japanese and U.S. businesses had expressed interest in investing in long-term infrastructure development and large mining projects. However, none of these projects materialized due to concerns regarding Mongolia's corruption, unstable regulatory environment, underwhelming economic returns and Russian and Chinese influence. For instance, SOCO Oil International PLC, headquartered in Britain, sold its licenses to PetroChina Daqing Tamsag LLC, which is run by Daqing Oil, a Manchurian-based subsidiary of the state-owned China National Petroleum Corporation (CNPC).

¹⁶³ Jargalsaikhany, Mendee. Unpublished paper on Mongolia-China relations, 2019.



The Buyant Ukhaa Sport Palace in Ulaanbaatar, Mongolia, which was built with a grant from China.

Other Forms of Chinese Influence

Despite such growing economic ties, Chinese leaders are cognizant that entrenched, historical anti-China views persist in Mongolia. The CCP has sought to change those attitudes through a combination of economic and cultural diplomacy. These efforts accelerated following CCP Chairman Xi Jinping's landmark visit to Mongolia in 2014 to celebrate the 65th anniversary of diplomatic ties. A Sino-Mongolian Joint Board was created to serve as a coordinating body for prioritizing, planning and implementing humanitarian assistance projects mostly funded by Chinese interests.¹⁶⁴ In order to promote Chinese culture and exchanges, the Chinese government established a Chinese Cultural Center in Ulaanbaatar, its third in Asia.¹⁶⁵ The head of the Chinese Cultural Center works for the Chinese ambassador to Mongolia, represents China's Ministry of Culture and reportedly supervises directors and teachers of the three Confucius Institutes in Mongolia.¹⁶⁶

China has cultivated Mongolian journalists and other media professionals to enhance positive perceptions of China and the Chinese people. Since Xi's 2014 visit, China has invited 250 Mongolian media professionals annually to China for study and acculturation tours.¹⁶⁷ Mongolian media outlets have also begun to hire a younger generation of journalists, many educated in China. As a result of these trends, coverage of China has evolved from being universally negative to adopting a more neutral tone, and at times a positive one.¹⁶⁸

¹⁶⁴ Jargalsaikhany, Mendee. "Charm Offensive: Chinese Ambassador's Address on the State of the Sino-Mongolia Relationship." *Eurasia Daily Monitor*, 29 Jan. 2019, jamestown.org/program/charm-offensive-chinese-ambassadors-address-on-the-state-of-the-sino-mongolian-relationship/.

¹⁶⁵ The first and second Chinese Cultural Centers in Asia were in Japan and South Korea. The Mongolian center was established in the Central Tower, a prominent location near the central square in Ulaanbaatar. The center occupies an entire floor (800 square meters) with state-of-the-art facilities for exhibitions, art performances and conferences in addition to the library with a reading room.

¹⁶⁶ Jargalsaikhany, Mendee. Unpublished paper on Mongolia-China relations, 2019.

¹⁶⁷ Jargalsaikhany, Mendee. Unpublished paper on Mongolia-China relations, 2019.

¹⁶⁸ In the past, many older Mongolian journalists were educated in the Soviet Union and held anti-Chinese views based on 1970s and 1980s politics.

The CCP has endeavored to increase connections between Mongolians and Chinese citizens residing in bordering areas, including with members of Mongolia's ethnic-Chinese minority. However, significant hurdles remain to shaping positive perceptions of China in Mongolia. China is so sensitive to anti-Chinese sentiments among the Mongol public at large that it has avoided arranging high-level visits proximate to Mongolian elections.¹⁶⁹

Out of deference to Beijing, Mongolia has refrained from weighing in on anti-government protests of ethnic Mongolians in China and has been reluctant to grant asylum to Mongolian-Chinese dissidents. On the other hand, China has interfered in Mongolia's foreign policy and religious domains by publicly pressuring the government not to receive the Dalai Lama, despite the fact that he is seen as a spiritual leader by many who follow Tibetan Buddhism in predominantly Buddhist Mongolia. When Mongolia defied these warnings in 2016, China responded with punitive measures such as imposing fees on commodity imports from Mongolia.¹⁷⁰

Ulaanbaatar's longstanding suspicion of Beijing – rooted in ongoing ethnic tensions and fears of Chinese domination – has prevented even greater Chinese economic leverage over Mongolia.

Mongolia's Response to China

Historic suspicions of China inform Ulaanbaatar's contemporary policy stances vis-a-vis Beijing, and to some extent have constrained the country's susceptibility to Chinese influence.¹⁷¹ Although Mongolian political and business elites appreciate the importance of Chinese investments and commodity purchases for the economy, Mongolia still maintains many restrictions on Chinese investments out of historic caution. Mongolia also remains sensitive to the concerns of Russia, its northern neighbor, and thus treads carefully in managing its relations with the two countries.

Mongolia has instituted restrictions on Chinese investment, explicitly inserting such policies into national security statements and investment documents to prevent China's domination of Mongolia's economy and strategic resources. For example, China's Shenhua Group, a state-owned mining and energy company, saw its request to participate in the development of Mongolia's largest coal deposit refused three times.¹⁷² Mongolia has also cancelled agreements to supply Mongolian coal to the Aluminum Corporation of China (CHALCO) and blocked CHALCO's attempted purchase of a controlling stake in a Canadian firm that operated a coal-mining license in Mongolia.¹⁷³ In December 2018, the cabinet secretariat closed a Chinese-run silver mine following revelations of malfeasance including tax evasion.¹⁷⁴

¹⁶⁹ For Mongolian politicians, any Chinese connections (e.g., ethnic/kin, cultural, business, political) and/or even physical appearances would increase the likelihood of negative comment by his/her opponents and reduce their chances of being elected.

¹⁷⁰ "China Says Hopes Mongolia Learned Lesson after Dalai Lama Visit." *Reuters*, 24 Jan. 2017, www.reuters.com/article/us-china-mongolia-dalailama-idUSKBN158197.

¹⁷¹ In the 1950s, Mongolia maintained friendly relations with both China and the Soviet Union. The Chinese government provided extensive aid in constructing roads, factories and buildings. However, Mongolia sided with the Soviet Union during the Sino-Soviet split (1956–1966) and expelled 9,000 to 10,000 Chinese workers. After 1989, Chinese assistance gradually resumed.

¹⁷² Putz, Catherine. "Mongolia's Mega Coal Mine Deal Likely to Stall, Again." *The Diplomat*, 11 Sep. 2015, <https://thediplomat.com/2015/09/mongolias-mega-coal-mine-deal-likely-to-stall-again/>. Tavan Tolgoi is one of the largest coal/coking coal deposits in the world, with an estimated reserve of 6.4 billion tons.

¹⁷³ In April 2012, Mongolian politicians cancelled CHALCO's purchase of a controlling stake (\$926 million) in Canadian SouthGobi Resources Ltd, which holds a large coal-mining license within 50 kilometers from the Sino-Mongolian border. This triggered the quick passage of a protectionist bill – the Strategic Entities Foreign Investment Law of Mongolia (June 2012) – limiting the ownership of the foreign state-owned and private investors in strategically important sectors. In January 2013, a new cabinet established after the 2012 parliamentary elections, cancelled a contract worth \$250 million to supply coal from Tavan Tolgoi to Chalco. See also "2012 Mongolia Investment Climate Statement." *U.S. Embassy in Mongolia*. 31 Jul. 2012, photos.state.gov/libraries/mongolia/662225/pdfs/2012_mongolia_investment_climate_statement.pdf.

¹⁷⁴ *Montsame News*, 29 Dec. 2019, montsame.mn/mn/read/175735.

Ulaanbaatar's fear of Beijing's influence has also limited Chinese financial institutions' plans to enter the Mongolian banking sector. Although Chinese state-owned banks, such as the Bank of China (BOC) and the Industrial and Commercial Bank of China (ICBC), have opened representative offices in Mongolia, they have been prevented from securing a commercial banking license because of increasing capital deposit thresholds and shifting regulations.¹⁷⁵

While China continues to increase its already-substantial economic leverage in Mongolia, the country's historical suspicion of China and determination to prevent domination of key industries have mitigated the malign effects of Chinese influence. If Mongolia improves its business climate and attractiveness to foreign investors by tackling corruption, it will increase its likelihood of mitigating excessive economic reliance on China. Addressing its fiscal spending and macroeconomic health will also reduce the need for reliance on Chinese lines of credit, and diversifying its trading relationships to include a potential free-trade agreement with the United States would help reduce Chinese economic influence.¹⁷⁶

¹⁷⁵ As of late 2018, the only foreign bank that remains interested in securing a commercial banking license in Mongolia is the Bank of China. Mongolian politicians' fear of Chinese economic influence is the primary driver of regulations drafted to prevent foreign banks from operating in the country. However, by attempting to keep Chinese banks out, Mongolia has made the thresholds so high that banks from other countries have completely lost interest in operating in Mongolia. See Wilson, Elliot. "Mongolia Fends Off Chinese Bank Suitors." *Euromoney*, 18 Dec. 2018, www.euromoney.com/article/b1c9kttj41zp3/mongolia-fends-off-chinese-bank-suitors. Accessed 25 Apr. 2019.

¹⁷⁶ Thus far, Mongolia has concluded only one free-trade agreement, with Japan.

HUNGARY

Hungary has a complex national identity that has evolved since the end of the Cold War. As a member of both the European Union (EU) and North Atlantic Treaty Organization (NATO), the country is visibly allied with the West. However, since the 2008 global financial crisis, many Hungarians have lost faith in Western democratic values and liberal economic models of growth – a sentiment which underpinned Viktor Orbán's electoral victory on a sovereigntist platform in 2010.

Since that time, Orbán has expanded Hungary's engagement with China, allowing the country to gain influence over Hungary's political environment and economy. China – seeking greater strategic influence within the EU – has treated Orbán as a valuable partner in advancing its interests among EU member states. Orbán's coziness with China has contributed to growing division among EU members over whether to characterize China as a "systemic rival," a step the European Commission took in March 2019.¹⁷⁷ China does not yet weigh heavily in Hungary's overall foreign trade and investment. Orbán, however, has amplified China's efforts to enhance its standing in Hungary, potentially opening the door to high levels of future Chinese influence.

China's Economic Influence

Although Orbán has been a proponent of greater economic integration with China, China's growing trade and investment in Hungary have not yet yielded significant economic leverage. Hungary's exports to China, while growing, pale in comparison to its exports to France, Germany or the United Kingdom; approximately 80 percent of Hungary's exports go to EU member states and approximately 5 percent to China.¹⁷⁸ Although exports to China have grown at an annual rate of 7 percent between 2010 and 2016, jumping to 17 percent between 2016 and 2017, the majority of these exports are accounted for by multinationals operating in Hungary, and exporting to China.¹⁷⁹ While Hungary has been the largest recipient of Chinese foreign direct investment (FDI) within the countries of Central and Eastern Europe, Chinese investment nevertheless comprised just 2.4 percent of total FDI stock into Hungary as of 2017.¹⁸⁰

Hungary's reliance on Chinese credit may increase as a result of the planned railway linking Belgrade and Budapest – reportedly the most expensive railway in Hungary's recent history. Although the details surrounding the project are being kept confidential (itself alarming for a major government infrastructure project), China will finance 85 percent of the project with most work done by Chinese companies.¹⁸¹ Hungarian analysts have raised concerns that if and when the project starts, it will result in massive debt

¹⁷⁷ Peel, Michael, and Lucy Hornby. "China Pledges Open Belt and Road but West Is Split on Project." *Financial Times*, 26 Apr. 2019, www.ft.com/content/b10359ce-669f-11e9-9adc-98bf1d35a056; von der Burchard, Hans. "EU Slams China as a 'Systemic Rival' as Trade Tension Rises." *Politico*, 12 Mar. 2019, www.politico.eu/article/eu-slams-china-as-systemic-rival-as-trade-tension-rises/.

¹⁷⁸ Matura, Tamas. "The Misguided Discourse on Chinese Influence in Central Europe." *The New Federalist*, 4 Oct. 2018, www.thenewfederalist.eu/the-misguided-discourse-on-chinese-influence-in-central-europe.

¹⁷⁹ Gergely. Unpublished paper on Chinese influence in Hungary. See also "A Kulkereskedelmi Termekforgalom Erteke Euroban es Ertekindexei a Fontosabb Orszagok Szerint." *KSH (Hungarian Bureau of Statistics)*, 2018, www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qkt020d.html; Matura, Tamas. "A Kinai Jelenlet Magyarorszagon." *Muhelytanulmány*. Prague, AMO, *ChinInfluenCE*, p. 10, www.chininfluence.eu/wp-content/uploads/2018/06/AMO_A-ki%CC%81nai-jelenle%CC%81t-Magyarorsza%CC%81gon.pdf.

¹⁸⁰ Szunomar, Agnes. "Chinese Economic Influence in Hungary – Rhetoric versus Realities." *Institute of World Economics Blog*, 20 Sep. 2018, vilaggazdasagi.blog.hu/2018/09/20/chinese_economic_influence_in_hungary_rhetoric_versus_realities.

¹⁸¹ Bodacz, Peter. "Draga Lesz a Kinaiak Uzlete." *Magyar Nemzet*, 4 Nov. 2016, mno.hu/gazdasag/draga-lesz-a-kinaiak-uzlete-1369735.

without ever turning a profit or benefitting the local economy, given China's preference of bringing in Chinese workers to complete such infrastructure projects.¹⁸²

Other Forms of Chinese Influence

China has sought to burnish its image and the attractiveness of the Belt and Road Initiative (BRI) in Hungary by blending cultural diplomacy with attempts to influence media coverage. China operates four Confucius Institutes in Hungary – a large number for a country of its size. Cash-strapped universities that host Confucius Institutes are able to obtain funding from China in exchange for self-censoring “China-related public discourse.”¹⁸³ Through the funding of academic exchanges and BRI-related travel opportunities for Hungarian scholars, China has been able to steer public and elite discourse in favor of China's goals in Europe and Hungary. Additionally, the Chinese Academy of Social Sciences helped to establish the China-CEEC Institute in Budapest, which funds scholars in the region to conduct research extolling the benefits of China's engagement in Hungary, and in Central and Eastern Europe more broadly.¹⁸⁴

Beijing has also acquired media outlets and educational institutions to shape positive images of China, or at least prevent the emergence of negative ones. For example, the Chinese media outlet GBTimes acquired a local radio station in Budapest, adding daily programs on Chinese culture designed to paint China in a positive light.¹⁸⁵ More significantly, the China-Central and Eastern Europe Investment Cooperation Fund (a partner of the Export-Import Bank of China) acquired Hungary's largest private university, Budapest Metropolitan University. Although there are no indications of Chinese attempts to alter the university's curriculum, China's approach in other countries indicates that topics and research painting the country and the CCP in a negative light will be discouraged.¹⁸⁶

The integration of China's telecommunications industry into the backbone of Hungary's mobile and internet communications infrastructure poses a potential threat to the security of the country's information and increases Hungary's dependence on China. Almost all mobile and internet service providers use Chinese network equipment, with Telenor Hungary and Magyar Telekom both using ZTE hardware and Vodafone employing Huawei technology.¹⁸⁷ While there are technical debates regarding the extent to which China could exploit ZTE's and Huawei's infrastructure, it is worrying that the Hungarian government is not taking potential risks seriously.¹⁸⁸

Hungary's Response to Chinese Influence

The Chinese Communist Party (CCP) has not used aggressive influence tactics employed elsewhere to increase its leverage in Hungary, almost certainly because Orban and other Hungarian politicians have been so accommodating to Chinese goals. Since coming to power in 2010, Orban's government has been one of China's loudest cheerleaders in Europe, facilitating China's longer-term strategy of expanding and

¹⁸² Orban, the main proponent of the project, has hinted at the railroad's potential lack of profitability by downplaying the financial importance of the project, stressing instead that it will help upgrade the international status of Hungary. See Gergely. Unpublished paper on Chinese influence in Hungary, citing “Orban Szerint Masodlagos, Megterul-e a Belgrad-Budapest-Vasut.” *Magyar Nemzet*, 1 Dec. 2017, mno.hu/gazdasag/orban-szerint-masodlagos-megterul-e-a-belgrad-budapest-vasut-2431194.

¹⁸³ Gergely. Unpublished paper on Chinese influence in Hungary.

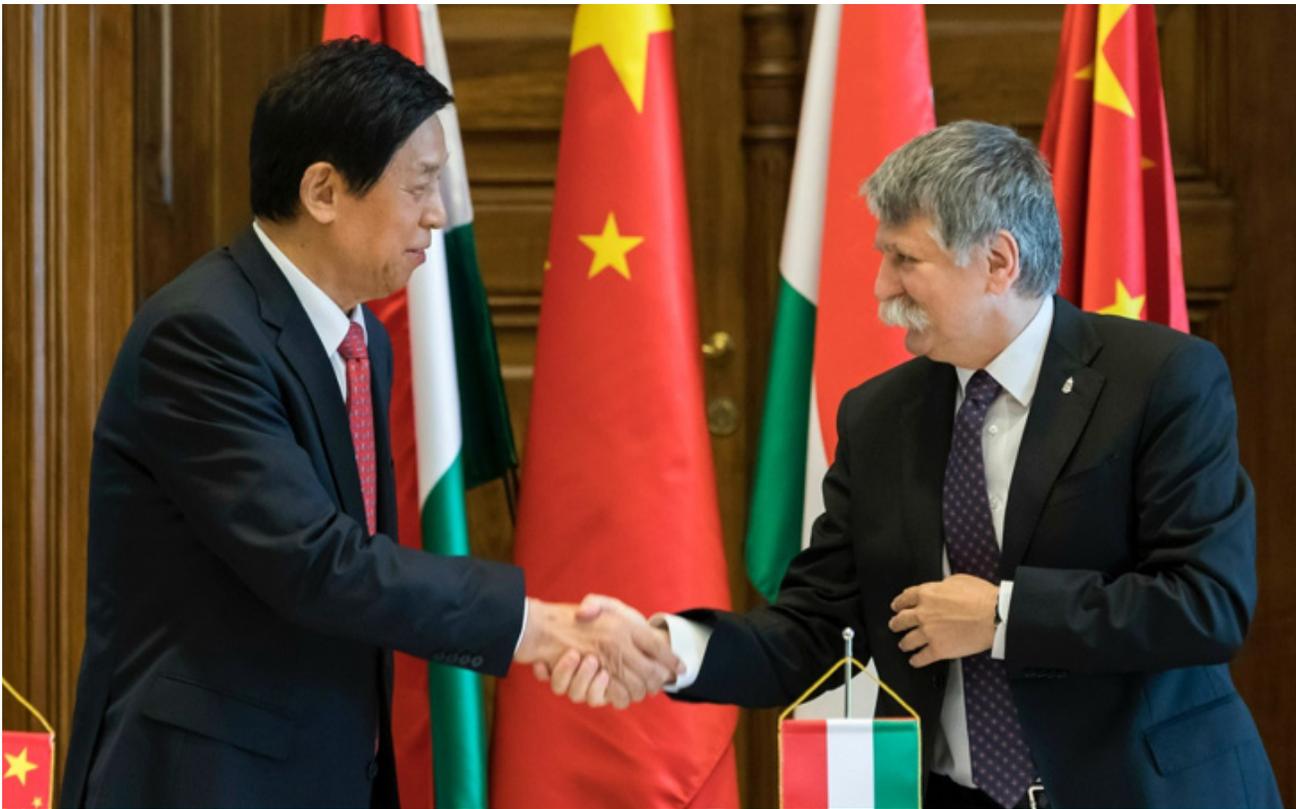
¹⁸⁴ Indicating the importance of the China-CEEC Institute, the head of the CCP's propaganda department attended the inauguration of the center. See Buzna, Viktor. “Budapestben Nyílt Meg a Kinai Puha Ero Ujabb Kozpontja.” *Magyar Nemzet*, 24 Apr. 2017, mno.hu/kulfold/budapestben-nyilt-meg-a-kinai-puha-ero-ujabb-kozpontja-2395988.

¹⁸⁵ Gergely. Unpublished paper on Chinese influence in Hungary, 2019. It is unclear whether the ultimate owner of *GBTimes* is the Chinese government or simply a Chinese businessman highly sympathetic to the CCP cause. However, there is ample evidence to suggest that *GBTimes'* mission is tightly aligned with that of the CCP.

¹⁸⁶ Gergely. Unpublished paper on Chinese influence in Hungary.

¹⁸⁷ Galfy, Csaba. “Leallitja Tevekenyseget a ZTE.” *Hwsw*, 10 May 2018, www.hwsw.hu/hirek/58792/zte-telenor-lte-halozat-exportkorlatozas-mobil.html; “Vodafone-Huawei: Egyutt Gyorsulnak Magyarorszagon.” *Bitpoert*, 4 Mar. 2011. bitport.hu/mobilitas/vodafone-huawei-kozos-halozati-modernizacio-fejlesztes-lte-4g-3g-edge.

¹⁸⁸ Gergely. Unpublished paper on China's influence in Hungary. For insights into the debate regarding vulnerability of Huawei networks and back doors in general, see “Huawei Is at the Centre of Political Controversy.” *The Economist*, 27 Apr. 2019, www.economist.com/briefing/2019/04/27/huawei-is-at-the-centre-of-political-controversy.



Chairman of the Standing Committee of the National People's Congress Li Zhanshu of China (left) shakes hands with the Speaker of the Hungarian Parliament Laszlo Kover (right) during a 2019 visit to Hungary.

broadening its market access to the rest of the continent. Orban has acted as a proponent of Chinese interests in the EU, and resisted U.S. calls for NATO to take a tougher line against Russia and China.¹⁸⁹

Orban's alignment with China stems from his suspicion of Western-style liberal democracies, belief that the West may be in decline and admiration of China's economic successes.¹⁹⁰ He is not alone – there is widespread support for Chinese investment and engagement among Hungary's political elite, and government think tanks in Hungary produce work justifying Orban's alignment toward China.¹⁹¹ The lack of transparency surrounding Orban's negotiations with China on a variety of projects, including the Belgrade-Budapest railway, has apparently not aroused significant concern among opposition politicians or even civic and media groups.¹⁹²

Orban's government has been one of China's loudest cheerleaders in Europe.

¹⁸⁹ Hinshaw, Drew, and Anita Komuves. "Hungary Bucks U.S. Push to Curb Russian and Chinese Influence." *The Wall Street Journal*, 27 Jan. 2019, www.wsj.com/articles/hungary-bucks-u-s-push-to-curb-russian-and-chinese-influence-11548626080.

¹⁹⁰ Since becoming prime minister, Orban has visited China five times. See Gergely. Unpublished paper on Chinese influence in Hungary, 2019.

¹⁹¹ This paragraph draws from Salat, Gergely. Unpublished paper on China's influence in Hungary.

¹⁹² Matura, Tamás. "A Kínai Jelenlét Magyarországon." *Műhelytanulmány* 10. Prague: AMO, www.chinainfluence.eu/wp-content/uploads/2018/06/AMO_A-ki%CC%81nai-jelenle%CC%81t-Magyarorsza%CC%81gon.pdf.

Hungarian society displays few signs of resilience against future CCP influence. While some left-leaning media outlets have criticized Orban's China-related policies, this does not appear to have altered the course of the Hungarian government.¹⁹³ Reports of corruption in dealings between Chinese businesses engaged in construction projects and Hungarian politicians, including those close to Orban, suggest that this expanding relationship is having corrosive effects on an already-corrupt Hungarian political system.¹⁹⁴ Hungary will be better prepared to respond to China's accelerating influence in the country if its remaining independent media, intellectuals and civic actors monitor and expose the risks associated with the government's cultivation of China as an economic and political partner.

¹⁹³ Meszaros, Tamas R. "Magyarország Lett Kina Kapuja, Csak Kina Nem Tud Rola." *Index.hu*, 8 Feb. 2017, index.hu/gazdasag/2017/02/08/kina_magyar_kapcsolat_orban_longform; Zgut, Edit, et al. "Kina az Uj Selyemuton hositana meg Kozep-Europat." *24.hu*, 25 Mar. 2018, 24.hu/kulfold/2018/03/25/kina-az-uj-selyemuton-hodita-na-meg-kozep-europat/.

¹⁹⁴ Shalal, Andrea. "Hungary Slides Deeper Down Corruption Index, Watchdog Says." *Reuters*, 21 Feb. 2018, <https://www.reuters.com/article/us-global-corruption/hungary-slides-deeper-down-corruption-index-watchdog-says-idUSKCN1G52E6>; Gergely. Unpublished paper on Chinese influence in Hungary.

THE GAMBIA

After 22 years of authoritarian rule under Yahya Jammeh, The Gambia is navigating a transition to democracy under the presidency of Adama Barrow. Barrow, who assumed office in 2017, inherited a fragile economy and a crumbling domestic infrastructure, and has relied on Chinese economic assistance in hopes of boosting The Gambia's economic fortunes. These steps have resulted in growing Chinese economic leverage over The Gambia and shored up corruption within the Gambian government. However, a vibrant Gambian civil society and independent media have helped to expose these worrying trends.

China's Economic Influence

Like many of his African counterparts, Barrow saw financing from China's Belt and Road Initiative (BRI) as a viable way to bolster The Gambia's economic growth and improve its domestic infrastructure. As part of his strategy to secure BRI-related funding from China, Barrow took steps to ingratiate himself with China's leaders, including noting that Banjul's previous relationship with Taipei was a "huge mistake."¹⁹⁵ This continued a trend that began a year prior to Jammeh's ousting: After severing official ties with Taiwan in 2013, Jammeh reestablished diplomatic relations with China in 2016.

Barrow deepened his country's bilateral relationship with China, striking infrastructure-development deals including an agreement with Beijing for the construction of a \$50 million International Conference Centre.¹⁹⁶ Under Barrow, the Gambian National Assembly ratified a framework agreement with China under which the Export-Import Bank of China would provide a concessional loan (of an unspecified amount) to implement The Gambia's National Broadband Network, to be constructed by the Chinese telecommunications giant Huawei.¹⁹⁷ At the 2018 Forum on China-Africa Cooperation (FOCAC) in Beijing, Barrow secured \$48 million from China to support road infrastructure, agricultural mechanization and a security-sector reform project – initiated by Barrow as part of a broader transitional justice-reform process.¹⁹⁸ At this same meeting, China also cancelled a \$12 million debt from the 1980s.¹⁹⁹ The Chinese government even extended a grant to fund a 50-kilometer road and four bridges in Barrow's home territory, Upper River Region.²⁰⁰

Despite past pledges to secure better external financing terms than any previous government, Barrow resumed his predecessor's pattern of relying on external sources of credit to fuel domestic growth.²⁰¹ Barrow has increased Banjul's previously minimal debt exposure to Beijing and entered into opaque infrastructure deals with Chinese companies. This reliance on China for loans to fund infrastructure development contributed to The Gambia's debt burden reaching 130 percent of gross domestic product (GDP) in 2017.²⁰²

¹⁹⁵ "Gambia President Tells China Previous Taiwan Ties a 'Huge Mistake.'" *Reuters*, 6 Sep. 2018, www.reuters.com/article/us-china-africa-gambia/gambia-president-tells-china-previous-taiwan-ties-a-huge-mistake-idUSKCN1LM1HV.

¹⁹⁶ The Gambia will host the Organization of Islamic Cooperation Summit in November 2019 in the new space. See Camara, Mahamadou. "Barrow Lays Foundation of \$50 Million Conference Centre." *The Point*, 15 Sep. 2017, thepoint.gm/africa/gambia/article/barrow-lays-foundation-of-50-million-conference-centre.

¹⁹⁷ Jaw, Sait Matty. Unpublished paper on China-Gambia relations. See also Touray, Kebba AF. "Gambia, China Framework Agreement Ratified." *Foroyaa*. 16 Apr. 2018, foroyaa.gm/gambia-china-framework-agreement-ratified/. However, the bill generated some controversy, with the parliament initially rejecting the bill just a few weeks before its ratification partly because of concerns about the repayment terms. See "Gambian MPs Reject Chinese Loan Deal for National Broadband Network." *TeleGeography*, 21 Mar. 2018, www.telegeography.com/products/commsupdate/articles/2018/03/21/gambian-mps-reject-chinese-loan-deal-for-national-broadband-network/.

¹⁹⁸ Jaw. Unpublished paper on China-Gambia relations.

¹⁹⁹ "China Waives US\$12 Million Gambia Loan." *The Fatu Network*, 3 Aug. 2017, fatunetwork.net/china-waives-us12-million-gambia-loan/.

²⁰⁰ "Barrow to Lay the Foundation Stone for Major Roads, Bridges." *The Point*, 14 Dec. 2018, thepoint.gm/africa/gambia/article/barrow-to-lay-foundation-stone-for-major-roads-bridges.

²⁰¹ Gajigo, Ousman. "Will President Barrow Get Re-Elected Based on His Achievements?" *The Fatu Network*, 6 Dec. 2018, fatunetwork.net/will-president-barrow-get-re-elected-based-on-his-achievements/.

²⁰² Saine, Gibril, and Yusef Taylor. "The Gambia Debt Report: Looming Debt Crisis, 130% GDP." *Gainako*, 18 May 2018, gainako.com/gambia-debt-report-looming-debt-crisis-130-gdp/.

The Gambia has made significant progress in battling corruption since Jammeh left office in 2017.²⁰³ Increased reliance on Chinese investment, however, has the potential to undermine some of that progress. For example, when the Gambian government lacked funds to charter an aircraft for Barrow's official visit to Beijing in December 2017, staff in the presidential office contacted TBEA – a Chinese manufacturer of power transformers that was competing for a contract with the Gambian government – for financial assistance. TBEA subsequently transferred more than \$750,000 to the account of a foundation run by Barrow's wife. The first lady's foundation then transferred funds to a charter airline that reportedly ferried the Barrow presidential delegation to Beijing.²⁰⁴

Other Forms of Chinese Influence

Since the formal reestablishment of diplomatic ties, the Chinese government has sought to cultivate a favorable image among Gambian political elites and ordinary citizens alike by sponsoring cultural exchanges, Chinese language instruction through Confucius Institutes and scholarships for Gambians in both The Gambia and China.²⁰⁵ In 2018, China's Guizhou University signed a memorandum of understanding with The Gambia's sole public university, University of The Gambia (UTG), to strengthen bilateral ties through the cultural promotion of language, exchange of faculty, staff and student visits, and short-term training.²⁰⁶ China is also looking to counter unfavorable reporting about China in The Gambia and sponsors media training of Gambian journalists in China. The Chinese embassy in Banjul has vigorously pushed Gambian media to strictly adhere to the "One China" policy, including by criticizing a major outlet for attaching the word "country" to Taiwan.²⁰⁷

The Gambia's Resilience to Chinese Influence

Despite Barrow's promises, he has instilled little oversight of Chinese investment and financing deals. However, activists and independent media outlets – which played a crucial role in exposing corruption during the Jammeh years – have also reported on the shortcomings of Barrow's economic deals with the Chinese government and Chinese companies.

Activists have raised concerns about the negative effects Chinese funding can have on Gambian institutions, criticizing Barrow for what they see as his tendency to "personalize Chinese loans and grants because he believes that would help him politically."²⁰⁸ The Fatu Network's 2018 exposure of China's funding of Barrow's chartered flight raised public awareness of the risks of corrupt Chinese business practices. Independent media outlets have also reported on ocean pollution and trading in foreign currency in The Gambia by the

²⁰³ "The Gambia's Seven-Point Improvement in CPI Comes after End of Decades-Long Autocratic Rule." *Transparency International*, 6 Mar. 2019, voices.transparency.org/the-gambias-seven-point-improvement-in-cpi-comes-after-end-of-decades-long-autocratic-rule-cbda0fa3e6b.

²⁰⁴ Jaw. Unpublished paper on China-Gambia relations; "Source of the Money Deposited into the Fatou Bah Barrow Foundation." *The Fatu Network*, 28 Aug. 2018, fatunetwork.net/source-of-the-money-deposited-into-the-fatou-bah-barrow-foundation/; Sanneh, Sidi. "The \$75000 Scandal Explained...or Was It?" *Sidi Sanneh*, 28 Aug. 2018, sidisanneh.blogspot.com/2018/10/the-75000-scandal-explained-or-was-it.html.

²⁰⁵ Jaw. Unpublished paper on China-Gambia relations.

²⁰⁶ Janko, Sankulleh Gibril. "UTG Signs MOU with Guizhou University of China." *The Point*, 30 May 2018, thepoint.gm/africa/gambia/article/utg-signs-mou-with-guizhou-university-of-china.

²⁰⁷ Yanping, Z. "The Spokesperson of the Chinese Embassy Writes to the Editor-in-Chief of The Point Newspaper on the Issue of Taiwan." *Facebook*, 2018, www.facebook.com/chinaembgm/.

²⁰⁸ Jaw. Unpublished paper on China-Gambia relations. Barrow has expressed his desire to contest the next election even though he agreed with his coalition partners to serve only three years as a transitional president.

Chinese fishing company Golden Lead,²⁰⁹ and activists on social media have accused Barrow and members of his government of personally benefitting from the timber trade.²¹⁰

Various media outlets have exposed the shortcomings of Barrow's Chinese-funded infrastructure-development plans, such as the fact that virtually all such projects are awarded to Chinese construction firms – often with poor results. For example, the online newspaper Freedom reported that a multimillion-dollar port expansion project was awarded to a Chinese firm over the objections of the Gambian Justice Ministry, which criticized the absence of a competitive bidding process.²¹¹

A healthy media and civil society bode well for the prospects of The Gambia's resilience despite Barrow's growing economic dependence on China. Reducing Gambia's reliance on Chinese credit would bolster the country's resilience to Chinese influence. Although the International Monetary Fund notes that The Gambia is on a path to economic recovery, it also points out that the country breached its target on contracting new non-concessional external debt due to a \$25 million loan from the Export-Import Bank of China to Gamtel, The Gambia's state-owned telecommunications company.²¹²

The Gambia has made significant progress in improving governance and accountability since Jammeh's departure. Continued vigilance from Gambian activists, civil society and media will help to reduce the new government's permissiveness regarding damaging Chinese investment and financing deals and serve as a critical check against Chinese influence efforts in the country.

²⁰⁹ Jaw. unpublished paper on China-Gambia relations; Jobe, Louise. "Golden Lead Accused of Allegedly Trading in Foreign Currency." *Foroyaa*, 27 Apr. 2018, foroyaa.gm/golden-lead-factory-accused-of-allegedly-trading-in-foreign-currency/; "The Menace of Golden Lead Factory Persist in Gunjur." *Jollof News*, 2018; Gbadamosi, Nosmot. "Gambia's Tolerance for Chinese Fish Factories Tested as Beijing Courts Poor African Nation with Deals." *South China Morning Post*, 15 Sept. 2018, www.scmp.com/news/world/africa/article/2164352/gambias-tolerance-chinese-fish-factories-tested-beijing-courts.

²¹⁰ Jaw. Unpublished paper on China-Gambia relations; Jobe, Louise. "Golden Lead Accused of Allegedly Trading in Foreign Currency." *Foroyaa*, 27 Apr. 2018, foroyaa.gm/golden-lead-factory-accused-of-allegedly-trading-in-foreign-currency/; "The Menace of Golden Lead Factory Persist in Gunjur." *Jollof News*, 2018, blogafrik.com/menace-golden-lead-factory-persists-gunjur/; Gbadamosi, Nosmot. "Gambia's Tolerance for Chinese Fish Factories Tested as Beijing Courts Poor African Nation with Deals." *South China Morning Post*, 15 Sep. 2018, www.scmp.com/news/world/africa/article/2164352/gambias-tolerance-chinese-fish-factories-tested-beijing-courts. Under Jammeh, The Gambia imported timber from Senegal, and then reexported the timber to China. Barrow lifted a previous ban on importing timber from Senegal. See "Gambia Temporary Lifts Ban on Timber Log Re-Export Trade." *Apa News*, 9 May 2017, apanews.net/en/news/gambia-temporarily-lifts-ban-on-timber-logs-re-export-trade; Camara, Nyima. 2019, www.facebook.com/nyimsin.camara.

²¹¹ "Cabinet Awards Port Contract to a Chinese Firm; Passport and ID Card Deal Goes to Semlex." *Freedom Newspaper*, 17 Jan. 2018, www.freedomnewspaper.com/2018/01/17/cabinet-awards-port-contract-chinese-firm-passport-id-card-deal-goes-simlex/.

²¹² "The Gambia, Second Review Under the Staff-Monitored Program – Press Release and Staff Report for The Gambia." *International Monetary Fund*, 28 Jun. 2018, www.imf.org/en/Publications/CR/Issues/2018/06/28/The-Gambia-Second-Review-Under-the-Staff-Monitored-Program-Press-Release-and-Staff-Report-46035.

MYANMAR

Straddling both East and South Asia, Myanmar occupies a strategic location bordering China in the north and Southeast Asia and South Asia to the south and west. China sees Myanmar as key to expanding its economic influence throughout the region and instrumental in facilitating access to the Indian Ocean that avoids the strategic chokepoint of the Malacca Strait. It is therefore no surprise that Beijing had exerted varying degrees of economic and strategic influence in Myanmar for decades prior to the 2011 dissolution of Myanmar's military junta.

During the early years of Myanmar's new government and its opening to Western donors and investment, China's influence briefly waned. However, China has been able to reassert its influence given the sheer weight of the Belt and Road Initiative (BRI), and the reduction of Western economic incentives and trade preferences following the military's crackdown against the Rohingya Muslim minority. Eager to stimulate economic growth, Nay Pyi Taw has taken on Chinese loans and infrastructure projects as part of the China-Myanmar Economic Corridor (CMEC). China has also sought to protect its influence by exploiting tensions between the powerful military (known as the Tatmadaw) and civilian leadership.

China's Economic Influence

China's primary means of influence in Myanmar is economic, deriving from Beijing's extensive investments, loans and business interests in the country. The Chinese Communist Party (CCP) has taken advantage of Myanmar's weak economy and need for foreign investment and loans, political divisions caused by internal ethnic conflict, and the tensions between civilians and the military to enlarge its economic footprint in the country. The CCP has also exploited the systemic corruption among Myanmar's political elites, using infrastructure-development projects to engage in "elite capture."²¹³

Years of reliance on CCP-backed financing for infrastructure-development projects has bloated Myanmar's sovereign debt burden vis-à-vis China to \$4 billion, approximately 40 percent of the country's total government debt.²¹⁴ Myanmar's debt exposure is likely to increase as a result of the establishment of the CMEC, which is part of the broader BRI.²¹⁵ Less than a year after the signing of a memorandum of understanding (MOU) on CMEC, concerns have been raised that infrastructure development will not only leave Myanmar debt-ridden, but will also exacerbate ethnic conflict in the northern Shan State.²¹⁶ The Myanmar government is reported to have signed onto CMEC projects worth \$2 billion, though sources of financing have yet to be determined.²¹⁷ Some reports suggest that Myanmar may allocate land as an in-kind contribution and investment to the CMEC.²¹⁸

²¹³ Thiha, Amara. Unpublished paper on Myanmar-China relations. Thiha notes that the New Yangon City development can be considered overseas direct investment with "elite capture behavior."

²¹⁴ Linter, Bertil. "Poor and Isolated, Myanmar Backs into a China Debt." *Asia Times*, 4 Feb. 2019, www.asiatimes.com/2019/01/article/poor-and-isolated-myanmar-backs-into-a-china-debt-trap/.

²¹⁵ The CMEC is described as an estimated 1,700-kilometer "corridor" connecting Kunming, in Yunnan, with key cities in Myanmar, such as Mandalay, Yangon and the Kyaukphyu Special Economic Zone (SEZ). Myanmar signed a memorandum of understanding with China on CMEC in September 2018.

²¹⁶ Lwin, Nan. "Analysis: Muse-Mandalay Railway Agreement with China Raises Debt, Conflict Fears." *The Irrawaddy*, 31 Oct. 2018, www.irrawaddy.com/news/burma/analysis-muse-mandalay-railway-agreement-china-raises-debt-conflict-fears.html.

²¹⁷ The next round of negotiations related to CMEC will take place at the BRI summit the end of April 2019. See Lwin. "Analysis: Muse-Mandalay Railway Agreement with China Raises Debt, Conflict Fears."

²¹⁸ Thiha. Unpublished paper on Myanmar-China relations.

China sees Myanmar as key to expanding its economic influence throughout the region.

The CMEC provides an example of how ventures designed to enhance infrastructure development in Myanmar will likely also augment China's strategic influence. As part of the CMEC, Myanmar signed an MOU with China for the Kyaukphyu deep-sea port, "a potential hub for China that would give it direct access to the Indian Ocean and allow its oil imports to bypass the Strait of Malacca."²¹⁹ It remains unclear whether China intends to employ this or other ports to which it has gained access for military purposes, but the Kyaukphyu port is a step toward advancing Chinese maritime ambitions in the Bay of Bengal and Indian Ocean.

A nascent multibillion-dollar effort to construct the New Yangon City, outside of Yangon, is also controversial. There is concern that China Communications Construction Company's (CCCC's) involvement in this \$1.5-billion venture will lower regulatory standards and undermine efforts to improve governance.²²⁰ Chinese regional banks and financial institutions have also made their marks on Myanmar's banking and financial institutions. The Central Bank of Myanmar has added the Chinese renminbi as an official settlement currency and allowed foreign institutions to take up to 35-percent equity stakes in Myanmar banks.²²¹

China's Influence in the Information and Other Spheres

China has used a variety of means to preserve its influence in Myanmar since the change in government, including attempting to shape the media's narrative about China. China invites Burmese editors and journalists to China for exchanges, and sponsors Burmese-language social network pages to burnish China's image and tout the controversial Myitsone Dam project and other Chinese investments.²²² Although freedom of the press has improved under the new government, existing laws allow the government to deny licenses to publications considered threats to national security or insulting to religion. These regulations can be abused by the government to prevent the publication of unflattering media coverage. In this media environment, self-censorship is a common practice. China's embassy in Yangon has exerted pressure on local media as well, including by approaching the editor of a local journal to publish positive articles on the BRI in Myanmar.²²³

The CCP has also established Chinese-language media targeting the ethnic-Chinese community in Myanmar. For example, the CCP Propaganda Department's outpost at Yunnan University (located just north of Myanmar) founded Baobo News in 2015, in partnership with the university's Confucius Institute, to nurture common bonds between ethnic Chinese along both sides of the Myanmar-China border.²²⁴

China has cultivated ties with Myanmar elites through a variety of training programs and outreach, blending these efforts with traditional humanitarian and cultural assistance.²²⁵ In 2018, the Chinese

²¹⁹ Lwin, Nan. "Wariness over BRI as State Counselor for Beijing Forum." *The Irrawaddy*, 3 Apr. 2019, www.irrawaddy.com/opinion/analysis/wariness-bri-state-counselor-prepares-beijing-forum.html.

²²⁰ Thiha. Unpublished paper on Myanmar-China relations. According to Thiha, there are reports that no one person or organization will oversee CCCC and the New Yangon City project. See also Lwin, Nan. "Myanmar to Consider Low-Interest Loans from China for Economic Corridor." *The Irrawaddy*, 4 Dec. 2018, www.irrawaddy.com/news/burma/myanmar-consider-low-interest-loans-china-economic-corridor.html.

²²¹ Nitta, Yuichi. "Myanmar Lets Foreign Banks Buy into Local Peers." *Nikkei Asian Review*, 2 Feb. 2019, asia.nikkei.com/Economy/Myanmar-lets-foreign-banks-buy-into-local-peers.

²²² With regard to the journalism exchanges, see Zhou, Yuan, and Zhang Zhihao. "China Boosts Soft Power by Training Foreign Journalists." *China Daily*. 17 Oct. 2016, www.chinadaily.com.cn/china/2016-10/17/content_27077588.htm. See also Thiha. Unpublished paper on Myanmar-China relations.

²²³ Thiha. Unpublished paper on Myanmar-China relations.

²²⁴ The name *baobo* is a Sino-Burmese expression loosely meaning "blood brother." The choice of this term for the paper suggests the CCP is relying on nationalism to draw ethnic Chinese in Myanmar toward supporting the goals of the CCP. See Eades, Mark C. "Blood Brothers?: China's Push for Influence in Myanmar." *Foreign Policy Association*, 30 Mar. 2016, foreignpolicyblogs.com/2016/03/30/blood-brothers-chinas-push-influence-myanmar/.

²²⁵ Author's communication with an expert on Chinese influence in Southeast Asia.

embassy committed \$100,000 for internally displaced persons in Kachin state, located on the Chinese border.²²⁶ The Chinese government helped open the Chinese Cultural Center in Yangon in 2018 – Myanmar’s first public venue to promote cooperation and cultural exchanges.²²⁷ Senior Myanmar military and civilian leaders are now regular visitors to China, and CCP officials frequently visit their counterparts in Myanmar.²²⁸ China has also carried favor among the political elite by defending the Myanmar government amid intense criticism and threats of United Nations sanctions over its crackdown against the Rohingya population.²²⁹

China has sought to drive a wedge between the military and its civilian leadership.

China has also sought to drive a wedge between the Tatmadaw and its civilian leadership, through its touchpoint in armed conflicts along the border with Myanmar.²³⁰ Although China has attempted to mediate conflicts in Myanmar, it recognizes that allowing such conflicts to simmer prolongs Chinese influence in Myanmar and gives it an advantage over other external parties or countries.²³¹

Myanmar’s civilian leadership and the Tatmadaw have been pushing for an end to armed conflict along the China-Myanmar border, but China has used its influence with organizations such as the Northern Alliance – a coalition of four insurgent ethnic groups currently in conflict with the ruling government – and other ethnic armed organizations, such as the United Wa State Army, to shape a result that preserves Chinese interests in Myanmar.²³² The United Wa State Army provides arms to Northern Alliance members, enjoys close relations with the Chinese military and operates a self-administered territory in Myanmar that is accessible to the Tatmadaw only by invitation.²³³ China has also turned a blind eye to relationships and illicit economic engagements between ethnic armed organizations and local Chinese officials and businesses in Yunnan province along the China-Myanmar border, prolonging instability.²³⁴

Northern Alliance members and other ethnic armed organizations operate in support of Chinese interests when convenient. These Chinese interests include securing the border through maintaining a buffer zone, protecting economic investments and preventing the flow of refugees.²³⁵ Because of the high level of Chinese influence, the Tatmadaw believes that civilian leadership’s demand for a unilateral ceasefire against the Northern Alliance is capitulation to China.²³⁶

Myanmar’s Response to China’s Influence

Myanmar’s political elites became accustomed to close economic and political relations with China during years of Western economic sanctions. These sanctions were gradually lifted after the military junta dissolved in 2011, but some were reinstated after Myanmar’s crackdown against the Rohingya.

²²⁶ "PRC Embassy Provides Humanitarian Supports to Displaced Persons in Kachin State." *Ministry of Information, The Republic of The Union of Myanmar*, 21 Nov. 2018, www.moi.gov.mm/moi:eng?q=news/21/11/2018/id-15675.

²²⁷ "Trends in China-Myanmar Relations: 2018 Year in Review." *Tea Circle Oxford*, 31 Jan. 2019, teacircleoxford.com/2019/01/31/trends-in-china-myanmar-relations-2018-year-in-review/.

²²⁸ Htut, Ye. "Myanmar-China Relations in 2018: Enter the Dragon." *Institute of Southeast Asian Studies*, 5 Jan. 2018, www.iseas.edu.sg/medias/commentaries/item/6826-myanmarchina-relations-in-2018-enter-the-dragon-by-ye-htut.

²²⁹ "China's Role in Myanmar's Internal Conflicts." *United States Institute of Peace*, 14 Sep. 2018, www.usip.org/publications/2018/09/chinas-role-myanmar-internal-conflicts.

²³⁰ "China's Role in Myanmar's Internal Conflicts."

²³¹ Tourangbam, Monish, and Pawan Amin. "China's Dynamic Grip on Myanmar." *The Diplomat*, 7 May 2019, thediplomat.com/2019/05/chinas-dynamic-grip-on-myanmar/.

²³² "China's Role in Myanmar's Internal Conflicts."

²³³ "China's Role in Myanmar's Internal Conflicts." However, the area administered by the United Wa State Army is readily accessible via China.

²³⁴ Thiha. Unpublished paper on Myanmar-China relations. China turns a blind eye to cooperation between local Tatmadaw officers, militias such as the Kachin Independence Army, and Chinese merchants. Yunnan officials are aware that Chinese citizen mercenaries have fought alongside Northern Alliance troops.

²³⁵ "China's Role in Myanmar's Internal Conflicts."

²³⁶ Thiha. Unpublished paper on Myanmar-China relations. By requesting a ceasefire, the civilian leadership in Nay Pyi Taw wanted to ensure that CMEC, which is seen as a cash cow for the government, would proceed. However, the military views the civilian leadership as shortsighted and allowing Chinese hegemony.

Despite welcoming Chinese investment and the BRI, Myanmar has resisted becoming a de facto Chinese colony. During the Thein Sein administration, Nay Pyi Taw welcomed Western investments and cancelled the Myitsone Dam project, which was constructed by Chinese companies along the upper reaches of the Irrawaddy River but was allegedly designed primarily to supply China's Yunnan province with electricity. More recently, the government has pushed back against Chinese overreach by renegotiating the terms of the Kyaukphyu Deep Sea port project, significantly scaling down the project to reduce the likely debt burden on Myanmar.²³⁷

Myanmar has resisted becoming a de facto Chinese colony.

Myanmar has also reportedly drafted plans to better protect itself from China's potential influence resulting from CMEC investments, including by insisting that identified projects be selected through a public-tender process and that Myanmar be allowed to borrow from multiple sources (beyond Chinese banks) when financing projects. Japan offers one possible alternative source of funding and financing.²³⁸ Independent Myanmar media and activists, some based outside of the country, have also exposed Chinese influence and risks associated with CMEC projects, such as the Myitsone Dam.

Myanmar's relationship with China continues to evolve. At the April 2019 Belt and Road Forum in Beijing, Burmese State Counsellor Aung San Suu Kyi met with Chinese President Xi Jinping and approved the signing of three agreements with China, strengthening cooperation related to CMEC, trade and technology.²³⁹ China also agreed to provide a \$148-million grant for projects in northern Myanmar.²⁴⁰ However, details on the status of controversial Chinese projects such as the Myitsone Dam have not been made public. Furthermore, prospects for conflict stabilization in the border regions between the two countries remain dubious, which both extends and broadens the horizons of Chinese influence in security issues.²⁴¹

Given their proximity and the long, troubled history in their relations, Myanmar is in many ways quicker than other BRI recipient countries to question China's motives. One example of this dynamic is the Tatmadaw's sharp response to China's positioning with the Northern Alliance. Thus far, however, a strategy for protecting economic sovereignty from the malign effects of Chinese investments has not yet crystalized, despite efforts to renegotiate deals and recalibrate the economic relationship. In the coming years, this will be a key indicator of Myanmar's ability to resist the dependency on China that it has long sought to avoid.

²³⁷ "Myanmar Scales Back Chinese-Backed Port Project over Debt Fears." *Reuters*, 2 Aug. 2018, www.theguardian.com/world/2018/aug/02/myanmar-scales-back-chinese-backed-port-project-over-debt-fears.

²³⁸ Lwin, Nan. "Analysis: Deft Diplomacy Required as China, Japan Court Myanmar." *The Irrawaddy*, 19 Dec. 2018, www.irrawaddy.com/news/analysis-deft-diplomacy-required-china-japan-court-myanmar.html.

²³⁹ Lwin, Nan. "Myanmar Signs 3 Agreements at Belt and Road Forum." *The Irrawaddy*, 26 Apr. 2019, www.irrawaddy.com/news/burma/myanmar-signs-3-agreements-belt-road-forum.html.

²⁴⁰ Lwin, Nan. "China to Provide 1 Billion Yuan Socioeconomic Grant to Myanmar." *The Irrawaddy*, 30 Apr. 2019, www.irrawaddy.com/news/burma/china-provide-1-billion-yuan-socioeconomic-grant-myanmar.html.

²⁴¹ Lwin, Nan. "Myanmar Signs 3 Agreements at Belt and Road Forum."

MALAYSIA

Malaysia's landmark 2018 general elections ended 61 years of rule by the Barisan Nasional (BN) coalition, allowing an opposition party, the Pakatan Harapan (PH), to govern for the first time in the country's history. The outcome reflected widespread discontent with BN Prime Minister Najib Razak's corruption scandals – in which China played a key role.

Most notably, China allegedly bailed out a Malaysian state investment fund, 1Malaysia Development Berhad (1MDB), from which Najib had stolen billions to augment his personal fortune and reward allies. In return, Chinese companies were granted favorable terms to complete major Malaysian infrastructure projects at inflated costs.²⁴² The elections were also a referendum on the effects of Najib's reliance on Chinese state-directed financing of infrastructure deals that created opportunities for enormous systemic graft.

With the change in government, Malaysian elites are navigating an increasingly complex relationship saddled with decades of historical baggage, balancing the desire for continued Chinese investment with concerns about preserving Malaysia's independence. The CCP is stepping up efforts to shape the debate inside Malaysia and protect China's interests as Kuala Lumpur recalibrates relations with Beijing.

China's Economic Influence

China exerts significant economic influence in Malaysia through both state-directed investment in infrastructure projects and bilateral trade. In recent years, the Najib administration encouraged Chinese investment by leveraging the connections of BN's coalition partner, the Malaysian Chinese Association (MCA), a party seeking to represent the country's ethnic-Chinese minority. Najib signed no less than 14 memoranda of understanding with Beijing, elevating Chinese levels of direct investment in Malaysia to 35 percent of all direct investment inflows in 2017.²⁴³

Chinese infrastructure investments in Malaysia have attracted significant attention due to the role of Chinese business interests in the infamous 1MDB scandal, in which Najib was accused of channeling hundreds of millions of dollars from the country's development company to his personal bank account. Many saw Najib's deals with Chinese companies as selling off Malaysia's prized assets to China as compensation for bailing him out. For example, the sale of Malaysian Edra power assets from 1MDB to China General Nuclear Power Group (CGN) in 2015, one of the largest power-sector deals in Asia, occurred around the same time that news broke regarding the 1MDB scandal.²⁴⁴

Chinese investments in the East Coast Rail Link project and the Trans Sabah Gas Pipeline (TSGP) have also proven controversial. The former is the largest BRI project in the Association of Southeast Asian Nations (ASEAN), costing an estimated \$13.8 billion, with 85 percent funded by the Export-Import Bank of China, while the latter received \$1.13 billion in soft-loan financing from the Export-Import Bank of China.²⁴⁵

²⁴² Chinese officials also told Malaysian officials involved in the negotiations that Beijing would lean on the United States and other countries to drop their respective probes against allies of Najib relating to the 1MDB scandal. See Wright, Tom, and Bradley Hope. "WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals." *The Wall Street Journal*, 7 Jan. 2019, www.wsj.com/articles/how-china-flexes-its-political-muscle-to-expand-power-overseas-11546890449.

²⁴³ "Malaysia and China Sign 14 MoUs." *Sun Daily*, 2 Nov 2016, www.thesundaily.my/archive/2046378-ETARCH405470.

²⁴⁴ "CGN Kicks off Construction of First Solar Plant in Malaysia." *Asian Power*, 11 Apr. 2018, asian-power.com/project/news/cgn-kicks-off-construction-first-solar-plant-in-malaysia.

²⁴⁵ Liu, Hong, and Guanie Lim. "The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative." *Journal of Contemporary China*, 2018, www.tandfonline.com/doi/full/10.1080/10670564.2018.1511393; Amarthalingam, Sangeetha. "RM4.5b Trans Sabah Gas Pipeline to Be Funded with Loan from China, Guaranteed by Malaysia." *The Edge*, 8 Nov. 2017, www.theedgemarkets.com/article/rm45b-trans-sabah-gas-pipeline-be-funded-loan-china-guaranteed-malaysia.

The agreements for both of these massive projects were characterized by their lack of transparency and Malaysian officials allegedly agreed to have both projects financed at above-market valuations in exchange for Chinese assistance in bailing out 1MDB.²⁴⁶

China's Influence in the Information Sphere and Others

The Chinese Communist Party (CCP) has enhanced its influence in Malaysia by strengthening its ties with the media and political parties. Chinese-language outlets in Malaysia have taken an increasingly pro-China stance in recent years and have muzzled independent Chinese-diaspora voices.²⁴⁷ This is partly a consequence of a campaign by the CCP to coopt the ethnic Chinese diaspora in Malaysia to advance Party interests. Chinese officials have also recently indicated a willingness to interfere in domestic Malaysian affairs to defend the diaspora. In response to pro-government protests that denounced ethnic-Chinese Malaysian leaders in 2015, China's ambassador warned that China would not sit on the sidelines if others infringed "on the national interest of China."²⁴⁸ Pro-China tycoons also own large portions of Malaysia's Chinese-language media. For example, the *Star* newspaper, owned by the MCA, has sought to curry favor with the CCP by regularly praising Chinese officials.²⁴⁹

The CCP also utilized party ties with the MCA and another BN coalition partner, the United Malays National Organization (UMNO), to facilitate influence in Malaysia's political process. Ahead of the 2018 elections, BN politicians frequently praised Chinese investment as a boon to the Malaysian economy. Chinese government officials were so frequently seen with BN and MCA politicians that the Chinese Embassy in Kuala Lumpur had to deny that China favored the BN in the elections.²⁵⁰

China has also enhanced its influence in Malaysia through numerous educational initiatives. The Chinese embassy funds Chinese-language schools – much to the chagrin of Malaysian conservatives who support the country's "one-language policy" of teaching only Malay in the education system. Chinese government-funded Confucius Institutes – which promote both Chinese language instruction and a CCP-friendly narrative – launched at the University of Malaya in 2009, and the first overseas campus of a major Chinese university – Xiamen University of Malaysia – was established in 2015. The Najib administration also facilitated bilateral research collaborations between Malaysia's Institute of Strategic and International Studies (ISIS) and the Chinese Academy of Social Sciences (CASS).

Malaysia's Response to Chinese Communist Party Influence

Despite the previous Najib government's coziness with China, Malaysian civic institutions have remained remarkably independent. Many in the ethnic-Chinese community want to distance themselves from the CCP, with local Chinese media quite sympathetic to the plight of activists in Hong Kong and Taiwan opposed to Chinese government policies.²⁵¹ Additionally, the fact that Malaysia only permits a maximum of 30-percent foreign ownership of media organizations has helped to stave off a takeover of the country's media outlets.

²⁴⁶ "China Offered to Bail out 1MDB, Scuttle Probe in Return for Mega Projects, Says Report." *Free Malaysia Today*, 8 Jan. 2019, www.freemalaysiatoday.com/category/nation/2019/01/08/china-offered-to-bail-out-1mdb-scuttle-probe-in-return-for-mega-projects-says-report.

²⁴⁷ Author's communication with expert on Chinese soft power in Southeast Asia. For information regarding the CCP's strategies and tactics to shape the Chinese diaspora, see Heath, Timothy. "Beijing's Influence Operations Target Chinese Diaspora." *War on the Rocks*, 1 Mar. 2018, warontherocks.com/2018/03/beijings-influence-operations-target-chinese-diaspora/.

²⁴⁸ Heath, "Beijing's Influence Operations Target Chinese Diaspora."

²⁴⁹ Yi, Tho Xin. "Chinese Ambassador Donates RM200,000 to 11 Schools." *The Star*, 13 Feb. 2017, www.thestar.com.my/news/nation/2017/02/13/chinese-ambassador-donates-rm200000-to-11-schools/.

²⁵⁰ Foon, Ho Wah. "China Factor Looms Ahead of Election." *The Star*, 25 Mar. 2018, www.thestar.com.my/news/nation/2018/03/25/china-factor-looms-ahead-of-election-the-china-card-was-flashed-in-almost-every-general-election-in/. These actions also violate the principles of noninterference outlined in Article 41 of the Vienna Convention on Diplomatic Relations. See "Appendix 2: Chinese Influence Activities in Select Countries." *Hoover Institution*, www.hoover.org/sites/default/files/research/docs/13_diamond-schell_app2_web.pdf.

²⁵¹ "Hong Kong Jails Chinese Farmer for Flag-Burning." *My Sinchew*, 30 Sep. 2011, www.mysin Chew.com/node/63997.

A robust and open civil society and media, along with free and fair elections, are at least partially responsible for ousting the corrupt and China-centric rule of Najib Razak. Prime Minister Mahathir Mohamad shined a spotlight on Najib's corruption during the election, showing the public how opaque Chinese deals bolstered state graft while reducing Malaysia's sovereignty by increasing its financial dependence.

In the months since the PH swept the BN from power, Prime Minister Mahathir Mohamad's administration has attempted to reverse some of the economic and infrastructure agreements made with China under the Najib administration. Mahathir terminated the East Coast Rail Link project and scrapped another costly infrastructure development venture – the \$100 billion Forest City scheme in Johor – and began to strengthen economic ties with Japan as a counterweight to China.

However, in recent months the Mahathir administration seems to have changed course regarding China. In a March 2019 interview, Mahathir expressed a desire to ally economically with China to benefit from Chinese investment, though he underscored his wish for Malaysia to remain independent from Chinese influence.²⁵² In late May 2019, Mahathir announced that Malaysia would rely "as much as possible" on telecommunications technology from China's telecommunications giant Huawei.²⁵³ Kuala Lumpur reversed its decision to terminate the East Coast Rail Link project, but succeeded in slashing the costs of the original project by about one-third, from \$16.2 billion to \$10.7 billion.²⁵⁴

Malaysia's response to Chinese influence will depend on whether the Mahathir administration is able to successfully transfer power to the designated prime minister, Anwar Ibrahim. Most observers expect that Anwar Ibrahim will continue Mahathir's approach to China by advocating for Malaysia's financial sovereignty without being overly confrontational towards an important neighbor. Anwar has been supportive of Mahathir's push to cancel or renegotiate problematic deals with China, but he has consistently referred to China as an important partner for Malaysia.

A transition conducted under the shadow of corruption could present fresh opportunities for China to wield economic influence in exchange for preferred access to contracts. The potential for further political uncertainty at the highest levels only underscores the need for career government officials, party politicians, independent media and civil society to push for transparency regarding CCP business dealings and investments in Malaysia.

Mahathir Mohamad shined a spotlight on Najib's corruption during the election, showing the public how opaque Chinese deals bolstered state graft while reducing Malaysia's sovereignty.

²⁵² "Interview with the South China Morning Post – 8 March 2019." *Prime Minister's Office of Malaysia*, 8 Mar. 2019, www.pmo.gov.my/2019/03/interview-with-south-china-morning-post-8-march-2019/.

²⁵³ "Dr. M.: Malaysia to Use Huawei Technology as Much as Possible." *The Star Online*, 30 May 2019, www.thestar.com.my/news/nation/2019/05/30/dr-m-malaysia-to-use-huawei-technology-as-much-as-possible/.

²⁵⁴ Wong, Chun Han, and Yantoutra Ngui. "China Chops Price for a Much-Criticized 'Belt and Road' Project in Malaysia." *The Wall Street Journal*, 12 Apr. 2019, www.wsj.com/articles/china-chops-price-for-a-much-criticized-belt-and-road-project-in-malaysia-11555073569.

Chinese government, building infrastructure suggested by Chinese government officials, and providing below-market-value assets to Chinese development companies to secure continued tourist arrivals.²⁶⁷ By linking tourism flows with Chinese-financed infrastructure development, Yameen was in effect increasing the Maldives' economic dependence on China.

Other Forms of Chinese Influence

Confident that his administration would seek to prevent criticism of its dealings with China, the CCP did not need to expend much effort manipulating the Maldives' information space under Yameen. Beijing nevertheless partnered with the Yameen administration to burnish the image of China in the eyes of the Maldives' political and economic elites, as well as ordinary citizens. Three hundred civil servants from the Maldives visited China for professional training in 2017.²⁶⁸ The Chinese government has engaged in public diplomacy efforts, such as donating light-emitting diode (LED) light bulbs across the country and working with the Maldives' Ministry of Health to sponsor cataract operations.²⁶⁹

To help shape the China narrative among Maldivian elites, China supported the development of the Maldives China Trade and Cultural Organization (MCTCO), which established an online space including a blog and other social media platforms to enable China-Maldives engagement. The MCTCO facilitates bilateral relations by translating local news in the Maldives to Chinese and vice versa. The MCTCO has also aspired to engage in strategic collaboration and academic research stressing China's positive contributions to the country, particularly through the BRI. In an indication of the close relationship between the MCTCO and Chinese government interests, the vice president of the MCTCO was appointed a member of the steering committee of the Belt and Road NGO Cooperation Network.²⁷⁰

Unsurprisingly, the CCP sought to bolster Yameen's reelection chances in the 2018 presidential election. For example, two weeks before the election, China gifted 35 power generators to the government for a celebratory event with fireworks.²⁷¹ Both China's gift and the event itself were exceptional because of the timing and the normal restrictions on fireworks displays in the Maldives.²⁷² Additionally, China and the Yameen administration scheduled various activities celebrating the opening and inauguration of the China-Maldives Friendship Bridge (Sinamalé Bridge) just prior to the 2018 election, despite the bridge's unfinished status.²⁷³

The Maldivian Response to Chinese Influence

Yameen dulled the Maldivian government's ability to counter Chinese economic influence through legal and institutional changes that facilitated Chinese investment deals and corruption between Chinese companies

²⁶⁷ For example, one Chinese company secured a 50-year lease for tourism on the previously uninhabited Feydhoo Finolhu island. Mason Hinsdale. "Despite Political Crisis, Chinese Tourism to Maldives Remains Strong." *Jing Travel*, 5 Jul. 2018, jingtravel.com/despite-political-crisis-chinese-tourism-to-maldives-remains-strong/. When, in 2015, then-Chinese Ambassador Wang Fukang pledged to increase Chinese tourists to the Maldives to 1 million, then-Maldivian Minister for Tourism Ahmed Adeen noted that this would require "expensive infrastructure developments, such as airport developments, and building new resorts to increase the total bed capacity of the country." "Chinese Investment in Maldives Tourism 'Expected to Rise.'" *Minivan News*, 21 Jun. 2015, minivannewsarchive.com/tag/mega-maldives.

²⁶⁸ Ruiqing, Zhu, and Tang Lu. "Interview: 'Infinite Possibilities Lie in Maldives-China Cooperation': Organization President." *Xinhua*, 17 Jun. 2018, www.xinhuanet.com/english/2018-06/17/c_137260090.htm. Accessed 18 Mar. 2019.

²⁶⁹ "The China 'Bright Journey' Eye Camp Pays a Successful Trip to the Maldives." *Embassy of the People's Republic of China in the Republic of Maldives*, 17 Oct. 2017, mv.chineseembassy.org/eng/zmgx/t1503356.htm. Accessed 3 Mar. 2019.

²⁷⁰ Saud, Midhuam. "Congratulations for Been Elected as a Member of the Steering Committee of Belt and Road NGO Cooperation Network." 22 Nov. 2017, *Midhuam Saud*, midhuam.com/1039. Accessed 18 Mar. 2019.

²⁷¹ "China Gifts 35 Generator Sets." VFP (now CNM), 7 Sep. 2018, cnm.mv/ff?id=75818. Accessed 18 Mar. 2019.

²⁷² The Yameen government is remembered for the frequent use of fireworks to celebrate government events.

²⁷³ "Graduations and Bridge Gazing in the Maldives." *Maldives Independent*, 4 Sep. 2018, maldivesindependent.com/society/graduations-and-bridge-gazing-in-the-maldives-140800. Accessed 23 Mar. 2019. See also Rehan, Mohamed. "Opposition Criticizes Govt's MVR46 Mln Bridge Opening Expense." *Avas.mv*, 30 Aug. 2018, avas.mv/en/53501. Accessed 18 Mar. 2019.

and Maldivian officials. For example, one of the first pieces of legislation Yameen introduced was the Special Economic Zones (SEZ) Bill, meant to attract foreign investment through tax and other incentives. The opposition Maldivian Democratic Party (MDP) had noted that the SEZ Act, passed weeks before Chinese President Xi Jinping's visit to the Maldives, facilitates money laundering.²⁷⁴

Despite the overwhelming efforts of the Yameen administration to open the Maldives to Chinese influence, Maldivian civic organizations and independent media remained intact.

Laws and amendments passed without adequate or customary means of public consultation were a common feature of the Yameen years. For example, an unprecedented change was made to the country's constitution, without public consultation and within the space of three days, to allow the sale of land to foreign parties.²⁷⁵ Opposition forces criticized the fast-tracking of the amendment, fearing that it could facilitate Chinese military presence in the Maldives. An amendment to the Tourism Act also facilitated the lease of islands without competitive bidding, which the opposition alleged "legalizes corruption."²⁷⁶ Following this change, one island was leased to a Chinese company for 50 years.

Similarly, Yameen fast-tracked the debate and legislative process to approve the China-Maldives Free Trade Agreement (FTA). The parliamentary committee to study the FTA met behind closed doors and rushed through thousands of pages of FTA documents in just 10 minutes.²⁷⁷ The legislation was reportedly passed the next day with only 30 votes from "ruling party lawmakers in the 85-member legislature" in an impromptu meeting that the MDP boycotted.²⁷⁸ Ignoring the opposition's criticism of the lack of due process and the undermining of Maldivian sovereignty, Yameen signed the FTA on a state visit to Beijing in 2017.²⁵

Despite the overwhelming efforts of the Yameen administration to open the Maldives to Chinese influence, Maldivian civic organizations and independent media remained intact. Although the Yameen administration was not transparent in disseminating information regarding Chinese construction projects, the local media was able to access Chinese media reports regarding the development of housing projects in Hulhumale.²⁷⁹ Additionally, local media served as a check on the Sinamalé Bridge project, noting that the Chinese state-owned enterprise CCC Second Harbour Engineering Company had been blacklisted by the World Bank due to corrupt business practices.²⁸⁰

Although the 2018 presidential election took place against the backdrop of political authoritarianism and democratic decline, an active civil society, watchful media and vigorous opposition were able to oust

²⁷⁴ "PPM Celebrates SEZ Bill with Fireworks." *Minivan News*, 31 Aug. 2014, minivannewsarchive.com/politics/ppm-celebrates-sez-bill-with-fireworks-89876. Accessed 25 Feb. 2019.

²⁷⁵ "Amendments Raise Fear of Chinese Military Expansion in the Maldives." *Maldives Independent*, 22 Jul. 2015, maldivesindependent.com/politics/amendments-raise-fear-of-chinese-military-expansion-in-the-maldives-101207. Accessed 26 Feb. 2019.

²⁷⁶ "Government Authorised to Lease Islands without Bidding." *Maldives Independent*, 29 Jun. 2016, maldivesindependent.com/politics/government-authorised-to-lease-islands-without-bidding-125083. Accessed 3 Mar. 2019.

²⁷⁷ "Committee Studying the China Maldives Free Trade Agreement Will Work behind Closed Doors." *CNM.mv*, 29 Nov. 2017, <https://cnm.mv/t/?id=66702>. Accessed 1 Mar. 2019.

²⁷⁸ "China-Maldives Free Trade Deal Rushed through Parliament." *Maldives Independent*, 30 Nov. 2017, maldivesindependent.com/politics/china-maldives-free-trade-deal-rushed-through-parliament-134382. Accessed 1 Mar. 2019.

²⁷⁹ "USD 434M Mega Project to Build Flats Goes to China State."

²⁸⁰ "World Bank Blacklisted Chinese Company Awarded Maldives Bridge Project." *Maldives Independent*, 16 Nov. 2015, maldivesindependent.com/politics/world-bank-blacklisted-chinese-company-awarded-maldives-bridge-project-119849. Accessed 25 Mar. 2019.

Yameen. The new Solih administration is seeking to repair damage to the Maldivian economy resulting from the Yameen administration's excessive reliance on Chinese credit.²⁸¹

To increase resilience against Chinese economic influence and indebtedness to China, Solih has diversified international sources of financing by reviving economic ties with India and other nations and seeking to access international capital markets. The Solih administration has also sought to pull back the curtain on the rampant corruption and malfeasance under Yameen by establishing the Presidential Commission on Corruption and Asset Recovery.²⁸² The Solih administration is also considering abandoning the rushed FTA with China. As former President Nasheed remarked, "China is not buying anything from us. It's a one-way treaty."²⁸³

²⁸¹ According to the International Monetary Fund, the Maldives "remains at a high risk of debt distress." See "IMF Staff Completes 2019 Article IV Mission to Maldives."

²⁸² "President Solih Forms Commission to Probe Corruption." *The Edition*, 19 Nov. 2018, edition.mv/news/7916. Accessed 25 Mar. 2019.

²⁸³ Miglani, Sanjeev, and Mohamed Junayd. "Exclusive: Maldives Set to Pull out of China Free Trade Deal, Says Senior Lawmaker." *Reuters*, 19 Nov. 2018, www.reuters.com/article/us-maldives-politics-china-exclusive/exclusive-maldives-set-to-pull-out-of-china-free-trade-deal-says-senior-lawmaker-idUSKCN1N00ZC. Accessed 19 Apr. 2019.

AUSTRALIA

The Chinese Communist Party (CCP) has sought to shape Australia's approach to China and weaken its alliance with the United States by influencing Australian public opinion and interfering in the political process. Beijing's efforts have leveraged the growing importance to Australia of its economic relationship with China. The CCP has exploited ties with elites, often through seemingly innocuous cultural organizations, and has attempted to use Chinese nationals – as well as select members of Australia's ethnic-Chinese diaspora – to penetrate and shape decision-making at the highest levels in Canberra.

Despite these inroads, Australia has demonstrated resilience to CCP influence tactics. Civic networks, particularly in the ethnic-Chinese diaspora community, and the country's vigorous independent media have helped expose the CCP's information and political influence efforts. Australia's accountable government has responded to CCP malign influence by passing laws that better protect the country. This robust response can serve as a model for other countries that have already encountered similar challenges – or may soon face them.

Economic Influence

Australia has enjoyed one of the longest uninterrupted economic growth streaks of any country in modern history.²⁸⁴ Though largely attributable to Australia's domestic economic policies, the country's economic ties to a rising China have also played a central role in this growth. Trade and investment data underscore the extent of Australia's economic engagement with China. In 2017, Australia's trade in goods with China accounted for more than 27 percent of Australia's total trade.²⁸⁵ Furthermore, China was Australia's number-one export destination for both goods and services during the period from 2017 to 2018.²⁸⁶ Canberra's politicians and elites are well aware of China's importance to the national economy, and these views are mirrored by the Australian public, which considers China mostly benign.²⁸⁷ Ultimately, China's efforts to influence Australia's strategic choices are underpinned by the presumption that Australia's economic future is tied to China.

Political Interference

The CCP has sought to interfere in Australia's internal debate and policy process regarding its approach to an increasingly powerful China. The CCP deploys political donations and agents of influence to change Australian government policies, cultivates prominent Australians to sway public and elite opinion, and establishes research institutes on university campuses that reinforce CCP interests.

The CCP's United Front Work Department – which undertakes influence operations both in China and abroad – uses both legal and illicit methods to pressure Australian politicians to adhere to CCP wishes.

²⁸⁴ "How Australia Broke the Record for Economic Growth." *The Economist*, 6 Sep. 2017, www.economist.com/the-economist-explains/2017/09/05/how-australia-broke-the-record-for-economic-growth.

²⁸⁵ This number is based on the author's calculations using publicly available data, including: Australia's exports and imports to China, Hong Kong Special Administrative Region (SAR) and Macau SAR as a share of Australia's total exports and imports; data including trade in goods; and goods collected using all Harmonized System (HS) codes. See "UN Comtrade Database." *United Nations Department of Economic and Social Affairs*, comtrade.un.org/data.

²⁸⁶ "China." *Australian Government, Department of Foreign Affairs and Trade*, dfat.gov.au/trade/resources/Documents/chin.pdf. Accessed 8 Mar. 2019.

²⁸⁷ According to Lowy Institute polling, Australians had generally positive views of China from 2012 to 2018. For example, in 2018, Australians had greater confidence in Chinese President Xi Jinping (43 percent) than in U.S. President Donald Trump (30 percent). See Oliver, Alex. "2018 Lowy Institute Poll." *Lowy Institute*, 20 Jun. 2018, www.lowyinstitute.org/publications/2018-lowy-institute-poll.

Salient features of this approach include offering donations or other in-kind contributions to politicians who state positions that are solicitous of CCP goals; contributing to political parties while implying that the CCP expected certain actions in return; and threatening to withhold political contributions if intended recipients did not behave in a certain way. In addition to targeting politicians and political parties, the CCP has also utilized this approach toward universities and research centers.

The potential for CCP interference to shape Australian politicians' views and actions is perhaps best illustrated by the case of Sam Dastyari, a former federal senator (2013–2017) and a member of the opposition center-left Australian Labor Party (ALP). While in Parliament, Dastyari developed close ties with Chinese citizen and then-Australian permanent resident Huang Xiangmo, a billionaire property developer and chairman of an organization associated with the CCP's United Front Work Department.²⁸⁸

The CCP has penetrated Australian university campuses, monitoring and reporting on Chinese nationals who espouse anti-CCP views.

Huang legally donated more than \$1 million Australian dollars (AU) to the ALP, much of it raised by Dastyari.²⁸⁹ Dastyari's relationship with Huang appeared to shape his approach to the China policy debate when in 2016, with Huang standing beside him, he publicly opposed both his party and the Australian government's stance on territorial disputes in the South China Sea.²⁹⁰ Although he initially downplayed his comments when they were revealed by Australian media – saying that he misspoke, mumbled and was naïve – Dastyari's behavior pointed to a likely quid pro quo with Huang.²⁹¹ Just one day prior to Dastyari's press conference, Huang had cancelled an AU\$400,000 contribution to the Labor Party after Labor defense spokesman and Senator Stephen Conroy criticized China's behavior in the South China Sea. Dastyari's prepared remarks, which supported China's policies, therefore appeared as an attempt to restore the cancelled donation.²⁹²

Huang's largesse benefited both Australian political parties, as his contributions exceeded AU\$2 million. However, Dastyari's case is unique for the closeness of his ties with Huang. After Australian media revealed that Huang had also settled Dastyari's AU\$5,000 legal bill, and that Dastyari had warned Huang that his phones were likely tapped by the Australian Security Intelligence Organization (ASIO), Dastyari resigned under pressure.²⁹³

²⁸⁸ McKenzie, Nick, et al. "Labor Senator Sam Dastyari Warned Wealthy Chinese Donor Huang Xiangmo His Phone Was Bugged." *Sydney Morning Herald*, 29 Nov. 2017, www.smh.com.au/politics/federal/labor-senator-sam-dastyari-warned-wealthy-chinese-donor-huang-xiangmo-his-phone-was-bugged-20171128-gzu14c.html.

²⁸⁹ Lee, John. "Australia's Experience with Chinese Influence Operations." Unpublished paper, 2018.

²⁹⁰ The Australian Labor Party and Australian government supported the July 2016 Permanent Court of Arbitration ruling against Chinese claims in the South China Sea. However, when answering a question during a parliamentary press conference, Dastyari (with Huang standing beside him) directly contradicted the Australian government's stance by stating that Australia should remain neutral and essentially respect China. See Lee. "Australia's Experience with Chinese Influence Operations."

²⁹¹ Murphy, Katharine. "Sam Dastyari Told to Resign from Senate Positions after China Revelation." *The Guardian*, 29 Nov. 2017, www.theguardian.com/australia-news/2017/nov/30/sam-dastyari-told-to-resign-from-senate-positions-after-china-revelation.

²⁹² McDermott, Quenin. "Sam Dastyari Defended China's Policy in South China Sea in Defiance of Labor Policy, Secret Recording Reveals." *ABC News*, 29 Nov. 2017, www.abc.net.au/news/2017-11-29/sam-dastyari-secret-south-china-sea-recordings/9198044.

²⁹³ Massola, James. "Chinese Donor the Yuhu Group Steps in to Help Sam Dastyari." *Sydney Morning Herald*, 27 Mar. 2015, www.smh.com.au/politics/federal/chinese-donor-the-yuhu-group-steps-in-to-help-sam-dastyari-20150327-1m9be2.html; McKenzie, et al. "Labor Senator Sam Dastyari Warned Wealthy Chinese Donor Huang Xiangmo His Phone Was Bugged."; Williams, Jacqueline. "Australian Lawmaker Quits amid Questions over China Ties." *The New York Times*, 12 Dec. 2017, www.nytimes.com/2017/12/12/world/australia/sam-dastyari-resigns-china.html.



Chinatown in Melbourne. Civic networks in Australia's large ethnic Chinese diaspora community have helped to expose CCP influence efforts.

Infiltrating the Chinese Diaspora Community

Immigrants from China make up the second-largest group of immigrants in Australia.²⁹⁴ Additionally, Australia rates as a highly attractive destination for students from mainland China. China contributed 231,191 student enrollments to Australia in 2017 – comprising 28.9 percent of all foreign students for that year and representing the single largest contributor of foreign students.²⁹⁵

The CCP has sought to manipulate the large number of Chinese immigrants and nationals resident in Australia for its own ends. In an attempt to infiltrate the diaspora community, the CCP has penetrated Australian university campuses, monitoring and reporting on Chinese nationals who espouse anti-CCP views or those who organize pro-Taiwan or pro-democracy activities.²⁹⁶ In fact, the CCP infiltrated the Chinese diaspora community as early as 2008, when it mobilized students to march on Parliament House in Canberra to defend the Olympic torch against anti-China protesters as it made its way to Beijing for the

²⁹⁴ "3412.0 – Migration, Australia 2017–18, Australia's Population by Country of Birth." *Australian Bureau of Statistics*, 3 Apr. 2019, www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3412.0Main%20Features%202017-18?opendocument&tabname=Summary&prodno=3412.0&issue=2017-18&num=&view=.

²⁹⁵ "End of Year Summary of International Student Enrolment Data – Australia – 2017." *Australian Government, Department of Education and Training*, internationaleducation.gov.au/research/International-Student-Data/Documents/MONTHLY%20SUMMARIES/2017/International%20student%20data%20December%202017%20detailed%20summary.pdf. Accessed 7 Mar. 2019.

²⁹⁶ McKenzie, Nick, et al. "The Chinese Communist Party's Power and Influence in Australia." *ABC*, 28 Mar. 2018, www.abc.net.au/news/2017-06-04/the-chinese-communist-partys-power-and-influence-in-australia/8584270. Accessed 7 Mar. 2019; Joske, Alex. "Beijing Is Silencing Chinese-Australians." *The New York Times*, 6 Feb. 2018, www.nytimes.com/2018/02/06/opinion/beijing-chinese-australians-censorship.html. Accessed 7 Mar. 2019; Varrall, Merriden. "A Chinese Threat to Australian Openness." *The New York Times*, 31 Jul. 2017, www.nytimes.com/2017/07/31/opinion/australia-chinese-students.html. Accessed 7 Mar. 2019.

Australia's robust independent media has played a central role in exposing CCP influence.

2008 Olympic Games.²⁹⁷ Prior to Chinese Premier Li Keqiang's visit in 2017, the Chinese consul general in Sydney met with Australians of Chinese ancestry to organize rallies in support of Li's visit, and to shield anti-China protests from public view.²⁹⁸

Members of the Chinese diaspora who opposed the party line were promptly identified as candidates for punishment, in a move designed to instill fear in the broader Chinese-Australian community. The case of Feng Chongyi, a professor at the University of Technology Sydney, is particularly alarming. An expert on Chinese domestic politics, civil society and human rights, and a critic of CCP influence in Australia, Feng was detained by CCP authorities while on a research trip to Kunming, barred from leaving China for more

than a week and interrogated about his relations with Australian officials.²⁹⁹ The CCP saw Feng as a thorn in its side, and used Feng's detention to warn other Chinese-Australians not to work on sensitive issues that risked tarnishing the image of the CCP.

Australia's Response to Chinese Communist Party Influence

Australia's response to CCP efforts to interfere in its political system and manipulate its information space is a testament to the importance of resilient democratic institutions. This resilience manifested itself in four key ways. First, the center-right Malcolm Turnbull government (2015–2018) utilized a transparent and cross-partisan approach when initiating legislation to counter Chinese government and foreign interference, maximizing the prospects that the policies would remain in place regardless of potential governmental change.³⁰⁰

In late 2017, the Turnbull government introduced three bills designed to protect Australia from CCP and other foreign interference efforts. After a period of lengthy debate and opportunity for public comment, all bills were passed in 2018, with some amended in April 2019. The three laws require transparency regarding political activities undertaken on behalf of foreign principals, strengthen espionage protections and prohibit donations of more than AU\$100 from foreign governments and state-owned enterprises to political parties – or to finance the political debate.³⁰¹

Second, civic groups and the general public have been integral parts of the policy response to Chinese interference, providing feedback to Canberra's legislative process as the government drafted these laws and initiating a healthy public debate.³⁰² As evidence of a free and open discussion, two groups – each consisting of leading academics, former government officials and ethnic Chinese individuals – submitted

²⁹⁷ Garnaut, John. "Australia's China Reset." *The Monthly*, Aug. 2018, www.themonthly.com.au/issue/2018/august/1533045600/john-garnaut/australia-s-china-reset. Accessed 26 Feb. 2019.

²⁹⁸ Cave, Damien. "Australia's China Challenge." *The New York Times*, 20 May 2019, www.nytimes.com/2019/05/20/world/australia/australia-china.html.

²⁹⁹ Garnaut. "Australia's China Reset."

³⁰⁰ Insight gained from author's conversation with former consultant to Australian political parties, 5 Mar. 2019.

³⁰¹ The three laws are Foreign Influence Transparency Scheme Act 2018, www.legislation.gov.au/Details/C2019C00133; National Security Legislation Amendment (Espionage and Foreign Interference) Act 2018, www.legislation.gov.au/Details/C2018C00506; and Electoral Legislation Amendment (Electoral Funding and Disclosure Reform) Act 2018, www.legislation.gov.au/Details/C2018A00147.

³⁰² "Australia: Scrap Proposed Laws That Would Suffocate NGOs and Create a Climate of Secrecy." *Amnesty International*, 27 Apr. 2018, www.amnesty.org/en/latest/news/2018/04/australia-scrap-proposed-laws-that-would-suffocate-ngos-and-create-a-climate-of-secrecy/. Accessed 8 Mar. 2019; Grattan, Michelle. "Turnbull Government Shrinks Foreign Influence Transparency Scheme Register." *The Conversation*, 7 Jun. 2018, theconversation.com/turnbull-government-shrinks-foreign-influence-transparency-scheme-register-98001. Accessed 8 Mar. 2019.

open letters commenting on Australia's parliamentary review of Turnbull's legislation.³⁰³ Ironically, members of the Chinese diaspora – the group that the CCP sought to infiltrate – were vital to exposing CCP activities and mounted vigorous efforts to counter CCP sharp power.³⁰⁴

Third, Australia's robust independent media has played a central role in exposing CCP influence and examining the Australian government's response to CCP tactics against the backdrop of Australia's democratic traditions. The media has served as a watchdog, facilitating the dialogue between civil society and the government, and ensuring the government's response does not infringe upon freedom of speech and expression.

Finally, Australia's response – spanning both the government and civil society – has remained stalwart in the face of CCP pressure tactics. After Turnbull unveiled the three anti-foreign-interference bills in late 2017, China accused Australian officials of making "irresponsible remarks."³⁰⁵ The *Global Times*, an official CCP publication, criticized Australia's "2017 Foreign Policy White Paper" – which reflected broad concerns regarding China's role in the Indo-Pacific – arguing that "while [Australia] is economically dependent on China, it shows little gratitude."³⁰⁶ The CCP has also delayed wine shipments from Australia at Chinese ports, signaling that Australia's economic ties with China could be at stake.³⁰⁷

In early 2019, state-level actors – widely believed to be from China – hacked Australia's parliamentary computer system.³⁰⁸ In April 2019, it was revealed that Chinese government actors had forcibly questioned – on Australian soil, no less – a Chinese Australian who was working with the Turnbull government's investigation into CCP interference.³⁰⁹ Prior to the May 18, 2019, Australian elections, the CCP attempted to tarnish the image of the incumbent government of Prime Minister Scott Morrison by mocking his conservative government on WeChat, a Chinese social media platform widely used by the Chinese diaspora community.³¹⁰

The Chinese government has also sought to silence Chinese-language media outlets in Australia that have been critical of the CCP. The Chinese consulate general in Sydney pressured the Georges River Council to ban the *Vision China Times*, an Australian Chinese-language newspaper, from sponsoring the Georges River Lunar New Year event. The consulate general deemed the paper too critical of China and noted that if *Vision*

A democratic process that encouraged open debate, combined with a robust civil society and independent media, bolstered Australia's resilience to malign foreign influence.

³⁰³ "An Open Letter from Concerned Scholars of China and the Chinese Diaspora." *Asia & The Pacific Policy Society*, 26 Mar. 2018, www.policyforum.net/an-open-letter-from-concerned-scholars-of-china-and-the-chinese-diaspora/; "China's Influence in Australia: Maintaining the Debate." *Asia & The Pacific Policy Society*, 27 Mar. 2018, www.policyforum.net/chinas-influence-australia-maintaining-debate/.

³⁰⁴ Garnaut, John. "How China Interferes in Australia." *Foreign Affairs*, Mar. 9, 2018, www.foreignaffairs.com/articles/china/2018-03-09/how-china-interferes-australia. Accessed 1 Mar. 2019.

³⁰⁵ Cave, Damien. "China Scolds Australia over Its Fears of Foreign Influence." *The New York Times*, 6 Dec. 2017, www.nytimes.com/2017/12/06/world/australia/china-foreign-influence.html.

³⁰⁶ "White Paper Reveals Australia's Anxiety." *Global Times*, 23 Nov. 2017, www.globaltimes.cn/content/1076928.shtml. Accessed 8 Mar. 2019.

³⁰⁷ "Australian Wine Shipments Held up at Chinese Ports Amid Political Tensions: Report." *Reuters*, 15 Jun. 2018, www.smh.com.au/business/the-economy/australian-wine-shipments-held-up-at-chinese-ports-amid-political-tensions-report-20180615-p4zloj.html.

³⁰⁸ Corfield, Gareth. "Australian Prime Minister Blames 'State Level' Baddies for Oz Parliament Breach." *The Register*, 18 Feb. 2019, www.theregister.co.uk/2019/02/18/australia_pm_scott_morrison_state_level_hackers_parliament_breach/.

³⁰⁹ "Interference." *ABC*, 8 Apr. 2019, www.abc.net.au/4corners/interference/10982212.

³¹⁰ Cave. "Australia's China Challenge." Regarding WeChat, there are reports that official platform channels based in Sydney (which allow governments, corporations and civic organizations to post and distribute news) avoided controversial and political topics, narrowing the scope of knowledge and understanding for the diaspora population that obtains the majority of their information from this source. See Sear, Tom, et al. "How Digital Media Blur the Border between Australia and China." *The Conversation*, 15 Nov. 2018, theconversation.com/how-digital-media-blur-the-border-between-australia-and-china-101735.

China Times were listed as a Lunar New Year sponsor, then the Chinese consulate would not participate in the festivities.³¹¹ Vision China Times manager Maree Ma eventually convinced the council to reverse its decision, which greatly irked the Chinese consulate.³¹²

Despite these efforts, Australia pursued a healthy public discussion around the three bills and Chinese government interference writ large. The Australian government also punished Huang Xiangmo by denying his application for Australian citizenship and cancelling his permanent residency in 2019 on the grounds of poor character, inconsistent responses to ASIO and ties with the CCP.³¹³

Australia's response to CCP influence offers valuable lessons for other countries that have been, or will soon be, targets of China's malign tactics. A democratic process that encouraged open debate, combined with a robust civil society and independent media, bolstered Australia's resilience to malign foreign influence. It appears likely the CCP will continue its efforts to shape Australia's internal narrative and policies regarding China. Australia's maintenance of transparency and inclusivity throughout the process of protecting its institutions has left its society stronger and more prepared for future attempts at foreign interference.

³¹¹ McKenzie, Nick, et al. "China Pressured Sydney Council into Banning Media Company Critical of Communist Party." *ABC*, 9 Apr. 2019, www.abc.net.au/news/2019-04-07/china-pressured-sydney-council-over-media-organisation/10962226.

³¹² McKenzie, et al. "China Pressured Sydney Council into Banning Media Company Critical of Communist Party."

³¹³ Conifer, Dan, and Stephanie Borys. "Australia Denies Citizenship to Chinese Political Donor Huang Xiangmo and Strips His Permanent Residency." *ABC*, 5 Apr. 2019, www.abc.net.au/news/2019-02-06/australia-denies-citizenship-chinese-businessman-huang-xiangmo/10784512.

CONCLUSION

From Europe to West Africa, China's malign influence corrodes developing countries' democracies, undermines their independence, and presents a daunting and novel strategic challenge to the United States and the rules-based, liberal democratic order. The U.S. and its democratic partners have only just begun to comprehend the scale of the threat posed by the CCP's campaign to shape the world to serve China's interests – an effort that is directly at odds with democratic principles and sustainable development.

As the case studies explored in this report demonstrate, Beijing has utilized sophisticated influence methods tailored to exploit local conditions and governance weaknesses in countries at varying stages of development. Given their success rate thus far and the relationship of these efforts to China's long-term needs and ambitions, these efforts are likely to intensify.

The CCP's approach to the developing world is integral to fueling the Chinese economy and ensuring the promised "rejuvenation" of China to great power status – both of which are crucial to the Party's continued legitimacy. As China's economy continues to slow, it will leverage countries' financial dependence to achieve quick returns on investments and use heavy-handed "sharp power" efforts to shape the narrative in a way that protects Chinese interests.

As part of this effort, the CCP is likely to redouble advocacy in the developing world to shore up the legitimacy of China's authoritarian model, casting doubt on the value of democracy as a catalyst for rapid economic development. China's provision of a greater array of surveillance and monitoring tools to friendly autocrats will help those rulers to stay in power while corroding civic rights in those countries. Moreover, the continuation of opaque investment deals and the proliferation of risky debt will undermine sustainable development, nourish kleptocracy and threaten the independence of countries that have welcomed Chinese investment and either turned a blind eye to malign interference or remain unaware of its consequences.

The CCP's aggressive influence campaign will not change unless it begins to see negative consequences. For this reason, it is critical that the United States and its partners invest in shoring up the resilience of the countries that China has targeted. As this report demonstrates, even in countries where China has made significant inroads, the persistence of strong institutions – for example, a robust independent media – can provide a bulwark against further expansion of Chinese interference, and may even contribute to its retreat.

The effort to help vulnerable countries push back against Chinese interference should include measures such as raising awareness of CCP influence tactics within private enterprise, academia, and government, and bolster the capacity of civil society, political parties, and independent media to expose and counter such tactics. These institutions are critical to recipient countries' ability to monitor Chinese project implementation, protect the rule of law, and permit open public debate about how to engage China in a way that preserves their independence and democracy.

Such efforts are of particular importance in economically disadvantaged countries with poor governance practices, where there is limited understanding of the CCP's long-term motivations and the potential consequences of massive Chinese investment. Corrupt elites stand to reap immense profits from bloated infrastructure projects, but promised jobs often fail to materialize for ordinary citizens as their countries fall further into debt.

To this end, the U.S. and its democratic partners should lead a united effort to offer alternatives to China's investment and financing, as well as technical assistance on business practices such as project negotiations. Renewed investment in development finance – particularly the U.S. International Development Finance

Corporation (USIDFC) – is a good start. Collaboration with the World Bank and the International Monetary Fund on targeted infrastructure projects would also go a long way, as would in-country training on best practices for structuring deals with unilateral investors like China.

Without dedicated leadership from the U.S. and a clear understanding of the nature of the threat posed by China's global influence efforts, we can expect to see a rapid diminution of stable, law-abiding democracies and attendant expansion of China's strategic advantage. By learning from the vulnerabilities and sources of resilience in the countries where China has made (or sought to make) inroads, the U.S. and its partners have the opportunity to build their own sophisticated counter-strategy dedicated to preserving the integrity of democratic institutions and practices that have delivered unprecedented global prosperity and security.

